



NBC LIMITED
REPORT AND ACCOUNTS
AT 31 DECEMBER 2006

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**DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

1. The Directors present this report and the audited financial statements for the year ended 31 December 2006.

2. **NATURE OF BUSINESS**

The company is engaged in the business of banking and the provision of related financial services.

3. **RESULTS AND DIVIDEND**

During the year, the bank had attributable income of Tzs 26,4 billion (2005 - Tzs 18,1 billion). The audited financial statements for the year are set out on pages 10 to 39.

The Board of Directors is in the process of proposing a dividend (2005 – Tzs 3 billion).

4. **DIRECTORS**

The directors, who served during the year and up to the date of this report, were:

Name	Nationality		Date of appointment / resignation
Adam Malima**	Tanzanian	Appointed	22/09/2006
Ami Mpungwe** (Acting Chairman)	Tanzanian		
Blandina Nyoni**	Tanzanian		
Christo de Vries*(Managing Director)	South African		
Dana Botha***	South African		
Eduardo Laurentino**	Brazilian	Appointed	05/05/2006
Frans du Toit**	South African		
Johann Schreuder*	South African	Resigned	31/12/2006
Johann de Wet*	South African		
Mary Ellen Iskenderian**	American	Resigned	04/05/2006
Musa Assad**	Tanzanian	Appointed	23/09/2006
Nazir Karamagi**	Tanzanian	Resigned	15/09/2006
Peter Mageza**	South African	Resigned	06/10/2006

* Executive Director

** Non – Executive Director

*** Alternate Director

The company secretary as at 31 December 2006 and up to the date of this report was Alfred Woiso, who was appointed on 20 November 2006.

As at 31 December 2006 and up to the date of this report no director attained the age of seventy.

5. CORPORATE GOVERNANCE

The directors believe that high standards of corporate governance directly influence the organisation's stakeholder and investor confidence. The directors also recognise the importance of integrity, transparency and accountability. The board of NBC Limited has the following board sub-committees to ensure a high standard of corporate governance throughout the bank:

- Audit, risk and compliance committee;
- Lending committee; and
- Remuneration committee.

6. RELATED PARTY TRANSACTIONS

Related party transactions and balances are disclosed in note 30 to these financial statements.

7. SOLVENCY

At 31 December 2006, the bank's assets exceeded its liabilities by Tzs 81,871 million (2005 - Tzs 58,468 million). Consequently, it is solvent and able to meet its obligations in full. These financial statements have therefore been prepared on the going concern basis.

8. CAPITAL ADEQUACY

Capital adequacy is monitored on a monthly basis by comparing the minimum required capital as per the Bank of Tanzania Regulations and the Banking and Financial Institution Act, 2006 to the available capital to ensure sufficient capital is available to meet regulatory requirements as well as future growth requirements.

During the last quarter of 2006 the minimum required capital was increased from 10% to 12% by the Bank of Tanzania with immediate effect.

The bank's capital adequacy as at 31 December 2006 was calculated as set out below

	Nominal 2006 Tzs. million	Risk weighted 2006 Tzs .million
On-balance sheet assets		
Cash and balances with Bank of Tanzania	107,785	-
Loan and advances to banks	150,419	30,083
Loan and advances to customers	358,117	344,518
Government securities held to maturity	149,174	-
Cheque and bills for clearings	15,934	8,795
Property, plant and equipment	23,200	23,200
Other assets	<u>5,813</u>	<u>5,705</u>
	810,442	412,301
Off-balance sheet position		
Credit related commitments	<u>96,780</u>	<u>67,967</u>
Total risk weighted assets	<u>907,222</u>	<u>480,268</u>
Required Capital		
Tier 1 capital-10%		48,004
Tier 2 capital -2%		<u>9,601</u>
Total capital -12%		<u>57,605</u>
Available Capital		<u>80,214</u>
Capital Adequacy		<u>16.7%</u>

9. EMPLOYEES' WELFARE

Management/employee relationship

Negotiations with the Trade Union of Industrial and Commercial Organizations (TUICO) were concluded in June 2006. The following agreements were registered in the Industrial Court on 28th June 2006:

1. Voluntary agreement (refers to the specific items that were negotiated).
2. Recognition agreement (refers to the recognition of TUICO as the Union of NBC employees and describes the relationship and processes that governs this recognition).
3. Collective Bargaining agreement (refers to and describes the process of collective bargaining between the parties involved).

Both parties have embarked on various relationship building activities to cement the conclusion of the above agreements and to avoid future industrial unrest.

Training

During the year, training was given to members of staff based on the requirements of NBC. The training conducted was a blend of in-house and external training conducted by NBC staff as well as professional trainers.

Medical assistance

The bank pays all the medical expenses of each permanent employee and his/her immediate family. The bank has appointed Medex Tanzania, a specialist in the screening of medical claims, to administer the medical claims process.

Annual leave

Provision is made for accumulated leave. Half of each employee's annual entitlement may be accumulated and paid out subject to a maximum of 150 days.

Retirement benefits

All eligible employees are members of the Parastatal Pension Fund (PPF). The bank contributes 15% and the employees 5% of their basic salary to the fund. The fund is a defined contribution pension fund with the bank having no legal or constructive obligation to pay further top-up contributions.

Disabled employees

The company recruits disabled workers for those vacancies that they are able to fill successfully. All necessary assistance is given with initial training. A career plan is developed which ensures that opportunities for advancement are provided to each disabled person. A similar policy exists for employees who become disabled while in the company's employment.

10. DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

None of the directors of the company have shares in the issued share capital of NBC Limited.

11. SHAREHOLDERS OF THE COMPANY

Shareholders of the company are:

ABSA Group Ltd	55%
The Government of the United Republic of Tanzania	30%
International Finance Corporation	<u>15%</u>
	<u>100%</u>

12. DONATIONS TO POLITICAL PARTIES

No donations were made to any political party institutions during the financial year ended 31 December 2006.

13. PERFORMANCE

Balance Sheet

Loans and advances continued to grow at a steady rate. Growth for the year came to 28,7% resulting in total net advances of Tshs.358 billion, and 23% ahead of budget.

The new deposit taking strategies continued to be effective and resulted in deposit growth of 27,8% for the year under review, resulting in a total deposit base of Tshs.683 billion, and 32% ahead of budget.

Total assets grew by 28,7% ending on Tshs.810 billion. This was mostly fuelled by the growth in deposits.

Equity stands at Tshs.81 billion after a dividend of Tshs.3 billion was paid in April 2006, ensuring NBC is adequately capitalized against a statutory requirement of 12%. (Note that the minimum capital requirement was increased from 10% to 12% in the fourth quarter of 2006).

