

The People's Bank of Zanzibar Limited

**Reports and Financial Statements
for the year ended 31 December 2011**

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

**Reports and Financial statements
for the year ended 31 December 2011**

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THE PEOPLE'S BANK OF ZANZIBAR LIMITED

Board of Directors and Auditors

Directors

Mr. AbdulRahman M. Jumbe
Prof. Mohamed Hersi Warsame
Mr. Juma Amour Mohammed
Mr. Abdi Khamis Faki
Mr. Abdulwakil Haji Hafidh
Mr. Ahmed Abeid Karume
Mr. Abdalla Abass Omar
Dr. Mohammed Hafidh Khalfan

Registered Office

Darajani Building,
P.O.Box 1173
Zanzibar
Tanzania.

Secretary

Mrs. Saadiye Hamid Suleiman

Auditors

Tanna Sreekumar & Co.
Certified Public Accountants
*(Independent member of Morison
International)*
Plot No. 2309 - 50, 1st Floor
Corner of Garden Avenue/Azikiwe
Street
P.O.Box 948
Dar es Salaam
Tanzania

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED DECEMBER 31, 2011

The Directors present this report and audited financial statements for the year ended December 31, 2011, which disclose the state of affairs of the People's Bank of Zanzibar Limited.

ESTABLISHMENT

The People's Bank of Zanzibar Limited was established in 1966 under Cap. 153 of the Zanzibar Companies Decree and is owned wholly by the Government of Zanzibar.

BANK'S VISION

'To be a leading provider of high quality and innovative financial services in Tanzania and beyond'

BANK'S MISSION

'To provide banking solution to our retail and corporate customers in Tanzania'

PRINCIPAL ACTIVITIES

During the year under review The People's Bank of Zanzibar Limited offered a wide range of commercial banking services. The principal activities covered, inter alia, deposits mobilization, lending, financing of foreign trade and foreign exchange dealing.

COMPOSITION OF BOARD OF DIRECTORS

The following is the list of Board of Directors appointed on 8th July 2011. It has eight (8) Directors, seven (7) of them are Non Executive Directors (including Chairman) and one (1) is Executive Director i.e. Managing Director.

S/No	Name	Position	Age	Qualifications	Nationality
1	Mr. AbdulRahman M. Jumbe	Chairman	74	Diploma in plan administration project evaluation, foreign trade and national accounts	Tanzanian
2	Prof. Mohamed Hersi Warsame	Member	39	Phd in business Administration	Tanzanian
3	Mr. Juma Amour Mohammed	Member	44	Msc. Finance, Certified Public Accountant	Tanzanian
4	Mr. Abdi Khamis Faki	Member	57	Post graduate diploma in accounting and development finance	Tanzanian
5	Mr. Abdulwakil Haji Hafidh	Member	56	Msc. Finance	Tanzanian
6	Mr. Ahmed A. Karume	Member	33	Post graduate in Economics and Finance	Tanzanian
7	Mr. Abdalla Abass Omar	Member	52	Diploma in Business Administration.	Tanzanian
8	Dr. Mohammed Hafidh Khalfan	Member	46	Phd in International Economics.	Tanzanian

The bank Company secretary as at December 31, 2011 was Mrs. Saadiye Hamid Suleiman.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

The Board of Directors is responsible to Shareholders for the proper management of the Bank. The direction and control of the Bank rests firmly with the Board. It assumes overall responsibility for corporate governance, identifying key risk areas, formulation of Bank policies, reviewing and approving long strategic plan and business strategies as well as overseeing investments of the Bank.

CORPORATE GOVERNANCE

The People's Bank of Zanzibar Limited is considering and accepting the best practices in Corporate Governance. The Board, management and staff of the bank are committed to upholding the core values of transparency, integrity, honesty and accountability, which are fundamental to the performance in any organization.

The Board of The People's Bank of Zanzibar Limited furthermore, is responsible to ensure that comprehensive system of internal controls and sound corporate governance principles are applied.

The Board of Directors is scheduled to meet ordinarily four times a year. The Board delegates the day to day management of the banking activities to Managing Director who is assisted by Management Committee. The Management Committee is responsible for the implementation of strategies and internal controls as well as monitoring the performance of the Bank.

During the year ended December 31, 2011, the Board of The People's Bank of Zanzibar Limited has the following committees to ensure maintenance of high standard of corporate governance.

The Board Credit committee (1st committee)

The Credit Committee discusses and provides credit approval for all applications above the Management credit limit.

S/N	Name	Position	Qualifications	Nationality
1	Mr. Abdulwakil Haji Hafidh	Chairman	Msc. Finance	Tanzanian
2	Mr. Ahmed A. Karume	Member	Post graduate in Economics and Finance	Tanzanian
3	Prof. Mohamed Hersi Warsame	Member	Phd in business Administration	Tanzanian

The Board credit Committee reports to full board.
The Board credit Committee met four times during the year.

Audit committee (2nd Committee)

The main function of this Committee is to assist the Board of Directors in its responsibilities of monitoring of financial reporting process to ensure financial statements are prepared in accordance with the law and regulations also to review internal control system as a service to Management and safeguarding of company assets.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

	Name	Position	Qualifications	Nationality
1	Mr. Abdi Khamis Faki	Chairman	Post graduate diploma in accounting and development finance	Tanzanian
2	Mr. Abdulwakil Haji Hafidh	Member	Msc. Finance	Tanzanian
3	Mr Abdalla Abass Omar	Member	Diploma in Business Administration	Tanzanian

The Board Audit Committee reports to full board.

The Board Audit Committee met four times during the year.

Risk Management committee (3rd committee)

This Committee is responsible for ensuring that a comprehensive risk management infrastructure is in place for management of risk from financing, operation or investment. Also the Committee is vested with authority to oversee Management activities in managing operational, liquidity market, legal and other risks.

S / N	Name	Position	Qualifications	Nationality
1	Prof. Mohamed Hersi Warsame	Chairman	Phd in business Administration	Tanzanian
2	Dr. Mohammed Hafidh Khalfan	Member	Phd in International Economics	Tanzanian
3	Mr. Abdi Khamis Faki	Member	Post graduate diploma in accounting and development finance	Tanzanian

The Board risk Committee reports to full board.

The Board risk Committee met four times during the year.

CAPITAL STRUCTURE

Authorized share capital of the bank consists of 250,000,000 ordinary shares each TZS 100. As at December 31, 2011, issued and fully paid up shares were 110,000,000 each TZS 100. The Bank is 100% owed by Revolutionary Government of Zanzibar (RGZ).

MANAGEMENT OF THE BANK

The management of the bank is under the Managing Director and is assisted by the following Directorates and independent departments:

- Directorate of Finance and Administration
- Directorate of Banking Operation
- Directorate of Marketing and Business Development.
- Company Secretary Office
- Risk Management unit
- Internal Audit Department
- ICT Department.
-

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

FUTURE DEVELOPMENT PLANS

For the coming year the bank plans to implement various banking developments activities but not limited to the following:

- To continue increasing branch network countrywide by opening other four service centers at Makunduchi, Kivunge, and Mazizini in Zanzibar and Mbagala in Dar-Es-Salaam.
- To launch new branches in Mwanza and Mbeya in Tanzania Mainland.
- To allocate more ATM's at each service centre opened. This is intended to increase delivery of services to our customers
- Implementing various marketing strategies through advertisement of banking products and services to the community by re branding bank name and existing product.
- To enhance product development and make awareness of these products to existing and new customers.

RESULT AND PERFORMANCE FOR THE YEAR

Results and dividend

Net profit after tax profit for the year ended December 31, 2011 amounted to TZS 1,654.76 million. There was a decrease of profit by TZS 2,154.94 i.e. 56.56% compared to last year. The profit for the preceding year was TZS 3,809.70 million. The Board of Directors is proposing to retain 100% of the profit for future development of the bank, no dividend is proposed.

