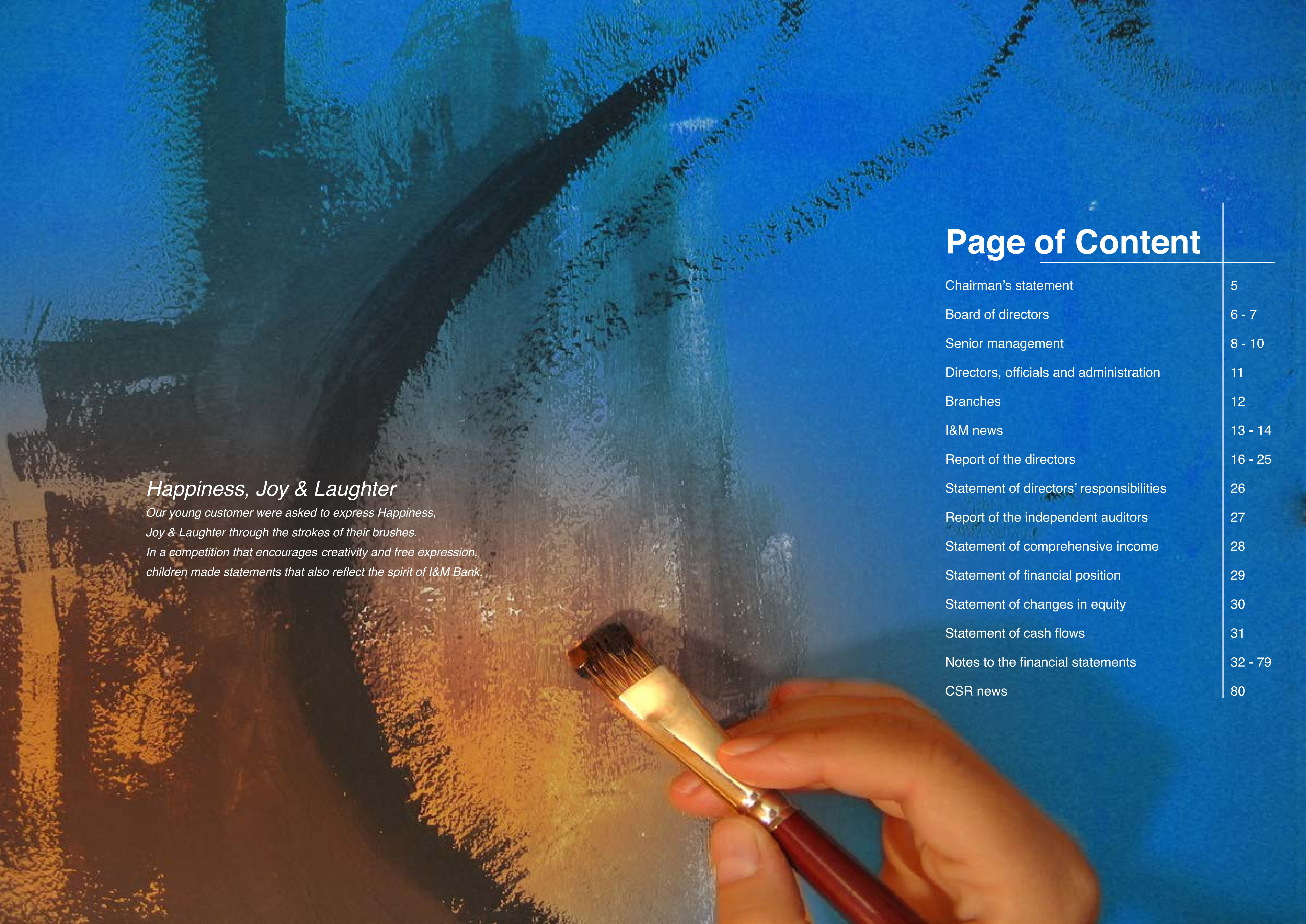
I&M Bank LIMITED

2015 | Report & Financial Statements

Happiness, Joy & Laughter

I&M Bank (T) Ltd



Happiness, Joy & Laughter

*Our young customer were asked to express Happiness,
Joy & Laughter through the strokes of their brushes.
In a competition that encourages creativity and free expression,
children made statements that also reflect the spirit of I&M Bank.*

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Chairmans' Statement

It is indeed a pleasure to be presenting our results for 2015 in an atmosphere of optimism following the peaceful elections. We are all very proud to be a part of this great nation that believes in itself and in our joint future.

Economy - Overview

The year saw a very positive development for the economy with the successful completion of elections leading to the formation of a stable government in the Country. The political stability created positive sentiments and renewed confidence in the region.

The performance of the Economy in 2015 was supported by the stable macroeconomic environment with sustained GDP growth of 7% during the year. However, the Tanzanian economy felt an impact due to the strengthening of the US Dollar, which affected most international currencies and culminated with the sharp depreciation of Tanzanian Shilling by around 23% during the year. The depreciation of the local currency increased the business risks on account of high cost of imports, borrowings and widening the gaps in terms of the trade which impacted various sectors of the economy. In an effort to stabilize the shilling and prevent a further depreciation of the Tanzanian shilling, the Bank of Tanzania enhanced the statutory minimum reserve and actively intervened in the foreign exchange market.

BANKING INDUSTRY

Despite being an election year, the Banking industry was robust and maintained healthy growth. The total assets grew by 22% from Tzs 22 trillion in 2014 to Tzs 27 Trillion in 2015; the growth in deposits was 20% from Tzs 17 trillion to Tzs 20 trillion and the net growth in the loan book was 27% from Tzs 11 trillion in 2014 to Tzs 14 trillion in 2015. Profit after tax grew by 7% from Tzs 413 billion in 2014 to Tzs 441 billion in 2015.

With the introduction of new regulations by the Bank of Tanzania on Management of Risk Assets and provisioning of losses, Banks were required to maintain an additional 1% provision on the normal loan portfolio; this had an impact on the bottom line and balance sheets towards the additional costs on the loan provisions during the year. With a view to bring an alignment with the international norms, the Bank of Tanzania has revised the capital adequacy requirements on Tier 1 & Tier 2 capital from the present 10% and 12% to 12.5% and 14.5% respectively to be implemented by all Banks by August 2017.

I&M BANK (T) LTD'S PERFORMANCE IN 2015

I am pleased to report that your Bank's profit before tax increased by 28% from TZS 6.27 billion in 2014 to TZS 8.04 billion in 2015. The Bank's loan portfolio increased by 20% from TZS 224 billion in December 2014 to TZS 269 billion as at December 2015. Customer deposits grew by 6% from TZS 297 billion to reach TZS 316 billion. This resulted in a balance sheet growth of 12% since December 2014, to stand at TZS 385 billion as at December 2015.

The Bank also witnessed a change of leadership in mid – 2015 by welcoming a new Chief Executive Officer Mr Baseer Mohammed. I would like to take this opportunity to extend a warm welcome to Mr Baseer who brings on board over 20 years' experience in the banking industry. I am confident that under his leadership the Bank will progress and achieve its strategic goals and long term vision.

The Bank has been designing products and services with the customer at the nucleus of the strategy. During the year the Bank improved product offerings and incorporated various changes in the operational processes to enhance the efficiencies in service delivery to the Customers. I am elated to note that these changes have brought a smile to our customers!

The Bank also launched its first Campaign dubbed "I&M Riches" and received a commendable response during the period. The campaign helped in creating excellent Brand visibility, and created further awareness of our product and service offerings amongst our target market.

Tanzania Leadership Awards were held for the first time in Dar es Salaam in the month of December 2015 and our Bank was nominated among the top 4 banks winning the "Hall of Fame" award for Brand Excellence.

During the year, the Bank received a subordinated debt of USD 8 million from DEG for raising Tier II Capital. This helps in strengthening the long-term lending capabilities of the Bank and bolster its capital adequacy ratios.

The Bank had also signed an agreement with FMO to receive long term funding of USD 12 million for onward lending to SME and mid corporate segments of the market. FMO is one of the world's largest bilateral developmental financial institutions and it is, indeed, I&M's privilege and honour to partner with FMO. This additional facility will help the Bank to bridge the gap arising out of maturity and foreign currency mismatches whilst simultaneously, presenting a stable and long term source of foreign currency funding to meet the growing needs of the market.

As a Bank, it is our wish to better the lives of those around us and always endeavor to participate in the development of the community. During the year the Bank contributed towards supporting this cause by way of providing financial support to Cornel Ngaleku Children Centre and Children of SOS village.

OUTLOOK

The Bank continues to pursue its three year growth strategy with focus on enhancing technological products like Internet Banking, Mobile Banking and establishing state of the art smart branches and ATMs to meet the dynamic needs of our Customers. To stimulate the growth, the Board of Directors have also recommended to the shareholders the need for strengthening the capital structure through the injection of additional capital into the Bank and this is expected to take place during 2016.

