I&M Bank LIMITED

REPORT AND FINANCIAL STATEMENTS 2013

The Healing Touch

I&M Bank (T) Limited

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For decades, the community at large has been crying out for the Healing Touch.

The Healing Touch for the ailing...through medical care.

The Healing Touch for those in need of education... so the community can prosper as a whole.

The Healing Touch for a scarred and ravaged environment... through a green and clean movement.

We at I&M Bank strongly support The Healing Touch with our many social responsibility activities based on the three pillars of health, education and environment.

BOARD OF DIRECTORS

Seated (Left To Right): Mr. Thierry Hugnin, Mr. Sarit S Raja Shah (Chairman), Mr. Michael N Shirima
Standing (Left To Right): Mr. Shameer Patel, Gen. (Rtd) Mrisho H Sarakikya, Mr. Pratul H Shah

SENIOR MANAGEMENT TEAM

Anurag Dureha, Chief Executive Officer.

Arigala Smiles, Deputy Chief Executive Officer.

Tirunagari Srikanth,
Head of Business Development.

Tuntufye Abel,
Head of Risk.

Clement Kagoye,
Head of Credit.

Bwigane Alan, Manager ICT.

SENIOR MANAGEMENT TEAM (CONTINUED)

Ali Haiderali Hussein,
Head of Relationship.

Safaraz Bora, Treasury Manager.

Zahoor Chichkar,
Manager - Branch Monitoring & Support Unit.

Gwamaka Mboka,
Acting Head of Finance.

Flora Makongora,
Manager - Remittance & Trade Finance.

Shazin Jaffer,
Alternate Channel Manager.

Aimtonga Adolph,
Chief Internal Auditor.

Nazina Shariff,
Manager - Centralized Account Opening.

Aliraza Bandali,
Manager - Administration, Projects and Premises.

Fatema Rattansi,
Manager - Credit Administration.

I&M Bank LIMITED

CUSTOMS & EXCISE PAYMENT MADE e-ASY!

INTRODUCING ASY BANKING FROM I&M BANK - THE QUICK CONVENIENT WAY TO PAY YOUR CUSTOMS & EXCISE DUTY

I&M Bank has the ideal solution for all your Customs & Excise duty payments.
This is an Online Customs Payments solution which enables you to make direct Customs and Excise Duty payments and obtain paid receipts instantly for presentation to Tanzania Revenue Authority (TRA) for customs clearance of goods.

WHO IS ELIGIBLE?

Any person, whether individual or a business entity, can walk into any of our branches and make payments provided that the Tax payer presents the Tanzania Revenue Authority (TRA) Declaration form/TANSAD and the correct amount, as assessed by Tanzania Revenue Authority (TRA).

HOW DO I PAY FOR THIS SERVICE?

I&M Account holders

- Cash
- Cheque
- Combination of Cash and Cheque

Non I&M Account holders

- Must make all payments in cash***

***No Clearing cheques are accepted as per the directives of TRA. For convenience, please open a current account with us.

To make payments, just visit your nearest I&M Bank branch, present your Tanzania Revenue Authority (TRA) Assessment Form, your tax identification number (TIN) and cheque for the amount as appearing in the assessment.

TAX PAYER DETAILS CAPTURED BY ASY BANKING FOR VALIDATION

The validation officer at the branch will capture from the Customs Declaration form/TANSAD the following information:

- Customer's/ Tax payer's Tax Identification Number (TIN)
- Registration Number
- Clearance office/Station code
- Amount to be paid

HOW DOES ASY BANK WORK

On receipt of the necessary documents, as mentioned above, the branch will enter the required details in Asy bank system. On real time basis, TRA will get a confirmation that the required duty has been paid by you and the system will generate a reference number immediately. The branch will give you the proof of payment with the reference number printed on it with TRA and I&M logo. This will entitle you to present the same for customs clearance of imported goods instantly.

So the next time you are importing into Tanzania, remember the ASY Banking service from I&M Bank makes payment of Duties eASY!!!

DIRECTORS, OFFICIALS AND ADMINISTRATION

DIRECTORS
Mr. Sarit S. Raja Shah
Gen. (Rtd) Mrisho H. Sarakikya
Mr. Michael N. Shirima
Mr. Pratul H. Shah
Mr. Shameer Patel (Alternate: Mr. Arun Mathur appointed 11th September 2013)
Mr. Thierry Hugnin (Alternate: Mr. Joseph Oriol appointed 10th October 2012)

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

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

CORRESPONDENT BANKS
Deutsche Bank Trust Company Americas
515 Union Boulevard
Totowa, New Jersey 07512
USA

CRDB Bank Limited
P.O. Box 72344
Dar es Salaam, Tanzania

Standard Chartered Bank New York
SCB New York – IBF
One Madson Avenue
3rd Floor
New York, NY 10010 – 3603, USA

ICICI Bank Limited,
ICICI Bank Towers,
Bandra – Kurla Complex,
Mumbai 400 051, India

Diamond Trust Bank (T) Limited
P.O. Box 115
Dar es Salaam, Tanzania

Stanbic Bank Tanzania Limited
P.O. Box 72647
Dar es Salaam, Tanzania

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Kigali,
Rwanda

LEGAL ADVISORS
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Dar es Salaam, Tanzania.

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P.O Box 79651,
Dar es Salaam, Tanzania.

M/s K&M Advocates,
P.O Box 71394,
Dar Es Salaam, Tanzania.

M/s IMMMA Advocates,
P.O Box 72484,
Dar es Salaam, Tanzania.

AUDITORS
M/s Pricewaterhouse Coopers
Pemba House, 369 Toure Drive, Oyesterbay,
P.O. Box 45
Dar es Salaam, Tanzania

BANK'S SECRETARY
Ms. Hamida Sheikh
M/s Sheikh's Chambers of Advocates
Advocates, Notaries Public & Commissioners for Oath.
P.O Box 6225,
Dar es Salaam, Tanzania

BRANCHES

MAIN BRANCH
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P O Box 1509,
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+255 22 2127334
Fax: +255 22 2127336
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P O Box 1509,
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Tel: +255 22 2864806 , +255 22 2864807,
+255 22 2864808
Fax: +255 22 2864809
Email: enquiry@imbank.co.tz

MWANZA BRANCH
Ekacliff Building,
Balewa Street, Isamilo Area,
P O Box 412,
Mwanza, Tanzania
Tel: +255 28 2981018 , +255 28 2981019,
+255 28 2981020
Fax: +255 28 2981021
Email: enquiry@imbank.co.tz

OYSTERBAY BRANCH *
Toure Drive & Ghuba Road, Plot 344,
Block F, Oysterbay area,
P.O Box 1509, Dar es Salaam.
Tel: +255 22 2600393, +255 22 2600395
Fax: +255 22 2600391

MOSHI BRANCH*
Rindi Lane, Plot No 4, Block A
P.O Box 3082, Moshi.
Tel: +255 27 2750510, +255 27 2750564,
+255 27 2750550
Fax +255 22 27 2750505

*** Opened in 2014**

OPENING SOON

HIGH NET WORTH SERVICE LOUNGE
VIVA Towers, Ali Hassan Mwinyi Road, 1st Floor
P.O Box 1509,
Dar es Salaam,
Tanzania

HARCHAND FUNDRAISING:

Our bank actively participated in the Harchand Fund raising event on the 16th February, 2013. Amidst the games and competitions organized for children at the event, I&M Bank also advertised its "Young Savers scheme" specially designed to cater to the young population. The event witnessed a huge participation of enthusiastic children.

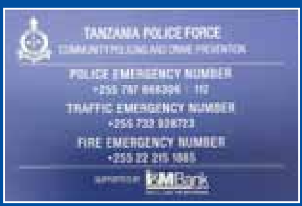
FAMILY FUN FAIR EVENT:

The family fun fair day was celebrated with lot of excitement when our bank put up a stall in the exhibition organized in Arusha on 15th March, 2013. Our stall attracted the maximum crowds where the staff of the bank explained about various products & services of the bank.

CUSTOMER MEET

I&M Bank (T) Limited believes that the customers are the center of our business. To enhance our service quality constantly, we need to know their concerns and bring about improvements in our services. To know our customer better, the bank organized a customer meet at Arusha on 8th April, 2013. During the meets the customers were advised about various products and services offered by the bank. Customer Meet was held in the presence of its Director, Gen (Retd.) Mirisho Sarakikya and Head of Business Development, Mr. T Srikanth.

SUPPORTING COMMUNITY POLICING AND CRIME PREVENTION:



I&M Bank (T) Limited partnered with Tanzania Police Force in supporting its "Community Policing and Crime Prevention" initiative. Bank helped by printing and distributing 10,000 cards bearing emergency contact numbers to the community residing in Dar es Salaam.

CHILDRENS' DAY EVENT :

I&M Bank (T) Limited, organized a one day event for children at the famous Quality Centre, at Nyerere Road in November, 2013. Various games and activities were organized for the children. During this event, bank conducted a huge publicity campaign for its product "The Young Savers Account" and received an overwhelming response.

CUSTOMER MEET :

In its endeavor to know more about its customers and to serve them better, a customer meet was organized by the bank on the 29th November, 2013. The meet witnessed a huge footfall of customers, stakeholders, prospects, senior executives and directors of the bank

GOLF TOURNAMENT:

The bank sponsored a Golf Tournament at Gymkhana Club, Arusha on 30th November, 2013. The tournament was followed by an award ceremony and dinner. A large number of enthusiastic golfers participated in the tournament.

CHAIRMAN'S STATEMENT

On behalf of the Board, it is my pleasure to present to you the Annual Report and Financial statements of I&M Bank (T) Limited for the Financial year ended December 31, 2013.

Once again, your Bank has demonstrated resilience and sound growth despite the stiff competition in Tanzania's Banking industry and several change initiatives culminating in substantial investment undertaken in the course of the year 2013. These investments have been undertaken in line with our drive for positive change. At I&M Bank (T) Ltd we believe that change for the betterment is essential to our existence and we recognize that our society requires new levels of innovation. During 2013, we continued to sharpen our strategies and commenced implementation of various medium term initiatives/programmes that will enhance our service delivery, expand delivery channels, launch innovative products and position the Bank to generate strong growth in the future.

ECONOMY

GLOBAL ECONOMY

Global activity strengthened during the second half of 2013, which is expected to improve further in 2014–15, largely on account of recovery in the advanced economies. Global growth is now projected to be slightly higher in 2014, at around 3.7 percent, rising further to 3.9 percent in 2015. However, downward revisions to growth forecasts in some economies highlight continued fragilities and prevailing downside risks. In many emerging markets and developing economies, stronger external demand from advanced economies will lift growth, although domestic weaknesses remain a concern. Of major importance to the Tanzanian economy is the threat of deflation in Europe, which if materialises, will impact negatively on exports from Tanzania particularly Gold, tourism, and other traditional exports.

