



**THE UNITED REPUBLIC OF TANZANIA**

**NATIONAL AUDIT OFFICE**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE REPORTS AND ANNUAL  
FINANCIAL STATEMENTS OF THE BANK OF TANZANIA  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2015**

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**BANK OF TANZANIA**

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

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**BANK OF TANZANIA**

**BANK INFORMATION**

**REGISTERED OFFICE:**

BoT Head Office  
2 Mirambo Street  
11884 Dar es Salaam  
P.O. Box 2939  
Dar es Salaam, Tanzania

**GOVERNOR:**

Prof. Benno J. Ndulu  
BoT Head Office  
2 Mirambo Street  
11884 Dar es Salaam  
P.O. Box 2939  
Dar es Salaam, Tanzania

**SECRETARY TO THE BANK:**

Mr. Yusto E. Tongola  
BoT Head Office  
2 Mirambo Street  
11884 Dar es Salaam  
P.O. Box 2939  
Dar es Salaam, Tanzania

**BRANCHES**

Arusha  
Bank of Tanzania building  
Makongoro Road  
P.O. Box 3043  
Arusha, Tanzania

Mbeya  
Bank of Tanzania building  
Kadege Road  
P.O. Box 1203  
Mbeya, Tanzania

Mwanza  
Bank of Tanzania building  
Nyerere Road  
P.O. Box 1362  
Mwanza, Tanzania

Zanzibar  
Bank of Tanzania building  
Gulioni Area  
P.O. Box 568  
Zanzibar, Tanzania

Dodoma  
Bank of Tanzania building  
2 NCC LINK  
P.O. Box 2303  
Dodoma, Tanzania

Bank of Tanzania Training Institute  
Capri point area  
P.O. Box 131  
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# **BANK OF TANZANIA**

## **REPORT OF THE DIRECTORS**

### **1. INTRODUCTION**

The Directors present this report together with the audited financial statements for the financial year ended 30 June 2015, which disclose the state of financial affairs of the Bank of Tanzania (the "Bank").

During the year, the Bank continued to implement its mandate as provided in the Bank of Tanzania Act, 2006 to ensure sustainable growth of national economy. As part of its mandate to issue and distribute currency to the economy, besides its branch network, the Bank operates safe custody centres in some parts of the country. During the year under review, the Bank operated five branches, one training institute and nine safe custody centres in the country.

The Bank continued to monitor and disseminate information and data on economic activities in the country. Economic reports covering various regions were disseminated at various fora, including at regional coordination committees and investors' fora.

### **ESTABLISHMENT**

The Bank of Tanzania was established under the Bank of Tanzania Act, 1965. The act was repealed in 1995 and 2006. The Bank currently operates under the Bank of Tanzania Act, 2006.

### **BANK'S VISION**

The vision of the Bank is: "To be a world-class Central Bank in fostering economic growth through maintaining price and financial stability."

### **BANK'S MISSION**

The Bank's mission is: "To conduct monetary policy directed towards maintaining price stability and to promote integrity and stability of the financial system conducive to sustainable growth of the national economy".

### **2. STATUTE AND PRINCIPAL ACTIVITIES**

Bank of Tanzania (BOT) is the Central Bank of the United Republic of Tanzania comprising Tanzania Mainland and Zanzibar, and is wholly owned by the Government of the United Republic of Tanzania. Its operations are governed by the Bank of Tanzania Act, 2006.

A summary of functions and objectives of the Bank are to:

- Formulate, implement and be responsible for monetary policy, including foreign exchange rate policy, issue currency, regulate and supervise banks and financial institutions including mortgage financing, development financing, lease financing, licensing and revocation of licenses and to deal, hold and manage gold and foreign exchange reserves of Tanzania;
- Compile, analyse, and publish the monetary, financial, balance of payments statistics and other statistics covering various sectors of the national economy;
- Regulate, monitor and supervise the payment, clearing and settlement systems;
- Act as a banker and fiscal agent of the Government of the United Republic of Tanzania and the Revolutionary Government of Zanzibar ('the Governments'); and
- Ensure the integrity of the financial system and support the general economic policies of the Government and promote sound monetary, credit and banking conditions conducive to the development of the national economy.

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **3. RESOURCES AND STRENGTH**

Resources and strengths that facilitate the Bank's endeavour in achieving its strategic objectives include human, financial and technological resources.

In terms of human capital, the Bank has well-qualified and committed staff dedicated to a long-term career in the Bank. Likewise, the management adheres to good governance and promotes labour relations. From its strategic perspective, the Bank enhances its financial sufficiency by improving management of its resources through prioritization of initiatives, implementing initiatives within the available financial envelope and prudently managing its sources of income. On technological side, the Bank has made significant efforts of adopting modern technology to improve its day-to-day operations. Further, the Bank has strategically located branches and custody centres, which facilitate efficient banking services.

The Bank has also undertaken various reforms that contribute to the attainment of its objectives. For example, the on-going modernization of the monetary policy framework is expected to improve the efficiency and effectiveness of the monetary policy implementation.

#### **4. REVIEW OF THE BANK'S PERFORMANCE AND BROAD GOALS**

During the year, the Bank's Corporate Plan continued to focus on attaining three broad goals that translate its primary mandates. These are:

- Maintaining price stability;
- Promoting integrity and stability of the financial system; and
- Strengthening corporate governance.

Basing on the three broad goals, the Bank's performance revealed the following:

##### **Maintaining price stability**

The Bank had set the target to maintain core inflation at single digit throughout the period to end June 2015 and maintaining official foreign reserves sufficient to cover at least 4.0 months of projected imports of goods and services, excluding those financed by foreign direct investment; and generating at least 0.75 percent return per annum on foreign reserves.

During the year, both core and headline inflation rates declined from 3.5 percent and 6.4 percent recorded in June 2014 to 2.2 percent and 6.1 percent, respectively. The decline in headline inflation was on account of improved domestic food supply in the Eastern Africa region, prudent monetary policy stance and fiscal consolidation.

Official gross foreign reserves declined to USD 4,402.2 million as of 30 June 2015 compared to USD 4,634.1 million recorded as of 30 June 2014. This level of official reserves was sufficient to cover about 4.2 months of projected import of goods and services excluding Foreign Direct Investments (FDI) related imports.

Foreign reserves were managed consistent with the strategic objective of capital preservation, adequate liquidity, and maximizing return on investments.

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **4. REVIEW OF THE BANK'S PERFORMANCE AND BROAD GOALS (CONTINUED)**

##### **Promoting integrity and stability of the financial system**

Financial stability is defined as a smooth operation of the system of financial intermediation between households, firms and the Governments through a range of financial institutions. Stability in the financial system is evidenced by an effective regulatory infrastructure, effective and well developed financial markets, and effective and sound financial institutions. The financial system remained stable and efficient in providing financial services to the economy during the financial year ended June 2015.

As at the end of June 2015, the quality of loans issued by the banking sector during the year was maintained within acceptable limits. The establishment of the credit reference system was implemented, which was intended to improve credit risk management practices in the country, through sharing credit information and eventually helping to improve loan quality.

The banking sector was adequately capitalized in aggregate terms during the review period. During the year, all capital adequacy ratios were maintained within acceptable range.

##### **Strengthening corporate governance**

###### *Improve organizational and individual performance*

The Bank continued to use Strategic Management Maturity Level (SMML) to measure the level of attainment of strategic objectives and overall staff performance levels set during the year.

The *Strategic Management Maturity Model*<sup>TM</sup> (SMMM<sup>1</sup>) was used to measure progress that the Bank is making in strategic management and performance measurements efforts. The model uses five levels of maturity where the starting point is 1 and the best score is 5. The scores are assigned to nine different dimensions namely; leadership, culture and values, strategic thinking and planning, strategic budgeting, organisational alignment, performance measurement, performance management, process improvement and sustainability of strategic management.

The overall performance of the Bank during the year improved to an average of 3.5 in year 2015 from 2.7 attained during year 2014.

###### *Staffing, Capacity Building and Work Environment*

The Bank was adequately staffed with the right capabilities to accomplish its strategic and operational objectives. This position was a result of implementation of Human resource plans and strategies that enabled the Bank to fill vacant positions in time. Moreover, the Bank remained a favourable employer in the labour market with staff retention rate of 99.9%.

To improve knowledge and skills of employees, the Bank continued to address skills requirements through the annual corporate training plan and budget.

###### *Core Competency Framework*

The Bank continued to have a safe and healthy working environment. All office facilities and working tools operated smoothly. Employees' benefits and welfare services were delivered as planned and staff well being and morale was maintained.

<sup>1</sup> SMMM assessment is conducted periodically to inform management of where the Bank stands in terms of strategic management. It also allows management to monitor progress in improving maturity of strategic management and to allow benchmarking the Bank against other high performing organisations.

# **BANK OF TANZANIA**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **4. REVIEW OF THE BANK'S PERFORMANCE AND BROAD GOALS (CONTINUED)**

#### **Strengthening corporate governance (Continued)**

##### *Enhance Compliance with Legislation, Regulations, Policies and Standards*

During the year, the Bank continued to put emphasis on compliance with the Bank of Tanzania Act, 2006; Public Procurement Act, 2011; and other legislations, regulations, policies and standards in executing its mandate.

Further, the Bank continued to adhere to Anti-Money Laundering (AML) and the Combating Financing of Terrorism Units (CFT) by continuing coordination of Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT) activities as an effort to ensure that the Bank adhered to legislation, regulations and policies. The Bank spearheaded coordination of AML/CFT initiatives within the Bank and among stakeholders in the country and more particularly with the Financial Intelligence Unit (FIU). The Bank also continued to play a part in the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) meetings and shared experiences and benchmark practices in combating AML/CFT.

##### *Improve management of Bank's resources*

In improving management of the Bank's resources, the Bank continued to implement planned projects. Major projects completed during the year include construction of Dodoma Branch, Tanzania Automated Clearing House (TACH) and Governance Risk and Compliance (GRC) Phase II.

During the period under review, the Bank continued to maintain its properties and facilities including buildings, machinery, equipment and motor vehicles in order to ensure that they are always in good working condition.

##### *Bank's Engagement with External Stakeholders*

The Bank continued to nurture its relationship with external stakeholders, seeking to gain confidence and trust in protecting the Bank's reputation. In order to improve its reputation, the Bank continued to address stakeholders' needs, expectations and providing timely responses to stakeholders' inquiries.

##### *Other developments*

##### *Growth of currency in circulation*

The position of currency in circulation as at 30 June 2015 was TZS 4,094,261.1 million as compared to TZS 3,596,703.1 million as at 30 June 2014, hence representing an increase of TZS 497,557.9 million; equivalent to 13.8 per cent (2014: 18.7 per cent) in line with momentary policies that ensure sustainable economic growth.

##### *Public education programs*

The Bank participated in various public education programs that were aimed at sensitizing the public on the roles and functions of the Bank. Further the Bank undertook public awareness campaigns on the bank notes and its security features.

# BANK OF TANZANIA

## REPORT OF THE DIRECTORS (CONTINUED)

### 5. CORPORATE GOVERNANCE

Members of the Board of Directors other than the Governor and Deputy Governors are appointed by the Minister for Finance of the United Republic of Tanzania, while the latter are appointed by the President of the United Republic of Tanzania. The following Directors served in the Board during the year.

No.	Name	Position	Age	Discipline	Date of Appointment	Nationality
1	Prof. Benno J. Ndulu	Governor and Chairman of the Board	65	Economist	08 January 2008	Tanzanian
2	Mr. Juma H. Reli <sup>2</sup>	Deputy Governor	59	Finance	14 February 2005	Tanzanian
3	Mr. Lita H. Mkila	Deputy Governor	64	Statistician	26 June 2007	Tanzanian
4	Dr. Natu E. Mwamba	Deputy Governor	53	Economist	13 June 2011	Tanzanian
5	Prof. Haidari K. Amani	Member	66	Economist	08 January 2008	Tanzanian
6	Mr. Khamis M. Omar <sup>1</sup>	Member	49	Finance	20 April 2006	Tanzanian
7	Mr. Bedason Shallanda	Member	52	Economist	11 September 2010	Tanzanian
8	Mr. Yona S. Killagane	Member	61	Professional Accountant	08 March 2011	Tanzanian
9	Mrs. Esther P. Mkwizu	Member	62	Management Consultant	08 March 2011	Tanzanian
10	Mr. Omar S. Mussa	Member	59	Finance	08 March 2014	Tanzanian
11	Mr. Yusto E. Tongola	Secretary	51	Lawyer	20 March 2013	Tanzanian

#### KEY

<sup>1</sup> Principal Secretary to the Treasury, Revolutionary Government of Zanzibar.

<sup>2</sup> Retired on 10 July 2015.

In accordance with Section 9(2) (c) of the Bank of Tanzania Act, 2006, a representative of the Ministry of Finance of the United Republic and Principal Secretary to the Treasury of the Revolutionary Government of Zanzibar are ex-officio members.

Bank of Tanzania ascribes to the highest standards of corporate governance. The Bank through the Board of Directors and Management upholds and practices the principles of sound corporate governance.

To this end, the Bank of Tanzania Act, 2006, has provided a framework for ensuring application of sound corporate governance principles and best practices by the Bank's Board of Directors and its Committees and Management in the course of managing the day to day affairs/operations of the Bank as summarized below:

- (i) In terms of the provisions of Section 9(1) of the Bank of Tanzania Act, 2006, the Bank's Board of Directors is the supreme policy making body in the Bank, and apart from its specified function of approving the budget of the Bank;
- (ii) Four Committees are currently assisting the Bank's Board of Directors in the discharge of its functions. These are the Monetary Policy Committee, Audit Committee, Banking Supervision Committee and Finance and Investment Committee.



## BANK OF TANZANIA

### REPORT OF THE DIRECTORS (CONTINUED)

#### 5. CORPORATE GOVERNANCE (CONTINUED)

##### (a) Monetary Policy Committee

The Monetary Policy Committee was established under the provision of Section 12(1) of the Bank of Tanzania Act, 2006. Its membership comprise of the Governor who is the Chairman, the Deputy Governors, and four Non-executive Directors. The Monetary Policy Committee assists the Board in the review of monetary policy targets; review of research papers and major economic and monetary policy changes before adoption by the Board. The Committee's mandate also covers review of the Governments' revenue and expenditure patterns; review of debt management operations and statutory reports of the Bank related to implementation of monetary and financial policies.

The Members of the Monetary Policy Committee as at 30 June 2015 were as follows:

No	Name	Position	Discipline	Nationality
1	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2	Mr. Juma H. Reli	Member	Finance	Tanzanian
3	Mr. Lila H. Mkila	Member	Statistician	Tanzanian
4	Dr. Natu E. Mwamba	Member	Economist	Tanzanian
5	Prof. Haidari K. Amani	Member	Economist	Tanzanian
6	Mrs. Esther P. Mkwizu	Member	Management Consultant	Tanzanian
7	Mr. Omar S. Mussa	Member	Finance	Tanzanian
8	Mr. Yona S. Killagane <sup>1</sup>	Member	Professional Accountant	Tanzanian
9	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

<sup>1</sup> Appointed to the Committee on 17 February, 2015.

##### (b) The Audit Committee

Established under the provisions of Section 12(1) of the Bank of Tanzania Act 2006, the Audit Committee is largely composed of Non-executive Directors. The Chairman of the Committee is a Non-executive Director. The Deputy Governor-Administration and Internal Control is the only Executive member of the Committee. The Terms of Reference for the Audit Committee cover four major areas, namely, Internal Control, Financial Reporting, Internal Audit and External Audit.

The Audit Committee's mandate under **Internal Control** covers evaluation of control environment and culture; the adequacy of the internal control systems and compliance with IFRS in the preparation of financial statements; the overall effectiveness of the internal control and risk management framework; The Committee also reviews requests for write off/ back of items from the books of accounts and reviews the effectiveness of the system for monitoring compliance with laws and regulations.

The mandate relating to **Financial Reporting** requires the Audit Committee to review significant accounting and reporting issues and their impact on the financial reports and ensure current financial risk areas are being managed appropriately. The Committee also ensures the adequacy of the financial reporting process and reviews the Bank's annual accounts before approval and adoption by the Board.

With regard to **External Audit**, the Audit Committee reviews and approves the external auditors' proposed audit scope, approach and audit deliverables, draft financial statements before submission to the External Auditors for audit; and also reviews and approves the proposed audit fee.

# BANK OF TANZANIA

## REPORT OF THE DIRECTORS (CONTINUED)

### 5. CORPORATE GOVERNANCE (CONTINUED)

#### (b) The Audit Committee (Continued)

The Committee's mandate on **Internal Audit** covers review of the activities and resources of the internal audit function; effectiveness, standing and independence of internal audit function within the Bank; review of the internal audit plan; and follow up on implementation of internal audit findings and recommendations. The Audit Committee reports to the Board of Directors.

The Members of the Audit Committee as at 30 June 2015 were as follows:

No	Name	Position	Discipline	Nationality
1	Prof. Haidari K. Amani	Chairman	Economist	Tanzanian
2	Mr. Juma H. Reli	Member	Finance	Tanzanian
3	Mrs. Esther P. Mkwizu	Member	Management Consultant	Tanzanian
4	Mr. Omar S. Mussa	Member	Finance	Tanzanian
5	Mr. Yona S. Killagane	Member	Professional Accountant	Tanzanian
6	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

#### (c) Banking Supervision Committee

The Banking Supervision Committee was also established under the provision of Section 12(1) of the Bank of Tanzania Act, 2006. Members of the Committee comprise the Governor who is the Chairman, the Deputy Governors, Representative of the Ministry of Finance, Government of the United Republic of Tanzania and Principal Secretary to the Treasury, Revolutionary Government of Zanzibar and four Non-executive directors.

The Banking Supervision Committee is responsible for review of internal control and systems in banks and other financial institutions; the Banking Supervision function; adequacy of the prevailing legal and regulatory framework; operating performance of banks, financial institutions and bureau de change with a view to ensuring safety and soundness in the banking system; financial stability reports before publication; and on emerging supervisory issues. The Committee advises the Board on appropriate policy, legislative and regulatory measures that promote a safe and sound banking system and high supervisory standards and practices.

The Members of the Banking Supervision Committee as at 30 June, 2015 were as follows:

No	Name	Position	Discipline	Nationality
1	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2	Mr. Juma H. Reli	Member	Finance	Tanzanian
3	Mr. Lila H. Mkila	Member	Statistician	Tanzanian
4	Dr. Natu E. Mwamba	Member	Economist	Tanzanian
5	Mr. Khamis M. Omar	Member	Finance	Tanzanian
6	Mr. Bedason A. Shallanda	Member	Economist	Tanzanian
7	Prof. Haidari K. Amani	Member	Economist	Tanzanian
8	Mr. Yona S. Killagane	Member	Professional Accountant	Tanzanian
9	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

**BANK OF TANZANIA**

**REPORT OF THE DIRECTORS (CONTINUED)**

**5. CORPORATE GOVERNANCE (CONTINUED)**

**(d) The Finance and Investment Committee**

The Finance and Investment Committee was established under the provision of Section 12 (1) of the Bank of Tanzania Act, 2006. Members of the Committee include the Governor who is the Chairman, the Deputy Governors, and four Non-executive Members of the Board.

The Finance and Investment Committee is responsible for review of the proposed budgets, reallocation of funds involving capital expenditure and supplementary budget requests; quarterly budget performance reports; Financial Regulations and Staff Bylaws; requests for disposal of immovable assets; and Bank's Annual Corporate Plan. The Committee also reviews the appropriateness of the Bank's investment policy and assets allocation strategy; Risk Management Framework for the Bank's operations and Project Management framework.

The Members of the Finance and Investment Committee as at 30 June 2015 were as follows:

No	Name	Position	Discipline	Nationality
1	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2	Mr. Juma H. Reli	Member	Finance	Tanzanian
3	Mr. Lila H. Mkila	Member	Statistician	Tanzanian
4	Dr. Natu E. Mwamba	Member	Economist	Tanzanian
5	Prof. Haidari K. Amani	Member	Economist	Tanzanian
6	Mr. Yona S. Killagane	Member	Professional Accountant	Tanzanian
7	Mrs. Esther P. Mkwizu	Member	Management Consultant	Tanzanian
8	Mr. Omar S. Mussa	Member	Finance	Tanzanian
9	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

**6. MEETINGS**

The Board held 18 meetings during the year ended 30 June 2015. In addition there were various meetings of the Board Committees. All members of the Board were able to devote their time required for the Board and Committee meetings.

Below is a summary indicating the number of meetings attended by members of the Board from 1 July 2014 to 30 June 2015.

No	Number of meetings	Number of meetings					KEY
		Board	MPC	BSC	AC	FIC	
	Names	18	8	7	10	12	Board: Board of Directors
1	Prof. Benno J. Ndulu	16	8	7	N/A	12	MPC: Monetary Policy Committee
2	Mr. Juma H. Reli	14	8	5	9	11	BSC: Banking Supervision Committee
3	Mr. Lila H. Mkila	14	7	6	N/A	10	AC: Audit Committee
4	Dr. Natu E. Mwamba	15	5	6	N/A	10	FIC: Finance and Investment Committee
5	Mr. Bedason A. Shallanda	7	4	6	N/A	N/A	
6	Mr. Khamis M. Omar	10	4	6	N/A	N/A	
7	Prof. Haidari K. Amani	15	7	6	10	11	
8	Mrs. Esther P. Mkwizu	17	7	N/A	9	11	
9	Mr. Yona S. Killagane	17	2	4	10	9	
10	Mr. Omar S. Mussa	15	5	N/A	10	12	
11	Mr. Yusto E. Tongola	14	6	6	8	11	

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **6. MEETINGS (CONTINUED)**

The Board and its committees meet after every two months with additional meetings convened as and when necessary. During the year, the Board and its committees met to discuss and decide on various business activities. The Board Committees recommend key business decisions to the Board for approval.

