I&M Bank LIMITED



i&M &u

i&M &us

i&M &all

& ANNUAL REPORT ACCOUNTS 2010

I&M&...

Sometimes, the good gets even better. This is one of those times.

This year we transformed ourselves to I&M Bank (T) and with this we imbibed the values that make I&M Bank Group truly progressive - the virtues of ‘creativity’, ‘mutual trust’ and ‘fairness’ in everything we do.

‘Same great values, fresh new ideas’. We also ensured that we continued the tradition of building and maintaining close relationships with our customers, staff and shareholders, These are embodied by the symbols of …

I&M &u | I&M &us | I&M &all

Contents

&creativity

I&M& the directors

Left to right: PH Shah, Gen. (Retd). MH Sarakikya, Sarit S. Raja Shah, MN Shirima, AS Mathur, T Hugnin

i&M&all

Directors, officers and administration

DIRECTORS

Sarit S. Raja Shah	Chairman
MN Shirima	Executive Director
T Hugnin	
Gen. (Retd). MH Sarakikya	
PH Shah	
AS Mathur	

SECRETARY

Subramanian Gopalan

AUDITORS

Ernst & Young
Utalii House
P.O. Box 2475
Dar es Salaam

REGISTERED OFFICE

Jiwan Hirji Building
Corner of Indira Gandhi and Mosque Street
P.O. Box 1509
Dar es Salaam

BRANCHES

Main Branch
Jiwan Hirji Building-
Indira Gandhi/Mosque Street
P O Box 1509,
Dar es Salaam, Tanzania,

Kariakoo Branch
Plot 21,Livingstone Street Kariakoo
P O Box 1509,
Dar es Salaam, Tanzania

Arusha Branch
Plot No. 4,Block R, Falcon Building
Jakaranda Street Off Sokoine Road
Arusha, Tanzania

Maktaba Street Branch
Maktaba Square, Maktaba Street
P O Box 1509,
Dar es Salaam, Tanzania

MAJOR CORRESPONDENT BANKS

Deutsche Bank Trust Company Americas

I&M Bank Limited

Standard Chartered New York Bank

LEGAL ADVISORS

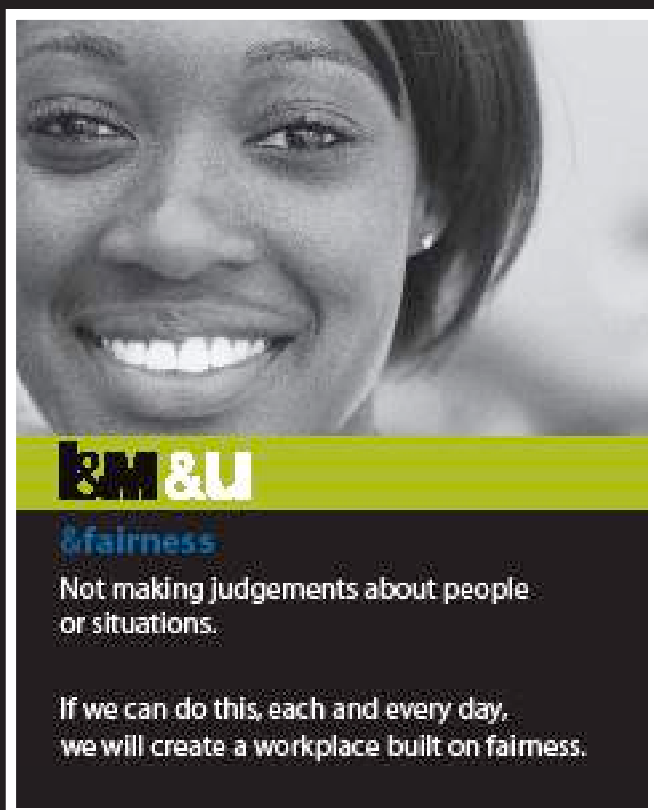
Adept Chambers
P.O. Box 79651
Dar es Salaam

IMMMA Advocates
P.O.Box 72484
Dar es Salaam

M/S Legal Link Attorney
P.O.Box 7642
Dar es Salaam

M/S Rutabingwa Advocates
P.O.Box 11819
Dar es Salaam

&mutualtrust


I&M &U
&fairness
Not making judgements about people or situations.
If we can do this, each and every day, we will create a workplace built on fairness.


I&M &US
&creativity
Expressing your self and exploring your abilities.
By doing this, together we can create a workplace that believes in creativity but genuinely uses it to set us apart.


I&M &all
&mutual trust
Treating your colleagues as you would like them to treat you.
If we behave in this manner towards each other, with competence & consistency we can create a workplace rich in mutual trust.

I&M &U

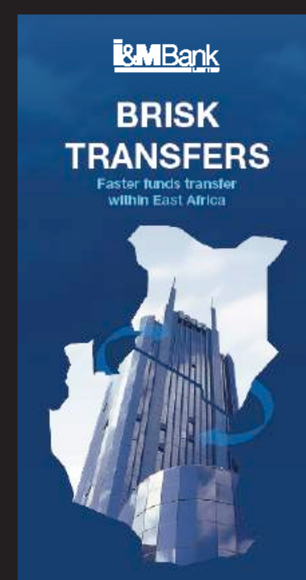
I&M News

CF UNION BANK IS NOW I&M BANK (T) LTD

I&M Bank successfully integrated CF Union's Bank's operations into the I&M Bank Group and rebranded it to I&M Bank (T) Limited. This was accompanied by introduction of some new products like e-mail banking and BRISK transfers that will enable our customers to do faster and cheaper funds remittance between Tanzania and Kenya.

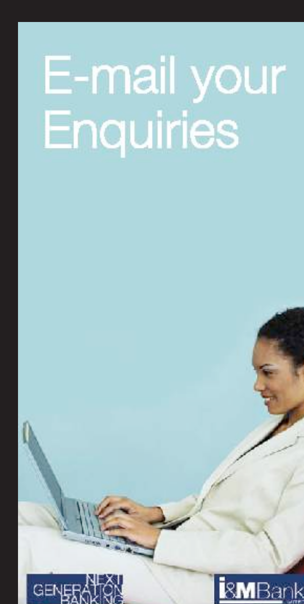
New products

BRISK TRANSFERS
The I&M Bank Brisk Transfers is a product that allows customers to transfer funds within East Africa in a cost effective and efficient manner. The product is available in Kenya Shillings ,Tanzania Shillings and US Dollars and guarantees next working day value for funds remitted. This product is available in I&M Bank Kenya and I&M Bank (T) Ltd.



E-mail Banking
I&M Banks e-mail banking dubbed Next Generation Banking Facility allows customers to access their accounts through their registered email addresses. This facility includes the following services:

- I&M Infomail: where a customer can register for sending a query through their registered email and receive balance, transaction and statement queries of their accounts.
- I&M Email Statements: where a customer can register for receiving emailed bank statements automatically at their chosen frequency.
- I&M Daily Transaction Advices: where the bank send the customer their account transaction advices on a daily basis.



&fairness

I&M News cont.

I&M BANK GROUP

In 2010 the annual results for I&M Bank Kenya reflected a 60% growth in balance sheet size taking the I&M Bank group size above the landmark US Dollar 1 billion mark. The Group profit before tax registered a 93% growth to comfortably growth to comfortably cross the Kshs. 3 billion landmark and touch Kshs.3.5 billion

I&M BANK KENYA

In 2010 I&M Bank Kenya registered a 71% Growth in profit before tax from approx. Kshs. 1.75 billion to Kshs. 3.00 billion. The bank also increased its branch network to 17 and expanded its range of technologically driven products to include a mobile banking solution.

In November 2010, I&M Bank Kenya successfully completed raising of capital amounting to Kshs. 2.40 Billion through a Private Placement with an oversubscription of approximately 26%. This was the first ever private placement equity issue for the Bank and the market reception was very encouraging.

I&M Bank also received a 7 year credit line of USD 25 Million (approx Kshs 2.00 Billion) for onward lending to the Bank's customers from FMO (the Netherlands Development Finance Company). This additional facility would increase I&M Bank's ability to support long term foreign currency lending to the growing Small and Medium Enterprise (SME) sector in Kenya.

Caption: New branches opened by I&M Bank Kenya in 2010

I&M News cont.

Bank One Ltd – Mauritius

In 2010 I&M Bank's sister Bank in Mauritius successfully acquired a Foreign Investment Institution (FII) License from the Securities & Exchange Board of India . Bank One also obtained a trading license from the Global Board of Trade (GBOT) in Mauritius to facilitate trading in futures/ options and currencies. The bank further increased its branch presence from 13 to 14 branches and recorded a significant growth of 478% in profit before tax (from approximately USD 1.40 M to USD 6.70 M. Bank One also raised Tier II capital of Mur 100 million (Apprx. USD 3.33 Mn) from Anglo Mauritius Assurance Ltd.

Chairman's statement

It gives me great pleasure to present to you the Annual Report and Financial Statements for the year ended 2010 of I&M Bank (T) Ltd, previously known as CF Union Bank Ltd.

Economy

2010 was an encouraging year for the Tanzanian economy as it successfully achieved its target GDP growth rate of 7.0% supported by the unprecedented buoyancy in the manufacturing, mining & real estate sectors as well as the rising demand for Tanzanian manufactured goods from the landlocked regional economies.

The country also held successful Elections during the 2nd half of the year which further boosted its image of relative stability and as a preferred destination for foreign investments in the region.

The year 2011, however, poses many challenges for the Tanzanian economy, on account of the increasing power outages, depreciating Shilling, drought and rising oil prices leading to inflationary pressures. This said, we do believe the Government is taking the necessary measures to contain and overcome these hurdles and improve the overall economic environment to meet the forecasted GDP growth rate of 7.1%.

Banking Industry

The Banking Industry in Tanzania performed relatively well in 2010 with Total Assets increasing from approx. Tzs. 10.04 Trillion to Tzs. 12.59 Trillion representing a 25% increase. This impressive performance, despite the several challenges faced by the banking industry in terms of frauds and increased non performing loans, is attributed to the growth in banking services to a much larger population, which was previously unbanked and improved demand for credit from the private sector boosted by the economic growth.

I&M & fairness

We commend Bank of Tanzania for strengthening the banking system by increasing the minimum capital requirements from Tzs. 5.00 Bn to Tzs. 15.00 Bn over a period of 3 years. This gradual three-fold increase in the capital, will no doubt, ensure a stronger banking sector and enable it to withstand shocks in the event of a financial crisis while adequately mitigating systemic risks.

Your Bank in 2010 – Positive Changes

2010 was a milestone year for the I&M Bank group, with its entry into Tanzania as part of its regional expansion plans within the East African Community, this coinciding with the commencement of the EAC Common Market Protocol.

Following the acquisition of the entire shareholding of CF Union Bank Ltd by the consortium led by I&M Bank Ltd, the Bank has undergone various positive changes in line with its strategy to offer efficient banking & financial services to meet customers' requirements within the region.