DOMESTIC ECONOMY

We need to recognize the policy efforts by Bank of Tanzania (BOT) which has ensured a strong overall macroeconomic performance as outlined by the 7 percent growth rate achieved in 2013. Annual headline inflation slowed down to 5.6 percent in December 2013 mainly on account of decrease in prices of some items under food, non-food and non-energy sub-groups. The depreciation of the Shilling was contained to 1.6 percent during 2013.

The Government continues to work towards improving the business environment and this could be further boosted by intensifying Tanzania's attractiveness to local and foreign investors through strengthening its human resource base and reinforcing overall institutional capacity and efficiency. The Government needs to encourage the entry of the private sector in to tertiary education to provide a better quality of education in specialized areas and also provide vocational training to promote the growth of SMEs.

Looking forward, the outlook is positive with inflation declining to single digit and gross domestic product (GDP) growth projected at approx. 7 percent in the medium term. The main drivers of growth will be telecommunications, transport, extraction of natural resources such as gold, oil and gas, financial intermediation, manufacturing, construction and trade. Continued emphasis on sound economic management and strengthening political governance could ensure that the newly found natural gas resources will indeed play an important role in Tanzania's socio-economic transformation over the medium term.

BANKING INDUSTRY

The Bank of Tanzania maintained its efforts to enhance the efficiency of the banking sector as well as financial inclusion. During 2013, the Banking sector performed well with most banks remaining profitable. It was also observed that a number of the commercial banks have already complied with the new capital requirement of TZS 15.0 billion, well ahead of the February 2015 deadline set by the BOT, indicating further strengthening of the financial soundness and stability of the Industry. This also depicts the confidence of investors in the Banking sector at large. The total shareholder funds in the Banking Sector increased by 19% during the year to stand at Tzs. 2.54 Trillion as at December 2013.

BOT also granted approval for three banks to carry out agency banking, following issuance of guidelines on agency banking in February 2013 with a view to expand access to banking services and thereby, facilitate financial inclusion.

At the end of December 2013, the banking sector's growth can be witnessed with total assets increasing from Tzs. 17.80 Trillion as at December 2012 to Tzs 20.43 Trillion as at December 2013, representing 15% growth for the year. Lending activity had also increased by a corresponding growth rate of 15% to Tzs 10.78 Trillion supported by the growth in deposits of 10% to Tzs 13.32 Trillion.

This growth is by any means, not a small feat, given that the year also brought with it new regulatory and operational challenges in the sector including the introduction of the customs excise duty of 0.15% for all money transfers. This regulatory enactment had come about without providing for sufficient time for creating awareness in the market, allowing for system automation as well as clarity on the transactions that would attract excise duty. These developments had increased the operational challenges and led to greater costs for the Banking Sector in general. However, it was pleasing to note that the Banking Sector had come together to address these challenges and with constructive dialogue with the relevant authorities, had managed to streamline this key issue.

YOUR BANK IN 2013

During 2013, your Bank continued its growth path to return progressively higher results with a net Profit before Tax of Tzs 5.987 Billion compared to the previous year of Tzs 5.301 Billion. This was achieved against the backdrop of substantial investment in the technology space with a view to enhance the product offerings as well as an expanded branch network to reach out to a larger customer base. This planned expansion of the branch network and investment in resources was supported by an increase in the staff strength from 118 in December 2012 to 127 as at December 2013. The Bank's total assets increased by 16%, from Tzs 255 Billion to Tzs to 296 Billion in line with the industry growth rates. Deposits have risen by 16% from Tzs 220 Billion (2012) to Tzs 256 Billion (2013) and advances by 22% from Tzs 153 Billion (2012) to Tzs 187 Billion (2013). Due to proactive risk management, the Gross Non-Performing loans to Gross Loans ratio further improved from 3.44% in 2012 to 2.05% in December 2013.

During the year, the Bank had gone live on its upgraded Core Banking Software and this has been able to translate into better efficiency in processing customer transactions. The upgrade has also enabled the Bank to have a strong platform for the future and is now working on various developments with a view to expand the technological innovative product offerings, which are expected to be rolled out from 2014 onwards.

On the regional front, your Bank, as part of a regional banking group, continues to play a very effective partner in offering regional banking services to various customers expanding as well as trading in the region and is expected to continue to further enhance the product offerings in the future.

During the year 2013, your Bank also had a change in the Board membership, with Mr Arun S Mathur stepping down as a Non-Executive Director to take on a role as an Alternate Director to Mr Shameer Patel. Mr Shameer Patel was appointed as a Non-Executive Director in his place with effect from 11th September 2013 and brings with him valuable banking experience having been with the I&M group for 14 years. We thank Mr Arun S Mathur for his contribution and direction.

THE YEAR AHEAD

The year 2014 has commenced very well and with the strong foundation in place, we anticipate that this year will be a year of transformation and further expansion.
During the first half of the year, your Bank has launched its EMV compliant VISA Debit Cards. The ATMs, which are already operational, will be upgraded to accept VISA cards during the 3rd quarter of 2014. To enhance the customer experience, the Bank has also commenced with its refurbishment programme of existing branches with the Kariokoo branch, which has since been completed and am pleased to inform that this has received very positive appreciation from the customers. Other initiatives already underway include enhancing the offerings under the 2 Year IFC Global Trade Finance programme, launching of a long term mortgage product with the tie up with the Tanzania Mortgage Refinance Company (TMRC), partnering with a strategic partner for launch of Tanzania Shillings Prepaid cards. To complement the technological banking channels, the Bank is also expanding its physical presence with a branch in Oyster Bay, Dar Es Salaam as well as opening of a 24 hours automated service banking lounge located at one of the prestigious addresses in Dar es Salaam, known as Viva Towers, a first of its kind in Tanzania.

With the expanded services envisaged in 2014, your Bank has also created a new position of the Deputy Chief Executive Officer and appointed Mr. A J Smiles, who brings with him a wealth of international experience. This is expected to further enhance the leadership team and support the Chief Executive Officer, Mr Anurag Dureha to oversee the growth of your Bank.

CHAIRMAN'S STATEMENT (CONTINUED)

With all these developments, the year 2014 will indeed be an exciting year for the Bank.

ACKNOWLEDGMENTS

I would like to place on record the commendable efforts of Bank of Tanzania in maintaining a close watch on the Banking industry at large as well as providing their invaluable guidance and support to your Bank.

I wish to take this opportunity to thank my fellow Directors, for their oversight and guidance to the Bank
The delivery of the Bank performance and the various initiatives could not be feasible without the commitment, diligence, enthusiasm and dedication of the management and staff of the Bank. On behalf of the Board of Directors, I thank all the management and staff of the Bank for the performance in the year.

Lastly but not least, the Bank would not have been able to realise the achievements except with the increasing trust and support to the I&M Bank brand from its customers. I would like to place on record our sincere gratitude for the support from all of our valued customers.

Asante Sana!

Sarit S Raja Shah
Chairman

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

1. INTRODUCTION

The Directors submit their report and the audited financial statements for the year ended 31 December 2013 which disclose the state of affairs of I&M Bank (T) Limited (the Bank).

2 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.

3 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.

4 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 2013.

5 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 5,987 million compared to TZS 5,302 million in the previous year, representing an increase of 12.93%. The increase is due to increase in interest income of TZS 4,230 million showing a growth of 21.99%

Interest Income

Interest Income during the year amounted to TZS 23,465 million compared to TZS 19,235 million in the previous year, representing an increase of 21.99% (TZS 4,230 million). This is mainly due to the growth in the loan portfolio and other interest earning assets. As at year end, the loan portfolio had increased by 21.81% from the previous year.

Interest expense

Interest expense during the year amounted to TZS 11,281 million, as compared to TZS 10,181 million in the prior year, representing an increase of 10.80% (TZS 1,100 million). The increase in interest expense is mainly attributed to the growth in interest bearing deposits as well as the higher market interest rates on Tanzanian Shillings denominated deposits during the year.

Net interest income

Net interest income (interest income less interest expense) during the year amounted to TZS 12,183 million, as compared to TZS 9,054 million in prior year, representing an increase of 34.57% (TZS 3,130 million).

Non - interest Income

Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income. Non-interest income amounted to TZS 3,936 million compared to TZS 4,053 million in the previous year, representing an annual decrease of 2.88%

5 REVIEW OF BUSINESS PERFORMANCE (CONTINUED)

Non-interest expenses before tax

Non- interest expenses before tax amounted to TZS 9,009 million as compared to TZS 7,620 million in prior year, implying an increase of 18.23%. The increase is largely attributed to growth in personnel costs as a result of the growth in the number of employees and salary increments as well as higher amortisation cost of intangible assets. The number of employees at the end of year totalled 127 as compared to118 at the end of 2012.

Income tax expense

Income tax expense amounted to TZS 2,174 million (2012: TZS 1,659 million).

Key performance ratios

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

	2013	2012
Return on average assets	1.45%	1.65%
Return on average equity	13.53%	14.65%
Non- interest income to net interest income	32.31%	44.77%
Operating expenses to average assets	3.42%	3.45%
Non-interest expenses before tax to operating income	55.89%	58.14%

6 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	2013 TZS' 000	2012 TZS ' 000	Increase / (Decrease) TZS ' 000	Increase / (Decrease) %
Cash and bank balance with BOT	**29,076,766**	24,784,530	4,292,236	17%
Government securities held to maturity	**41,250,952**	39,196,970	2,053,982	5%
Other money market placements held to maturity	**16,537,500**	9,440,170	7,097,330	75%
Loans and advances	**187,033,443**	153,546,343	33,487,100	22%
Intangible assets	**1,074,675**	946,914	127,761	13%
Deposits	**256,875,329**	220,795,677	36,079,652	16%
Long term borrowing	**7,923,258**	8,010,272	(87,014)	(1%)
Other liabilities	**1,473,925**	628,834	845,091	134%

Government securities held to maturity

The increased investment in government securities by TZS 2,054 million is as a measure of prudent investment of surplus funds in high yielding and risk free sovereign securities.

Other money market placements

Other money market placements increased by TZS 7,097 million from prior year. The increase was due to the growth in funds from deposits, which were placed on interest yielding short term placements with banks.

Loans and advances

The loans and advances increased by TZS 33,487 million on account of growth in credit to, both, existing and new customers.

Intangible assets

Intangible assets increased by TZS 128 million from prior year. The increase was due to the costs incurred for upgrading the core banking software.

6 REVIEW OF FINANCIAL POSITION (CONTINUED)

Deposits

Deposits increased by TZS 36,080 million through growth in the customer base due to increased marketing activitiesas well as on account of increased holdings of Bank Deposits.