Profit and loss account

Net interest margin on average interest bearing assets increased from 7,8% in 2005 to 8,6%, substantially exceeding the budgeted margin of 7,9%. This is mainly due to an increase in local money market yields, hard currency yields as well as the full effect of an upward re-pricing exercise on Loans and Advances performed during the last quarter of 2006. At the same time management succeeded in keeping cost of funds under control and therefore explaining the margin expansion.

The total provision charge of Tshs. 4,755million exceeded the budget by Tshs.2,460 million mainly as a result of increased portfolio impairments and an increase in the non-performing loan book resulting in higher specific impairments.

Total Non Interest Income has exceeded the budget by Tshs.1,296 million mostly due to the exceptional performance from the Trading desk, Tshs.1,500 million ahead of budget.

Non Interest Income expressed as a % of average assets comes to 3,3% (4,3% – 2005). The downward trend in the ratio is due to the sharp growth in assets (also money market investments which do not earn fee income) and not due to the decline in Non Interest Income.

Operating expenses are marginally over budget. The cost to income ratio is however showing a positive trend and has decreased significantly from 52,5% in 2005 to 44,7%. This is largely due to the strong growth in operating income. The 44,7% is extremely low for a primarily retail environment and could suggest that an upward adjustment in infrastructure expenses be considered.

Net profit after tax came to Tshs.26,403 million, 50% ahead of budget and showing year on year growth of 46%. This resulted in a return on capital (ROC) of 39,1%, well ahead of the budgeted ROC of 32,3%.

14. AUDITORS

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

BY ORDER OF THE BOARD

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

Signed by:

Ami Mpungwe
Chairman (Acting)

Date: 2 March 2007

Christo de Vries
Managing Director

Date: 2 March 2007

NBC LIMITED

**KEY PERFORMANCE INDICATORS
for the year ended 31 December 2006**

	2006	2005	Change %
Profit and loss account (Tzs m)			
Net profit	26,403	18,106	45.8
Balance Sheet (Tzs m)			
Total assets	810,442	629,654	28.7
Total Advances	358,117	278,311	28.7
Total Deposits and Current Accounts	682,284	533,596	27.8
Financial Performance (%)			
Return on Average Equity	39.1	37.8	
Return on Average Assets	3.7	3.4	
Operating Performance (%)			
Net interest margin on average assets	7.2	6.6	
Net interest margin on average interest bearing assets	8.6	7.7	
Charge for impairment of advances to average advances	1.4	0.8	
Non- performing advances as % of total advances	5.1	2.3	
Non-interest income as % of operating income	29.1	38.1	
Cost to income ratio	44.7	52.5	
Statistics Share			
Number of shares in issue	1,000,000	1,000,000	
Dividend per share	3,000	4,500	
Capital adequacy (%)			
As per Bank of Tanzania Regulation	16.7	14.5	

NBC LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation, integrity and objectivity on preparing financial statements that fairly present the state of the affairs of the bank at the end of the financial period and the net income and cash flow for the year, and other information contained in this report.

To enable the directors to meet these responsibilities:

- the board and management set standards and management implement systems of internal control and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- the bank's internal audit function, which operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business; and
- the internal audit, together with the external auditors, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review. The external auditors concur with this statement.

The bank consistently adopts appropriate and recognized accounting policies and these are supported by reasonable and prudent judgments and estimates on a consistent basis.

The financial statements have been prepared in accordance with the provisions of the Tanzanian Companies Act of 2002 and comply with International Financial Reporting Standards (IFRS).

The directors have no reason to believe that the bank will not be a going concern in the year ahead, based on forecasts and available cash resources. These financial statements have accordingly been prepared on that basis.

It is the responsibility of the independent auditors to report on the financial statements. Their report to the shareholders of the bank is set out on pages 8 and 9 of this report.

Signed by:

Ami Mpungwe
Chairman (Acting)

Christo de Vries
Managing Director

Date: 2 March 2007

**REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF NBC LIMITED**

We have audited the accompanying financial statements of NBC Limited, which comprise the balance sheet as at 31 December 2006, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Tanzanian Companies Act 2002.

Report on Other Legal and Regulatory Requirements

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

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

PricewaterhouseCoopers
Dar es Salaam
Signed by Leonard Mususa

Date:-----

NBC LIMITED

**PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2006**

	Notes	2006 Tzs million	2005 Tzs million
Interest and similar income	5	57,250	37,991
Interest expense and similar charges	6	<u>(5,706)</u>	<u>(3,063)</u>
Net interest income		51,544	34,928
Fee and commission income	7.1	15,427	12,795
Foreign currency dealings and translation gains	7.2	<u>8,108</u>	<u>8,707</u>
Operating income		75,079	56,430
Impairment losses on loans and advances	15.6	(3,537)	(43)
Administrative expenses	8.1	(30,420)	(27,063)
Other operating expenses	8.2	(4,210)	(3,575)
Net (increase)/ release of provisions	9	(240)	341
Recoveries on behalf of the Government of Tanzania	10	<u>(515)</u>	<u>(1,037)</u>
Net profit before taxation		36,157	25,053
Income tax expense	11	<u>(9,754)</u>	<u>(6,947)</u>
Net profit		<u>26,403</u>	<u>18,106</u>

NBC LIMITED

**BALANCE SHEET
as at 31 December 2006**

	Notes	2006 Tzs million	2005 Tzs million
Assets			
Cash and balances with Bank of Tanzania	12	249,434	188,046
Placements with other banks	13	23,050	16,455
Government securities held to maturity	14	149,174	122,633
Loan and advances to customers	15	358,117	278,311
Other assets	17	5,766	6,190
Current income tax asset		-	115
Deferred income tax asset	20	1,701	812
Property and equipment	18	<u>23,200</u>	<u>17,092</u>
Total assets		<u>810,442</u>	<u>629,654</u>
Liabilities			
Placement from other banks		2,360	1,581
Due to customers	19	681,438	533,608
Current income tax liabilities		58	-
Other liabilities	21	<u>44,715</u>	<u>35,997</u>
Total liabilities		<u>728,571</u>	<u>571,186</u>
Share capital	22	10,000	10,000
Share premium	22	2,000	2,000
Retained earnings and other reserves		<u>69,871</u>	<u>46,468</u>
Total shareholders' equity		<u>81,871</u>	<u>58,468</u>
Total liabilities and shareholders' equity		<u>810,442</u>	<u>629,654</u>
Off-balance sheet position			
Contingent liabilities	24	49,975	48,462
Capital commitments	24	9,908	13,078
Unutilised facilities	24	70,758	36,942
Operating lease commitment	24	<u>1,464</u>	<u>853</u>

