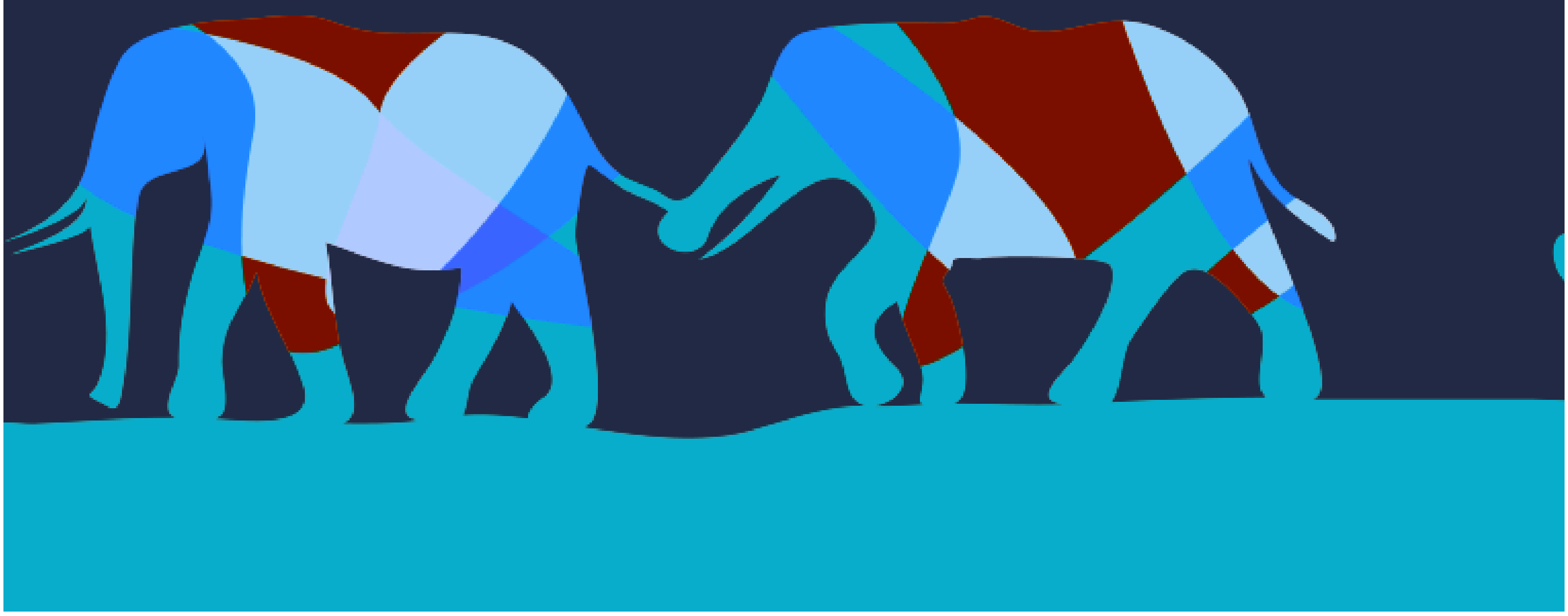
ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

I&M Bank LIMITED

NURTURING RELATIONSHIPS

Relationships are all about teamwork, anticipating needs and above all, a shared trust and interdependence. Relationships are the cornerstone of our business which we cherish and nurture with pride.



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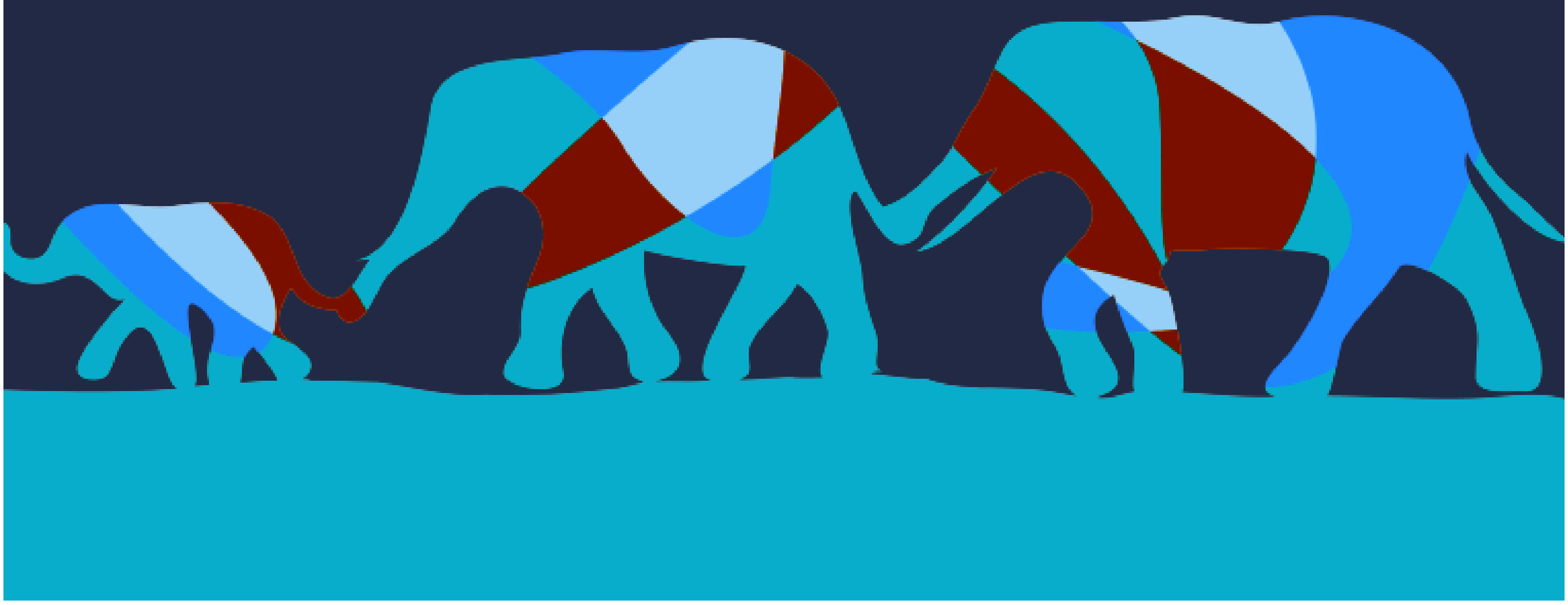
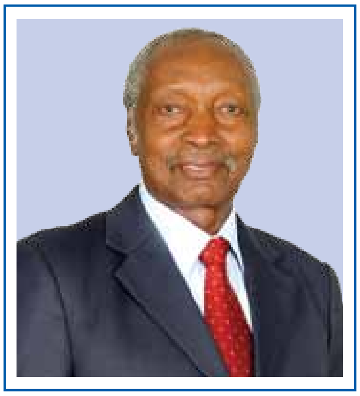


BOARD OF DIRECTORS

Sarit S. Raja Shah
Chairman

Michael N. Shirima

Thierry Hugnin



Gen. (Rtd) Mrisho H. Sarakikya

Pratul H. Shah

Shameer Patel

Arun S. Mathur

Josep Oriol

SENIOR MANAGEMENT TEAM

Arigala Smiles
Deputy Chief Executive Officer

Lalit Tewari
Head of Business Support

Tirunagari Srikanth
Head of Business Development

Tuntufye Abel
Head of Risk

Clement Kagoye
Head of Credit

Alan Bwigane
IT Manager

Zahoor Chichkar
Manager - Branch Monitoring & Support Unit

SENIOR MANAGEMENT TEAM

Gwamaka Mboka
Acting Head of Finance

Flora Makongora
Manager - Remittance & Trade Finance

Shazin Jaffer
Alternate Channel Manager

Amitonga Adolph
Chief Internal Auditor

Nazina Shariff
Manager - Centralized Account Opening

Fatema Rattansi
Manager - Credit Administration

Ruheen Kaba
Marketing Manager

SENIOR MANAGEMENT TEAM

Martha Kimweri
Head of Human Resources

Patrick Kapela
Head of Treasury

Aliraza Bandali
Manager, Administration, Projects Premises

Julianna Mwakibete
Assistant Manager - Clearing

Mariana Lyimo
Manager Treasury Back Office

CORPORATE INFORMATION

DIRECTORS

Mr. Sarit S. Raja Shah
Mr. Michael N. Shirima
Mr. Thierry Hugnin
Gen. (Rtd) Mrisho H. Sarakikya
Mr. Pratul H. Shah
Mr. Shameer Patel
Mr. Arun S. Mathur (Alternate Director to Mr. Shameer Patel)
Mr. Josep Oriol (Alternate Director to Mr. Thierry Hugnin)

HEAD OFFICE

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

CORRESPONDENT BANKS

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Bandra – Kurla Complex,
Mumbai 400 051, India

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Kenya

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Rwanda

Citi Bank
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New York, NY, United States

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M/s IMMMA Advocates,
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Dar es Salaam, Tanzania.

AUDITORS

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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,
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BRANCHES

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Email: enquiry@imbank.co.tz

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Fax: +255 27 2750505
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Fax: +255 28 2981021
Email: enquiry@imbank.co.tz

I&M NEWS

I&M TANZANIA NEWS

I&M BANK TANZANIA HOSTS SME CUSTOMERS FOR A WORKSHOP

In October 2014, I&M Bank, (T) conducted a sensitization workshop to enlighten potential and existing customers on the bank's SMEs credit facilities.

Various topics were covered such as: loans structures, loan repayment terms, description of business activities, strategies and business goals, borrowing requirements, borrowers' responsibilities, tips for maintaining a good credit standing with the bank among other topics.

BRANCH OPENINGS

I&M Bank, Tanzania continued to expand its network by opening a few more branches in the country. The Bank opened the OysterBay Branch in Dar es Salaam and the Moshi Branch.

In addition to the new branches, the bank partnered with Smart Banking Solutions Ltd, to launch a 24hour electronic banking lounge at Viva Towers in Dar es Salaam. The unique service will provide Any Time, Any Day including services such as forex converter, bulk cash deposit, and ATM for cash withdrawals. The lounge will also offer non-cash banking services from 8am to 8pm such as account opening, cheque book services, foreign currency prepaid cards, ATM debit card requests, and request for B Pesa cards.

I&M BANK ROLLS OUT B PESA PREPAID CARDS

I&M Bank Tanzania, partnered with B Pesa to launch the B Pesa prepaid cards. The B-Pesa cards will enable the bank's customers make transactions at all B-Pesa-branded merchants and ATMs.

B Pesa allows users to manage their B Pesa prepaid card via multiple electronic channels such as the web portal or their mobile devices.