These changes included not only the re-branding from the previous CF Union Bank Ltd to I&M Bank (T) Limited but also the successful implementation of a revised organisation structure to improve on efficiency as well as integration of systems & controls in line with group practices. The new look and feel affirms

Chairman's statement cont.

the Bank's strategy to consciously develop an image of an institution genuinely interested in long term relationships with our customers. These changes also coincided with the launch of a host of email banking products together dubbed "Next Generation Facilities" as well as introduction of "BRISK" Transfers, a product that enables quick and efficient transfer of funds between Tanzania and Kenya.

In order to increase the customer base and serve them better, the Bank also commenced the 'fit out' of a new Head Office & our 4th branch located at Maktaba Square, Maktaba Street, Dar Es Salaam, which is expected to be operational by April 2011.

I&M &creativity

I am happy to report that the strategy of growth coupled with integration of the systems in line with the group has already started to yield positive results and the Bank performed exceptionally well in 2010, achieving a 44% growth in Profit before Tax to close at Tzs. 5.025 Bn against the Tzs. 3.494 Bn achieved in 2009. This stellar performance was attributed to an impressive growth in customer loans and advances, which grew by 76% to Tzs. 75.96 Bn as well as customer deposits, which grew by 70% to reach Tzs. 117.22 Bn. We also critically reviewed our advances portfolio and enhanced provisioning levels in accordance with the group's prudent and conservative provisioning policy. This led to an increase in the level of Non Performing Assets from 0.18% as at December 2009 to 1.14% as at December 2010. This level is nevertheless commendable when compared to the industry average of approx. 9%. and we shall continue to further improve upon this ratio during 2011.

In order to augment the capital base and increase lending capacity, the shareholders injected additional equity capital of Tzs. 8.127 Bn by way of a rights issue. This resulted in the Shareholder Funds increasing by 91% to close at Tzs. 20.18 Bn as at 31st December 2010.

I am pleased to observe that the Bank has performed exceptionally well in relation to the Banking Industry during 2010, with the return on average assets standing at 4.59% and return on average equity of 32.70% against the Industry average of 2% and 12%, respectively. The Bank also continued to remain one of the most efficient with a ratio of 36.5% which will encourage us to continue our strategy of ensuring continuous improvement of the ICT infrastructure and processes.

Your Bank in 2011

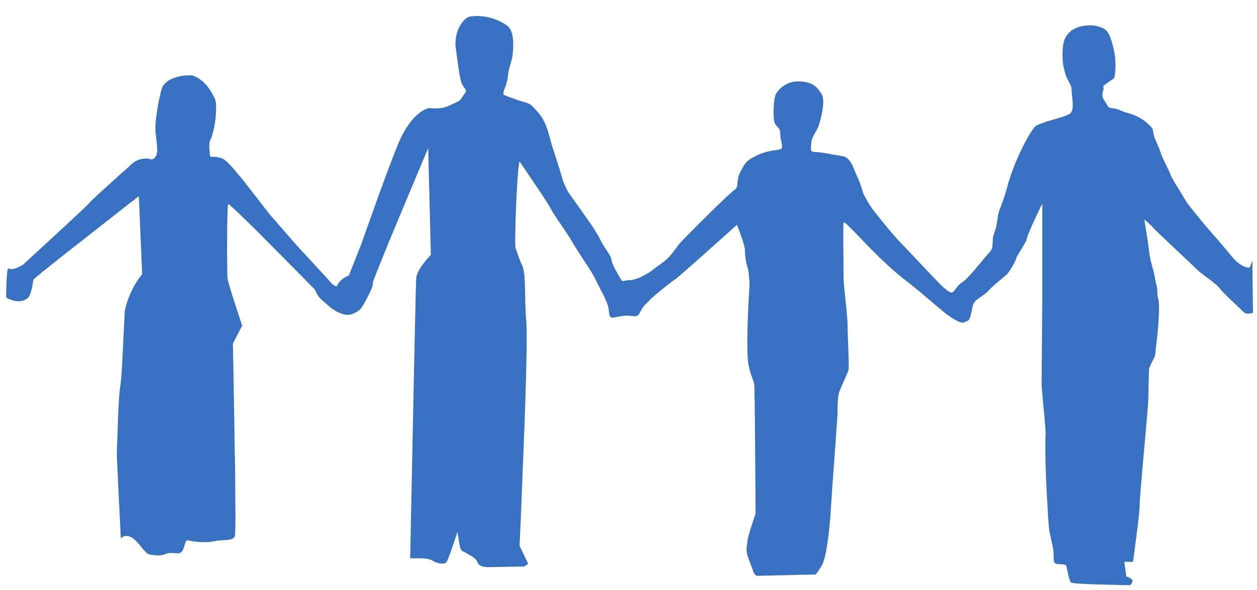
It is my belief that customers' preferences are changing rapidly across the East African region and this creates strong growth opportunities and I am convinced that our Bank is well positioned to capture these. With this in mind, the Bank has implemented a strategy for 2011 which will result in improving our customers' experience further through expansion of our branch network, leveraging on the synergies derived from the I&M group, as well as offering a diversified range of technologically innovative products and services. The Bank will also continue to further train and develop our dedicated staff, who remain one of our core strengths. I am indeed very grateful to our valued customers for their loyalty and continued trust and confidence in us and to Bank Of Tanzania for their invaluable guidance and timely suggestions. I would also like to acknowledge the guidance and insights provided by my fellow Directors whose experience and expertise has greatly helped in effectively steering the Bank on its new strategic course. Furthermore, I would like to express my appreciation for our fellow shareholders, PROPARCO, The Kibo Fund LLC & Mr. Michael Shirima for their continued support.

I&M &mutual trust

Chairman's statement cont.

Finally, on behalf of the Board, I would like to convey my sincere appreciation to the management and staff of the Bank for their dedicated efforts in serving our customers and support in implementation of the change management initiatives undertaken throughout the year.

Sarit S Raja Shah
Chairman



I&M & creativity I&M & mutual trust I&M & fairness

Statement of corporate governance

CORPORATE GOVERNANCE

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

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Company and monitor executive management;
- The positions of Chairman and Chief Executive Officer are held by different people;
- The Chairman of the Board of Directors is non-executive; and
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance.

In addition, the Board has constituted the following Board committees:

Board Audit Committee
This Committee assists the Board in fulfilling its responsibilities by reviewing the financial conditions of the Bank, its internal controls, ensuring compliance with applicable legislation and the requirements of regulatory authorities, reviewing reports and following up on matters raised by the external auditors, internal auditors and Bank of Tanzania (BOT).

The Board Audit Committee members who served the Committee during 2010 are detailed below:

Name	Position
Mr. Pratul H. Shah	Chairman
Mr. Arun S. Mathur	Member
Mr. Michael N. Shirima	Member
Mr. Thierry Hugnin	Member

The Committee meets at least four times in a year.

Board Credit Committee
This Committee is responsible for the review of the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits and be overall responsible for the management of Credit Risk.

The Board Credit Committee members who served the Committee during 2010 are detailed below:

Name	Position
Mr. Arun S. Mathur	Chairman
Mr. Michael N. Shirima	Member
Mr. Thierry Hugnin	Member

The Committee meets at least four times in a year.

Statement of corporate governance cont.

Board Risk Committee
A Board Risk Committee was formed in January 2011. This Committee will assist the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management Process of the Bank in line with the Guidelines as well as Risk Identification, evaluation, measurement and monitoring of the Risk Management process.

The members of the Committee are:

Name	Position
Mr. Michael N. Shirima	Chairman
Mr. Arun S. Mathur	Member

Report of the Directors

1 INTRODUCTION

The directors submit their report and the audited financial statements for the year ended 31 December 2010 which disclose the state of affairs of I&M Bank (T) Limited (the Bank).

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 4th March 2011.

2 STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors are required under the Tanzanian Companies Act, 2002 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank, as at the end of the financial period and of the profit or loss of the Bank for the period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2010. The Directors also confirm that International Financial Reporting Standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Bank and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

3 INCORPORATION

The Bank is incorporated in Tanzania under Companies Act, 2002 domiciled in Tanzania as a private company limited whose shares are not publicly traded. The Bank changed its ownership on 14th January 2010 following acquisition by a consortium of shareholders whereby I&M Bank Limited, Kenya acquired a majority shareholding of 55.03%. Following the change of ownership, the Bank changed its name from CF Union Bank Limited to I&M Bank (T) Limited on 14th September 2010.

4 MISSION AND VISION

Vision Statement:
To become a company where the best people want to work, the first choice where customers want to do business, and where shareholders are happy with their investment.

Mission Statement:
To be partners of growth for all our stakeholders through:

- Meeting our Customers' expectations.
- Motivating & developing every employee.

- Enhancing shareholder value.

5 PRINCIPAL ACTIVITIES

The principal activity of I&M Bank (T) Limited is the provision of banking and related services stipulated by the Banking and Financial Institutions Act, 2006. There has been no significant change in the principal activities of the Bank during the financial year ended 31 December 2010.

6 REVIEW OF BUSINESS PERFORMANCE

The Bank's results are set out on page 25 of these financial statements. During the year under review, the Bank recorded a profit before tax of TZS 5,025 million compared to TZS 3,494 million last year representing an increase of 44%. This increase is due to increase in business level.

Interest Income
Interest Income during the year amounted to TZS 8,241 million compared to TZS 6,549 million in previous year, representing an increase of 26%. This is mainly due to increase in loan portfolio. As at year end, the loan portfolio had grown by 77% from the previous year.

Interest expense
Interest expense during the year amounted to TZS 2,951 million, as compared to TZS 2,467 million in prior year, representing an increase of 20% (TZS 484 million). The increase in interest expense is mainly attributed to increase in interest bearing deposits.

Net interest income
Net interest income (interest income less interest expenses) during the year amounted to TZS 5,290 million, as compared to TZS 4,081 million in prior year, representing an increase of 30% (TZS 1,209 million).

Non - interest Income
Non-interest income mainly includes fee and commission income, foreign exchange income and bad debts recoveries. Non-interest income amounted to TZS 3,156 million compared to TZS 1,570 million in last year, representing an annual increase of 101%. This is due to higher dealing volumes and weakening of the Tanzania Shillings against major currencies.

Non-interest expenses before tax
Non- interest expenses before tax include operational expenses, impairment and credit losses on loans and advances. Operating expenses include personnel costs, occupancy costs, depreciation of property and equipment, amortization of intangible assets and general administrative expenses. During the year, non-interest expenses before tax amounted to TZS 3,421 million as compared to TZS 2,158 million in prior year, implying an increase of 59%.

The increase is mainly attributed to 50% (TZS 516 million) growth in personnel costs due to addition of new staff, payout increase and increases in allowance for impairment/ credit losses on loans and advances amounting to TZS 333 million. The increase in allowance for impairment / credit losses was as result of adopting a prudent policy to increase the impairment charge in line with the growth in loan portfolio.