Performance for the year

Total assets of the bank stood at TZS 170,382.59 million as at December 31, 2011 compared with TZS 142,061.92 million reported in previous year. There was an increase of TZS 28,320.67 million equivalent 19.94%. Earning assets made 73.89 % of total assets and was comprised of loan and advances (36.37%), investment in debt securities (11.98%) interbank placement (9.46%), foreign banks – Nostro accounts (16.04%) and equity investment (0.04%). Total liabilities of the bank as at the end of year 2011 amounted to TZS 149,980.58 million as compared with TZS 122,798.97 million reported in year 2010. Customers' deposits represented 93.36% of total liabilities. The deposits from customers increased by 17.66% from TZS 119,004.42 million in year 2010 to TZS 140,016.42 million as at December 31, 2011. Generally, the bank has maintained liquid assets to total assets ratio of 46.29%.

Capital Position.

Total shareholders' equity of the bank amounted to TZS 20,402.01 million, recorded as at the end of year 2011 compared with shareholders equity of TZS 19,262.95 Million recorded in the previous year.

The bank's capital position as at the end of year 2011 was adequate. The available core capital stood at TZS 16,789.60 million. This is above the required minimum regulatory level of TZS 8,083.73 million based on Risk Weighted Asset and Off Balance Sheet Exposure. The core capital has increased by TZS 1,329.78 million equivalents to 8.60% from TZS 15, 459.82 million reported in the previous year.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

The Board assessed the internal control systems throughout the financial year ended December 31, 2011 and is of the opinion that they met accepted criteria.

Taking risk is an integral part of the financial business, and the operational risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between the risk and return and minimum potential adverse affects on the Bank's financial performance. The Board is responsible for identifying the major business risk faced the Bank and to determine the appropriate course of action to manage those risk.

Risk management is carried out by Risk Management Department under policies approved by the Board of Directors. Internal Audit Department is responsible for the independent review of risk management and the control environment. The most core risks are credit risk, liquidity risk, market risk, foreign currency risk and other operational risk.

The Board carries risk and internal control assessment through Risk Board Committee and Board Audit Committee.

SOLVENCY

The Board of directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of directors has reasonable expectation that The People's Bank of Zanzibar Limited has adequate resources to continue in operational existence for the foreseeable future.

Relationship

The Bank continues to maintain good relationship with Regulator (BOT), other banks, its customers, and its employees. During the year ended December 31, 2011 there were no significant unresolved complaints received by the management.

EMPLOYEES WELFARE

Training facilities.

The bank continues to offer short and long term training facilities to its employees with a view to capacity building. During the year 2011 short term trainings were more focused on the following areas:

- Customer services delivery
- Staff morale
- Staff behaviors and attitude.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

As at the end of December 31, 2011, eleven (11) staff continued with long term training in various Institutions within and outside country under self sponsorship.

Medical assistance

During the year 2011 the bank provided health service to employee through health service insurance scheme. Each staff with a maximum of four dependants is granted medical service by the bank. Currently the services are provided by AAR Insurance Limited.

Financial assistance to staff

The bank offers salary advances of up to three-months to any member of staff who faces proven financial hardship as per Staff Regulation. Also it provides loans to its staff up to TZS. 50 million depends on employee salary levels.

Persons with disabilities

Applications for employment by disabled persons are always being considered. In the event of members of staff becoming disabled, every effort is made to ensure that his/her employment with the bank continues.

Employees Benefit Plan

The company pays contributions to a publicly administered pension scheme on mandatory basis which qualifies to be a defined contribution plan. The number of employees as at December 31, 2011 was 193 (previous year 163). The bank is contributing 10% of gross salary for each employee to Zanzibar Social Security Fund every month. During the year under review, the bank contributed TZS 259 million to Fund for employees.

GENDER PARITY

Out of 193 staff, 129 were males and 64 were females. Permanent staffs in number are 96, Temporary employees are 96 and 1 staff were seconded.

RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 29 to these financial statements.

POLITICAL AND CHARITABLE DONATIONS

The bank provides donations to the various sectors in the country particularly education, health and sports. In year ended December 31, 2011 the bank allocated TZS 125 million and TZS 116.62 million has been spent for donation in accordance with bank policy. There was no political donation made during the year.

CORPORATE SOCIAL RESPONSIBILITIES

The People's Bank of Zanzibar Limited, as corporate entity, obliged to provide proper consideration to the society in which it operates. During the year ended December 31, 2011, the bank contributed to different sectors such as health, tourist and sports. PBZ allocated TZS 93.95 million for social responsibility for the year 2012.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITY

It is the responsibility of the Board of Directors to prepare financial statements of the People's Bank of Zanzibar Limited in accordance with International Financial Reporting Standards (IFRSs) and Tanzania Financial Reporting Standards (TFRSs). It is the responsibility of external auditors to form an independent opinion on those financial statements based on International Standards on Auditing.

The Board of Directors confirms that suitable accounting policies have been used and applied consistently, and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended December 31, 2011. The financial statements for the year ended December 31, 2011 have complied with International Financial Reporting Standards (IFRS) and Tanzania Financial Reporting Standards (TFRSs).

ACKNOWLEDGEMENT

Our performance would not have been possible without the support of some institutions, groups and individuals to whom I would like to extend our appreciation.

The Board of Directors has the pleasure once again to thank Management and staff of PBZ for their commitments and untiring efforts. Without their devotion and sacrifice, the bank's achievements would not have been possible.

We further extend our appreciation to our valued customers and all stakeholders for their contribution and support.

We also wish to thank relevant authorities, particularly President office Ministry, Finance, Economy and development Planning – Zanzibar, Bank of Tanzania and Tanzania Revenue Authority for their valuable guidance and assistance throughout the year.

STATUTORY AUDITORS

Tanna Sree Kumar & Co. were appointed the bank's statutory auditors for the year ended December 31, 2011 and they are eligible for re-appointment. A resolution proposing the re-appointment as auditor of the bank for the year 2012 will be put to the Annual General Meeting.

Approved by the board of directors onand signed on its behalf by:

.....
ABDULRAHMAN M. JUMBE

CHAIRMAN OF THE BOARD

DATE:

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

1. Preamble

We have audited the accompanying financial statements of the People's Bank of Zanzibar Limited, which comprise the statement of financial position as at 31st December, 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We received all the information and explanations which we considered necessary for the audit purposes.

2. Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation of and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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.

3. 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 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 controls 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 audit 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.

4. Opinion

In our opinion the financial statements give a true and fair view of the financial position of the People's Bank of Zanzibar Limited as at 31st December, 2011, and of its profit after tax of Tshs.1,658,726,000 the statement of changes in equity and the cash flows for the year then ended, in accordance with International Financial Reporting Standards, Zanzibar Companies Decree (Cap.153), the Public Finance Act, 2005 and the Banking and Financial Institutions Act, 2006.