GERMAN DEVELOPMENT FINANCE INSTITUTION EXTENDS CREDIT LINE TO I&M BANK

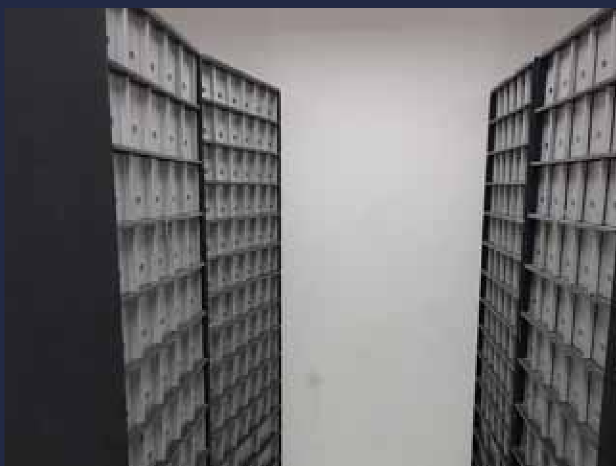
The German Development Finance Institution (DEG) extended a 10 million USD loan facility to I&M Bank (T) to aid in the bank's expansion plans. The debt capital will also enhance the bank's capital base, and will help spread its branch network in Tanzania, as the industry gets more competitive with more entrants. The bank already has 8 branches in Tanzania.

I&M BANK (T) INTRODUCES DISCOUNT VOUCHER SCHEME ON CARD USAGE

I&M Bank (T) partnered with different merchants in Tanzania to launch an initiative aimed at encouraging card usage by customers, as well as rewarding customers' loyalty for banking with us. The initiative referred to as the discount voucher scheme, rewarded customers who swiped their cards more than five times, at Point of Sale (POS) terminals in merchant outlets or at ATMs by giving them discounts.

SAFE DEPOSIT LOCKERS AT OYSTERBAY BRANCH

The bank installed state-of-art lockers to provide trusted security to valuables of our customers . There are different sizes of lockers with reasonable annual rental fee.



I&M BANK OPENS 24/7 ELECTRONIC SERVICE LOUNGE

In December 2014, I&M Bank Tanzania launched their innovative Service Lounge situated at Viva Towers on the 1st Floor along Ali Hassan Mwinyi Road. Being a pioneer with this concept, I&M Bank has installed Bulk Cash Machine that allows customers to deposit cash any time, any day without having to come to the bank. A Forex Converter has also been installed in the same premises that gives access to customers to exchange their US Dollars currency notes 24/7.

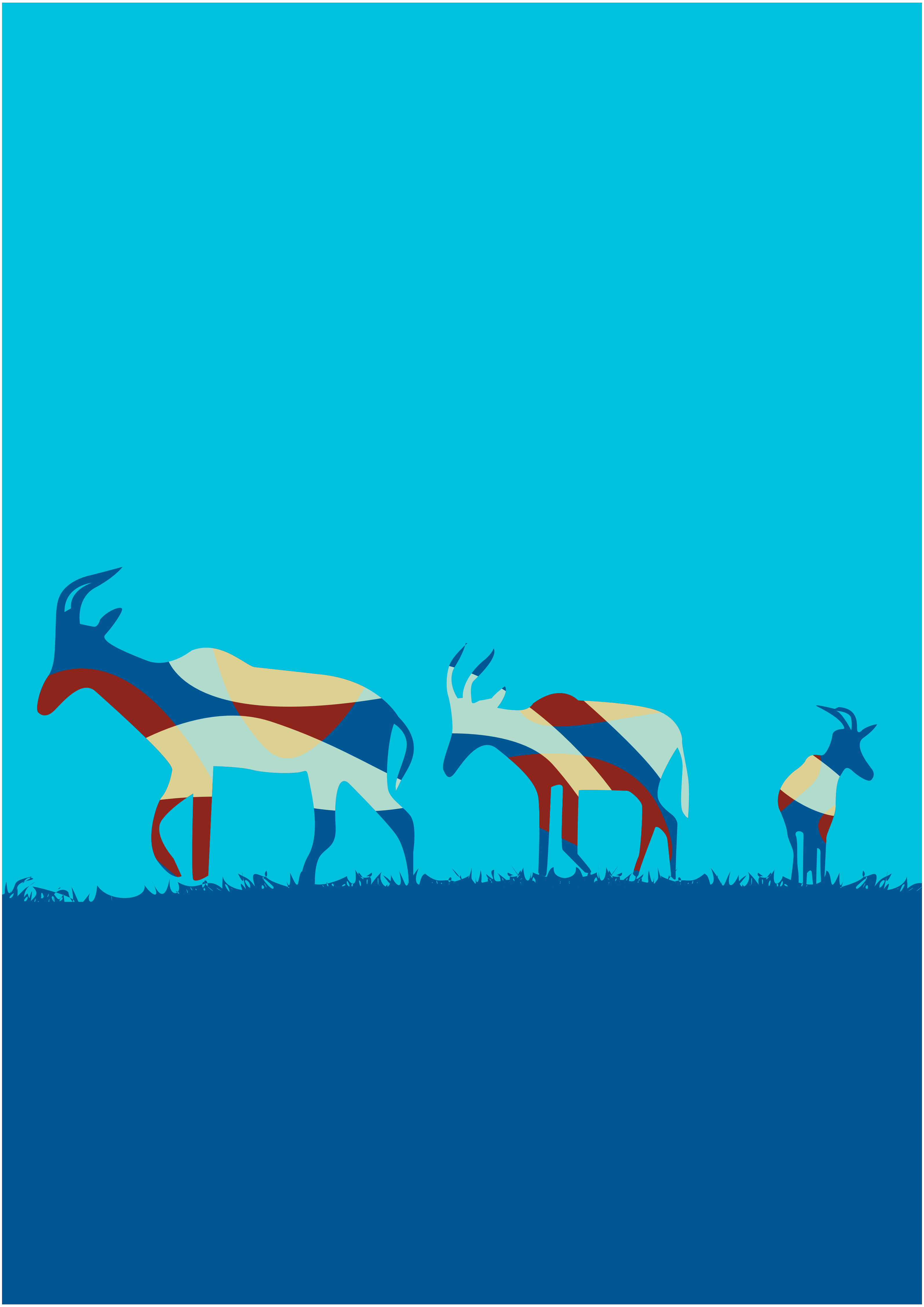
In addition to round the clock services, the lounge also offers advisory services.There is also an ATM installed to cater for the cash withdrawals. There is no other bank that offers such services in Dar es Salaam.

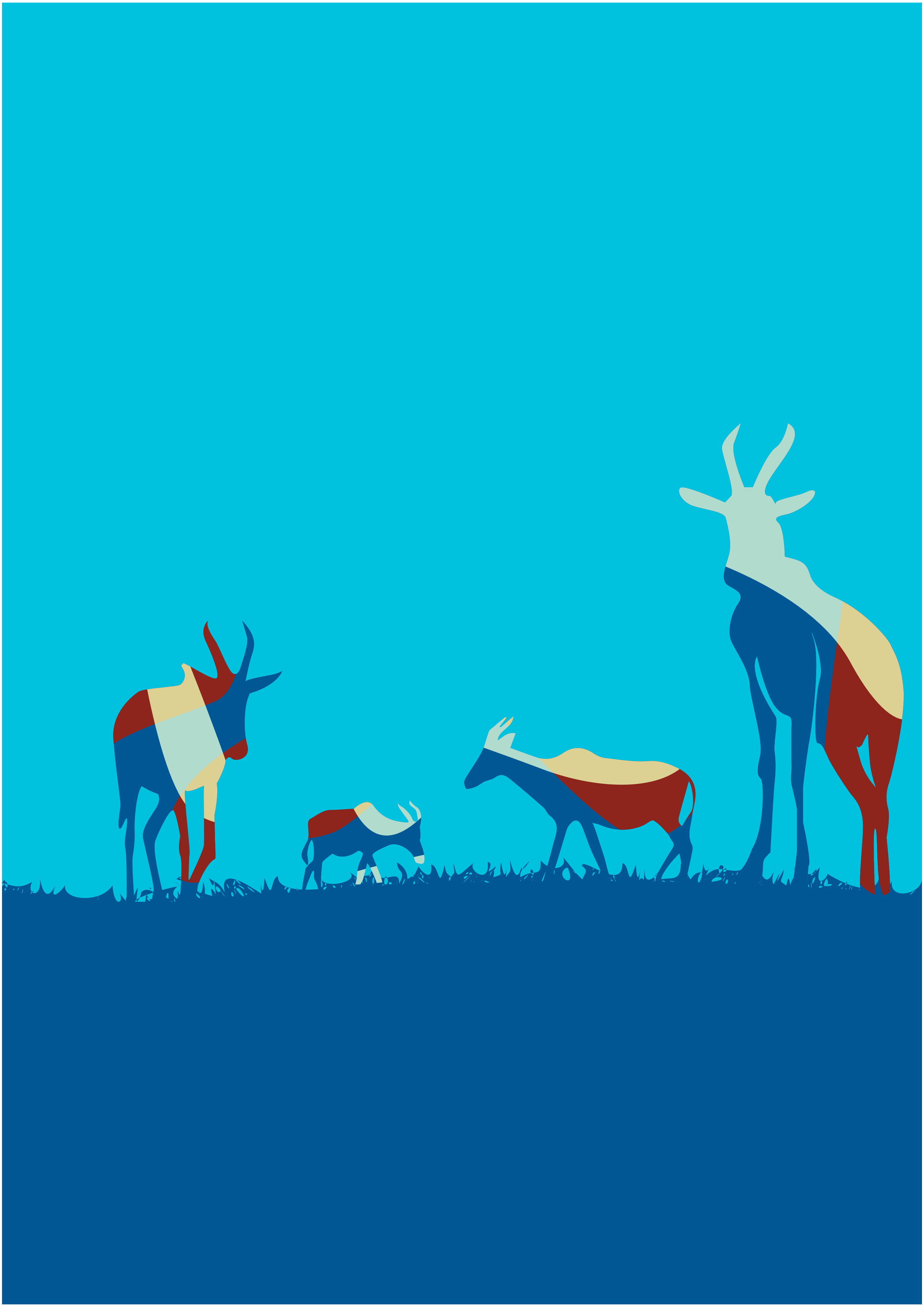
STAFF ANNUAL PARTY

In December 2014, I&M Bank (T) organized Staff Annual Party for the staff, representatives from up-country branches also attended. The theme for this party was team building and was held at Serena Hotel in Dar es Salaam. It was a joyous evening that commenced with dinner, entertainment and concluded with the staff dancing.

MEDEWELL CHARITY GOLF DAY

The bank sponsored a Golf Tournament at Gymkhana Club, Arusha on 3rd May 2014. The bank held an exclusive Gold Sponsorship whereby after the tournament, there was an award ceremony and dinner. Medewell Charity Golf Day was held for a noble cause to raise contribution for Medewell Charitable Health Center in Kibaha that offers subsidized and affordable health care services to the population in Kibaha.