Income tax expense
Income tax expense amounted to TZS 1,576 million (2009: TZS 1,060 million).

Key performance ratios

The key performance ratios of the Bank are indicated as hereunder:

	2010	2009
Return on average assets	4.59%	4.86%
Return on average equity	32.70%	37.44%
Non- interest income to net interest income	59.65%	38.46%
Operating expenses to average assets	2.82%	2.99%
Non-interest expenses before tax to operating income	40.51%	38.18%

7 REVIEW OF FINANCIAL POSITION

The Bank's financial position is set out on page 26 of these financial statements. Major movements are as explained in the table below:

Item	2010 TZS ' 000	2009 TZS ' 000	Increase TZS ' 000
Other bank balances	21,115,894	9,622,959	11,492,935
Government securities held to maturity	17,639,047	8,384,943	9,254,104
Other money market placements	6,397,990	3,879,820	2,518,170
Loans and advances	75,957,919	43,163,578	32,794,341
Property and equipment	1,162,931	449,766	713,165
Deposits	117,216,620	68,904,235	48,312,385
Other liabilities	1,425,425	453,800	971,625

Bank balances with other banks
Other bank balances increased by TZS 11,493 million (119%) from prior year. The increase was due to short-term placements closer to year end. The increase in placements was on account of growth in deposit levels.

Government securities held to maturity
The increased investment in government securities by 110% (TZS 9,254 million) is mainly as a measure of prudential investment of surplus funds in high yielding and risk free sovereign securities. The Bank had also received capital injections by way of a Rights Issue to the tune of TZS 8,127 million as funds subscribed by the shareholders.

Other money market placements
Other money market placements increased by TZS 2,518 million (65%) from prior year. The increase was towards end of December 2010 as idle funds were placed for short term with other banks who borrow money in the local money market to meet their year- end needs.

Loans and advances
The loans & Advances increased by TZS 32,794 million (76%) on account of growth in credit to existing and new customers as well as benefitting from the higher lending capabilities derived from the capital increase by way of Rights Issue in August 2010.

Property and equipment
Property and equipment increased by TZS 713 million (158 %) from prior year. The increase mainly attributed by TZS 686 million, work in progress in relation to ongoing partitioning, fixing and fitting for the leased new head office premises and a branch. The remaining increase relates to new assets mainly furniture, fittings and equipments acquired during the year for the existing offices.

Deposits
Deposits increased by 70% (TZS 48,312 million) mainly because of mobilization campaigns carried out to attract more deposits mainly fixed deposits and current accounts.

Other liabilities
Other liabilities increase of TZS 972 million is mainly due to bankers' cheques outstanding at year end. These were subsequently cleared.

Key efficiency ratios

The key efficiency ratios of the Bank as at year end are as indicated as hereunder:

	2010	2009
Total capital to total assets	14.52%	13.19%
Net non-performing loans to total advances	0.89%	0.49%
Gross Loans to total deposits	64.80%	62.64%
Loans to total assets	54.80%	53.95%
Liquidity Ratio	43.53%	45.18%

8 SOLVENCY EVALUATION

The main sources of additions to equity are shareholders additional capital contributions and profit for the year. During the year, equity increased from TZS 10,549 million to TZS 20,180 million, representing an increase of 91%. This increase was a result of the Bank undertaking a Rights Issue, which was fully subscribed, resulting in an increase in shareholders capital by TZS 8,127 million in addition to the TZS 3,449 million profit for the year.

The Bank has complied with all the Bank of Tanzania liquidity and capital adequacy ratios.

9 FUTURE DEVELOPMENTS

The future development plans centres around improved benefits and quality service delivery to customers. In this endeavour, the following priority areas have been identified:

- Development of systems and procedures necessary for the introduction of the new products and services, including introduction of alternate banking channels.
- Enhancement of Information Communication Technology platform to enable prompt and efficient transaction processing to directly benefit our customers and other stakeholders.
- Geographical expansion of the Bank's activities so as to move its services closer to its customers by expanding the Branch Network within Tanzania; and
- Continuous improvement of Human Resource capacity

10 DIVIDEND

The Board of Directors propose a final dividend of TZS 862.20 million at TZS 0.36 million per share (2009: TZS 1,945 million). The prior year dividend was subsequently approved by the shareholders and paid to the outgoing shareholders in January 2010.

11 CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT). These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position, commitments not recognized in the statement of financial position and market and other risk positions at a weighted amount to reflect their relative risk.

The Bank's capital adequacy ratios are included below:

Report of the Directors cont.

For the year ended 31 December 2010

	Nominal Statement of financial position amounts 2010 TZS'000	Risk weighted amounts 2010 TZS'000	Nominal Statement of financial position amounts 2009 TZS'000	Risk weighted amounts 2009 TZS'000
Statement of financial position assets (net of provisions)				
Cash and balances with Bank of Tanzania	15,175,378	**-**	14,198,276	-
Balances with other bank	21,115,894	**4,223,179**	9,622,959	1,924,592
Cheques in the course of collection	157,813	**78,906**	62,607	12,521
Government securities	17,639,047	**-**	8,384,943	-
Other money market placements	6,397,990	**1,279,598**	3,879,820	775,964
Private Security	880,458	**880,458**		
Loans and advances	75,957,919	**71,164,165**	43,163,578	43,163,578
Other assets and deferred tax	429,822	**429,822**	224,560	224,560
Intangible assets	25,192	**25,192**	22,709	22,709
Property and equipment	1,162,931	**1,162,931**	449,766	449,766
Total assets	**138,942,444**	**79,244,251**	80,009,218	46,573,690
Not recognised positions				
Credit related commitments	2,179,118	**1,984,048**	4,139,322	3,645,249
Total risk-weighted assets		**81,228,299**		50,218,939
	Capital	**Ratios**	Capital	Ratios
Tier 1 capital	**19,893,540**	**24.49%**	10,300,782	20.51%
Tier 1 + Tier 2 capital	**19,893,540**	**24.49%**	10,300,782	20.51%

Report of the Directors cont.

For the year ended 31 December 2010

12 COMPOSITION OF THE BOARD OF DIRECTORS AND SHAREHOLDING

i) Directors

The previous year's Directors of the Bank held office from 1st January to 13th January 2010. Following the changes in shareholding of the Bank with effect from 14th January 2010, the shareholders had appointed new Directors of the Bank and the Directors, who held the office as at 31st December 2010, were as follows:

Name	Position	Age (years)	Nationality	Qualifications	Date of Appointment
Mr. Sarit S. Raja Shah	Chairman	42	Kenyan	BSc Economics MSc (Internal Audit & Management	14th January 2010
Mr. Michael N. Shirima	Member	67	Tanzanian	Businessman	14th January 2010
Mr. Thierry Hugnin	Member	44	Mauritian	Chartered Accountant,(ACA England & Wales)	14th January 2010
Mr. Arun S. Mathur	Member	57	Kenyan	B. Tech (Hons) Degree Diploma in Statistical Methods	14th January 2010
Gen. (Retd.) Mrisho H. Sarakikya	Member	76	Tanzanian	Businessman	14th January 2010
Mr. Pratul H. Shah	Member	56	Kenyan	Fellow of the Association of Chartered Certified Accountants, CPA (K),CPS (K)	10th February 2010

The Directors of the Bank are all non-executive.

The Company secretary as at 31 December 2010 was Mr. Subramanian Gopalan.

For the year ended 31 December 2010

ii) Shareholding

As at 31st December 2010, the following shareholders held shares in I&M Bank (T) Limited:

Name of the shareholders	Number of shares held	Position held (%)
I&M Bank Limited	1,318	55.03
The Kibo Fund	479	20.00
Proparco	479	20.00
Mr. Michael N. Shirima	119	4.97
Total	**2,395**	**100.00**

Note: Shares of the Bank are not publicly traded. There is only one class of shares.

13 MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and the day to day management is entrusted to the Chief Executive Officer.

The Board comprises of Non Executive Directors. The tenure of the Board is three years. The Chairman and all other members of the Board of Directors are appointed by the shareholders at the Annual General Meeting. The Board is comprised of representatives from the four shareholders.

The organization structure of the Bank comprises of the following Departments:-

- Business Development
- Business Support
- Credit
- Risk Management (Reporting directly to Board Risk Committee)
- Internal Audit (Reporting directly to Board Audit Committee)

The Chief Executive Officer reports to the Board and Department Heads report to the Chief Executive Officer.

Report of the Directors cont.

For the year ended 31 December 2010

14 EMPLOYEES WELFARE

Relationship between management and employees

The relationship between employees and management continued to be cordial. Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. The Bank provides training, medical assistance and loans to its employees. There is good teamwork between management and staff.

Training

The Bank offers sponsorship to its employees in both short and long term courses within and outside the country in various disciplines depending on the corporate needs and financial resources available.

Staff loans and advances

The Bank provides housing, education and car loans to staff as well as salary advances to enable them to overcome financial needs and promote their economic development. Staff loans and advances are based on specific terms and conditions approved by the Board of Directors.

Medical facilities

The Bank provides medical cover for both, Inpatient and Outpatient for employees.

Disabled Persons

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and appropriate training is arranged. It is the policy of the Bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Financial assistance

The Bank has a Group Life Cover for its employees.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to statutory National Social Security Fund and Parastatal Pension Fund. The Bank's obligations in respect of these contributions are limited to 10% of the employees' gross salary.

The number of employees at the end of year totalled 66 as compared to 57 at the end 2009.

Report of the Directors cont.

For the year ended 31 December 2010

15 GENDER PARITY

The Bank is equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 31 December 2010 the Bank had 34 male and 32 female employees (2009: 30 male and 27 female employees).

16 RELATED PARTY TRANSACTIONS

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

17 POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. Donations made to charitable organizations during the year amounted to TZS 5.0 million (2009: TZS 0.5 million).

18 CORPORATE SOCIAL RESPONSIBILITY

The Bank participates actively in community activities and development programmes throughout the country. Areas being given priority by the Bank are health, education, natural disasters victims, security and sports.

19 AUDITORS

Ernst & Young were the auditors of the Bank during the year ended 31 December 2010. They have expressed their willingness to continue and are eligible for re-appointment. A resolution to appoint auditors for the year 2011 will be put up at the Annual General Meeting.

Approved by the Board of Directors on 30 March 2011 and signed on its behalf by:

Chairman: Sarit S. Raja Shah

Director: Pratul H. Shah

Report of the Independent Auditors

To the shareholders of I&M BANK (T) LIMITED

Report on the financial statements

We have audited the accompanying financial statements of I&M Bank (T) Limited which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 29 to 77.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Tanzanian Companies Act, 2002, and in compliance with the Banking and Financial Institutions Act, 2006 and for such internal controls as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of I&M Bank (T) Limited as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Tanzanian Companies Act, 2002.

Report of the Independent Auditors cont.

Report on other legal and regulatory requirements

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

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

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

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

iii. The Directors' report is consistent with the financial statements;

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

v. The Bank's statement of financial position and the statement of comprehensive income are in agreement with the books of account.