The Board of Directors approved the annual financial statements on pages 10 to 39 on 2 March 2007 and were signed on its behalf by:

Ami Mpungwe
Chairman (Acting)

Christo de Vries
Managing Director

Notes and related statements forming part of these annual financial statements appear on pages 14 to 39. The Report of the independent auditors is on pages 8 and 9.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2006

	Share capital	Share premium	Distributable reserves	Regulatory reserve	Total
	Tzs million	Tzs million	Tzs million	Tzs million	Tzs million
Year 2005					
At start of the year as previously stated	10,000	2,000	29,465	1,385	42,850
Prior year adjustment (note 33)	-	-	<u>2,012</u>	-	<u>2,012</u>
As restated at 1 January 2005	10,000	2,000	31,477	1,385	44,862
Dividends paid	-	-	(4,500)	-	(4,500)
Net profit for the year	-	-	18,106	-	18,106
Transfer to Regulatory reserve	-	-	<u>927</u>	<u>(927)</u>	-
At the end of the year	<u>10,000</u>	<u>2,000</u>	<u>46,010</u>	<u>458</u>	<u>58,468</u>
Year 2006					
At start of the year as previously stated	10,000	2,000	43,896	458	56,354
Prior year adjustment (note 33)	-	-	<u>2,114</u>	-	<u>2,114</u>
As restated	10,000	2,000	46,010	-	58,468
Dividends paid	-	-	(3,000)	-	(3,000)
Transfer to Distributable reserve	-	-	458	(458)	-
Net profit for the year	-	-	<u>26,403</u>	-	<u>26,403</u>
At the end of the year	<u>10,000</u>	<u>2,000</u>	<u>69,871</u>	<u>-</u>	<u>81,871</u>

Regulatory reserve

The regulatory reserve is a non distributable reserve reflecting any shortfall between the provision for non performing advances as required by the Bank of Tanzania and the South African Reserve Bank, and the provision for impairment of advances as required in terms of the bank's accounting policy and more specifically, IAS39.

CASH FLOW STATEMENT
for the year ended 31 December 2006

	Notes	2006 Tzs million	2005 Tzs Million
Cash flow from operating activities:			
Interest and similar income received		56,401	37,991
Interest paid		(5,127)	(2,714)
Fee and commission receipts		15,427	11,188
Foreign currency dealings		7,838	7,100
Recoveries on loan previous w/off		979	1,474
Cash payments to employees and suppliers		(49,674)	(27,993)
Income tax paid	28	(10,469)	(6,843)
Cash flow from operating profit before changes in operating assets and liabilities.			
Net change in loans and advances to banks			
Net change in loans and advances to customers		(79806)	(100,402)
Net change in other assets		424	(451)
Net change in SMR		(9,000)	(12,874)
Net change in other deposits		147,830	160,400
Net change in other liabilities		<u>8,710</u>	<u>(6,956)</u>
Net cash from operating activities		<u>93,795</u>	<u>60,919</u>
Cash flow from investing activities:			
Purchase of property and equipment	18	(8,156)	(4,385)
Proceeds from sale of properties and equipment		105	315
Purchase of securities		(26,541)	(35,587)
Proceed from sale and redemption of securities		-	26,172
Net cash provided (used) by investing		<u>(34,592)</u>	<u>(13,485)</u>
Cash flow from financing activities:			
Issue of ordinary shares		-	-
Purchase of treasury shares			
Dividend paid		(3,000)	(4,500)
Net cash used in financial activities		<u>(3,000)</u>	<u>(4,500)</u>
Cash and cash equivalents			
Net increase (decrease) in cash and cash equivalents		56,203	42,934
Cash and cash equivalent at the beginning of the quarter	29	<u>197,706</u>	<u>154,772</u>
Cash and cash equivalent at the end of the year	29	<u>253,909</u>	<u>197,706</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

1. GENERAL INFORMATION

NBC Ltd provides retail and corporate banking services in Tanzania. The bank is a limited liability company, incorporated and domiciled in Tanzania. The address of its registered office is Sokoine Drive, P.O. Box 1863, Dar-es-Salaam, Tanzania.

The Bank's financial statements for the year ended 31 December 2006 have been approved for issuing by the Board of Directors on 2 March 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

NBC Limited's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Note 33 to the financial statements provides an analysis of the adjustments effected to restate the opening retained income at 1 January 2005 and the comparative financial statements to give effect to the change in accounting policy with regards to deferred tax recognition on provisioning for impairment losses on loans and advances.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss.

In 2006 new and revised standards and interpretations became effective for the first time and have been adopted by the bank where relevant to its operations. The adoption of these new and revised standards had no material effect on the bank's accounting policies or disclosures.

The following amendment to an existing standard and new standard will be mandatory for the bank's accounting periods beginning on or after 1 January 2007, but which the bank has not early adopted:

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

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.2 Interest and similar income and interest expense and similar charges

For all interest bearing instruments measured at amortized cost, interest income and expense are recognized in the profit and loss account using the effective interest method.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument including 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 and discounts.

Once a financial asset or group of financial assets has been written down as a result of an impairment loss, interest income is recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss

2.3 Fees and commission income

Fees and commission income are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and are recognized as an adjustment to the effective interest rate on the loan.

2.4 Property and equipment

Property and equipment are shown at cost less subsequent depreciation and impairment. Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of items of property and plant and equipment, as follows:

Buildings	3.3% p.a.
Machinery and equipment	15% p.a.
Furniture and fittings	10% p.a.
Motor vehicles	25% p.a.
Computer equipment and software	20% p.a.

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

Depreciation is calculated on the difference between cost and residual value.

Gain and loss on disposal are determined by comparing proceed with carrying amount. These are included in the profit and loss account.

2.5 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.

Financial assets at fair value through profit or loss

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or if so designated on initial recognition by management.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as a result of the bank providing money, goods or services directly to a debtor with no intention of trading the receivable.

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. If the bank is to sell an amount of held to maturity assets, which is not insignificant, the entire category could be tainted and reclassified as available for sale.

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 of financial assets

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

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Subsequent measurement on financial assets

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently measured at fair value. Loans and receivable and held to maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in fair value of the "financial assets at fair value through profit and loss" category 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 recognized directly in equity until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in the profit and loss account. However interest calculated using the effective interest rate is recognized in the profit and loss account.

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 establishes fair value by using valuation techniques and use of recent arm's lengths transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

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

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Impairment of financial assets

At each balance sheet date the bank assesses whether there is evidence that a financial asset is impaired. A financial asset is impaired 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 and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at amortized cost

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

Assets carried at fair value

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired. If any such evidence exists for available for sale assets, the cumulative loss; measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account is removed from equity and recognized in the profit and loss account.