#### **7. INDEPENDENCE**

All Non-executive Directors are considered by the Board to be independent both in character, judgment and free of relationships or circumstances, which could affect their judgment.

#### **8. CAPITAL STRUCTURE**

Section 17 of the Bank of Tanzania Act, 2006 provides the level of authorized capital of the Bank to be one hundred billion Tanzanian Shillings. This amount may be increased by such amount as may be determined by the Board, and authorized by the Minister of Finance, by Notice published in the Government Gazette. The capital of the Bank is subscribed and held only by the Government of the United Republic of Tanzania.

Due to the nature of the Bank's business and statutory requirements the whole capital is held in the form of equity. Different classes of reserves have been prescribed under section 18(1) of the Bank of Tanzania Act, 2006 and **Note 43** to these financial statements. The movement of the capital during the year is reflected under the Statement of Changes in Owners' Equity.

#### **9. RELATIONSHIP WITH STAKEHOLDERS**

The Bank recognizes the importance of addressing the needs of its key stakeholders in order to add value, satisfy their needs and expectations to fulfill its mission. The Bank's key stakeholders include the Governments, banking institutions, other financial institutions, development partners, general public and staff. The Bank is committed to delivering value to its stakeholders through better services and good customer care while maintaining good relationship in its engagements.

Accordingly, the Bank fulfills its mandate by delivering the following services to meet its stakeholders' needs and expectations:

- (a) **Issuance of Notes and Coins:** The Bank provides secure, adequate, durable and portable bank notes and coins; ensure prompt circulation of currency through its branch networks and safe custody centres throughout the country; and promote public awareness on the currency handling and security features;
- (b) **Banking Services:** The Bank promptly facilitate payments, settlements and clearing of payment instruments for the governments and financial institutions. Further, the Bank provides safe deposit custody for the governments and financial institutions;
- (c) **Price Stability:** The Bank formulates and executes monetary policy that leads to stable domestic prices; provide policy advice to the governments; disseminate economic reports; ensure stable exchange rates; and conduct government securities auctions;
- (d) **Financial Stability:** The Bank promotes the stability of the financial system through effective regulation and supervision of banking system; provide safe and efficient payment systems; and promote public access to the financial services;
- (e) **Internal Customer requirements:** The Bank attracts and retains high caliber staff with integrity, competency and accountability and provides conducive working environment and career development opportunities to its staff.

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **10. CASH FLOW PROJECTION**

Due to the nature of the Bank's operations most of the cash projections indicate that future cash flows will mostly be generated from operating, investing and financing activities and that the Bank will continue to be a going concern within the foreseeable future.

#### **11. MANAGEMENT**

Section 13(1) of the Bank of Tanzania Act, 2006 vests the management of the Bank and the direction of its business and affairs to the Governor. The Governor is required to discharge such functions and direction, in conformity with the policies and other decisions made by the Board.

The law further provides that the Governor to be assisted by three Deputy Governors. The Deputy Governors head various functions under them which involve thirteen directorates, five independent departments, five branches and the Bank's Training Institute.

#### **12. FUTURE DEVELOPMENT PLANS**

To ensure integrity and stability of the financial system, the Bank puts emphasis on ensuring that the financial sector remains on a sound footing to serve the broader needs of the Tanzania economy. Accordingly, special focus will be placed on surveillance of both macro-conditions and the financial system and putting in place elaborate crisis management and resolution framework.

On strengthening corporate governance, the Bank will continue to improve its planning approach and execution through full implementation of the Balanced Score Card (BSC) methodology. Specifically, the Bank will take deliberate measures to create broad awareness and capacity building among staff to implement the plan. In addition, the Bank will focus on enhancing application of modern technologies; improve its work processes and compliance with laws and regulation in order to improve operational efficiency in all its undertakings.

Further, the Bank will focus on service excellence in attending both internal and external stakeholders.

Like any other central bank, the Bank is dedicated to continue advising the governments on economic policy related matters and serving the general public as our ultimate customers.

In addition, the Bank plans to:

- Continue implementing Medium Term Expenditure Framework (MTEF) as a multi-year budgeting instrument;
- Continue implementing Balanced Score Card (BSC) methodology as an instrument for performance measurement;
- Continue with the construction of Mtwara branch and staff residential premises at Dodoma and Mtwara branches;
- Construct and relocate Mwanza branch office;
- Refurbish and modify 2 Mirambo Middle Building;
- Modernise security monitoring systems at Head Office and branches;
- Acquire new software and continue improving business processes through automation;
- Implement MEMO automation as part of business process improvement;
- Acquire and continue maintaining its other existing assets;

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **13. RESULTS AND DIVIDENDS**

During the year, the Bank operations registered a profit for the year of TZS 567,204.7 million (2014: TZS 196,095.0 million). Out of that amount, TZS 358,240.9 million relates to unrealized foreign exchange revaluation gains (2014: TZS 37,221.2 million). The Bank's accounting policy requires transfer of unrealized foreign exchange revaluation gain or loss and unrealized gain or loss on financial assets measured at FVTPL to the Equalisation reserve and Securities revaluation reserve respectively. As a result in 2014/15, the Bank recorded distributable profit amounting to TZS 252,817.5 million (2014: TZS 157,621.8 million). Out of this amount, the Bank dividend amounting to TZS 130,000.0 million (2014: TZS 72,454.1 million) in compliance with the provisions on allocation of profits as set out by the Bank of Tanzania Act, 2006.

#### **14. FINANCIAL PERFORMANCE FOR THE YEAR**

##### **14.1 Financial results**

The performance of the Bank is measured on the basis of the achievements in implementing its core functions as detailed in the Bank of Tanzania Act, 2006. The Bank needs to generate adequate resources in order to support its operations and maintain its independence.

In the course of its operations, the Bank made a total comprehensive income of TZS 577,338.4 million (2014: TZS 197,194.2 million). The income was mainly attributed to gains arising from depreciation of TZS against major currencies, increase in interest income and decline in interest expenses.

##### **14.2 Financial position**

The financial position of the Bank is as set out in the Statement of Financial Position shown on page 23. During the year, total assets of the Bank increased by TZS 910,933.7 million (2014: TZS 1,226,789.5 million). The major areas of increase include cash and balances with central and other banks and foreign currency marketable securities amounting to TZS 676,446.2 million and TZS 376,553.1 million, respectively.

On the other hand total equity and liabilities increased by the same amount of TZS 910,933.7 (2014: TZS 1,226,789.5 million) to TZS 12,376,718.2 million. Major areas of increase include currency in circulation, deposit by banks and non-banks financial institutions and reserves amounting to TZS 497,557.9 million, TZS 738,439.5 million and TZS 504,884.3 million respectively. The net increase was however reduced mainly by net redemption of BoT liquidity papers TZS 580,117.5 million.

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **15. RISK MANAGEMENT AND INTERNAL CONTROL**

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

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

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that procedures in place are operating effectively. The Bank ensures that existing and emerging risks are identified and managed within acceptable risk tolerances.

#### **16. KEY RISK AND UNCERTAINTIES**

The key risks that may significantly affect the Bank's strategies and development are mainly financial, operational and strategic. Below we provide a description of the operational and strategic risks facing the Bank. The risks related to financial instruments have been disclosed under **Note 45** of the financial statements:

##### **(a) Operational Risk**

This is the risk of both financial and non-financial resulting from inadequate human resource and systems, management failures, ineffective internal control processes, non-compliance, inadequate security and adverse legal judgements. The main operational risks of the Bank were:

- **Human Resource Risk**

The particular nature of the activities of the Bank necessitates specialized knowledge in many areas. The Bank ensures that there is an adequate knowledge base for all specialized job requirements by investing significantly in human resource development in terms of capacity building and practical exposure. The Bank also organizes workshops, seminars, conferences and job attachments to its staff to improve its human resource requirements. It also revises its staff retention scheme to compete with the prevailing labour market.

- **Business Disruption and Security risks**

Risks related to failure to execute business processes and events that compromise the assets, operations and objectives of the Bank. The risks might be due to lack of business continuity management, lack of good practices or controls on the Bank's activities.

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **17. PRINCIPAL RISK AND UNCERTAINTIES (CONTINUED)**

##### **(a) Operational Risk (Continued)**

- **Business Disruption and Security risks (Continued)**

The Bank addresses these risks inter alia through ensuring existence of Business Continuity Management (BCM) and sound internal control system which includes: operational and procedural manuals, ICT security policies, back up facilities, contingency planning, and independent internal audit function. Managing operational risk in the Bank is an integral part of day to day operations by the management. Management, Internal Audit Function, Audit Committee and the Board, closely monitors this risk.

- **Legal Risk**

Legal risk arises from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's clients and counter parties. The Bank aims at minimizing such uncertainties through continuous consultations with all relevant parties.

In mitigating this type of risk, the Bank ensures that all business agreements are contracted under Standard Industry Contracts, e.g. International Swaps and Derivatives Association (ISDA), International Securities Markets Association (ISMA), etc. Where substantially different contracts and substantive changes to existing contracts are entered into, external lawyers are contracted. The Bank has in place a clear procedure of the delegation of authorities. Also strict code of conduct and ethics is used to minimize chances of causing legal disputes between the Bank and its counterparts.

##### **(b) Strategic Risk**

This risk covers analytical and policy risk which is associated with economic and monetary policy formulation; business risk which refers to the probability of loss inherent in the Bank's operations and environment; performance risk which is associated with formulation and execution of business plans and strategies; and external risks which refer to threats from the external environment such as infrastructure disruption, financial crime and computer viruses, political, social and economic changes. Similar to operational risk, strategic risk may result into damage on the Bank's reputation.

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the provision of Section 5(1) of the Bank of Tanzania Act, 2006, Public Procurement Act, of 2011 and its related Public Procurement Regulations, 2013.

In view of the above, the Bank's management ensures that it fulfils its fiduciary responsibilities. The Bank adheres to the best practices and applies principle of sound corporate governance. It also ensures that all relevant employees have clear understanding of the appropriate processes in respect of the best practices and principles of good governance.

The Bank therefore, sets out policies and guidelines that govern sound functional operations within the Bank. The performance of these policies and guidelines are periodically reported to different levels of the Bank's management for control and compliance monitoring.

The top management of the Bank has the necessary freedom and discretion to exercise central banking functions. However, this freedom is exercised within the context of good governance and having regard to a proper balance between accountability and the best interests of the Bank and its various stakeholders.



## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **17. PRINCIPAL RISK AND UNCERTAINTIES (CONTINUED)**

##### **(b) Strategic Risk (Continued)**

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the National Payment System (NPS) and the issuing of notes and coins also expose the Bank to a significant risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems. The Board assessed the internal control systems throughout the financial year ended June 2015 and is of the opinion that they met accepted criteria.

#### **18. SOLVENCY**

The Board of Directors confirms that International Financial Reporting Standards (IFRS) applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Bank of Tanzania has adequate resources to continue carrying out its statutory activities for the foreseeable future.

#### **19. EMPLOYEES WELFARE**

##### **19.1 Management and employees relationship**

The relationship between the Bank and its employees continued to be good. Employees complaints raised during the year were resolved mainly through the use of consultative meetings/forums involving the management, trade union and employees through workers council. As a result, healthy relationship continued to exist between management and the trade union.

Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. The Bank provides a number of facilities aiming at improving the working environment and living standards of its employees. Such facilities include medical services, transport to and from work, house allowance, employee training and development, leave travel assistance, long service awards for employees as stipulated in the Staff Bylaws.

The Bank of Tanzania is an equal opportunity employer with a total of 1,389 staff as at 30 June 2015 (2014: 1,320) out of which 60.0 per cent (2014: 59.2 per cent) were male and 40.0 per cent (2014: 40.8 per cent) were female.

##### **19.2 Training facilities**

The Bank has training facilities at the Bank of Tanzania Training Institute in Mwanza region. During the year, the Training Institute conducted 54 (2014: 54) courses for the Bank of Tanzania Staff, Banking Institutions, East Africa Monetary Union (EAMU) and other Stakeholders. The Training Institute prepares annual training programs according to the Bank's Corporate Training Plan that cater for Bank's staff. The Training Institute also design and implement courses for EAMU and Banking institutions addressing gaps identified in the performance of their staff that require training intervention. The training Institute is also bestowed with training of specified courses for Southern African Development Community (SADC).

## BANK OF TANZANIA

### REPORT OF THE DIRECTORS (CONTINUED)

#### 19. EMPLOYEES WELFARE (CONTINUED)

##### 19.3 Medical Assistance

All members of staff with a maximum number of five beneficiaries for each employee were availed with medical insurance guaranteed by the Bank. During the year ended 30 June 2015, these services were provided by Jubilee Insurance Company consistent with 2014.

##### 19.4 Health and safety

Effective health, safety and risk management is a priority for the Bank. The Bank's safety management system delivers a safe working environment by continuous and effective assessment. Health and safety incidences of the Bank are monitored by the Bank's Medical Committee and Bank's Business Recovery Team (BBRT) respectively.

##### 19.5 Financial assistance to staff

The Bank provides various loans to employees in accordance with the Staff Bylaws and Financial Regulations in force. These include house loans, motor vehicle loans, personal loans and computer loans.

##### 19.6 Persons with disabilities

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. 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.

##### 19.7 Employee's pension plan

The Bank has an arrangement whereby the employer and employees make monthly contributions to pension schemes. Such contributions are mandatory and aggregate to twenty percent of the employee's basic salary. The detail of benefits plan is provided under Summary of Significant Accounting Policies in **Note 3** to the financial statements.

##### 19.8 Voluntary agreement and worker's council

The Bank has executed a voluntary agreement with Tanzania Trade Union of Industrial and Commercial Workers in order to enhance good industrial relation, employee welfare and retain high calibre employees.

#### 20. 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 30 June 2015 and 2014 the Bank had the following distribution of employees by gender.

<u>Gender</u>	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Male	833	60.0	781	59.2
Female	556	40.0	539	40.8
<b>Total</b>	<b>1389</b>	<b>100.0</b>	<b>1320</b>	<b>100.0</b>

## **BANK OF TANZANIA**

### **REPORT OF THE DIRECTORS (CONTINUED)**

#### **21. RELATED PARTY TRANSACTIONS**

All related party transactions and balances are disclosed in **Note 52** to these financial statements. The directors' emoluments and key management personnel have been disclosed in **Note 52** to the financial statements.

#### **22. ENVIRONMENTAL CONTROL PROGRAM**

The Bank monitors the impact of its operations on the environment, which is mainly through the use of power, water and the generation of waste. The Bank minimizes the impact through better use of its premises and inbuilt facilities to ensure that there is proper waste management.

#### **23. CORPORATE SOCIAL RESPONSIBILITY**

The Bank is committed to fulfilling part of its Corporate Social Responsibility (CSR) through supporting national activities and other areas of interest to the Bank in the United Republic of Tanzania. In this endeavour, the Bank has in place Donation Guidelines that assist in the implementation of CSR. During the year, the Bank donated a total of TZS 354.2 million (2014: TZS 432.0 million).

#### **24. CONTRIBUTION AND SUBSCRIPTIONS**

The Bank made various subscriptions and contributions to various organisations which included the African Rural and Agricultural Credit Association (AFRACA); African Association of Central Banks (AACB); Macroeconomic and Financial Management Institute (MEFMI); Capital Markets and Securities Authority (CMSA); Deposit Insurance Board (DIB); Financial Institutions Development Project (FIDP II); Tanzania Institute of Bankers (TIB) and Other Professional Associations and Charities. During the year ended 30 June 2015, such contributions and subscriptions amounted to TZS 3,555.4 million (2014: TZS 3,926.7 million).

#### **25. SECRETARY TO THE BANK**

The Secretary to the Bank is responsible for advising the Board on legal and corporate governance matters and, in conjunction with the Chairman, for ensuring good information flows between the Board, its Committees and Management. All members of the Board and Management have access to his legal advice and services.

#### **26. COMPLIANCE WITH LAWS AND REGULATIONS**

In performing the activities of the Bank, various laws and regulations having the impact on the Banks operations were observed.

#### **27. SERIOUS PREJUDICIAL MATTERS**

During the year ended 30 June 2015, there was no serious prejudicial matters to report as required by Tanzania Financial Reporting Standard No. 1 (Directors' Report).

#### **28. STATEMENT OF COMPLIANCE**

The Directors' Report has been prepared in full compliance with requirements of the Tanzania Financial Reporting Standards No. 1 (Directors' Report).

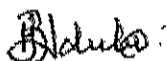
**BANK OF TANZANIA**

**REPORT OF THE DIRECTORS (CONTINUED)**

**29. AUDITORS**

The Controller and Auditor-General (CAG) is the statutory auditor for the Bank of Tanzania pursuant to the provisions of Article 143 of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), Sections 30 -33 of the Public Audit Act No. 11 of 2008 and Section 20(6) of the Bank of Tanzania Act, 2006. Deloitte & Touche, Certified Public Accountants were appointed by CAG to audit the Bank's financial statements on his behalf, pursuant to Section 33 of the Public Audit Act, No 11 of 2008.

Approved by the Board of Directors on 17 December 2015, and signed on its behalf by:



\_\_\_\_\_  
Prof. Benno J. Ndulu  
The Governor and Chairman of the Board



\_\_\_\_\_  
Prof. Haidari K. Amani  
Director and Chairman of the Audit Committee

## BANK OF TANZANIA

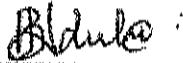
### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the requirements of the Bank of Tanzania Act, 2006 and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

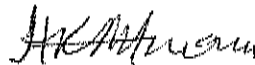
The Directors accept responsibility for these financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Bank of Tanzania Act, 2006. The Directors are of the opinion that financial statements give a true and fair view of the state of the financial affairs of the Bank and its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approved by the Board of Directors on 17 December 2015, and signed on its behalf by:



Prof. Benno J. Ndulu  
The Governor and Chairman of the Board



Prof. Haidari K. Amani  
Director and Chairman of the Audit Committee

## **AUDIT REPORT ON THE FINANCIAL STATEMENTS**

Board Chairman,  
Bank of Tanzania,  
P.O. Box 2939,  
Dar es Salaam, Tanzania

### **REF: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK OF TANZANIA FOR THE YEAR ENDED 30 JUNE 2015**

I have audited the accompanying financial statements of the Bank of Tanzania which comprise the Statement of Financial Position as at 30 June 2015, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out from pages 22 to 119 of this report.

#### **Directors' Responsibility for the financial statements**

The Board of Directors of the Bank of Tanzania is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Tanzania Act, 2006. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### **Responsibilities of the Controller and Auditor General**

My responsibility as auditor is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with International Standards on Auditing (ISA), International Standards of Supreme Audit Institutions (ISSAIs) and such other audit procedures I considered necessary in the circumstances. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank of Tanzania preparation and fair presentation of the financial Statements that give a true and fair view 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 Bank of Tanzania internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In addition, Sect. 10 (2) of the Public Audit Act (PPA) No. 11 of 2008 requires me to satisfy myself that the accounts have been prepared in accordance with the appropriate accounting standards and that; reasonable precautions have been taken to safeguard the collection of revenue, receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed and expenditures of public monies have been properly authorized.

Further, Sect 48(3) of the Public Procurement Act No. 9 of 2011 require me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and Regulations.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## AUDIT REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

### Unqualified Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Bank of Tanzania as at 30 June 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Bank of Tanzania Act, 2006.

### Report on Other Legal and Regulatory Requirements

#### Compliance with Public Procurement Act

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions and processes I reviewed as part of this audit, I state that I did not find any material divergences by management from the requirement of Public Procurement Act No. 9 of 2011 and its related Regulations of 2013.