Long term borrowing

The Bank had obtained a US$ 5 million long term loan in the financial year 2012 from a Development Financial Institution, PROPARCO, for onward lending to SMEs requiring long term funding and to assist the Bank in mitigating risks by bridging the maturity mismatch.

Other liabilities

Other liabilities increased by TZS 845 million mainly due to higher amount of accrued loan administration fees outstanding as at year end compared to last year.

Key efficiency ratios

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

	2013	2012
Total capital to total assets	**9.90%**	10.20%
Non-performing loans to total advances	**2.05%**	3.44%
Gross loans to total deposits	**73.70%**	70.01%
Loans to total assets	**63.05%**	60.06%
Liquidity Ratio	**34.02%**	35.70%

7 GOING CONCERN AND SOLVENCY EVALUATION

The Bank has complied with all the Bank of Tanzania liquidity and capital adequacy ratios.The Directors consider the Bank to be solvent. Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement. The Directors consider the Bank to be solvent within the meaning ascribed by the Tanzanian Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

8 ACCOUNTING POLICIES

The annual financial statements are prepared on the underlying assumption of a going concern. The Bank's accounting policies, which are laid out on pages 20 to 35 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9 ACQUISITIONS AND DISPOSALS

There was no material disposal or acquisition of business during year 2013 (2012: Nil).

10 FUTURE DEVELOPMENTS

The future development plans centre around improved benefits and quality service delivery to customers through introduction of technology driven innovative solutions. In this endeavour, the following priority areas have been identified:

- Development of systems and procedures necessary for the introduction of new products and services, including expansion of various 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.

11 DIVIDEND

The Board of Directors propose a final dividend of TZS 953.21 million at TZS 0.40 million per share [2012: TZS 546.06 million at TZS 0.23 million per share].

12 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.

I&M Bank (T) Limited has a broad based Board of Directors comprising of Non-Executive Directors. The Chairman and all other members of the Board of Directors are appointed by the shareholders.
The organization structure of the Bank comprises 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 is supported by Deputy Chief Executive Officer and the Department Heads

13. COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Bank, who held office throughout the year to the date of this report, were as follows:

Name	Position	Nationality	Qualifications	Date of appointment
Mr. Sarit S Raja Shah	Chairman	Kenyan	BSc Economics, MSc (Internal Audit & Management)	14th January 2010
Mr. Michael N Shirima	Member	Tanzanian	Businessman	14th January 2010
Mr. Thierry Hugnin *	Member	Mauritian	Chartered Accountant, (ACA England & Wales)	14th January 2010
Mr. Arun S Mathur	Alternate Director to Mr.Shameer Patel**	Kenyan	B. Tech (Hons.) Degree Diploma in Statistical Methods	14th January 2010
Mr. Shameer Patel**	Member	Kenyan	Bachelor of Arts – Joint Honours – in Economics & Geography	11th September 2013
Gen. (Retd.) Mrisho H. Sarakikya	Member	Tanzanian	Businessman	14th January 2010
Mr. Pratul H Shah	Member	Kenyan	Fellow of the Association of Chartered Certified Accountants, CPA (K),CPS (K)	10th February 2010
Mr. Josep Oriol	Alternate Director to Mr. Thierry Hugnin*	Spanish	BA in Political Science (International Relations), Master of Business Administration.	10th October 2012

The Directors of the Bank are all non-executive.

The Company secretary as at the date of this report, who served in this capacity since 1st January 2013 is Ms.Hamida Sheikh of M/S Sheikh Chambers Advocates.

14. DIRECTORS' INTEREST

Mr. Michael N. Shirima has an interest in the share capital of the Bank as disclosed below in Note 16. He holds 4.97% of the ordinary share capital reported as at 31 December 2013.

15 DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2013 was TZS 23.95 million (2012: TZS 23.5 million).

16 CAPITAL STRUCTURE AND SHAREHOLDING

Shareholding

As at 31st December 2013, the following shareholders held shares in I&M Bank (T) Limited:

Name of the shareholders	Number of shares 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.

There were no changes in shareholding during the year.

17 SUBSEQUENT EVENTS

There are no subsequent events that have occurred which are either to be disclosed or to be adjusted in the financial statements that could materially affect the financial statements.

18 CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT) as described in note 27 to the financial statements.

19 CORPORATE GOVERNANCE

All Directors and employees adhere to the principles of the Code of Conduct in all their dealings on behalf of the Bank. The Code of Conduct ensures that all actions are in the overall best interests of the Bank and reflects the commitment to maintain the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

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 Bank and monitor executive management;
- The positions of Chairman and Chief Executive Officer are held by different individuals;
- 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 condition 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).

19 CORPORATE GOVERNANCE (CONTINUED)

The Board Audit Committee members who served the Committee during 2013 are detailed below:

Name	Position
Mr. Pratul H. Shah	Chairman
Mr. Shameer Patel*	Member
Mr. Michael N. Shirima	Member
Mr. Thierry Hugnin	Member
Mr. Josep Oriol	Alternate Member to Thierry Hugnin
Mr. Arun S Mathur *	Alternate Member to Shameer Patel

** With effect from 11th Sept 2013*

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 is overall responsible for the management of Credit Risk.

The Board Credit Committee members who served the Committee during 2013 are detailed below:

Name	Position
Mr. Shameer Patel*	Chairman
Mr. Michael N. Shirima	Member
Mr. Thierry Hugnin	Member
Mr. Josep Oriol	Alternate Member of Mr. Thierry Hugnin
Mr. Arun S Mathur *	Alternate Member to Shameer Patel

** With effect from 11th Sept 2013*

The Committee meets a minimum of four times in a year.

Board Risk Committee

This Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management process of the Bank in line with the Central Bank 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. Shameer Patel*	Member
Mr. Pratul H Shah	Member
Mr. Arun S Mathur *	Alternate Member to Shameer Patel

** With effect from 11th Sept 2013*

The Committee meets a minimum of four times in a year.

20 EMPLOYEES WELFARE

Relationship between management and employees

The relationship between employees and management continued to be cordial. Complaints are resolved through meetings and discussions and the Bank has set up appropriate management committee forums for this purpose. Work morale is good and there were no unresolved complaints from employees. The Bank provides training, medical assistance and loans to its employees.

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 as well as in – house training & development focusing on technical banking areas.

20 EMPLOYEES WELFARE (CONTINUED)

Staff loans and advances

The Bank provides housing, personal and car loans to staff as well as salary advances to enable them to meet their financial requirements and promote 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 care for employees and their dependents.

Financial assistance

The Bank operates a scheme to assist in the event of death of an employee or immediate family dependant.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to statutory National Social Security Fund and Parastatal Pension Fund.

The total number of employees, at the year end, was 127 (2012:118).

21 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 Bank continues and appropriate training is arranged, where necessary. 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.

22 GENDER PARITY

The Bank is an 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 2013, the Bank had 63 male and 64 female employees (2012:60 male and 58 female employees).

23 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 28 to these financial statements.

24 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 18 million (2012: TZS 8 million).

25 CORPORATE SOCIAL RESPONSIBILITY

The Bank participates actively in community activities and development programmes throughout the country. The areas being given priority are health, education, and support to orphaned children, victims of natural disasters, disabled persons, and security.

26 AUDITORS

The Bank's auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers, as auditors of the Bank for the year ending 31 December 2014 will be put to the Annual General Meeting.

Approved by the Board of Directors on 21st February 2014 and signed on its behalf by:

Name: Mr. Sarit S Raja Shah	**Title: Chairman**	**Signature:**
Name: Mr. Pratul H Shah	**Title: Director**	**Signature:**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, CAP 212 Act No.12 of 2002 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, CAP 212 Act No.12 of 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit in accordance with International Financial Reporting Standards.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. To enable the directors to meet these responsibilities they set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known risks across the Bank. While operating risk cannot be fully eliminated, the Bank endeavours to minimize it by ensuring the appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently reviewing and reporting on the Bank's financial statements. The financial statements have been examined by the external auditors and their report is presented on page 24.

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

Name: Mr.Sarit S Raja Shah	**Title: Chairman**	**Signature:**
Name: Mr.Pratul H Shah	**Title: Director**	**Signature:**

INDEPENDENT AUDITORS REPORT

We have audited the accompanying financial statements of I&M Bank (T) Limited ("the Bank"), which comprise the statement of financial position as at 31st December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act, CAP 212 Act No. 12 of 2002 and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Bank's financial affairs at 31st December 2013 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act, CAP 212 Act No. 12 of 2002.

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Companies Act, CAP 212 Act No. 12 of 2002 and for no other purposes.

As required by the Companies Act, CAP 212 Act No. 12 of 2002, we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Bank has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Bank is not disclosed. In respect of the foregoing requirements, we have no matter to report.

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Leonard C. Mususa, FCPA - PP

For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam

28 March 2014
Date

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 TZS '000	2012 TZS '000
Interest income	4	**23,464,765**	19,234,842
Interest expense	5	**(11,281,032)**	(10,181,126)
Net interest income		**12,183,733**	9,053,716
Fee and commission income	6	**2,518,012**	2,407,538
Net trading income	7	**1,203,421**	1,259,350
Other operating income	8	**214,686**	386,110
Total operating income		**16,119,852**	13,106,714
Impairment and credit losses on loans and advances	18	**(1,123,931)**	(185,160)
Net operating income		**14,995,921**	12,921,554
Personnel expenses	9	**(4,327,449)**	(3,462,536)
Occupancy costs	10	**(717,815)**	(561,773)
Depreciation of property and equipment	20	**(322,450)**	(330,114)
Amortisation of intangible assets	21	**(224,722)**	(61,164)
Other operating expenses	11	**(3,416,354)**	(3,204,359)
Total operating expenses		**(9,008,790)**	(7,619,946)
Profit before tax		**5,987,131**	5,301,608
Income tax expense	12	**(2,173,777)**	(1,658,762)
Profit for the year attributable to shareholders		**3,813,354**	3,642,846
Other comprehensive income		**-**	-
Total comprehensive income for the year		**3,813,354**	3,642,846