CHAIRMAN'S STATEMENT

On behalf of the Board of I & M Bank (T) Ltd, it gives me pleasure in informing that your Bank has reported another year of steady performance during 2014.

The Bank's performance for 2014 is encouraging given the challenging global and local macro-economic conditions and significant volatility across the industries we serve. As you all are already aware, your Bank always strives to introduce unique solutions and seeks alternatives to traditional solutions to suite the local market. Incorporating new technology is necessary to serve our customers more efficiently and effectively. In line with the Group, we have embraced the use of technology to serve our clients more efficiently. Emerging technologies have changed the banking landscape from paper and branch based banking to "digitized and networked" banking with the ultimate aim of ensuring more convenience to our customers banking experience. We look for solutions that are quick to implement, ensures accuracy, easy to use and attractively priced for our valued customers. We also offer flexibility in order to address consumer specific requirements and to suit the needs of all client segments that translate into benefits to a wider audience. Your Bank consistently works towards providing secure, affordable and superior financial services that are easily accessible for accelerated socio–economic development. The opportunities, at hand, point to a strong growth trajectory and we intend to remain focused on profitable growth and improving on our service delivery channels.

ECONOMY

Tanzania's most recent revision to national output, fifth in 48 years, has resulted in a 27.8% increase in the level of GDP and real GDP is expected to accelerate to 7.1% in 2015. Real GDP grew by 6.9 percent (year-on-year) in the second quarter of 2014 compared with 7.6 percent in the corresponding period in 2013, largely driven by improved performance in transport and communication, agriculture, manufacturing, electricity, wholesale and retail trade, real estate and business services.

Extended broad money supply (M3) recorded an annual growth rate of 15.6 per cent compared to 10.0 per cent recorded in the year ending December 2013. During the period, credit to the private sector grew by 19% compared with a growth of 15% registered in the year ending December 2013. Trade, personal loans and manufacturing activities continued to hold the largest share of total outstanding credit to the private sector. In terms of FX earners, the Tourism sector took over from Gold exports as the main FX income earner during 2014 and there is a lot of scope for growth in export earnings given the immense resources available in Tanzania.

All in all, despite the various challenges, the performance of the economy remains steady and is on course to perform similarly during 2015.

YOUR BANK IN 2014

As at the end of December 2014, your Bank's profits before tax, increased by 4.8% from TZS 5.987 billion to stand at TZS 6.275 Billion. The Bank's loan portfolio increased by 19.9% from TZS 187.033 billion in December 2013 to TZS 224.261 billion as at December 2014. Customer deposits grew by 15.7% from TZS 256.875 billion to reach TZS 297.311 billion. This resulted in a balance sheet growth of 15.74% since December 2013, to stand at TZS 343.336 billion as at December 2014. This was achieved in the backdrop of the shilling exchange rate at an average of TZS 1,706.32 per USD from an average of TZS 1,666.54 per USD in the preceding quarter and TZS 1,609.04 per USD in the quarter ending December 2013, indicating an annual depreciation of 6.05 per cent.

In keeping up with the regulatory requirements and improving our liquidity position, the Bank bolstered its capital base by raising Tier-2 capital through a Subordinated Debt of USD 10 Million from DEG (Deutsche Investitions- und Entwicklungsgesellschaft), a German investment and development corporation. DEG is a valued shareholder of I&M Holdings Ltd and this investment is a clear indicator of its continued confidence in the Bank and the Group. With this support, your Bank will be in a better position to withstand market turbulences, promote financial inclusion and support sustainable development in Tanzania.

In pursuit of new growth opportunities and to support the expanding businesses in Tanzania, your Bank was also granted a Global Trade Finance Program (GTFP) line for USD 8 million by International Finance Corporation (IFC) to facilitate longer term trade transactions of up to 2 years. The GTFP line allows the Bank to offer unique support its customers with their long term capital expansion requirements. The key benefit to our clients is the benefit of finely priced Letters of Credit of up to two years tenors

CHAIRMAN'S STATEMENT (CONTINUED)

to support imports of capital goods and thereby, reduces the need for upfront cash flows.

During the year, your Bank also invested TZS 500 million in an equity participation in Tanzania Mortgage Refinance Company Limited (TRMC) for access of long term funding for the purposes of mortgage financing. In line with the above your Bank has introduced a retail housing loan product with a unique option of step up loan repayments to make it more affordable; a unique proposition in the Tanzanian market.

In its strive to offer a suite of alternate banking channels, the introduction of domestic and international EMV compliant VISA ATM / Debit cards are also complete and hence, all our Debit Cards have access to the wide international network of VISA ATMs and all our ATMs now accept International VISA cards. The year 2014 also saw us continue with our physical expansion of the branch network with the Bank opening its 7th Branch at Oysterbay, Dar es Salaam and 8th Branch at Moshi. With the opening of the Oysterbay Branch, the Bank also expanded its range of products by offering locker facilities in a safe and convenient location.

In addition, we are the first Bank in Tanzania to introduce a boutique service lounge at Viva Towers, one of the prestigious locations in Dar es Salaam. This service lounge offers banking services in luxury and comfort, where by customers can request for numerous services more conveniently and also offers a unique automated banking experience in the form of an electronic 24/7 banking lobby which offers facilities for foreign exchange conversion, bulk cash deposit and cash withdrawals.

I&M Bank (T) Ltd's latest venture in technology based solutions included the successful launching of a Co-branded premium Tanzania Shillings Prepaid Card jointly with BPESA, thereby, securing our clients from the risk of carrying cash and to provide access to people in unbanked areas to electronic payments.

Due to the growth of the organization structure, your Bank also expanded its support functions at Maktaba Square. This expansion included a new purpose built Data Centre to support the introduction of technology based solutions as well as a corporate office to create a harmonic and cohesive working environment to increase productivity and offer improved service delivery to prospective clients as well as ensure adequate space to accommodate our future growth. For any institution to grow, it is also paramount that it retains and develops its Human Resource capabilities. With this in mind, the Bank also continued its efforts in attracting and retaining talent to meet the growth in business as well as maintain its regular programme of training and development of its employees through both external courses as well as in-house bespoke trainings at its new training centre.

THE YEAR AHEAD

Ladies and Gentlemen, we are committed to achieving the vision of the Bank to be one of the leading innovative Banks in Tanzania. The Bank will continue to look for opportunities to serve all our esteemed customers better, by continuously improving our service delivery standards, as well as the bouquet of products and services. Aside from the physical expansion of the network, we will continue to look for opportunities to expand our presence through technology to create a true integrated system that provides access to quality and affordable banking services. The year 2015 will witness the launch of additional Alternative Banking Channels including Mobile Banking with complete tie ups for utility payments for the convenience of our customers. Changes and transformations are inevitable in the banking sector and as a dynamic organization, we will continue to deliver innovative products in order to adapt and respond to the needs of our customers. Your Bank will also continue to use its regional presence through the Group to offer unique products to assist customers in their regional expansion across the East African markets.

One of the key principles to ensuring we achieve our vision is a strong focus on International standards of Banking. By adopting the best practices in Banking, we will be in a position to operate more efficiently and offer superior services to our customers. The Bank is committed to participating in international efforts to counter money laundering and terrorism financing by implementing an automated AML Software. In addition, the Bank remains focused on ensuring a sustainable model of financing and will therefore continue to improve on its Environmental & Social Management System (ESMS).

The year ahead looks promising and with the investments made in 2014 the Bank is well positioned to expand its presence and market.

ACKNOWLEDGEMENTS

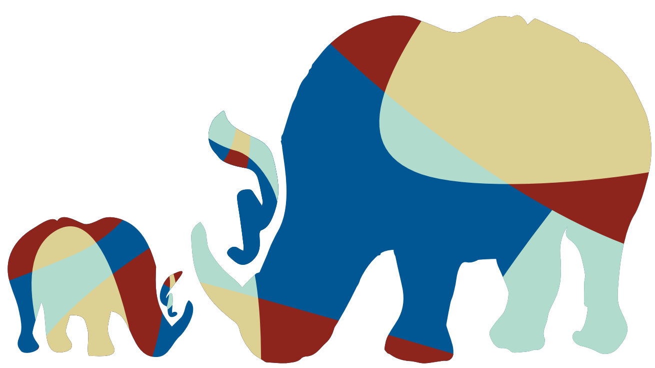
We are fully aware that we cannot achieve our ambitious goals alone and we are most grateful for all the meaningful value provided by our partners. I would like to express my admiration for all the stakeholders who have worked well to support the Bank – our shareholders, competent Board of Directors, our management and staff and our service providers for their valuable contributions. Special thanks to our regulator, Bank of Tanzania, in providing all the necessary support to the Bank.

I would also like to take this opportunity to inform that Mr. Anurag Dureha, who was the Chief Executive Officer, has since left the services of the Bank with effect from February 2015 due to personal circumstances. The Board acknowledges with considerable gratitude the contribution made by him during his term as the Chief Executive Officer and wishes him the best in his future endeavours.

Finally, let me express my thanks to our customers for their continued patronage. Their suggestions are a vital part of our growth. And for that, we are most grateful and we look forward to serving them for many years to come. We remain dedicated to creating greater value for our customers.

Asante Sana!

Sarit S Raja Shah
Chairman



DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

1. INTRODUCTION

The Directors submit their report and the audited financial statements for the year ended 31 December 2014 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 limited company and 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 2014.

5. REVIEW OF BUSINESS PERFORMANCE

The Bank's results are set out on page 28 of these financial statements. During the year under review, the Bank recorded a profit before tax of TZS 6,275 million compared to TZS 5,987 million in the previous year, representing an increase of 4.80%. The increase is due to increase in net interest income of TZS 2,631 million showing a growth of 21.60%

Interest Income

Interest income during the year amounted to TZS 30,259 million compared to TZS 23,465 million in the previous year, representing an increase of 28.95% (TZS 6,794 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 19.90% from the previous year.

Interest expense

Interest expense during the year amounted to TZS 15,444 million, as compared to TZS 11,281 million in the prior year, representing an increase of 36.90% (TZS 4,163 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 14,815 million, as compared to TZS 12,184 million in prior year, representing an increase of 21.60% (TZS 2,631 million).

STATEMENT ON CORPORATE GOVERNANCE

5. REVIEW OF BUSINESS PERFORMANCE (CONTINUED)

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 4,496 million compared to TZS 3,936 million in the previous year, representing an annual increase of 14.21%

Non-interest expenses before tax

Non- interest expenses before tax amounted to TZS 12,271 million as compared to TZS 9,009 million in prior year, implying an increase of 36.21%. The increase is largely attributed to growth in personnel costs as a result of the increase in the number of employees and salary increments as well as occupancy and marketing & consultancy costs due to the expansion of the branch network during the year. The number of employees at the end of year totalled 157 as compared to 127 at the end of 2013.