  
Prof. Mussa J. Assad  
**CONTROLLER AND AUDITOR GENERAL**  
National Audit Office  
Dar es Salaam, Tanzania



22/12/.....2015

**BANK OF TANZANIA**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2015**

	Notes	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>Operating income</b>			
Interest income	5	347,608,808	311,854,565
Interest expenses	6	<u>(97,568,815)</u>	<u>(139,698,722)</u>
Net interest income		<u>250,039,993</u>	<u>172,155,843</u>
Foreign exchange revaluation gains	7	634,054,476	249,856,946
Fees and commissions	9	22,998,041	21,046,790
Other operating income	10	11,255,116	18,645,154
Gain on disposal of property and equipment	29	-	21,855
		<u>668,307,633</u>	<u>289,570,745</u>
<b>Total operating income</b>		<u>918,347,626</u>	<u>461,726,588</u>
<b>Operating expenses</b>			
Net losses on Financial Assets – FVTPL	8	18,020,039	14,631,420
Administrative expenses	11	55,803,376	49,542,828
Currency issue and related expenses	12	82,660,036	63,451,810
Personnel expenses	13	110,969,109	99,189,017
Other operating expenses	14	58,052,583	8,779,916
Depreciation of property and equipment	29	23,637,315	28,583,943
Loss on disposal of property and equipment	29	250,533	-
Amortization of intangible assets	30	1,749,903	1,452,655
		<u>351,142,894</u>	<u>265,631,589</u>
<b>Profit before tax</b>		<u>567,204,732</u>	<u>196,094,999</u>
Income tax expense		-	-
<b>Profit for the year</b>		<u>567,204,732</u>	<u>196,094,999</u>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Net revaluation gain on equity investments	15	<u>10,133,693</u>	<u>1,099,237</u>
<b>Total comprehensive income</b>		<u>577,338,425</u>	<u>197,194,236</u>



**BANK OF TANZANIA**

**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2015**

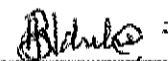
	Notes	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>Assets</b>			
Cash and balances with central banks and other banks	16	2,626,532,630	1,950,086,406
Escrow accounts	17	9,607,422	8,033,971
Items in course of settlement	18	1,223,038	6,999,625
Holdings of Special Drawing Rights (SDRs)	19	314,464,770	386,216,122
Quota in International Monetary Fund (IMF)	19	552,274,969	507,635,007
Foreign currency marketable securities	20	5,672,736,269	5,296,183,128
Equity investments	21	28,198,556	8,768,522
Government securities	22	1,558,532,122	1,481,231,785
Advances to the Government	23	69,953,767	439,600,431
Loans and receivables	24	389,480,802	311,961,276
Inventories	25	8,446,630	4,584,140
Deferred currency cost	27	37,040,553	85,302,787
Other assets	28	308,209,073	184,245,056
Property and equipment	29	794,543,081	790,430,801
Intangible assets	30	5,474,544	4,505,424
<b>Total assets</b>		<b>12,376,718,226</b>	<b>11,465,784,481</b>
<b>Liabilities</b>			
Currency in circulation	31	4,094,261,068	3,596,703,122
Deposits – Banks and non-bank financial institutions	32	3,105,421,355	2,366,981,848
Deposits – Governments	33	4,822,379	10,198,233
Deposits – Others	34	199,303,955	426,661,779
Foreign currency financial liabilities	35	466,788,035	550,292,004
Poverty reduction and growth facility	36	720,673,020	759,512,829
Repurchase agreements	37	-	20,009,349
BoT liquidity papers	38	785,055,892	1,365,173,366
Provisions	39	5,514,291	4,722,778
Other liabilities	40	81,411,194	42,395,017
Retirement benefit obligation	41	81,926,325	81,631,712
IMF related liabilities	19	524,509,360	482,112,690
Allocation of Special Drawing Rights (SDRs)	19	528,982,829	486,225,552
<b>Total liabilities</b>		<b>10,598,669,703</b>	<b>10,192,620,279</b>
<b>Equity</b>			
Authorised and paid up capital	42	100,000,000	100,000,000
Reserves	43	1,678,048,523	1,173,164,202
<b>Total equity</b>		<b>1,778,048,523</b>	<b>1,273,164,202</b>
<b>Total equity and liabilities</b>		<b>12,376,718,226</b>	<b>11,465,784,481</b>

The financial statements were approved and authorized by the Board of Directors for issue on 17 December 2015 and were signed on its behalf by:

Prof. Benno J. Ndulu

The Governor and Chairman of the Board

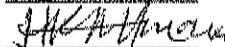
Signature:



Prof. Haidari K. Amani

Director and Chairman of the Audit Committee

Signature:



**BANK OF TANZANIA**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2015**

Details	Share capital Note 42	General reserve Note 43 (a)	Retained earnings	Capital reserve Note 43 (b)	Equalisation reserve Note 43 (c)	Reserve for projects Note 43 (d)	Staff housing fund Note 43 (e)	Assets revaluation reserve Note 43 (f)	Financial Sector Development fund Note 43 (g)	Securities revaluation reserve Note 43 (h)	Foreign exchange revaluation reserve Note 43 (i)	Reserve for dividends Note 43 (j)	Defined benefit reserves Note 43 (k)	Total
(Amounts in Tzs '000)														
At 01 July 2014	100,000,000	273,047,290	-	99,252,908	340,571,593	150,000,000	44,425,064	119,776,163	-	28,843,184	37,221,206	72,454,104	7,562,690	1,273,164,202
Profit for the year	-	-	567,204,732	-	-	-	-	-	-	-	-	-	-	567,204,732
Other comprehensive income	-	-	-	-	-	-	-	-	-	10,133,693	-	-	-	10,133,693
	<u>100,000,000</u>	<u>273,047,290</u>	<u>567,204,732</u>	<u>99,252,908</u>	<u>340,571,593</u>	<u>150,000,000</u>	<u>44,425,064</u>	<u>119,776,163</u>	-	<u>38,976,877</u>	<u>37,221,206</u>	<u>72,454,104</u>	<u>7,562,690</u>	<u>1,856,902,627</u>
Transfer of realised gain on foreign exchange revaluation to retained earnings*	-	-	37,221,206	-	-	-	-	-	-	-	(37,221,206)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(72,454,104)	-	(72,454,104)
Transfer of unrealized loss to equalisation reserve	-	-	-	-	29,641,320	-	-	-	-	(29,641,320)	-	-	-	-
Transfer of unrealised gain to foreign currency revaluation reserve*	-	-	(358,240,860)	-	-	-	-	-	-	-	358,240,860	-	-	-
Transfer of unrealized loss to securities revaluation	-	-	8,308,031	-	-	-	-	-	-	(8,308,031)	-	-	-	-
Staff housing fund**	-	-	(1,675,637)	-	-	-	1,675,637	-	-	-	-	-	-	-
Appropriation of 2014/15 distributable profit	-	25,281,747	(252,817,472)	-	24,894,851	30,000,000	12,649,874	-	30,000,000	-	-	130,000,000	-	-
At 30 June 2015	<u>100,000,000</u>	<u>298,229,037</u>	-	<u>99,252,908</u>	<u>395,107,764</u>	<u>180,000,000</u>	<u>58,741,575</u>	<u>119,776,163</u>	<u>30,000,000</u>	<u>1,027,529</u>	<u>358,240,860</u>	<u>130,000,000</u>	<u>7,562,690</u>	<u>1,778,048,523</u>

\* Realised gains on foreign currency revaluation reserve included in distributable profit and unrealised gains excluded from computation of distributable profit, please refer Note 7.

\*\* Staff Housing Fund includes net contribution of Compensatory Fund of Tzs 1,675,637,000 during the year.

## BANK OF TANZANIA

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2014

Details	Share capital Note 42	General Reserve Note 43 (a)	Retained earnings	Capital reserve Note 43 (b)	Equalisation reserve Note 43 (c)	Reserve for projects Note 43 (d)	Staff housing fund** Note 43 (e)	Assets revaluation reserve Note 43 (f)	Investments revaluation reserve Note 43 (h)	Foreign exchange revaluation reserve Note 43 (i)	Reserve for dividends Note 43 (j)	Defined benefit reserves Note 43 (k)	Total
(Amounts in TZS '000)													
At 01 July 2013	100,000,000	257,285,113	-	99,262,908	309,047,193	120,000,000	35,291,952	119,776,163	27,743,947	-	40,126,119	7,562,690	1,116,096,085
Profit for the year	-	-	196,094,999	-	-	-	-	-	-	-	-	-	196,094,999
Other comprehensive income	-	-	-	-	-	-	-	-	1,099,237	-	-	-	1,099,237
	100,000,000	257,285,113	196,094,999	99,262,908	309,047,193	120,000,000	35,291,952	119,776,163	28,843,184	-	40,126,119	7,562,690	1,313,290,321
Transfer of unrealised gain to foreign currency revaluation reserve*	-	-	(37,221,206)	-	-	-	-	-	-	37,221,206	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	(40,126,119)	-	(40,126,119)
Staff housing fund**	-	-	(1,252,024)	-	-	-	1,252,024	-	-	-	-	-	-
Appropriation of 2013/14 distributable profit	-	15,762,177	(157,621,769)	-	31,524,400	30,000,000	7,881,068	-	-	-	72,454,104	-	-
At 30 June 2014	100,000,000	273,047,290	-	99,262,908	340,571,593	150,000,000	44,425,064	119,776,163	28,843,184	37,221,206	72,454,104	7,562,690	1,273,164,202

\* Realised gains on foreign currency revaluation reserve included in distributable profit and unrealised gains excluded from computation of distributable profit, please refer Note 7.

\*\* Staff Housing Fund includes net contribution of Compensatory Fund of TZS 1,252,024,000 during the year.

**BANK OF TANZANIA**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Notes	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>Cash flows from operating activities</b>			
<b>Cash generated from operating activities</b>	44	<u>997,175,756</u>	<u>71,052,274</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	29	(28,170,273)	(24,983,710)
Proceeds from disposal of property and equipment	29	170,145	38,667
Purchase of intangible assets	30	(2,719,023)	(1,958,207)
(Increase)/decrease in Government securities		(77,300,337)	15,875,866
Increase in foreign currency marketable securities		(376,553,141)	(511,776,715)
Acquisition of equity shares		(9,296,341)	-
Increase in quota in International Monetary Fund (IMF)		(44,639,962)	(27,951,636)
Decrease/(increase) in holdings of SDRs		<u>71,751,352</u>	<u>(15,703,116)</u>
<b>Cash used in investing activities</b>		<u>(466,757,580)</u>	<u>(566,458,851)</u>
<b>Cash flows from financing activities</b>			
Increase in notes and coins issued		497,557,946	566,582,065
Increase in IMF related liabilities		3,556,861	26,793,818
(Decrease)/increase in foreign currency financial liabilities		(83,503,969)	79,021,343
Increase in allocation of SDRs		42,757,277	26,772,778
Decrease in Repurchase Agreements (REPOs)		(20,009,349)	(28,017,478)
(Decrease)/increase in BOT liquidity papers		(580,117,474)	9,035,857
Dividends paid to the Government		<u>(72,454,104)</u>	<u>(40,126,119)</u>
<b>Cash (used in)/generated from investing activities</b>		<u>(212,212,812)</u>	<u>640,062,264</u>
<b>Net increase in cash and cash equivalent</b>		<u>318,205,364</u>	<u>144,655,687</u>
Unrealized foreign exchange revaluation gains	7	<u>358,240,860</u>	<u>37,221,206</u>
<b>Cash and cash equivalents:</b>			
At the beginning of the year		<u>1,950,086,406</u>	<u>1,768,209,513</u>
<b>At the end of the year</b>	16	<u>2,626,532,630</u>	<u>1,950,086,406</u>

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **1. REPORTING ENTITY**

##### **Legal framework**

The Bank of Tanzania operates under the Bank of Tanzania Act, 2006, to act as the Central Bank for the United Republic. Its principal place of business is at 2 Mirambo Street, Dar es Salaam, Tanzania and it operates branches in Arusha, Mbeya, Mwanza, Zanzibar and Dodoma. The Bank is an independent institution with its own legal personality and tables its reports to the Minister for Finance.

The Bank's principal responsibilities are to:

- Conduct monetary policy and manage the exchange rate policy of the Tanzania Shillings, taking into account the orderly and balanced economic development of Tanzania;
- regulate and supervise financial institutions carrying on activities in, or from within, Tanzania, including mortgage financing, lease financing, development financing, licensing and revocation of licenses;
- manage, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Tanzania;
- collect, compile, disseminate, on a timely basis, monetary and related financial statistics; and
- hold and manage gold and foreign exchange reserves of Tanzania.

Under Section 17 of the Bank of Tanzania Act, 2006, the authorized capital of the Bank shall be one hundred billion Tanzanian Shillings (TZS 100 billion), provided that it may be increased by such amount as may be determined by the Board, and authorized by the Minister of Finance, by notice published in the Gazette.

The capital of the Bank shall be subscribed and held solely by the Government of the United Republic of Tanzania. Further, the amount paid as capital of the Bank may be increased from time to time by transfer from the General Reserve of such amounts as the Board may, with the approval of the Minister. The paid up capital shall not be reduced.

Section 18(1) of the Bank of Tanzania Act, 2006 provides that, the Bank shall establish and maintain:

- (a) A General Reserve Fund;
- (b) A Foreign Exchange Revaluation Reserve;
- (c) Other appropriate assets revaluation reserves or retained net unrealized gains reserves, set up under a decision of the Board to reflect changes in market values of the Bank's major assets and in accordance with the best international accounting practice; and
- (d) Other special reserves or funds from time to time from appropriation of net profit.

Under Section 18(2) of the Act, the Bank shall transfer to the General Reserve Fund twenty five per cent of the net profits until such time that the total capital of the Bank reach a sum equivalent to at least ten per cent of the total assets of the Bank less its assets in gold and foreign currencies, thereafter the Bank shall transfer not less than ten per cent of its net profits to the General Reserve Fund.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **1. REPORTING ENTITY (CONTINUED)**

##### **Legal framework (Continued)**

In terms of Section 18(3) of the Act, the Board shall determine, whenever the authorized capital, the General Reserve Fund, the Foreign Exchange Revaluation Reserve and other appropriate asset revaluation reserves or retained net unrealized gains reserves set up by the Board are below five per cent of monetary liabilities all profits shall be retained to the General Reserve Fund, the Foreign Exchange Revaluation Reserve and to any other asset revaluation reserve.

Section 18(4) of the Act provides that; unrealized profits or losses from any revaluation of the Bank's net assets or liabilities in gold, foreign exchange, foreign securities or any internationally recognised reserve asset as a result of any change in the par or other value of any currency unit shall be transferred to a special account to be called the Foreign Exchange Revaluation Reserve Account; the same procedure shall be applied to market value movements in relation to the Bank's other major assets when any of the underlying asset is eventually sold, any resultant realized components shall be transferred to the Statement of Profit or Loss and Other Comprehensive Income.

Section 18(5) of the Act, requires both realized and unrealized gains and losses to be included in the profit calculation but only the residual of any net realized profits of the Bank shall be paid, within three months of the close of each financial year, into the Consolidated Fund; subject to the condition that if at the end of any financial year any of the Governments (The Government of the United Republic and the Revolutionary Government of Zanzibar) is indebted to the Bank, the Bank shall first apply the remainder of its net realized profits to the reduction or discharge of the indebtedness and thereafter such amount as relates to the net realized profits of the Bank in the relevant financial year shall be paid out of the Consolidated Fund to the Treasury of the Government of the United Republic of Tanzania and the Revolutionary Government of Zanzibar in accordance with the formula agreed upon by the Governments.

Section 19(1) of the Act, provides that, where the Bank's Statement of Financial Position indicates that the amount of its assets is less than the amount of its liabilities and the statutory fund, the Minister of Finance shall, on behalf of the United Republic, issue to the Bank negotiable interest-bearing securities at market determined interest rates with a fixed maturity date to the amount necessary to restore the Bank's level of paid up capital.

In terms of Section 20(1) of the Act, the financial year of the Bank shall be the period commencing on 1 July of each year and the accounts of the Bank shall be closed on 30th June of each financial year. Furthermore, Section 20(2) of the Act provides that, the Bank's accounting policies, procedures and associated accounting records shall be consistent at all times with the best international accounting standards.

Section 20(6) of the Act, provides the annual external audit of the Bank to be performed by the Controller and Auditor General in accordance with International Accounting and Auditing Standards and in compliance with the Public Finance Act.

Section 23 of the Act provides that the Bank shall only be placed in liquidation or wound up pursuant to the procedure prescribed in an enactment of Parliament but the provisions of the Companies Act and the Companies Decree shall not apply in relation therewith.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARDS (IFRS)

(a) The following new and revised IFRSs have been applied in the current year.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	<p>The amendments clarify requirements on offsetting, focusing on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts and the unit of account for applying the offsetting requirements.</p> <p>The management has assessed the requirement of this standard on the Bank's financial reporting framework and is of the opinion that has had no impact.</p>
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	<p>The amendments clarify the disclosures required and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.</p> <p>The management has assessed the requirement of this standard on the Bank's financial reporting framework and is of the opinion that it has had no impact.</p>
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	<p>The amendments clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.</p> <p>The management has assessed the requirement of this standard on the Bank's financial reporting framework and is of the opinion that it is not relevant to the Bank for the year under review.</p>
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	<p>The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.</p> <p>The Bank has a contributory defined benefit plan where employees contribute to the fund. Effects of this amendment will be reflected in the accounts in the next actuarial valuation cycle.</p>
IFRIC 21 Levies	<p>Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.</p> <p>The management has assessed the requirement of this standard on the Bank's financial reporting framework and is of the opinion that it has had no impact.</p>

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARDS (IFRS) (CONTINUED)

##### (b) New and revised IFRS in issue but not yet effective for the year ended 30 June 2015.

New and Amendments to standards:	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (2014)	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
2015 Amendments to the IFRS for SMEs	1 January 2017
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Disclosure Initiative (Amendments to IAS 1)	1 January 2016
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016

##### (c) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2015 and future annual period.

The amendments are effective for annual periods beginning on or after 1 January 2016, although entities are permitted to apply them earlier. The Bank has not adopted any of the amendments. The Directors will continue to assess the impact that the application of these improvements to IFRSs might be on the Bank's financial statements when adopted.

##### **IFRS 9 Financial Instruments (2014)**

IASB issued a finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in Classification and measurement of financial assets and financial liabilities; Impairment methodology and Hedge accounting. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, thus upon application of the amendment the Bank will recognise credit loss even without an occurrence of a credit event.

In addition, the version introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The amendment will have impact if the Bank opts to apply hedge accounting on its derivatives. Mandatory effective date for the amendments is for the financial periods starting on or after 1 January 2018.

##### **IFRS 15 Revenue from Contracts with Customers**

The standard provides a single, principles based five-step model to be applied to all contracts with customers. Upon application, entities will be required to allocate the transaction price to the performance obligations in the contracts and recognise revenue when (or as) the entity satisfies a performance obligation.



## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **2. ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARDS (IFRS) (CONTINUED)**

##### **(c) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2015 and future annual period (Continued)**

###### **IFRS 15 Revenue from Contracts with Customers (Continued)**

Mandatory effective date for the standard is for the financial periods starting on or after 1 January 2018. The management has assessed the requirement of this standard on the Bank's financial reporting framework and is of the opinion that it will have no impact other than introduction of new disclosures.

###### **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Effective date for this standard with its amendments is for the financial periods starting on or after 1 January 2016. The management has assessed the requirement of this amendment on the Bank's financial reporting framework and is of the opinion that the amendment will have no impact.

###### **Disclosure Initiative (Amendments to IAS 1)**

Amends IAS 1 Presentation of Financial Statements to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss;
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

Effective date for the amendments is for the financial periods starting on or after 1 January 2016. The management has assessed the requirement of this amendment on the Bank's financial reporting framework and is of the opinion that the presentation of the financial statements is in line with the amendments and there will be no further impact.

###### **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)**

The amendments clarified that a full gain or loss is recognised when a transfer to an associate or a joint venture involves a business; and a partial gain or loss is recognised if the asset transferred does not contain a business. The gain or loss that is not recognised is eliminated against the cost of the investment.

Mandatory effective date for these amendments is for the financial periods starting on or after 1 January 2016 with early application permitted. The management has assessed the requirement of this amendment on the financial reporting framework and is of the opinion that they will have no material impact.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARDS (IFRS) (CONTINUED)

##### (c) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2015 and future annual period (Continued)

###### Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

Amends IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets to:

- Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated;
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Effective date for the amendments is for the financial periods starting on or after 1 January 2016. The management has assessed the requirement of this amendment on the Bank's financial reporting framework and is of the opinion that they will have no impact.

##### (d) New and amended standards and interpretations that have no impact to the Bank's financial reporting framework for the year ended 30 June 2015 and future annual period

The management has assessed the requirement of these amendments on the Bank's financial reporting framework and is of the opinion that they will have no material impact.

<b>New and Amendments to standards:</b>	<b>Effective for annual periods beginning on or after</b>
2015 Amendments to the IFRS for SMEs	1 January 2017
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **2. ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARDS (IFRS) (CONTINUED)**

##### **(e) Annual improvement cycles**

In September 2014 the IASB issued Annual Improvements to IFRSs 2012-2014 Cycle. The amendments are effective for annual periods beginning on or after 1 January 2016, although entities are permitted to apply them earlier:

Annual Improvements 2012-2014 Cycle makes amendments to the following standards:

- **IFRS 5** — Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued;
- **IFRS 7** — Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements;
- **IAS 9** — Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid; and
- **IAS 34** — Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Presentation of financial statements**

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in **Note 45**.

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

##### **Basis of preparation**

The financial statements have been prepared on a historical cost basis except where otherwise stated or as required by International Financial Reporting Standards and Interpretations to those Standards for assets and liabilities to be stated at their fair value as disclosed in the accounting policies hereafter. The financial statements are presented in thousands of Tanzanian Shillings (TZS '000) except where explicitly stated.

##### **Statement of compliance**

The financial statements of Bank of Tanzania have been prepared in accordance with International Financial Reporting Standards and Interpretations to those Standards issued by the International Accounting Standard Board (IASB) in so far as they are practically applicable to the Bank and comply with the requirements of the Bank of Tanzania Act, 2006. The Directors Report is presented together with financial statements in compliance with Tanzania Financial Reporting Standards.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Revenue recognition**

Revenue is recognized 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 be met before revenue is recognized:

##### *Interest income*

For all financial instruments measured at amortised cost, interest income 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 cost 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 receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

##### *Fees and commission income*

Fees and commissions are generally recognised on an accrual basis when the service has been rendered. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct cost) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction.

##### *Dividend income*

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

##### *Other income*

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

##### **Dividend payable**

Dividend is recognized as a liability in the period in which it is declared. Proposed dividend is disclosed as a separate component of equity.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Expenses**

These are losses and other expenses that arise in the course of Bank's ordinary activities. They include interest and administrative expenses. Generally expenses are recognised in the income statement when decrease in future economic benefits related to decrease in an asset or an increase of a liability has arisen and can be measured reliably.

##### *Interest expenses*

Interest expense is the cost of debt that has accrued during a specified accounting period regardless of the time of spending the cash. These include interests on liquidity papers, repurchase agreements and IMF drawings.

Since interest on debt is not paid daily, the Bank passes adjusting entries periodically to recognise interest expense within the accounting period that the expense has been accrued. Interest expenses are recorded using the effective interest rate method.

##### *Administrative expenses*

This includes expenses that produce no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as an asset. Such expenses are recognised immediately in the income statement in the accounting period that the cost has been incurred. These include maintenance, transport and travelling, meetings, conference and seminars, water and electricity, fees, rates and security expenses, telecommunication and postage, board expenses, audit fees, budget and annual accounts preparation, loss on disposal of property and equipment, hospitality, legal and investigation expenses.