The Bank acknowledges that one of its key pillars is Human Resources. The Bank has been developing an exceptional Management team with diversified skill sets to inculcate a performance driven culture while attending to the changing needs of our customers. We also continue to invest in our staff via a comprehensive learning and development programme designed to provide staff with the opportunity to enhance their skillset on a regular basis. .

ACKNOWLEDGEMENTS

On Behalf of the Board, I take this opportunity to thank each and every Customer of the Bank for giving us the opportunity to meet their various banking requirements and for their continued patronage and overall support.

I would like to thank the management and staff for their dedication and commitment in ensuring that the Bank achieves its desired objectives

I also place on record my sincere gratitude to my fellow Directors, for their oversight and guidance to the Bank.

Finally, would also like to acknowledge the support and guidance provided by the regulator, Bank of Tanzania.

Board of Directors

Board of Directors

Senior Management Team

Mr. Baseer Mohammed
Chief Executive Officer

Mr. Lalit Tewari
Head of Business Support

Mr. Tirunagari Srikanth
Head of Business Development

Mr. Amulike Kamwela
Head of Finance

Mrs. Aimtonga Adolph
Head of Internal Audit

Senior Management Team

Mr. Alan Mbagula
Head of ICT

Mr. Roderick Nyamajeje
Head of Risk

Mrs. Martha Kimweri
Head of Human Resources

Mr. Clement Kagoye
Head of Credit Risk

Mrs. Fatema Rattansi
Head of Credit Administration

Ms. Ruheen Kaba
Marketing Manager

Mr. Patrick Kapella
Head of Treasurery

Corporate Information

DIRECTORS

Mr. Sarit S Raja Shah - Chairman
Mr. Michael N Shirima
Mr. Thierry Hugnin
Gen. (Retd.) 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

BANK'S SECRETARY

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

AUDITORS

PricewaterhouseCoopers,
Pemba House, 369 Toure drive, Oysterbay,
PO Box 45,
Dar es Salaam, Tanzania.

HEAD OFFICE

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

REGISTERED OFFICE

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

LEGAL ADVISORS

M/s Rutabingwa Advocates,
PO Box 11819,
Dar es Salaam, Tanzania.

ATZ Law chambers,
Peugeot House,
36 Ali Hassan Mwinyi Road,
PO Box 79651,
Dar es Salaam, Tanzania.

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

CORRESPONDENT BANKS

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

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

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

I&M Bank Limited,
PO Box 30238, 00100 Nairobi,
Kenya.

I&M Bank (Rwanda) Ltd,
PO Box 354,
Kigali, Rwanda.

Citibank Limited,
Citibank N.A,
Upper Hill Road,
PO Box 30711-00100, USA.

Branches

MAIN BRANCH
Jiwan Hirji Building,
Corner of Indira Gandhi/Mosque Street,
P O Box 1509,
Dar Es Salaam, Tanzania
Tel: + 255 22 2117880, +255 22 2110212,
+255 22 2117700 , +255 22 2117701
Fax: +255 22 2118750
Email: enquiry@imbank.co.tz

Kariakoo Branch
Plot 21,Livingstone Street,
Kariakoo
P O Box 1509,
Dar Es Salaam, Tanzania
Tel: +255 22 2181072 , +255 22 2181074
Fax: +255 22 2181075
Email: enquiry@imbank.co.tz

Arusha Branch
Plot No. 4,Block R,
Falcon Building, Jakaranda Street, Off Sokoine Road,
Opp.Uhuru Primary School
P O Box 16821,
Arusha, Tanzania
Tel: +255 272 546159 , +255 732 979622
Fax: +255 27 2546272
Email: enquiry@imbank.co.tz

Maktaba Branch
Maktaba Square, Maktaba Street,
P O Box 1509,
Dar Es Salaam, Tanzania
Tel: +255 22 2127330, +255 22 2127331,
+255 22 2127332 , +255 22 2127333 ,
+255 22 2127334
Fax: +255 22 2127336
Email: enquiry@imbank.co.tz

Quality Centre Branch
Quality Centre Mall, G5,
P O Box 1509,
Dar Es Salaam, Tanzania
Tel: +255 22 2864806 , +255 22 2864807,
+255 22 2864808
Fax: +255 22 2864809
Email: enquiry@imbank.co.tz

High Net Worth Service Lounge
VIVA Towers, Ali Hassan Mwinyi Road, 1st Floor
P.O Box 1509,
Dar es Salaam, Tanzania
Tel: +255 22 2103439
Email: enquiry@imbank.co.tz

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

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

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

I&M news

I&M Bank (T) Limited launches 24/7 Cash Deposit and ATM Facilities at Main Branch

I&M Bank (T) Ltd introduced Cash Deposit Machine and ATM at the Main Branch. The services under these facilities include, bulk cash deposit, and ATM for cash withdrawals. These services were appreciated by many existing and old customers of the Bank. Mr. Baseer, CEO addressed the clients and informed that the Bank is in the process of launching more innovative products to meet the various needs of the banking community.

I&M Awards Ceremony

With a view to motivate and recognize the important staff members of the Bank, there has been an Awards Ceremony conducted at Hotel Serena on 27th November 2015. The Long term service awards were given to the employees who completed five, ten and fifteen years of service in the Bank. The employees were given merit certificates and cash incentives for their dedicated services and contribution to the Organization. Further, all the top performers in the "I&M Riches" Campaign were also recognized through souvenirs and Cash awards at this prestigious event. Mr Sarit Shah, Chairman along with the other Directors of the Bank Mr Michael Shirima, Mr Shameer Patel and Mr Pratul Shah personally handed over the awards to the employees in a glittering ceremony.

Introduction of I&M Riches Campaign at I&M (T) Limited

I&M Riches is a campaign which has been introduced in the market for the first time. It was run for a period of three months from 01st September to 30th November, 2015 wherein cash prizes to the tune of 60 million Tanzanian shillings were given to three lucky winners who participated during the period. The objective of the Campaign was to encourage opening of new accounts and building new relationships for the Bank. The campaign was executed successfully and created an excellent brand visibility for the Bank in the market.

Client Parul Chayya blindfolded to conduct the draw

Gaming Board of Tanzania Official cross checking the winner that was selected from the draw

I&M news (Continued)

Arusha Open Golf Tournament 2015

In July 2015, I&M (T) Limited sponsored Arusha Open Golf tournament that was held at Arusha Gymkhana Club. It involved golfers from the host Arusha Gymkhana Club (AGC), Dar es Salaam Gymkhana Club (DGC) and Lugalo Golf Club from Dar es Salaam, The Morogoro Gymkhana Club, Moshi Golf Club and TPC Golf Club from Kilimanjaro as well as other participants from Nairobi (Kenya) and Dubai (UAE). A total of 82 participants engaged in this tournament along with representatives from Tanzanian Golf Union among other distinguished guests.

Tanzania Leadership Awards 2015

Tanzania Leadership Awards were held for the first time in Dar es Salaam in the month of December 2015 and our Bank was nominated among the top 4 banks winning the “Hall of Fame” award for Brand Excellence.

Directors' Report
For the year ended 31 December 2015

1 INTRODUCTION

The Directors submitted their report and the audited financial statements for the year ended 31 December 2015 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 2015.

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 8,043 million compared to TZS 6,275 million in the previous year, representing an increase of 28.19%.

Interest Income

Interest income during the year amounted to TZS 33,161 million compared to TZS 30,259 million in the previous year, representing an increase of 9.59% (TZS 2,902 million). The Increase is due to the growth in the loan portfolio. As at year end, the loan portfolio had increased by 19.79% from the previous year.

Interest Expense

Interest expense during the year amounted to TZS 14,744 million, as compared to TZS 15,444 million in the prior year, representing a decrease of 4.53% (TZS 700 million). The decrease in interest expense is mainly attributed by reduction of bank deposits during the year.

Net interest income

Net interest income (interest income less interest expense) during the year amounted to TZS 18,416 million, as compared to TZS 14,815 million in prior year, representing an increase of 24.31% (TZS 3,601 million).

Directors' Report (Continued)
For the year ended 31 December 2015

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 7,387 million compared to TZS 4,496 million in the previous year, representing an annual increase of 64.31% contributed mainly by growth of trading profit which grew by 173.66%.

Non-interest expenses before tax

Non- interest expenses before tax amounted to TZS 15,664 million as compared to TZS 12,271 million in prior year, implying an increase of 27.65% The increase is largely attributed to growth in personnel costs as a result of salary increments, other staff related benefits and other expenses. The number of employees at the end of year totalled 153 as compared to 157 at the end of 2014.

Income tax expense

Income tax expense amounted to TZS 2,129 million (2014: TZS 2,181 million).