Tanna Sreekumar & Co.
Certified Public Accountant

Date:

Dar es Salaam

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2011

ASSETS	NOTE	2011 Tshs'000	2010 Tshs'000
Cash	4	9,856,094	5,175,856
Balances with Bank Of Tanzania	5	21,072,806	21,014,942
Balances with Other Banks	6	44,508,950	41,999,360
Cheques & Items for Clearing		78,933	446,751
Investment in Debt Security	7	20,427,267	32,842,180
Bills Receivable	8	-	85,327
Loans and Advances	9	61,973,370	33,460,450
Equity Investment	10	63,223	59,257
Other Assets	11	3,173,705	976,751
Property and Equipment	12	8,756,891	5,680,764
Intangible Assets	13	471,352	320,282
Total Assets		<u>170,382,591</u>	<u>142,061,920</u>
LIABILITIES			
Customers' Deposits	14	140,016,415	119,004,415
Other Liabilities	15	5,581,555	3,390,378
Inter-bank Borrowings		3,097,711	-
Tax Payable	27	817,466	-
Accrued Interest Payable	16	462,693	364,876
Deferred Grant	18	4,740	39,304
Total Liabilities		<u>149,980,580</u>	<u>122,798,973</u>
SHAREHOLDER'S EQUITY			
Share Capital	17	11,000,000	11,000,000
Government Grant	19	816,294	826,118
Reserves	20	8,585,717	7,436,829
Total shareholder's equity		<u>20,402,011</u>	<u>19,262,947</u>
Total Equity and Liabilities		<u>170,382,591</u>	<u>142,061,920</u>

On2012 the Board of Directors of the Peoples Bank of Zanzibar Limited authorised these financial statements for issue.

.....
Chairman

.....
Director

.....
Managing Director

The notes on Page 15 to 40 form Integral part of these financial statements.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
31ST DECEMBER 2011**

	NOTE	2011 Tshs'000	2010 Tshs'000
Interest Income	21	9,391,510	7,497,498
Interest Expenses	22	(1,661,040)	(1,309,816)
Net Interest Income		7,730,470	6,187,682
Fees and Commission Income (Net)	23	2,322,854	1,900,935
Other operating Income	24	2,762,397	3,717,525
Operating Expenses	25	(10,160,720)	(6,836,958)
Provision for Probable losses		(167,911)	-
Bad debts and other assets written off	26	(14,864)	(1,159,484)
Operating Profit Before Tax		2,472,226	3,809,700
Provision for Tax	27	817,466	-
Profit for the Year		1,654,760	3,809,700
Other Comprehensive Income:			
Revaluation Of Available-for-Sale Financial Assets		3,966	5,831
Total Other Comprehensive Income		3,966	5,831
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,658,726	3,815,531

The notes on Page 15 to 40 form Integral part of these financial statements.

Auditors report on page no 11.

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER, 2011

	2011	2010
	Tshs'000	Tshs'000
Profit Before Taxation	2,472,226	3,809,700
Depreciation	576,541	407,471
Amortization of Intangible Assets	21,503	23,909
Amortization of Grants	(44,388)	(25,468)
Loss on Disposal of assets	74,619	-
Operating Profit before changes in working capital	<u>3,100,501</u>	<u>4,215,613</u>
Statutory minimum reserve (SMR)	(1,880,000)	(1,802,000)
Debt Securities (Maturing Over 90 Days)	10,267,936	(5,813,608)
Treasury bonds	(3,565,522)	(9,629,434)
Loans And Advances	(28,512,920)	(2,053,749)
Bills Receivable	85,326	(84,837)
Other Assets	(2,196,955)	385,893
Customer's Deposits	21,012,000	19,523,959
Accrual Interest Payable	97,817	(383,707)
Other Liabilities	2,191,177	(332,084)
	<u>(2,501,141)</u>	<u>(189,567)</u>
Net Cash Flows from Operating Activities	599,360	4,026,046
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipments	(3,735,474)	(1,526,039)
Proceeds from Sale of Property and Equipment	10,001	-
Acquisition of intangible assets	(145,611)	(47,801)
Capital WIP (BREFT and Islamic Banking Software)	-	(40,397)
Addition capital WIP (Equipment)	-	(233,436)
Net Cash Flows from Investing Activities	<u>(3,871,084)</u>	<u>(1,847,673)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Exploitation of Regulatory Risk Reserve against NPL Written Off	(538,614)	(276,643)
Inter-Bank Borrowings	3,097,711	(575,776)
Net Cash Flows from Financing Activities	<u>2,559,097</u>	<u>(852,419)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(712,627)	1,325,954
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>64,718,658</u>	<u>63,392,704</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 28)	<u><u>64,006,032</u></u>	<u><u>64,718,658</u></u>

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER, 2011

	Share Capital Tshs'000	Government Grants Tshs'000	Foreign exchange translation on security Tshs'000	Regulatory Risk Reserve Tshs'000	Fixed Assets Revaluation Reserve Tshs'000	Retained Earnings Tshs'000	Total Tshs'000
Opening balance as at January 01, 2010	5,000,000	835,941	32,416	623,995	2,640,364	6,601,165	15,733,881
Decrease/increase of reserve on regulatory risk	-	-	-	378,941	-	(378,941)	-
Amortization of Grants	-	(9,823)	-	-	-	-	(9,823)
Transfers of FA Revaluation reserve to Retained earning	-	-	-	(276,643)	(248,894)	248,894	(276,643)
Appropriation of RRR on writing off NPLs	-	-	-	-	-	-	-
Conversion of retained earnings to paid up capital	6,000,000	-	-	-	-	(6,000,000)	-
Total comprehensive income for the year	-	-	5,832	-	-	3,809,702	3,815,534
Closing balance as at December 31, 2010	11,000,000	826,118	38,247	726,294	2,391,469	4,280,819	19,262,947
Opening balance as at January 01, 2011	11,000,000	826,118	38,247	726,294	2,391,469	4,280,819	19,262,947
Adjustment on opening balance of retained earnings ¹	-	-	-	-	-	28,776	28,776
Decrease/increase of reserve on regulatory risk	-	-	-	110,004	-	(110,004)	-
Appropriation of RRR on writing off NPLs	-	-	-	(538,615)	-	-	(538,615)
Amortization of Grants	-	(9,823)	-	-	-	-	(9,823)
Transfer of FA Revaluation reserve to Retained earnings	-	-	-	-	(182,785)	182,785	-
Total comprehensive income for the year	-	-	3,966	-	-	1,654,760	1,658,726
Closing balance as December 31, 2011	11,000,000	816,294	42,213	297,683	2,208,684	6,037,136	20,402,011

¹Adjustment of Tshs 28,776,000 on the retained earnings represents Tshs 4,397,000 which was renovation of building in 2010 was erroneously expensed, Tshs 2,583,000 was repair of Equipment which erroneously reflected on fixed asset and Tshs 26,962,000 was amortization of swift software previously assessed as intangible asset with finite useful life. The amortized period was ten years from 2002 to 2012. On assessing the useful life of asset, no event and circumstance exist to support the finite of the useful life. Hence in the year 2011 swift software have change in useful life from finite to infinite useful life and therefore shall not be amortized (IAS 38 paragraph 107-110).

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTES ON THE FINANCIAL STATEMENTS

GENERAL INFORMATION

The People's Bank of Zanzibar Limited was established in 1966 under the Zanzibar Companies Decree (Cap. 153). The Bank is fully owned by the Revolutionary Government of Zanzibar. The Bank is engaged in the business of banking and provision of related services. It is registered as a bank under the Banking and Financial Institutions Act, 2006.

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements are prepared under the historical cost basis of measurement as modified revaluation of fixed assets, revaluation at fair value of financial assets held as 'at fair value through profit or loss' or 'available for sale'. These financial statements have been presented in Tanzania Shillings, rounded to the nearest thousand.

2.2 Foreign Currency Translations

Foreign currency transactions are translated into Tanzania Shilling, 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 income statement. Translation differences on non-monetary items, such as equities classified as available for-sale financial assets, are included in the fair value reserve in equity.

2.3 Interest Income and Expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method, based on the actual purchase price.

The effective interest rate method is a method of calculating the amortized cost of financial assets or a financial liability and of allocating the interest or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Interest on loans and advances given is recognized in the financial statements on accrual basis. However, interest accrued on overdue loans and advances is suspended as unrealized income, which can only be recognized as income when actually received. Interest overdue on loans and advances with their corresponding account, interest in suspense - overdue are maintained outside the financial statements in memorandum records, when realized the amounts are posted in the accounts and recognized as income immediately.