In addition, administrative expenses include expenses whose economic benefits are expected to arise over several accounting periods and the association with benefit can only be broadly or indirectly determined. Such expenses are recognised, on the basis of First in First out (FIFO) allocation procedures, in the income statement in the accounting period in which the economic benefits are consumed or have expired. They may include stationery and office supplies.

##### *Other expenses*

Other expenses are recognised in the income statement when decrease in future economic benefits related to decrease in an asset or an increase of a liability has arisen and can be measured reliably.

##### **Employees' benefits including post-employment benefits**

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognized in profit or loss when they fall due.

##### **Retirement benefits**

The Bank has a statutory obligation to make contributions for retirement benefits to its employees. All eligible employees of the Bank are currently members of the social security schemes operating in Tanzania. The funds where employees are members are National Social Security Fund (NSSF), Parastatal Pension Fund (PPF), Public Service Pensions Fund (PSPF) and Local Authority Provident Fund (LAPF). Under these schemes, the Bank and employee contribute 18 percent and 2 percent respectively of employee's basic salary every month. New employees who are members of other funds are allowed to continue their membership to any statutory pension funds. The Bank contributed a total of TZS 9,547.3 million to the funds during the year ended 30 June 2015 (2014: TZS 8,867.2 million).

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Retirement benefits (Continued)**

The Bank signed a Voluntary Agreement (VA) with the Tanzania Union of Industrial and Commercial Workers (TUICO) which provides for a number of benefits on retirement upon attaining a number of years in service with the Bank as specified in the Bank's Staff Bylaws. The provisions in the VA and Staff Bylaws constitute a defined benefits plan which has been accounted and disclosed in accordance with the requirements of International Accounting Standard 19: Employee Benefits.

This is an unfunded defined benefit plan for qualifying employees. There are two categories of benefits to Bank's staff. The first is payable to staff employed for unspecified period of time and second is to executive management who are under specific contracts. Benefits are paid upon end of contract, retirement, withdrawal or death as specified in the Staff Bylaws.

The total accumulated obligation to the Bank relating to this arrangement is based on assessments made by independent actuaries. The actuarial valuation was carried out as at 30 June 2013 by Alexander Forbes, Financial Services (East Africa), Nairobi - Kenya. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Under IAS 19, measurement of scheme liabilities must be calculated under the projected unit credit method, which requires certain demographic and financial assumptions, including future salary growth. The assumptions used are applied for the purposes of compliance with the IAS 19 only.

Re-measurement comprising of actuarial gains and losses are reflected immediately in the statement of the financial position with a charge or credit recognised in Other Comprehensive income in the period in which they occur. Re-measurement recognised in Other Comprehensive Income is reflected immediately in retained earnings and not reclassified to profit or loss.

Past service cost is recognised in the profit or loss in the period of plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined beginning obligation. In the absence of a deep corporate bond market in Tanzania, the Bank has used the discount rate for Tanzania long term bond yields as published in the Bank Monthly Economic Reviews.

The Bank presents current service cost and net interest cost in personnel expenses. Curtailment gains and losses are accounted for as past service cost.

A liability of the termination benefits is recognised at the earlier of when the Bank can no longer withdraw the offer of termination benefits and when the Bank recognises any related restructuring cost.

##### **Other employee benefits**

The Bank provides free medical treatment to staffs and their dependants through medical insurance scheme. Exclusions are met by the Bank as medical expenses. The cost is charged to profit or loss. The estimated monetary liability for employees' earned but not taken leave entitlement at the end of the reporting period is recognized as an accrued expense.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Bank expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recognised in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

##### **Taxes**

No provision for income tax is made in the Financial Statements as Section 10 Second Schedule of the Income Tax Act, 2004 exempts the Bank from taxation imposed by law in respect of income or profits.

Further, according to Section 22(1) and (2) of the Bank of Tanzania Act, 2006, the Bank is exempt from payment of any taxes, levies or duties in respect of its profits, operations, capital, property or documents or any transaction, deed, agreement or promissory note to which it is a party. The Bank is also exempt from payment of stamp duty or other duties in respect of notes and coins issued as currency under the Act.

Effective 1 July 2012, the Bank is required to pay Value Added Tax (VAT) on goods or services provided to the Bank at a rate of 18 percent of 55 percent of the value of goods and service. This excludes goods and services not related to the Bank's primary functions. The Bank is also required to pay import and customs duties in accordance with the provisions of the East African Customs Management Act, 2004.

##### **Foreign currency translation**

###### *Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Tanzanian Shillings, which is the Bank's functional and presentation currency and all values are rounded to the nearest thousand (TZS'000) except where otherwise indicated.

###### *Transactions and balances*

Foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions during the year and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end are recognized in profit or loss.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Foreign exchange revaluation reserve under the legal framework**

The realised foreign exchange gains and losses are separated from the unrealised. The unrealised part is excluded from computation of distributable profits for the year and is carried in foreign currency revaluation reserve until realised in subsequent years thereby becoming part of the distributable profits. These are determined as follows;

- (a) For each major currency USD, GBP, EUR, AUD, CNY and SDR; cash inflows and outflows are determined at yearly intervals.
- (b) Proportions of outflows against the inflows on a First in First out (FIFO) basis are determined for the year and this is assumed to be the proportion of realised gains or losses that have to be separated from the accumulated realized and unrealized amount in the Foreign Currency Revaluation Reserve.
- (c) The realised amounts are computed based on the proportions determined in (b) above.

##### **Property and equipment**

Property and equipment are initially recorded at construction, acquisition or purchase cost plus direct attributable cost. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. Property that is being constructed or developed for future use to support operation is classified as Work in Progress (WIP) and stated at cost until construction or development is complete and is available for use, at which time it is reclassified as property and equipment in use.

Bank's immovable properties (buildings) are subsequently measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuation is performed by external independent valuers to ensure that the fair value of re-valued assets does not differ materially from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and hence, credited to the Asset Revaluation Reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit or loss, in which case, the increase is recognised in the profit or loss. A revaluation deficit is recognised in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Revaluation of the Bank's immovable property is conducted after every five years. M/S EMACK Tanzania Ltd, professional and Independent valuers, carried out valuation of the Bank's immovable properties as at 30 June 2011. The valuation of Bank's immovable assets was made on the basis of open market values. However, where market data were not easily available, reliable depreciated replacement cost was adopted. This basis is in line with International Valuation Standards (IV No.1 and 2; 2005 and 2007 as amended in 2008).



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and equipment (Continued)**

Depreciation is charged to profit or loss on a straight-line basis to write off the cost of property and equipment to their residual values over their expected useful lives. These residual values and expected useful lives are re-assessed on an annual basis and adjusted for prospectively, if appropriate. The review of residual values takes into account the amount that the Bank would currently obtain on disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful or economic life (whichever is earlier). Depreciation rates applicable as at 30 June 2015 were as follows:

<b>Asset classification</b>	<b>Annual depreciation rate</b>	<b>Useful life</b>
Office Premises	1.0%	100 years
Staff Club Premises	1.5%	67 years
Residential Premises	1.5%	67 years
Computer Servers	25.0%	4 years
Computer Printers	25.0%	4 years
Personal Computers	25.0%	4 years
Network Equipment	25.0%	4 years
Bullion Trucks and Armoured Vehicles	10.0%	10 years
Motor Vehicles	20.0%	5 years
Currency Processing Machines	10.0%	10 years
Machinery and Equipment	20.0%	5 years
Security Monitoring, Fire Detection and Fire Fighting Systems	25.0%	4 years
Office Furniture	20.0%	5 years

No depreciation charge is made to Capital Work-in-Progress. Property and equipment acquired during the year are depreciated from the date when they are available for use and cease to be depreciated at earlier of the date that the asset is classified as held for sale or the date that the assets are derecognised.

Property and equipment are derecognised when no economic benefits are expected from its use or disposal. The disposal methods applied include; sale, donation or scrapping. Gains or losses on disposal of property and equipment are determined by comparing net disposal proceeds if any with the carrying amount and are taken into account in determining operating profit or loss.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Intangible assets**

Intangible assets consist of computer application software and computer application licence packages. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets are amortised over the useful economic life and assessed for impairment at the reporting date to ascertain if there is an indication that the intangible asset may be impaired. Generally, cost associated with developing computer software programmes are recognised as an expense when incurred. Intangible assets acquired are measured on initial recognition at cost. Internally developed intangible assets are not capitalised unless they meet certain criteria. Internally developed software products include direct cost incurred by the Bank and are recognised as intangible assets upon meeting the following criteria:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use it;
- There is ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be measured reliably.

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The annual rate of amortisation, which has been consistently applied, is 25 percent. The amortisation period and the amortisation method for an intangible asset are reviewed at the reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

##### **Capital grant**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the cost that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released as income in equal instalments over the expected useful life of the related asset.

When the Bank receives non-monetary grants, the asset and the grant are recorded at gross amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grants.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Currency printing and minting expenses**

Notes printing and coins minting expenses which include ordering, printing, minting, freight, carriage insurance and handling expenses cost are first deferred. Based on the currency issued into circulation, the respective proportional actual cost expenses incurred are released to profit or loss from the deferred currency expenses cost account.

##### **Currency in circulation**

Currency in circulation represents Tanzanian currency that has been issued into the Tanzanian economy by the Bank since inception. Currency in circulation is measured at the face value of notes and coins issued. Currency in Circulation is determined by netting off notes and coins issued against the balance held in the Bank of Tanzania vaults.

##### **Impairment of non-financial assets**

The Bank assesses at each reporting date whether there is an indication that a non-financial 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. The recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group 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. 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 or not 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.

##### **Operating Lease**

The Bank obtained long term leasehold (mainly 99 years) from the Government for the land owned. No significant payments are made in advance to the Government other than Government fees/rates normally paid on lease application and renewal based on Government rates that are published from time to time and which are insignificant and not related to the value of land or period of occupation.

The Bank provides houses to employees on seven-year lease contracts. The contracts are cancellable. They may be terminated by either party without charges or permission of the Bank. The lease is classified as operating lease since comparison of the lease period to the useful life of the leased houses gives the Bank a significant portion of the risks of ownership.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Sale and Repurchase Agreements (REPOs)**

Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to purchase the same securities at a specified future date at a fixed price. Resale agreements are contracts under which a party purchases securities and simultaneously agrees to resell the same securities at a future date at a fixed price.

It is the Bank's policy to take possession of securities purchased under resale agreements, which are primarily liquid government securities. The market value of these securities is monitored and, within parameters defined in the agreements, additional collateral is obtained when their fair value declines. The Bank also monitors its exposure with respect to securities sold under repurchase agreements and, in accordance with the terms of the agreements, requests the return of excess securities held by the counter party when fair value increases.

Repurchases and resale agreements are accounted for as collateralised financing transactions and recorded at the amount at which the securities were acquired or sold plus accrued interest.

REPOs continue to be recognised in the Statement of Financial Position and are measured in accordance with policies for financial liabilities.

The difference between sale and repurchase price is treated as interest income or expense and is recognized in profit or loss.

##### **Financial assets measured at fair value through profit or loss**

The Bank has designated marketable securities i.e. internally managed foreign securities and Reserve Advisory Management Program (RAMP) at fair value through profit or loss. Changes in fair value of these instruments are recognised through the profit or loss. Details have been provided under Note 20 of the account.

##### **Foreign Exchange Equalization Reserve**

The Bank has a policy whereby both net realized and unrealized foreign exchange gains and losses are firstly recognized in profit or loss in accordance with the requirements of IAS 21 (The Effects of Changes in Foreign Exchange Rates). The net realized foreign exchange losses for the year arising from daily revaluation of foreign assets and liabilities are transferred to the Foreign Exchange Equalisation Reserve. Where the balance in the Foreign Exchange Equalization Reserve is insufficient to absorb the net realised loss, the first recourse is the General Reserve. The net unrealised gains or losses are transferred to the Foreign Currency Revaluation Reserve. Effective 30 June 2009 the Board determines the amount from the distributable profit to be transferred to the Foreign Exchange Equalization Reserve.

##### **Reserve for Dividend**

This reserve accommodates the amount of proposed dividend to the Governments as at end of the accounting period or declared dividend if the declaration is made after end of the period but before the financial statements are signed. In accordance with Section 18 (5) of the Bank of Tanzania Act, 2006, the remainder of the net profits of the Bank is paid to the Governments as dividend. However, this is subject to the condition that if at the end of any financial year any of the Governments is indebted to the Bank, the Bank shall first apply the remainder of its net realized profits to the reduction or discharge of the Governments indebtedness.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Financial instruments - initial recognition and subsequent measurement**

###### *Date of recognition*

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, that is the date that the Bank commits to purchase or sell the asset.

###### *Initial recognition of financial instruments*

All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental cost of acquisition or issue.

##### **Classification of financial assets**

###### *Amortised cost*

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition).

The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

###### *Financial assets measured at fair value through profit or loss (FVTPL)*

Assets classified as FVTPL are measured at fair value. Gains and losses that arise as a result of changes in fair value are recognised in profit or loss, gains and losses that arise between the end of the last annual reporting period and the date an instrument is derecognised do not constitute a separate profit or loss on disposal. Such gains and losses will have arisen prior to disposal, while the item is still being measured at FVTPL, and are recognised in profit or loss when they occur. These are foreign currency marketable securities.

###### *Fair Value through Other Comprehensive Income (FVTOCI)*

On initial recognition, the Bank made an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. These are equity investment in AFREXIM Bank and Society for Worldwide Interbank Financial Telecommunication (SWIFT).

###### *Effective Interest Rate method*

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost.

Interest income is recognised in profit or loss. This includes Government Securities, Loans and Advances, Escrow and items in course of settlement.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Financial liabilities**

This represents issued financial instruments or their components, which are not held at fair value through profit or loss, financial liabilities that arise when a transfer of financial asset does not qualify for de-recognition or when the continuing involvement approach applies, commitments to provide a loan at below market interest rate and hedged items are classified at amortised cost. The Bank's financial liabilities are measured at amortised cost using the effective interest rate method.

##### **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 Bank of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- 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 (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) 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. 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. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

###### *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, and the difference in the respective carrying amounts is recognised in profit or loss. These include currency in circulation; deposits from government, banks, financial institutions and other financial institutions; BOT liquidity papers; poverty reduction and growth facility; IMF liabilities; and repurchase agreements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

**Determination of fair value**

The fair value for financial instruments traded in active markets at 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 cost.

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

**Impairment of financial assets**

The Bank assesses at each reporting date whether or not 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 (or events) 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 borrower or a group of borrowers 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.

*Government Securities*

The Bank assesses Government Securities investments individually to confirm whether or not there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows using the original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Impairment of financial assets (Continued)

###### *Due from banks and supranational institutions, loans and advances*

Amounts due from banks, loans and advances are carried at amortised cost. The Bank first assesses individually whether or not there is objective evidence of impairment that exists individually 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, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' 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 based on the original effective interest rate of the asset. 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 the 'Impairment of loans and advances'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 cost 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 that did not affect the years 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 Bank 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.



## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Other liabilities**

Other liabilities are stated at their nominal value/cost, which approximates fair value due to the short term nature of the obligation.

##### **Other assets**

Other assets are measured at carrying amounts which approximates their fair value.

##### **Cash and Cash equivalent**

Cash and cash equivalent comprise of demand and time deposit with central banks and commercial banks and holding of notes denominated in foreign currency. Cash and cash equivalent is carried at amortised cost in the statement of financial position. Due to their short term nature, the carrying amount approximates the fair value.

##### **Escrow Accounts**

These represent funds held by the Bank in foreign exchange, as funds deposited by the United Republic of Tanzania following a memorandum of economic and financial policies arrangement pending agreement with creditors.

The escrow fund is both an asset and a liability in the Bank's books. However, the accounts cannot be netted against each other because they must be visible as both asset and liability according to accounting standards

Periodically the BoT Escrow balance is reviewed to ensure that sufficient funds will be available when payments are due.

Initially these funds are measured at fair value. Subsequently, they are measured at amortised cost. Details of the accounts have been shown under **Note 17** of the accounts.

##### **Derivatives**

A derivative is a financial instrument or other contract within the scope of IFRS with all three of the following characteristics:

- Its value changes in response to the change in a specified variable such as interest rate, financial instrument price or foreign exchange rate.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at future date.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from market observable prices including recent market transactions, or valuation techniques which incorporate market observable input, such as discounted cash-flow models. Generally the best evidence of the fair value of a derivative at initial recognition is the transaction price (ie the fair value of the consideration given or received). All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank uses derivatives mostly for hedging in risk management and liquidity support in monetary implementation. The Bank does not apply the optional hedge accounting rules of IFRS 9.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **International Monetary Fund (IMF) related balances**

###### *Relationship*

The Bank is the fiscal and depository agent of United Republic of Tanzania for transactions with the International Monetary Fund (IMF). Financial resources availed to Tanzania by the Fund are channeled through the Bank. Repayment of the IMF loans as well as charges is the responsibility of the Bank.

###### *Currency of Transactions with the IMF*

Borrowings from and repayments to the IMF are denominated in Special Drawings Rights (SDRs). The SDR balances in IMF accounts are translated into TZS and any unrealised gains or losses are accounted for in profit and loss account in accordance with IAS 21 – Effects of changes in foreign exchange rates.

###### *Quota in IMF, Interest and Charges*

Borrowings from the related Tanzania's quota are non interest bearing with no stated maturity, while borrowings from the General Resources Account of the IMF bears interest at rates set by the IMF on a weekly basis and are repayable according to the repayment schedules of the agreement. The interest rate as at 30 June 2015 was 0.8 percent (2014: 0.8 percent). A total of SDR 198.9 million equivalent to TZS 552,275.0 million (2014: SDR 198.9 million equivalent to TZS 507,635.0 million) is Tanzania's quota in the IMF representing the reserve tranche held with the IMF. On a quarterly basis, the IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position at a 1.9 percent to 2.33 percent annual floating rate.

###### *Participation in the HIPC Initiative*

The United Republic of Tanzania enjoys a debt relief program under the Highly Indebted Poor Countries (HIPC) initiative. Accordingly, the IMF administers a donor-contributed Fund in the form of a PRGF-HIPC Trust Umbrella Account for Tanzania. The facility is used to settle part of Tanzania's PRGF Loans as and when they fall due. As at 30 June 2015, the facility had a nil balance.

##### **Inventories**

The Bank owns all inventories stated in the statement of financial position. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost necessary to make the sale. Writing down of values of inventories is made for slow moving and obsolete stocks.

##### **Credit Guarantee Schemes**

These are schemes operated in accordance with the rules governing them and administered by the Bank on behalf of the URT Government as stipulated in their respective agency agreements. The primary objective of the schemes is to facilitate access to the credit facilities by guaranteeing loans granted by the participating financial institutions to small and medium enterprises, exporters and development projects.

The rules of the schemes include a requirement for the financial institutions to properly assess the projects' viability, as to adequacy of loan security and approve the loan prior to applying for the guarantee. Because of the nature of the loan transactions, contingent liabilities exist in respect of possible default.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of estimates and judgment that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The most significant use of judgement and estimates are as follows:

##### (a) Going concern

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

##### (b) Impairment of assets carried at amortised cost

*Impairment losses on items in Cash and balances with central banks, Escrow account, Items in course of settlement, Holdings of Special Drawing Rights (SDR), Quota in International Monetary Fund (IMF) Government securities, Advances to the Government, loans and receivables and other asset*

The Bank reviews its financial assets measured at amortised cost at each reporting date to assess whether an impairment loss should be recognized in profit or loss. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of impairment loss required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the impairment.

The Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows in an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

##### (c) Impairment of marketable securities

Marketable securities are measured at fair value. As a result there is no impairment of marketable securities as all instruments are measured at fair value through profit or losses are not impaired.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)**

##### **(d) Impairment of other financial assets**

The Bank adopted an incurred loss approach to impairment. Impairment losses are incurred only if there is objective evidence of impairment as a result of occurrence of one or more past events since initial recognition.

Impairment exists when the carrying amount exceeds its recoverable amount and the asset is written down to the recoverable amount. 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 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 that did not affect the years 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 Bank 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.

##### **(e) Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives and discount rates. Details have been provided under **Note 45** to these accounts.

##### **(f) Useful lives of property and equipment**

Pursuant to the requirements of IAS 16 (Property, Plant and Equipment) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the Bank makes accounting estimation of the useful lives of assets based on the expected pattern of consumption of the future economic benefits and reviews its depreciation rates at each reporting date.

##### **(g) Retirement benefits**

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit credit method, which requires certain demographic, financial and future salary growth assumptions. A degree of judgement is required in establishing market yields, long term expectations, the notional contribution rate and other inputs used in the actuarial valuation. Details have been provided under **Note 48** to these accounts.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. INTEREST INCOME**

Interest income from foreign operations relates to interest earned from investments in foreign fixed income securities, money market operations and foreign deposits.

Interest on domestic investments relates to interest earned from investments in United Republic of Tanzania government bonds, stocks and discounted treasury bills.