Key performance ratios

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

	2015	2014
Return on average assets	**1.57%**	1.24%
Return on average equity	**17.02%**	12.97%
Non- interest income to net interest income	**40.11%**	30.34%
Operating expenses to average assets	**4.15%**	3.72%
Non-interest expenses before tax to operating income	**60.70%**	63.54%

6 REVIEW OF FINANCIAL POSITION

The Bank's financial position is set out on page 32 to 44 of these financial statements. Major movements are as explained in the table below:

Item	2015 TZS' 000	2014 TZS ' 000	Increase / (Decrease) TZS ' 000	Increase / (Decrease) %
Cash and balances with Bank of Tanzania	**51,921,375**	50,557,300	1,364,075	3%
Balance with other banks	**13,297,210**	8,106,296	5,190,914	64%
Cheques and items for clearance	**377,945**	89,036	288,909	324%
Government securities	**38,374,528**	50,864,788	(12,490,260)	-25%
Other money market placements	**1,760,246**	1,704,000	56,246	3%
Loans and advances	**268,643,684**	224,260,585	44,383,099	20%
Deferred tax asset	**1,668,842**	450,148	1,218,694	271%
Property and equipment	**5,631,412**	4,809,044	822,368	17%
Intangible assets	**1,170,338**	883,793	286,545	32%
Other assets	**1,997,510**	1,110,663	886,847	80%
Deposits	**316,081,679**	297,311,300	18,770,379	6%
Other liabilities	**3,049,231**	2,202,514	846,717	38%
Long term borrowing	**28,573,375**	11,246,980	17,326,395	154%

Directors' Report (Continued)
For the year ended 31 December 2015

6 REVIEW OF FINANCIAL POSITION (*Continued*)

Deposits

Deposits increased by TZS 18,770 million through growth in the customer base due to increased marketing activities as well as increase in deposit from other banks.

Loans and advances

The loans and advances increased by TZS 44,383 million on account of growth in credit to, both, existing and new customers.

Government securities

The decrease in investment in government securities by TZS 12,490 million is mainly due to increase in loans and advances.

Long term borrowing

Long term borrowing increased by TZS 17,327 million which was attributed to a new long term loan of USD 8 million received from DEG as a subordinated debt qualifying as Tier II Capital.

Key efficiency ratios

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

	2015	2014
Shareholder's fund to total assets	**9.70%**	9.47%
Non-performing loans to total advances	**3.04%**	1.30%
Gross loans to total deposits	**86.89%**	76.49%
Loans to total assets	**69.72%**	65.32%
Liquidity ratio	**29.70%**	32.22%

7 GOING CONCERN AND SOLVENCY EVALUATION

The Bank has complied with 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 the year 2015 (2014: Nil).

Directors' Report (Continued)
For the year ended 31 December 2015

10 FUTURE DEVELOPMENTS

The Bank endeavours to be the most innovative player in the industry by providing customized banking products and solutions. The focus areas would be:-

- Introduction of new products and services to meet the unique demands of the industry
- Introduction of Mobile banking and internet banking services and extended banking hours at key branches and
- Launching of innovative Smart banking branches at strategic locations to expand the network and be closer to its customers.

11 DIVIDEND

No dividend was proposed by the board of directors for the year ended 31 December 2015 [2014: TZS 1,023.33 million at TZS 0.43million 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.

The Bank 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
- Finance
- Human Resource
- Information Technology
- 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 Head of business development, Head of business support and Heads of Departments.

Directors' Report (Continued)
For the year ended 31 December 2015

13 COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Bank, who held office throughout the year and 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 2015 is Ms.Hamida Sheikh of M/S Sheikh Chambers Advocates.

14 DIRECTORS' INTEREST

Mr. Michael N. Shirima has direct 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 2015.

15 DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2015 was TZS 129 million (2014: TZS 88 million).

16 CAPITAL STRUCTURE AND SHAREHOLDING

	2015 TZS	2014 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

Directors' Report (Continued)
For the year ended 31 December 2015

16 CAPITAL STRUCTURE AND SHAREHOLDING (*Continued*)

Shareholding

As at 31st December 2015, 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.

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).

Directors' Report (Continued)
For the year ended 31 December 2015

18 CORPORATE GOVERNANCE (*Continued*)

The Board Audit Committee members who served the Committee during 2015, unless otherwise stated are detailed below:

Board Audit Committee (continued)

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 2015, 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.

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.

Directors' Report (Continued)
For the year ended 31 December 2015

19 EMPLOYEE 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 153 (2014:157).

20 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.

21 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 2015, the Bank had 74 male and 79 female employees (2014: 78 male and 79 female employees).

22 RELATED PARTY TRANSACTIONS

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

Directors' Report (Continued)
For the year ended 31 December 2015

23 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 0.5 million (2014: TZS 7.4 million).

24 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.

25 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 ESMS 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.

26 SUBSEQUENT EVENTS

Since balance sheet date, the Bank has entered into an agreement with FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.) for a senior debt of USD 12 million which amount is expected in the first half of the year.

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

27 AUDITORS

A resolution proposing the appointment of the external auditors of the Bank for the year ending 31 December 2016 will be subject to compliance with Bank of Tanzania regulations.

Approved by the Board of Directors on 26th February 2016 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 the year ended 31 December 2015

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 Auditor
To the Members of I&M Bank (T) Limited

Report on the financial statements

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 2015, 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 79.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the Bank's financial affairs as at 31 December 2015 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

Date: 29th February 2016

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

	Notes	2015 TZS '000	2014 TZS '000
Interest income	4	33,160,631	30,258,761
Interest expense	5	(14,744,308)	(15,443,886)
Net interest income		18,416,323	14,814,875
Fee and commission income	6	4,135,967	3,263,450
Net trading income	7	3,082,270	1,126,305
Other operating income	8	168,385	105,775
Total operating income		25,802,945	19,310,405
Impairment and credit losses on loans and advances	18	(2,096,175)	(765,020)
Net operating income		23,706,770	18,545,385
Personnel expenses	9	(6,938,914)	(5,755,726)
Occupancy costs	10	(1,346,897)	(974,835)
Depreciation of property and equipment	20	(686,712)	(381,830)
Amortisation of intangible assets	21	(485,193)	(256,772)
Other operating expenses	11	(6,205,957)	(4,901,631)
Total operating expenses		(15,663,673)	(12,270,794)
Profit before tax		8,043,097	6,274,591
Income tax expense	12(a)	(2,128,589)	(2,181,262)
Profit for the year attributable to shareholders		5,914,508	4,093,329
Other comprehensive income		-	-
Total comprehensive income for the year		5,914,508	4,093,329

Statement of Financial Position
For the year ended 31 December 2015

	Notes	2015 TZS '000	2014 TZS '000
Assets			
Cash and balances with Bank of Tanzania	13	51,921,375	50,557,300
Balance with other banks	14(a)	13,297,210	8,106,296
Cheques and items for clearance	14(a)	377,945	89,036
Investment securities:			
-Government treasury bills and bonds	15	38,374,528	50,864,788
-Equity investment	16	500,000	500,000
Other money market placements	17	1,760,246	1,704,000
Loans and advances	18	268,643,684	224,260,585
Deferred income tax	12(c)	1,668,842	450,148
Property and equipment	20	5,631,412	4,809,044
Intangible assets	21	1,170,338	883,793
Other assets	19	1,997,510	1,110,663
Total assets		385,343,090	343,335,653
Liabilities and equity			
Liabilities			
Deposits	22	316,081,679	297,311,300
Current income tax	12(d)	250,081	77,313
Other liabilities	23	3,049,231	2,202,514
Borrowings	24	28,573,375	11,246,980
Total liabilities		347,954,366	310,838,107
Equity			
Share capital	25	2,395,000	2,395,000
Share premium	25	7,482,000	7,482,000
General provision		310,525	-
General banking risk reserve		445,878	-
Retained earnings		26,755,321	22,620,546
Total equity		37,388,724	32,497,546
Total liabilities and equity		385,343,090	343,335,653

The financial statements on pages 28 to 79 were authorised for issue by the Board of Directors and signed on its behalf by:-

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

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

Statement of Changes in Equity
For the year ended 31 December 2015

	Share capital TZS '000 (Note 25)	Share premium TZS '000 (Note 25)	General provision TZS '000	General banking risk reserve* TZS '000	Retained earnings TZS '000	Total TZS '000
Year ended 31 December 2015						
At 1 January 2015	2,395,000	7,482,000	-	-	22,620,546	32,497,546
Total comprehensive income for the year	-	-	-	-	5,914,508	5,914,508
Transfer to statutory reserve	-	-	310,525	445,878	(756,403)	-
Final dividend for 2014 paid (Note 35)	-	-	-	-	(1,023,330)	(1,023,330)
At 31 December 2015	**2,395,000**	**7,482,000**	**310,525**	**445,878**	**26,755,321**	**37,388,724**
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
Final dividend for 2013 paid (Note 35)	-	-	-	-	(953,210)	(953,210)
At 31 December 2014	**2,395,000**	**7,482,000**	**-**	**-**	**22,620,546**	**32,497,546**

* General banking risk reserve represents the surplus of loan provision computed as per the Bank of Tanzania regulations over the IFRS impairment computation as per IFRS. This is a non-distributable reserve.