Ernst & Young
Certified Public Accountants

Signed by: Michael Kimoni

Dar es Salaam

30 March 2011

Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 TZS '000	2009 TZS '000
Interest income	7	8,240,968	6,549,383
Interest expense	8	(2,950,584)	(2,467,483)
Net interest income		**5,290,384**	4,081,900
Fee and commission income	9	824,390	628,428
Net trading income	10	2,220,967	927,075
Other operating income /(expense)	11	104,839	12,544
Recoveries during the year	21	5,528	1,745
Total operating income		**8,446,108**	5,651,692
Impairment and credit losses on loans and advances	21	(332,986)	(9,755)
Net operating income		**8,113,122**	5,641,937
Personnel expenses	12	(1,552,218)	(1,036,477)
Occupancy costs	13	(211,264)	(81,257)
Depreciation of property and equipment	23	(74,011)	(54,411)
Amortisation of intangible assets	24	(5,311)	(5,011)
Other operating expenses	14	(1,245,435)	(970,922)
Total operating expenses		**(3,088,239)**	(2,148,078)
Profit before tax		**5,024,883**	3,493,859
Income tax expense	15	(1,576,358)	(1,059,582)
Profit for the year attributable to shareholders		**3,448,525**	2,434,277
Other comprehensive income		-	-
Total comprehensive income for the year, net of taxes		**3,448,525**	2,434,277
Earnings per share (basic and diluted)	29	1,710	1,391

Statement of Financial Position

As at 31 December 2010

	Notes	2010 TZS '000	2009 TZS '000
Assets			
Cash and balances with Bank of Tanzania	16	**15,175,378**	14,198,276
Balance with other banks	17	**21,115,894**	9,622,959
Cheques and items for clearance		**157,813**	62,607
Government securities held to maturity	18	**17,639,047**	8,384,943
Private securities held to maturity	19	**880,458**	-
Other money market placements held to maturity	20	**6,397,990**	3,879,820
Loans and advances	21	**75,957,919**	43,163,578
Deferred tax asset	15	**70,781**	-
Property and equipment	23	**1,162,931**	449,766
Intangible assets	24	**25,192**	22,709
Other assets	22	**359,041**	224,560
Total assets		**138,942,444**	80,009,218
Liabilities and equity			
Liabilities			
Deposits	25	**117,216,620**	68,904,235
Deferred tax liability	15	**-**	55,206
Tax payable	15	**120,034**	46,547
Other liabilities	26	**1,425,425**	453,800
Total liabilities		**118,762,079**	69,459,788
Equity			
Share capital	27	**2,395,000**	1,750,000
Share premium	27	**7,482,000**	-
Regulatory reserve	28	**-**	61,956
Retained earnings		**10,303,365**	8,737,474
Total equity		**20,180,365**	10,549,430
Total liabilities and equity		**138,942,444**	80,009,218

These financial statements were approved by the Board of Directors for issue on 30 March 2011, and were signed on its behalf by:

Chairman: Sarit S. Raja Shah

Director: Pratul H. Shah

Statement of changes in equity

For the year ended 31 December 2010

	Share capital TZS' 000	Share premium TZS' 000	Regulatory reserve TZS' 000	Retained earnings TZS' 000	Total TZS' 000
At 1 January 2010	1,750,000	-	61,956	8,737,474	10,549,430
Total comprehensive income for the year	-	-	-	3,448,525	3,448,525
Profit for the year				3,448,525	3,448,525
Other comprehensive income				-	-
Final dividend for 2009 paid (Note 38)	-	-	-	(1,944,590)	(1,944,590)
Rights issue	645,000	7,482,000		-	8,127,000
Transfer from non-distributable reserve	-	-	(61,956)	61,956	-
At 31 December 2010	**2,395,000**	**7,482,000**	**-**	**10,303,365**	**20,180,365**
At 1 January 2009	1,750,000	-	79,587	6,285,566	8,115,153
					-
Total comprehensive income for the year	-	-	-	2,434,277	2,434,277
Profit for the year	-	-	-	2,434,277	2,434,277
Other comprehensive income	-	-	-	-	-
Transfer to non-distributable reserve	-	-	(17,631)	17,631	-
At 31 December 2009	1,750,000	-	61,956	8,737,474	10,549,430
	Note 27	**Note 27**	**Note 28**		

Statement of cash flows

For the year ended 31 December 2010

	Notes	2010 TZS '000	2009 TZS '000
Operating activities			
Profit before tax		**5,024,883**	**3,493,859**
Adjustments for:			
Depreciation of property and equipment	23	74,011	54,411
Amortisation of intangibles	24	5,311	5,011
Impairment and credit losses on loans and advances		332,986	9,755
Intangible assets written off	24	3,804	-
Loss on disposal of property and equipment		11,781	433
Cash flows from operating profits before working capital changes		**5,452,776**	**3,563,469**
Changes in operating assets and liabilities			
Increase in statutory minimum reserve	16	(3,965,000)	(1,474,150)
Increase in loans and advances	21	(33,127,327)	(8,402,274)
(Increase)/decrease in other assets	22	(134,481)	51,431
Increase in deposits with non-financial institutions	25	39,408,887	9,362,010
Increase/(decrease) in other liabilities	26	971,625	(550,642)
Decrease/(increase) in placements with banks with maturity over three months	20	1,323,840	(726,830)
Increase in government securities with maturity over three months	18	(9,453,635)	(886,024)
		476,685	936,990
Tax paid	15	(1,628,858)	(1,009,471)
Net cash flows used in operating activities		**(1,152,173)**	**(72,481)**
Investing activities			
Purchase of private securities held to maturity	19	(880,458)	-
Purchases of property and equipment	23	(800,670)	(209,295)
Purchases of intangible assets	24	(11,598)	(8,525)
Proceeds from sale of property and equipment		1,713	1,000
Net cash flows used in investing activities		**(1,691,013)**	**(216,820)**
Financing activities			
Proceeds from exercise of options	27	8,127,000	-
Dividend paid to equity holders of the Bank	38	(1,944,590)	-
Net cash flows from financing activities		**6,182,410**	-
Net increase/(decrease) in cash and cash equivalents		3,339,224	(289,301)
Cash and cash equivalents at 1 January		15,049,040	15,338,341
Cash and cash equivalents at 31 December	17	**18,388,264**	**15,049,040**

Notes to the financial statements

1. BASIS OF PREPARATION

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

Statement of compliance

The financial statements of I&M Bank (T) Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Interpretations to those Standards, and comply with the Tanzanian Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 36.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year.

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

- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

Improvements to IFRSs

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations effective 1 January 2010

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest and similar income and expenses

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

However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the (EIR) from the date of the change in estimate.

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

Notes to the financial statements cont.

Fees and commission income

The Bank earns fees and commission income from diverse range of services it provides to its customers. Fees income can be divided into the following categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Operating income

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

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

Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

Employees' benefits including post employment benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognised as an expense in the profit or loss in the period the employees render the services.

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

recognised as a liability.

Other employee benefits
The Bank provides free medical treatment to staffs and their dependants. The cost is recorded as an expense under “personnel expense”. The estimated monetary liability for employees’ accrued leave entitlement at the reporting date is recognised as an expense accrual. Other employees benefit: In addition to medical treatment the employer also provides long term service award. The estimated monetary liability for employees’ long term service award entitlement at the reporting date is recognised as an expense accrual.

Bonus Scheme

A liability for employee benefits in the form of bonus scheme is recognised when there is a formal scheme and the amounts to be paid are determined before the time of issuing the financial statements; or past practice has created a valid expectation in employees that they will receive a bonus and the amount can be determined before the financial statements are issued. Liabilities for bonus scheme are expected to be settled within 3 months and are measured at the amounts expected to be paid when they are settled.

Provision

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, excluding the costs of day-to-day servicing. Costs of replacing part of the property and equipment and major inspection cost are capitalised if the following recognition criteria are met. Borrowing costs for long-term projects are capitalised if they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other repair and maintenance costs are recognised in profit or loss as incurred. Depreciation is calculated on reducing balance basis to write down the cost of the asset to its residual value over the estimated useful life as follows:

Description	Number of years
Motor vehicles	20.00%
Furniture and fittings	12.50%
Office equipment	12.50%
Computer equipment	25.00%
Residential furniture	33.33%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. (Refer to accounting policy on impairments of non-financial assets).

Intangible assets

The Bank's other intangible assets include the value of computer software, SWIFT software and cost of licenses more than 12 months.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as change in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income through profit or loss in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Description	**Number of years**
Computer Software	3 – 5 years
SWIFT Software	3 – 5 years
Licenses	3 – 5 years

Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the profit or loss in the statement of comprehensive income on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leasehold improvements

Leases of leasehold improvements are classified as operating leases, these includes improvements made on leased Bank buildings for its head office and branches. The total payments made under operating leases are charged to the statement of comprehensive income through profit or loss account on a straight-line basis over the life of the lease period.

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 recognised as an expense in the period in which termination takes place.

Leasehold improvements are stated at cost, less accumulated amortisation and accumulated impairment in value. Leasehold improvements amortisations are calculated on straight line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives. The annual amortisations of operating leasehold in use are:

Leasehold improvements	8 to 10 years

No amortisation charge is made to leasehold improvements work in progress under refurbishments.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices and other available fair value indicators Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss in the statement of comprehensive income.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

Available-for-sale financial investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value

Unrealised gains and losses are recognised directly in other comprehensive income and accumulated in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss in 'Other operating income'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis.

Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as 'Other operating income' when the right of the payment has been established.

The losses arising from impairment of such investments are recognised in profit or loss and removed from the 'Available-for-sale reserve'.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in statement of comprehensive income as part of "Credit loss expense".

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Placements with banks and loans and advances

'Placements with banks' and 'Loans and advances ', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss.
- Those that the Bank, upon initial recognition, designates as available for sale.
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Placements with banks' and 'Loans and advances' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognised in statement of comprehensive income as part of "Credit loss expense".

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

Reclassification of financial assets and liabilities

Effective from 1 July 2008, the Bank was permitted to reclassify ,in certain circumstances ,non-derivative financial assets out of the 'Held- for –Trading' category into the 'Available –for-sale', 'Loans and receivables', or 'Held-to-maturity' categories . From this date it was also permitted to reclassify ,in certain circumstances ,financial instruments out of the 'Available-for-sale ' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For financial assets reclassified out of the' Available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR).If the asset is subsequently determined to be impaired then the amount recycled in equity is recycled to profit or loss.

The Bank may reclassify a non-derivative trading asset out of the 'Held-for-Trading' category into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that receipt is recognised as an adjustment to the EIR from the date of change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. There are no reclassified financial assets.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
    - the Bank has transferred substantially all the risks and rewards of the asset, or
    - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its statement of financial position to 'Financial assets held-for-trading' or to 'Financial investments available-for-sale', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.
If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held-for-trading' and measured at fair value with any gains or losses included in 'Net trading income'.

Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in ‘Net trading income’.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank’s best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (‘Day 1’ profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 37.

i) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss and is shown separately.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss in the statement of comprehensive income. There are no equity investments classified as available for sale.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the profit or loss in the statement of comprehensive income.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the profit or loss. The premium received is recognised in profit or loss in 'Fees and commission income' on a straight line basis over the life of the guarantee.

Cash and cash equivalents

Cash and cash equivalents referred in the cash flow comprise cash on hand, non-restricted current accounts with Bank of Tanzania, deposits held at call with banks with an original maturity of three months or less, due from banks on demand and investments with maturity periods of three months or less in money market instruments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Bank capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009.

Foreign currency translation

The financial statements are presented in Tanzania Shillings (TZS). Items included in the financial statement are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other operating income' in statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Taxes

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the financial statements cont.

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised in equity or other comprehensive income and not in profit or loss.

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

Value added tax

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

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Segment reporting

The Bank's segmental reporting is based on the integrated nature of its activities and its branches; it is reported as one business segment.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in note 37.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 21.

Deferred tax assets

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

Held to maturity investments

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

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Bank’s financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments, Presentation - Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity’s non-derivative equity instruments, or to acquire a fixed number of the entity’s own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Bank after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Bank at the date of adoption, and it is not practical to quantify the effect.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

6. OPERATING SEGMENTS

Owing to the integrated nature of the current activities of the Bank and its branches, the presentation of operating segment is not considered informative as the Bank operates as one business segment.

	2010 TZS '000	2009 TZS '000
7 INTEREST INCOME		
Loans and advances	6,633,542	5,217,336
Government securities	1,494,867	1,245,878
Placements	112,559	86,169
	8,240,968	**6,549,383**
8 INTEREST EXPENSE		
Fixed deposits	2,750,697	2,326,906
Savings and other deposits	199,887	140,577
	2,950,584	**2,467,483**
9 FEE AND COMMISSION INCOME		
Commission on guarantee issued	105,649	97,892
Commission on services charge	119,497	134,864
Commission on telex charges	174,614	149,924
Commision on spot sale	262,205	156,181
Commissions on other services rendered	162,425	89,566
	824,390	**628,428**
10 NET TRADING INCOME		
Foreign currency dealings and translation gains	2,220,967	927,075
	2,220,967	**927,075**
11 OTHER OPERATING INCOME /(EXPENSE)		
Charges on minimum balance deposit	16,008	12,890
Intangible assets written off	(3,804)	-
Loss on disposal of property and equipment	(11,781)	(433)
Bad loans recovered	102,109	-
Miscellaneous Income	2,307	87
	104,839	**12,544**

Notes to the financial statements cont.

FOR THE YEAR ENDED 31 DECEMBER 2010

12 PERSONNEL EXPENSES

	2010	2009
	TZS '000	TZS '000
Wages and salaries	982,115	639,545
Gratuity and bonus	286,396	200,832
Social security costs	73,404	54,014
Skills development levy	65,132	49,574
Other employment costs and benefits	145,170	92,512
	1,552,218	**1,036,477**

The number of employees employed by the bank as at the year-end was 66 (2009: 57).

13 OCCUPANCY COSTS

	2010	2009
Water	5,988	7,661
Office rent	193,545	62,109
Electricity	11,731	11,487
	211,264	**81,257**

14 OTHER GENERAL AND ADMINISTRATION EXPENSES

	2010	2009
Auditors' fees	45,082	27,722
Directors' emoluments	22,444	19,128
Board Expenses	35,367	-
Finance costs	44,595	72,070
Marketing expenses	116,773	93,743
Communication expenses	226,605	180,499
Repairs and maintenance	67,423	86,751
Security charges	81,749	44,968
Insurance	150,249	104,244
Travelling expenses	107,165	76,995
Printing and stationary	93,247	76,830
Computer expenses	16,777	14,809
City service levy	7,797	6,569
Legal fees	380	74,995
Other	229,782	91,599
	1,245,435	**970,922**

15 TAX

	2010 TZS '000	2009 TZS '000
a) Tax expense		
Current tax		
Current year tax	1,638,487	1,046,793
Prior year taxes	63,858	-
	1,702,345	**1,046,793**
Deferred tax		
Deferred tax (release)/charge for the year	(125,987)	12,789
	1,576,358	**1,059,582**

b) Reconciliation of tax expense to tax based on accounting profit:

	2010 TZS '000	2009 TZS '000
Accounting profit before taxation	5,024,883	3,493,859
Tax applicable rate of 30%(2009:30%)	1,507,465	1,048,158
Tax effect on non-deductible items:	137,465	8,997
Tax effect on temporary difference	(132,800)	2,427
Prior years taxes	63,858	-
Effective tax expense 31% (2009:30%)	**1,576,358**	**1,059,582**

c) Deferred tax liability/(asset)

	2010 TZS '000	2009 TZS '000
Accelerated capital allowance	57,460	55,206
Provisions for losses on loans and advances	(105,012)	-
Other temporary difference	(23,229)	-
At 31 December	**(70,781)**	**55,206**

d) Tax payable

	2010 TZS '000	2009 TZS '000
At 1 January	46,547	9,225
Under payment in respect of previous years	63,858	-
Charge for the year	1,638,487	1,046,793
Payments made during the year	(1,628,858)	(1,009,471)
Tax payable	**120,034**	**46,547**

16

[illegible]

	(13,766,671)	(4,863,173)
	-	199,531
Other money market placements within 3 months (Note 19)	6,145,000	2,302,990
	18,388,264	**15,049,040**

18 GOVERNMENT SECURITIES HELD TO MATURITY

Treasury bills and bonds		
Up to three months	-	199,531
Up to six months	282,000	184,000
Up to twelve months	281,224	3,960,000
Up to five years	17,075,823	4,041,412
	17,639,047	**8,384,943**

Government securities held to maturity as at year end are not impaired(2009: not impaired).

19 PRIVATE SECURITIES HELD TO MATURITY

Tanzania Breweries Security Bond	**880,458**	-

The bond bears coupon interest rate of 10.75%. Tenor of the bond is three years and princpal repayment date is 30 August 2013. Private securities held to maturity are not impaired.

FOR THE YEAR ENDED 31 DECEMBER 2010

20 OTHER MONEY MARKET PLACEMENTS HELD TO MATURITY

	2010 TZS '000	2009 TZS '000
Up to three months	6,145,000	2,302,990
Up to six months	252,990	250,000
Up to twelve months	-	1,326,830
	6,397,990	**3,879,820**

Of the total other money market placements held to maturity, TZS 1,470 million is denominated in foreign currencies (2009: TZS 1,327 million).

21 LOANS AND ADVANCES

	2010 TZS '000	2009 TZS '000
Advances to customers (gross)	76,197,390	43,110,311
Advances to staff	110,571	70,278
	76,307,961	**43,180,589**
Less: Allowances for losses on loans and advances	(350,042)	(17,011)
Net loans and advances	**75,957,919**	**43,163,578**
Maturity analysis		
Repayable on demand	4,897,722	4,897,722
With maturity of 3 months or less	1,169,431	1,169,431
With maturity of between 3 months and 1 year	17,050,590	17,050,590
With maturity of more than 1 year	53,190,218	20,062,846
	76,307,961	**43,180,589**

Of the total loans and advances, TZS 49,982 million is denominated in foreign currencies (2009: TZS 25,519 million).

Movement in allowance for losses on loans and advances:

	2010 TZS '000	2009 TZS '000
At 1 January	17,011	35,282
Impairment and credit losses for the year	332,986	9,755
Interest suspended during the year	5,573	282
Recoveries made during the year	(5,528)	(1,745)
Bad debts written off	-	(26,563)
At 31 December	**350,042**	**17,011**

Lending concentration	**2010 TZS '000**	**2009 TZS '000**
Economic sector risk concentrations within the customer loan portfolio were as follows:		
Manufacturing	13,718,344	5,869,700
Wholesale and retail trade	15,813,742	11,473,710
Transport and communication	5,550,847	1,378,980
Private individual including staff	7,063,969	6,123,166
Agriculture, fishing, forestry, hunting	3,784,891	1,643,551
Real estates and construction	22,358,605	10,703,169
Tourism, hotels and restaurant	3,128,946	4,754,735
Mining and quarrying	1,078,031	436,597
Others	3,810,586	796,981
Total loans and advances (including staff advances)	**76,307,961**	**43,180,589**

22 OTHER ASSETS

Deposit insurance fund	32,389	15,880
Salary advances	5,034	30,429
Prepaid expenses	224,211	117,674
Western Union	59,095	15,869
Sundry debtors	38,313	44,708
	359,041	**224,560**

FOR THE YEAR ENDED 31 DECEMBER 2010

23 PROPERTY AND EQUIPMENT

At 31 December 2010	Computer and other equipment TZS '000	Motor vehicles TZS'000	Furniture and fittings TZS '000	Work in progress TZS '000	Total TZS '000
Cost					
At 1 January 2010	396,164	64,796	273,213	-	**734,173**
Additions	57,480	31,750	25,004	686,436	**800,670**
Disposal	(26,381)	(5,300)	(13,093)	-	**(44,774)**
At 31 December 2010	427,263	91,246	285,124	686,436	**1,490,069**
Accumulated depreciation					
At 1 January 2010	157,632	23,118	103,657	-	**284,407**
Charge for the year	41,269	11,785	20,957	-	**74,011**
Disposal	(14,907)	(4,185)	(12,188)	-	**(31,280)**
At 31 December 2010	183,994	30,718	112,426	-	**327,138**
Net book value					
At 31 December 2010	243,269	60,528	172,698	686,436	**1,162,931**
At 31 December 2009					
Cost					
At 1 January 2009	276,218	48,908	212,384	-	**537,510**
Additions	119,946	15,888	73,461	-	**209,295**
Disposal	-	-	(12,632)		**(12,632)**
At 31 December 2009	396,164	64,796	273,213	-	**734,173**
Accumulated depreciation					
At 1 January 2009	128,070	14,453	98,672	-	**241,195**
Charge for the year	29,562	8,665	16,184	-	**54,411**
Disposal	-	-	(11,199)	-	**(11,199)**
At 31 December 2009	157,632	23,118	103,657	-	**284,407**
Net book value					
At 31 December 2009	238,532	41,678	169,556	-	**449,766**

Work in progress relates to ongoing construction, partitioning, fixtures and fittings for the leased new Head Office premises and a branch.