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	2013 TZS '000	2012 TZS '000
Assets			
Cash and balances with Bank of Tanzania	13	**29,076,766**	24,784,530
Balance with other banks	14a	**17,277,808**	23,450,259
Cheques and items for clearance	14a	**674,409**	218,132
Government securities held to maturity	15	**41,250,952**	39,196,970
Private securities held to maturity	16	**-**	880,610
Other money market placements held to maturity	17	**16,537,500**	9,440,170
Loans and advances	18	**187,033,442**	153,546,343
Deferred tax asset	12	**334,013**	177,169
Property and equipment	20	**2,579,984**	2,575,616
Intangible assets	21	**1,074,675**	946,914
Other assets	19	**801,472**	443,842
Total assets		**296,641,021**	255,660,555
Liabilities and equity			
Liabilities			
Deposits	22	**256,875,329**	220,795,677
Tax payable	12	**1,011,082**	135,639
Other liabilities	23	**1,473,925**	628,834
Long term borrowing	24	**7,923,258**	8,010,272
Total liabilities		**267,283,594**	229,570,422
Equity			
Share capital	25	**2,395,000**	2,395,000
Share premium	25	**7,482,000**	7,482,000
Retained earnings		**19,480,427**	16,213,133
Total equity		**29,357,427**	26,090,133
Total liabilities and equity		**296,641,021**	255,660,555

The financial statements on pages 25 to 73 were authorised for issue by the Board of Directors and signed on its behalf by:-

Name: Mr.Sarit S Raja Shah **Title: Chairman** **Signature:** ____________________

Name: Mr.Pratul H Shah **Title: Director** **Signature:** ____________________

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital TZS '000 (Note 25)	Share premium TZS '000 (Note 25)	Retained earnings TZS '000	Total TZS '000
Year ended 31 December 2013				
At 1 January 2013	2,395,000	7,482,000	16,213,133	26,090,133
Total comprehensive income for the year	-	-	3,813,354	3,813,354
Profit for the year	-	-	3,813,354	3,813,354
Other comprehensive income	-	-	-	-
Final dividend for 2012 paid (Note 34)	-	-	(546,060)	(546,060)
At 31 December 2013	**2,395,000**	**7,482,000**	**19,480,427**	**29,357,427**
Year ended 31 December 2012				
At 1 January 2012	2,395,000	7,482,000	13,121,137	22,998,137
				-
Total comprehensive income for the year	-	-	3,642,846	3,642,846
Profit for the year	-	-	3,642,846	3,642,846
Other comprehensive income	-	-	-	-
Final dividend for 2011 (Note 34)	-	-	(550,850)	(550,850)
At 31 December 2012	2,395,000	7,482,000	16,213,133	26,090,133

STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2013

	Notes	2013 TZS '000	2012 TZS '000
Cash flow generated from Operating activities before Interest & Tax	14(b)	**(38,488,887)**	(5,103,851)
Interest received		**23,404,867**	18,632,464
Interest paid		**(11,823,568)**	(7,924,184)
		(26,907,588)	5,604,428
Income tax paid	12	**(1,455,178)**	(1,567,209)
Net cash flows (used in) / generated from operating activities		**(28,362,766)**	4,037,219
Cash flow from investing activities			
Purchases of property and equipment	20	**(330,261)**	(248,265)
Purchases of intangible assets	21	**(352,483)**	(742,939)
Proceeds from sale of property and equipment		**5,000**	-
Net cash flows used in investing activities		**(677,744)**	(991,204)
Cash flow from financing activities			
Proceeds from borrowings	24	**-**	7,909,712
Dividend paid	34	**(546,060)**	(550,850)
Net cash flows (used in) / generated from financing activities		**(546,060)**	7,358,862
Net (decrease)/increase in cash and cash equivalents		**(29,586,570)**	10,404,877
Cash and cash equivalents at 1 January		**15,716,353**	5,311,476
Cash and cash equivalents at 31 December	14(a)	**(13,870,217)**	15,716,353

1 CORPORATE INFORMATION

I&M Bank (T) Limited ('the Bank') is a limited liability company incorporated and domiciled in Tanzania. The Bank's shares are not publicly traded. The address of its registered office and place of business is:

Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam,
Tanzania.

The financial statements of I&M Bank (T) Limited for the year ended 31st December 2013 were authorised for issue in accordance with a resolution of the Directors on 21st February 2014 and were signed on their behalf as shown in the Statement of Financial Position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets and financial liabilities held at fair value through profit or loss, which have been measured at fair value.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 33.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in the assumptions may have significant impact on the financial statements in the period the assumptions change. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.1.1 Changes in accounting policy and disclosures

(i) New and amended standards adopted by the bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning 1 January 2013 that would be expected to have a material impact on the Bank.New Standards, amendments and interpretations to existing standards that are effective from 1 January 2013 and may affect the bank in future periodsare;

Amend to IAS 1, 'Presentation of financial Statements' (effective 1 July 2012) regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment will mainly impact the presentation of the primary statements.

IFRS 13, 'Fair value measurement' (effective 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 may enhance fair value disclosures in a lot of circumstances.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) New Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following:

IFRS 9, 'Financial instruments' (effective 1 January 2015), addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2010, it replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: Those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities the standard retains most of the IAS requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The directors are yet to assess IFRS9's full impact and intend to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Directors will also consider the impact of the remaining phases of IFRS 9 when completed by IASB.

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 effective interest rate (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.

Fees and commission income

The Bank earns fees and commission income from a 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.

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 effective interest rate (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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 profit or loss in the period the employees render the services.

Post employment benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 10% each 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). The Bank has no further payment obligations once the contributions have been paid. 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 for existing staff 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. In addition, the employer also provides long term service awards. The estimated monetary liability for employees' long term service award entitlements 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 end of the reporting period or past practice has created a valid expectation in employees that they will receive a bonus subject to satisfactory performance 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

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	Annual Depreciation Rate
Motor vehicles	25.00%
Furniture and fittings	12.50%
Office equipment	12.50%
Computer equipment	25.00%
Residential furniture	33.33%
Furniture and fittings under Leased Premises	12.50% or over the period of lease if shorter than 8 years

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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in 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 profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the reducing balance 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 include improvements made on leased Bank buildings for its head office and branches. The total payments made under operating leases are charged to profit or loss 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 profit or loss.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments - initial recognition and subsequent measurement (continued)

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 timeframe 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.

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 profit or loss and other comprehensive income. The losses arising from impairment of such investments are recognised in profit or loss.

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.

Balances with banks and loans and advances

- Balances 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, 'Balances with banks' and 'Loans and advances' are 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 profit or loss.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

De-recognition 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 de-recognition 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.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets carried at amortised cost (continued)

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 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 profit or loss, the impairment loss is reversed through profit or loss.

There are no equity investments classified as available for sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates (''the functional currency).The financial statements are presented in Tanzanian Shillings and figures are in thousands of Tanzania Shillings.

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 profit or loss.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes (continued)

Deferred tax (continued)

- 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.

Earnings per share

Earnings per share are calculated based on the profit attributable to shareholders divided by the weighted number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year, there were no dilutive potential.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on information available up to the date the financial statements are approved for issue by directors. Any expected loss is charged to the statement of profit or loss.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements the Bank makes estimates and assumptions that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances.The most significant uses of judgment and estimates are as follows:

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for equipment and their residual values. The rates used are set out in the accounting policies section of these financial statements under Note 2. There is no significant risk of these estimates changing in the next 12 months that may lead to a material change in the carrying value of property, plant and equipment.

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).

Were the net present values of estimated cash flow to differ by +/- 10%, the impairment loss would have been TZS 273 million lower or higher (2012: TZS162 million).

The impairment loss on loans and advances is disclosed in more detail in note 18.

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. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments (Treasury bills and bonds) were to be so reclassified, the carrying value would decrease by TZS 2,217 million, with a corresponding entry in the fair value reserve in shareholders' equity

4 INTEREST INCOME

	2013 TZS '000	2012 TZS '000
Loans and advances	**18,888,227**	15,239,333
Government securities	**4,317,972**	3,515,995
Placements	**258,566**	479,514
	23,464,765	19,234,842

		2013	2012
5	**INTEREST EXPENSE**	**TZS '000**	TZS '000
	Fixed deposits	**10,699,380**	9,840,670
	Long term borrowings	**304,783**	99,445
	Savings and other deposits	**276,869**	241,011
		11,281,032	10,181,126
6	**FEE AND COMMISSION INCOME**		
	Commission on guarantee issued	**220,712**	222,944
	Commission on services charge	**264,949**	157,949
	Loan administration charge	**531,982**	1,147,239
	Commission on telex charges	**91,161**	142,984
	Commission on TT	**530,634**	405,839
	Commissions on other services rendered	**878,574**	330,583
		2,518,012	2,407,538
7	**NET TRADING INCOME**		
	Foreign currency dealings and translation gains	**1,203,421**	1,259,350
8	**OTHER OPERATING INCOME**		
	Charges on minimum balance deposit	**30,641**	47,159
	Gain on disposal of property and equipment	**1,558**	-
	Bad loans recovered	**-**	63,216
	Miscellaneous income	**182,487**	275,735
		214,686	386,110
9	**PERSONNEL EXPENSES**		
	Salaries and wages	**2,884,067**	2,332,773
	Bonus	**241,529**	19,159
	Social security costs (Defined contribution plan)	**272,267**	218,313
	Skills development levy	**176,256**	166,295
	Other employment costs and benefits	**753,330**	725,996
		4,327,449	3,462,536

The number of employees employed by the bank as at the year-end was 127 (2012:118).

10 OCCUPANCY COSTS

	2013 TZS '000	2012 TZS '000
Electricity	**53,329**	43,508
Office rent	**648,903**	505,246
Water	**15,583**	13,019
	717,815	561,773

11 OTHER OPERATING EXPENSES

	2013 TZS '000	2012 TZS '000
Auditors' fees	**49,985**	37,400
Directors' emoluments	**23,952**	23,500
Board expenses	**29,498**	28,750
Bank charges	**84,313**	70,558
Marketing expenses	**200,034**	480,975
Management fee	**463,906**	441,851
Communication expenses	**774,276**	752,279
Repairs and maintenance	**218,830**	119,698
Donations	**27,500**	7,500
Security charges	**245,636**	175,779
Insurance	**337,045**	312,080
Travelling expenses	**238,872**	166,038
Printing and stationery	**132,045**	197,599
Computer expenses	**64,872**	39,130
Consulting and other professional fees	**-**	17,155
City service levy	**35,653**	16,756
Legal fees	**-**	19,263
Other Losses	**196,234**	-
Other expenses	**293,703**	298,048
	3,416,354	3,204,359

12 INCOME TAX

	2013 TZS '000	2012 TZS '000
a) Income tax expense		
Current year tax	**2,330,621**	1,666,208
Deferred tax credit during the year	**(156,844)**	(7,446)
	2,173,777	1,658,762

12 INCOME TAX (CONTINUED)

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

	2013 TZS '000	2012 TZS '000
Accounting profit before taxation	**5,987,131**	5,301,608
Tax applicable rate of 30% (2012:30%)	**1,796,139**	1,590,482
Expenses not deductible for tax purposes	**194,182**	41,408
Prior year under provision for deferred income tax	**183,456**	26,872
Effective tax expense 31% (2012:31%)	**2,173,777**	1,658,762

(c) DEFFERED TAX ASSET

	1 January 2013 TZS'000	Increase in the year TZS'000	31 December 2013 TZS'000
Property, plant and equipment	**148,587**	**203,952**	**352,539**
Provisions for losses on loans and advances	**(325,756)**	**(360,796)**	**(686,552)**
	(177,169)	**(156,844)**	**(334,013)**

	2013 TZS '000	2012 TZS '000
d) Tax payable		
At 1 January	**135,639**	36,640
Charge for the year	**2,330,621**	1,666,208
Payments made during the year	**(1,455,178)**	(1,567,209)
At 31 December	**1,011,082**	135,639

13 CASH AND BALANCES WITH BANK OF TANZANIA

	2013	2012
Cash in hand	**3,804,506**	4,305,189
Current account balance with the Bank of Tanzania	**2,374,969**	772,650
	6,179,475	5,077,839
Statutory Minimum Reserve (SMR)	**22,897,291**	19,706,691
	29,076,766	24,784,530

The SMR deposit is not available to finance the Bank's day to day operations and is hence excluded from cash and cash equivalents for the purpose of the statement of cash flows (see Note 14a).

