DAR ES SALAAM COMMUNITY BANK PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

DAR ES SALAAM COMMUNITY BANK PLC

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FOR THE YEAR ENDED 31 DECEMBER 2010

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BANK INFORMATION

Registered Office:	Arnautoglu Building Bibi Titi Street/ Uhuru Road P. O. Box 19798 DAR ES SALAAM
Main Bankers:	Bank of Tanzania P. O. Box 2939 DAR ES SALAAM
	Barclays Bank Tanzania Limited P. O. Box 5137 DAR ES SALAAM
	National Microfinance Bank Limited P. O. Box 9213 DAR ES SALAAM
	CRDB Bank P. O. Box 268 DAR ES SALAAM
	Mufindi Community Bank Limited P. O. Box 147 MUFINDI
	Deutsche Bank Trust Company Americas Church Street Station P. O. Box 318 New York, NY 10008 – 0318
Solicitors:	M/S Chipeta and Associates P. O. Box 13811 DAR ES SALAAM
	M/S Adili Advocates P. O. Box 75839 DAR ES SALAAM
	Excellent Attorneys (Advocates) P. O. Box 19033 DAR ES SALAAM
Bank's Secretary:	Mrs. Caroline Mduma P. O. Box 19798 DAR ES SALAAM
Auditors:	Ernst & Young Utalii House P. O. Box 2475 DAR ES SALAAM

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

1 INTRODUCTION

The directors submit their report and the audited financial statements for the year ended 31 December 2010 which show the state of affairs of Dar es Salaam Community Bank Limited (the Bank).

2 PRINCIPAL ACTIVITIES

The bank is engaged in taking deposits on demand, providing short-term credit facilities and other banking services and is licensed by the Bank of Tanzania (BoT) under the Banking and Financial Institutions Act, 2006.

The principal activity of the bank is that of:

(i) Mobilizing financial resources from individuals, institutions and donor agencies for financing the informal sector in order to support the government's endeavours in poverty alleviation;

(ii) Providing an enabling environment for self-employment and unemployed population of Dar es Salaam;

(iii) Providing commercial services and support to the target group at a minimum risk and full cost recovery and a profit margin rate in order to enable the bank to consolidate itself and maximize returns to its shareholders; and

(iv) Providing micro finance loans and salaried employees' loans.

3 BANK RESULTS

The bank's results are set out on page 11 of these financial statements.

4 FUTURE DEVELOPMENTS

The Bank will continue to focus on business opportunities arising in the economy especially in lending and trade finance. There will be more focus on retail based lending and lending to Small and Medium Enterprises (SMEs), trading and commercial sectors and other growing sectors.

The Bank will implement specific measures that are suitable to the prevailing environment. The Bank's overall objectives include the strengthening of the deposits base by having more stable and low cost deposits, and ensuring the growth of quality loans, fees based income while focusing on risk management.

5 RELATED PARTY TRANSACTIONS

The Bank of Tanzania has granted waiver on compliance to Section 15 of the Credit Concentration and other Exposure Limits Regulations, 2001 on all salaried, individual and solidarity group loans below TZS 20,000,000 to minority shareholders (holding less than 5% shares), members of the board and related parties.

6 DIVIDEND

The directors recommend payment of a dividend of TZS …….. per share (2009: TZS 28 per share).

7 DIRECTORS AND DIRECTORS' INTEREST

i) Directors

The Directors of the Bank at the date of this report, who have held office since 01 January 2010 are:

Name	Position	Nationality	Remarks
Amb. Paul M. Rupia	Chairman	Tanzanian	
Prof. Lucian A. Msambichaka	Vice Chairman	Tanzanian	
Mr. Edmund P. Mkwawa	Managing Director	Tanzanian	
Mr. Samuel J. Ezekiel	Member	Tanzanian	
Mr. Zedekia I. Ntulu	Member	Tanzanian	Up to 30/06/10
Mr. Makinya K. Migetto	Member	Tanzanian	
Mr. Leonard K. Chacha	Member	Tanzanian	
Mr. Bakari R. Kingobi	Member	Tanzanian	
Ms. Sophia M. Emesu	Member	Tanzanian	
	Member	Tanzanian	

ii) Directors' interest

The following directors hold shares in Dar es Salaam Community Bank Plc:

Name of the Director	Number of shares held 2010	Number of shares held 2009
Ambassador Paul Milyango Rupia	28,524	28,524
Prof. Lucian Ambrose Msambichaka	43,980	43,980
Mr. Samuel John Ezekiel	-	-
Mr. Edmund Pancras Mkwawa	6,292	6,292
Mr. Leonard K. Chacha	72,800	72,800
Mrs. Sophia M. Emesu	2,500	2,500
Hon. Francis M. Mtawa	1,244	1,244
Hon. Kassim M. Lema	300	300
Hon. Said A. Kitambuliyo	2,684	2,684
Total shares held by directors	**154,096**	**154,096**

None of the directors own more than 0.2% of total issued share capital. There is only one class of shares.

8 SHAREHOLDING

The main shareholders as at year-end are:

Name	No. of shares	Value of shares TZS	% of holdings
Dar es Salaam City Council	2,870,628	717,657,000	8.86%
Ilala Municipal Council	2,671,188	667,797,000	8.25%
Kinondoni Municipal Council	2,626,060	656,515,000	8.11%
Temeke Municipal Council	2,396,536	599,134,000	7.40%
Unit Trust of Tanzania	3,088,148	772,037,000	9.53%
Other 5,568 members (2009: 5,568)	18,740,676	4,685,169,000	57.85%
Total share capital	**32,393,236**	**8,098,309,000**	**100%**

9 CORPORATE GOVERNANCE

The Directors are committed to the principles of good corporate governance and recognize the need to conduct the business in accordance with generally accepted best practice. In so doing the Directors therefore confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Company and monitor executive management;
- The positions of Chairman and Managing Director are held by different people;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance; and
- They bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team.

The Board is supported by the following committee:

Board Audit and Risk Compliance Committee - This is responsible for ensuring compliance with applicable legislation and the requirements of regulatory authorities, reviewing reports and following up on matters raised by the external auditors, internal auditors and Bank of Tanzania (BOT). This Committee is also responsible in identifying, evaluating and reviewing possible risks that can face the bank and design mitigations to overcome them.

The names of the Board Audit and Risk Compliance Committee members during the year are:

Name		Position
Prof. Lucian A. Msambichaka	Chairman	Board member
Mr. Samuel J. Ezekiel	Member	Board member
Mrs. Sophia M. Emesu	Member	Board member
Mrs. Caroline M. Mduma	Secretary	Corporation Secretary

10 NUMBER OF DEPOSITS AND LOAN ACCOUNTS

The bank had four branches as at 31 December 2010, all located in Dar es Salaam. As at year end, the bank had attracted a number of depositors and loans as follows:

	2010	2009
Account type		
Current Accounts	574	574
Savings Accounts	67,142	67,142
Time Deposits	131	131
Total number of deposit accounts	**67,847**	**67,847**
Loan accounts	**63,617**	**63,617**

11 EMPLOYEES WELFARE

The relationship between employees and management continued to be good. The bank provides training, medical assistance and loans to its employees. There was good teamwork between management and staff.

12 CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk.

The bank's capital adequacy ratios are included below:

	Nominal balance sheet amount	Risk weighted amount	Nominal balance sheet amount	Risk weighted amount
	2010 TZS'000	**2010 TZS'000**	**2009 TZS'000**	**2009 TZS'000**
Balance sheet assets (net of provisions)				
Assets				
Cash and balances with Bank of Tanzania				-
	18,665,317	-	9,175,000	-
Other bank balances	770,861	154,173	298,949	59,790
Cheques in the course of collection	2,046,541	1,023,288	58,603	29,302
Government securities	11,150,298	-	7,288,633	-
Other money market placements	5,105,113	1,021,023	11,603,133	2,320,627
Loans and advances	56,432,556	56,432,556	41,166,843	41,166,843
Premises and equipment	734,268	734,268	992,879	992,879
Intangible assets	150,459	150,459	95,101	95,101
Other assets	3,458,236	3,458,236	1,158,269	1,158,269
Total assets	**98,513,648**	**62,974,002**	**71,837,410**	**45,822,811**
Off-balance sheet positions				
Credit related commitments	12,000	12,000	100,000	100,000
Total risk-weighted assets		**62,986,002**		**45,922,811**
	Capital	**Ratios**	**Capital**	**Ratios**
Tier 1 capital	**12,619,288**	20.04%	11,562,209	25.18%
Tier 1 + Tier 2 capital	**12,619,288**	20.04%	11,562,209	25.18%

13 AUDITORS

Ernst & Young were the auditors of the Company during the year ended 31 December 2010. They have expressed their willingness to continue and are eligible for re-appointment.