Statement of Cash Flows
For the year ended 31 December 2015

	Notes	2015 TZS '000	2014 TZS '000
Cash flow from Operating activities			
Cash used in operations	14(b)	**(1,371,842)**	(13,018,424)
Interest received		**32,720,134**	31,055,146
Interest paid		**(16,254,435)**	(13,468,066)
		15,093,857	4,568,656
Income tax paid	12(d)	**(3,174,515)**	(3,231,165)
Net cash flow generated from operating activities		**11,919,342**	1,337,491
Cash flow generated from investing activities			
Purchases of property and equipment	20	**(1,617,094)**	(2,610,890)
Purchases of intangible assets	21	**(749,470)**	(65,890)
Proceeds from sale of property and equipment		**11,900**	-
Net cash used in investing activities		**(2,354,664)**	(2,676,780)
Cash flow generated from financing activities			
Purchases of shares	16	**-**	(500,000)
Proceeds from borrowings		**14,360,000**	3,250,000
Repayment of borrowings		**(1,828,603)**	(782,951)
Dividend paid	35	**(1,023,330)**	(953,210)
Net cash generated from financing activities		**11,508,067**	1,013,839
Net increase (decrease) in cash and cash equivalents		**21,072,745**	(325,450)
Cash and cash equivalent at beginning of year		**(14,195,667)**	(13,870,217)
Cash and cash equivalent as at year end	14(a)	**6,877,078**	(14,195,667)

Notes to the Financial Statements
For the year ended 31 December 2015

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 2015 were authorised for issue in accordance with a resolution of the Directors on 26 February 2016 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 as otherwise stated below.

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 2015:

- Annual improvements to IFRSs, 2010 – 2012 cycle and 2011- 2013 cycle
- Defined Benefit plans: Employee contributions – Amendments to IAS 19

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(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 have been published but are not yet effective for annual periods beginning after 1 January 2015, and have not been early adopted by the Bank. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

IFRS 9, 'Financial instruments' – The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. 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' – The standard 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 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual period beginning on or after 1 January 2017 and earlier application is permitted. The Bank is still assessing the impact of IFRS 15.

2.2 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 outstanding amount.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.2 Recognition of income and expenses (continued)

(ii) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fee 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.

(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.

2.3 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 employees' 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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.3 Employees' benefits including post-employment benefits (continued)

(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.

2.4 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.

2.5 Property and equipment

Property and equipment is stated at historical 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 costs 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 straight line 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%
Leasehold improvement	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 assets 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 impairment of non-financial assets).

2.6 Intangible assets

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

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.6 Intangible assets (continued)

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as change in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

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

2.7 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.

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 profit or loss on a straight line basis over the lease term. Contingent rentals 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 risks 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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.7 Leasing (continued)

Leasehold improvements (continued)

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

The annual amortisations of operating leasehold in use are:

Leasehold improvements	8 to 10 years

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

2.8 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 flows 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.

2.9 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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.9 Financial instruments - initial recognition and subsequent measurement (continued)

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.

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.

Available for sale

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and accumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised.

Loans and receivables

Loan and receivables 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.

Loans and receivables 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. This includes balances with banks, cash balances, loans and advances, government treasury bills and bonds and other assets.

2.10 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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.10 Reclassification of financial assets and liabilities (continued)

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 is recycled to profit or loss.

The Bank may reclassify a non-derivative trading asset out of the 'Held-for-Trading' category if the financial asset is no longer held for the purpose of selling it in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. If a financial asset is reclassified, and if the Bank subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that receipt is recognised as an adjustment to the EIR from the date of change in estimate.

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

2.11 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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.12 Classes of financial instruments

Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

Financial assets	*Class*
Cash and cash equivalent	Loans and receivables
Loans and advances to customer	Loans and receivables
Other money market placements	Loans and receivables
Government securities	Loans and receivables
Equity investments	Available for sale
Other assets	Loans and receivables

Financial liabilities	*Class*
Deposits	Financial liabilities at amortised cost
Other liabilities	Financial liabilities at amortised cost
Borrowing	Financial liabilities at amortised cost

2.13 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.

2.14 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.

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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.14 Impairment of financial assets (continued)

2.14.1 Financial assets carried at amortised cost (continued)

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

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.14.2 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 acquisition 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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.14.3 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.

2.14.4 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.

2.15 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.

2.16 Borrowing costs

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

2.17 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 ("the functional currency") and figures are in thousands of Tanzania Shillings.

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 statement of 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.

2.18 Income tax

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.

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2.18 Income tax (continued)

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.

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

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

Value added tax

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

2.19 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.

2.20 Earnings per share

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

Notes to the Financial Statements
For the year ended 31 December 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

2. 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 2.5. 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.

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 credit 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 466 million lower or higher (2014: TZS 163 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.

Notes to the Financial Statements
For the year ended 31 December 2015

	2015 TZS '000	2014 TZS '000
4 INTEREST INCOME		
Loans and advances	**27,278,567**	22,974,493
Government securities	**5,315,190**	6,851,353
Placements	**566,874**	432,915
	33,160,631	30,258,761

Interest on impaired loans after classification as impaired: NIL (2014: NIL).

	2015 TZS '000	2014 TZS '000
5 INTEREST EXPENSE		
Fixed deposits	**12,236,139**	14,156,117
Long term borrowings	**1,746,494**	454,727
Savings and other deposits	**761,675**	833,042
	14,744,308	15,443,886
6 FEE AND COMMISSION INCOME		
Commission on guarantee issued	**222,673**	151,068
Commission on services charge	**114,607**	173,830
Loan administration charge	**1,662,991**	1,345,275
Commission on telex charges	**243,665**	164,430
Commission on TT	**516,045**	476,051
Commissions on other services rendered	**1,375,986**	952,796
	4,135,967	3,263,450
7 NET TRADING INCOME		
Trading profit and loss	**2,953,336**	1,009,689
Exchange gain/loss	**128,934**	116,616
	3,082,270	1,126,305
8 OTHER OPERATING INCOME		
Charges on minimum balance deposit	**26,840**	27,461
Gain on disposal of property and equipment	**2,432**	-
Miscellaneous income	**139,113**	78,314
	168,385	105,775

Notes to the Financial Statements
For the year ended 31 December 2015

9 PERSONNEL EXPENSES

	2015 TZS '000	2014 TZS '000
Salaries and wages	4,421,487	3,805,955
Bonus	310,262	164,100
Social security costs (Defined contribution plan)	442,953	378,348
Skills development levy	282,117	224,895
Other employment costs and benefits	1,482,095	1,182,428
	6,938,914	5,755,726

The number of employees employed by the Bank as at the year-end was 153 (2014:157).

10 OCCUPANCY COSTS

	2015 TZS '000	2014 TZS '000
Electricity	**139,688**	94,114
Office rent	**1,195,507**	870,597
Water	**11,702**	10,124
	1,346,897	974,835

11 OTHER OPERATING EXPENSES

	2015 TZS '000	2014 TZS '000
Auditors' fees	**88,866**	68,585
Directors' emoluments	**129,353**	88,003
Board expenses	**89,160**	29,364
Bank charges	**148,301**	90,639
Marketing expenses	**439,403**	376,893
Management fee	**723,034**	584,212
Communication expenses	**955,416**	772,901
Repairs and maintenance	**343,732**	266,981
Donations	**42,000**	41,406
Security charges	**485,885**	397,372
Insurance	**566,177**	439,199
Travelling expenses	**226,947**	195,983
Printing and stationery	**165,024**	145,579
Computer expenses	**535,759**	360,954
Consulting and other professional fees	**181,592**	154,485
City service levy	**37,200**	66,900
Legal fees	**59,125**	46,953
Loan disbursement fees	**90,084**	-

Notes to the Financial Statements
For the year ended 31 December 2015

11 OTHER OPERATING EXPENSES *(Continued)*

	2015 TZS '000	2014 TZS '000
Other Losses	**57,000**	240,440
Other expenses	**841,899**	534,782
	6,205,957	4,901,631

12 INCOME TAX

a) Income tax expense

	2015 TZS '000	2014 TZS '000
Current year tax	**3,347,283**	2,297,397
Deferred tax (credit)/charge		
- Current year	**(542,431)**	(203,404)
- Prior year	**(676,263)**	87,269
	2,128,589	2,181,262

b) Reconciliation of tax expense to tax based on accounting

	2015 TZS '000	2014 TZS '000
Accounting profit before taxation	**8,043,097**	6,274,591
Tax at applicable rate of 30% (2014:30%)	**2,412,929**	1,882,377
Expenses not deductible for tax purposes	**391,923**	211,616
Prior year under/ (over) provision for deferred income tax	**(676,263)**	87,269
Effective tax expense 26% (2014:35%)	2,128,589	2,181,262

(c) Deferred tax asset 31 December 2015	1 January 2015 TZS'000	Increase in the year TZS'000	31 December 2015 TZS'000
Property and equipment	**496,616**	**(245,557)**	**251,059**
Provisions for losses on loans and advances	**(946,764)**	**(973,137)**	**(1,919,901)**
	(450,148)	**(1,218,694)**	**(1,668,842)**
31 December 2014			
Property 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)