14a CASH AND CASH EQUIVALENTS

	2013 TZS '000	2012 TZS '000
Cash and balances with Bank of Tanzania (excluding SMR)	**6,179,475**	5,077,839
Balance with other banks	**17,277,808**	23,450,259
Cheques and items for clearance	**674,409**	218,132
Deposits from banks and other financial institutions (Note 22)	**(61,075,000)**	(32,160,788)
Government securities maturing within 3 months (Note 15)	**6,535,591**	9,690,741
Other money market placements within 3 months (Note 17)	**16,537,500**	9,440,170
	(13,870,217)	15,716,353

14b CASH FLOWS FROM OPERATING ACTIVITIES BEFORE INTEREST & TAX

		2013	2012
Cash flow from operating activities before interest			
Profit before income tax		**5,987,131**	5,301,608
Adjustments			
Depreciation of property and equipment	20	**322,450**	330,114
Amortisation of intangibles	21	**224,722**	61,164
Loan impairment charges	18	**1,123,931**	185,160
Exchange gain on borrowings		**(85,000)**	-
Gain on disposal of property and equipment		**(1,558)**	-
Net interest income		**(12,183,733)**	(9,053,716)
Cash flows used in operating profits before		**(4,612,057)**	(3,175,670)
Statutory minimum reserve	13	**(3,190,600)**	(3,679,760)
Loans and advances	18	**(34,611,030)**	(32,130,549)
Other assets	19	**(357,630)**	226,728
Deposits with non-financial institutions	22	**7,705,962**	38,131,353
Other liabilities	23	**845,091**	(1,811,827)
Other money market placements with banks with maturity over three months	17	**(24,970)**	274,970
Movement on private securities held to maturity	16	**850,000**	-
Government securities with maturity over three months	15	**(5,093,653)**	(2,939,096)
Cash flows from operating activities before interest & tax		**(38,488,887)**	(5,103,851)

15 GOVERNMENT SECURITIES HELD TO MATURITY

	2013	2012
	TZS '000	TZS '000
Treasury bills and bonds		
Up to three months	**6,535,591**	9,690,741
Up to six months	**8,286,443**	6,331,293
Up to twelve months	**9,221,373**	5,190,915
Up to five years	**17,207,545**	17,984,021
	41,250,952	39,196,970
Current	**24,043,407**	21,212,950
Non current	**17,207,545**	17,984,020
	41,250,952	39,196,970

Government securities held to maturity as at year end are not impaired (2012: not impaired).

16 PRIVATE SECURITIES HELD TO MATURITY

	2013	2012
	TZS '000	TZS '000
Tanzania Breweries Security Bond	**-**	880,610

The bond was bearing a coupon interest rate of 10.75%. Tenor of the bond was three years and it was repaid on 30 August 2013.

17 OTHER MONEY MARKET PLACEMENTS HELD TO MATURITY

	2013	2012
	TZS '000	TZS '000
Up to three months	**16,537,500**	9,440,170

Of the total other money market placements held to maturity, TZS. 16,538 million is denominated in foreign currencies (2012: TZS 8,940 million).

18 LOANS AND ADVANCES

	2013 TZS '000	2012 TZS '000
Loan and advances (gross)	**188,641,720**	154,174,630
Loan to staff	**680,228**	414,888
	189,321,948	154,589,518
Less: Allowances for losses on loans and advances	**(2,288,506)**	(1,043,175)
Net loans and advances	**187,033,442**	153,546,343
Maturity analysis		
Repayable on demand	**11,346,484**	5,088,025
With maturity of 3 months or less	**5,412,190**	15,592,801
With maturity of between 3 months and 1 year	**59,551,101**	65,527,039
With maturity of more than 1 year	**113,012,173**	68,381,653
	189,321,948	154,589,518

Of the total loans and advances, TZS 140,277 million is denominated in foreign currencies (2012: TZS 112,988 million). The age analysis of amounts that are past due but not impaired is shown in note 33 (a).

Staff advances comprise of housing loans given for maximum 20 years term, personal loans for maximum 3 years term and vehicle loans for a maximum tenor of 5 years. Staff housing loans earn interest of 8% per annum, personal loans earn 10% per annum and vehicle loans at 8% per annum.

If the staff loans are measured at fair values based on the market interest rate, the profit or loss would have been TZS 82 million lower or higher.

	2013	2012
Movement in allowance for losses on loans and advances:		
At 1 January	**1,043,175**	758,784
Impairment and credit losses for the year	**1,123,931**	185,160
Written off during the year	**-**	(810)
Interest suspended during the year	**121,400**	100,041
At 31 December	**2,288,506**	1,043,175

18 LOANS AND ADVANCES (CONTINUED)

Allowance for losses on loans and advance by class:

(All amounts are in TZS '000')

31st December 2013	**Overdrafts**	**Term Loans**	**Total**
Portfolio impairment	509,855	627,619	1,137,474
Individually impairment	841,858	309,174	1,151,032
Total impairment	**1,351,713**	**936,793**	**2,288,506**
31st December 2012			
Portfolio impairment	352,685	335,346	688,031
Individually impairment	148,211	206,933	355,144
Total impairment	500,896	542,279	1,043,175

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2013 TZS '000	2012 TZS '000
Manufacturing - 17% (2012:16%)	**31,574,026**	24,593,192
Wholesale and retail trade - 26% (2012:27%)	**49,102,156**	42,201,762
Transport and communication - 6% (2012:8%)	**12,190,699**	11,854,035
Private individual including staff - 3% (2012:8%)	**5,795,773**	11,745,185
Agriculture, fishing, forestry, hunting - 3% (2012:4%)	**6,334,870**	5,502,825
Real estates and construction - 32% (2012:29%)	**60,656,721**	44,255,485
Tourism, hotels and restaurant - 4% (2012:4%)	**8,071,740**	6,475,247
Mining and quarrying - 2% (2012:3%)	**3,696,150**	4,051,493
Others - 6% (2012:3%)	**11,899,813**	3,910,294
Total loans and advances (including staff advances)	**189,321,948**	154,589,518

19 OTHER ASSETS

Deposit insurance fund	**97,882**	59,160
Salary advances	**11,848**	20,308
Prepaid expenses	**466,465**	318,635
Western Union	**188,177**	33,419
Sundry debtors	**37,100**	12,320
	801,472	443,842

20 PROPERTY AND EQUIPMENT

At 31 December 2013	Computer and other equipment TZS '000	Motor vehicles TZS '000	Furniture and fittings TZS '000	Leasehold Improvement TZS '000	Work in progress TZS '000	Total TZS '000
Cost						
At 1 January 2013	637,067	147,646	2,471,045	-	170,316	**3,426,074**
Adjustment	(2,844)	518	(3,410)	-	-	**(5,736)**
Additions	92,447	28,500	22,772	56,799	129,743	**330,261**
Disposal	-	(12,699)	-	-	-	**(12,699)**
Transfer	176,765	-	(1,680,409)	1,503,644	-	**-**
At 31 December 2013	903,435	163,965	809,998	1,560,443	300,059	**3,737,900**
Accumulated depreciation						
At 1 January 2013	283,172	67,675	499,611	-	-	**850,458**
Adjustment	(2,844)	518	(3,410)	-	-	**(5,736)**
Disposal	-	(9,256)	-	-	-	**(9,256)**
Transfer	37,584	-	(269,095)	231,512	-	**-**
Charge for the year	77,454	23,599	61,333	160,064	-	**322,450**
At 31 December 2013	395,366	82,536	288,439	391,576	-	**1,157,916**
Net carrying amount						
At 31 December 2013	**508,069**	**81,430**	**521,559**	**1,168,867**	**300,059**	**2,579,984**

20 PROPERTY AND EQUIPMENT (CONTINUED)

At 31 December 2012	Computer and other equipment TZS '000	Motor vehicles TZS '000	Furniture and fittings TZS '000	Leasehold Improvement TZS '000	Work in progress TZS '000	Total TZS '000
Cost						
At 1 January 2012	515,279	109,746	2,292,570	-	265,950	**3,183,545**
Adjustment	(2,844)	518	(3,410)	-	-	**(5,736)**
Additions	124,632	37,382	86,251	-	-	**248,265**
Transfer	-	-	95,634	-	(95,634)	**-**
At 31 December 2012	637,067	147,646	2,471,045	-	170,316	**3,426,074**
Accumulated depreciation						
At 1 January 2012	229,680	48,285	248,115	-	-	**526,080**
Adjustment	(2,844)	518	(3,410)	-	-	**(5,736)**
Disposal	-	-	-	-	-	**-**
Transfer	-	-	-	-	-	**-**
Charge for the year	56,336	18,872	254,906	-	-	**330,114**
At 31 December 2012	283,172	67,675	499,611	-	-	**850,458**
Net carrying amount						
At 31 December 2012	**353,895**	**79,971**	**1,971,434**	**-**	**170,316**	**2,575,616**

21 INTANGIBLE ASSETS

	2013 TZS '000	2012 TZS '000
System software		
Cost		
At 1 January	**1,132,691**	389,752
Additions	**352,483**	742,939
At 31 December	**1,485,174**	1,132,691
Accumulated amortisation		
At 1 January	**185,777**	124,613
Charge for the year	**224,722**	61,164
At 31 December	**410,499**	185,777
Carrying amount		
At 31 December	**1,074,675**	946,914

22 DEPOSITS

	2013 TZS '000	2012 TZS '00
Interest bearing deposits		
Customer accounts	**144,130,110**	142,988,642
Banks and other financial institutions (Note 14a)	**61,075,000**	32,160,788
Interest payable	**4,416,878**	4,957,400
	209,621,988	180,106,830
Non-interest bearing deposits		
Customer accounts	**47,253,341**	40,688,847
	256,875,329	220,795,677
Maturity analysis		
Repayable on demand	**72,963,685**	58,678,012
With maturity of 3 months or less	**118,916,107**	53,659,013
With maturity of between 3 months and 1 year	**64,825,282**	108,327,313
With maturity over one year	**170,255**	131,339
	256,875,329	220,795,677

23 OTHER LIABILITIES

Bankers cheques	**112,255**	194,867
Accrued loan administration fees	**692,874**	154,593
Accrued expenses	**328,553**	116,964
Statutory liabilities	**340,243**	162,410
	1,473,925	628,834
Current	**1,473,925**	628,834

24 LONG TERM BORROWING

	2013 TZS '000	2012 TZS '000
Long term borrowing from PROPARCO	**7,874,992**	7,959,992
Accrued interest	**48,266**	50,280
	7,923,258	8,010,272
The loan is repayable as follows:		
Within one year	**764,175**	-
After one to three years	**4,295,455**	3,668,462
After three to five years	**2,863,628**	4,341,810
	7,923,258	8,010,272

The long term borrowing of USD 5 million was granted on 3rd July 2012 by PROPARCO. The facility is repayable in semi - annual installments with a final repayment date of 31st October 2019. The loan bears a floating interest rate. The effective interest rate on the long term borrowing is 3.60%.