	30.06.2015			30.06.2014		
	Received TZS '000	Accrued TZS '000	Total TZS '000	Received TZS '000	Accrued TZS '000	Total TZS '000
<b>From foreign operations</b>						
GBP investments	9,585,359	5,309,175	14,894,534	7,453,973	5,395,596	12,849,569
USD investments	36,832,436	10,757,999	47,590,435	26,669,977	6,968,708	33,638,685
EUR investments	7,315,207	8,682,604	15,997,811	7,036,611	12,123,448	19,160,059
AUD investments	12,240,761	4,695,730	16,936,491	11,643,531	4,460,032	16,103,563
CNY investments	5,338,290	915,724	6,254,014	3,278,959	926,313	4,205,272
Other foreign interest income	211,490	-	211,490	396,646	-	396,646
	<b>71,523,543</b>	<b>30,361,232</b>	<b>101,884,775</b>	<b>56,479,697</b>	<b>29,874,097</b>	<b>86,353,794</b>
<b>From domestic operations</b>						
Interest on domestic investments	115,994,072	33,850,341	149,844,413	119,261,471	32,963,182	152,224,653
Interest on loans and advances	91,980,270	-	91,980,270	73,002,733	-	73,002,733
Interest on staff loans	314,769	-	314,769	273,385	-	273,385
Interest on Repurchase Agreements (Reverse REPO)	3,584,581	-	3,584,581	-	-	-
	<b>211,873,692</b>	<b>33,850,341</b>	<b>245,724,033</b>	<b>192,537,589</b>	<b>32,963,182</b>	<b>225,500,771</b>
	<b>283,397,235</b>	<b>64,211,573</b>	<b>347,608,808</b>	<b>249,017,286</b>	<b>62,837,279</b>	<b>311,854,565</b>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. INTEREST INCOME (CONTINUED)**

Classification of interest income arising from financial instruments is indicated below:

	30.06.2015 TZS '000	30.06.2014 TZS '000
Income from instruments measured at fair value	95,457,876	86,353,794
Income from instruments measured at amortised cost	252,150,932	225,500,771
	<u>347,608,808</u>	<u>311,854,565</u>

**6. INTEREST EXPENSES**

	30.06.2015		30.06.2014	
	Paid TZS '000	Accrued TZS '000	Paid TZS '000	Accrued TZS '000
Interest on BoT liquidity papers	39,613,179	57,168,074	51,338,967	87,075,744
Interest on repurchase agreements	515,921	-	730,314	9,349
Charges on IMF Drawings	271,641	-	544,348	-
	<u>40,400,741</u>	<u>57,168,074</u>	<u>52,613,629</u>	<u>87,085,093</u>
		<u>97,568,815</u>		<u>138,414,711</u>
				<u>739,663</u>
				<u>544,348</u>
				<u>139,698,722</u>

The Bank issues 35-Day, 91-Day, 182-Day and 364-Day Treasury Bills to mop up excess liquidity in the economy. The interest expense arising from liquidity mop up activities is shared between the Bank and the Government of the United Republic of Tanzania in accordance with the sharing ratios agreed in Memorandum of Understanding (MOU) in force.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**7. FOREIGN EXCHANGE REVALUATION GAINS**

During the year, realized and unrealized net foreign exchange revaluation gains amounted to TZS 634,054.5 million (2014: TZS 249,856.9 million). This amount has been included in the statement of profit or loss in determining the Bank's net operating profit for the year in order to comply with the requirements of IAS 21 - Accounting for the Effects of Changes in Foreign Exchange Rates. Out of the total net foreign exchange revaluation gains, an amount of TZS 358,240.9 million (2014: TZS 37,221.2 million) relating to unrealised gain is not available for payment of dividend and according to the Bank of Tanzania Act 2006 has been transferred to the foreign exchange revaluation reserve (refer to **Note 43 (i)**).

<b>Analysis of foreign exchange valuation</b>	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Net realized foreign exchange revaluation gains during the year	275,813,616	212,635,740
Net unrealized foreign exchange revaluation gains during the year	358,240,860	37,221,206
	<b>634,054,476</b>	<b>249,856,946</b>

**8. NET LOSSES ON FINANCIAL ASSETS - FVTPL**

	<b>30.06.2015</b>			<b>30.06.2014</b>		
	<b>Realised</b>	<b>Unrealised</b>	<b>Total</b>	<b>Realised</b>	<b>Unrealised</b>	<b>Total</b>
	<b>TZS '000</b>	<b>TZS '000</b>	<b>TZS '000</b>	<b>TZS '000</b>	<b>TZS '000</b>	<b>TZS '000</b>
USD	(933,524)	(3,000,567)	(3,934,091)	(1,304,950)	2,941,962	1,637,012
GBP	(3,205,815)	548,722	(2,657,093)	(2,108,347)	(8,496,582)	(10,604,929)
EUR	(3,921,936)	(6,937,808)	(10,859,744)	(2,361,592)	(1,062,167)	(3,423,759)
AUD	(1,450,383)	905,873	(544,510)	(2,937,995)	(868,943)	(3,806,938)
CNY	(200,350)	175,749	(24,601)	88,913	1,478,281	1,567,194
<b>Total</b>	<b>(9,712,008)</b>	<b>(8,308,031)</b>	<b>(18,020,039)</b>	<b>(8,623,971)</b>	<b>(6,007,449)</b>	<b>(14,631,420)</b>

This represents the net decrease in fair value of the financial assets measured at fair value through profit or loss. The value of this balance aggregated to a loss of TZS 18,020.0 million (2014: TZS 14,631.4 million).

**9. FEES AND COMMISSIONS**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Commission on foreign operations	20,936,419	19,411,058
Tanzania Interbank Settlement System (TISS) fees and charges	1,630,522	1,230,188
Bureau de change application fees	266,500	231,500
Bureau de change registration fees	69,000	66,000
Bureau de change penalty fees	31,520	34,500
Tender application fees	31,080	55,823
Banks and financial institutions applications/licensing fees	25,000	1,000
Clearing House fines and penalties and other fees	8,000	16,721
	<b>22,998,041</b>	<b>21,046,790</b>

Commission on foreign operations relates to income received from buying or selling foreign currency, funds transfers by SWIFT and TISS.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>10. OTHER OPERATING INCOME</b>		
<b>Foreign operations</b>		
Realized gains on de-recognition of foreign currency marketable securities	1,427,695	939,394
Miscellaneous income	169,194	3,998
Income from equity investment	16	170,628
Gains on inter-bank foreign exchange market (IFEM) operations	-	3,002,798
Other income from foreign operations	<u>1,596,905</u>	<u>4,116,818</u>
<b>Domestic operations</b>		
Income – domestic operations	5,575,689	825,032
Miscellaneous income	1,717,808	1,087,730
Staff contributions *	1,675,637	1,252,024
Rental income from staff quarters	587,572	562,349
Income from hostel accommodation	64,431	68,668
Income from cafeteria operations	37,074	38,605
Write back of payables	-	10,693,928
Other income from domestic operations	<u>9,658,211</u>	<u>14,528,336</u>
<b>Total other income</b>	<u><b>11,255,116</b></u>	<u><b>18,645,154</b></u>

\* Net contribution to staff housing compensatory fund

**11. ADMINISTRATIVE EXPENSES**

Maintenance - computer, software and related expenses	12,156,020	9,608,484
Transport and traveling expenses	8,694,215	8,002,640
Meetings, conferences and seminars	7,105,162	5,372,975
Water and electricity	6,604,340	5,645,267
Maintenance - bank premises	6,129,021	5,123,845
Insurance expenses	2,329,597	1,879,546
Fees, rates and security expenses	2,214,468	2,213,676
Printing, stationery and office supplies	2,176,852	1,668,301
Telecommunication and postage	1,878,577	1,681,999
Board expenses	1,845,241	1,376,742
Other administrative expenses	1,427,119	2,838,809
Maintenance - furniture, machinery and equipment	1,247,505	2,433,814
Audit fees	957,903	697,950
Budget and annual accounts preparation expenses	496,573	409,197
Hospitality	266,255	227,104
Audit related expenses	164,002	160,621
Legal and investigation expenses	<u>110,526</u>	<u>201,858</u>
	<u><b>55,803,376</b></u>	<u><b>49,542,828</b></u>



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>12. CURRENCY AND RELATED EXPENSES</b>		
Notes printing and related expenses (Note 27)	71,549,653	56,366,755
Coins minting and related expenses (Note 27)	4,873,666	2,508,331
<b>Cost of currency issued in circulation</b>	<b>76,423,319</b>	<b>58,875,086</b>
Currency transport, storage and handling	3,498,258	2,405,039
Maintenance of currency machines	2,553,488	2,048,704
Other currency expenses	184,971	122,981
	<b>82,660,036</b>	<b>63,451,810</b>

The amount of TZS 76,423.3 million (2014: TZS 58,875.1 million) is in respect of notes printing and coins minting and related expenses, refers to the proportionately amortized portion of deferred notes printing and coins minting cost for the currency notes and coins that were issued into circulation during the year.

The amount of TZS 3,498.3 million (2014: TZS 2,405.0 million) is in respect of currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred during the year. A total of TZS 2,553.5 million (2014: TZS 2,048.7 million) was incurred during the year in respect of currency machines maintenance expenses. Other currency related expenses aggregated to TZS 185.0 million (2014: TZS 123.0 million).

	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>13. PERSONNEL EXPENSES</b>		
Staff salaries and allowances	70,125,056	64,593,774
Contribution to social security schemes	9,547,343	8,867,219
Staff medical expenses	5,788,517	5,099,397
Travel on leave expenses	5,646,743	3,225,382
Management car maintenance and other related expenses	5,323,669	5,088,523
Staff training expenses	5,064,955	4,187,596
Motor vehicles expenses	2,321,151	781,963
HR planning policies expenses	2,159,068	2,108,807
Workers Council expenses	1,293,627	435,055
Furniture grant expenses	1,389,920	1,378,146
Cafeteria expenses	1,327,122	1,257,339
Tanzania Union for Industrial and Commercial (TUICO) expenses	466,545	907,230
Staff uniforms expenses	273,767	166,355
Condolence and related expenses	224,580	871,690
Course functions & field trips expenses	17,046	14,541
Long term service awards	-	206,000
	<b>110,969,109</b>	<b>99,189,017</b>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>14. OTHER OPERATING EXPENSES</b>		
<b>Foreign operations</b>		
Loss on inter-bank foreign exchange market (IFEM) operations*	50,243,739	-
Foreign reserve management expenses	1,932,358	1,665,887
Financial markets development expenses	1,354,295	958,947
Commission and fees on foreign operations	258,884	101,510
Amortized premium	223,772	38,758
	<u>54,013,048</u>	<u>2,765,102</u>
* Included in Loss on inter-bank foreign exchange market (IFEM) operations, is a loss arising on foreign currency swap TZS 34,707.9 million (2014; nil balance).		
<b>Domestic operations</b>		
Contribution to professional associations, charities	2,479,308	2,141,155
Contribution to national development programs/projects	1,341,106	2,085,819
Contributions to other institutions	-	131,708
Subscriptions	89,162	-
	<u>3,909,576</u>	<u>4,358,682</u>
Cheques issued expenses	129,959	93,848
Other receivable written off	-	1,377,952
Impairment losses	-	184,332
	<u>129,959</u>	<u>1,656,132</u>
	<u>58,052,583</u>	<u>8,779,916</u>
<b>Analysis of donations, contributions and subscriptions</b>		
Second Generation of Financial Sector Reforms	846,323	1,677,422
Monetary and Economic Financial Management Institute	806,529	554,328
Capital Markets and Securities Authority	613,000	558,940
Tanzania Institute of Bankers	489,720	489,720
Donations and other contributions	354,184	431,957
Contribution to National Board of Accountants and Auditors (NBAA) and National Board of Material Management (NBMM)	275,975	71,116
Deposit Insurance Board	251,738	257,047
Contribution to African Research Consortium	165,000	143,090
Contribution to Establishment of Tanzania Agricultural Development Bank	66,000	121,593
Contribution - Committee of Central Bank Governors (CCBG)	30,363	18,150
African Association of Central Banks and African Rural and Agriculture Credit Association	9,031	19,755
Promotion of Tanzania Economy Abroad and Other Foreign Institutions	1,713	15,564
	<u>3,909,576</u>	<u>4,358,682</u>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<b>14. OTHER EXPENSES (CONTINUED)</b>	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<i>Analysis of impairment losses</i>		
Impairment of property and equipment	-	125,963
Loans and receivables	-	58,369
	<u>-</u>	<u>184,332</u>

**15. COMPONENTS OF OTHER COMPREHENSIVE INCOME**

Net revaluation gain on equity investments	<u>10,133,693</u>	<u>1,099,237</u>
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**16. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS**

Cash balances with Central Banks	914,621,770	601,779,607
Demand, time deposits with commercial banks and foreign currency notes and coins	1,711,461,391	1,347,874,131
Accrued interest on deposits	449,469	432,668
	<u>2,626,532,630</u>	<u>1,950,086,406</u>

Cash and cash equivalents consist of demand deposits; two-day notice accounts and time deposits with maturities of less than three months and carry interest at market rates.

Demand and time deposits with commercial banks and foreign currency notes and coins consist of:

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Demand deposits	1,708,427,605	1,346,184,516
Foreign currency notes and coins	3,033,786	1,689,615
	<u>1,711,461,391</u>	<u>1,347,874,131</u>

**17. ESCROW ACCOUNT**

Bank of Tanzania Escrow	<u>9,607,422</u>	<u>8,033,971</u>
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This account was opened under the memorandum of economic and financial policies arrangement of the United Republic of Tanzania Government. Under the arrangement it was agreed to establish an external escrow account into which the URT Government would pay a significant portion of the estimated debt service due to the relevant group of non-Paris creditors. The URT Government deposits the funds into the account pending agreement with creditors. In line with the arrangement, the funds are available to confirmed creditors.

The Government deposited funds into this account once in March 2003 of USD 5.0 million that was equivalent to TZS 5,256.0 million. Some of the funds were utilized to settle due obligations before financial crises. The balance on the account earns interest. As at 30 June 2015, the account had a balance of USD 4.9 million equivalent to TZS 9,607.4 million. (2014: USD 4.9 million equivalent to TZS 8,034.0 million)

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<b>18. ITEMS IN COURSE OF SETTLEMENT</b>	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
BoT net clearing account	<u>1,223,038</u>	<u>6,999,625</u>

This balance represents values of outward clearing instruments, which are held by the Bank while awaiting clearing by respective commercial banks. It includes values of clearing instruments such as inward and outward items and cheques deposited into Government accounts for settlement of various obligations in accordance with the rules and regulations as set out by each clearing centre.

**19. INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES**

	30.06.2015		30.06.2014	
	Equivalent SDR '000	Equivalent TZS '000	Equivalent SDR '000	Equivalent TZS '000
<b>Assets</b>				
Holdings of SDR's	113,250	314,464,770	153,632	386,216,122
Quota in IMF	<u>198,900</u>	<u>552,274,969</u>	<u>198,900</u>	<u>507,635,007</u>
	<u>312,150</u>	<u>866,739,739</u>	<u>352,532</u>	<u>893,851,129</u>
<b>Liabilities</b>				
IMF Account No.1	188,897	524,499,656	188,900	482,103,771
IMF Account No.2	<u>3</u>	<u>9,704</u>	<u>3</u>	<u>8,919</u>
	<u>188,900</u>	<u>524,509,360</u>	<u>188,903</u>	<u>482,112,690</u>
Allocation of SDRs	<u>190,510</u>	<u>528,982,829</u>	<u>190,510</u>	<u>486,225,552</u>
	<u>379,410</u>	<u>1,053,492,189</u>	<u>379,413</u>	<u>968,338,242</u>

**20. FOREIGN CURRENCY MARKETABLE SECURITIES**

These are financial assets consisting of foreign currency marketable securities that are internally managed and portfolio externally managed by the World Bank Treasury under a special program known as Reserve Advisory Management Program (RAMP). Majority of such securities are sovereign issues with a minimum credit rating of AA, bearing fixed interest and specified maturities. The balance of this reserve was as follows:

Financial assets measured at fair value through profit and loss (FVTPL):	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Marketable securities	5,642,824,505	5,266,743,773
Accrued interest	<u>29,911,764</u>	<u>29,439,355</u>
	<u>5,672,736,269</u>	<u>5,296,183,128</u>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**20. FOREIGN CURRENCY MARKETABLE SECURITIES (CONTINUED)**

Analysis of foreign currency marketable securities by concentration into sovereign issues, supranational securities and agency securities by fair values:

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<b>Sovereign Issues</b>		
USD	3,400,883,865	2,781,988,181
GBP	538,760,319	441,350,628
EUR	768,423,937	810,150,659
AUD	331,439,204	292,375,008
CNY	195,237,350	162,881,858
	<u>5,234,744,675</u>	<u>4,488,746,334</u>
<b>Supranational Securities</b>		
USD	165,327,013	232,589,497
GBP	5,687,143	28,397,672
EUR	65,667,876	110,195,927
AUD	6,635,147	9,875,043
	<u>243,317,179</u>	<u>381,058,139</u>
<b>Agency Securities</b>		
USD	142,034,522	309,368,321
GBP	-	30,933,342
EUR	22,728,129	56,637,637
	<u>164,762,651</u>	<u>396,939,300</u>
<b>Total investments</b>		
USD	3,708,245,400	3,323,945,999
GBP	544,447,462	500,681,642
EUR	856,819,942	976,984,223
AUD	338,074,351	302,250,051
CNY	195,237,350	162,881,858
Accrued interest	29,911,764	29,439,355
	<u>5,672,736,269</u>	<u>5,296,183,128</u>

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****21. EQUITY INVESTMENTS**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Investment in equity are designated at fair value through other comprehensive income (FVTOCI):		
Equity investment in Afreximbank	27,730,437	8,324,558
Equity investment in SWIFT	468,119	443,964
	<u>28,198,556</u>	<u>8,768,522</u>

**Equity investment in Afreximbank: TZS 27,730.4 million**

The African Export-Import Bank (Afreximbank) is a supranational institution, established on 27 October 1993. The Bank holds an investment in the equity of Afreximbank. Afreximbank is a grouping of regional central banks and financial institutions designed to facilitate intra and extra African trade. The Bank's equity interest in Afreximbank is 709 ordinary shares (2014:313) of par value of USD 10,000 each. As at 30 June 2015, the Bank's equity aggregated to USD 2,836,000 representing two fifth of the Bank's paid up shares in Afreximbank (2014: USD 1,252,000). The proportion of the Banks equity interest to the total holding in this bank is 0.7 percent. These shares are measured at fair value through other comprehensive income.

**Equity investment in SWIFT: TZS 468.1 million**

Society for Worldwide Interbank Financial Telecommunications (SWIFT) (the "Company") is a company founded in Brussels in 1973 to provide a network that enables financial institutions worldwide to send and receive information related to financial transactions in a secure, standardised and reliable environment.

SWIFT members hold interest in the cooperatives through shares. The Company manages the shares through the reallocation principle defined in its Bylaws and general membership rules.

The number of shares allocated to each member is determined at least after every three years according to the Bylaws of the Company and is proportional to the annual contributions paid for the network based services to the Company. The members have the obligation to give up or take up the resulting change in shares. The Bylaws of the Company state that shares are only reimbursed when a member resigns, or when a member has to give up shares following reallocation. This investment is measured at fair value through other comprehensive income.

During the year, under review the Bank acquired additional 15 shares at a price of EUR 3,430. As at 30 June 2015, the Bank had a total of 62 shares (2014:47 shares).

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****22. GOVERNMENT SECURITIES**

Held to maturity securities:	30.06.2015	30.06.2014
	TZS '000	TZS '000
Stocks	51,333,308	51,333,308
Treasury Bills	83,836,356	5,233,178
Special Treasury Bonds	1,183,768,228	1,185,958,228
Treasury EPA Stock	205,743,889	205,743,889
	<u>1,524,681,781</u>	<u>1,448,268,603</u>
Accrued interest	33,850,341	32,963,182
	<u>1,558,532,122</u>	<u>1,481,231,785</u>

The Bank holds various government fixed and variable income securities issued by the United Republic of Tanzania Government. Treasury special stocks and bonds are issued at face value, discount or premium. Treasury stocks are issued at a fixed coupon.

**Stocks**

Advances granted to the Government which were to be repaid at the end of financial year 1994 were converted into five years 25% Special Stock 1993/98 of TZS 42,243.0 million. Thereafter in 1999, the stock plus the earned interest were restructured into two stocks namely 15% Special Treasury Stock 2018/19 with face value of TZS 51,333.3 million.

**Treasury Bills**

This represents treasury bills discounted by commercial banks to the Bank. The increase is a result of tight monetary policy implemented during the period. As at 30 June 2015, the value of treasury bills discounted was TZS 83,836.4 million (2014:TZS 5,233.2 million).

**Special Treasury Bonds**

Treasury Special Bonds are long-term coupon instruments issued at fixed and variable coupon for Government financing. These include;

The 10 Year Special Government Bonds 2009/2019 with a face values of TZS 150,000.0 million and TZS 323,000.0 million were issued on 2nd June 2009. The issue was made in accordance with Section 34, 35 and 69 of the Bank of Tanzania Act, 2006. The bonds carry an annual coupon of 8.0 percent payable semi annually. The purpose of the bond was to bridge Government revenue shortfall mainly attributed to the impact of the global financial crisis to the economy.

The 5 year special bond of TZS 155,000.0 million with floating interest rate based on the prevailing average yield to maturity with a cap of 14.92 percent issued by the Government to finance horticultural expansion project in Arusha.

The 5 years Special Government bond 2010/2015 with face value of TZS 1,095.0 million was rolled over from 5 years Government Bond with face value of TZS 36,500.0 million which matured in December 2010 and partially settled. This bond bears floating interest rate based on the prevailing average yield maturity for 5 years with cap of 14.92%. The bond will be redeemed in full on 28 December 2015.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **22. GOVERNMENT SECURITIES (CONTINUED)**

##### **Special Treasury Bonds (Continued)**

The Government issued a 10 year bond of face value 85,188.8 million which was rolled over from Loan Advances Realisation Trust (LART) Bonds on 30 June 2011. It carries 11 per cent interest payable semi-annually on 30 June and 31 December.

On 12 October 2012, the Government issued a 10-Year 2012/2022 Special Bond with a face value TZS 469,484.4 million with interest of 11.44 percent payable semi annually. The bond aimed at redressing the accumulated deficit position of the United Republic of Tanzania Government as at 30 June 2012.

During the year under review partial redemption and maturity of special bonds amounted to TZS 2,190.0 million and TZS 3.5 million respectively. The value of Special Bonds as at 30 June 2015 was TZS 1,183,768.2 million (2014:TZS 1,185,958.2 million).