BY ORDER OF THE BOARD

____________________	____________________	____________________
Name	**Title**	**Date and signature**
____________________	____________________	____________________
Name	**Title**	**Date and signature**

DAR ES SALAAM COMMUNITY BANK PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

The Companies Act, 2002 requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit or loss.

The Directors further confirm that there were no major changes in the assets, capital and borrowings.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

____________________	____________________	____________________
Name	**Title**	**Date and signature**

____________________	____________________	____________________
Name	**Title**	**Date and signature**

INDEPENDENT AUDITORS' REPORT

To the shareholders of
DAR ES SALAAM COMMUNITY BANK PLC

We have audited the accompanying financial statements of Dar es Salaam Community Bank Plc as set out on page 11 to 59 which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in compliance with the Banking and Financial Institutions Act, 2006 and 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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.

INDEPENDENT AUDITORS' REPORT (Continued)

To the shareholders of
DAR ES SALAAM COMMUNITY BANK LIMITED

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the bank as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in compliance with the Banking and Financial Institutions Act, 2006 and the Tanzanian Companies Act, 2002.

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Tanzanian Companies Act 2002, Banking and Financial Institutions Act, 2006 and for no other purposes.

As required by the Tanzanian Companies Act, 2002, we report to you, based on our audit, that:

i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii. In our opinion, proper books of accounts have been kept by the Bank, so far as appears from our examination of those books;

iii. The Directors Report is consistent with the financial statements;

iv. Information specified by law regarding directors remuneration and transactions with the company is disclosed; and

v. The Bank's financial statements are in agreement with the books of accounts.

Ernst & Young
Certified Public Accountants

Signed by: Neema Kiure Mssusa
Dar es Salaam

________________________ 2010

1. CORPORATE INFORMATION

Dar es Salaam Community Bank Plc ('the Bank') is incorporated and domiciled in Tanzania. The Bank's shares are publicly traded. The address of its registered office and principal place of business are disclosed in the Company information on page 1.

The financial statements of the Bank for the year ended 31 December 2010were authorized for issue in accordance with a resolution of the Directors on 27 March 2010.

The principal activities of the Bank are disclosed in Note 2 to the directors' report.

2. BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except where otherwise stated or as required by International Financial Reporting Standards and Interpretations to those Standards for assets and liabilities to be stated at their fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Tanzania Shillings except where explicitly stated.

Statement of compliance

The financial statements of Dar es Salaam Community Bank Plc have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Interpretations to those Standards, and comply with the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
IFRS 8 Operating Segments effective 1 January 2009
IAS 1 Presentation of Financial Statements effective 1 January 2009
IAS 23 Borrowing Costs (Revised) effective 1 January 2009
IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009 (early adopted)
IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
IFRIC 18 Transfers of Assets from Customers effective 1 July 2009 (early adopted)
Improvements to IFRSs (May 2008)
Improvements to IFRSs (April 2009, early adopted)

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the bank, its impact is described below:

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 32.

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 6 including the related revised comparative information.

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The bank has elected to present one single statement.

IAS 23 Borrowing Costs

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The bank's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the bank has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. During the 12 months to 31 December 2010has not borrowed for acquisition of capital items.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the bank.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The bank has concluded that the amendment will have no impact on the financial position or performance of the bank, as the bank has not entered into any such hedges.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of these amendments did not have any impact on the financial position or the performance of the bank.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the bank.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The adoption of these improvements did not have any impact on the financial position or the performance of the bank.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

Improvements to IFRSs (Continued)

- IFRS 8 *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
  As the bank's chief operating decision maker does review segment assets and liabilities, the bank has continued to disclose this information in Note 7.

- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The bank analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

- IAS 7 *Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The adoption of these amendments did not have any impact on the financial position or the performance of the bank.

- *IAS 16 Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell”. The bank amended its accounting policy accordingly, which did not result in any change in the financial position.

- IAS 18 *Revenue:* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
    - Has primary responsibility for providing the goods or service
    - Has inventory risk
    - Has discretion in establishing prices

- Bears the credit risk the bank has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as the government assistance received is not loans but direct grants.