Income tax expense

Income tax expense amounted to TZS 2,181 million (2013: TZS 2,174 million).

Key performance ratios

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

	2014	2013
Return on average assets	1.24%	1.45%
Return on average equity	12.97%	13.53%
Non- interest income to net interest income	30.34%	32.31%
Operating expenses to average assets	3.72%	3.42%
Non-interest expenses before tax to operating income	63.54%	55.89%

6. REVIEW OF FINANCIAL POSITION

The Bank's financial position is set out on page 28of these financial statements. Major movements are as explained in the table below:

Item	**2014**	2013	**Increase / (Decrease)**	**Increase / (Decrease)**
	TZS' 000	TZS ' 000	**TZS ' 000**	**%**
Cash and bank balance with BOT	50,557,300	29,076,766	21,480,534	74%
Government securities held to maturity	50,864,788	41,250,952	9,613,836	23%
Other money market placements held to maturity	1,704,000	16,537,500	(14,833,500)	(90%)
Investment securities available for sale	500,000	-	500,000	100%
Loans and advances	224,260,585	187,033,443	37,227,142	20%
Intangible assets	883,793	1,074,675	(190,882)	(18%)
Deposits	297,311,300	256,875,329	40,435,971	16%
Long term borrowing	11,246,980	7,923,258	3,323,722	42%
Other liabilities	2,202,514	1,473,925	728,589	49%

STATEMENT ON CORPORATE GOVERNANCE (Continued)

6. REVIEW OF FINANCIAL POSITION (CONTINUED)

Government securities held to maturity

The increased investment in government securities by TZS 9,614 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 decreased by TZS 14,834 million from prior year. The decrease was due to the low rates earned in overnight placements compared to earnings from Government securities. The surplus funds were invested in higher yielding Government securities.

Loans and advances

The loans and advances increased by TZS 37,227 million on account of growth in credit to, both, existing and new customers.

Intangible assets

Intangible assets decreased by TZS 191 million from prior year. The decrease was due to amortization charge for the year.

Deposits

Deposits increased by TZS 40,436 million through growth in the customer base due to increased marketing activities as well as on account of growth in Bank Deposit holdings.

Long term borrowing

Long term borrowing increased by TZS 3,324 million which was attributed to a new long term loan received from Tanzania Mortgage Refinance Company Limited (TMRC) of TZS 3,250 million, for onward lending on housing Loans.

Other liabilities

Other liabilities increased by TZS 729 million mainly due to deferred loan administration fees from new loans disbursed during the year.

Key efficiency ratios

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

	2014	2013
Total capital to total assets	**9.47%**	9.90%
Non-performing loans to total advances	**1.30%**	2.05%
Gross loans to total deposits	**76.49%**	73.70%
Loans to total assets	**65.32%**	63.05%
Liquidity ratio	**32.22%**	34.02%

STATEMENT ON CORPORATE GOVERNANCE (Continued)

7. GOING CONCERN AND SOLVENCY EVALUATION

The Bank has complied with all the Bank of Tanzania liquidity and capital adequacy ratios. 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 32 to 44 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 2014 (2013: 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 network so as to widen its available services closer to its customers.

11. DIVIDEND

The Board of Directors propose a final dividend of TZS 1,023.33 million at TZS 0.43 million per share [2013: TZS 953.21 million at TZS 0.40 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 the Deputy Chief Executive Officer and the Department Heads.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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
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. Shameer Patel	Member	Kenyan	Bachelor of Arts – Joint Honours – in Economics & Geography	11th September 2013
Mr. Arun S Mathur *	Alternate Director to Mr.Shameer Patel	Kenyan	B. Tech (Hons.) Diploma in Statistical Methods	14th January 2010
Mr. Josep Oriol **	Alternate Director to Mr. Thierry Hugnin	Spanish	BA in Political Science (International Relations), Master of Business Administration.	10th October 2012

* Alternate Member to Mr Shameer Patel
** Alternate Member to Mr Thierry Hugnin

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 2014 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 2014.

15. DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2014 was TZS 88 million (2013: TZS 24 million).

STATEMENT ON CORPORATE GOVERNANCE (Continued)

16. CAPITAL STRUCTURE AND SHAREHOLDING

	2014	2013
	TZS	**TZS**
Authorised		
10,000 Ordinary Shares of TZS 1,000,000/- each	10,000,000	10,000,000
Issued & Fully Paid		
2,395 Ordinary Shares of TZS 1,000,000/- each	2,395,000	2,395,000

Shareholding

As at 31st December 2014, 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
	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. 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.

18. 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

18. CORPORATE GOVERNANCE (CONTINUED)

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).

The Board Audit Committee members who served the Committee during 2014, unless otherwise stated 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

The Committee meets at least four times in a year.

Board Credit Committee

This Committee assists the Board in fulfilling its primary responsibilities in reviewing 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 2014, unless otherwise stated 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

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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

18. CORPORATE GOVERNANCE (CONTINUED)

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

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 concessional 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.

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 157 (2013:127).

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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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 2014, the Bank had 78 male and 79 female employees (2013: 63 male and 64 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 7.4 million (2013: TZS 18 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. ENVIRONMENTAL & SOCIAL MANAGEMENT SYSTEM

The Bank is aware that Environmental and Social risks are critical and require systems to monitor and control in line with regulatory requirements (IFC performance standards and ILO standards); thus its commitment to the use of an Environmental and Social Management System (ESMS). The ESMS ensures that these risks are sufficiently managed as stipulated in the Bank's Environmental and Social Management policy. The EMSM is integrated within the overall credit risk management framework and is reviewed periodically to ensure it remains compliant with the regulatory and the internal risk management framework.

27. SUBSEQUENT EVENTS

Since balance sheet date, the Bank has entered into an agreement with DEG for a subordinated debt qualifying as Tier II Capital equivalent of USD 10 (Ten) Million of which an amount of USD 8 Million has already been received during the month of January 2015.

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

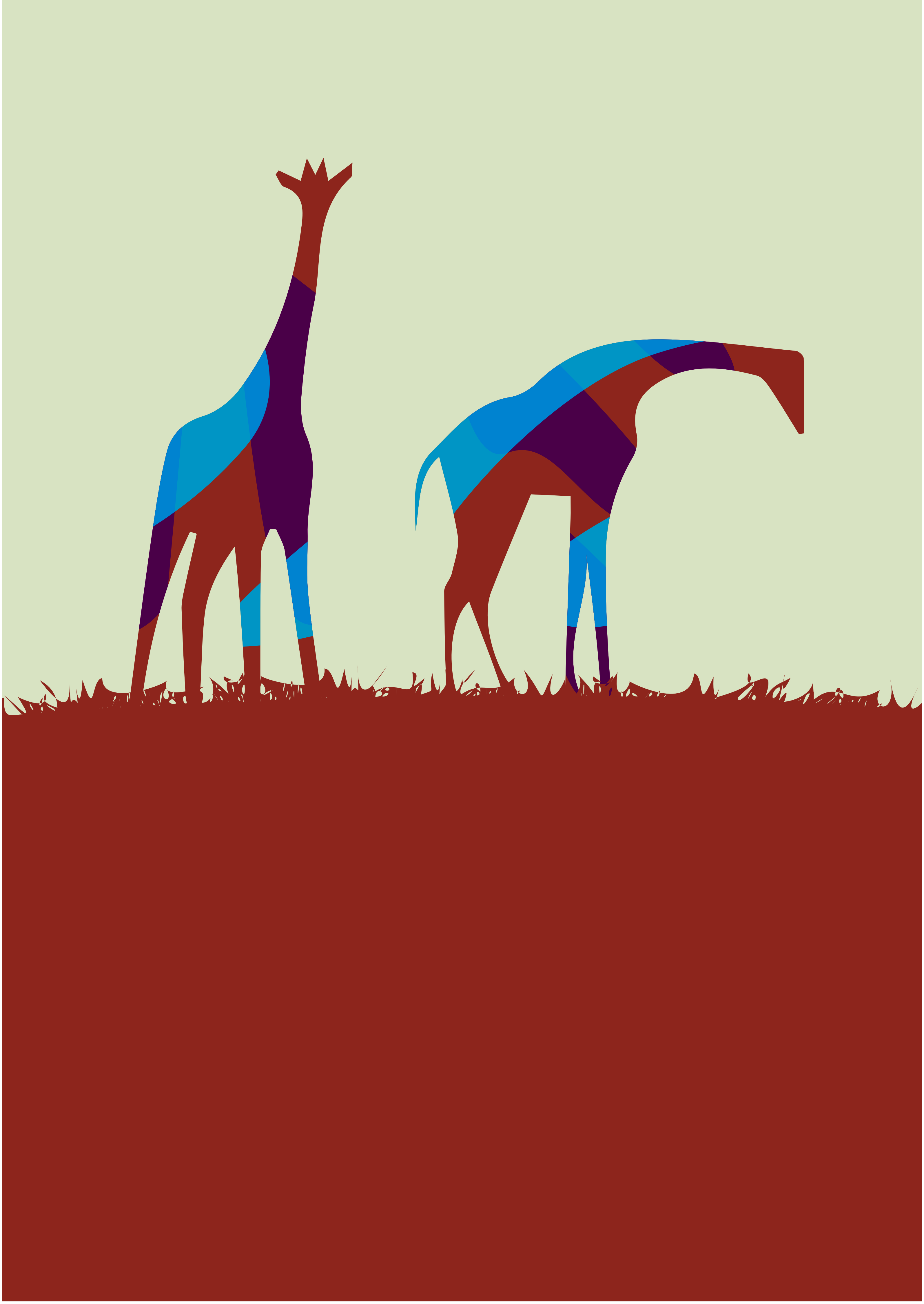
28. AUDITORS

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 2015 will be put to the Annual General Meeting.

Approved by the Board of Directors on ______________ 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 FOR YEAR ENDED 31 DECEMBER 2014

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

The directors accept responsibility for the 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 (IFRS) 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 Company and of its profit in accordance with International Financial Reporting Standards (IFRS). 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 whether due to fraud or error.

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 27.

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:**

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF I&M BANK (T) LIMITED

We have audited the accompanying financial statements of I&M Bank (T) Limited ("the Bank"), which comprise the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set on pages 28 to 81.

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.

Auditors' 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 as at 31 December 2014 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.