If in subsequent period, the fair value of the instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit and loss account.

Unidentified impairment

In addition to the impairment estimated for assets with recognized objective evidence of impairment, an estimate is made for impairment associated with those assets in the balance sheet that are impaired, but for which objective evidence of this impairment is not yet available.

Establishing the impairment levels associated with assets that are impaired but where objective evidence is not yet available involves two steps. The first step is to estimate the level of impairment in each portfolio based on:

- Experience of the length of time that it takes for objective evidence to become apparent, known as the emergence period, after the asset has become impaired.
- Statistical techniques that estimate the proportion of assets in each portfolio that are likely to display objective evidence over the emergence period.

The second step takes these estimates of assets that will display objective evidence of impairment over the emergence period and applies the same techniques previously described to establish the level of impairment appropriate to each asset type.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

All impaired loans and advances are reviewed on a regular basis and any changes to the amount and timing of the expected future cash flows compared to previous estimates will result in a change to the charge for impairment of advances in the profit and loss account. Changes in interest rates will also result in changes to the impairment of advances charge in respect of impaired variable rate loans.

To the extent that the impairments created by the banking operations of the bank are insufficient to meet the minimum regulatory provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to regulatory reserve.

2.8. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operation leases .All other leases are classified as finance leases.

To date leases entered into by the bank are operating leases. 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 a penalty is recognized as an expense in the period in which termination takes place.

2.9 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 amortized cost and any difference between the proceeds net of transaction costs and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

2.10 Contingencies and commitments

Transactions are classified as contingencies where the bank's obligations depend on uncertain future events.

Items are classified as commitments where the bank commits itself to future transactions if the items will result in the acquisition of assets.

2.11 Current income tax

Income tax payable on profits, based on the applicable tax law in Tanzania, is recognized as an expense in the period in which the profits arise.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax is provided in full using the liability method on all temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax is charged to the profit and loss account except to the extent that it relates to a transaction that is recognized directly in equity.

The effect on deferred income tax of any changes in tax rates is recognized in the profit and loss account, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred income tax asset is recognized to the extent that is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilized. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

With effect from December 2006 the bank changed its policy on accounting for tax on impaired loans and advances by raising a deferred tax for impairment. The reason for change was to comply with IAS 12, Income taxes. Previously the bank was not recognising the deduction of provision for bad debts in calculating current tax in the financial statements. There were also no corresponding recognition of a deferred tax assets on the disallowed sum. Instead the policy was to recognize the asset when Tax Authority issues the final assessments.

2.12 Provisions for liabilities

Provisions are recognized 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 resources embodying economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

2.13 Employee benefits

The costs of all short-term employee benefits are recognized during the period in which the employee renders the related service. Obligations for contribution to the Parastatal Pension Fund (PPF), which is a defined contribution scheme, are recognized as an expense in the profit and loss account as incurred. The employer has no further obligation.

2.14 Foreign currencies translation.

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 entity operates ("the functional currency"). The financial statements are presented in Tanzania shillings (Tzs), rounded to the nearest million, which is the bank's functional and presentation currency.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transactions and balances

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

2.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and all cash equivalent items maturing within 90 days from the date of acquisition including non-restricted balances with the Central Banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term government securities.

Acceptances and letters of credit

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

3. FINANCIAL RISK MANAGEMENT

The Board of Directors is ultimately responsible for any loss suffered by the bank. Risk taking, in an appropriate manner is an integral part of business. Success relies on optimising the trade-off between risk and reward. In the course of conducting its business, the bank is exposed to a variety of risks, including credit, market, operational, strategic and reputation risk.

The bank's risk management approach is that:

- All risks must be identified and managed, and that the returns must be commensurate with the risks taken, relative to the bank's risk appetite;
- The effectiveness of risk management processes is ensured through formal governance and comprehensive regular reporting processes in a well-defined control environment; and
- It is the responsibility of each individual, relative to their position, to identify themselves with the declared priority of risk management, to recognise real or anticipated risk and to take appropriate action.

Risk management is guided by several principles, the most important being:

- The assignment of appropriate responsibility and accountability for all risks and resulting returns;
- The adoption of a framework for integrated risk management which applies across all business units and all risk types for the protection of the bank's reputation;
- Comprehensive risk assessment, measurement, monitoring and reporting;
- Independent review; and
- Formal risk governance processes.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

3. FINANCIAL RISK MANAGEMENT (Continued)

Credit risk

The bank also monitors concentrations credit risk that arises by location and type of customer in relation to the bank loans and advances to customers by carrying a balanced portfolio. Analysis of credit concentration of the bank's portfolio is set out in note 15.2.

Market risk

As part of the management of market risk, NBC uses the Daily Value at Risk (DVaR) methodology to measure and control market risk. This allows the bank to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.

Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the DVaR calculation.

Foreign exchange risk

NBC takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In consultation with the Group, NBC sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored daily.

Interest rate risk

Interest rate risk is the risk that the future cash flows 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 cash flows risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by treasury.

Liquidity risk

Liquidity risk is the risk that NBC 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.

Liquidity risk management process

NBC's liquidity management process, is carried out by a separate team in the Treasury, and 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. NBC maintains an active presence in the local money markets to enable this to happen,
- Maintaining a portfolio of 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 instrument with maturities.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 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 profit and loss account, the bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payments status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the bank. 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

4.1 Held-to-maturity investments

The bank follows the IAS 39 guidance on classifying non-derivate financial assets with fixed or determinable payments and fixed maturity as held to maturity. The classification requires significant judgment. 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 category as available for sale. The investments would therefore be measured at fair value not amortised cost.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

5. INTEREST AND SIMILAR INCOME

	2006	2005
	Tzs million	Tzs million
Government bonds	16,589	12,329
Bank balances (Foreign currency placements)	5,085	2,334
Bank balances (Local currency placements)	320	89
Commitment fees	1,609	1,035
Advances to customers	<u>33,647</u>	<u>22,204</u>
	<u>57,250</u>	<u>37,991</u>

6. INTEREST EXPENSE AND SIMILAR CHARGES

Current accounts	2,484	1,009
Savings accounts	1,585	1,097
Time deposits	<u>1,637</u>	<u>957</u>
	<u>5,706</u>	<u>3,063</u>

7. NON INTEREST INCOME

7.1 Fee and commission income

Commission	1,391	736
Drafts and transfers	867	830
Guarantees and acceptances	900	919
Letters of credit and telegraphic transfers	2,060	2,236
Maintenance and ledger fees	9,039	7,124
Profit on disposal of property and equipment	81	29
Other	<u>1,089</u>	<u>921</u>
	<u>15,427</u>	<u>12,795</u>

7.2 Foreign currency dealings and translation gains

Foreign exchange dealings	7,838	7,316
Revaluation gain	<u>270</u>	<u>1,391</u>
	<u>8,108</u>	<u>8,707</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2006

8. OPERATING EXPENSES

8.1 Administrative expenses

	2006	2005
	Tzs million	Tzs million
Staff costs:		
Salaries	8,459	7,065
Benefits	5,116	3,900
Retirement award	-	951
Contribution to Pension Fund	1,012	940
Other administration expenses	13,817	11,895
Depreciation	<u>2,016</u>	<u>2,312</u>
	<u>30,420</u>	<u>27,063</u>

In December 2005, the bank settled a long-standing labour dispute. The dispute related to claims from employees for retirement benefits. The total settlement amount came to Tzs.3,789 million. The bank paid Tzs.951 million and the balance amounting to Tzs.2,838 million was paid by Government of Tanzania.