- *IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The bank has amended its accounting policy accordingly which did not result in any change in its financial position.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

- *IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the bank because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

  The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the bank as the annual impairment test is performed before aggregation.

- *IAS 38 Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the bank either has the right to access the goods or has received the service. This amendment has no impact on the bank because it does not enter into such promotional activities.
  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The bank reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the bank:

- IFRS 2 *Share-based Payment*
- IFRS *7 Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 19 *Employee Benefits*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investments in Associates*
- IAS 31 *Interest in Joint Ventures*
- *IAS 34 Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 40 *Investment Properties*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

Other amendments effective subsequent to December 2010 year-ends:

- IFRS 9 *Financial Instruments*
- IAS *24 Related Party Disclosures (Revised)*
- IAS 32 *Classification of Rights Issues (Amendment)*
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fees and commission income

Fees and commissions 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. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction.

Loans originated by the bank by providing money directly to the borrower are recognized as loans originated by the bank and are carried at amortised cost. All loans and advances are recognized when cash is advanced to borrowers.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net trading income and other income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

Other income is recognized in the period in which it is earned.

Dividend payable

Dividend payable is recognized as liability in the period in which it is declared. Proposed dividends are disclosed as a separate component of equity.

Employees' benefits including post employment benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognized in the income statement when they fall due.

Post retirement benefits

The Bank operates a defined contribution plan whereby each of its employees and the bank contribute 10% and 10%, respectively of the employee's monthly salaries to the state owned and managed (statutory) Funds namely the Parastatal Pension Fund (PPF) or the National Social Security Fund (NSSF). Apart from these monthly contributions, the bank has no further commitments or obligations to the Funds and it has no other post retirement benefit scheme. The contributions are charged to the income statement in the year to which they relate.

Other employee benefits

The bank provides free medical treatment to staffs and their dependants. The cost is charged to the income statement. The estimated monetary liability for employees' accrued leave entitlement at the balance sheet date is recognized as an expense accrual.

Provision

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Where the bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments 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 designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.

(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.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (continued)

(iv) Available-for-sale

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

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date-the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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.

(v) Available-for-sale (Continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the income statement 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 recognized in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank established fair value by using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis; otherwise the investment is quoted at cost less impairment.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group 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 the 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (continued)

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

Specific provision is made against loans and advances considered to be doubtful of recovery. The amount of provisions is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the effective interest rate of loans.

Where a loan or an advance is deemed unrecoverable, it is written off against the related provision for impairment. Subsequent recoveries of amount previously written off are credited to the profit and loss account in the year of recovery. Loans and advances are stated after deduction of specific provisions.

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (bid price) and liabilities (offer price) denominated in foreign currencies are recognized in the income statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes (Continued)

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.
Value added tax

Revenues, expenses and assets are recognised inclusive of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is recoverable from the taxation authority, in which case the value added tax is recognised as an asset.

Plant and equipment

Plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Depreciation is calculated on the straight-line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives. The annual depreciation rates in use are:

Office equipment	12.5%
Fixtures and fittings	10.0% and 20.0 %
Computer Hardware	25.0%
Computer software	25.0%
Generator	12.5%
Furniture and fittings	12.5%
Motor vehicles	25.0%

Leasehold improvements are depreciated over the lease term.

Plant and equipment are periodically reviewed for impairment. When the carrying amount of the asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount. An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, deposits held at call with banks and investments with maturity periods of three months or less in money market instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases entered into by the bank are operating leases. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Guarantees, acceptances and letters of credit

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

Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Offsetting

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

Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic life as follows:

Description	Number of years
Computer software	4-5 years
SWIFT software	4 -5 years

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The bank establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows 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.

In determining interest earned but no longer collectable management uses judgments and estimates to establish the interest income impaired to be transferred to expense.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Held to maturity investments

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

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standard issued but not yet effective up to the date of issuance of the bank's financial statements are listed below.

IFRIC 17 Distributions of Non-cash Assets to Owners
This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The bank does not expect IFRIC 17 to have an impact on the consolidated financial statements as the bank has not made non-cash distributions to shareholders in the past.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendment)
IFRS 9 Financial Instruments
IAS 24 Related Party Disclosures (Revised)
Improvements to International Financial Reporting Standards (Issued 2009)

7. BUSINESS SEGMENTS

The banking business comprises of the following business segments:

a. Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending.

b. Treasury - comprise of trade finance and forex business and investment of the Treasury Bills from Bank of Tanzania.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation.