....
Patrick Kiambi

For and on behalf of PricewaterhouseCoopers
Certified Public Accountants (TACPA 2576)
Dar es Salaam

20 February 2015
Date

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 TZS '000	2013 TZS '000
Interest income	4	**30,258,761**	23,464,765
Interest expense	5	**(15,443,886)**	(11,281,032)
Net interest income		**14,814,875**	12,183,733
Fee and commission income	6	**3,263,450**	2,518,012
Net trading income	7	**1,126,305**	1,203,421
Other operating income	8	**105,775**	214,686
Total operating income		**19,310,405**	16,119,852
Impairment and credit losses on loans and advances	18	**(765,020)**	(1,123,931)
Net operating income		**18,545,385**	14,995,921
Personnel expenses	9	**(5,755,726)**	(4,327,449)
Occupancy costs	10	**(974,835)**	(717,815)
Depreciation of property and equipment	20	**(381,830)**	(322,450)
Amortisation of intangible assets	21	**(256,772)**	(224,722)
Other operating expenses	11	**(4,901,631)**	(3,416,354)
Total operating expenses		**(12,270,794)**	(9,008,790)
Profit before tax		**6,274,591**	5,987,131
Income tax expense	12	**(2,181,262)**	(2,173,777)
Profit for the year attributable to shareholders		**4,093,329**	3,813,354
Other comprehensive income		**-**	-
Total comprehensive income for the year		**4,093,329**	3,813,354

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	2014 TZS '000	2013 TZS '000
Assets			
Cash and balances with Bank of Tanzania	13	**50,557,300**	29,076,766
Balance with other banks	14	**8,106,296**	17,277,808
Cheques and items for clearance	14	**89,036**	674,409
Investment securities:			
-Held to maturity	15	**50,864,788**	41,250,952
-Available –for-sale	16	**500,000**	-
Other money market placements held to maturity	17	**1,704,000**	16,537,500
Loans and advances	18	**224,260,585**	187,033,442
Deferred tax asset	12	**450,148**	334,013
Property and equipment	20	**4,809,044**	2,579,984
Intangible assets	21	**883,793**	1,074,675
Other assets	19	**1,110,663**	801,472
Total assets		**343,335,653**	296,641,021
Liabilities and equity			
Liabilities			
Deposits	22	**297,311,300**	256,875,329
Tax payable	12	**77,313**	1,011,082
Other liabilities	23	**2,202,514**	1,473,925
Long term borrowing	24	**11,246,980**	7,923,258
Total liabilities		**310,838,107**	267,283,594
Equity			
Share capital	25	**2,395,000**	2,395,000
Share premium	25	**7,482,000**	7,482,000
Retained earnings		**22,620,546**	19,480,427
Total equity		**32,497,546**	29,357,427
Total liabilities and equity		**343,335,653**	296,641,021

The financial statements on pages 28 to 81 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 AS AT 31 DECEMBER 2014

	Share capital	Share premium	Retained earnings	Total
	TZS '000 (Note 25)	TZS '000 (Note 25)	TZS '000	TZS '000
Year ended 31 December 2014				
At 1 January 2014	**2,395,000**	**7,482,000**	**19,480,427**	**29,357,427**
Total comprehensive income for the year			**4,093,329**	**4,093,329**
Profit for the year	-	-	**4,093,329**	**4,093,329**
Final dividend for 2013 paid (Note 34)	-	-	**(953,210)**	**(953,210)**
At 31 December 2014	2,395,000	7,482,000	22,620,546	32,497,546
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
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**

STATEMENT OF CASH FLOWS AS AT 31 DECEMBER 2014

	Notes	2014 TZS '000	2013 TZS '000
Cash flow from Operating activities			
Cash generated from operations	14(b)	**(13,018,424)**	(38,488,887)
Interest received		**31,055,146**	23,404,867
Interest paid		**(13,468,066)**	(11,823,568)
		4,568,656	(26,907,588)
Income tax paid	12	**(3,231,165)**	(1,455,178)
Net cash flow generated from/ (utilized in) operating activities		**1,337,491**	(28,362,766)
Cash flow generated from investing activities			
Purchases of property and equipment	20	**(2,610,890)**	(330,261)
Purchases of intangible assets	21	**(65,890)**	(352,483)
Proceeds from sale of property and equipment		**-**	5,000
Net cash used in from investing activities		**(2,676,780)**	(677,744)
Cash flow generated from financing activities			
Purchases of shares	16	**(500,000)**	-
Proceeds from borrowings		3,250,000	-
Repayment of borrowings		**(782,951)**	-
Dividend paid	34	**(953,210)**	(546,060)
Net cash generated from / (utilized in) financing activities		**1,013,839**	(546,060)
Net decrease in cash and cash equivalents		**(325,450)**	(29,586,570)
Cash and cash equivalent at beginning of year		**(13,870,217)**	15,716,353
Cash and cash equivalent as at year end	14(a)	**(14,195,667)**	(13,870,217)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 20 February 2015 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

The following standards have been adopted by the Bank for the first time for the financial year beginning on or after 1 January 2014 and have an impact on the Bank:

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Bank financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(i) New and amended standards adopted by the Bank (Continued)

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Bank has applied the amendment and there has been no significant impact on the Bank financial statements as a result.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Bank is not currently subjected to significant levies so the impact on the Bank is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Bank.

(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 2014, 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 set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(iii) New and amended standards adopted by the Bank (Continued)

'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Bank is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.1.2 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:

(i) 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.

(ii) 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:

(a) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.2 Recognition of income and expenses (continued)

(b) 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.

(c) 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.

(d) Dividend income

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

2.1.3 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.

(i) 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.

(ii) 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.

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.4 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.

2.1.5 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 recognition criteria are met as required by IAS 16. Borrowing costs for long-term projects are capitalised if they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other repair and maintenance costs are recognised in profit or loss as incurred. Depreciation is calculated on reducing balance basis to write down the cost of the asset to its residual value over the estimated useful life as follows:

Description	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).

2.1.6 Intangible assets

The Bank's 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.6 Intangible assets (continued)

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

2.1.7 Leasing

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

Bank as a lessee

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

Bank as a lessor

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

Leasehold improvements

Leases of leasehold improvements are classified as operating leases; these 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.7 Leasehold improvements (continued)

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.

2.1.8 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.

2.1.9 Financial instruments - initial recognition and subsequent measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.9 Financial instruments - initial recognition and subsequent measurement **(continued)**

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.

2.1.10 *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.

2.1.11 *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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.11 *Reclassification of financial assets and liabilities (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.

2.1.12 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

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

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets carried at amortised cost (Continued)

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.

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.

2.1.13 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.

2.1.14 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs *(Continued)*

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.

2.1.15 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.

2.1.16 *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.

2.1.17 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.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1.17 Deferred tax (Continued)

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.

2.1.18 *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.

2.1.19 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.

2.1.20 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 shares.

2.1.21 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, and intangible assets

Critical estimates are made by the directors in determining depreciation and amortisation rates and 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 and equipment and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 163 million lower or higher (2013: TZS 273 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 305 million, with a corresponding entry in the fair value reserve in shareholders' equity.

4. INTEREST INCOME

	2014	2013
	TZS '000	TZS '000
Loans and advances	22,974,493	18,888,227
Government securities	6,851,354	4,317,972
Placements	432,915	258,566
	30,258,761	23,464,765

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

5. INTEREST EXPENSE

	2014	2013
	TZS '000	TZS '000
Fixed deposits	14,156,117	10,699,380
Long term borrowings	454,727	304,783
Savings and other deposits	833,042	276,869
	15,443,886	11,281,032

6. FEE AND COMMISSION INCOME

	2014	2013
Commission on guarantee issued	151,068	220,712
Commission on services charge	173,830	264,949
Loan administration charge	1,345,275	531,982
Commission on telex charges	164,430	91,161
Commission on TT	476,051	530,634
Commissions on other services rendered	952,796	878,574
	3,263,450	2,518,012

7. NET TRADING INCOME

	2014	2013
Foreign currency dealings and translation gains	1,126,305	1,203,421

8. OTHER OPERATING INCOME

	2014	2013
Charges on minimum balance deposit	27,461	30,641
Gain on disposal of property and equipment	-	1,558
Miscellaneous income	78,314	182,487
	105,775	214,686

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

9. PERSONNEL EXPENSES

	2014	2013
	TZS '000	TZS '000
Salaries and wages	3,805,955	2,884,067
Bonus	164,100	241,529
Social security costs (Defined contribution plan)	378,348	272,267
Skills development levy	224,895	176,256
Other employment costs and benefits	1,182,428	753,330
	5,755,726	4,327,449

The number of employees employed by the Bank as at the year-end was 157 (2013:127).

10. OCCUPANCY COSTS

	2014	2013
	TZS '000	TZS '000
Electricity	94,114	53,329
Office rent	870,597	648,903
Water	10,124	15,583
	974,835	717,815

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

11. OTHER OPERATING EXPENSES

	2014	2013
	TZS '000	TZS '000
Auditors' fees	68,585	49,985
Directors' emoluments	88,003	23,952
Board expenses	29,364	29,498
Bank charges	90,639	84,313
Marketing expenses	376,893	200,034
Management fee	584,212	463,906
Communication expenses	772,901	774,276
Repairs and maintenance	266,981	218,830
Donations	41,406	27,500
Security charges	397,372	245,636
Insurance	439,199	337,045
Travelling expenses	195,983	238,872
Printing and stationery	145,579	132,045
Computer expenses	360,954	64,872
Consulting fees	154,485	-
City service levy	66,900	35,653
Legal fees	46,953	-
Other losses	240,440	196,234
Other expenses	534,782	293,703
	4,901,631	3,416,354

12. INCOME TAX

a) **Income tax expense**

	2014	2013
Current year tax	2,297,397	2,330,621
Deferred tax credit during the year	(116,135)	(156,844)
	2,181,262	2,173,777

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

12. INCOME TAX (Continued)

b) **Reconciliation of tax expense to tax based on accounting**	**2014**	2013
	TZS '000	TZS '000
Accounting profit before taxation	**6,274,591**	5,987,131
Tax at applicable rate of 30% (2013:30%)	**1,882,377**	1,796,139
Expenses not deductible for tax purposes	**211,616**	194,182
Prior year under provision for deferred income tax	**87,269**	183,456
Effective tax expense 35% (2013:36%)	**2,181,262**	2,173,777

(c) **Deferred tax asset**	**1 January**	**Increase in**	**31 December**
31 December 2014	**2014**	**the year**	**2014**
	TZS'000	**TZS'000**	**TZS'000**
Property, plant and equipment	352,539	144,077	**496,616**
Provisions for losses on loans and advances	(686,552)	(260,212)	**(946,764)**
	(334,013)	(116,135)	**(450,148)**
31 December 2013			
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)

	2014	2013
	TZS '000	TZS '000
d) **Tax payable**		
At 1 January	**1,011,082**	135,639
Charge for the year	**2,297,396**	2,330,621
Payments made during the year	**(3,231,165)**	(1,455,178)
At 31 December	**77,313**	1,011,082

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

13. CASH AND BALANCES WITH BANK OF TANZANIA

	2014	2013
	TZS '000	TZS '000
Cash in hand	3,947,814	3,804,506
Current account balance with the Bank of Tanzania	15,660,375	2,374,969
	19,608,189	6,179,475
Statutory Minimum Reserve (SMR)	30,949,111	22,897,291
	50,557,300	29,076,766

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 14).