##### **Treasury EPA Stock**

Treasury EPA Stocks represent External Payment Arrears (EPA) that date back to 1980's when the defunct National Bank of Commerce (NBC) had external commercial obligations that were in arrears for lack of foreign exchange. These were later on transferred to the Bank to facilitate their administration and control. According to the arrangement of sharing such obligations, the externalization of EPA obligations is done on the basis of agreed exchange rates. The exchange rate differential between the TZS exchange rate prevailing when the beneficiaries are paid and the rate ruling when the funds were initially deposited to the commercial banks resulted into exchange losses, which are recoverable from the Government. However, as the Government could not in the short term raise the required levels of TZS to compensate the Bank for the losses, the Government had given approval to convert the reported amount of EPA losses into EPA stocks.

The Government effective from 1 August 2008 reissued two EPA Special Stocks namely EPA Special Stock 2002/2052 and EPA Special Stock 2005/2055 with values of TZS 4,352.8 million and TZS 65,646.1 million and replaced them with EPA Special Stock 2008/28 and EPA Special Stock 2008/23 respectively. Their tenures were reviewed from 50 years and 55 years to 10 years and 15 years with annual coupons of 7.5 percent and 8.0 percent payable semi-annually respectively. Furthermore, on 1 August 2008 the Government issued EPA Special Stock with face value of TZS 135,745.1 million to accommodate external payment arrears exchange losses incurred up to 31 December 2007. The stock has a maturity of 20 years with annual coupon of 8.5 percent payable semi annually. As at 30 June 2015, the aggregate position of Special EPA stocks was TZS 205,743.9 million (2014:TZS 205,743.9 million).



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**23. ADVANCES TO THE GOVERNMENT**

	30.06.2015 TZS '000	30.06.2014 TZS '000
Advances to the Government (URT) - Note 33	<u>69,953,767</u>	<u>439,600,431</u>

As at 30 June 2015, the overall United Republic of Tanzania (URT) Government position ended with a net deficit balance of TZS 69,953.8 million as summarised under **Note 33**. This position was attributable to overdrawn URT Government voted accounts. Advances were made in line with Section 34 of the Bank of Tanzania Act, 2006 and were solely for the purpose of providing temporary financial accommodation to the URT Government. Such advances bear interest at rates equivalent to the weighted average yield of short term maturities as determined by the Bank in accordance with the Bank of Tanzania Act, 2006 and are repayable within one hundred and eighty days. Interest charged on advances amounted to TZS 91,980.3 million (2014: TZS 73,002.7 million).

**24. LOANS AND RECEIVABLES**

	30.06.2015 TZS '000	30.06.2014 TZS '000
Accounts receivable	338,689,603	267,522,182
Staff loans and advances	51,257,918	41,375,114
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Intermediary accounts receivable	18,998	3,565,170
	<u>395,110,519</u>	<u>317,606,466</u>
Provision for impairment	<u>(5,629,717)</u>	<u>(5,645,190)</u>
	<u><b>389,480,802</b></u>	<u><b>311,961,276</b></u>

***Analysis of impairment by line items***

Staff loans and advances	199,348	199,255
Accounts receivable	286,369	301,935
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
	<u>5,629,717</u>	<u>5,645,190</u>

***Movement in provision for impairment***

Balance at the beginning of the year	5,645,190	5,744,557
Additional impairment on staff loans and advances	93	58,368
Reversal during the year	(15,566)	(99,367)
Write-offs	-	(58,368)
Balance at the end of the year	<u>5,629,717</u>	<u>5,645,190</u>

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 24. LOANS AND RECEIVABLES (CONTINUED)

The Bank did not pledge any loans and receivables as securities against liabilities in 2015 and 2014.

##### a) **Accounts Receivable: TZS 338,689.6 million**

Accounts receivable represent short term claims and which are expected to be recovered within a period not exceeding twelve months and outstanding transactions made on trade date. As at 30 June 2015, the account had a balance of TZS 338,689.6 million (2014: TZS 267,522.2 million). Major components under Accounts Receivable include the following :-

##### (i) **Liquidity Management Cost Receivable: TZS 77,529.2 million.**

Included under accounts receivable is TZS 77,529.2 million (2014: TZS 27,364.4 million) relating to 2014/15 URT Government share in respect of liquidity management costs. The URT Government and Bank of Tanzania share of liquidity management cost is based on the formula contained in the Memorandum of Understanding in force.

##### (ii) **Interest Receivable on overdrawn Government accounts: TZS 145,077.2 million.**

During the year, the URT Government net position was overdrawn by TZS 69,953.8 million (2014: TZS 439,600.4 million). Pursuant to Section 34 of the Bank of Tanzania Act, 2006, an amount of TZS 91,980.3 million (2014: TZS 73,002.7 million) was charged to the Government as interest on overdrawn position. Accordingly, interest aggregating to TZS 145,077.2 million is outstanding as at 30 June 2015 (2014: TZS 53,430.5 million).

##### (iii) **Standby credit facility: (TZS 44,169.5 million).**

The commercial banks have access to the stand by credit facility with a maturity of one day order to settle their obligations in their clearing balances to avoid systematic risk when their balances are not sufficient but expect maturity of various instruments. Such facility is available at market rate prevailing on that particular date. At 30 June 2015, such facility had an outstanding balance of TZS 44,169.5 million (2014: TZS 101,017.0 million).

##### b) **Staff Loans and Advances: TZS 51,257.9 million.**

Employees of the Bank are entitled to loans and advances as approved in accordance with the Bank's Staff Bylaws and Financial Regulations in force. Staff loans are granted to employees to assist them in acquisition of residential houses, motor vehicles, computers and furniture. Staff advances are financial accommodation granted to employees to meet short term financial obligations. The advances/loans are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. These loans and advances are recovered from the employees' salaries on a monthly basis. The facilities are secured against the borrowers' employment and terminal benefits. As at 30 June 2015, the balance of staff loans and advances was TZS 51,257.9 million (2014: TZS 41,375.1 million).

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****25. INVENTORIES**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
The inventory balance consists of the following:		
Currency machine spare parts	4,975,213	2,112,133
Building, machinery and maintenance consumables	952,411	760,629
Stationery	549,867	397,295
Drugs and medicines	115,651	112,637
Copier parts and consumables	376,754	307,721
Inventory in Transit	346,393	2,536
Cheque books	703,939	434,119
ICT accessories and consumables	426,402	457,070
	<u><b>8,446,630</b></u>	<u><b>4,584,140</b></u>

All inventories held by the Bank as at 30 June 2015 were for the internal consumption and not intended for sale.

**26. INVESTMENT IN ASSOCIATE COMPANY**

In June 2013, the Bank recovered its holdings of 3,000 unquoted ordinary shares of Mwananchi Gold Company Limited each with a par value of USD 40 which were impaired in 2006/07. Holding was equivalent to 35 percent of the total MGC Ltd shares.

Mwananchi Gold Company Limited was a Limited liability locally registered company whose principal activities include to:

- Establish precious metals refinery plant's in Tanzania.
- Buy unrefined and/or refined precious metals.
- Keep in safe custody unrefined and refined precious metals.
- Sell directly as broker of refined metals.

Following unsatisfactory performance by the MGC Limited, the operations ceased in 2007.

Since its cessation efforts to revamp the company failed, the Board of the company agreed in principle, to pursue a scheme of arrangement with a view of bringing the operations of the company to an end in order to minimise further losses. The company has been placed under voluntary liquidation. The Bank realised it's equity and its investment. Currently, the liquidation process is expected to be completed before the end of financial year 2015/16 after addressing remaining issues with relevant authorities.

**27. DEFERRED CURRENCY COST**

The balance under this account represents deferred notes printing and coins minting expenses relating to costs of printed notes and minting coins that have not yet been released in circulation. During financial year 2014/15, the movement on deferred currency cost balance was as follows:

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Balance as at the beginning of the year	85,302,787	138,446,612
Add: Cost of currency received during the year	28,161,085	5,731,261
Less: Cost of currency issued in circulation (Note 12)	<u>(76,423,319)</u>	<u>(58,875,086)</u>
<b>Balance as at the end of the year</b>	<u><b>37,040,553</b></u>	<u><b>85,302,787</b></u>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. OTHER ASSETS**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Staff Benefits Fund Investments	80,054,787	82,041,469
Export Credit Guarantee Fund investments account	76,890,440	67,481,328
Reverse REPO	79,500,000	-
Prepayments	40,155,485	15,225,698
SME contribution investment account	11,224,792	10,290,517
Staff Housing Fund investment account	7,777,169	-
Accrued Interest on ECGS investment	4,555,823	2,574,922
Staff imprest	4,390,206	3,675,498
Mwalimu J.K. Nyerere Memorial Scholarship Fund investments account	3,099,533	2,497,013
Development Finance Guarantee investments account	-	278,881
Others	489,338	108,230
Petty cash balances	71,500	71,500
	<b><u>308,209,073</u></b>	<b><u>184,245,056</u></b>

***Movement in provision for impairment***

During the year, there was no additional impairment relating to other assets. The movement of impairment is indicated below:

Balance at the beginning of the year	-	44,753
Write off	-	(44,753)
<b>Balance as at the end of the year</b>	<b>-</b>	<b>-</b>

**(i) Staff Benefits Fund Investment: TZS 80,054.8 million**

This represents the investments in treasury bills of TZS 23,855.3 million (2014: TZS 28,324.3 million), bonds TZS 52,343.3 million (2014: TZS 49,281.6 million) and accrued interest made by the Staff Benefits Fund amounting to TZS 3,856.2 million (2014: TZS 3,583.5 million).

**(ii) Export Credit Guarantee Investment Account: TZS 76,890.4 million**

The balance represent funds invested in Treasury Bills in respect of Export Credit Guarantee Scheme fund. As at 30 June 2015 the account had a balance of TZS 76,890.4 million (2014: TZS 67,481.3 million).

**(iii) Prepayment: TZS 40,155.5 million**

The balance under prepayment for the year ending 30 June 2015 mainly covers TZS 3,019.5 million paid to De la Reu as advance payment in respect of notes printing, TZS 5,900.0 million paid to National Housing Corporation for construction of Staff Houses at Mtwara Municipality, advance payment paid to CRANE AB in respect of bank notes printing of TZS 8,894.1 million, advance payment paid to Royal mint in respect of currency spare part machines TZS 4,578.7 million and payment made to Ireland Ltd in respect of coins minting TZS 1,835.7 million.

**(iv) Reverse repo: TZS 79,500.0 million**

The balance represents funds advanced to commercial banks under reverse REPO contracts. Under the agreements commercial banks sell securities to the Bank and simultaneously agree to purchase the same securities at a specified future date at a fixed price. The difference between sale and repurchase price is treated as interest income and is recognized in profit or loss. As at 30 Jun 2015 the balance of reverse REPO contracts was TZS 79,500 million (2014: Nil).

## BANK OF TANZANIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 29. PROPERTY AND EQUIPMENT

2015	Land and buildings TZS '000	Machinery and equipment TZS '000	Motor vehicles TZS '000	Fixtures and fittings TZS '000	Computers, servers and printers TZS '000	Capital work in progress TZS '000	Total TZS '000
<b>Cost/valuation</b>							
At 01 July 2014	696,359,214	229,701,166	17,886,531	7,563,714	17,408,997	44,406,034	1,013,325,656
Additions	6,319,940	1,836,742	-	508,719	4,215,005	15,289,867	28,170,273
Disposal	(1,557,281)	(1,867,081)	(279,147)	(205,893)	(840,500)	-	(4,749,902)
Transfers	20,683,193	2,401,192	-	629,804	-	(23,714,189)	-
At 30 June 2015	<u>721,805,066</u>	<u>232,072,019</u>	<u>17,607,384</u>	<u>8,496,344</u>	<u>20,783,502</u>	<u>35,981,712</u>	<u>1,036,746,027</u>
<b>Accumulated depreciation</b>							
At 01 July 2014	18,458,489	177,211,360	8,138,417	5,979,884	13,106,705	-	222,894,855
Charges for the year	5,752,924	14,448,038	1,321,666	463,938	1,650,749	-	23,637,315
Disposal	(1,515,000)	(1,619,774)	(241,944)	(178,952)	(773,554)	-	(4,329,224)
At 30 June 2015	<u>22,696,413</u>	<u>190,039,624</u>	<u>9,218,139</u>	<u>6,264,870</u>	<u>13,983,900</u>	<u>-</u>	<u>242,202,946</u>
<b>Net book value</b>							
At 30 June 2015	<u>699,108,653</u>	<u>42,032,395</u>	<u>8,389,245</u>	<u>2,231,474</u>	<u>6,799,602</u>	<u>35,981,712</u>	<u>794,543,081</u>

## BANK OF TANZANIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 29. PROPERTY AND EQUIPMENT (CONTINUED)

2014	Land and buildings TZS '000	Machinery and equipment TZS '000	Motor vehicles TZS '000	Fixtures and fittings TZS '000	Computers, servers and printers TZS '000	Capital work in progress TZS '000	Total TZS '000
<b>Cost/valuation</b>							
At 01 July 2013	694,828,206	226,801,597	15,764,431	7,395,674	15,692,373	28,000,410	988,482,691
Additions	2,873,066	2,060,801	2,171,358	112,511	1,360,350	16,405,624	24,983,710
Disposal	-	(69,769)	(49,258)	(17,396)	(4,322)	-	(140,745)
Transfers	(1,342,058)	908,537	-	72,925	360,596	-	-
At 30 June 2014	696,359,214	229,701,166	17,886,531	7,563,714	17,408,997	44,406,034	1,013,325,656
<b>Accumulated depreciation</b>							
At 01 July 2013	12,817,473	157,545,619	7,130,167	5,332,439	11,483,184	-	194,308,882
Impairment	-	110,712	-	3,855	11,396	-	125,963
Charges for the year	5,641,016	19,616,156	1,053,161	659,108	1,614,502	-	28,583,943
Disposal	-	(61,127)	(44,911)	(15,518)	(2,377)	-	(123,933)
At 30 June 2014	18,458,489	177,211,360	8,138,417	5,979,884	13,106,705	-	222,894,855
<b>Net book value</b>							
At 30 June 2014	677,900,725	52,489,806	9,748,114	1,583,830	4,302,292	44,406,034	790,430,801

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29. PROPERTY AND EQUIPMENT (CONTINUED)**

Property and equipment (movable) are stated at cost less accumulated depreciation and impairment losses if any. Bank's immovable properties (buildings) are stated in the financial statements at revalued amounts (fair values) less accumulated depreciation and impairment losses if any. If we measured using the cost model, the carrying amounts of land and buildings would be as follows.

**Details**

	30.06.2015 TZS '000	30.06.2014 TZS '000
Cost	676,141,709	775,038,012
Accumulated depreciation and impairments	<u>(56,763,913)</u>	<u>(37,213,940)</u>
Carrying amount	<u>619,377,796</u>	<u>737,824,072</u>

Effective financial year 2007/8 valuation of the Bank's immovable property is conducted after five years. The last revaluation on the Bank's immovable properties were valued on 30 June 2011 by EMACK (T) Limited., a professional registered valuation firm.

Work-in-progress relates to capital expenditure incurred in the upgrading of security monitoring system at Arusha and Mbeya, installation of security monitoring system at Dodoma and construction of office building at Mtwara. No depreciation is charged on capital work in progress until it is substantially completed. Based on the assessment made by the project quantity surveyors, it is anticipated that the above projects will be completed during financial year ending 30 June 2016.

**Reconciliation of items disposed during the period by class of assets.**

Gain or loss on disposal of property and equipment.

Class of asset	Cost TZS '000	Accumulated depreciation TZS '000	Cash proceeds TZS '000	30.06.2015		30.06.2014	
				Net gains/(loss) TZS '000	Net gains/(loss) TZS '000		
Land and buildings	1,557,281	1,515,000	-	(42,281)			
Machinery and equipment	1,867,081	1,619,774	21,766	(225,541)		(5,852)	
Motor vehicles	279,147	241,944	113,500	76,297		27,873	
Fixtures and fittings	205,893	178,952	24,977	(1,964)		1,716	
Computers, servers and printers	840,500	773,554	9,902	(57,044)		(1,882)	
	<u>4,749,902</u>	<u>4,329,224</u>	<u>170,145</u>	<u>(250,533)</u>		<u>21,855</u>	

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**30. INTANGIBLE ASSETS**

	Computer software TZS '000	Computer software - WIP TZS '000	Total TZS '000
<b>2015</b>			
<b>COST</b>			
At 1 July 2014	23,528,416	2,328,809	25,857,225
Additions	1,066,546	1,652,477	2,719,023
Transfer	1,183,864	(1,183,864)	-
At 30 June 2015	<u>25,778,826</u>	<u>2,797,422</u>	<u>28,576,248</u>
<b>Accumulated ammortization</b>			
At 1 July 2014	21,329,110	22,691	21,351,801
Charges for the year	1,749,903	-	1,749,903
At 30 June 2015	<u>23,079,013</u>	<u>22,691</u>	<u>23,101,704</u>
<b>Net book value</b>			
At 30 June 2015	<u>2,699,813</u>	<u>2,774,731</u>	<u>5,474,544</u>
<b>2014</b>			
<b>COST</b>			
At 1 July 2013	23,160,433	738,585	23,899,018
Additions	367,983	1,590,224	1,958,207
At 30 June 2014	<u>23,528,416</u>	<u>2,328,809</u>	<u>25,857,225</u>
<b>Accumulated ammortization</b>			
At 1 July 2013	19,876,455	22,691	19,899,146
Charges for the year	1,452,655	-	1,452,655
At 30 June 2014	<u>21,329,110</u>	<u>22,691</u>	<u>21,351,801</u>
<b>Net book value</b>			
At 30 June 2014	<u>2,199,306</u>	<u>2,306,118</u>	<u>4,505,424</u>



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**31. CURRENCY IN CIRCULATION**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<b>Notes</b>		
Notes issued	6,072,444,842	7,282,622,664
Less: Notes in Custody	<u>(2,039,062,651)</u>	<u>(3,738,260,862)</u>
Notes in Circulation	<u>4,033,382,191</u>	<u>3,544,361,802</u>
<b>Coins</b>		
Coins issued	108,054,970	58,133,711
Less: Coins in Custody	<u>(47,176,093)</u>	<u>(5,792,391)</u>
Coins in Circulation	<u>60,878,877</u>	<u>52,341,320</u>
<b>Total currency in circulation</b>	<b><u>4,094,261,068</u></b>	<b><u>3,596,703,122</u></b>

Currency in circulation represents the face value of notes and coins in circulation. Notes and coins held by the Bank as cash in main vault, intermediary vault and cashier/teller at the end of financial year have been netted off against the liability for notes and coins in circulation because they do not represent currency in circulation.

Furthermore, included under notes and coins in circulation figure of TZS 4,094,261.1 million (2014: TZS 3,596,703.1 million) is the face value of TZS 99,386.9 million (2014: TZS 99,386.9 million) representing banknotes that were phased out in 2003.

**32. DEPOSITS – BANKS AND NON-BANK FINANCIALS INSTITUTIONS**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<b>Deposits – commercial bank deposits</b>		
Clearing	469,687,520	252,248,187
SMR	1,992,392,135	1,782,135,186
Domestic Banks Foreign Currency Deposits	<u>622,697,659</u>	<u>313,813,374</u>
Sub total	<u>3,082,977,314</u>	<u>2,348,196,747</u>
<b>Deposits – Non bank financial institutions</b>		
Clearing	12,140,471	11,544,962
SMR	3,642,253	5,226,444
Domestic Non Banks Foreign Currency Deposits	<u>4,861,317</u>	<u>2,013,695</u>
Sub total	<u>20,644,041</u>	<u>18,785,101</u>
<b>Total deposits</b>	<b><u>3,105,421,355</u></b>	<b><u>2,366,981,848</u></b>

Statutory minimum reserve (SMR) is a statutory ratio for monetary policy. Commercial banks are required to hold at the Bank of Tanzania a prescribed percentage of their total deposits as prescribed in circular No.1.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**33. DEPOSITS – GOVERNMENTS**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<b>Deposits - Voted</b>		
URT Government	(409,003,935)	(608,732,388)
SMZ Government	5,397,815	8,195,178
Sub total	<u>(403,606,120)</u>	<u>(600,537,210)</u>
<b>Deposits - Un-voted</b>		
URT Government	339,050,168	169,131,957
SMZ Government	(575,436)	2,003,055
Sub total	<u>338,474,732</u>	<u>171,135,012</u>
<b>Total URT Government</b>	<u>(69,953,767)</u>	<u>(439,600,431)</u>
<b>Total SMZ Government</b>	<u>4,822,379</u>	<u>10,198,233</u>
<b>Deposit Governments (Net)</b>	<u>(65,131,388)</u>	<u>(429,402,198)</u>

As at 30 June 2015 the position of the Government of the United Republic of Tanzania (URT) voted accounts were overdrawn by TZS 409,003.9 million (2014: TZS 608,732.4 million). Pursuant to the provision of Section 34 of the Bank's Act, a total of TZS 91,980.3 million (2014: TZS 73,002.7 million) was charged during the year ended 30 June 2015 as interest on overdrawn Governments position in various periods at the interest rate equal to the average monthly rates charged on treasury bills. Government deposit balances are non-interest earning. The net overdrawn position as at 30 June 2015 amounting to TZS 65,131.4 million (2014: TZS 429,402.2 million) has been reported as advance to the Government.