25 SHARE CAPITAL AND SHARE PREMIUM

	2013 TZS '000	2012 TZS '000
Share capital		
Authorized:		
10,000 ordinary shares of TZS. 1,000,000/= each	**10,000,000**	10,000,000
Issued and fully paid:		
2,395 ordinary shares (2012: 2,395 ordinary shares) of TZS 1,000,000/= each	**2,395,000**	2,395,000
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**	7,482,000

26 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.

	2013	2012
Profit for the year attributable to equity holders of the company (TZS' 000)	**3,813,354**	3,642,846
Weighted average number of shares (Number)	**2,395**	2,395
Basic and Diluted Earnings Per Share (TZS '000)	**1,592**	1,521

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.

27 REGULATORY CAPITAL

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

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

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

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

Tier 2 capital, 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 such as qualifying Tier 2 Capital cannot exceed Tier 1 Capital and qualifying subordinated debt 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 Capital. Tier 1 Capital (Core capital) is also

27 REGULATORY CAPITAL (CONTINUED)

subjected to various limits such as the Tier 1 Capital should not be less than 10% of the risk weighted assets and premises investments should not exceed 50% of the Core Capital and movable assets should not exceed 20% of Core Capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also 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 has complied with capital regulatory requirements.

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 as at year end was TZS 15 billion (2012: TZS 15 billion).

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:

	Nominal Statement of financial position amounts 2013 TZS'000	**Risk Weighted amounts 2013 TZS'000**	Nominal Statement of financial position amounts 2012 TZS'000	Risk Weighted amounts 2012 TZS'000
Cash and balances with Bank of Tanzania	**29,076,766**	**-**	24,784,530	-
Balances with other bank	**17,277,808**	**3,455,562**	23,450,259	4,690,052
Cheques in the course of collection	**674,409**	**337,205**	218,132	109,066
Government securities held to maturity	**41,250,952**	**-**	39,196,970	-
Other money market placements held to maturity	**16,537,500**	**3,307,500**	9,440,170	1,888,034
Private securities held to maturity	**-**	**-**	880,610	880,610
Loans and advances	**187,033,442**	**181,422,439**	153,546,343	147,095,871
Other assets and deferred tax	**1,135,485**	**1,135,485**	621,011	621,011
Intangible assets	**1,074,675**	**1,074,675**	946,914	947,914
Property and equipment	**2,579,984**	**2,579,984**	2,575,616	2,575,616
Total assets	**296,641,021**	**193,312,849**	255,660,555	158,808,174
Not recognised positions				
Credit related commitments	**16,017,847**	**8,213,670**	7,973,723	5,264,411
Total risk-weighted assets		**201,526,519**		164,072,585

27 REGULATORY CAPITAL (CONTINUED)

	2013 TZS '000	2012 TZS '000
Share capital	**2,395,000**	2,395,000
Share Premium	**7,482,000**	7,482,000
Retain earnings	**19,480,427**	16,213,133
	29,357,427	26,090,133
Less:		
Prepaid expenses	**564,347**	377,795
Deferred tax asset	**334,013**	177,169
Intangible assets	**1,074,675**	946,914
	1,973,035	1,501,878
Core capital (Tier 1)	**27,384,392**	24,588,255
Tier 1 Capital & Tier 2 Capital	**27,384,392**	24,588,255
Risk - weighted assets		
On balance sheet	**193,312,849**	158,808,174
Off balance sheet	**8,213,670**	5,264,411
Total risk - weighted assets	**201,526,519**	164,072,585
Bank Ratios		
Tier 1 (BoT Minimum required is 10% (2012:10%)	**13.59%**	14.99%
Tier 1 + Tier 2 (BoT Minimum required is 12%(2012:12%)	**13.59%**	14.99%

28 RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, management fee 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:

Directors and key management personnel: Loans	2013 TZS '000	2012 TZS '000
Loans outstanding at the beginning of the year	**129,512**	39,061
Loans issued during the year	**691,082**	125,238
Loan repayments during the year	**(503,255)**	(34,787)
Loans outstanding at the end of the year	**317,339**	129,512
Interest income earned	**47,831**	8,656

28 RELATED PARTY TRANSACTIONS (CONTINUED)

	2013 TZS '000	2012 TZS '000
Directors and key management personnel: Deposits		
Deposits at the beginning of the year	**256,630**	152,233
Deposits received during the year	**4,348,527**	1,427,881
Deposits repaid during the year	**(1,381,419)**	(1,323,484)
Deposits at the end of the year	**3,223,738**	256,630
Interest expense	**237,340**	8,839

Related companies: Deposits (I&M Bank Limited -holding company and Bank One Ltd - Sister company)

	2013 TZS '000	2012 TZS '000
Deposits at the beginning of the year	**10,400,932**	12,730,095
Deposits received during the year	**81,029,354**	85,576,234
Deposits repaid during the year	**(43,229,514)**	(87,905,397)
Deposits at the end of the year	**48,200,772**	10,400,932
Interest expense	**416,500**	266,719

	2013 TZS '000	2012 TZS '000
Key management compensation		
Salaries and other short-term benefits	**853,494**	857,848
Post-employment benefits	**75,785**	68,583
	929,279	926,431

Key management comprise of CEO and all heads of department.

	2013 TZS '000	2012 TZS '000
Directors' remuneration-made up of short-term benefits	**23,952**	23,500

Details of payments to individual directors will be tabled at the annual general meeting

	2013 TZS '000	2012 TZS '000
Management fees Management fees paid to I&M Bank Ltd	**463,906**	441,851

Long Term Borrowing

On 3rd July 2012, the Bank obtained an unsecured long term borrowing of USD 5 million from PROPARCO, a 20% shareholder of the Bank. For more details refer to note 24.

29 CONTINGENT LIABILITIES AND COMMITMENTS

(a) 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 major pending litigations against the Bank. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise if there were any rulings against the Bank.

(b) Capital commitments

At 31 December 2013, the Bank had capital commitments of TZS 2,940 million (2012: TZS 2,344 million) in respect of buildings and equipment purchases which was approved by board. The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.

(c) 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.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized 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:

	2013 TZS '000	2012 TZS '000
Letters of Credit	**5,058,095**	2,920,477
Outstanding Guarantees and Indemnities	**10,959,752**	5,053,246
Undrawn balance	**40,812,568**	16,328,135
	56,830,415	24,301,858

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. The Bank will only be required to meet the obligations under the Guarantees and Standby Letters of Credit in the event of the customer's default.

29 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

d) Operating lease commitments- bank as lessee

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2013 TZS '000	2012 TZS '000
Within one year	**596,870**	428,598
After one year but not more than five years	**1,157,792**	961,883
After more than five years	**968,077**	1,303,145
	2,722,739	2,693,626

Other than the above mentioned, there are no other material contingencies as at 31 December 2013, which may possibly result in a loss or gain to the Bank or in commitments which it cannot meet, and for which no provision is considered necessary or only partial provision has been made.

30 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.

31 HOLDING COMPANY

The ultimate holding company is I&M Bank Limited, a company incorporated in Kenya.

32 ASSETS PLEDGED AS SECURITY

There were no assets pledged as security at year end (2012:TZS Nil).

33 FINANCIAL 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) and the Risk Management Committee under policies approved by the Board of Directors. The ALCO & Risk Management 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, operational risk and liquidity risk.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 Board Credit Committee. A separate Bank Management Credit Committee chaired by the Chief Executive Officer, reporting to the Board Credit Committee, is responsible for oversight of the Bank's credit risk. A centralized Credit Risk Department, headed by the Head of Credit oversees the operation under the guidance of the Management Credit Committee 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 for approval by the Board.
ii) Establishing the authorization structure for the approval and renewal of credit facilities. Larger facilities require approval by Board Credit Committee / 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) Credit Portfolio review including 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 Board Credit Committee/Board in respect of the quality of loan portfolio.
vi) 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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk

Loans and advances to customers

	2013 TZS '000	2012 TZS '000
Carrying amount		
Individually impaired		
Grade 3: Impaired (Substandard)	**3,414,380**	2,423,137
Grade 4: Impaired (doubtful)	**67,912**	302,266
Grade 5: Impaired (Loss)	**395,351**	85,083
Gross amount	**3,877,643**	2,810,486
Allowance for impairment	**(1,151,031)**	(355,144)
Carrying amount	**2,726,612**	2,455,342
Collectively impaired		
Grade 1: Neither past due nor impaired (current)	**179,179,724**	148,848,002
Grade 2: Past due but not impaired (watch list)	**6,264,581**	2,931,030
Gross amount	**185,444,305**	151,779,032
Allowance for impairment	**(1,137,475)**	(688,031)
Carrying amount	**184,306,830**	151,091,001
Total Carrying amount	**187,033,442**	153,546,343

(a) Loans and advances individually impaired

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.

(b) Loans and advances past due but not impaired

Included in advance graded 1 and 2 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 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:

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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

- 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 on a monthly basis where provision on non-performing loans is raised based on the guidelines of the Bank of Tanzania.