14a. CASH AND CASH EQUIVALENTS

	2014	2013
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania (excluding SMR)	19,608,189	6,179,475
Balance with other banks	8,106,296	17,277,808
Cheques and items for clearance	89,036	674,409
Deposits from banks and other financial institutions (Note 22)	(56,887,500)	(61,075,000)
Government securities maturing within 3 months (Note 15)	13,184,312	6,535,591
Other money market placements maturing within 3 months (Note 17)	1,704,000	16,537,500
	(14,195,667)	(13,870,217)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

14b. CASH GENERATED FROM OPERATIONS

	Notes	2014 TZS '000	2013 TZS '000
Cash flow from operating activities before interest			
Profit before income tax		**6,274,591**	5,987,131
Adjustments			
Depreciation of property and equipment	20	**381,830**	322,450
Amortisation of intangibles	21	**256,772**	224,722
Loan impairment charges	18	**765,020**	1,123,931
Exchange gain on borrowing		**794,312**	(85,000)
Gain on disposal of property and equipment		**-**	(1,558)
Net interest income		**(14,814,875)**	(12,183,733)
Cash flows used in operating profits before changes in operating assets and liabilities		**(6,342,350)**	(4,612,057)
Statutory minimum reserve	13	**(8,051,819)**	(3,190,600)
Loans and advances	18	**(37,992,163)**	(34,611,030)
Other assets	19	**(309,191)**	(357,630)
Deposits with non-financial institutions	22	**42,710,012**	7,705,962
Other liabilities	23	**728,589**	845,091
Other money market placements with banks with maturity over three months	17	**-**	(24,970)
Movement on private securities held to maturity		**-**	850,000
Government securities with maturity over three months	15	**(3,761,502)**	(5,093,653)
Cash flows used in operations activities		**(13,018,424)**	(38,488,887)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

15. GOVERNMENT SECURITIES HELD TO MATURITY

	2014	2013
	TZS '000	TZS '000
Treasury bills and bonds		
Up to three months	13,184,312	6,535,591
Up to six months	11,942,283	8,286,443
Up to twelve months	8,343,991	9,221,373
Over one year	17,394,202	17,207,545
	50,864,788	41,250,952
Current	33,470,585	24,043,407
Non-current	17,394,203	17,207,545
	50,864,788	41,250,952

Government securities held to maturity as at year end are not impaired (2013: not impaired).

16. INVESTMENT AVAILABLE FOR SALE

	2014	2013
	TZS '000	TZS '000
Tanzania Mortgage Refinance Company Limited (TMRC)	500,000	-

The Bank had invested TZS 500 million as equity and obtained Long term borrowing of TZS 3,250 million with interest rate of 11.50%p.a.

17. OTHER MONEY MARKET PLACEMENTS HELD TO MATURITY

	2014	2013
	TZS '000	TZS '000
Up to three months	1,704,000	16,537,500

Of the total other money market placements held to maturity, TZS. 1,704 million is denominated in local currencies (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

18. LOANS AND ADVANCES

	2014	2013
	TZS '000	TZS '000
Loan and advances (gross)	225,507,365	188,641,720
Loan to staff	1,909,097	680,228
	227,416,462	189,321,948
Less: Allowances for losses on loans and advances	(3,155,877)	(2,288,506)
Net loans and advances	224,260,585	187,033,442
Maturity analysis		
Repayable on demand	15,784,423	11,346,484
With maturity of 3 months or less	30,922,220	5,412,190
With maturity of between 3 months and 1 year	60,395,498	59,551,101
With maturity of more than 1 year	120,314,321	113,012,173
	227,416,462	189,321,948

Of the total loans and advances, TZS 138,602 million is denominated in foreign currencies (2013: TZS 140,277 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 would have been TZS 151 million higher.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

18. LOANS AND ADVANCES (Continued)

	2014	2013
	TZS '000	TZS '000
Movement in allowance for losses on loans and advances:		
At 1 January	2,288,506	1,043,175
Impairment and credit losses for the year	412,065	1,123,931
Written off during the year	352,955	-
Interest suspended during the year	102,351	121,400
At 31 December	3,155,877	2,288,506

Allowance for losses on loans and advance by class:

(All amounts are in TZS '000')

31 December 2014	**Overdrafts**	**Term Loans**	**Total**
Portfolio impairment	753,598	1,214,116	**1,967,714**
Individual impairment	783,869	404,294	**1,188,163**
Total impairment	**1,537,467**	**1,618,410**	**3,155,877**
31 December 2013			
Portfolio impairment	509,855	627,619	1,137,474
Individual impairment	841,858	309,174	1,151,032
Total impairment	**1,351,713**	**936,793**	**2,288,506**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

18. LOANS AND ADVANCES (Continued)

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

	2014	2013
	TZS '000	TZS '000
Manufacturing - 18% (2013:17%)	41,182,770	31,574,026
Wholesale and retail trade - 21% (2013:26%)	48,054,970	49,102,156
Transport and communication - 9% (2013:6%)	19,659,910	12,190,699
Private individual including staff - 2% (2013:3%)	5,517,720	5,795,773
Agriculture, fishing, forestry, hunting - 3% (2013:3%)	6,155,400	6,334,870
Real estates and construction - 32% (2013:32%)	72,614,360	60,656,721
Tourism, hotels and restaurant - 5% (2013:4%)	10,742,050	8,071,740
Mining and quarrying - 4% (2013:2%)	9,461,110	3,696,150
Others - 6% (2013:6%)	14,028,172	11,899,813
Total loans and advances (including staff advances)	227,416,462	189,321,948

19. OTHER ASSETS

	2014	2013
Deposit insurance fund	87,274	97,882
Salary advances	10,070	11,848
Prepaid expenses	884,268	466,465
Western Union	-	188,177
Sundry debtors	129,051	37,100
	1,110,663	801,472

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

20. PROPERTY AND EQUIPMENT

	Computer and other equipment	Motor vehicles	Furniture and fittings	Leasehold Improvement	Work in progress	Total
At 31 December 2014	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Cost						
At 1 January 2014	903,435	163,965	809,998	1,560,443	300,059	**3,737,900**
Adjustment	-	-	-	-	-	**-**
Additions	366,838	21,210	133,847	1,154,720	934,276	**2,610,890**
Disposal	-	-	-	-	-	**-**
Transfer	359,296	-	-	33,952	(393,249)	**-**
	1,629,569	**185,175**	**943,845**	**2,749,115**	**841,086**	**6,348,790**
Accumulated depreciation						
At 1 January 2014	395,366	82,536	288,439	391,576	-	**1,157,916**
Adjustment	-	-	-	-	-	**-**
Disposal	-	-	-	-	-	**-**
Transfer	-	-	-	-	-	**-**
Charge for the year	113,782	22,025	73,698	172,325	-	**381,830**
	509,148	**104,561**	**362,137**	**563,901**	**-**	**1,539,746**
Net book value	**1,120,422**	**80,613**	**581,708**	**2,185,214**	**841,086**	**4,809,044**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

20. PROPERTY AND EQUIPMENT (Continued)

	Computer and other equipment	Motor vehicles	Furniture and fittings	Leasehold Improvement	Work in progress	Total
At 31 December 2013	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**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	-	**-**
	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**
	395,366	82,536	288,439	391,576	-	**1,157,916**
Net book value	508,069	81,430	521,559	1,168,867	300,059	2,579,984

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

21. INTANGIBLE ASSETS

	2014 TZS '000	2013 TZS '000
System software		
Cost		
At 1 January	**1,485,174**	1,132,691
Additions	**65,890**	352,483
At 31 December	**1,551,064**	1,485,174
Accumulated amortisation		
At 1 January	**410,499**	185,777
Charge for the year	**256,772**	224,722
At 31 December	**667,271**	410,499
Carrying amount		
At 31 December	**883,793**	1,074,675

22. DEPOSITS

	2014	2013
Interest bearing deposits		
Customer accounts	**179,164,596**	144,130,110
Banks and other financial institutions (Note 14)	**56,887,500**	61,075,000
Interest payable	**6,744,848**	4,416,878
	242,796,944	209,621,988
Non-interest bearing deposits		
Customer accounts	54,514,356	47,253,341
	297,311,300	256,875,329
Maturity analysis		
Repayable on demand	82,872,613	72,963,685
With maturity of 3 months or less	139,421,094	118,916,107
With maturity of between 3 months and 1 year	72,746,559	64,825,282
With maturity over one year	2,271,034	170,255
	297,311,300	256,875,329

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

23. OTHER LIABILITIES

	2014	2013
	TZS '000	TZS '000
Bankers cheques	200,098	112,255
Accrued loan administration fees	1,270,160	692,874
Accrued expenses	664,305	328,553
Statutory liabilities	67,951	340,243
	2,202,514	1,473,925
Current	1,661,525	1,133,682
Non-current	540,989	340,243

24. LONG TERM BORROWING

	2014	2013
	TZS '000	TZS '000
Long term borrowing (PROPARCO and TMRC)	11,136,353	7,874,992
Accrued interest	110,627	48,266
	11,246,980	7,923,258
The loan is repayable as follows:		
Within one year	1,687,889	764,175
After one to three years	7,981,818	4,295,455
After three to five years	1,577,273	2,863,628
	11,246,980	7,923,258

PROPARCO

The long term borrowing of USD 5 million was granted on 3 July 2012 by PROPARCO. The facility is repayable in semi - annual installments with a final repayment date of 31 October 2019. The loan bears a floating interest rate. The effective interest rate on the long term borrowing is 3.50%.

TMRC (Tanzania Mortgage Refinance Company Limited)

The long term borrowing of TZS 3,250 million was granted on 14 July 2014 by Tanzania Mortgage Refinance Company Limited (TMRC) for tenor of 3 years. The interest on the facility is repayable on a quarterly basis and the principal at maturity. The effective interest rate on the long term borrowing is 11.50% p.a.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

25. SHARE CAPITAL AND SHARE PREMIUM

	2014	2013
	TZS '000	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 (2013: 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 (arising from 645 ordinary shares at a premium of TZS 11,600,000 per share)	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.