**34. DEPOSITS - OTHERS**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Export Credit Guarantee Fund	82,976,416	71,072,095
Government obligations settlements	71,292,958	254,437,557
Deposit staff	16,867,577	11,585,708
Small and Medium Enterprises Guarantee Fund	12,383,223	10,515,754
Mwalimu Julius K Nyerere Memorial Scholarship Fund	3,120,844	2,797,648
Miscellaneous deposits	2,511,781	1,185,932
Debt Service cash cover	2,420,453	1,867,576
External Payment Arrears – NBC	2,288,419	2,288,419
Debt Conversion Scheme	2,098,960	2,098,960
Economic Empowerment Programme	1,394,999	1,405,384
Deposit Insurance Fund	1,226,675	519,950
Bank drafts issued	348,123	606,798
Mwananchi Gold Company Limited	334,742	572,029
Redemption of Government Stock/Bonds	38,785	5,409,826
Development Finance Guarantee Fund	-	298,143
Tanzania Agriculture Development Bank	-	60,000,000
	<u>199,303,955</u>	<u>426,661,779</u>

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****34. DEPOSITS – OTHERS (CONTINUED)****Development Finance Guarantee Fund:**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Development finance guarantee fund consists of the following:		
Capital contribution by the Government	56,500,000	56,500,000
Less: Transfer of loans proceeds to ECGF, SME-CGS	<u>(466,830)</u>	<u>-</u>
Net capital contribution	56,033,170	56,500,000
Interest on refinancing loans	15,760,856	17,372,936
Interest earned on treasury bills	<u>-</u>	<u>19,262</u>
Sub Total	71,794,026	73,892,198
Less: Loans issued for refinancing facility	<u>(71,794,026)</u>	<u>(73,594,055)</u>
Net balance	<u>-</u>	<u>298,143</u>

The Fund was established by the Government of the United Republic of Tanzania with the purpose of financing development projects that manufacture products for export purposes. The Government has taken such measure to support development of financing infrastructure in the economy that improve credit environment to exporters with viable export businesses but lacking adequate collateral to secure bank financing.

As at 30 June 2015, Government Capital contribution made in financial years 2002/03 and 2003/04 to the Fund amounted to TZS 56,500.0 million. Interest received and accrued on refinancing and restructured loans aggregated to TZS 15,760.9 million (2014: TZS 17,372.9 million) while at 30 June 2015 there was a nil balance in regards to interest from invested treasury bills (2014: TZS 19.3 million million). A total of TZS 71,794.0 million (2014: TZS 73, 594.1 million) has so far been issued as loans for refinancing facilities to flowers and vegetable export companies. As at 30 June 2015, the Fund had a nil balance 2014: TZS 298.1 million)

**Government Obligations Settlement: TZS 71,293.0 million**

This represents Government cash cover in order to settle forex obligations. As at 30 June 2015 such funds aggregated to TZS 71,293.0 million ( 2014:TZS 254,437.6 million).

**Mwananchi Gold Company Limited: TZS 334.7 million**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
This represents net deposit of Mwananchi Gold Company Limited at the Bank. The movement of the deposit during the year is indicated below.		
Opening balance	572,029	4,947,083
Maturity on treasury bills investments	550,000	3,984,205
Payment to shareholders	-	(3,932,866)
Investments in Treasury bills	(536,787)	(3,243,500)
Transfers to commercial banks	(240,000)	-
Payment of statutory tax	<u>(10,500)</u>	<u>(1,182,893)</u>
	<u>334,742</u>	<u>572,029</u>

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****34. DEPOSITS – OTHERS (CONTINUED)****Export Credit Guarantee Fund: TZS 75,287.7 million.**

The balance under this fund consists of the following:	30.06.2015 TZS '000	30.06.2014 TZS '000
Export Credit Guarantee Fund	90,627,238	78,767,994
Less: ECGS Receivable	<u>(7,650,821)</u>	<u>(7,695,899)</u>
	<b><u>82,976,417</u></b>	<b><u>71,072,095</u></b>

The Export Credit Guarantee Fund (the "Fund") was established by the Government of the United Republic of Tanzania in 2001 under the export credit guarantee scheme, in a bid to promote exports. The Fund provides guarantees to commercial banks to cover risk of default in repaying the loans by their borrowers. As at 30 June 2015, the Fund had a balance of TZS 82,976.4 million (2014: TZS 71,072.1 million) comprising of Government and the Bank's contributions and income from investment in treasury bills and guarantee fees.

**Debt Service Cash Cover: TZS 2,420.5 million**

These are URT Government funds for settling URT Government obligations and other services payable in foreign currency

**Debt Conversion Scheme: TZS 2,099.0 million.**

These are balances of debt conversion funds that are blocked in the account pending submission of progress reports by beneficiaries in respect of utilization of previous disbursements, so as to justify further disbursements. The balance has remained the same since no report has been received to facilitate payments.

**Mwalimu Julius K Nyerere Memorial Scholarship Fund: TZS 3,120.8 million**

Included in Deposit Others, is a balance of cash in respect of Mwalimu Julius K. Nyerere Memorial Scholarship Fund. The Fund was established by the Bank of Tanzania on 12 October, 2009 in honor of the life of the Father of the Nation Mwalimu Julius Kambarage Nyerere. The objective of the Fund is to sponsor the best performing students pursuing mathematics, science, accounting, finance and information technology degrees at the University level in Tanzania. As at 30 June 2015, a total of TZS 3,099.5 million (2014: TZS 2,497.0 million) in respect of the Fund's resources had been invested in Government treasury bills and treasury bonds as per **Note 28**. As a result, the Fund had a balance of TZS 3,120.8 million (2014: TZS 2,797.6 million).

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****35. FOREIGN CURRENCY FINANCIAL LIABILITIES**

Foreign Currency Financial Liabilities consist of the following:	30.06.2015 TZS '000	30.06.2014 TZS '000
Special Projects	432,902,351	522,925,182
Other Foreign Currency Deposits	15,150,300	11,485,913
Non Paris Club Liabilities Escrow	9,607,422	8,033,971
Multilateral Debt Relief Initiative Fund	8,726,445	7,664,734
Central Banks Deposits	260,843	41,530
Multilateral Agencies	140,674	140,674
	<b>466,788,035</b>	<b>550,292,004</b>

**Special Projects Funds: TZS 432,902.4 million**

These are United Republic of Tanzania Government funds received from donors for financing various Government projects. The projects are managed and monitored by the Ministry of Finance or other appointed project implementation agency. As at 30 June 2015, the total balance in respect of Special Project accounts aggregated to TZS 432,902.4 million (2014: TZS 522,925.2 million).

**Other Foreign Currency Deposits: TZS 15,150.3 million**

This mainly consists of balance in respect of Vneshecombank Moscow Russia (TZS 10,802.1 million) and Spread Reduction Account (TZS 1,550.6 million). As at 30 June 2015, the balance was TZS 15,150.3 million (2014: TZS 11,485.9 million).

**Non Paris Club Liabilities Escrow: TZS 9,607.4 million**

This account represent funds deposited by the United Republic of Tanzania Government under memorandum of economic and financial policies arrangement pending agreement with the relevant group of non-Paris creditors. As at 30 June 2015, the account had a balance of TZS 9,607.4 million (2014: TZS 8,033.9 million).

**Multilateral Debt Relief Initiative Funds: TZS 8,726.4 million**

Multilateral debt initiative funds relate to debt relief relating to cancellation of Government of the United Republic of Tanzania indebtedness to the IMF under the IMF-Multilateral Debt Relief Initiative (MDRI). As at 30 June 2015, the fund had a balance amounting to TZS 8,726.4 million (2014: TZS 7,664.7 million).

**Central Banks Deposits: TZS 260.8 million**

These are funds deposited by the Bank of Uganda and Reserve Bank of Rwanda to accommodate clearing of transactions in their respective currencies i.e. UGX and RWF. As at 30 June 2015, the accounts had a balance of TZS 260.8 million (2014: TZS 41.5 million)

**Multilateral Agencies: TZS 140.7 million**

These consists mainly of funds disbursed by the International Development Agency (IDA) to finance various economic operations. As at 30 June 2015, such balances amounted to TZS 140.7 million (2014: TZS 140.7 million).

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**36. POVERTY REDUCTION AND GROWTH FACILITY (PRGF)**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
IMF Drawings	<u>720,673,020</u>	<u>759,512,829</u>

This relates to funds disbursed by International Monetary Fund (IMF) to the Bank on behalf of the Government to support balance of payments. Repayment of these funds to IMF is effected in line with IMF repayment schedule. The funds attracts charges, which are paid on quarterly basis and borne by the Bank.

The Government of United Republic of Tanzania (URT) has entered into an Exogenous Shocks Facility - (ESF) arrangement with the IMF for SDR 218.79 million (USD 318.17 million) on 29 May 2009. Following approval, the Bank had on 12 June 2009 received a total of SDR 159.1 million (USD 245.8 million) equivalent to TZS 318,195.1 million being the first tranche. The Bank further received SDR 39.8 million (USD 63.4 million) equivalent to TZS 83,288.1 million and SDR 19.9 million (USD 29.0 million) equivalent to TZS 40,200.3 million on 10 December 2009 and 14 June 2010 respectively. The first tranche is repayable in ten years, including five and half years grace period, payable semi annually in ten equal installments on 14 December and 14 June beginning 14 December 2014. The loan carry an interest of 0.5 percent per annum payable semi annually beginning 14 December 2009. On 20 February 2013, the Government received loan facility of SDR 74.6 million equivalent to TZS 181,472.8 million.

As at 30 June 2015, the balance of PRGF account was TZS 720,673.0 million (2014: TZS 759,512.8 million).

**37. REPURCHASE AGREEMENTS (REPOs)**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Repurchase agreements	-	20,000,000
Accrued interest	-	9,349
	<u>-</u>	<u>20,009,349</u>

**38. BOT LIQUIDITY PAPERS**

BOT liquidity papers	727,887,818	1,278,097,622
Accrued interest	57,168,074	87,075,744
	<u>785,055,892</u>	<u>1,365,173,366</u>

As at 30 June, 2015 the maturities profile of BOT Liquidity Papers held to maturity were as follows:

35-Day Treasury Bills	-	2,980,500
91-Day Treasury Bills	44,543,782	129,701,659
182-Day Treasury Bills	303,952,190	297,074,689
364-Day Treasury Bills	379,391,846	848,340,774
	<u>727,887,818</u>	<u>1,278,097,622</u>

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****38. BOT LIQUIDITY PAPERS (Continued)**

These are financial instruments issued by the Bank under the open market operations to mop up excess liquidity in the economy. They are issued in 35-day, 91-day, 182-day and 364-day maturities. Interest incurred on these instruments is accrued and recognized in profit and loss account as interest expenses.

**39. PROVISIONS**

	30.06.2015 TZS '000	30.06.2014 TZS '000
Provision for leave pay	<u>5,514,291</u>	<u>4,722,778</u>

Relates to the estimated monetary liability for employees' earned but not taken leave entitlement at the end of the reporting period. The movements between the two periods are recognised in the profit and loss accounts.

<i>Movement in provisions</i>	30.06.2015 TZS '000	30.06.2014 TZS '000
<i>Leave pay</i>		
Carrying amount at the beginning of the year	4,722,778	5,692,539
Net movement during the year	<u>791,513</u>	<u>(969,761)</u>
<b>Carrying amount at the end of the year</b>	<u><b>5,514,291</b></u>	<u><b>4,722,778</b></u>

**40. OTHER LIABILITIES**

Accounts payable	69,663,846	40,024,545
Stale drafts payable	105,220	105,221
Other employee cost payable	193,095	226,124
Others	<u>11,449,033</u>	<u>2,039,127</u>
	<u><b>81,411,194</b></u>	<u><b>42,395,017</b></u>

**41. RETIREMENT BENEFIT OBLIGATION**

This represent value of defined benefit obligation of the staff benefits fund.

Retirement benefits obligation	<u>81,926,325</u>	<u>81,631,712</u>
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Please refer to **Note 48** on details of the retirement benefit plan.

**42. AUTHORISED AND PAID UP SHARE CAPITAL**

Authorised and paid up share capital	<u>100,000,000</u>	<u>100,000,000</u>
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The Authorized and paid up capital of the Bank is determined in accordance with Section 17(i) of the Bank of Tanzania Act, 2006.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**43. RESERVES**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
(a) General Reserve	298,329,037	273,047,290
(b) Capital Reserve	99,262,908	99,262,908
(c) Equalisation Reserve	395,107,764	340,571,593
(d) Reserve for Projects	180,000,000	150,000,000
(e) Staff Housing Fund	58,741,575	44,425,064
(f) Assets Revaluation Reserve	119,776,163	119,776,163
(g) Financial Sector Development fund	30,000,000	-
(h) Securities Revaluation Reserve	1,027,526	28,843,184
(i) Foreign Exchange Revaluation Reserve	358,240,860	37,221,206
(j) Reserve for Dividends	130,000,000	72,454,104
(k) Defined Benefit Reserves	7,562,690	7,562,690
	<u><b>1,678,048,523</b></u>	<u><b>1,173,164,202</b></u>

**(a) General Reserve**

In accordance with Section 18(1) of the Bank of Tanzania Act, 2006, the Bank is required to maintain a General Reserve Fund. The amount maintained in this account relates to annual appropriation of distributable profits determined by virtue of Section 18(2) of the aforesaid Act. The Act requires the Bank to transfer to the General Reserve Fund twenty five percent of the net profits until such time that the total capital of the Bank reach a sum equivalent to at least ten per centum of the total assets of the Bank less its assets in gold and foreign currencies. Thereafter, the Bank is required to transfer not less than ten percent of profits to the General Reserve Fund. As at 30 June 2015 the reserve had a balance of TZS 298,329.0 million (2014: TZS 273,047.3 million).

**(b) Capital Reserve**

The Capital Reserve was established on 30 June 2002. On an annual basis the amount spent to finance capital projects from the Reserve for Projects account is transferred to this reserve. The reserve is permanent in nature and can only be available for enhancement of share capital when need arises. As at 30 June 2015, the reserve had the same balance as it was on 30 June 2014 of TZS 99,262.9 million.

**(c) Equalisation Reserve**

The reserve was established on 30 June 2006 as foreign exchange equalisation reserve and amended on 30 June 2015 to include cushion for future losses on fair value movements on securities. The reserve acts as a cushion against any significant future losses, which may arise from significant appreciation of Tanzanian Shilling compared to other international currencies, and unfavourable movement in market prices of financial instruments measured at fair value.

The justification for the establishment of the aforesaid reserve as part of the equity of the Bank centres on the requirement of the Bank, among other business entities requiring management to ensure preservation of capital, in terms of mitigating risks that can cause capital impairment or impairment of the entity's assets. As at 30 June 2015, the total amount standing at the credit of the Equalization Reserve amounted to TZS 395,107.8 million (2014: TZS 340,571.6 million).



## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **43. RESERVES (CONTINUED)**

##### **(d) Reserve for Projects**

This reserve was established by a resolution of the Bank's Board of Directors on 30 June 1992. The purpose of the reserve is to provide funds for financing major capital projects of the Bank. On an annual basis, the Board determines the amount to be appropriated from the distributable profit to the reserve. As at 30 June 2015, the reserve had a balance of TZS 180,000.0 million (2014: TZS 150,000.0 million).

##### **(e) Staff Housing Fund**

The Staff Housing Fund was established by a resolution of the Board of Directors on 30 June 1990. The purpose of this fund is to finance housing loans to Bank's employees. On an annual basis, the Board appropriates five percent of the distributable profit to the fund. As at 30 June 2015, the fund had a balance of TZS 58,741.6 million (2014: TZS 44,425.1 million) that include interest on fund's investments.

##### **(f) Assets Revaluation Reserve**

The Bank maintains Assets Revaluation Reserve to account for revaluation surpluses or deficits. To ensure compliance with requirement of International Accounting Standard (IAS 16), Property, Plant and Equipment if an asset-carrying amount increases as a result of revaluation, the increase is credited directly to other comprehensive income. However, this amount is not available for distribution. Accordingly, it is retained in the asset revaluation reserve. If an asset's carrying amount decreases on account of revaluation, the decrease is recognized in profit or loss to the extent that it exceeds credit balance existing in the asset revaluation reserve in respect of that asset. As at 30 June 2015, the reserve had a balance of TZS 119,776.2 million (2014: TZS 119,776.2 million).

##### **(g) Financial Sector Development Fund.**

This is a Fund established by the Board on 30 June 2015 pursuant to Section 18(1)(d) of the Bank of Tanzania Act, 2006 to foster execution of the Bank's mandate on financial sector development. The fund complements donor funds directed towards financial sector reforms. The Board has determined the appropriation of TZS 30,000.0 million from net surplus for the period ended 30 June 2015.

##### **(h) Securities Revaluation Reserve**

The Bank maintains Securities Revaluation Reserve to account for unrealised gains and losses arising from changes in fair value of financial instruments measured at fair value. As at 30 June 2015 the reserve had a balance of TZS 1,027.5 million (2014: TZS 28,843.2 million).

##### **(i) Foreign Exchange Revaluation Reserve**

In accordance with Section 18(4) of the Bank of Tanzania Act, 2006, unrealized gains or losses on foreign exchange are transferred to this reserve account. In accounting for unrealised gains or losses the Bank complies with the requirements of both IFRS and the Bank of Tanzania Act (2006). Pursuant to the requirements of the International Accounting Standard (IAS – 21) the Effects of Changes in Foreign Exchange Rates, all realized and unrealized foreign exchange valuations should be taken to the profit or loss.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**43. RESERVES (CONTINUED)**

**(i) Foreign Currency Revaluation Reserve (Continued)**

Both realized and unrealized gains and losses are therefore taken to profit or loss for purposes of computation of profit or loss for the year. Until such gains or losses are realized, they are not available for distribution; in the interim, the unrealized amounts are reflected in the Foreign Currency Revaluation Reserve. The separation of realized from unrealized exchange gains and losses is done by use of an "inventory accounting for foreign exchange net assets and liabilities". During the year the Bank operations generated foreign exchange revaluation gains of TZS 634,054.5 million (2014: TZS 249,643.1 million). Net unrealised gains amounted to TZS 358,240.9 million (2014: TZS 37,221.2 million) and have been transferred to foreign currency revaluation reserve. The balance of TZS 275,813.6 million (2014: TZS 275,813.6 million) related to realised gains forms part of the distributable profit for the year ending 30 June 2015. As at 30 June 2015 the reserve had a balance of TZS 358,240.9 million (2014: TZS 37,221.2 million)

**(j) Reserve for Dividend**

This reserve accommodates the amount declared as dividend payable to the Governments after end of the accounting period. As at 30 June 2015, the reserve had a balance of TZS 130,000.0 million (2014: TZS 72,454.1 million).

**(k) Defined Benefit Reserve**

This reserve was established in June 2013 in order to accommodate re-measurements arising from change in actuarial assumptions to ensure compliance with International Accounting standard (IAS 19 as revised in 2011)- Employee Benefits. As at 30 June 2015 the reserve had a balance of TZS 7,562.7 million (2014: TZS 7,562.7 million).

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****44. CASH GENERATED FROM/ USED IN OPERATING ACTIVITIES**

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<b>Profit for the year</b>	577,338,425	197,194,236
Adjustment for:		
Depreciation of property and equipment	23,637,315	28,583,943
Amortization of intangible assets	1,749,903	1,452,655
Net loss/(gain) on disposal of property and equipment	250,533	(21,855)
Unrealised foreign exchange revaluation gains	(358,240,860)	(37,221,200)
Provision for impairment	-	184,332
Bad debts written off	-	1,377,952
Increase in fair value of equity investment	<u>(10,133,693)</u>	<u>(1,431,824)</u>
	234,601,623	190,118,239
<b>Changes in working capital</b>		
(Increase)/decrease in escrow assets	(1,573,451)	35,376,885
Increase in loans and receivables	(77,519,526)	(126,189,102)
Decrease/(increase) in advances to the Government	369,646,664	(364,143,552)
Decrease in deferred currency cost	48,262,234	53,143,825
Increase in other assets	(123,964,017)	(101,068,492)
Increase in inventories	(3,862,490)	(175,030)
Decrease/(increase) in items in course of settlement	5,776,587	(5,543,488)
Increase in deposits	505,705,829	380,655,572
Increase in other liabilities and provisions	<u>40,102,303</u>	<u>8,877,417</u>
Net changes in working capital	<u>762,574,133</u>	<u>(119,065,965)</u>
<b>Cash generated from operations</b>	<u>997,175,756</u>	<u>71,052,274</u>

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **45. RISK MANAGEMENT**

##### **45.1 Introduction**

The Bank is exposed to most of financial risks (market, credit and liquidity) while fulfilling its legal obligations, such as implementing monetary and exchange rate policies, managing foreign exchange reserves and rendering banking services to the banking sector and the Government of the United Republic of Tanzania.

Bank's activities necessitate the use of financial instruments which include both assets and liabilities. The instruments related to assets comprise of; foreign exchange deposits, foreign currency marketable securities, holding of special drawing rights (SDR), equity investments and Government securities. The Bank holds foreign exchange reserves for the purposes of servicing foreign debts and other Government obligations as a fiscal agent of the Government of the United Republic of Tanzania and for servicing its own foreign exchange obligations. The Bank also holds foreign exchange reserves for implementation of monetary and exchange rate policies and providing confidence to the financial markets. In view of the Bank's priorities of safety, liquidity and return, as stipulated by the Bank of Tanzania Act, 2006, the Bank with a prudent approach, subjects its foreign exchange reserves to investments in international markets.

The liabilities instruments include; currency in circulation, bank deposits from financial institutions and the Governments and IMF related liabilities. It also accepts or places short-term funds/securities through open market operations in order to achieve the reserve target and influence the short-term interest rates; the primary tool of monetary policy to establish price stability.

The financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Bank.

The Bank's risks are measured to reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on quantitative factors. The quantitative factors use models which make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

The financial risk is analysed and reported on timely basis. This information is presented to the investment management committee, management risk committee, management and finance and investment committee of the Board. As part of its financial risk management, the Bank uses various limits specified in the policies and guidelines to manage exposures to various risks.