8.2 Other operating expenses

Loss on sale of property and equipment	3	333
Maintenance costs	3,963	2,981
Sundry expenses	<u>244</u>	<u>261</u>
	<u>4,210</u>	<u>3,575</u>

Net profit before taxation is stated after charging:

Auditor's remuneration		
▪ Current year	288	213
▪ Prior year	-	7
▪ Other services	4	44
Directors' emoluments		
▪ Services other than as a director		
▪ Executive salaries	728	356
▪ Executive benefits	234	211
▪ Services as a director		
▪ Executive	19	26
▪ Non – executive	60	74

9. NET (CHARGE)/ RELEASE OF PROVISIONS

(Increase)/ release in provision for contingencies (refer note 21.1)	(188)	376
(Increase)/release in provision for other risk assets (refer note 17.1)	(49)	780
Write-off of other assets	<u>(3)</u>	<u>(815)</u>
	<u>(240)</u>	<u>341</u>

The write off is in respect of other assets where recovery is remote.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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10. RECOVERIES ON BEHALF OF THE GOVERNMENT OF TANZANIA PER THE ACQUISITION AGREEMENT

	2006	2005
	Tzs million	Tzs million
Interest received	319	65
Recoveries of impaired advances	978	1,491
Net movement in provision for contingencies	-	545
Direct costs recovered	<u>(725)</u>	<u>(949)</u>
Subtotal	572	1,152
Less: commission earned by NBC on Government recoveries	<u>(57)</u>	<u>(115)</u>
	<u>515</u>	<u>1,037</u>

In terms of the agreement of 20 December 1999 between the Government of Tanzania and the Absa Group Limited, the bank is required to credit the net recovery on non-performing assets at 31 March 2000 (as defined in the agreement) to the Government bond account (refer note 14.2).

11. INCOME TAX EXPENSE

Current tax	11,224	7,749
Overprovision – 2003	-	(546)
Overprovision – 2004 & 2005	(582)	-
Deferred tax	<u>(888)</u>	<u>(256)</u>
	<u>9,754</u>	<u>6,947</u>
Tax rate reconciliation	%	%
Standard rate of Tanzania normal taxation	30.0	30.0
- Prior year overprovision	(1.5)	(2.2)
- Exempt income	(8.4)	(4.1)
- Expenditure not allowed	<u>6.8</u>	<u>4.4</u>
Taxation as percentage of income before taxation	<u>26.9</u>	<u>28.1</u>

Excluded from the calculation of current and deferred taxes are deductions in respect of wear and tear on buildings.

They are treated as non-deductible permanent difference as the quantum and timing of this potential benefit is not clear, a deferred tax asset has not been recognized.

The provision for tax for the current year is based on the regulations currently in force. The computation is however subject to the approval of the tax authorities.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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12. CASH AND BALANCE WITH BANK OF TANZANIA

	2006	2005
	Tzs million	Tzs million
Cash in hand	35,237	24,284
Balances with Bank of Tanzania:		
Current account – local currency	7,160	(984)
Current account – foreign currency	(449)	3,838
Statutory minimum reserve (SMR)	55,626	46,626
Balances with other banks	<u>151,860</u>	<u>114,282</u>
	<u>249,434</u>	<u>188,046</u>

The SMR deposit is not available to finance the bank's day-to-day operations and hence excluded from cash and cash equivalent for purpose of cash flow statement.

13. PLACEMENTS WITH OTHER BANKS

Cheques in course of collection	9,059	170
Placements	<u>13,991</u>	<u>16,285</u>
Total	<u>23,050</u>	<u>16,455</u>

14. GOVERNMENT SECURITIES

14.1 TREASURY BILLS

Held-to-maturity

Treasury bills maturing within:

90 days	43,415	41,412
180 days	37,528	26,874
360 days	<u>33,525</u>	<u>38,256</u>
Sub total	<u>114,468</u>	<u>106,542</u>

The maturity is based on the remaining period from year-end to contractual maturity.

14.2 GOVERNMENT BONDS

Government bonds consist of Treasury bonds and Special Government bonds, which are being held to maturity.

Special Government bonds	1,857	4,598
Treasury bonds	<u>32,849</u>	<u>11,493</u>
Sub total	<u>34,706</u>	<u>16,091</u>
Total	<u>149,174</u>	<u>122,633</u>

The fair value of these assets as at 31 December 06 is Tzs 153,523 million.

NBC LIMITED
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Reconciliation of movements in Special Government bonds

	2006	2005
	Tzs million	Tzs million
Balance at the beginning of the year	4,598	2,798
Redemption received in cash	(2,226)	-
Government portion of retirement award to staff (refer note 8.1)	-	2,837
Collections transferred (refer note 10)	<u>(515)</u>	<u>(1,037)</u>
Balance at the end of the year	<u>1,857</u>	<u>4,598</u>

The maturity profile of the bonds is as reflected below:

<i>Held-to-maturity</i>		
Within 1 year	12,999	2,226
1-2 years	<u>21,707</u>	<u>13,865</u>
	<u>34,706</u>	<u>16,091</u>

The Government of Tanzania issued Special Government bonds in March 2000 to recapitalise the bank. Recoveries made, net of tax, on behalf of the Government of Tanzania have been reducing this bond (refer note 10).

Interest is calculated using the simple average interest on ninety-one day treasury bills for the previous three-month period. The bonds are redeemable from 30 September 2001 in twelve semi-annual equal instalments. Special Government bonds of Tzs 4,746 million were redeemed during the year (2005 - Tzs 4,746 million) of which Tzs.1,520 utilizing collection money from ring fenced assets and Tzs.2,226 was received in cash.