2.4 Fees and Commission Income

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

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

Commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party –such as arrangement of the acquisition of shares or other securities or the purchase or sale of business are recognized on completion of the underlying transaction.

2.5 Government Grants

Government grants received in form of fixed assets are deferred to capital grants account and released to income over the expected useful lives of relevant fixed assets.

2.6 Investment Securities

The Bank classifies its investment securities in the following categories: held-to-maturity investments and available-for-sale financial assets. These investments are initially carried at cost.

- **Held-to-Maturity**

Held-to-maturity investments are non-derivatives 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. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. Held-to-maturity securities are carried at amortized cost using the effective interest method less impairment loss. Interest calculated using the effective interest method is recognized in the income statement. Government securities and bonds are classified as held to maturity investments and stated at amortized cost.

- **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. Available-for-sale financial assets are subsequently carried at fair value based on amounts derived from cash flow models. 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 profit or loss. The fair values of quoted investments in active markets are based on current bid prices. Unlisted equity securities for which fair values cannot be measured reliably are recognized at cost less impairment loss. Dividends on available-for-sale equity instruments are recognized in the income statement when the Bank's right to receive payment is established.

Investments in shares which do not qualify to be accounted for as subsidiaries as per IAS 27 (or as associates as per IAS 28) are classified as equity investments. They are valued at cost of acquisition and subjected to a revaluation to accommodate exchange rate movements.

2.7 Loans and Provisions for Loan Impairment

Loans originated by the Bank by providing money directly to the borrowers are categorized as originated loans and are stated at amortized cost less provision for impairment. A loss provision is established when there is doubt about the Bank's ability to recover all amounts due. The amount of the provision is the difference between the estimated recoverable amount and the carrying amount, but also takes into account the requirements of Management of Risk Assets Regulations, 2001 issued by the Bank of Tanzania. In the event that the provision required under the BOT Regulations exceeds that required by IFRS, the excess provision would be treated as a general banking provision and accounted for in reserves.

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2.8 Impairment of Financial Assets Carried at Amortized Cost

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

2.9 Impairment of Financial Assets Carried at Fair Value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt 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 income statement.

2.10 Intangible Assets

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful life of five years. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

2.11 Property and Equipment

Property and equipment are stated at historical cost/professional valuation less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Assets Particulars	Annual Rate
Motor Vehicles and Motor Cycles	25%
Furniture	20%
Equipment and Office Machines	20%
Computers	25%

Buildings are depreciated over the periods of the useful lives. The estimated useful lives set forth for buildings located at Mwanakwerekwe and Kilimatinde- Chakechake is 33 years and 85 years for Darajani and Forodhani Building.

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Leasehold properties are depreciated over the periods of the leases. Lease period for the Bank's properties is 5 years for Mwanakwerekwe Branch, 10 years for Kariakoo Branch and 10 years for IBD Mahiwa.

Depreciation charge starts when fixed assets are ready for use. Depreciation charge ceases when the fixed asset is disposed off or derecognized.

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. In practice, the residual values of assets are insignificant and, therefore, immaterial in the calculation of the depreciable amount.

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 value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.12 Investment Properties

Investment properties, principally comprising freehold office and residential buildings, are held for long term rental yields. Investment properties are carried at fair value, representing open market value determined by external valuers. Changes in fair values are recorded in the income statement as part of other income. The investment properties were last revalued in 2002.

2.13 Retirement Benefit Obligation

Staffs at the Bank are members of the Zanzibar Social Security Fund (ZSSF), a state owned pension scheme. ZSSF was set up in 1998 and the Fund will bear all pension obligations for a period after July, 1998. Staffs contribute five percent of their monthly salary to the Fund. The Bank contributes ten percent of the salary for each staff to the scheme and the amount is charged to income statement when due.

2.14 Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement 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.

2.15 Cash and Cash Equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of balances less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term Government securities.

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2.16 Provisions

Provisions are recognized when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

3.0 FINANCIAL RISK MANAGEMENT

Strategy in Using Financial Instruments

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above- average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

Credit Risk

The Bank takes on exposure to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management, therefore, carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The Board of Directors approves limits on the level of credit risk.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

Concentration of Loans and Advances

Below are economic sector concentrations within the customer loan portfolio. The loan portfolio indicated for the year 2010 is included with an element of unearned interest. No element of unearned interest recognized in the Year 2011.

	31.12.2011		31.12.2010	
	TZS'000	%	TZS'000	%
Central Government	-	0%	-	0%
Public Enterprises and other Government entities	4,955,575	8%	2,484,035	6%
Personal and Private Companies	57,106,679	92%	41,417,575	94%
Total (Gross)	62,062,254	100%	43,901,610	100%

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The Bank accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

Market Risk

All trading instruments are subject to market risk, i.e. the risk that future changes in market conditions may make an instrument less valuable. The instruments are evaluated on daily basis at fair value and all changes in market conditions directly affect trading income. The Bank manages its portfolios in response to changing market conditions. Exposure to market risk is managed in accordance with limits formally set for managing foreign currency assets.

Currency Risk

The Bank takes on exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposures by currency and these limits are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk as at 31st December, 2011. Included in the table are the bank's assets and liabilities at carrying amounts, categorized by currency. All amounts are expressed in thousands of Tanzania Shillings.

	USD	GBP	EURO	NOK	Total
Assets					
Cash	3,910,661	319,229	472,580	-	4,702,470
Balance with BOT	5,830,464	-	-	-	5,830,464
Due from other Bank	27,261,791	264,536	848,907	14,698	28,389,932
Cheque and items for clearing	4,617	-	-	-	4,617
Loans and advances	5,182,227	-	-	-	5,182,227
Bills receivable	-	-	-	-	-
Equity investment	63,223	-	-	-	63,223
Other assets	17,980,848	9,630	1,628,056	-	19,618,534
Total foreign currency assets	<u>60,233,831</u>	<u>593,395</u>	<u>2,949,543</u>	<u>14,698</u>	<u>63,791,467</u>
Liabilities					
Customers' Deposits	50,515,055	344,522	999,094	-	51,858,671
Other liabilities	1,711,734	707	-	-	1,712,441
Interest payable	37,690	2,788	1,921	-	42,399
Total foreign currency liabilities	<u>52,264,479</u>	<u>348,017</u>	<u>1,001,015</u>	<u>-</u>	<u>53,613,511</u>
Net Balance sheet position	<u>7,969,352</u>	<u>245,378</u>	<u>1,948,528</u>	<u>14,698</u>	<u>10,177,956</u>

Liquidity Risk

The Bank is exposed to daily calls on its available resources from current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Minimum levels of inter-bank and other borrowings facilities are in place to cover withdrawals at unexpected levels of demand.

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at 31st December, 2011 to the contractual maturity date. All figures are in millions of Tanzania Shillings.

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	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash and balances with the BoT	30,926	-	-	-	-	30,926
Balance with other banks	28,390	-	-	-	-	28,390
Interbank Placement	16,122	-	-	-	-	16,122
Investment security	1,898	1,458	954	1,383	14,400	20,093
Interest receivable on treasury bills and bonds	100	26	24	33	151	334
Cheques & Items for Clearing	79	-	-	-	-	79
Loans and advances	61,747	94	28	193	-	62,062
Equity Investments	-	-	-	-	63	63
Other assets	-	-	3,929	-	-	3,929
Property and equipment	-	-	-	-	8,776	8,776
Total assets	139,262	1,578	4,935	1,609	23,390	170,774
Liabilities						
Due to customers	803	10,553	37,361	-	78,466	127,183
Special deposits	5,146	-	-	-	-	5,146
Bankers cheque and draft issued	528	-	-	-	-	528
Payment orders /transfer payables	1,551	-	-	-	-	1,551
Interest and other expense payable	16	382	65	-	463	926
Interest payable and other liabilities	-	-	-	-	2,126	2,126
Total liabilities	8,044	10,935	37,426	-	81,055	137,460
Total interest sensitivity gap	131,218	(9,357)	(32,491)	1,609	(57,665)	33,314
Cumulative	<u>131,218</u>	<u>121,861</u>	<u>89,370</u>	<u>90,979</u>	<u>33,314</u>	<u>33,314</u>

Interest Rate Risk

The Bank is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its financial position cash flows. The table below summarizes the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate on off balance sheet items. All figures are in millions of Tanzania Shilling.