	2013	**2013**	2012	2012
	TZS '000'	**TZS '000'**	TZS '000'	TZS '000'
	Overdrafts	**Term Loans**	Overdrafts	Term Loans
Past due up to 30 days	**-**	**609,086**	145,996	954,025
Past due 30-60 days	**1,129,048**	**1,561,118**	106,989	611,690
Past due 60-90 days	**2,965,329**	**-**	-	1,112,330
Totals	**4,094,377**	**2,170,204**	252,985	2,678,045

Maximum Exposure

The Bank's maximum exposure to credit risk is set out below:

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) *Credit risk (continued)*

Concentration of risks of financial assets with credit risk exposure (By Economic Sector)

31 December 2013	Notes	Financial Institution TZS '000	Manufacturing TZS '000	Real estate TZS '000	Whole-sale and retail trade TZS '000	Others TZS '000	Individual TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	13	29,076,766	-	-	-	-	-	**29,076,766**
Balance with other banks	14	17,277,808	-	-	-	-	-	**17,277,808**
Cheques and items for clearance	14	674,409	-	-	-	-	-	**674,409**
Government securities held to maturity	15	41,250,952	-	-	-	-	-	**41,250,952**
Private securities held to maturity	16	-	-	-	-	-	-	**-**
Other money market placements held to maturity	17	16,537,500	-	-	-	-	-	**16,537,500**
Loans and advances	18	-	31,574,026	60,656,721	49,102,156	39,904,767	5,795,773	**187,033,443**
Other Asset (excluding prepayment)	19	237,125	-	-	-	-	-	**237,125**
		105,054,560	31,574,026	60,656,721	49,102,156	39,904,767	5,795,773	**292,088,003**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) *Credit risk (continued)*

Concentration of risks of financial assets with credit risk exposure (By Economic Sector) (continued)

31 December 2012	Notes	Financial Institution	Manufacturing	Real estate	Whole-sale and retail trade	Others	Individual	Total
		TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	13	24,784,530	-	-	-	-	-	**24,784,530**
Balance with other banks	14	23,450,259	-	-	-	-	-	**23,450,259**
Cheques and items for clearance	14	218,132	-	-	-	-	-	**218,132**
Government securities held to maturity	15	39,196,970	-	-	-	-	-	**39,196,970**
Private securities held to maturity	16	880,610	-	-	-	-	-	**880,610**
Other money market placements held to maturity	17	9,440,170	-	-	-	-	-	**9,440,170**
Loans and advances	18		24,593,192	44,255,485	42,201,762	30,750,719	11,745,185	**153,546,343**
Other Asset (excluding prepayment)	19	66,047	-	-	-	-	-	**66,047**
		98,036,718	24,593,192	44,255,485	42,201,762	30,750,719	11,745,185	**251,583,061**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) *Credit risk (continued)*

Concentration of risks of financial assets with credit risk exposure (By Geographical)

31 December 2013	**Notes**	**Tanzania TZS '000**	**Kenya TZS '000**	**India TZS '000**	**America TZS '000**	**Total TZS '000**
Cash and balances with Bank of Tanzania	13	29,076,766	-	-	-	**29,076,766**
Balance with other banks	14	(404,201)	974,999	(17,670)	16,724,679	**17,277,808**
Cheques and items for clearance	14	674,409	-	-	-	**674,409**
Government securities held to maturity	15	41,250,952	-	-	-	**41,250,952**
Other money market placements held to maturity	17	16,537,500	-	-	-	**16,537,500**
Loans and advances	18	187,033,443	-	-	-	**187,033,443**
Other Asset (excluding prepayment)	19	237,125	-	-	-	**237,125**
		274,405,994	974,999	(17,670)	16,724,679	**292,088,003**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) *Credit risk (continued)*

Concentration of risks of financial assets with credit risk exposure (By Geographical) (continued)

31 December 2012	Notes	Tanzania TZS '000	Kenya TZS '000	India TZS '000	America TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	13	24,784,530	-	-	-	**24,784,530**
Balance with other banks	14	1,493,703	1,493,365	(9,483)	20,472,674	**23,450,259**
Cheques and items for clearance	14	218,132	-	-	-	**218,132**
Government securities held to maturity	15	39,196,970	-	-	-	**39,196,970**
Private securities held to maturity	16	880,610	-	-	-	**880,610**
Other money market placements held to maturity	17	9,440,170	-	-	-	**9,440,170**
Loans and advances	18	153,546,343				**153,546,343**
Other Asset (excluding prepayment)	19	66,047	-	-	-	**66,047**
		229,626,505	1,493,365	(9,483)	20,472,674	**251,583,061**

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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 18.

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, chattels mortgage over moveable assets or fixed deposits.

The Bank also obtains guarantees from parent and associate companies for loans to their subsidiaries or associates, respectively. 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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Write-off policy

The Bank has set up a Board Credit Committee Chaired 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 Management Credit Committee / 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 and have remained in the loss category for four consecutive quarters. 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 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 repossesscollateral 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 Bank of Tanzania equal to 10% of customer deposits and 40% of Government 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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

Exposure to liquidity risk

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

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

	2013	2012
At 31 December	**34%**	36%
Average for the year	**32%**	30%
Maximum for the year	**36%**	36%
Minimum for the year	**28%**	26%

The Bank defines liquid assets for the purposes of the liquidity ratio as cash balances, short-term interbank deposits and highly rated debt securities (with maturity less than one year) 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 by Assets and Liabilities Committee and approval by the Board Risk 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 assets and liabilities by remaining contractual maturities

The table below summarises the maturity profiles of the contractual undiscounted cash flows of the Bank's assets and liabilities as at 31 December 2013 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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) *Liquidity risk (continued)*

Non derivative cashflow (continued)

As at 31 December 2013	Up to 1 month TZS '000	1-3 months TZS '000	3-12 months TZS '000	1-5 years TZS '000	Over 5 years TZS '000	Total TZS '000
Liabilities						
Deposits from banks	**62,119,882**	**-**	**-**	**-**	**-**	**62,119,882**
Deposits from customers	**90,715,992**	**42,512,816**	**67,232,495**	**224,085**	**-**	**200,685,388**
Other liabilities	**340,244**	**328,553**	**112,255**	**692,873**	**-**	**1,473,925**
Long term borrowing	**-**	**-**	**983,932**	**6,421,915**	**1,471,775**	**8,877,622**
Total liabilities (contractual maturity dates)	**153,176,118**	**42,841,369**	**68,328,682**	**7,338,873**	**1,471,775**	**273,156,817**
Assets held for managing liquidity risk (contractual maturity dates)	**80,442,332**	**8,920,054**	**77,058,917**	**103,221,261**	**26,998,458**	**296,641,021**
As at 31 December 2012						
Liabilities						
Deposits from banks	32,250,970	-	-	-	-	32,250,970
Deposits from customers	116,300,699	49,995,030	56,163,561	155,755	-	222,615,045
Other liabilities	162,410	116,964	194,867	154,593	-	628,834
Long term borrowing	-	-	289,800	5,993,373	2,971,263	9,254,436
Total liabilities (contractual maturity dates)	148,714,079	50,111,994	56,648,228	6,303,722	2,971,263	264,749,285
Assets held for managing liquidity risk (contractual maturity dates)	74,066,265	7,608,018	87,620,599	43,362,333	43,003,340	255,660,555

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 is concerned 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 within the risk appetite as approved by the Board Risk Committee.

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.

In computing the percentage change in interest rates, management has taken into consideration the direction of the market rates movement over the last two years.

Interest rate risk – stress test

The Bank monitors the impact of risks associated with the effect of fluctuations in prevailing interest rates. Increase or decrease in interest rates of 100 basis points will lead to increase or decrease on profit before tax by TZS 274 million (2012: TZS 149 million).

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Interest rate risk exposure (continued)

As at 31 December 2013	Up to 1 month TZS '000	1 - 3 months TZS '000	3 - 12 months TZS '000	1 - 5 years TZS '000	Over 5 years TZS '000	Non-interest bearing TZS '000	Total TZS '000
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	29,076,766	**29,076,766**
Balance with other banks	-	-	-	-	-	17,277,808	**17,277,808**
Cheques in the course of collection	-	-	-	-	-	674,409	**674,409**
Government securities held to maturity	3,027,727	3,507,864	17,507,816	12,747,480	4,460,065	-	**41,250,952**
Other money market placements held to maturity	16,537,500	-	-	-	-	-	**16,537,500**
Loans and advances	9,057,978	5,412,190	59,551,101	90,473,781	22,538,393	-	**187,033,442**
Other assets(excluding prepayments)	-	-	-	-	-	237,125	**237,125**
Total assets	28,623,205	8,920,054	77,058,917	103,221,261	26,998,458	47,266,108	**292,088,002**
Liabilities and equity							
Deposits	101,960,859	42,512,251	64,825,282	170,255	-	47,406,682	**256,875,329**
Other liabilities	-	-	-	-	-	1,473,925	**1,473,925**
Long Term Borrowing	-	-	764,167	5,727,273	1,431,818	-	**7,923,258**
Total liabilities and equity	**101,960,859**	**42,512,251**	**65,589,449**	**5,897,528**	**1,431,818**	**48,880,607**	**266,272,512**
Total interest re-pricing gap	**(73,337,654)**	**(33,592,197)**	**11,469,468**	**97,323,733**	**25,566,640**		

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Interest rate risk exposure (continued)

As at 31 December 2012	Up to 1 month TZS '000	1 - 3 months TZS '000	3 - 12 months TZS '000	1 - 5 years TZS '000	Over 5 years TZS '000	Non-interest bearing TZS '000	Total TZS '000
Assets							
Cash and bank balances with Bank of Tanzania	-	-	-	-	-	24,784,530	**24,784,530**
Balance with other banks	-	-	-	-	-	23,450,259	**23,450,259**
Cheques in the course of collection	-	-	-	-	-	218,132	**218,132**
Government securities held to maturity	-	-	21,212,950	10,278,875	7,705,145	-	**39,196,970**
Private securities held to maturity	-	-	880,610	-	-	-	**880,610**
Other money market placements held to maturity	7,803,409	1,636,761	-	-	-	-	**9,440,170**
Loans and advances	13,666,394	5,971,257	65,527,039	33,083,458	35,298,195	-	**153,546,343**
Other assets(excluding prepayments)	-	-	-	-	-	443,842	**443,842**
Total assets	**21,469,803**	**7,608,018**	**87,620,599**	**43,362,333**	**43,003,340**	**48,896,763**	**251,960,856**
Liabilities and equity							
Deposits	75,610,419	49,442,796	54,926,303	127,312	-	40,688,847	**220,795,677**
Other liabilities	-	-	-	-	-	628,834	**628,834**
Long Term Borrowing	-	-	-	5,119,363	2,890,909	-	**8,010,272**
Total equity	-	-	-	-	-	26,090,133	**26,090,133**
Total liabilities and equity	**75,610,419**	**49,442,796**	**54,926,303**	**5,246,675**	**2,890,909**	**67,407,814**	**255,524,916**
Total interest repricing gap	**(54,140,616)**	**(41,834,778)**	**32,694,296**	**38,115,658**	**40,112,430**		

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency exchange risk

Foreign Exchange 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 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's functional currency, the Tanzanian Shilling (TZS), 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.