15. LOAN AND ADVANCES TO CUSTOMERS

15.1 Net advances

Commercial advances	362,933	280,671
Advances to small and medium enterprises	96	100
Personal advances	2,548	1,288
Staff loans and advances	<u>2,859</u>	<u>2,517</u>
Gross advances	368,435	284,576
Less: Impairment (refer note 15.3)	<u>(10,318)</u>	<u>(6,265)</u>
Advances to customers net of impairment	<u>358,117</u>	<u>278,311</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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15.2 Concentration of gross advances

	2006	2005
	%	%
By sector		
Agriculture	12.8	11.7
Construction	2.7	2.3
Electricity	-	1.6
Finance	8.6	10.6
Manufacturing	34.5	28.8
Mining	2.6	4.3
Services	2.9	2.3
Transport	8.7	6.8
Wholesale	<u>27.2</u>	<u>31.6</u>
Gross advances	<u>100</u>	<u>100</u>

15.3 Movement in impairment of loans and advances

	2006	2005
	Tzs million	Tzs million
Balance at 1 January	6,265	4,766
Increase in impairment during the year (note 15.4 + 15.5)	<u>4,053</u>	<u>1,499</u>
Balance at 31 December	<u>10,318</u>	<u>6,265</u>

15.4 Movement in specific impairment

Balance at 1 January	5,046	4,061
Increase in net impairment during the year	<u>3,299</u>	<u>985</u>
Balance at 31 December	<u>8,345</u>	<u>5,046</u>

15.5 Movement in portfolio impairment

Balance at 1 January	1,219	705
Increase in net impairment during the year	<u>754</u>	<u>514</u>
Balance at 31 December	<u>1,973</u>	<u>1,219</u>

15.6 Net movement of impaired loans and advances

Bad debts written off	(1,031)	(244)
Increase in impairment during the year	(3,485)	(1,273)
Recovery of written off accounts	<u>979</u>	<u>1,474</u>
	<u>(3,537)</u>	<u>(43)</u>

NBC LIMITED
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16. NON-PERFORMING ADVANCES

	Outstanding balance Tzs million	Security Tzs million	Provision Tzs million
2006			
Overdrafts	14,200	9,529	9,001
Term loans	<u>2,059</u>	<u>645</u>	<u>1,317</u>
Total	<u>16,259</u>	<u>10,174</u>	<u>10,318</u>
2005			
Overdrafts	6,333	7,598	6,073
Term loans	<u>192</u>	<u>645</u>	<u>192</u>
Total	<u>6,525</u>	<u>8,243</u>	<u>6,265</u>

17. OTHER ASSETS

Bills receivable	1,654	1,342
Interest receivable	1,358	509
Prepayments and sundry assets	<u>3,323</u>	<u>4,859</u>
	6,335	6,710
Less provisions (refer note 17.1)	<u>(569)</u>	<u>(520)</u>
	<u>5,766</u>	<u>6,190</u>

17.1 Movements on the provisions for other risk assets

Balance at 1 January	520	1,300
Provision raised (released) during the year	<u>49</u>	<u>(780)</u>
Balance at 31 December	<u>569</u>	<u>520</u>

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18. PROPERTY AND EQUIPMENT

	Land and buildings (owner occupied) Tzs million	Leasehold Improvement Tzs million	Equipment Tzs million	Total Tzs million
At 1 January 2005				
Cost	13,348	257	17,051	30,656
Accumulated depreciation	<u>(3884)</u>	<u>(173)</u>	<u>(11,294)</u>	<u>(15,351)</u>
Net book amount	<u>9,464</u>	<u>84</u>	<u>5,757</u>	<u>15,305</u>
Year ended 31 December 2005				
Opening book amount	9,464	84	5,757	15,305
Additions	2,439	434	1,511	4,385
Disposals	(279)	-	(7)	(286)
Depreciation charge	<u>(33)</u>	<u>(106)</u>	<u>(2,172)</u>	<u>(2,312)</u>
Closing net book amount	<u>11,591</u>	<u>412</u>	<u>5,089</u>	<u>17,092</u>
At 31 December 2005				
Cost	15,254	691	18,212	34,157
Accumulated depreciation	<u>(3,663)</u>	<u>(279)</u>	<u>(13,123)</u>	<u>(17,065)</u>
Net book amount	<u>11,591</u>	<u>412</u>	<u>5,089</u>	<u>17,092</u>
Year ended 31 December 2006				
Opening net book amount	11,592	412	5,089	17,092
Additions	5,006	72	3,078	8,156
Disposals	-	-	(32)	(32)
Depreciation charge	<u>(38)</u>	<u>(148)</u>	<u>(1829)</u>	<u>(2,016)</u>
Closing net book amount	<u>16,560</u>	<u>336</u>	<u>6,306</u>	<u>23,200</u>
At 31 December 2006				
Cost	20,260	748	20,711	41,719
Accumulated depreciation	<u>(3,701)</u>	<u>(413)</u>	<u>(14,405)</u>	<u>(18,519)</u>
Net book amount	<u>16,559</u>	<u>335</u>	<u>6,306</u>	<u>23,200</u>

During the year the bank reviewed the estimated residual and useful life of its land and building. As a result of this exercise it has been determined that the residual value is likely to be more than the current carrying value of land and buildings. As a result the bank has not depreciated buildings.

A list of all the properties owned by the bank is available at the registered office of the bank.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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19. DUE TO CUSTOMERS

	2006	2005
	Tzs million	Tzs million
Current accounts	235,959	182,658
Savings accounts	157,425	120,776
Time deposits	34,870	25,480
Foreign currency accounts	246,851	198,595
Unclaimed deposits	3,573	3,247
Cash collaterals for letters of credit	2,760	2,852
	<u>681,438</u>	<u>533,608</u>

20. DEFERRED INCOME TAX

Deferred income taxes are calculated on temporary differences using effective tax rate of 30% (2005 30%)

Deferred income tax assets		
Balance at 1 January	813	556
Profit and loss account (credit) - Note 8	<u>888</u>	<u>256</u>
Balance at 31 December	<u>1,701</u>	<u>812</u>

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

	1 January 2006	Credited to profit and loss account	31 December 2006
	Tzs million	Tzs million	Tzs million
Deferred income tax liabilities			
Property and equipment	(1,302)	(399)	(1,701)
Deferred income tax assets			
Provision	<u>2,114</u>	<u>1,288</u>	<u>3,402</u>
	<u>812</u>	<u>889</u>	<u>1,701</u>

Deferred tax liability comprises exclusively of temporary difference relating to different rates for depreciation and tax allowance for fixed assets (excluding Buildings).

Deferred income tax assets comprise exclusively of temporary differences relating to provision being treated as timing difference.