	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non- interest bearing	Total
Assets							
Cash and balances with the BoT	-	-	-	-	-	30,926	30,926
Balance with other banks	14,039	-	-	-	-	14,351	28,390
Interbank Placements	16,122	-	-	-	-	-	16,122

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Investment security	1,898	1,458	954	1,383	14,400	-	20,093
Interest Receivables on treasury bill and bonds	100	26	24	33	151	-	334
Cheques & Items for Clearing	-	-	-	-	-	79	79
Loan & advances (Gross of unearned interest and allowances)	61,747	94	28	193	-	-	62,062
Bills receivables	-	-	-	-	-	-	-
Equity investment	-	-	-	-	-	63	63
Other assets	-	-	-	-	-	3,929	3,929
Property and equipment	-	-	-	-	-	8,776	8,776
Total assets	93,906	1,578	1,006	1,609	14,551	58,124	170,774

Liabilities

Due to customers	803	10,553	37,361	-	-	78,466	127,183
Special deposits	-	-	-	-	-	5,146	5,146
Bankers cheque & draft issued	-	-	-	-	-	528	528
Payments orders/Transfer payable	-	-	-	-	-	1,551	1,551
Interest and other expenses payable	16	382	65	-	-	463	926
Other liabilities	-	-	-	-	-	2,126	2,126
Total liabilities	819	10,935	37,426	-	-	88,280	137,460
 Total interest sensitivity gap	 93,087	 (9,357)	 (36,420)	 1,609	 14,551	 (30,156)	 33,314
 Cumulative	 <u>93,087</u>	 <u>83,730</u>	 <u>47,310</u>	 <u>48,919</u>	 <u>63,470</u>	 <u>33,314</u>	 <u>33,314</u>

Fair Value of Financial Assets and Liabilities

In the opinion of the Directors, the fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value approximate the respective carrying amounts, due to the generally short periods to contractual maturity dates as set out on maturity risk schedule.

NOTE 4: CASH

	2011	2010
	Tshs'000	Tshs'000
Notes and Coins: Tanzanian Shillings	5,153,624	3,757,078
Notes and Coins: Foreign Currency	4,702,470	<u>1,418,778</u>
TOTAL	<u>9,856,094</u>	<u>5,175,856</u>

NOTE 5: BALANCES WITH BANK OF TANZANIA

Statutory Minimum Reserve (SMR)	14,867,000	12,987,000
Current Account	6,205,806	<u>8,027,942</u>
TOTAL	<u>21,072,806</u>	<u>21,014,942</u>

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The statutory minimum reserve deposit is non-interest bearing and is not available for use in the Bank's day-to-day operations. For the purposes cash flow statement, they have not been included in cash and cash equivalents.

NOTE 6: BALANCES WITH OTHER BANKS

Local Banks	1,064,213	239,404
Interbank Placements	16,121,814	27,721,450
Foreign Banks - Nostro Accounts	<u>27,322,923</u>	<u>14,038,506</u>
TOTAL	<u>44,508,950</u>	<u>41,999,360</u>

NOTE 7: INVESTMENT IN DEBT SECURITIES -HELD TO MATURITY

Treasury Bills		
Maturing within 90 days	3,356,250	9,068,750
Maturing after 90 days	<u>2,337,000</u>	<u>12,268,800</u>
	5,693,250	21,337,550
Interest Receivable on the investment	<u>183,423</u>	<u>519,558</u>
	<u>5,876,673</u>	<u>21,857,108</u>
Less allowance for impairment loss	-	-
Sub Total (a)	<u>5,876,673</u>	21,857,108
Treasury Bonds	-	-
Maturing within 90 days	-	-
Maturing after 90 days	<u>14,400,000</u>	<u>10,900,000</u>
	14,400,000	10,900,000
Interest receivable	<u>150,594</u>	<u>85,072</u>
	<u>14,550,594</u>	<u>10,985,072</u>
Less allowance for impairment loss	-	-
Sub-Total (b)	<u>14,550,594</u>	<u>10,985,072</u>
Total (a) +(b)	<u>20,427,267</u>	<u>32,842,180</u>

NOTE 8: BILLS RECEIVABLE

	2011	2010
	Tshs.'000'	Tshs.'000'
Foreign Accounts Discounted	-	84,442
Foreign Bills and Cheques Negotiated	<u>-</u>	<u>903</u>
	-	85,345
Allowance for Impairment Loss	<u>-</u>	<u>(18)</u>
TOTAL	<u>-</u>	<u>85,327</u>

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NOTE 9: LOANS AND ADVANCES

Public Enterprises and Other Government Entities	4,955,575	2,484,035
Personal and Private Companies	<u>57,106,679</u>	<u>41,417,575</u>
	62,062,254	43,901,610
Less: Unearned Interest On Loans	<u>-</u>	<u>10,320,523</u>
	62,062,254	33,581,087
Less: Allowance For Probable Loss (Note 9A)	88,884	115,935
Less: Interest In Suspense	<u>-</u>	<u>4,702</u>
TOTAL	<u>61,973,370</u>	<u>33,460,450</u>

NOTE 9A: MOVEMENT IN ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

Opening Balance	115,935	769,841
Provision during the year	<u>88,884</u>	<u>-</u>
	204,819	769,841
Less: Amount written off	(115,935)	(282,318)
Less: Recovery during the year	<u>-</u>	<u>(371,588)</u>
Closing Balance	<u>88,884</u>	<u>115,935</u>

NOTE 10: EQUITY INVESTMENTS

Equity investment of TZS 63,222,800 comprises of investment in African Export-Import Bank (Afreximbank), a supranational institution, established on 27th October 1993. The principal activity of the bank is to finance and facilitate trade among African countries and between Africa and the rest of the world. PBZ's authorized equity interest in Afrximbank is 10 Class B ordinary shares of par value of USD 10,000 each. The payment for the called 2 out of 5 installments in the amount of USD. 40,000 had been paid. The payment of the outstanding 3 installments in the total of USD. 60,000 will be paid in future whenever called by the Board. The proportion of PBZ equity interest to total holding in this bank is 0.03%. The shares are classified as available for sale financial instruments and they are currently reflected at cost as they are not traded in any stock exchange.