	2014	2013
Profit for the year attributable to equity holders of the company (TZS '000)	4,093,329	3,813,354
Weighted average number of shares (Number)	2,395	2,395
Basic and Diluted Earnings Per Share (TZS '000)	1,709	1,592

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

27. REGULATORY CAPITAL (Continued)

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized in addition to recognizing the need to maintain a balance between the higher returns 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 (2013: 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 2014	Risk weighted amounts 2014	Nominal Statement of financial position amounts 2013	Risk weighted amounts 2013
	TZS'000	**TZS'000**	TZS'000	TZS'000
Cash and balances with Bank of Tanzania	**50,557,300**	**-**	29,076,766	-
Balances with other bank	**8,106,296**	**1,621,259**	17,277,808	3,455,562
Cheques in the course of collection	**89,036**	**44,518**	674,409	337,205
Government securities held to maturity	**50,864,788**	**-**	41,250,952	-
Other money market placements held to maturity	**1,704,000**	**340,800**	16,537,500	3,307,500
Investment securities available for sale	**500,000**	**500,000**	-	-
Loans and advances	**224,260,585**	**217,532,767**	187,033,442	181,422,439
Other assets and deferred tax	**1,560,811**	**1,560,811**	1,135,485	1,135,485
Intangible assets	**883,793**	**883,793**	1,074,675	1,074,675
Property and equipment	**4,809,044**	**4,809,044**	2,579,984	2,579,984
Total assets	**343,335,653**	**227,292,993**	296,641,021	193,312,849
Not recognized positions				
Credit related commitments	**8,390,127**	**6,411,837**	16,017,847	8,213,670
Total risk-weighted assets		**233,704,830**		201,526,519

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

27. REGULATORY CAPITAL (Continued)

	2014	2013
	TZS '000	TZS '000
Share capital	2,395,000	2,395,000
Share Premium	7,482,000	7,482,000
Retained earnings	22,620,546	19,480,427
	32,497,546	29,357,427
Less:		
Prepaid expenses	971,542	564,347
Deferred tax asset	450,148	334,013
Intangible assets	883,793	1,074,675
	2,305,483	1,973,035
Core capital (Tier 1)	30,192,063	27,384,392
Tier 1 Capital & Tier 2 Capital	30,192,063	27,384,392
Risk - weighted assets		
On balance sheet	227,292,993	193,312,849
Off balance sheet	6,411,837	8,213,670
Total risk - weighted assets	233,704,830	201,526,519
Bank Ratios		
Tier 1 (BoT Minimum required is 10%)	12.92%	13.59%
Tier 1 + Tier 2 (BoT Minimum required is 12%)	12.92%	13.59%

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:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

28. RELATED PARTY TRANSACTIONS (Continued)

Directors and key management personnel: Loans	2014 TZS '000	2013 TZS '000
Loans outstanding at the beginning of the year	317,339	129,512
Loans issued during the year	1,059,788	691,082
Loan repayments during the year	(280,534)	(503,255)
Loans outstanding at the end of the year	1,096,593	317,339
Interest income earned	44,256	47,831
Directors and key management personnel: Deposits		
Deposits at the beginning of the year	3,223,738	256,630
Deposits received during the year	6,148,197	4,348,527
Deposits repaid during the year	(4,400,271)	(1,381,419)
Deposits at the end of the year	4,971,664	3,223,738
Interest expense	259,775	237,340

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

	2014	2013
Deposits at the beginning of the year	48,200,772	10,400,932
Deposits received during the year	324,098,000	81,029,354
Deposits repaid during the year	(341,936,272)	(43,229,514)
Deposits at the end of the year	30,362,500	48,200,772
Interest expense	1,215,240	416,500
Key management compensation		
Salaries and other short-term benefits	1,431,048	853,494
Post-employment benefits (PPF)	136,382	75,785
	1,567,430	929,279

Key management comprise of CEO and all heads of department.

	2014	2013
Directors' remuneration-made up of short-term benefits	88,003	23,952

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

Management fees	2014	2013
Management fees paid to I&M Bank Ltd	584,212	463,906

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

28. RELATED PARTY TRANSACTIONS (Continued)

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 2014, the Bank had capital commitments of TZS 4,846 million (2013: TZS 2,940 million) in respect of buildings, equipment and intangible assets 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

28. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(c) Commitments to extend credit (Continued)

The total outstanding commitments and contingent liabilities are as follows:

	2014	2013
	TZS '000	TZS '000
Letters of credit	5,743,873	5,058,095
Outstanding guarantees and indemnities	2,646,254	10,959,752
Undrawn balance	21,176,483	40,812,568
	29,566,610	56,830,415

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.

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:

	2014	2013
	TZS '000	TZS '000
Not later than 1 year	1,059,593	596,870
Later than 1 year and not later than 5 years	2,026,379	1,157,792
Later than five years	26,560	968,077
	3,112,532	2,722,739

Other than the above mentioned, there are no other material contingencies as at 31 December 2014, 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.

Since balance sheet date, the Bank has entered into an agreement with DEG for a subordinated debt qualifying as Tier II Capital equivalent of USD 10 (Ten) Million of which an amount of USD 8 Million has already been received during the month of January 2015.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31. HOLDING COMPANY

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

32. ASSETS PLEDGED AS SECURITY

Treasury bonds for an amount of TZS 4,000 million have been pledged as collateral for a long term facility from TMRC for TZS 3,250 million (2013: TZS Nil). (For more details refer to note 24).

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 Board Risk Committee and Board Credit Committee at the Directors level and by the Assets and Liability Committee (ALCO) and the Management Risk Committee at the Management level, under the various risk policies approved by the Board of Directors. Board Risk Committee monitors the operational risk, market & strategic risk. The Board Credit Committee oversees the management of the credit risk. The ALCO & Management Risk Committee evaluates financial risk in close co-operation with the Bank's operating units under overall guidance from the risk policies and risk appetite duly approved by the Board.

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 within the risk appetite approved by the Board. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

33. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

Management of credit risk (continued)

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.

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.

Exposure to credit risk

Loans and advances to customers

	2014	2013
	TZS '000	TZS '000
Carrying amount		
Individually impaired		
Grade 3: Impaired (Substandard)	**1,926,929**	3,414,380
Grade 4: Impaired (doubtful)	**54,766**	67,912
Grade 5: Impaired (Loss)	**968,087**	395,351
Gross amount	**2,949,782**	3,877,643
Allowance for impairment	**(1,188,163)**	(1,151,032)
Carrying amount	**1,761,619**	2,726,611
Collectively impaired		
Grade 1: Neither past due nor impaired (current)	**217,348,578**	179,179,724
Grade 2: Past due but not impaired (watch list)	**7,118,102**	6,264,581
Gross amount	**224,466,680**	185,444,305
Allowance for impairment	**(1,967,714)**	(1,137,474)
Carrying amount	**222,498,966**	184,306,831
Total Carrying amount	**224,260,585**	187,033,442

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

33. FINANCIAL RISK MANAGEMENT (Continued)

a) **Credit risk (continued)**

(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 may 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 advances 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:

- 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.

	2014	**2014**	2013	2013
	TZS '000'	**TZS '000'**	TZS '000'	TZS '000'
	Overdrafts	**Term Loans**	Overdrafts	Term Loans
Past due up to 30 days	**-**	**6,500**	-	609,086
Past due 30-60 days	**-**	**3,461,533**	1,129,048	1,561,118
Past due 60-90 days	**848,258**	**2,801,811**	2,965,329	-
	848,258	**6,269,844**	4,094,377	2,170,204

Maximum Exposure

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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

31 December 2014	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	50,557,300	-	-	-	-	-	50,557,300
Balance with other banks	14	8,106,296	-	-	-	-	-	8,106,296
Cheques and items for clearance	14	89,036	-	-	-	-	-	89,036
Government securities held to maturity	15	50,864,788	-	-	-	-	-	50,864,788
Investment securities available for sale	16	500,000	-	-	-	-	-	500,000
Other money market placements held to maturity	17	1,704,000	-	-	-	-	-	1,704,000
Loans and advances	18	-	41,182,770	72,614,360	48,054,970	56,890,765	5,517,720	224,260,585
Other asset (excluding prepayment)	19	139,121	-	-	-	-	-	139,121
		111,960,541	**41,182,770**	**72,614,360**	**48,054,970**	**56,890,765**	**5,517,720**	**336,221,126**
Credit risk exposures relating to off-balance sheet items are as follows:								
Financial guarantees		-	-	78,770	-	2,567,484	-	**2,646,254**
Loan commitments and other credit related obligations		850,783	-	3,426,879	-	1,466,211	-	**5,743,873**
		850,783	**-**	**3,505,649**	**-**	**4,033,695**	**-**	**8,390,127**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

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 2013	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	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
Investment securities available for sale	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	187,033,442
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
Credit risk exposures relating to off-balance sheet items are as follows:								
Financial guarantees		-	-	-	2,391,462	8,568,290	-	10,959,752
Loan commitments and other credit related obligations		-	-	-	4,394,125	663,970	-	5,058,095
		-	-	-	6,785,587	9,232,260	-	16,017,848

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

33. FINANCIAL RISK MANAGEMENT (Continued)

a) **Credit risk (continued)**

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

31 December 2014	Notes	Tanzania	Kenya	India	America	Total
		TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	13	50,557,300	-	-	-	50,557,300
Balance with other banks	14	2,737,815	(301,799)	44,933	5,625,347	8,106,296
Cheques and items for clearance	14	89,036	-	-	-	89,036
Government securities held to maturity	15	50,864,788	-	-	-	50,864,788
Investment securities available for sale	16	500,000	-	-	-	500,000
Other money market placements held to maturity	17	1,704,000	-	-	-	1,704,000
Loans and advances	18	224,260,585	-	-	-	224,260,585
Other asset (excluding prepayment)	19	139,121	-	-	-	139,121
		330,852,645	**(301,799)**	**44,933**	**5,625,347**	**336,221,126**

31 December 2013	Notes	Tanzania	Kenya	India	America	Total
		TZS '000	TZS '000	TZS '000	TZS '000	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	(17,669)	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
Investment securities available for sale	16	-	-	-	-	-
Other money market placements held to maturity	17	16,537,500	-	-	-	16,537,500
Loans and advances	18	187,033,442	-	-	-	187,033,442
Other asset (excluding prepayment)	19	237,125	-	-	-	237,125
		274,405,993	974,999	(17,669)	16,724,679	292,088,002

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 conditions for offsetting under IAS 32 are met.

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

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

Write-off policy

The Bank has set up a Board Credit Committee 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

33. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (continued)

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 repossess collateral held as security during the year.

b) Liquidity risk

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

The Bank maintains a portfolio of highly marketable and diverse assets that are 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.

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:

	2014	2013
At 31 December	**32%**	34%
Average for the year	**33%**	32%
Maximum for the year	**35%**	36%
Minimum for the year	**31%**	28%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

33. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (continued)

Exposure to liquidity risk (Continued)

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 2014 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.