The table below summarises breakdown of segmental assets, liabilities, income and expenses:

34. CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders value.

Regulatory capital

The Bank of Tanzania sets and monitors capital requirements for the banking industry as a whole. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital.

In implementing current capital requirements, the Bank of Tanzania requires the bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analyzed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capitals, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capitals. Tier 1capital (Core capital) are also subjected to various limits like limitation in risk weighted assets by 10%,premises investments are not supposed to exceed 50% of core capital and movable assets are subjected to 20% limitation of core capital.

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

The bank complied with minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Capital Adequacy Regulations 2008.

The Bank's regulatory capital position is disclosed on Note 27.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risks, operational risks and interest rate risks. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Bank's financial performance.

The Board of Directors (the board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. Risk management is carried out by the Assets and Liability Committee (ALCO) under policies approved by the Board of Directors. The ALCO Committee evaluates financial risk in close co-operation with the Bank's operating units. 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.

The Bank's risk management policies are established to identify and analyses the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to the Executive Committee chaired by the Managing Director. A centralized Credit risk Department, headed by the Head of credit risk overseas the operation under the guidance of top management responsible for overseeing of the Bank's credit risk including:

1. Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.

2. Establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by board of directors.

3. Reviewing and assessing credit risk. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process

4. Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any group/sector

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Management of credit risk (continued)

5. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Credit Committee/Board in respect of the quality of loan portfolio

6. Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

Regular audits of Credit Department processes are undertaken by Internal Audit Department.

Exposure to credit risk

Loans and advances to customers

	2010 TZS '000'	2009 TZS '000'
Individually impaired		
Grade 3: Impaired (Substandard)	851,792	851,792
Grade 4: Impaired (doubtful)	630,522	630,522
Grade 5: Impaired (Loss)	1,239,122	1,239,122
Gross amount	**2,721,436**	**2,721,436**
Allowance for impairment	(863,876)	(863,876)
Carrying amount	**1,857,560**	**1,857,560**
Collectively impaired		
Grade 1: Normal	38,532,917	38,532,917
Grade 2: Watch list (Especially Mentioned)	1,425,504	1,425,504
Gross amount	**39,958,421**	**39,958,421**
Allowance for impairment	(649,138)	(649,138)
Carrying amount	**39,309,283**	**39,309,283**
Total Carrying amount	**41,166,843**	**41,166,843**

Loans and advances graded 3, 4 and 5 in the banks' internal credit risk grading system are impaired. These are advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Specific impairment losses are made on these grades.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk (continued)

The internal rating scale assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the bank:

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

The Bank's policy requires the review of individual financial assets regularly and grading of accounts is done every month where provision on non performing loans is raised based on the guidelines of the Bank of Tanzania.

Write-off policy

The Bank has set up a Board Credit Review Committee headed by a member of the board of directors. The Committee has been mandated to review all the non- performing assets and give direction /guidance to the Credit Department. The Bank writes off loans as and when the Board of directors approves after Board Credit Review Committee has reviewed and accepted the recommendations by the management that the loans are irrecoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated when the loan is up for renewal or when the loan is individually assessed as impaired.

Loans and advances to customers

Collateral and other credit enhancements (Continued)
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

< For commercial lending, charges over real estate properties, inventory and trade receivables,
< For retail lending, mortgages over residential properties
< For salaried loans, employers guarantees.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk (continued)

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding loan. In general, the Bank does not occupy repossessed properties for business use.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Loans and advances to customers (gross)

Concentration by sectors	**2010** **TZS**	**2009** **TZS**
Manufacturing	-	-
Wholesale and retail trade	528,042,982	180,224,500
Private individual including staff	601,080,105	498,038,952
Agriculture, fishing, forestry, hunting	40,275,958	39,520,508
Real estates and construction	102,625,333	123,065,989
Tourism, hotels and restaurant	66,009,381	39,369,199
Others	56,955,232,386	41,799,338,241
Total loans and advances (including staff advances)	**58,293,266,145**	**42,679,557,389**

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Exposure to liquidity risk
The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Management of liquidity risk
The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institution's reputation.