24 INTANGIBLE ASSETS

	2010 TZS '000	2009 TZS '000
Cost		
At 1 January	97,616	89,091
Additions	11,598	8,525
Written off during the year	(3,804)	-
At 31 December	**105,410**	**97,616**
Accumulated amortisation		
At 1 January	74,907	69,896
Charge for the year	5,311	5,011
At 31 December	**80,218**	**74,907**
Net book value		
At 31 December	**25,192**	**22,709**

25 DEPOSITS

	2010 TZS '000	2009 TZS '000
Interest bearing deposits		
Customer accounts	77,612,425	46,498,105
Banks and other financial institutions	13,766,671	4,863,173
Interest payable	1,353,765	1,042,527
	92,732,861	**52,403,805**
Non interest bearing deposits		
Customer accounts	24,483,759	16,500,430
	117,216,620	**68,904,235**
Maturity analysis		
Repayable on demand	39,992,433	27,288,610
With maturity of 3 months or less	40,880,115	21,528,343
With maturity of between 3 months and 1 year	35,090,049	19,998,123
With maturity over one year	1,254,023	89,159
	117,216,620	**68,904,235**

26 OTHER LIABILITIES

	2010 TZS '000	2009 TZS '000
Bankers cheques	792,899	183,488
Accrued loan administration fees	115,490	53,345
Accrued expenses	428,046	200,435
Statutory liabilities	88,990	16,532
	1,425,425	**453,800**

27 SHARE CAPITAL AND SHARE PREMIUM

	2010 TZS '000	2009 TZS '000
Share capital		
Authorized:		
10,000 ordinary shares of Tshs. 1,000,000/= each	**10,000,000**	**10,000,000**
Issued and fully paid:		
At 1 January	**1,750,000**	**1,750,000**
Issued on 3 August 2010 for cash on subscription of rights issue (645 ordinary shares of TZS 1,000,000 each)	645,000	-
2,395 ordinary shares (2009:1,750 ordinary shares) of TZS1,000,000/= each	**2,395,000**	**1,750,000**
Share premium		
Issued on 3 August 2010 for cash on subscription of rights issue (645 ordinary shares of TZS 11,600,000 each)	**7,482,000**	-
	-	**61,956**

28 REGULATORY RESERVE

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

29 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year. There were no share transactions leading to dilutive effect.

	2010	2009
Profit for the year attributable to equity holders of the company (TZS'000)	3,448,525	2,434,277
Weighted average number of shares (Number)	2,017	1,750
Basic and Diluted Earnings Per Share (TZS 000)	**1,710**	**1,391**

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements which would require the restatement of earnings per share.

30 REGULATORY CAPITAL

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

In implementing current capital requirements, the Bank of Tanzania requires the bank to

N

FOR

maintain a prescribed ratio of total capital to total risk-weighted assets.

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

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

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

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

31

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

The bank complied with minimum capital requirements as required by sections 16 and 17 of the Banking and Financial Institutions Act, 2006 and the Bank of Tanzania Capital Adequacy Regulations 2008. The required core capital year end was TZS 5 billion (2009: TZS 5 billion).

The bank's capital is computed in accordance with these regulations as follow:

	2010	2009
	TZS '000	TZS '000
Share capital	2,395,000	1,750,000
Share Premium	7,482,000	-
Revenue reserve	10,303,365	8,737,474
	20,180,365	**10,487,474**
Less:		
Prepaid expenses	261,633	163,983
Intangible assets	25,192	22,709
	286,825	**186,692**
Core capital (Tier 1)	**19,893,540**	**10,300,782**

Notes to the financial statements cont.

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 TZS '000	2009 TZS '000
Add:		
Supplimentary capital (Tier 2)		
Subordinated debt	-	-
	19,893,540	10,300,782
Tier 1 Capital & Tier 2 Capital	19,893,540	10,300,782
Risk - weighted assets		
On balance sheet	79,244,251	46,573,690
Off balance sheet	1,984,048	3,645,249
Total risk - weighted assets	81,228,299	50,218,939
Bank Ratios		
Tier 1 (BoT Minimum required is 10% (2009:10%)	24.49%	20.51%
Tier 1 + Tier 2 (BoT Minimum required is 12%(2009:12%)	24.49%	20.51%

31 RELATED PARTY TRANSACTIONS

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

	2010	2009
Directors and key management personnel: Loans		
Loans outstanding at the beginning of the year	-	46,440
Loans issued during the year	-	-
Loan repayments during the year	-	(8,767)
Loans outstanding at the end of the year	-	37,673
Interest income earned	-	2,279
Directors and key management personnel: Deposits		
Deposits at the beginning of the year	30,993	2,586,281
Deposits received during the year	494,082	298,577
Deposits repaid during the year	(440,788)	(273,014)
Deposits at the end of the year	84,287	2,611,844
Interest expense	934	219,499
Related companies: Deposits		
Deposits at the beginning of the year	-	1,468,574
Deposits received during the year	11,086,147	13,660,611
Deposits repaid during the year	(5,433,201)	(13,909,394)
Deposits at the end of the year	5,652,946	1,219,791

	2010 TZS '000	2009 TZS '000
Interest expense	54,320	-
Key management compensation		
Salaries and other short-term benefits	498,638	441,926
Post employment benefits	-	-
	498,638	441,926
Key management comprise of all heads of departments.		
Directors' remuneration	22,444	19,128
Made up of:		
Short-term benefits	22,444	19,128
	22,444	19,128

32 COMMITMENTS

	2010 TZS '000	2009 TZS '000
Commitments to extend credit	7,916,701	3,202,092
Capital commitments		
Capital expenditure that has been approved by the Board but not contracted for	4,721,000	200

Capital commitment comprise capital expenditure for fixtures and equipment, computers and motor vehicles for opening two new branches.

Commitments to extend credit

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Operating lease commitments- bank as lessee

The Bank has entered into four lease arrangements on the premises for Head office ,Kariakoo, Jiwan Hirji Building and Arusha Offices.

Future minimum rentals payable under non-cancellable leases as at 31 December are as follows:

	2010 TZS '000	2009 TZS '000
Grand total operating lease commitments		
Within one year	**283,474**	39,065
After one year but not more than five years	**990,303**	119,828
	1,273,778	158,894

33 CONTINGENT LIABILITIES

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised in the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The total outstanding commitments and contingent liabilities are as follows:

	2010	2009
Letters of Credit	**423,092**	-
Outstanding Guarantees and Indemnities	**1,756,027**	1,038,040
	2,179,119	1,038,040

Letters of Credit, Guarantees (including Standby Letters of Credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and Standby Letters of Credit carry the same credit risk as loans.

Litigation matters

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of potential loss being established, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, there were no pending litigations against the Bank.

34 EVENTS AFTER THE REPORTING DATE

There is no known event that has impacted on the result for the year and the statement of affairs of the Bank after the reporting date which needs further disclosure in the financial statements.

35 COUNTRY OF INCORPORATION

The Bank is incorporated in Tanzania under Companies Act, 2002 and domiciled in Tanzania as a private company limited whose shares are not publicly traded. The Bank changed its name from CF Union Bank Limited to I & M Bank (T) Limited on 14th September 2010.

36. RISK MANAGEMENT

Risk management framework

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

The Board of Directors (the board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. Risk management is carried out by the Assets and Liability Committee (ALCO) under policies approved by the Board of Directors. The ALCO Committee evaluates financial risk in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign-exchange risk, interest-rate risk, credit risk, and liquidity risk. To effectively monitor the Bank's risks on a day to day basis, in addition to the ALCO committee, a risk management committee had been formed at Management level.

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

a) Credit risk

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

Management of credit risk

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

- i) Formulating credit policies, covering collateral requirements; credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- ii) Establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by board of directors.
- iii) Reviewing and assessing credit risk. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and

reviews of facilities are subject to the same review process;

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

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

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

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

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

Exposure to credit risk

Loans and advances to customers

	2010	2009
Carrying amount	**TZS '000'**	**TZS '000'**
Individually impaired		
Grade 3: Impaired (Substandard)	856,220	191,820
Grade 4: Impaired (doubtful)	-	-
Grade 5: Impaired (Loss)	18,489	18,489
Gross amount	**874,709**	**210,309**
Allowance for impairment	(138,092)	(37,129)
Carrying amount	**736,617**	**173,180**
Collectively impaired		
Grade 1: Normal	73,548,049	42,205,759
Grade 2: Watch list	1,885,203	825,936
Gross amount	**75,433,252**	**43,031,695**
Allowance for impairment	(211,950)	(41,297)
Carrying amount	**75,221,302**	**42,990,398**
Total Carrying amount	**75,957,919**	**43,163,578**

The Banks' internal credit risk grading system classifies impaired Loans and advances into grades 3, 4 and 5. These are advances for which the Bank is of the opinion that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Specific impairment loss provisions are made on these grades.

Included in advances graded 1 and 2 are balances amounting to TZS 1,780 million (2009: TZS 785 million) which are past due but not impaired.

These are advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and / or the stage of collection of amounts owed to the Bank. The internal rating system assists management to determine whether objective evidence of impairment exists under IAS 39, based on delinquency in contractual payments of principal or interest or breach of loan covenants or conditions.

The review of individual financial assets and grading of accounts is done on a monthly basis where provision on non performing loans is raised based on the guidelines of the Bank of Tanzania.

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

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

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The Bank monitoring of concentrations of credit risk by sector at the reporting date is disclosed in note 21.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

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

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

The Bank also makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master netting arrangements do not normally result in an offset of Statement of financial position assets and liabilities unless certain conditions for offsetting under IAS 32.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realised;
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

Write-off policy

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

Debt securities, treasury bills and other eligible bills

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

Collateral

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

The Bank did not reposes collateral held as security during the year.

b) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of Tanzania equal to 10% of customer deposits. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, short- term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

Exposure to liquidity risk

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

Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting year were as follows:

	2010	2009
At 31 December	38%	40%
Average for the year	45%	34%
Maximum for the year	52%	40%
Minimum for the year	38%	27%

Net liquid assets are liquid assets less all funds maturing in the next 30 days from wholesale market sources and from customers who are deemed to be professional. The Bank defines liquid assets for the purposes of the liquidity ratio as cash balances, short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists.

Management of liquidity risk

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

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

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

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profiles of the contractual undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2010 based on the remaining period to the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to current, savings, call and fixed account balances. Although classified in this band, previous experience has shown these to be stable and of a long term nature.