There is a contingent tax asset of Tzs 3.6 billion in respect of ring fenced assets of Tzs 11.87 billion awaiting approval from PSRC before write off.

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21. OTHER LIABILITIES

	2006	2005
	Tzs million	Tzs million
Items in transit	11,230	5,230
Interbank bills payable	5,166	7,670
Clearing suspense	3,209	1,767
Government tax collection accounts	2,630	1,304
Interest payable	1,217	638
Provision for contingencies (refer note 21.1)	1,870	1,682
Provision for leave pay	275	230
Cheques sent for collection	11,742	12,129
Corporate Social Investment Fund	214	393
Others	<u>7,162</u>	<u>4,954</u>
	<u>44,715</u>	<u>35,997</u>

21.1 Provisions for contingencies

Balance at 1 January	1,682	2,058
Increase/ (decrease) in provision during the year (refer note 9)	<u>188</u>	<u>(376)</u>
Balance at 31 December	<u>1,870</u>	<u>1,682</u>

22. SHARE CAPITAL AND PREMIUM

22.1 Share capital

Authorised share capital:

5,000,000 ordinary shares of Tzs 10,000 each	<u>50,000</u>	<u>50,000</u>
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Issued and fully paid up capital:

1,000,000 ordinary shares of Tzs 10,000 each fully paid up	<u>10,000</u>	<u>10,000</u>
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22.2 Share premium

Shares issued at a premium	<u>2,000</u>	<u>2,000</u>
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23 DIVIDENDS

Dividends are not accounted for until they have been ratified at the Annual General Meeting. At the AGM a dividend in respect of 2006 is in process (2005 – Tzs 3,000 million) to be proposed. The financial statements for the year ended 31 December 2006 do not reflect this resolution which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2007.

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24 CONTINGENT LIABILITIES AND COMMITMENTS

	2006	2005
	Tzs million	Tzs million
Contingent liabilities		
Guarantees and indemnities	30,257	23,320
Letters of credit	<u>19,718</u>	<u>25,142</u>
	<u>49,975</u>	<u>48,462</u>
 Commitments		
Undrawn formal standby facilities, unutilised overdraft facilities and other commitments to lend	 <u>70,758</u>	 <u>36,942</u>
 Capital commitments - approved but not committed	 <u>9,908</u>	 <u>13,078</u>
 Operating lease commitment		
Where the bank is the lessee the future minimum lease payments under non-cancellable operating leases are:-		
Not later than 1 year	436	201
Later than 1 year and not later than 5 years	<u>1,033</u>	<u>652</u>
	<u>1,464</u>	<u>853</u>

Legal suits

There is a pending litigations against the bank with claims totalling of Tzs 25.4 billion (2005 – Tzs 30 billion). Government of Tanzania will settle cases that relate to the period prior to the privatisation of the bank. Of these, approximately Tzs 5.3 billion (2005 – Tzs 10 billion) are for the account of the bank, with the balance in respect of ring-fenced assets, where the bank retains no risk of loss. A provision of Tzs 94 million has been raised in respect of likely losses. This is included in note 21.1.

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24 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

The bank recovered Tzs.158 million from insurance cover and the balance of Tzs.16 million was written off in 2004.

The Bank of Tanzania is still in the process of investigating their loss of Tzs.5,144 million and has indicated that until such time as the court cases are ongoing this matter will remain open ended.

25. INTEREST RATE RISK

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.

The table below summarises the exposure to interest rate risk. Assets and liabilities are categorised by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items. All figures are in millions of Tanzania shillings.

2006	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Non- interest bearing	Total
ASSETS							
Cash and short term funds	110,139	25,716	2,135	-	-	111,444	249,434
Cheques and items for clearance	-	-	-	-	-	23,050	23,050
Government bonds treasury bills	20,063	22,574	41,974	42,730	21,833	-	149,174
Other assets	-	-	-	-	-	5,766	5,766
Deferred tax	-	-	-	-	-	1,701	1,701
Advances to customers	177,136	-	-	-	180,981	-	358,117
Property and equipment	-	-	-	-	-	23,200	23,200
Total assets	307,338	48,290	44,109	42,730	21,833	142,111	810,442
LIABILITIES							
Placement from other banks	2,360	-	-	-	-	-	2,360
Customers' deposits	600,237	38,210	20,161	22,830	-	-	681,438
Current Income tax liabilities	-	-	-	-	-	58	58
Other liabilities	-	-	-	-	-	44,715	44,715
Shareholder's funds	-	-	-	-	-	81,871	81,871
Total liabilities	602,297	38,210	20,161	22,830	-	126,644	810,442
Interest sensitivity gap							
2006	<u>(295,260)</u>	<u>10,080</u>	<u>23,948</u>	<u>19,900</u>	<u>202,814</u>	<u>15,467</u>	<u>-</u>
2005	<u>(229,306)</u>	<u>19,484</u>	<u>20,370</u>	<u>32,504</u>	<u>159,214</u>	<u>(3,556)</u>	<u>-</u>

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26. LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2006 to the contractual maturity date. All figures are in millions of Tanzania shillings.

2006	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	Non- interest bearing	Total
ASSETS								
ASSETS								
Cash and short term funds	221,583	25,716	2,135	-	-	-	-	249,434
Cheques and bills in hand	23,250	583	25,716	2,135	-	-	-	23,950
Government funds and currency clearance	20,053	502	22,574	-	42,730	-	-	149,274
Other assets	20,063	52,674	41,974	42,730	21,833	-	-	51,961
Government bonds treasury bills	-	-	-	-	-	-	-	-
Deferred tax	5,766	-	-	-	1,701	-	-	1,701
Other assets	-	-	-	-	-	-	-	-
Advances to customers	43,927	71,885	34,670	108,428	48,810	50,398	23,200	358,174
Property and equipment	43,927	71,885	34,670	108,428	48,810	23,200	358,174	358,174
Total assets	316,090	125,951	78,779	151,157	72,344	73,598	208,117	812,200
LIABILITIES								
Placement from other banks	2,360	-	-	-	-	-	-	2,360
Customers' deposits	600,237	38,210	20,161	22,830	-	-	-	681,438
Current Income tax liabilities	58	-	-	-	-	-	-	58
Other liabilities	44,715	-	-	-	-	-	-	44,715
Shareholder's funds	-	-	-	-	-	81,871	-	81,871
Total liabilities	647,370	38,210	20,161	22,830	-	81,871	-	810,442
liquidity gap								
2006	<u>(331,280)</u>	<u>87,741</u>	<u>58,618</u>	<u>128,328</u>	<u>70,344</u>	<u>(8,273)</u>		
2005	<u>(252,592)</u>	<u>50,961</u>	<u>47,616</u>	<u>110,044</u>	<u>50,868</u>	<u>(6,897)</u>		<u>-</u>

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27. CURRENCY RISK

The bank takes on exposure as a result of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below summarizes the exposure to foreign currency exchange rates risk at 31 December 2006. Assets and liabilities are categorised by currency.