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review and approval by Assets and Liabilities Committee.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Page 49&50 replace with one in excel (worksheet named ''Liq risk''-209&2008).

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Market risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Broadly, the Bank concerns with two main components under market risk:

- Interest rate risk is the risk that the value of an interest rate sensitive instrument will fall as a result of a change in market interest rates.
- Foreign exchange risk is the risk of loss due to adverse changes in foreign exchange rates

The Asset and Liability Committee oversees the management of Market risk inherent in the bank.

The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

Interest risk exposure

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the re-pricing frequency.

The table below summarizes the exposure to interest rates risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorized by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

At 31 December 2010, if interest rate increased by 5%, with all other variables held constant, the sensitized effect on the income statement would have been a an increase in profit before tax of TZS ..... million(2009: TZS 493 million, increase), mainly as a result of the interest bearing net monetary assets.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

PAGE 52 – IN EXCEL worksheet named '' Int risk ''

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Market risk (continued)

Foreign currency exchange risk

The Bank records transactions in foreign currencies at the rates in effect at the date of the transaction. The Bank retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the balance sheet date. All the gains or losses arising from the changes in the currency exchange rates are accounted for in the income statement.

The Bank's functional currency, the Shilling, has generally, over the recent past shown a weak tendency against the US dollar and the Euro, the two major currencies in which the Bank has significant foreign transactions.

The US dollar

At 31 December 2010, if the US dollar had strengthened by 10% against the Shilling, with all other variables held constant, the sensitized effect on the income statement would have been a decrease in profit before tax of TZS ..... million (2009: 9.3 million), mainly as a result of the Dollar denominated net monetary assets.

In computing the percentage change in exchange rates, management has taken into consideration the direction of the published rates movement in the functional currency against the major foreign transactional currencies over the last two years.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Market risk (continued)

PAGE 55 – IN EXCEL worksheet named "Curr risk"

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit and overseen by country risk officer. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirement for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures;
- Requirements for the yearly assessment of operational risk faced, and the requirements of controls and procedures to address the risk identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

35. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the bank's financial instruments that are carried in the financial statements.

	Carrying amount		Total fair value	
	2010	2009	2010	2009
	TZS'000	TZS'000	TZS'000	TZS'000
Financial assets				
Cash and cash equivalents	23,145,136	18,896,972	23,145,136	18,896,972
Statutory minimum reserve	7,900,000	5,480,000	7,900,000	5,480,000
Government securities held to maturity	6,492,993	3,947,346	6,492,993	3,947,346
Money market placements with banks held to maturity	200,000	100,000	200,000	100,000
Loans and advances to customers	56,432,556	41,166,843	56,432,556	41,166,843
Other receivables	3,458,236	1,158,269	3,458,236	1,158,269
	97,628,921	**70,749,430**	**97,628,921**	**70,749,430**
Financial liabilities				
Deposits	80,545,053	55,766,599	80,545,053	55,766,599
Tax payable	782,618	272,905	782,618	272,905
Other financial liabilities	1,831,685	3,080,764	1,831,685	3,080,764
	83,159,355	**59,120,268**	**83,159,355**	**59,120,268**

Only the "Held for trading" financial assets are carried at fair value and the bank uses level 1 hierarchy in determining and disclosing the fair value of financial instruments held for trading.

36. EVENTS AFTER BALANCE SHEET DATE

The bank's only exposure to foreign financial institutions is the placements and nostro account balances with our correspondent banks, Deutsche Bank, Frankfurt and Standard Chartered Bank, New York. We are closely monitoring the developments in financial markets in Europe and USA and will take immediate action to protect our investments should there be any adverse developments. The bank limits its exposures to certain sectors in the local economy which is perceived to be affected by the ongoing global financial crisis. In overall, no significance effects on the financial statements for the year ended 31 December 2010.

37. COMPARATIVES

Where necessary; comparative figures have been adjusted to conform to changes in presentation in the current year.

38. CURRENCY

These financial statements are presented in Tanzania Shillings (TZS).

39. NUMBER OF EMPLOYEES

The number of employees employed by the bank as at the yearend was 132 (2009: 114).

40. COUNTRY OF INCORPORATION

The bank is incorporated in Tanzania under the Companies Act, 2002 and domiciled in Tanzania.