36. RISK MANAGEMENT

b) Liquidity risk (continued)

	Up to 1 months TZS '000	Up to 3 months TZS '000	Up to 6 months TZS '000	Up to 12 months TZS '000	Up to 5 years TZS'000	Total TZS '000
At 31 December 2010						
Financial assets						
Cash and balances with Bank of Tanzania	4,736,228	-	-	-	10,439,150	**15,175,378**
Balance with other banks	21,115,894	-	-	-	-	**21,115,894**
Cheques and items for clearance	157,813	-	-	-	-	**157,813**
Government securities held to maturity	-	-	282,000	281,224	17,075,823	**17,639,047**
Private securities held to maturity	-	-	-	-	880,458	**880,458**
Other money market placements	6,145,000	-	252,990	-	-	**6,397,990**
Loans and advances	4,943,05	1,124,096	3,537,664	13,512,926	52,840,177	**75,957,919**
Other assets	-	-	359,041	-	-	**359,041**
	37,097,992	**1,124,096**	**4,431,695**	**13,794,150**	**81,235,608**	**137,683,540**
Financial liabilities						
Deposits	39,992,433	40,880,115	19,998,123	15,091,926	1,254,023	**117,216,620**
Other liabilities	183,487	1,241,938	-	-	-	**1,425,425**
	40,175,920	**42,122,053**	**19,998,123**	**15,091,926**	**1,254,023**	**118,642,045**
Net liquidity gap	**(3,077,928)**	**(40,997,957)**	**(15,566,428)**	**(1,297,776)**	**79,981,585**	**-**
Cumulative liquidity gap	**(3,077,928)**	**(44,075,886)**	**(59,642,314)**	**(60,940,090)**	**19,041,495**	**-**
As at 31 December 2009						
Financia assets						
Cash and balances with Bank of Tanzania	7,724,126	-	-	-	6,474,150	**14,198,276**
Balance with other banks	9,622,959	-	-	-	-	**9,622,959**
Cheques and items for clearance	62,607	-	-	-	-	**62,607**
Government securities held to maturity	199,531	-	184,000	3,960,000	4,041,412	**8,384,943**
Other money market placements	1,002,990	1,300,000	250,000	1,326,830	-	**3,879,820**
Loans and advances	4,943,057	1,124,096	3,537,664	13,512,926	20,045,836	**43,163,578**
Other assets	-	-	224,560	-	-	**224,560**
	23,555,270	**2,424,096**	**4,196,224**	**18,799,756**	**30,561,398**	**79,536,743**
Financial liabilities						
Deposits	27,288,610	21,528,343	19,998,123	89,159	-	**68,904,235**
Other liabilities	183,487	270,313	-	-	-	**453,800**
Total liabilities	**27,472,097**	**21,798,656**	**19,998,123**	**89,159**	**-**	**69,358,035**
Net liquidity gap	**(3,916,827)**	**(19,374,560)**	**(15,801,899)**	**18,710,597**	**30,561,398**	**-**
Cumulative liquidity gap	**(3,916,827)**	**(23,291,388)**	**(39,093,287)**	**(20,382,690)**	**10,178,708**	**-**

36 RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled

As at 31 December 2010	Less than 12 months TZS'000	Over12 months TZS'000	Total TZS'000
Assets			
Cash and balance with Bank of Tanzania	4,736,228	10,439,150	15,175,378
Balance with other banks	21,115,894	-	21,115,894
Cheques and items for clearance	157,813	-	157,813
Government securities held to maturity	563,225	17,075,823	17,639,047
Private securities held to maturity	-	880,458	880,458
Other money market placements	6,397,990	-	6,397,990
Loans and advances	23,117,742	52,840,177	75,957,919
Property and equipment	-	1,162,931	1,162,931
Intangible assets	-	25,192	25,192
Deferred tax asset	-	70,781	70,781
Other assets	359,041	-	359,041
Total assets	**56,447,932**	**82,494,512**	**138,942,444**
Liabilities			
Deposits	115,962,597	1,254,023	117,216,620
Tax payable	120,034	-	120,034
Other liabilities	1,425,425	-	1,425,425
Total liabilities	**117,508,056**	**1,254,023**	**118,762,079**
Net	**(61,060,124)**	**81,240,489**	**20,180,365**

36 RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

As at 31 December 2009			
Assets			
Cash and bank balances with Bank of Tanzania	7,724,126	6,474,150	4,198,276
Balance with other banks	9,622,959	-	9,622,959
Cheques in the course of collection	62,607	-	62,607
Other money market placements	3,879,820	-	3,879,820
Loans and advances	23,117,742	20,045,836	43,163,578
Government securities held to maturity	4,343,531	4,041,412	8,384,943
Property and equipment	-	449,766	449,766
Intangible assets	-	22,709	22,709
Other assets	224,560	-	224,560
Total assets	**48,975,345**	**31,033,873**	**80,009,218**
Liabilities			
Deposits	68,904,235	-	68,904,235
Deferred tax liability	-	55,206	55,206
Tax payable	46,547	-	46,547
Other liabilities	453,800	-	453,800
Total liabilities	**69,404,582**	**55,206**	**69,459,788**
Net	**(20,429,237)**	**30,978,667**	**10,549,430**

c) Market risk

Market risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices. Broadly, the Bank concerns with two main components under market risk:

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

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

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

Interest rate risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank's exposure to the risk of changes in market interest rates relates primarily to the Bank's long-term obligations with floating interest rates.

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

36 RISK MANAGEMENT (continued)

c) Market risk (Continued)

	Up to 1 months TZS '000	1 - 3 months TZS '000	3 - 6 months TZS '000	Over 1 year TZS '000	Non-interest bearing TZS'000	Total TZS '000
As at 31 December 2010						
Assets						
Cash and bank balances with Bank of Tanzania	-	-	-	-	15,175,378	**15,175,378**
Other bank balances	21,115,894	-	-	-	-	**21,115,894**
Cheques in the course of collection	-	-	-	-	157,813	**157,813**
Government securities held to maturity	-	-	282,000	17,357,047	-	**17,639,047**
Private securities held to maturity	-	-	-	880,458	-	**880,458**
Other money market placements held to maturity	6,145,000	-	252,990	-	-	**6,397,990**
Loans and advances	4,943,057	1,124,096	3,537,664	66,353,103	-	**75,957,919**
Other assets	-	-	-	-	359,041	**359,041**
Deferred tax asset	-	-	-	-	70,781	**70,781**
Property and equipment					1,162,931	**1,162,931**
Intangible Assets	-	-	-	-	25,192	**25,192**
Total assets	**32,203,951**	**1,124,096**	**4,072,654**	**84,590,608**	**16,951,136**	**138,942,444**
Liabilities and equity						
Deposits	33,613,872	20,914,778	29,157,725	9,046,486	24,483,759	**117,216,620**
Tax payable	-	-	-	-	120,034	**120,034**
Other liabilities	-	-	-	-	1,425,425	**1,425,425**
Shareholder's funds	-	-	-	-	20,180,365	**20,180,365**
Total liabilities and equity	**33,613,872**	**20,914,778**	**29,157,725**	**9,046,486**	**46,209,583**	**138,942,444**
Interest sensitivity gap	**(1,409,921)**	**(19,790,682)**	**(25,085,071)**	**75,544,122**	**(29,258,447)**	**-**
At 31 December 2009						
Assets						
Cash and bank balances with Bank of Tanzania	-	-	-	-	14,198,276	**14,198,276**
Other bank balances	9,622,959	-	-	-	-	**9,622,959**
Cheques in the course of collection	-	-	-	-	62,607	**62,607**
Government securities held to maturity	199,531	-	184,000	8,001,412	-	**8,384,943**
Other money market placements held to maturity	3,629,820	-	250,000	-	-	**3,879,820**
Loans and advances	4,943,057	1,124,096	3,537,664	33,558,762	-	**43,163,578**
Other assets	-	-	-	-	224,560	**224,560**
Property and equipment	-	-	-	-	449,766	**449,766**
Intangible Assets	-	-	-	-	22,709	**22,709**
Total assets	**18,395,367**	**1,124,096**	**3,971,664**	**41,560,174**	**14,957,918**	**80,009,218**
Liabilities and equity						
Deposits	10,788,181	21,528,343	19,998,123	89,159	16,500,429	**68,904,235**
Deferred tax liability	-	-	-	-	55,206	**55,206**
Tax payable	-	-	-	-	46,547	**46,547**
Other liabilities	-	-	-	-	453,800	**453,800**
Shareholder's funds	-	-	-	-	10,549,430	**10,549,430**
Total liabilities and equity	**10,788,181**	**21,528,343**	**19,998,123**	**89,159**	**27,605,412**	**80,009,218**
Interest sensitivity gap	**7,607,186**	**(20,404,247)**	**(16,026,459)**	**41,471,015**	**(12,647,494)**	**-**

Foreign currency exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank's exposure to the risk of changes in foreign exchange rates relates to primarily to the Bank's operating activities (when revenue or expense are denominated in a different currency from the Bank's functional currency) and the Bank's net investments in foreign countries.

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

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

The US dollar
At 31 December 2010, if the US dollar had strengthened by 10% against the Tanzanian Shilling, with all other variables held constant, the sensitized effect on the profit through the statement of comprehensive income would have been an increase in profit before tax of TZS 29.56 million (2009: TZS 109.44 million, decrease), mainly as a result of the Dollar denominated net monetary assets.

The Euro
At 31 December 2010, if the Euro had strengthened against the Tanzanian Shilling by 8%, with all other variables held constant, the sensitized effect on the profit through the statement of comprehensive income would have been an increase in profit before tax of TZS 3.67 million (2009: TZS 0.51 million, increase) mainly as a result of the Euro denominated net monetary assets.

The Sterling pound
At 31 December 2010, if the Sterling Pound had strengthened against the Tanzanian Shilling by 8%, with all other variables held constant, the sensitized effect on the profit through the statement of comprehensive income would have been an increase in profit before tax of TZS 9.29 million (2009: TZS 8.71 million, increase) mainly as a result of the sterling denominated net monetary assets.

The Kenyan Shilling
At 31 December 2010, if the Kenyan Shilling had strengthened against the Tanzanian Shilling by 8%, with all other variables held constant, the sensitized effect on the profit through the statement of comprehensive income would have been an increase in profit before tax of TZS 9.29 million (2009: TZS 8.71 million, increase) mainly as a result of the Kenya shilling denominated net monetary assets.

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

FOR THE YEAR ENDED 31 DECEMBER 2010

36 RISK MANAGEMENT (continued)

c) Market risk (Continued)

Currency risk exposure

The various currencies to which the bank is exposed at 31 December 2010 are sum marised in the table below (All amounts expressed in millions of Tanzania Shillings).

As at 31 December 2010	**USD**	**GBP**	**Euro**	**KES**	**Total**
ASSETS					
Cash and balances due from banking institutions	22,079	1,050	507	6	23,641
Other money market placements	5,145	-	-	-	5,145
Loans and advances	49,982	-	-	-	49,982
Other assets	101	-	-	-	101
Total assets	**77,307**	**1,050**	**507**	6	**78,869**
LIABILITIES					
Deposits	76,090	998	355	-	77,443
Other liabilities	921	6	36	-	963
Total liabilities	**77,011**	**1,004**	**391**	-	**78,406**
Net position	**296**	**46**	**116**	6	**464**

As at 31 December 2009	**USD**	**GBP**	**Euro**	**KES**	**Total**
ASSETS					
Cash and balances due from banking institutions	11,945	853	17	-	12,815
Other money market placements	1,327	-	-	-	1,327
Loans and advances	25,520	-	-	-	25,520
Other assets	32	-	-	-	32
Total assets	**38,823**	**853**	**17**	-	**39,694**
LIABILITIES					
Deposits	37,965	904	19	-	38,888
Other liabilities	34		-	-	34
Total liabilities	**37,998**	**904**	**19**	-	**38,922**
Net position	**825**	**(51)**	**(2)**	-	**772**

Exchange rate during the year were as follows:	**USD**	**GBP**	**Euro**	**KES**
On 1 January 2009	1,280	1,870	1,800	16.00
On 1 January 2010	1,327	2,145	1,904	17.23
On 31 December 2010	1,47	2,282	1,965	18.20

d) Operational risk

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

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

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

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses level 1 hierarchy in determining and disclosing the fair value of financial instruments held for trading and the values approximates the values reported in the statement of financial position.