Notes to the Financial Statements
For the year ended 31 December 2015

12 INCOME TAX *(Continued)*

	2015 TZS '000	2014 TZS '000
d) Tax payable		
At 1 January	77,313	1,011,082
Charge for the year	3,347,283	2,297,396
Payments made during the year	(3,174,515)	(3,231,165)
At 31 December	250,081	77,313

13 CASH AND BALANCES WITH BANK OF TANZANIA

	2015	2014
Cash in hand	8,078,575	3,947,814
Current account balance with the Bank of Tanzania	14,293,689	15,660,375
	22,372,264	19,608,189
Statutory Minimum Reserve (SMR)	29,549,111	30,949,111
Current	51,921,375	50,557,300

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

	2015 TZS '000	2014 TZS '000
Cash and balances with Bank of Tanzania (excluding SMR)	22,372,264	19,608,189
Balance with other banks	13,297,210	8,106,296
Cheques and items for clearance	377,945	89,036
Deposits from banks and other financial institutions (Note 22)	(40,866,770)	(56,887,500)
Government securities maturing within 3 months (Note 15)	11,546,429	13,184,312
Other money market placements maturing within 3 months (Note 17)	150,000	1,704,000
	6,877,078	(14,195,667)

Notes to the Financial Statements
For the year ended 31 December 2015

14b CASH GENERATED FROM OPERATIONS

Cash flow from operating activities before interest	Notes	2015 TZS '000	2014 TZS '000
Profit before income tax		8,043,097	6,274,591
Adjustments			
Depreciation of property and equipment	20	686,712	381,830
Amortization of intangibles	21	485,193	256,772
Loan impairment charges	18	2,096,175	765,020
Exchange loss on borrowing		4,790,630	794,312
Net interest income		(18,416,323)	(14,814,875)
Cash flows used in operating profits before changes in operating assets and liabilities		(2,314,516)	(6,342,350)
Statutory minimum reserve	13	1,400,000	(8,051,819)
Loans and advances	18	(46,395,927)	(37,992,163)
Other assets	19	(886,847)	(309,191)
Deposits	22	36,379,449	42,710,012
Other liabilities	23	846,717	728,589
Other money market placements with banks with maturity over three months	17	(1,610,246)	-
Government securities with maturity over three months	15	11,209,528	(3,761,502)
Cash flows used in operations activities		(1,371,842)	(13,018,424)

15 GOVERNMENT TREASURY BILLS AND BONDS

	2015 TZS '000	2014 TZS '000
Treasury bills and bonds		
Up to three months	11,546,429	13,184,312
After three months to six months	8,228,948	11,942,283
After six months to twelve months	7,276,342	8,343,991
Over one year	11,322,809	17,394,202
	38,374,528	50,864,788
Current	27,027,407	33,470,585
Non-current	11,347,121	17,394,203
	38,374,528	50,864,788

Government securities held to maturity as at year end are not impaired (2014: not impaired).

Notes to the Financial Statements
For the year ended 31 December 2015

16 EQUITY INVESTMENT

	2015 TZS '000	2014 TZS '000
Tanzania Mortgage Refinance Company Limited (TMRC)	500,000	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

	2015 TZS '000	2014 TZS '000
Up to three months	150,000	1,704,000
More than three months	1,610,246	-
	1,760,246	1,704,000

18 LOANS AND ADVANCES

	2015 TZS '000	2014 TZS '000
Loan and advances (gross)	272,031,930	225,507,365
Loan to staff (gross)	2,612,817	1,909,097
	274,644,747	227,416,462
Less: Allowances for losses on loans and advances	(6,001,063)	(3,155,877)
Net loans and advances	268,643,684	224,260,585
Maturity analysis		
Repayable on demand	30,187,426	15,784,423
With maturity of 3 months or less	22,791,033	30,922,220
With maturity of between 3 months and 1 year	78,329,531	60,395,498
With maturity of more than 1 year	143,336,756	120,314,321
	274,644,747	227,416,462

Of the total loans and advances, TZS 221,265 million is denominated in foreign currencies (2014: TZS 174,119 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 212 million higher.

Notes to the Financial Statements
For the year ended 31 December 2015

18 LOANS AND ADVANCES (*Continued*)

	2015 TZS '000	2014 TZS '000
Movement in allowance for losses on loans and advances:		
At 1 January	3,155,877	2,288,506
Impairment and credit losses for the year	2,096,175	412,065
Written off during the year	-	352,955
Interest suspended during the year	749,011	102,351
At 31 December	6,001,063	3,155,877

Allowance for losses on loans and advance by class:

(All amounts are in TZS '000')

31 December 2015	Overdrafts	Term Loans	Total
Portfolio impairment (qualifying for Tier 2)	1,041,186	1,051,809	2,092,995
Portfolio impairment (Other)	12,794	212,341	225,135
Total portfolio impairment	1,055,148	1,262,982	2,318,130
Individual impairment	1,159,906	2,523,027	3,682,933
Total impairment	2,215,054	3,786,009	6,001,063
31 December 2014			
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

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

	2015 TZS '000	2014 TZS '000
Manufacturing - 23% (2014:18%)	61,966,155	41,182,770
Wholesale and retail trade - 21% (2014:21%)	58,414,989	48,054,970
Transport and communication - 9% (2014:9%)	25,035,410	19,659,910
Private individual including staff - 2% (2014:2%)	5,079,386	5,517,720
Agriculture, fishing, forestry, hunting - 3% (2014:3%)	7,526,508	6,155,400
Real estates and construction - 25% (2014:32%)	69,689,030	72,614,360
Tourism, hotels and restaurant - 6% (2014:5%)	16,011,451	10,742,050
Mining and quarrying - 3% (2014:4%)	8,379,903	9,461,110
Others - 8% (2014:6%)	22,541,915	14,028,172
Total loans and advances (including staff advances)	274,644,747	227,416,462

Notes to the Financial Statements
For the year ended 31 December 2015

19 OTHER ASSETS

	2015 TZS '000	2014 TZS '000
Deposit insurance fund	**108,362**	87,274
Salary advances	**10,033**	10,070
Prepaid expenses	**1,497,613**	884,268
Sundry debtors	**381,502**	129,051
	1,997,510	1,110,663

20 PROPERTY AND EQUIPMENT

At 31 December 2015	Computer and other equipment TZS '000	Motor vehicles TZS '000	Furniture and fittings TZS '000	Leasehold Improvement TZS '000	Work in progress TZS '000	Total TZS '000
Cost						
At 1 January 2015	1,629,569	185,175	943,845	2,749,115	841,086	**6,348,790**
Additions	621,420	184,150	720,366	91,158	-	**1,617,094**
Disposal	-	(50,798)	-	-	-	**(50,798)**
Transfer from work in progress	168,410	-	33,046	43,709	(245,165)	-
Transfer to Intangible assets	-	-	-	-	(22,268)	**(22,268)**
Written-off to P&L	-	-	-	-	(76,277)	**(76,277)**
	2,419,399	318,527	1,697,257	2,883,982	497,376	7,816,541
Accumulated depreciation						
At 1 January 2015	509,148	104,561	362,137	563,901	-	**1,539,747**
Disposal	-	(41,330)	-	-	-	**(41,330)**
Charge for the year	211,839	21,598	169,885	283,390	-	**686,712**
	720,987	84,829	532,022	847,291	-	**2,185,129**
Net book value	1,698,412	233,698	1,165,235	2,036,691	497,376	5,631,412

Notes to the Financial Statements
For the year ended 31 December 2015

20 PROPERTY AND EQUIPMENT *(Continued)*

At 31 December 2014	Computer and other equipment TZS '000	Motor vehicles TZS '000	Furniture and fittings TZS '000	Leasehold Improvement TZS '000	Work in progress TZS '000	Total TZS '000
Cost						
At 1 January 2014	903,435	163,965	809,998	1,560,443	300,059	3,737,900
Additions	366,838	21,210	133,847	1,154,720	934,276	2,610,890
Transfer from work in progress	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
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

21 INTANGIBLE ASSETS

	2015 TZS '000	2014 TZS '000
System software		
Cost		
At 1 January	**1,551,064**	1,485,174
Additions	**749,470**	65,890
Transfer from property and equipment	**22,268**	-
At 31 December	2,322,802	1,551,064
Accumulated amortization		
At 1 January	**667,271**	410,499
Charge for the year	**485,193**	256,772
At 31 December	**1,152,464**	667,271
Carrying amount		
At 31 December	1,170,338	883,793