NOTE 11: OTHER ASSETS

	2011 Tshs'000'	2010 Tshs'000'
Dividend Receivable	-	8,669
Staff Advances	228,341	65,953
Imprest	-	22,596
Stationery Stock	76,189	53,687
Bai Muajjal Asset Stock	57,510	-
Prepaid Insurance	338,449	171,085
Prepaid Service Contract	17,709	4,778
Prepaid expenses	-	8,175
Prepaid House Rent	236,316	142,796
Accounts Receivable	2,140,302	406,616
ATM cash and fees receivables	27,872	9,380
Entries in Transit (Foreign)	30,353	-

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Cash shortage, Misappropriation and Forgeries.	79,029	-
Receivables from TRA	20,664	<u>83,016</u>
	3,252,734	976,751
Less: Allowance for Probable Loss	79,029	<u>-</u>
TOTAL	3,173,705	<u>976,751</u>

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NOTE 12: PROPERTY AND EQUIPMENT

Particulars	Land & Buildings TZS'000	Leasehold Property TZS'000	Furniture TZS'000	Equipment and Other Office Machinery TZS'000	Computers TZS'000	Motor Vehicles & Cycles TZS'000	Capital WIP TZS'000	Total TZS'000
<u>Cost / Valuation:</u>								
As at 1 January 2011 (Valuation)	3,259,336	669,771	91,616	1,090,804	258,308	475,733	246,917	6,092,485
Adjustment	4,397	-	-	(2,583)	-	-	-	1,814
Disposal	-	-	(16,038)	(64,035)	(15,324)	(50,000)	-	(145,397)
Transfer from WIP	224,243	-	3,500	12,924	6,250	-	(246,917)	-
Additions (Cost)	1,020,146	1,554,597	157,926	885,057	117,747	-	-	3,735,474
As at 31December 2011	4,508,123	2,224,368	237,004	1,922,166	366,981	425,733	-	9,684,376
<u>Accumulated Depreciation:</u>								
As at 1 January 2011	22,909	97,971	14,207	157,930	52,407	66,297	-	411,721
Disposal	-	-	(6,164)	(24,037)	(8,910)	(21,666)	-	(60,777)
Charge for the year	25,717	74,505	26,697	281,550	73,288	94,783	-	576,540
As at 31December 2011	48,626	172,476	34,740	415,443	116,785	139,414	-	927,484
<u>Carrying amount</u>								
As at 31.12.2011	<u>4,459,497</u>	<u>2,051,892</u>	<u>202,264</u>	<u>1,506,723</u>	<u>250,196</u>	<u>286,319</u>	<u>-</u>	<u>8,756,891</u>
As at 31.12.2010	3,236,428	571,799	77,409	932,873	205,902	409,436	246,917	5,680,764

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NOTE 13: INTANGIBLE ASSETS

	WIP (Banker's Realm BREFT Switch Software) TZS'000	WIP Integrated Islamic Banking System TZS'000	Integrated Islamic Banking System TZS'000	Banker's Realm Software TZS'000	Swift Software TZS'000	Total TZS'000
Cost						
As at 01.01.2011	41,030	175,942	-	155,614	33,702	406,288
Transfer	5,053	(175,942)	170,889	-	-	-
Additions During the year	5,249	-	125,360	15,002	-	145,611
As at 31.12.2011	51,332	-	296,249	170,616	33,702	551,899
Amortization						
As at 01.01.2011	-	-	-	59,044	26,962	86,006
Adjustment	-	-	-	-	(26,962)	(26,962)
Amortization during the year	-	-	-	21,503	-	21,503
As at 31.12.2011	-	-	-	80,547	-	80,547
Carrying Amount						
As at 31.12.2011	51,332	-	296,249	90,069	33,702	471,352
As at 31.12.2010	41,030	175,942	-	96,570	6,740	320,282

Swift software previously assessed as intangible asset with finite useful life. The amortized period was ten years from 2002 to 2012. On assessing the useful life of asset, no event and circumstance exist to support the finite of the useful life. Hence in the year 2011 swift software have change in useful life from finite to infinite useful life and therefore shall not be amortized (IAS 38 paragraph 107-110).

NOTE 14: CUSTOMERS' DEPOSITS

	2011	2010
	Tshs'000	Tshs'000
Current Accounts Deposits	86,154,071	76,761,088
Savings Deposits	32,936,787	23,930,782
Time Deposits	15,779,714	14,753,985
Matured Time Deposits	<u>-</u>	<u>157,547</u>
Sub Total	134,870,572	115,603,402

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Special Deposits		
Letter Of Credit & Guarantees Cash Cover	2,986,484	1,301,830
Special Finance Programme	1,200,000	1,200,000
Other Special Deposits	<u>959,359</u>	<u>899,183</u>
Sub Total	<u>5,145,843</u>	<u>3,401,013</u>
Total Deposits	<u>140,016,415</u>	<u>119,004,415</u>

Import letters of credit cover are deposits held as collateral for irrevocable commitments under import letters of credit.

Matured time deposits represent time deposits, which have matured but no instructions have not been received from the depositors. They are not earning interest.

Special Finance Programme represents funds provided by the Government of Tanzania for economic empowerment loans to the general public.

NOTE 15: OTHER LIABILITIES

	2011 Tshs'000	2010 Tshs'000
Payment Order Outwards & Transfers Payable	1,551,277	24,632
Accrual Expenses Payable	794,299	33,456
Accounts Payable	2,131,480	2,639,449
Cheques & Drafts Issued	528,156	191,640
Entries in Transit (Local)	55,148	-
Unearned Discount On Treasury Bonds	<u>521,195</u>	<u>501,201</u>
TOTAL	<u>5,581,555</u>	<u>3,390,378</u>

NOTE 16: ACCRUED INTEREST PAYABLE

Time Deposits – Local	420,294	331,631
Time Deposits – Foreign	<u>42,399</u>	<u>33,245</u>
TOTAL	<u>462,693</u>	<u>364,876</u>

NOTE 17: SHARE CAPITAL

Authorized Share Capital

250,000,000 Ordinary Shares of TZS. 100 each	<u>25,000,000</u>	<u>25,000,000</u>
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Issued and Fully Paid-Up Share Capital

110,000,000 Ordinary Shares of TZS. 100 each	<u>11,000,000</u>	<u>11,000,000</u>
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THE PEOPLE'S BANK OF ZANZIBAR LIMITED

NOTE 18: DEFERRED GRANT (BOT)

Deferred grant refers to assets donated by BOT in April, 2008 to PBZ when the former vacated from the premises they had rented from the former. The balance is shown below:

	2011	2010
	Tshs'000	Tshs'000
Office Equipment	56,205	56,205
Office Furniture	<u>22,017</u>	<u>22,017</u>
Total Grant	<u>78,222</u>	<u>78,222</u>
Amortization		
As at 01.01.2011	(38,918)	(23,274)
Amortization during the year	<u>(34,564)</u>	<u>(15,644)</u>
Total Amortization	<u>73,482</u>	<u>38,918</u>
Carrying Amount	<u>4,740</u>	<u>39,304</u>

NOTE 19: GOVERNMENT GRANT

Government grant represents buildings donated by the Revolutionary Government of Zanzibar.

Value of Buildings:

Chake Chake Building	685,870	685,870
Forodhani Building	<u>155,230</u>	<u>155,230</u>
	<u>841,100</u>	<u>841,100</u>

Amortization:

As at 1st January	(14,982)	(5,159)
Amortization during the year	<u>(9,823)</u>	<u>(9,823)</u>
As at 31st December	<u>24,806</u>	<u>14,982</u>
Net Grant	<u>816,294</u>	<u>826,118</u>

NOTE 20: RESERVES

Reserves comprise of the following:

Foreign exchange translation on security	42,213	38,248
Fixed Assets Revaluation Reserve	2,208,683	2,391,469
Regulatory Risk Reserve	297,683	726,293
Retained Earnings	<u>6,037,138</u>	<u>4,280,819</u>
TOTAL	<u>8,585,717</u>	<u>7,436,829</u>

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Foreign exchange translation on security

The Bank maintains a Foreign exchange translation on security to account for unrealized gains and losses arising from fair value valuation of financial instruments classified as available for sale. Gains and losses arising from change in fair value of available-for-sale financial assets are recognized directly to equity. When these financial assets are sold, collected or otherwise disposed of, the cumulative gains or losses recognized in equity are transferred to the income statement.