Non-derivative cash flow

As at 31 December 2014	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Liabilities						
Deposits from banks	-	16,537,777	33,461,090	7,804,034	-	**57,802,900**
Deposits from customers	55,628,520	27,740,071	91,310,595	94,636,009	-	**269,315,196**
Other liabilities	67,951	864,403	729,171	540,989	-	**2,202,514**
Long term borrowing	-	-	1,855,963	11,207,248	-	**13,063,211**
Total liabilities (contractual maturity dates)	**55,696,471**	**45,142,251**	**127,356,819**	**114,188,280**	**-**	**342,383,821**
Assets held for managing liquidity risk (contractual maturity dates)	**83,463,578**	**37,523,129**	**79,268,638**	**109,553,705**	**26,412,076**	**336,221,126**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

33. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
As at 31 December 2013						
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

(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 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 227 million (2013: TZS 274 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Interest rate risk exposure (continued)

As at 31 December 2014	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	-	-	-	-	-	50,557,300	**50,557,300**
Balance with other banks	-	-	-	-	-	8,106,296	**8,106,296**
Cheques in the course of collection	-	-	-	-	-	89,036	**89,036**
Government securities held to maturity	6,583,402	6,600,909	20,286,275	10,867,388	6,526,814	-	**50,864,788**
Investment securities available for sale	-	-	-	-	-	500,000	**500,000**
Other money market placements held to maturity	1,704,000	-	-	-	-	-	**1,704,000**
Loans and advances	15,784,423	30,922,220	58,982,363	98,686,317	19,885,262	-	**224,260,585**
Other assets(excluding prepayments)	-	-	-	-	-	139,121	**139,121**
Total assets	**24,071,825**	**37,523,129**	**79,268,638**	**109,553,705**	**26,412,076**	**59,391,753**	**336,221,126**
Liabilities and equity							
Deposits	46,612,526	121,166,826	72,746,559	2,271,034	-	54,514,355	**297,311,300**
Other liabilities	-	-	-	-	-	2,202,514	**2,202,514**
Long term borrowing	-	-	1,687,889	9,559,091	-	-	**11,246,980**
Total liabilities and equity	**46,612,526**	**121,166,826**	**74,434,448**	**11,830,125**	**-**	**56,716,879**	**310,760,794**
Total interest re-pricing gap	**(22,540,701)**	**(83,643,697)**	**4,834,191**	**97,723,580**	**26,412,076**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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
Investment securities available for sale	-	-	-	-	-	-	-
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	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

33. FINANCIAL RISK MANAGEMENT (Continued)

b) Market risk (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 Tanzania Shilling (TZS), has generally, over the recent past, shown a weaker tendency against the US dollar, Sterling Pound and the Euro, the three major currencies in which the Bank has significant foreign transactions.

As at 31 December 2014, 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 reduction in profit before tax of TZS 1,809 million (2013: TZS 60 million, increase).

At 31 December 2014, if the Sterling Pound 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 profit before tax of TZS 2 million (2013: TZS 13 million, decrease).

At 31 December 2014, if the Euro 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 profit before tax of TZS 18 million (2013: TZS 2 million, decrease).

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 2014 are summarised in the Table below (All amounts expressed in thousands of Tanzania Shillings).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (Continued)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Foreign currency exchange risk exposure (continued)

As at 31 December 2014	USD	GBP	Euro	INR	KES	ZAR	JPY	CAD	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
ASSETS									
Cash and balances due from banking institutions	20,647,031	347,307	461,995	44,933	26,633	11,058	5,963	64	**21,544,984**
Loans and advances	138,602,542	-	-	-	-	-	-	-	**138,602,542**
Other assets	62,308	-	-	-	-	-	-	-	**62,308**
Total assets	**159,311,881**	**347,307**	**461,995**	**44,933**	**26,633**	**11,058**	**5,963**	**64**	**160,209,834**
LIABILITIES									
Deposits	187,413,334	311,718	105,676	-	-	-	-	-	**187,830,728**
Long term borrowing	7,988,988	-	-	-	-	-	-	-	**7,988,988**
Other liabilities	88,851	-	-	-	-	-	-	-	**88,851**
Total liabilities	195,491,173	311,718	105,676	-	-	-	-	-	**195,908,567**
Net position	**(36,179,292)**	**35,589**	**356,319**	**44,933**	**26,633**	**11,058**	**5,963**	**64**	**(35,698,733)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Foreign currency exchange risk exposure (continued)

As at 31 December 2013	USD	GBP	Euro	INR	KES	ZAR	JPY	CAD	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	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)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

33. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational Risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit and overseen by 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

	2014	2013
	TZS'000	TZS'000
Dividend paid		
Final dividend for 2013 – TZS 953.21 million at TZS 0.40 million per share (final dividend for 2012 -TZS 546.06 million at TZS 0.23 million per share)	953,210	546,060
Dividend declared		
Final dividend for 2014: TZS NIL (2013: TZS 953.21 million at 0.40 million per share)	-	953,210

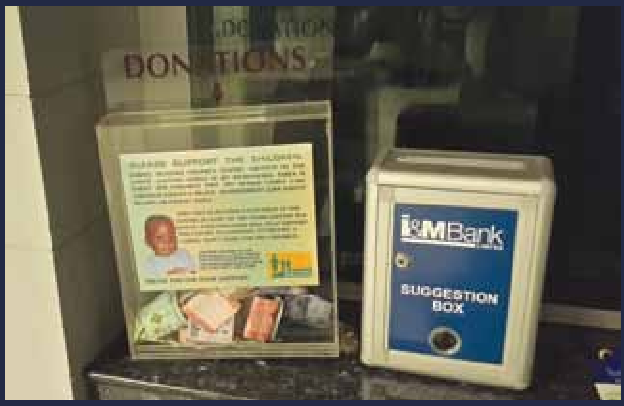
Proposed dividend for approval at Annual General Meeting
(Not recognized as a liability as at 31 December)

The Board of Directors proposes a final dividend of TZS 1,023.33 million at TZS 0.43 million per share (2013: TZS 953.21 million at TZS 0.40 million per share). The prior year dividend was subsequently approved by the shareholders and paid out during 2014.

I&M CSR News

FUND RAISING FOR CORNEL NGALEKU CHILDREN CENTER

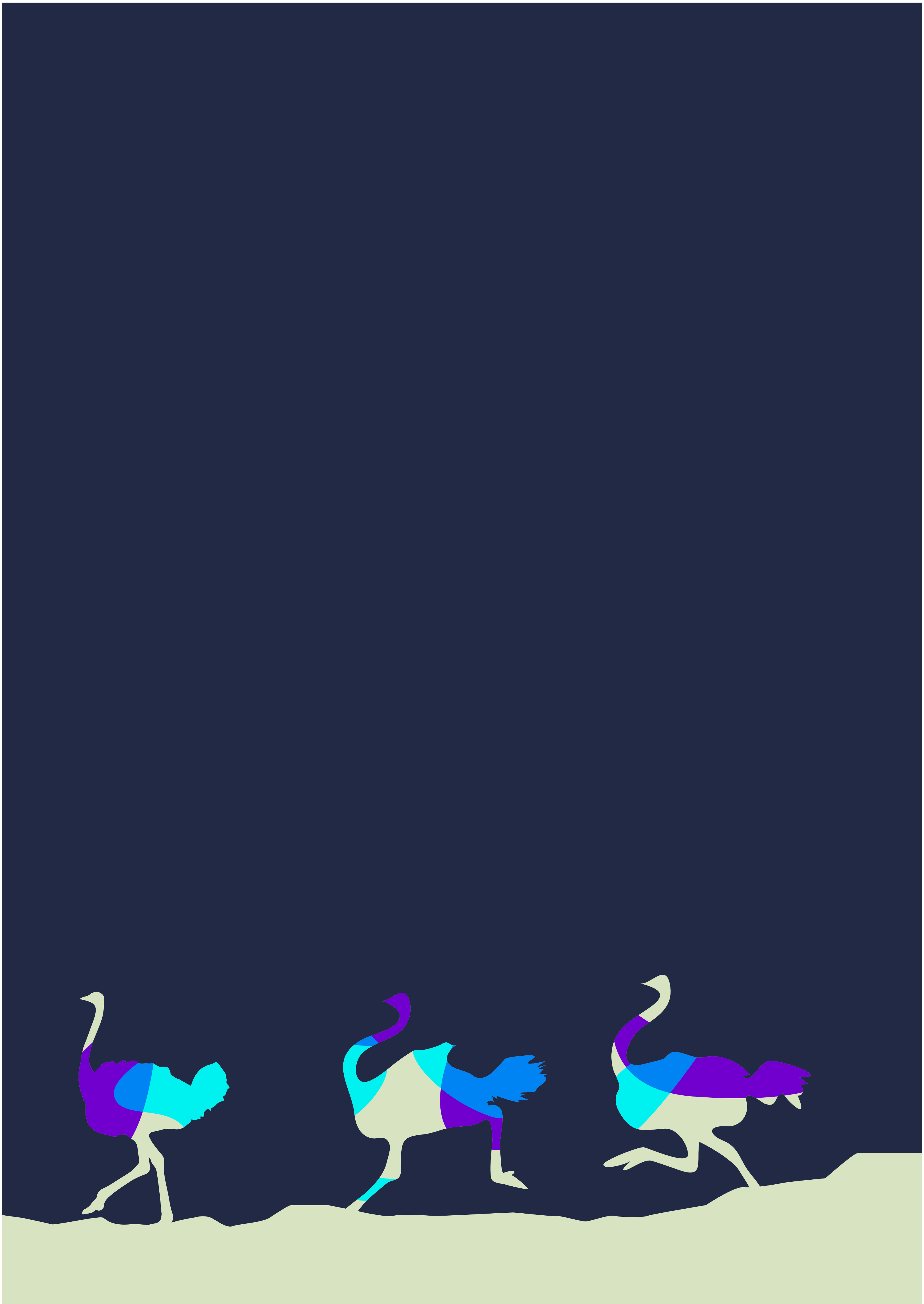
Cornel Ngaleku Children Centre provides a caring home for Tanzanian orphans affected by poverty or HIV/AIDS.



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

COMMUNITY SERVICE BY I&M BANK (T) LTD TO DR. OMARI ALI JUMA PRIMARY SCHOOL AT MAGOMENI 14TH AUGUST 2014

I&M Bank conducted community service at Dr Omari Ali Juma Primary School by providing 350 text books to students ranging from Nursery Level to Primary Level. Each class managed to get a total of 50 text books. Refreshments were provided to the students and teachers as well as an inspiring speech by CEO. Staff was in I&M Branded t-shirts and there was a lot of excitement within the kids.



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