Notes to the Financial Statements
For the year ended 31 December 2015

22 DEPOSITS

	2015 TZS '000	2014 TZS '000
Interest bearing deposits		
Customer accounts	189,611,997	179,164,596
Banks and other financial institutions (Note 14)	40,866,770	56,887,500
Interest payable	4,741,997	6,744,848
	235,220,764	242,796,944
Non-interest bearing deposits		
Customer accounts	80,860,915	54,514,356
	316,081,679	297,311,300
Maturity analysis		
Repayable on demand	129,849,354	82,872,613
With maturity of 3 months or less	97,946,521	139,421,094
With maturity of between 3 months and 1 year	87,053,712	72,746,559
With maturity over one year	1,232,092	2,271,034
	316,081,680	297,311,300

23 OTHER LIABILITIES

	2015	2014
Bankers cheques	398,970	200,098
Accrued loan administration fees	1,490,686	1,270,160
Accrued expenses	1,120,322	664,305
Statutory liabilities	39,253	67,951
	3,049,231	2,202,514
Current	2,012,557	1,661,525
Non-current	1,036,674	540,989

24 LONG TERM BORROWING

	2015 TZS '000	2014 TZS '000
PROPARCO	7,854,533	7,886,353
TMRC	3,250,000	3,250,000
DEG	17,280,000	-
Accrued interest	188,842	110,627
	28,573,375	11,246,980

Notes to the Financial Statements
For the year ended 31 December 2015

24 LONG TERM BORROWING *(Continued)*

	2015 TZS '000	2014 TZS '000
The loan is repayable as follows:		
Within one year	2,152,465	1,687,889
After one to three years	7,177,274	7,981,818
After three to five years	19,243,636	1,577,273
	28,573,375	11,246,980

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 3.65%.

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.

DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH)

The long term borrowing of USD 10 million was granted on January 2015 by DEG as subordinated debt qualifying as Tier II Capital of which an amount of USD 8 Million had already been received during the month of January 2015.The effective interest rate on the long term borrowing is 5.61%.

25 SHARE CAPITAL AND SHARE PREMIUM

	2015 TZS '000	2014 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 (2014: 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

Notes to the Financial Statements
For the year ended 31 December 2015

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.

	2015	2014
Profit for the year attributable to equity holders of the company (TZS' 000)	**5,914,508**	4,093,329
Weighted average number of shares (Number)	**2,395**	2,395
Basic and Diluted Earnings Per Share (TZS '000)	**2,470**	1,709

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, general provision as computed per BoT regulation 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. 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.

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 (2014: 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:

Notes to the Financial Statements
For the year ended 31 December 2015

27 REGULATORY CAPITAL *(Continued)*

	Nominal Statement of financial position amounts 2015 TZS'000	Risk weighted amounts 2015 TZS'000	Nominal Statement of financial position amounts 2014 TZS'000	Risk weighted amounts 2014 TZS'000
Cash and balances with Bank of Tanzania	**51,921,375**	**-**	50,557,300	-
Balances with other bank	**13,297,210**	**2,659,442**	8,106,296	1,621,259
Cheques in the course of collection	**377,945**	**188,973**	89,036	44,518
Government treasury bills and bonds	**38,374,528**	**-**	50,864,788	-
Other money market placements	**1,760,246**	**352,049**	1,704,000	340,800
Equity investment	**500,000**	**500,000**	500,000	500,000
Loans and advances	**268,643,684**	**251,145,820**	224,260,585	217,532,767
Other assets (excluding Prepayments)	**391,535**	**391,535**	139,121	139,121
Intangible assets	**1,170,338**	**-**	883,793	-
Property and equipment	**5,631,412**	**5,631,412**	4,809,044	4,809,044
Total assets	**382,068,273**	**260,869,231**	341,913,963	224,987,509
Unrecognized positions Credit related commitments	**39,237,062**	**25,083,869**	29,566,610	15,237,184
Total risk-weighted assets		**285,953,100**		240,224,693

Notes to the Financial Statements
For the year ended 31 December 2015

27 REGULATORY CAPITAL *(Continued)*

	2015 TZS '000	2014 TZS '000
Tier 1 capital		
Share capital	**2,395,000**	2,395,000
Share Premium	**7,482,000**	7,482,000
Retained earnings	**26,755,321**	22,620,546
	36,632,321	**32,497,546**
Less:		
Prepaid expenses	**1,605,975**	971,542
Deferred tax asset	**1,668,842**	450,148
Intangible assets	**1,170,338**	883,793
	4,445,155	**2,305,483**
Total qualifying Tier 1 capital	**32,187,166**	30,192,063
Tier 2 capital		
General provision in equity	**310,525**	-
Other general provision	**2,092,995**	-
Subordinated debts (Tier 2)	**16,093,583**	-
Total regulatory capital	**50,684,269**	**30,192,063**
Risk - weighted assets		
On balance sheet	**260,869,231**	224,987,509
Off balance sheet	**25,083,869**	15,237,184
Capital Charge for Market Risk	**1,034,802**	481,023
Total risk - weighted assets	**286,987,902**	**240,705,716**
Bank Ratios		
Tier 1 (BoT Minimum required is 10%)	**11.22%**	12.54%
Tier 1 + Tier 2 (BoT Minimum required is 12%)	**17.66%**	12.54%

Notes to the Financial Statements
For the year ended 31 December 2015

28 RELATED PARTY TRANSACTIONS

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

Directors and key management personnel: Loans	2015 TZS '000	2014 TZS '000
Loans outstanding at the beginning of the year	**1,135,556**	317,339
Loans issued during the year	**1,091,409**	1,059,788
Loan repayments during the year	**(204,208)**	(280,534)
Loans outstanding at the end of the year	**2,022,757**	**1,096,593**
Interest income earned	**200,301**	**44,256**
Deposits received during the year	**4,482,440**	6,148,197
Deposits repaid during the year	**(3,135,513)**	(4,400,271)
Deposits at the end of the year	**6,318,591**	**4,971,664**
Interest expense	**191,765**	**259,775**
(Related companies: Deposits (I&M Bank Limited -holding company and Bank One Ltd - associate company).		
Deposits at the beginning of the year	**30,362,500**	48,200,772
Deposits received during the year	**256,608,000**	324,098,000
Deposits repaid during the year	**(277,170,385)**	(341,936,272)
Deposits at the end of the year	**9,800,115**	30,362,500
Interest expense	**237,056**	1,215,240
Key management compensation		
Salaries and other short-term benefits	**1,288,278**	1,431,048
Post-employment benefits(PPF)	**122,705**	136,382
	1,410,983	1,567,430
Key management comprise of CEO and all heads of department.		
Directors' remuneration-made up of short-term benefits	**129,353**	88,003
Details of payments to individual directors will be tabled at the annual general meeting		
Management fees		
Management fees paid to I&M Bank Ltd	**723,034**	584,212

Notes to the Financial Statements
For the year ended 31 December 2015

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.As at 31st December 2015, the outstanding was USD 3.6 million (Equivalent to TZS 7,854 million).

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 established, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, there was 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 2015, the Bank had capital commitments of TZS 4,205 million (2014: TZS 4,846million) in respect of buildings, equipment and intangible assets purchases which was approved by the board. The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.

(c) Commitments to extend credit

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

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

The outstanding commitments and contingent liabilities are as follows:

	2015 TZS '000	2014 TZS '000
Letters of credit	**5,239,405**	5,743,873
Outstanding guarantees and indemnities	**4,581,363**	2,646,254
Undrawn balance	**29,416,294**	21,176,483
	39,237,062	29,566,610

Letters of Credit and 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.

Notes to the Financial Statements
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29 CONTINGENT LIABILITIES AND COMMITMENTS (*Continued*)

d) Operating lease commitments- bank as lessee

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

	2015 TZS '000	2014 TZS '000
Not later than 1 year	1,311,561	1,059,593
Later than 1 year and not later than 5 years	4,571,413	2,026,379
Later than five years	787,579	26,560
	6,670,553	**3,112,532**

Other than the above mentioned, there are no other material contingencies as at 31 December 2015, 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

Since balance sheet date, the Bank has entered into an agreement with FMO for a senior debt of USD 12 million which is expected in the first half of the year.

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

31 HOLDING COMPANY

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

32 ASSETS PLEDGED AS SECURITY

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 (2014: TZS 4,000 million). (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.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

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

a) Credit risk

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

Management of credit risk

The Board has delegated responsibility for the management of credit risk to the Board Credit Committee. A separate Bank Management Credit Committee chaired by the Chief Executive Officer, reporting to the Board Credit Committee, is responsible for oversight of the Bank's credit risk 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.
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.
vii) The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

Regular audits of credit department processes are undertaken by internal audit and risk department.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

a) Credit risk (continued)

Exposure to credit risk

Loans and advances to customers	2015 TZS '000	2014 TZS '000
Carrying amount		
Individually impaired		
Grade 3: Impaired (Substandard)	**5,453,376**	1,926,929
Grade 4: Impaired (doubtful)	**806,724**	54,766
Grade 5: Impaired (Loss)	**2,084,297**	968,087
Gross amount	**8,344,397**	**2,949,782**
Allowance for impairment	**(3,682,933)**	(1,188,163)
Carrying amount	**4,661,464**	1,761,619
Collectively impaired		
Grade 1: Neither past due nor impaired (current)	**240,446,642**	217,348,578
Grade 2: Past due but not impaired (watch list)	**25,853,707**	7,118,102
Gross amount	**266,300,349**	224,466,680
Allowance for impairment	**(2,318,130)**	(1,967,714)
Carrying amount	**263,982,219**	222,498,966
Total Carrying amount	**268,643,683**	224,260,585

Loans and advances to banks (including balances with Bank of Tanzania)
As at the year end, loans and advances to banks were classified as neither past due nor impaired.