Fixed Assets Revaluation Reserve

The Bank maintains a Fixed Assets Revaluation Reserve to account for revaluation surpluses. If an asset carrying amount increases as a result of revaluation, the increase is credited directly to Fixed Asset Revaluation Reserve. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in income statement. If an asset's carrying amount decreases as a result of revaluation, the decrease is recognized in income statement. However, the decrease is debited directly to Fixed Assets Revaluation Account to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Fixed assets Revaluation Reserve movement during the year is shown below:-

Particulars	2011 Tshs'000	2010 Tshs'000
Balance Brought Forward	2,391,469	2,995,463
Revaluation Surplus on Derecognized Assets Transferred to Retained Earnings	(182,786)	(248,894)
Additional cost capitalized on the granted assets	-	(63,088)
Revaluation surplus on granted assets	-	(292,012)
Surplus on Property Revaluation	-	-
Total	<u>2,208,683</u>	<u>2,391,469</u>

Regulatory Risk Reserve

Provision for non performing assets is computed using both IAS 39 approach and BOT regulatory approach. IAS 39 provision is charged to the income statement. Where the IAS provision is less than BOT provision, then the excess over IAS provision is taken to a non-distributable reserve known as Regulatory Risk Reserve. During the year under review the provisions using both approaches were as follows:

	2011 Tshs'000	2010 Tshs'000
Opening Balance	726,293	623,995
Increase on Reserve	110,005	378,941
Reserve utilization on NPL written off	<u>(538,615)</u>	<u>(276,643)</u>
Closing Balance	<u>297,683</u>	<u>726,293</u>

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Provision per BOT Approach	386,566	842,228
Provision per IAS 39 Approach	(88,883)	(115,935)
Excess over IAS Provision taken to Regulatory Risk Reserve	<u>297,683</u>	<u>726,293</u>

The Regulatory Risk Reserve is not part of the bank's core capital.

NOTE 21: INTEREST INCOME

	2011	2010
	Tshs'000	Tshs'000
Interest on Loans and Overdrafts		
Interest on Loan And Overdrafts	559,262	265,007
Interest on Personal Loans	6,069,541	5,259,715
Interest Income on EE Loan	<u>147,737</u>	<u>132,485</u>
Sub Total	<u>6,776,540</u>	<u>5,657,207</u>
Investment Income		
Income on Treasury Bills	1,183,506	1,438,985
Income on Treasury Bonds	1,064,102	258,371
Amortization of Treasury Bonds Discount	172,897	37,540
Interest on Foreign Deposit	4,014	6,539
Interest on Inter-Bank Lending	173,923	68,670
Interest on Dividend investment	1,842	-
Interest on Repo	<u>14,686</u>	<u>30,186</u>
Sub Total	<u>2,614,970</u>	<u>1,840,291</u>
TOTAL	<u>9,391,509</u>	<u>7,497,498</u>

NOTE 22: INTEREST EXPENSES

Savings Deposits	603,607	493,678
Time Deposits - Local	695,009	327,096
Time Deposits - Foreign	102,727	470,087
Interest on Borrowing – Inter-bank	<u>259,697</u>	<u>18,955</u>
TOTAL	<u>1,661,040</u>	<u>1,309,816</u>

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NOTE 23: FEES AND COMMISSION INCOME (NET)	2011	2010
	Tshs'000	Tshs'000
Fees and Commission Income (Note 23A)	3,009,074	2,063,392
Fees and Commission Expenses	<u>(686,220)</u>	<u>(162,457)</u>
	<u>2,322,854</u>	<u>1,900,935</u>
NOTE 23A: FEES AND COMMISSION INCOME		
Bank Commissions	2,185,659	1,443,450
Reimbursement Income	17,146	111,730
Ledger Fees	223,776	262,391
Sales of Cheque Books	45,344	31,780
Loans Authorization Fees	<u>537,149</u>	<u>214,041</u>
	<u>3,009,074</u>	<u>2,063,392</u>
NOTE 24: OTHER OPERATING INCOME		
Net foreign Exchange gain	2,396,818	2,272,282
Dividend Income	-	6,135
Recovery from Probable Losses	-	694,284
Sundry Income	147,200	328,446
Amortization of Deferred & Government Grants	44,387	25,468
Revaluation Gain	<u>173,992</u>	<u>390,910</u>
	<u>2,762,397</u>	<u>3,717,525</u>
NOTE 25: OPERATING EXPENSES		
Staff Costs (Note 25A)	3,791,153	3,091,981
Administrative Expenses	1,799,042	1,044,388
Depreciation of Property, Plant And Equipment	576,541	407,471
Amortization of Intangible Assets	21,503	23,909
Travelling Expenses And Allowance	841,663	444,689
Repair and Maintenance	492,242	250,391
Audit Fees	46,660	49,984
Board Directors Fees & Allowances	261,618	172,648
Other Operating Expenses (Note 25B)	<u>2,330,298</u>	<u>1,351,497</u>
TOTAL	<u>10,160,720</u>	<u>6,836,958</u>

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NOTE 25A: STAFF COSTS

Wages, Salaries And Allowances	3,099,851	2,425,236
ZSSF Employer's Contribution	258,248	128,759
Training Expenses and Allowance	295,210	428,579
Skills and Development Levy	<u>137,844</u>	<u>109,407</u>
TOTAL	<u>3,791,153</u>	<u>3,091,981</u>

NOTE 25B: OTHER OPERATING EXPENSES

	2011	2010
	Tshs'000	Tshs'000
Sundry Expenses	1,318,536	489,206
Office Expenses	432,779	449,126
Cash Transportation Expenses	165,474	117,376
Contribution to Deposits Insurance Fund	132,089	132,712
Loss on discount treasury bill	27,661	-
Stationeries Expenses	<u>253,759</u>	<u>163,077</u>
TOTAL	<u>2,330,298</u>	<u>1,351,497</u>

NOTE 26: BAD DEBTS AND OTHER ASSETS WRITTEN OFF

Loan and Advances	14,864	262,283
Suspense Accounts	-	9,636
Misappropriation and forgery	-	886,502
BOT Cash Shortage	-	<u>1,063</u>
TOTAL	<u>14,864</u>	<u>1,159,484</u>

NOTE 27: PROVISION FOR TAXATION

The bank has made a provision for taxation of Tshs 817,466,000 being tax charge for the current under current year profit.

NOTE 28: CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement, cash and cash equivalents are made up of the following:

	2011	2010
	Tshs'000	Tshs'000
Cash (Note 4)	9,856,094	5,175,856
Balances with Bank of Tanzania (Note 5)	6,205,806	8,027,942
Balances with Other Banks (Note 6)	44,508,950	41,999,360
Cheques and Items for Clearing	78,932	446,750
Treasury Bills Less than 90 Days (Note 7)	<u>3,356,250</u>	<u>9,068,750</u>
TOTAL	<u>64,006,032</u>	<u>64,718,658</u>

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NOTE 29: RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank is controlled by the Revolutionary Government of Zanzibar, which owns 100% of ordinary shares. All transactions with the Government Ministries and Government Owned Institutions are considered to be transactions with related parties.

A number of banking transactions were entered with related parties in the normal course of business. These included loans, deposits and foreign currency transactions. The volume of related party transactions, outstanding amounts at the year-end and related expense and income for the year were as follows:-

Zanzibar Governments and its institutions deposits and loans

Deposits:

	2011 Tshs'000	2010 Tshs'000
Local Currency Deposits	18,559,127	11,682,630
Foreign Currency Deposits	<u>18,300,303</u>	<u>16,615,226</u>
Total	<u>36,859,430</u>	<u>28,297,856</u>
Loan and advances:		
Local Currency O/D	5,000,000	-
Foreign Currency Loan	<u>1,993,766</u>	<u>2,484,035</u>
Total	<u>6,993,766</u>	<u>2,484,035</u>

Interest

Interest on Loans Earned by the Bank	155,243	6,714
Interest Paid by the Bank	<u>333,859</u>	<u>296,421</u>
	<u>489,102</u>	<u>303,135</u>

Other transactions

Rent paid to MTC for leasing Malindi bank branch building	18,666	18,666
Rent paid to ZSSF for leasing M/Kwerekwe branch building	59,722	56,794
Payment to ZSSF for refurbishment of M/Kwerekwe bank building	-	489,855
Rent Paid to Zanzibar Tourism Corporation for Darajani Building	13,612	-
Rent paid to Zanzibar Ports Corporation for Mkoani Building	9,639	-
Land lease paid to ZRB	-	5,359
Land lease paid to ZSSF	3,832	

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A listing of members of the Board of Directors is shown on page 2.