All figures are in million of Tanzania shillings.

2006	US \$	GBP	Euro	ZAR	Other	Total
ASSETS						
Cash and balance with BOT	140,867	2,369	13,122	2	4,422	160,782
Cheques in the course of collection	-	-	-	-	-	-
Government securities	-	-	-	-	-	-
Placements with other banks	8,700	-	-	-	-	8,700
Other assets	1,083	19	22	-	2	1,126
Advances to customers	111,567	-	2	-	-	111,568
Property and equipment	-	-	-	-	-	-
Total assets	262,217	2,388	13,146	2	4,424	282,176
LIABILITIES						
Customers' deposits	234,157	2,356	11,043	-	3,595	251,150
Deposits from banks	-	-	-	-	-	-
Proposed dividends	-	-	-	-	-	-
Other liabilities	7,626	59	561	1,872	237	10,355
Shareholder's funds	-	-	-	-	-	-
Total liabilities	241,783	2,415	11,603	1,870	3,832	261,505
Net on balance sheet position						
2006	<u>20,434</u>	<u>(27)</u>	<u>1,543</u>	<u>(1,542)</u>	<u>592</u>	<u>20,671</u>
2005	<u>12,676</u>	<u>(14)</u>	<u>1,416</u>	<u>1,278</u>	<u>(2,939)</u>	<u>12,417</u>

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		2006	2005
		Tzs million	Tzs million
28.	INCOME TAX PAID		
	Balance at 1 January	(115)	(476)
	Current tax for the year	11,224	7,749
	Overprovision-2003	-	(541)
	Overprovision-2004 & 2005	(582)	-
	Balance at 31 December	<u>(58)</u>	<u>115</u>
	Paid during the year	<u>10,469</u>	<u>6,843</u>

29. CASH AND CASH EQUIVALENTS

All cash and cash equivalent items mature within 90 days

Cash, forex, notes and coins	35,237	24,284
Balances with Bank of Tanzania	16,922	2,854
Treasury Bills maturing within ninety days	43,415	41,412
Deposits and balances with banking institutions	150,419	114,282
Cheques in the course of collection	10,276	16,455
Deposits and balances due to banking institutions	<u>(2,360)</u>	<u>(1,581)</u>
	<u>253,909</u>	<u>197,706</u>

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

30. RELATED PARTY TRANSACTIONS

Identity of related parties

The holding company of the bank is the Absa Group Limited (Absa), incorporated in South Africa, which holds 55% of the company's ordinary share capital. Absa Group Limited is a subsidiary of Barclays Plc with shareholding of 56.4%, making Barclays Plc the ultimate parent of the group.

The bank entered a bond recapitalisation agreement with the Government of Tanzania on privatisation in 2000. The Government of Tanzania has 30% shareholding in the bank.

The bank has no investments in subsidiaries, joint ventures or associates.

The names of directors are listed in the directors' report.

Material related party transactions

Related party transaction with the parent company:

The bank expensed the sum of Tzs 895 million during the year (2005 – Tzs 623 million) as fees due to Absa for technical assistance offered.

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30. RELATED PARTY TRANSACTIONS (Continued)

The bank maintains a nostro facility with Absa for transactional and trading purposes, at 31 December 2006 the nostro outstanding balance was Tzs 16,414 million (2005 – Tzs 5,006 million).

Related party transactions with the Government of Tanzania

The bank has loans receivable from the Government of Tanzania during the year in the form of treasury bills and bonds amounting to Tzs 150,122 million (2005 – Tzs 142,505 million). The bank is also recovering a portfolio of delinquent accounts on behalf of the Government of Tanzania per the acquisition agreement. The effect for the current year is disclosed in note 10. The remaining balance of these accounts is Tzs 29,848 million (2005 -Tzs 30,688million).

Commissions on letters of credit opened for the Government of Tanzania are charged at market related rates.

Related party transaction with Board Directors and key management personnel

Loans and advances to related parties

The related-part transaction, outstanding balances at the year-end are as follows:

	2006	2005
	Tzs million	Tzs million
Loan and advances		
Loan outstanding as at 31 December	18	104

No provisions have been recognized on loan given to related-parties.

Key Management Compensation

Salaries	907	586
Other benefit	449	268

Executives Directors' remuneration

Christo de Vries	390	267
Johann de Wet	299	220
Johann Schreuder	273	229

31. CORPORATE SOCIAL RESPONSIBILITY FUND

The NBC Car and Housing Loan Scheme Trust Fund was dissolved on 26 March 2004 with the residual value of Tzs 624 million. Following the dissolution, the Board elected to set aside this residual value as a fund to finance NBC's corporate social investment activities. The board at its 82nd meeting held on 12 December 2003 had approved the utilization of the amount available on social responsibility projects.

To ensure efficient and effective utilization of the amount, the bank has opened a Corporate Social Investment Fund (CSI) and transferred the residual amount of Tzs 624 million from the dissolved NBC Ltd Car and Housing Loan Scheme Trust Fund to it.

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31. CORPORATE SOCIAL RESPONSIBILITY FUND (Continue)

The Corporate Social Investment Fund requires the financial position to be reported to the Board on a quarterly basis.

A total amount of Tzs 410 million had been utilized since inception to finance corporate social investment activities and the closing balance of the CSI fund was Tzs 274 million as at 31 December 2006 included under other liabilities (refer note 21). The CSI policy states that 1% of profit after tax is contributed to the fund subject to Board approval.

32. COMPARATIVE FIGURES

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

33. CHANGE IN ACCOUNTING POLICY

The table below reconciles retained income as previously reported to the restated retained income after the effect of change of accounting policy of deferred tax on provisioning as per IAS 12, under IFRS.

	31 December 2005 Tzs million	1 January 2005 Tzs million
Shareholders Funds as previously reported	56,354	42,850
Effect of deferred tax required in terms of IAS 12	<u>2,114</u>	<u>2,012</u>
Shareholders Fund (Restated)	<u>58,468</u>	<u>44,862</u>

With effect from December 2006 the bank changed its policy of accounting for tax on impaired loans and advances by raising a deferred tax for impairment. The reason for change was to comply with IAS 12, Income taxes. Previously the bank was not recognising the deduction of provision for bad debts in calculating current tax in the financial statements. There were also no corresponding recognition of a deferred tax assets on the disallowed sum. Instead the policy was to recognize the asset when final assessment is issued by Tax Authority.