(i) 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.

(ii) 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.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

a) Credit risk (continued)

(ii) Loans and advances past due but not impaired (Continued)

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.

	2015 TZS '000 Overdrafts	2015 TZS '000 Term Loans	2014 TZS '000 Overdrafts	2014 TZS '000 Term Loans
Past due up to 30 days	-	7,992,000	-	6,500
Past due 30-60 days	-	3,497,121	-	3,461,533
Past due 60-90 days	1,469,265	12,895,321	848,258	2,801,811
	1,469,265	**24,384,442**	**848,258**	**6,269,844**

Investment securities

The investment securities held by the Bank subject to credit risk comprise treasury bills and bonds issued by the Government. All these investments were considered to be neither past due nor impaired.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

a) Credit Risk (Continued

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

31 December 2015	Notes	Financial Institution TZS '000	Manufacturing TZS '000	Real estate TZS '000	Whole-sale and retail trade TZS '000	Others TZS '000	Individual TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	13	43,842,800	-	-	-	-	-	43,842,800
Balance with other banks	14	13,297,210	-	-	-	-	-	13,297,210
Cheques and items for clearance	14	377,945	-	-	-	-	-	377,945
Government securities	15	-	-	-	-	38,374,528	-	38,374,528
Other money market placements	17	1,760,246	-	-	-	-	-	1,760,246
Loans and advances	18	-	61,327,389	69,227,169	56,085,483	76,958,295	5,045,348	268,643,684
Other asset (excluding prepayment)	19	-	-	-	-	391,535	-	391,535
		59,278,201	61,327,389	69,227,169	56,085,483	115,724,358	5,045,348	366,687,948
Credit risk exposures relating to off-balance sheet items are as follows:								
Guarantees and idemnities		-	-	1,475,123	1,045,408	1,810,832	250,000	4,581,363
Loan commitments and other credit related obligations		-	2,897,092	10,098,134	16,363,513	4,722,803	574,157	34,655,699
		-	2,897,092	11,573,257	17,408,921	6,533,635	824,157	39,237,062

Notes to the Financial Statements
For the year ended 31 December 2015

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 2014	Notes	Financial Institution TZS '000	Manufacturing TZS '000	Real estate TZS '000	Whole-sale and retail trade TZS '000	Others TZS '000	Individual TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	13	46,609,486	-	-	-	-	-	46,609,486
Balance with other banks	14	8,106,296	-	-	-	-	-	8,106,296
Cheques and items for clearance	14	89,036	-	-	-	-	-	89,036
Government securities	15	-	-	-	-	50,864,788	-	50,864,788
Other money market placements	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
		56,508,818	**41,182,770**	**72,614,360**	**48,054,970**	**107,894,674**	**5,517,720**	**331,773,312**

Credit risk exposures relating to off-balance sheet items are as follows:

Guarantees and idemnities		-	-	78,770	-	2,567,484	-	2,646,254
Loan commitments and other credit related obligations		-	2,589,128	11,442,358	9,097,929	3,292,097	498,844	26,920,356
		-	**2,589,128**	**11,521,128**	**9,097,929**	**5,859,581**	**498,842**	**29,566,610**

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

a) Credit risk (continued)

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

31 December 2015	Notes	Tanzania TZS '000	Kenya TZS '000	India TZS '000	America TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	13	43,842,800	-	-	-	43,842,800
Balance with other banks	14	4,350,440	1,906,279	61,695	6,978,796	13,297,210
Cheques and items for clearance	14	377,945	-	-	-	377,945
Government securities	15	38,374,528	-	-	-	38,374,528
Other money market placements	17	1,760,246	-	-	-	1,760,246
Loans and advances	18	268,643,684	-	-	-	268,643,684
Other asset (excluding prepayment)	19	391,535	-	-	-	391,535
		357,741,178	**1,906,279**	**61,695**	**6,978,796**	**366,687,948**

31 December 2014	Notes	Tanzania TZS '000	Kenya TZS '000	India TZS '000	America TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	13	46,609,486	-	-	-	46,609,486
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	15	50,864,788	-	-	-	50,864,788
Other money market placements	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
		326,404,831	**(301,799)**	**44,933**	**5,625,347**	**331,773,312**

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.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

a) Credit risk (continued)

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 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 reviews and accepts the recommendations by the management that the loans are irrecoverable and have remained in the loss category for twelve 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.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

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 average 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:

	2015	2014
At 31 December	30%	32%
Average for the year	30%	33%
Maximum for the year	40%	35%
Minimum for the year	23%	31%

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.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

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 2015 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 2015	Up to 1 month TZS '000	1-3 months TZS '000	3-12 months TZS '000	1-5 years TZS '000	Over 5 years TZS '000	Total TZS '000
Liabilities						
Deposits from banks	36,755,428	1,114,207	3,232,953	-	-	41,102,588
Deposits from customers	151,078,466	37,433,959	88,249,466	1,322,126	-	278,084,017
Other liabilities	-	1,299,627	673,677	794,622	242,052	3,009,978
Long term borrowing	-	373,750	3,467,394	17,748,256	8,980,200	30,569,600
Total liabilities (contractual maturity dates)	**187,833,894**	**40,221,543**	**95,623,490**	**19,865,004**	**9,222,252**	**352,766,183**
Assets held for managing liquidity risk (contractual maturity dates)	**98,403,008**	**27,869,129**	**93,810,509**	**113,344,500**	**41,339,378**	**375,266,524**
As at 31 December 2014						
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	-	864,403	729,171	540,989	-	2,134,563
Long term borrowing	-	-	1,855,963	11,207,248	-	13,063,211
Total liabilities (contractual maturity dates)	55,628,520	45,142,251	127,356,819	114,188,280	-	342,315,870
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 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

c) Market risk

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

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

The Asset and Liability Committee oversees the management of Market risk inherent in the Bank within the risk appetite as approved by the Board Risk Committee.

The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing 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 450 million (2014: TZS 227 million).

Price risk exposure

The Bank exposure to equity securities price risk arises from investments held by the Bank and classified in the balance sheet either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Bank diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Bank.

Notes to the Financial Statements
For the year ended 31 December 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

c) Market risk (continued)

Interest rate risk exposure (continued)

As at 31 December 2015	**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	-	-	-	-	-	51,921,375	**51,921,375**
Balance with other banks	-	-	-	-	-	13,297,210	**13,297,210**
Cheques in the course of collection	-	-	-	-	-	377,945	**377,945**
Government securities	5,941,975	5,604,455	15,480,978	11,347,121	-	-	**38,374,529**
Investment securities available for sale	-	-	-	-	-	500,000	**500,000**
Other money market placements	150,000	-	810,246	800,000	-	-	**1,760,246**
Loans and advances	24,712,722	22,264,674	78,329,531	101,997,379	41,339,378	-	**268,643,684**
Other assets(excluding prepayments)	-	-	-	-	-	391,535	**391,535**
Total assets	**30,804,697**	**27,869,129**	**94,620,755**	**114,144,500**	**41,339,378**	**66,488,065**	**375,266,524**
Liabilities and equity							
Deposits	107,624,103	39,310,858	87,053,712	1,232,092	-	80,860,915	**316,081,679**
Other liabilities	-	-	-	-	-	3,049,231	**3,049,231**
Long term borrowing	-	-	2,152,466	9,140,909	17,280,000	-	**28,573,375**
Total liabilities and equity	**107,624,103**	**39,310,858**	**89,206,178**	**10,373,001**	**17,280,000**	**83,910,147**	**347,704,287**
Total interest re-pricing gap	**(76,819,406)**	**(11,441,729)**	**5,414,576**	**103,771,498**	**24,059,377**	**-**	**-**

Notes to the Financial Statements
For the year ended 31 December 2015

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	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	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		54,514,356	**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 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

c) 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 2015, 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 increase in profit before tax of TZS 369 million (2014: TZS 1,809 million, increase).

At 31 December 2015, 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 1.5 million (2014: TZS 2 million, decrease).