In 2011, the total remuneration of Directors in the form of fees and allowances was Tshs. 261,617,702, (2010 TShs172, 648,000).

All related party transactions were at arms' length and in the course of business, and on terms and conditions similar to those applicable to other customers.

NOTE 30: CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees

	2011 Tshs`000'	2010 Tshs`000'
Local and Foreign Guarantees	2,166,746	2,121,615
Usance and Sight Letter of Credit	4,597,462	1,878,382
Undrawn Unexpired Overdraft Facilities	<u>828,488</u>	<u>5,335,008</u>
TOTAL	<u>7,592,696</u>	<u>9,335,005</u>

Uncalled Capital in Afreximbank

At 31st December, 2011, the bank had a commitment of USD 60,000 in respect of uncalled and unpaid capital attached to its shareholding in the Afreximbank.

Amount Contracted but not Paid

During year 2008, the bank entered into an agreement with Creative System Consultant (CSC) to develop, install, test, commission, training and maintaining a system known as "Integrated Islamic Banking System & Accounting System" at a contract price of USD. 163,200. During the year, 2010 an amount of USD. 130,560 had been paid leaving a balance of USD. 32,640 (equivalent to TZS. 47,443,219). The outstanding balance will be paid upon system final acceptance and delivery.

Again in the year of 2011, bank signed various contracts for construction and /or and refurbishing of branches located in Zanzibar and Dar es Salaam. These include construction of our Ultra Modern Chake Chake branch buildings, refurbishment of have been completed in the year 2011. Below are list of Building contactors awarded for projects with their respective contract price:-

- Badre East Africa Enterprise - TZS. 516,479,009 for Kariakoo Branch,
- Associate Investment & Service ltd - TZS.696,739,218 for Corporate Branch, and
- Ibra Building Contractor - TZS. 606,475,480 for Chake Chake branch.

Parts of the amount contracted have been already paid in year 2010.

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NOTE 31: COMPARATIVE FIGURES

The previous year's figures have been regrouped wherever considered necessary to facilitate comparability with the current year's figures.

NOTE 32: CAPITAL ADEQUACY

The bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania. 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 shown below:

Balance Sheet Assets (Net of Provisions)

Balance Sheet Assets (Net)	Nominal Balance Sheet amounts Tshs	Risk Weight	Risk Weighted Amount Tshs
Cash	9,856,094,212	0%	-
Balances with Bank of Tanzania	21,072,806,379	0%	-
Balances with Other Banks	28,387,135,891	20%	5,677,427,178
Cheques and Items for Clearing	78,932,045	50%	39,466,022
Investment in Debt Securities	20,093,250,000	0%	-
Interbank loans receivable	16,121,814,000	20%	3,224,362,800
Loans secured by cash or partly by deposits	7,376,163,200	0%	-
Loans and advances – Others	47,265,017,650	100%	47,265,017,650
Overdrafts secured by cash or partly by deposit	-	0%	-
Loans and advances – Others	7,332,189,604	100%	7,332,189,604
Bills Receivable	-	100%	-
Equity Investments	63,222,800	100%	63,222,800
Property, Plant and Equipment	8,756,890,758	100%	8,756,890,758
Inter-Branch float items			
a) Outstanding for 30 days or less	30,352,777	50%	15,176,389
b) Outstanding for 31 days or more	-	100%	-
Interest Receivable on Treasury Bills	333,990,752	100%	333,990,752
Sundry Debtors (staff advance & imprests)	228,341,102	100%	228,341,102
Prepaid Expenses (Deduction from core capital)	592,474,183	0%	-
Shortages, Misappropriations & Forgeries	-	100%	-
Intangible Assets (software) [Deduction from core capital]	471,352,984	0%	-
Other Assets	<u>2,322,563,278</u>	100%	<u>2,322,563,278</u>
TOTAL	<u>170,382,591,615</u>		<u>75,258,648,333</u>

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OFF BALANCE SHEET EXPOSURES

Off-Balance Sheet Position	Credit Equivalent	Risk Weight	Risk Weighted Amount
	Tshs		Tshs
Outstanding Letter of Credit:			
Sight Import Letter of Credit:			
Secured by cash/deposits	637,478,021	0%	-
Others	282,014,454	100%	282,014,454
Sub-Total (1)	919,492,475		282,014,454
Outstanding Guarantees and Indemnity:			
a. Guarantees for loans, Trade & Securities			
Secured by cash/deposits	-	0%	-
Others	278,995,576	100%	278,995,576
b. Shipping Guarantees			
Secured by cash/deposits	25,000,000	0%	-
Others	-	100%	-
c. Performance Bonds			
Secured by cash/deposits	-	0%	-
Others	504,901,581	100%	504,901,581
d. Bid Bonds			
Secured by cash/deposits	7,500,000	0%	-
Others	405,468,165	100%	405,468,165
Sub-Total (2)	1,221,865,323		1,189,365,323
Undrawn balance of unexpired overdraft			
Secured by cash / deposit / BOT Securities	44,862,927	0%	-
Secured by Central Government	-	100%	-
Secured by non cash	783,624,932	100%	783,624,932
Sub-Total (3)	828,487,859		783,624,932
TOTAL	2,969,845,657		2,255,004,709

THE PEOPLE'S BANK OF ZANZIBAR LIMITED

COMPOSITION OF CAPITAL

	Tshs
Core Capital (Tier 1)	
Paid Up Ordinary Share Capital	11,000,000,000
Capital Grant	816,294,137
Retained Earning	4,382,377,482
Qualifying Year To Date Profits	<u>1,654,759,707</u>
Sub Total	17,853,431,326
Deductions	
Year To Date Loss	-
Prepaid Expenses	592,474,182
Intangible Assets	<u>471,352,983</u>
Total Available Core Capital	16,789,604,161
Less:	
Minimum Capital Requirement	<u>(8,083,733,277)</u>
Excess Capital	<u>8,705,870,884</u>
Supplementary (Tier 2) Capital	
Securities Revaluation Reserve	42,212,800
Fixed Assets Revaluation Reserve	2,208,683,695
Regulatory Risk Reserve	<u>297,682,526</u>
Sub Total	2,548,759,021
Deductions	
Fixed Assets Revaluation Reserve	2,208,683,695
Regulatory Risk Reserve	<u>297,682,526</u>
Sub Total	<u>2,506,366,221</u>
Available Supplementary Capital	42,212,800
Less:	
Minimum Capital Requirement	<u>(1,616,746,131)</u>
Excess Capital	<u>(1,574,533,333)</u>

Note:

Minimum core capital must at least be equal to 10% and the minimum total capital should at least be equal to 12% of Risk Weighted Assets and off Balance Sheet Exposures.

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NOTE 32: PERFORMANCE INDICATORS

Statement of Financial Position	2011	2010
	%	%
(i) Total capital to Total Assets	12.02	13.56
(ii) Non performing loans, Advances and overdraft to Total Loans, Advances and Overdrafts	4.45	0.37
(iii) Gross Loans and Advances to Total Deposits	44.32	28.22
(iv) Loans and Advances to Total Assets	36.38	23.55
Statement of Comprehensive Income	2011	2010
	%	%
(i) Return on Average Total Assets	1.11	2.90
(ii) Interest Expenses to Interest Income	17.69	17.47
(iii) Interest Margin to Average Earning Assets	6.61	6.32