At 31 December 2013, if the US dollar had strengthened by 5% against the Tanzanian Shilling, with all other variables held constant, the sensitized effect on the profit would have been an increase in loss before tax of TZS 60 million (2012: TZS 124 million, increase), mainly as a result of the Dollar denominated net monetary assets.

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

Currency risk exposure

The various currencies to which the bank is exposed at 31 December 2013 are summarised in the Table below (All amounts expressed in thousands of Tanzania Shillings).

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) *Market risk (continued)*

Foreign currency exchange risk exposure (continued)

As at 31 December 2013	USD TZS '000	GBP TZS '000	Euro TZS '000	INR TZS '000	KES TZS '000	ZAR TZS '000	Total TZS '000
ASSETS							
Cash and balances due from banking institutions	21,381,692	229,989	252,710	(17,670)	74,632	2,651	21,924,004
Other money market placements	16,537,500	-	-	-	-	-	16,537,500
Loans and advances	140,178,014	-	-	-	-	-	140,178,014
Other assets	245,944	-	-	-	-	-	245,944
Total assets	178,343,149	229,989	252,710	(17,670)	74,632	2,651	178,885,461
LIABILITIES							
Deposits	170,077,626	475,584	291,130	-	-	-	170,844,340
Long term borrowing	7,874,992	-	-	-	-	-	7,874,992
Other liabilities	1,596,454	5,570	-	-	-	-	1,602,023
Total liabilities	179,549,072	481,153	291,130	-	-	-	180,321,355
Net position	(1,205,924)	(251,164)	(38,420)	(17,670)	74,632	2,651	(1,435,895)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) *Market risk (continued)*

Foreign currency exchange risk exposure (continued)

As at 31 December 2012	**USD**	**GBP**	**Euro**	**INR**	**KES**	**ZAR**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
ASSETS							
Cash and balances due from banking institutions	24,382,000	561,000	198,000	(9,000)	7,000	- -	25,139,000
Other money market placements	8,940,000	-	-		-	-	8,940,000
Loans and advances	112,988,000	-	-	-	-	-	112,988,000
Other assets	72,000	-	-	-	-	-	72,000
Total assets	146,382,000	561,000	198,000	(9,000)	7,000	- -	147,139,000
LIABILITIES							
Deposits	134,740,000	519,000	146,000	-	-		135,405,000
Long term borrowing	7,960,000	-	-	-	-		7,960,000
Other liabilities	1,206,000	6,000	-	-	-		1,212,000
Total liabilities	143,906,000	525,000	146,000	-	-		144,577,000
Net position	2,476,000	36,000	52,000	(9,000)	7,000	-	2,562,000

(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 the 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.

34 DIVIDEND PAID DECLARED AND PROPOSED

	2013 TZS'000	2012 TZS'000
Dividend paid		
Final dividend for 2012 – TZS 546.06 million at TZS 0.23 million per share (2012: final dividend for 2011 -TZS 550.85 million at TZS 0.23 million per share)	**546,060**	550,850
Dividend declared		
Final dividend for 2013: TZS NIL (2012: TZS 546.06 million at 0.23 million per share)	**-**	546,060

Proposed dividend for approval at Annual General Meeting
(Not recognized as a liability as at 31 December)

The Board of Directors proposes a final dividend of TZS 953.21 million at TZS 0.40 million per share (2012: TZS 546.06 million at TZS 0.23 million per share). The prior year dividend was subsequently approved by the shareholders and paid out during 2013.

STAFF MORALE OUTING :

In January 2013, the bank organized a staff morale outing at a Beach Resort in Dar es Salaam. The amazing event organized by Human Resource department, generated a lot of excitement and the staff enjoyed a day away from work.
In addition to increasing the employee morale, the event also helped in:

- Create an environment of trust within the employees
- Positioning I&M Bank as one of the best places to work
- Increasing the staff networking

WORKSHOP ON PERFORMANCE APPRAISAL :

The year 2013, also witnessed the launch of our reformed Performance Appraisal System. In our drive for continuous improvement, the organization restructured its appraisal system. The new performance system is more closely aligned to the organizational goal recognizing the employee contributions and will also help keep the employee career development in line with the organization strategy.

A highly intensive one-day workshop was organized in partnership with I&M Bank, Kenya. The workshop helped

- In reiterating the importance of performance assessment
- In understanding the Key Performance Indicators (KPIs), Competencies, and Performance Standards
- To equip the employees with the information on performance linked benefits

TRAINING ON RISK CONTROL SELF ASSESSMENT (RCSA) :

Continuing our efforts towards improvement in risk control measures, the bank organized a day long workshop for the employees on RCSA. The Group Internal Auditor addressed the employees on the effectiveness of RCSA – how it facilitates the day-to-day monitoring of risk at the business level. With our continued efforts we strive to position I&M Bank as a leader in trustworthy banking

EXPANSION OF CORPORATE CENTRE :

Given the success, the bank is fast growing and rapidly expanding. Within a short span, the bank has witnessed considerable addition in the products and services being offered to its customers. To cater to our continuously increasing customer base and demands, bank has created several new departments and has increased the employee headcount. In line with its expansion plans, the bank was proud to announce the expansion of its Corporate office on the 1st Floor of Maktaba Square.

I&M NEWS (CONTIUNED)

SETTING UP OF STAFF TRAINING CENTRE :

I&M Bank (T) Limited views talent development as a key element of its value proposition for clients and has been focused on investing in employee training programs. With our unwavering commitment to invest in employee career development, the bank has set up a 12 seater training centre at Kariakoo. We view the staff training centre as a strategic step in building the professional services organization of the future, adding to increased customer satisfaction.

STAFF SERVICE AWARDS :

At I&M Bank (T) Limited, we believe that recognition is essential to let employees know, that they are valued and appreciated by their co-workers and the organization. The bank held an award ceremony to felicitate its tenured employees for their longevity and loyalty to the organization. Employees tenured 5 years and 10 years were felicitated in the function held at the Corporate Office in Dar es Salaam.

NETWORKING EVENT :

The bank organized its annual event of staff networking on 15 December 2013, where all its staff spent a day rejuvenating and bonding at a beach resort in Dar es salam.

INTRODUCED MULTI-CURRENCY PREPAID INTERNATIONAL TRAVEL MASTERCARD :

I&M Bank (T) Limited launched its revolutionary product, a first ever MasterCard branded multi-currency Prepaid international travel cards. The I&M MasterCard multi-currency Prepaid cards enables cardholders to carry three currencies on a single card, while at the same time offering users a secure and convenient mobile wallet.

LAUNCH OF THE YOUNG SAVERS SCHEME :

I&M Bank (T) Limited proudly launched its exclusive product for children (upto 18 years of age). The aim is to encourage parents to save for the future of their children. The product is having attractive features for the kids and offers discounts by various merchants for the account holders.

I&M SWIFT :

With a view to ensuring safety and prompt confirmations to the senders, the bank launched I&M Swift facility whereby the Swift copy is instantly sent by the system to the remitter of overseas and/or domestic funds.

COLLECTION OF DOMESTIC TAXES :

Having successfully introduced Asybank (for Custom Duty collections) and Domestic Taxes at its main branch in Dar es Salaam, the bank launched this facility of collection of all taxes at all the branches of the bank. This was appreciated by large number of tax payer customers of the bank.

SPECIAL ACCOUNTS FOR INSURANCE COMPANIES :

To facilitate the Insurance companies to manage their cash flows more efficiently and with better profits, the bank launched special product for the Insurance companies. The product has been designed in such a way that the Insurance Companies earn interest on their idle funds and also maintain liquidity in deposits kept for fixed terms.

I&M Bank (T) Limited has an enduring commitment to working to fulfill our social responsibilities and to serve the needs of people. Fundamental to this commitment is the role we serve as a responsible global corporate citizen. In the year 2013, the bank added several new chapters to its CSR activities.

DONATION CAMP AT PEDIATRIC CANCER WARD IN MUHIMBILI HOSPITAL

I&M Bank's overarching aspiration is to create large scale social value for disadvantaged sections of society. In pursuance of the bank's policy on Corporate Social Responsibility, the bank undertook a donation project at the Pediatric Cancer Ward in Muhimbili Hospital. This cancer ward was set up as an initiative by Rotary Club of Dar es Salaam, and I&M Bank (T) Limited became a contributor to the initiative by contributing an amount of Tzs. 5 mio. in 2012.

On 14th September 2013, we marked our "Donation camp at the Pediatric Cancer Ward in Muhimbili Hospital", a significant milestone that represents our employees' passion for community involvement and making a positive difference to the world. Bank's employees volunteered to be on the site for the cause and in addition to the contribution made by the bank, donations were made by many bank employees.

During the camp, each of the Bank's employees personally distributed food and sundry items to over a 40 patients at the Pediatric Cancer Ward. The donation included everyday necessities like milk, juice, biscuits, sweets, soap, sugar, towels etc. The staff also spent time with the children suffering with cancer.

PARTNERING WITH TANZANIA YOUTH ALLIANCE FOR DEV. & CO-OPERATION ON WORLD MALARIA DAY:

On account of "World Malaria Day" (21st April, 2013), Tanzania Youth Alliance for Dev. & Co-operation organized a special campaign for children with disability to combat malaria.

I&M Bank (T) Limited contributed Tzs. 2.4 mio. to the event and bank's CEO, Mr. Anurag Dureha, was the guest of honor for the event. The bank also distributed 300 Oxford Compass boxes to the differently abled students.

The campaign aimed at sensitizing the children about the preventive measures to eliminate the risk of malaria. Among the invitees were educators, social service providers, health care professionals, counselors, legislators, school administrators, researchers, clergy and differently abled students

FUND RAISING FOR CORNEL NGALEKU CHILDREN CENTRE

- On Saturday 23rd November 2013, Cornel Ngaleku Children Centre in Rombo District, Kilimanjaro Region conducted a fund raising event for its 65 orphaned children. The supporters, including I&M Bank (T) Limited, contributed to the fund raising event. These funds were raised to construct a maize mill/sunflower oil expressing plant and a hostel for volunteers and tourists. The profits from these projects will be in turn directed to support the operating costs of the Centre.

- In our desire to continue to support this noble cause, the bank has installed donation boxes at its branches to enable the visitors/customers to donate for Cornel Ngaleku Children Centre.

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