At 31 December 2015, 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 decrease in profit before tax of TZS 3.6 million (2014: TZS 18 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 2015 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 2015

33 FINANCIAL RISK MANAGEMENT (*Continued*)

c) Market risk (continued)

Foreign currency exchange risk exposure (continued)

As at 31 December 2015	USD TZS ' 00	GBP TZS '000	Euro TZS '000	INR TZS '000	KES TZS '000	ZAR TZS '000	JPY TZS '000	CAD TZS '000	Total TZS '000
ASSETS									
Cash and balances due from banking institutions	13,522,008	417,267	127,766	61,695	7,296	10,550	9,767	-	14,156,349
Loans and advances	221,265,167	-	-	-	-	-	-	-	221,265,167
Other assets	324,061	-	-	-	-	-	-	-	324,061
Total assets	**235,111,235**	**417,267**	**127,766**	**61,695**	**7,296**	**10,550**	**9,767**	**-**	**235,745,577**
LIABILITIES									
Deposits	202,285,134	387,945	200,444	-	-	-	-	-	202,873,523
Long term borrowing	25,260,315	-	-	-	-	-	-	-	25,260,315
Other liabilities	178,303	-	-	-	-	-	-	-	178,303
Total liabilities	**227,723,752**	**387,954**	**200,444**	**-**	**-**	**-**	**-**	**-**	**228,312,141**
Net position	**7,387,484**	**29,323**	**(72,678)**	**61,695**	**7,296**	**10,550**	**9,767**	**-**	**7,433,437**

As at 31 December 2014	USD TZS '000	GBP TZS '000	Euro TZS '000	INR TZS '000	KES TZS '000	ZAR TZS '000	JPY TZS '000	CAD TZS '000	Total 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	174,119,474	-	-	-	-	-	-	-	174,119,474
Other assets	62,308	-	-	-	-	-	-	-	62,308
Total assets	194,828,813	347,307	461,995	44,933	26,633	11,058	5,963	64	195,726,766
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	**(662,360)**	**35,589**	**356,319**	**44,933**	**26,633**	**11,058**	**5,963**	**64**	**(181,801)**

Notes to the Financial Statements
For the year ended 31 December 2015

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 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Notes to the Financial Statements
For the year ended 31 December 2015

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE (*Continued*)

iii) Investment securities

The fair value for investment securities is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. The carrying amount is a reasonable approximation of fair value.

iv) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount is a reasonable approximation of fair value.

All financial assets except equity investments are classified under 'loans and receivables' and all financial liabilities are classified under 'financial liabilities at amortised costs'.

The table below summarizes the carrying amounts and fair values of financial assets and liabilities

	Fair value	Carrying amount
	TZS '000	TZS '000
31 December 2015		
Cash and balances with Bank of Tanzania	51,736,956	51,736,956
Balance with other banks	13,297,210	13,297,210
Cheques and items for clearance	377,945	377,945
Investment securities		
- Government treasury bills and bonds	36,799,822	38,338,368
- Equity investment	500,000	500,000
Other money market placements	1,760,246	1,760,246
Loans and advances	268,643,684	268,643,684
	373,115,863	**374,654,409**
Financial liabilities		
Deposits	316,109,090	316,109,090
Other liabilities	2,864,812	2,864,812
Long term borrowing	28,573,375	28,573,375
	347,547,277	**347,547,277**

Notes to the Financial Statements
For the year ended 31 December 2015

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE *(Continued)*

	Fair value TZS '000	Carrying amount TZS '000
31 December 2014		
Cash and balances with Bank of Tanzania	50,557,300	50,557,300
Balance with other banks	8,106,296	8,106,296
Cheques and items for clearance	89,036	89,036
Investment securities		
- Government treasury bills and bonds	51,169,788	50,864,788
- Equity investment	500,000	500,000
Other money market placements held to maturity	1,704,000	1,704,000
Loans and advances	224,260,585	224,260,585
	336,387,005	**336,082,005**
Deposits	297,311,300	297,311,300
Other liabilities	2,202,514	2,202,514
Long term borrowing	11,246,980	11,246,980
	310,760,794	**310,760,794**

a) Financial instruments measured at fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy.

b) Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the Financial Statements
For the year ended 31 December 2015

34 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES *(Continued)*

The following table represents the Bank's financial assets that are measured at fair value:-

31 December 2015	Level 1	Level 2	Level 3	TZS '000 Total
Available-for-sale financial assets:				
- Equity Investment			500,000	500,000
Total assets			500,000	500,000

31 December 2014	Level 1	Level 2	Level 3	TZS '000 Total
Available-for-sale financial assets:				
- Equity Investment			500,000	500,000
Total assets			500,000	500,000

35 DIVIDEND

	2015 TZS'000	2014 TZS'000
Dividend paid		
Final dividend for 2014 – TZS 1,023.33 million at TZS 0.43 million per share (final dividend for 2013 -TZS 953.21 million at TZS 0.40 million per share)	**1,023,330**	953,210
Dividend declared		
Final dividend for 2015: TZS NIL (2014: TZS 1,023.33 million at 0.43 million per share)	-	1,023,330

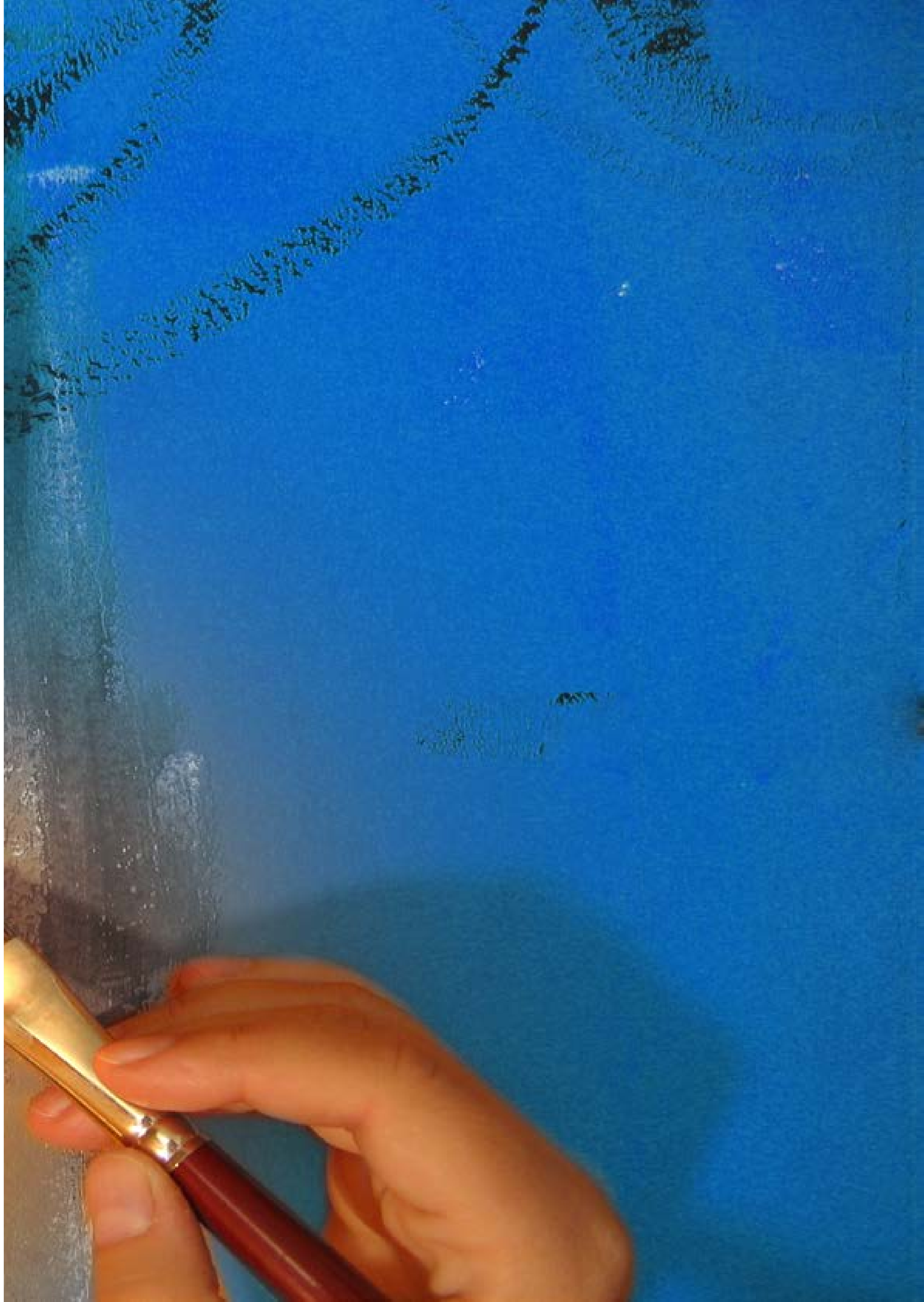
Proposed dividend for approval at Annual General Meeting
(Not recognized as a liability as at 31 December)

No dividend was proposed by the board of directors for the year ended 31 December 2015 [2014: TZS 1,023.33 million at TZS 0.43million per share]. The prior year dividend was subsequently approved by the shareholders and paid out during 2015.

CSR News

I&M @ SOS Village

In October 2015, the bank's management along with some staff visited the Orphanage - SOS Village and contributed 200KG of rice bags for the Orphanage.



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