Set out below is a comparison, by class of the carrying amounts and the fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Financial assets	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Cash and balances with Bank of Tanzania	15,175,378	15,175,378	14,198,276	14,198,276
Balance with other banks	21,115,894	21,115,894	9,622,959	9,622,959
Cheques in the course of collection	157,813	157,813	62,607	62,607
Other money market placements	6,397,990	6,397,990	3,879,820	3,879,820
Private securities held to maturity	880,458	880,458	-	-
Loans and advances	75,957,919	75,957,919	43,163,578	43,163,578
Government securities	17,639,047	17,639,047	8,384,943	8,384,943
	137,324,499	**137,324,499**	**79,312,183**	**79,312,183**
Financial liabilities				
Deposits	117,216,620	117,216,620	68,904,235	68,904,235
Other liabilities	1,425,425	1,425,425	453,800	453,800
	118,642,045	**118,642,045**	**69,358,035**	**69,358,035**

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

38. DIVIDEND PAID AND PROPOSED

	2010 **TZS'000**	**2009** **TZS'000**
Declared and paid during the year		
Dividend on ordinary shares		
Interim dividend for 2009: TZS 1,111.194 million per share (2009: TZS NIL)	**1,944,590**	NIL

Proposed for approval at Annual General Meeting
(not recognised as a liability as at 31 December)

The Board of Directors propose a final dividend of TZS 862.20 million at TZS 0.36 million per share (2009: TZS 1,945 million). The prior year dividend was subsequently approved by the shareholders and paid to the outgoing shareholders in January 2010.

I&M &U

&fairness

I&M Bank
LIMITED

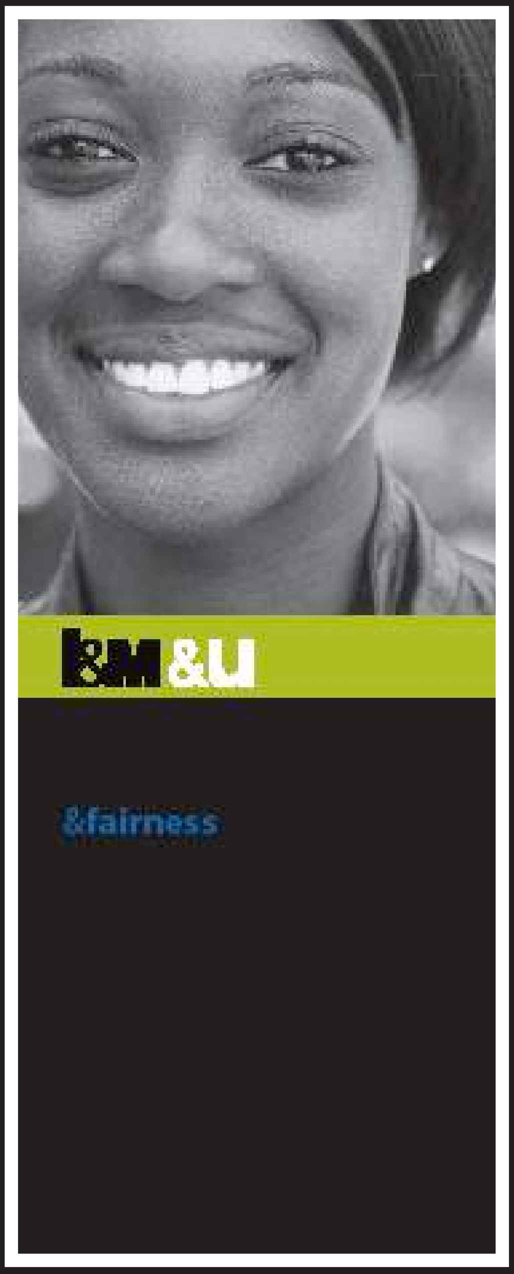
www.imbank.com

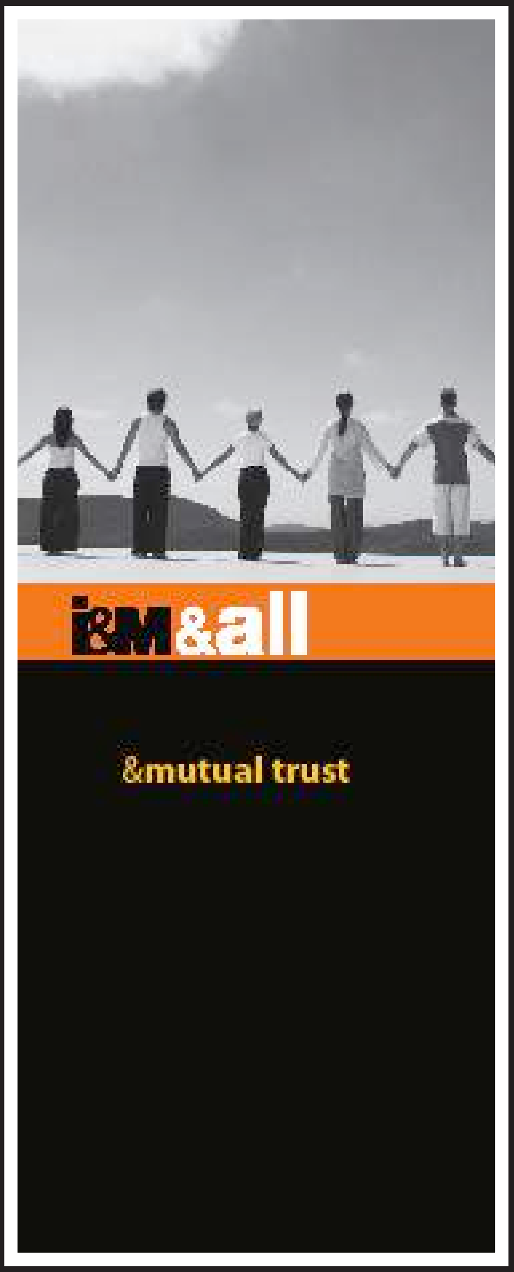
You'll love the difference

A

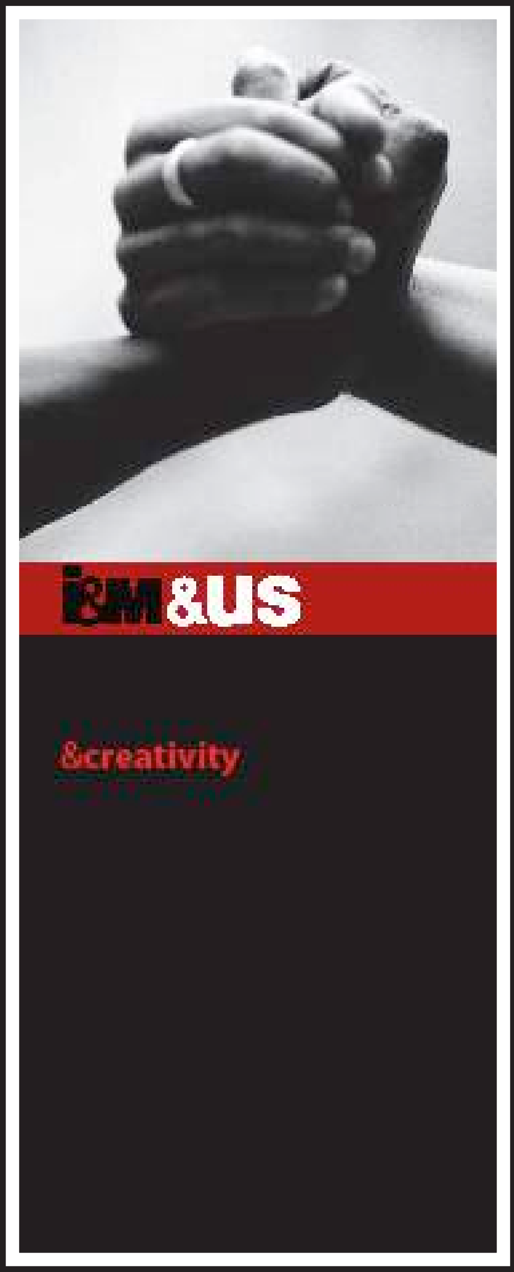
Advertising - new products

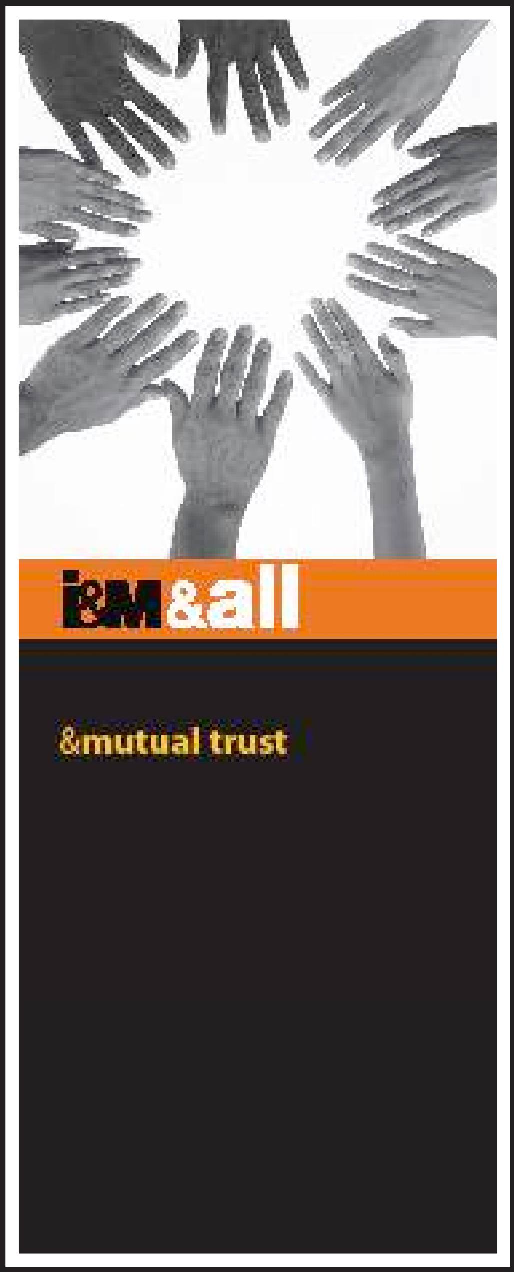
I&M values





I&M values





I&M Bank LIMITED

www.imbank.com