##### **45.2 Risk management structure**

Risk management is integral to all aspects of the Bank's activities and is generally the responsibility of all employees. Heads of business units have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and monitor the effectiveness of these controls. The Bank identifies, assesses and manages risk at both Corporate ('top-down') and business ('bottom-up') level. Controls put in place to manage the Bank's risk environment are carefully assessed to ensure they are well developed and implemented effectively. The role of each stakeholder is summarised below :-

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **45. RISK MANAGEMENT (CONTINUED)**

##### **45.2 Risk management structure (Continued)**

###### **(a) Board of Directors**

The Board of Directors is responsible for:

- Overall oversight authority of corporate risk management in the Bank.
- Approving the Corporate Risk Management framework, policy, guide, benchmarks, tolerance limits, risk appetite and key risk indicators.
- Providing sufficient resources to support risk management function.

###### **(b) Finance and Investment Committee of the Board**

The Finance and Investment Committee of the Board is responsible for::

- Review and recommend approval of the Corporate Risk Profile, associated mitigation strategies and other reports on Risk Management.
- Assist the Board in reviewing implementation reports of risk management initiatives in the Bank.
- Advise the Board on all Risk Management undertakings in the Bank.
- Give directives to Management on issues related to Risk management.

###### **(c) Management**

The Management is responsible for,:

- Establishing, implement and maintain risk management system in accordance with the Corporate Risk Management and Investment Management Policies
- Formulate the Framework, Policy and recommend the risk limits and tolerance.
- Report to the Finance and Investment Committee of the Board on implementation process of the Policy.

###### **(d) Management risk committee (MRC)**

It is responsible for:

- Guiding Management on issues related to risk management.
- Recommending approval of corporate risk profile to the Management.
- Reviewing risk mitigation plans and recommend for approval to Management Reviewing and
- Recommending periodical risk management reports to Management.

###### **(e) Risk Management Function**

Risk Management function is responsible for:

- Coordinating the implementation of CRM Policy and related framework.
- Facilitating and coordinating periodic assessment of risks programmes.
- Maintaining corporate risk register and Coordinating corporate risk profile reviews
- Promoting risk management culture to employees.
- Providing Management with risk related reports.
- Maintaining incident register and disseminate information to relevant risk owners.
- Communicating changes to all stakeholders
- Administering and Custodian of the policy;
- Consolidating proposals of benchmarks, risk appetite, tolerance limits, and submit to MRC for review and subsequently to the Board for approval.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **45. RISK MANAGEMENT (CONTINUED)**

##### **45.2 Risk management structure (Continued)**

###### **(f) Internal audit function**

The Internal Audit function is responsible for providing an independent evaluation of risk management; implementation and reviewing corporate risk profile.

##### **45.3 Financial risks**

###### **(a) Credit risk**

In its financial operations, the Bank is exposed to credit risk, defined as the probability of a complete or partial failure of a counterpart to fulfil its obligations arising from a financial transaction. Credit risk basically originates from the open market operations carried out in order to provide short term liquidity to banks within the framework of monetary policy implementation and from the investments made during foreign exchange reserve management.

Although the credit risk faced during the implementation of monetary policy is an inevitable risk, such risks are managed by securing the entire transaction amount, also including a certain margin by assets that have high credit quality and are tradable in the secondary markets.

The management of the credit risk that the Bank is exposed to in the foreign exchange reserve management is based on the principal of minimizing default probabilities of the counter parties and the financial loss in case of default. The Bank confines its investment to leading international financial institutions and debtors that meet the minimum rating criteria specified in the Investment Policy based on credit ratings given by the International Credit Rating Agencies. The specified minimum rating criteria depends on whether the investment is short or long term in nature.

Accordingly, for short term investments, the Bank takes on exposure to issuers/issues having at least F2, A-2 and P-2 according to Fitch, Standard and Poor's (S&P) and Moody's with a maturity up to one year. The Bank can also invest in securities issued or directly guaranteed by foreign governments and Supranational which have a long-term rating of at least 'A' according to the above stated credit rating agencies. The average maturity of the long term investments is guided by the Investment Guidelines which is reviewed and approved by the Investment Committee once a year. By settling this overall credit risk limit within the scope of Investment Guidelines, the Bank aims to prevent credit risk from exceeding its risk tolerance.

The institutions eligible for transactions are chosen among those institutions meeting the minimum credit rating limitation set in the guidelines. In all transactions executed with these institutions, credit risk exposure amounts that are calculated on the basis of transactions type are immediately reflected on their limits, and the use of these limits are regularly monitored and reported.

Overall, the credit risk assumed during reserve management operations remain at quite low levels as a great portion of reserves are invested in assets issued or directly guaranteed by the respective governments as well as by supranational institutions such as the World Bank, the European Investment Bank and Bank for International Settlements.

Total assets of the Bank exposed to credit risk as of 30 June 2015 and 30 June 2014 are presented in the table below according to the classification of assets (classification according to external credit rating is done based on credit ratings published by Standard and Poor's).

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(a) Credit risk (Continued)**

Description	30.06.2015		30.06.2014	
	TZS '000	SHARE (%)	TZS '000	SHARE (%)
<b>Central Banks</b>				
AAA	914,621,770	7.96%	601,779,607	5.70%
<b>Foreign Commercial Banks</b>				
F1+	1,711,910,860	14.90%	1,348,306,799	12.76%
<b>Escrow accounts</b>				
AA	9,607,422	0.08%	8,033,971	0.08%
<b>Items in course of settlement:</b>				
NR	1,223,038	0.01%	6,999,625	0.07%
<b>Loans, receivables &amp; advances</b>				
NR	459,434,569	4.00%	751,561,707	7.11%
<b>Investment in securities</b>				
<i>Marketable securities</i>	5,672,736,269	49.37%	5,296,183,128	50.13%
AAA	4,373,541,423		3,177,709,877	
AA+	920,941,442		1,588,854,938	
AA	160,590,669		529,618,313	
AA-	213,342,677		-	
A+	4,320,058		-	
<i>Equity investments</i>				
NR	28,198,556	0.25%	8,768,522	0.08%
<i>Government securities</i>				
NR	1,558,532,122	13.56%	1,481,231,785	14.02%
<b>Others</b>				
<i>Other assets (excluding prepayments)</i>				
NR	268,053,588	2.33%	169,019,358	1.60%
<i>Holdings of Special Drawing Rights (SDRs)</i>				
NR	314,464,770	2.74%	386,216,122	3.65%
<i>Quota in International Monetary Fund (IMF)</i>				
NR	552,274,969	4.80%	507,635,007	4.80%
	<u>11,491,057,933</u>	<u>100.00%</u>	<u>10,565,735,631</u>	<u>100.00%</u>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(a) Credit risk (Continued)**

The sectoral classification of the Bank's credit exposure as at 30 June 2015 is as follows:

Details	Foreign Country Treasury TZS '000	Supranational Institutions TZS '000	Domestic Financial Institutions TZS '000	Foreign Financial Institutions TZS '000	Government Guaranteed Agencies TZS '000	Tanzania Treasury TZS '000	Total TZS '000
<b>2015</b>							
<b>Due from banks</b>							
Central Banks	914,621,770	-	-	-	-	-	914,621,770
Commercial Banks	-	-	-	1,711,910,860	-	-	1,711,910,860
Escrow accounts	-	-	-	9,607,422	-	-	9,607,422
Items in course of settlement	-	-	1,223,038	-	-	-	1,223,038
Loans, receivables and advances	-	-	298,116,365	-	-	161,318,204	459,434,569
<b>Investment in securities</b>							
Foreign Currency Marketable securities	5,154,210,660	213,244,847	-	173,344,840	131,935,922	-	5,672,736,269
Equity investments	-	-	-	28,198,556	-	-	28,198,556
Government securities	-	-	-	-	-	1,558,532,122	1,558,532,122
<b>Others</b>							
Other assets (Excluding prepayments)	-	-	-	-	-	268,053,588	268,053,588
Holdings of Special Drawing Rights (SDRs)	-	314,464,770	-	-	-	-	314,464,770
Quota in International Monetary Fund (IMF)	-	552,274,969	-	-	-	-	552,274,969
	<b>6,068,832,430</b>	<b>1,079,984,586</b>	<b>299,339,403</b>	<b>1,923,061,678</b>	<b>131,935,922</b>	<b>1,990,940,098</b>	<b>11,491,057,933</b>



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(a) Credit risk (Continued)**

The sectoral classification of the Bank's credit exposure as at 30 June 2014 is as follows:

Details	Foreign Country Treasury TZS '000	Supranational Institutions TZS '000	Domestic Financial Institutions TZS '000	Foreign Financial Institutions TZS '000	Government Guaranteed Agencies TZS '000	Tanzania Treasury TZS '000	Total TZS '000
2014							
<b>Due from banks</b>							
Central Banks	599,494,851	-	-	-	-	2,284,756	601,779,607
Commercial Banks	-	-	-	1,348,306,799	-	-	1,348,306,799
Escrow accounts	-	-	-	8,033,971	-	-	8,033,971
Items in course of settlement	-	-	6,999,625	-	-	-	6,999,625
Loans, receivables and advances	-	-	311,961,276	-	-	439,600,431	751,561,707
<b>Investment in securities</b>							
Foreign Currency Marketable securities	4,532,864,369	383,209,484	-	78,670,093	301,439,182	-	5,296,183,128
Equity investments	-	-	-	8,768,522	-	-	8,768,522
Government securities	-	-	-	-	-	1,481,231,785	1,481,231,785
<b>Others</b>							
Other assets (Excluding prepayments) Holdings of Special Drawing Rights (SDRs)	-	-	-	-	-	169,019,358	169,019,358
Quota in International Monetary Fund (IMF)	-	386,216,122	-	-	-	-	386,216,122
	5,132,359,220	1,277,060,613	318,960,901	1,443,779,385	301,439,182	2,092,136,330	10,565,735,631

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(a) Credit risk (Continued)**

Geographical analysis of concentrations of assets and liability of the Bank as at 30 June 2015 is as follows:

Details	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
<b>2015</b>						
<b>Assets</b>						
Cash and balances with central banks & other banks	3,036,185	1,092,663,197	248,991,460	1,165,330,758	116,511,030	2,626,532,630
Escrow accounts	-	-	9,607,422	-	-	9,607,422
Items in course of settlement	1,223,038	-	-	-	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	314,464,770	-	-	-	314,464,770
Quota in International Monetary Fund (IMF)	-	552,274,969	-	-	-	552,274,969
Foreign currency marketable securities	-	3,448,399,954	548,992,056	1,111,232,265	564,111,994	5,672,736,269
Equity investment	-	-	-	468,119	27,730,437	28,198,556
Government securities	1,558,532,122	-	-	-	-	1,558,532,122
Advances to the Government	69,953,767	-	-	-	-	69,953,767
Loans and receivables	389,490,802	-	-	-	-	389,490,802
Other assets (excluding prepayments)	268,053,588	-	-	-	-	268,053,588
<b>Total assets</b>	<b>2,290,279,502</b>	<b>5,407,802,890</b>	<b>807,590,938</b>	<b>2,277,031,142</b>	<b>708,353,461</b>	<b>11,491,057,933</b>
<b>Liabilities</b>						
Currency in circulation	4,094,261,068	-	-	-	-	4,094,261,068
Deposits - banks and non-banks financial institutions	3,105,421,355	-	-	-	-	3,105,421,355
Deposits - others	199,303,955	-	-	-	-	199,303,955
Deposits - Government	4,822,379	-	-	-	-	4,822,379
Foreign currency financial liabilities	466,788,035	-	-	-	-	466,788,035
Poverty deduction and growth facility	-	720,673,020	-	-	-	720,673,020
BoT liquidity papers	785,055,892	-	-	-	-	785,055,892
Retirement benefit obligation	81,926,325	-	-	-	-	81,926,325
Other liabilities	81,411,194	-	-	-	-	81,411,194
IMF related liabilities	524,509,360	-	-	-	-	524,509,360
Allocation of Special Drawing Rights (SDRs)	-	528,982,829	-	-	-	528,982,829
<b>Total liabilities</b>	<b>9,343,499,563</b>	<b>1,249,655,849</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,593,155,412</b>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(a) Credit risk (Continued)**

Geographical analysis of concentrations of assets and liability of the Bank as at 30 June 2014 is as follows:

Details	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
<b>Assets</b>						
Cash and balances with central banks & other banks	2,284,756	287,336,770	486,724,529	872,007,490	301,732,861	1,950,086,406
Escrow accounts	-	-	8,033,971	-	-	8,033,971
Items in course of settlement	6,999,625	-	-	-	-	6,999,625
Holdings of Special Drawing Rights (SDRs)	-	386,216,122	-	-	-	386,216,122
Quota in International Monetary Fund (IMF)	-	507,635,007	-	-	-	507,635,007
Foreign currency marketable securities	-	2,655,293,033	453,461,551	1,607,201,223	580,227,321	5,296,183,128
Equity investment	-	-	-	443,964	8,324,558	8,768,522
Government securities	1,481,231,785	-	-	-	-	1,481,231,785
Advances to the Government	439,500,431	-	-	-	-	439,500,431
Loans and receivables	311,961,276	-	-	-	-	311,961,276
Other assets (excluding prepayments)	169,019,358	-	-	-	-	169,019,358
<b>Total assets</b>	<b>2,411,097,231</b>	<b>3,836,480,532</b>	<b>948,220,051</b>	<b>2,479,652,677</b>	<b>890,284,740</b>	<b>10,565,735,631</b>
<b>Liabilities</b>						
Currency in circulation	3,596,703,122	-	-	-	-	3,596,703,122
Deposits - banks and non-banks financial institutions	2,366,981,848	-	-	-	-	2,366,981,848
Deposits -- others	426,661,779	-	-	-	-	426,661,779
Deposits -- Government	10,198,233	-	-	-	-	10,198,233
Foreign currency financial liabilities	550,292,004	-	-	-	-	550,292,004
Poverty reduction and growth facility	-	759,512,829	-	-	-	759,512,829
Repurchase agreements	20,009,349	-	-	-	-	20,009,349
BoT liquidity papers	1,365,173,366	-	-	-	-	1,365,173,366
Other liabilities	81,631,712	-	-	-	-	81,631,712
Retirement benefit obligation	42,395,017	-	-	-	-	42,395,017
IMF related liabilities	482,112,690	-	-	-	-	482,112,690
Allocation of Special Drawing Rights (SDRs)	-	486,225,552	-	-	-	486,225,552
<b>Total liabilities</b>	<b>8,942,159,120</b>	<b>1,245,738,381</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,187,897,501</b>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(b) Credit quality per class of financial assets**

The credit quality per class of financial assets is managed by the Bank using internal ratings. The table below shows the quality by class of asset for all financial assets exposed to credit risk, based on the Bank's credit rating system. The amount presented is gross of impairment allowances.

Details	Neither past due nor impaired TZS '000	Past due but not impaired TZS '000	Individually impaired TZS '000	Total TZS '000
<b>30.06.2015</b>				
Cash and cash equivalents	2,626,532,630	-	-	2,626,532,630
Escrow accounts	9,607,422	-	-	9,607,422
Items in course of settlement	1,223,038	-	-	1,223,038
Foreign currency marketable securities	5,672,736,269	-	-	5,672,736,269
Equity investments	28,198,556	-	-	28,198,556
Government securities	1,558,532,122	-	-	1,558,532,122
Loans, receivables and advances	453,804,852	-	5,629,717	459,434,569
Other assets (excluding prepayments)	268,053,588	-	-	268,053,588
Holdings of Special Drawing Rights (SDRs)	314,464,770	-	-	314,464,770
Quota in International Monetary Fund	552,274,969	-	-	552,274,969
	<b>11,485,428,216</b>	<b>-</b>	<b>5,629,717</b>	<b>11,491,057,933</b>
<b>30.06.2014</b>				
Cash and cash equivalents	1,950,086,406	-	-	1,950,086,406
Escrow accounts	8,033,971	-	-	8,033,971
Items in course of settlement	6,999,625	-	-	6,999,625
Foreign currency marketable securities	5,296,183,128	-	-	5,296,183,128
Equity investments	8,768,522	-	-	8,768,522
Government securities	1,481,231,785	-	-	1,481,231,785
Loans, receivables and advances	745,916,517	-	5,645,190	751,561,707
Other assets (excluding prepayments)	169,019,358	-	-	169,019,358
Holdings of Special Drawing Rights (SDRs)	386,216,122	-	-	386,216,122
Quota in International Monetary Fund	507,635,007	-	-	507,635,007
	<b>10,560,090,441</b>	<b>-</b>	<b>5,645,190</b>	<b>10,565,735,631</b>

Details	Total	Neither past due nor impaired	Less than 30 days	31 to 60 days	61-90 days	91-120 days	> 120 days
2015	459,234,932	453,605,215	-	-	-	-	5,629,717
2014	751,561,707	745,916,517	-	-	-	-	5,645,190

Details on provision for impairment losses on loans and receivables have been provided under **Note 24**.

The Bank does not hold collateral for financial liabilities pledged as security.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(b) Credit quality per class of financial assets (Continued)**

Individually assessed allowances:

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected pay-out should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>Gross</b>	<b>Gross</b>
	<b>Maximum</b>	<b>Maximum</b>
	<b>Exposure</b>	<b>Exposure</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Cash and cash equivalents	2,626,532,630	1,950,086,406
Escrow accounts	9,607,422	8,033,971
Items in the course of settlements	1,223,038	6,999,625
Foreign currency marketable securities	5,672,736,269	5,296,183,128
Equity investments	28,198,556	8,768,522
Government securities	1,558,532,122	1,481,231,785
Loans, receivables and advances	459,434,569	751,561,707
Other assets (Excluding prepayments)	268,053,588	169,019,358
Holdings of Special Drawing Rights (SDRs)	314,464,770	386,216,122
Quota in International Monetary Fund	552,274,969	507,635,007

The Bank's maximum exposure to credit risk for each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet. The maximum exposure to credit risk for derivatives at the reporting date is detailed below. Unlike futures, swaps will be settled on gross terms but recorded on net basis. The net value of derivatives are as follows

	<b>Asset</b>
	<b>TZS '000</b>
<b>2015</b>	
Futures	441,975
Swaps	199,637
<b>2014</b>	
Futures	293,984

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(c) Liquidity risk**

This arises from inability of the Bank to meet its own foreign exchange and government obligations without incurring huge price concession.

Due to its nature of business (externalization of the government obligations), a huge amount of expected foreign cash flows is not reflected in the Statement of Financial Position. As a result, assets-liabilities management may not be effective. Thus to manage this risk, the Bank divides its foreign exchange reserves into Liquidity, Investment and Stable tranches. The liquidity tranche is intended to meet both anticipated and unanticipated monthly cash outflows requirements thus matching both on and off Statement of Financial Position foreign assets and liabilities. The tranche is monitored on a daily basis. It is comprised of highly liquid short term financial instruments.

The table below analyses the assets and liabilities of the Bank into relevant maturity based on the remaining period at Statement of Financial Position date to contractual maturity date.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(c) Liquidity risk (Continued)**

By contractual maturity analysis of financial instruments

Details	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000	Over 5 Years TZS '000	Total TZS '000
<b>Assets</b>						
Cash and balances with central banks & other banks	1,772,868,660	741,129,750	112,544,230	-	-	2,626,532,630
Escrow accounts	-	-	-	-	9,607,422	9,607,422
Items in course of settlement	1,223,038	-	-	-	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	-	-	-	314,464,770	314,464,770
Quota in International Monetary Fund (IMF)	-	-	-	-	552,274,969	552,274,969
Foreign currency marketable securities	74,835,180	123,881,857	902,005,645	4,552,564,501	19,449,086	5,672,736,269
Equity investment	-	-	-	-	28,198,556	28,198,556
Government securities	-	-	-	768,617,431	789,914,691	1,558,532,122
Advances to the Government	-	-	69,953,767	-	-	69,953,767
Loans and receivables	-	347,392,369	460,219	21,670,484	19,957,730	389,480,802
Other assets (excluding prepayments)	3,746,997	6,090,279	29,904,560	228,311,752	-	268,053,588
<b>Total assets</b>	<b>1,852,663,865</b>	<b>1,218,494,255</b>	<b>1,114,868,421</b>	<b>5,577,164,168</b>	<b>1,733,867,224</b>	<b>11,491,057,933</b>
<b>Liabilities</b>						
Currency in circulation	819,314,721	819,314,721	796,535,118	832,982,485	826,114,023	4,094,261,088
Deposit - banks and non-banks financial institutions	1,109,386,967	-	-	-	1,996,034,388	3,105,421,355
Deposits - Governments	-	4,822,379	-	-	-	4,822,379
Deposit others	-	199,303,955	-	-	-	199,303,955
Foreign currency financial liabilities	466,788,035	-	-	-	-	466,788,035
Poverty Reduction and Growth Facility	-	720,673,020	-	-	-	720,673,020
BOT liquidity papers	105,627,010	348,760,600	-	-	-	454,387,610
Other liabilities	62,148,270	15,758,937	330,668,282	-	-	408,575,489
Retirements benefit obligations	-	-	-	3,493,987	-	3,493,987
IMF Related Liabilities	-	-	-	7,030,389	-	7,030,389
Allocation of Special Drawing Rights (SDRs)	-	-	-	524,509,360	74,895,936	600,405,296
<b>Total liabilities</b>	<b>2,563,265,003</b>	<b>2,108,643,612</b>	<b>1,127,203,400</b>	<b>1,896,999,050</b>	<b>2,897,044,347</b>	<b>10,593,155,412</b>
<b>Net liquidity gap</b>	<b>(710,601,138)</b>	<b>(890,149,357)</b>	<b>(12,334,979)</b>	<b>3,674,165,118</b>	<b>(1,163,177,123)</b>	<b>897,902,521</b>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(c) Liquidity risk (Continued)**

By contractual maturity analysis of financial instruments

**Details**

2014	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000	Over 5 Years TZS '000	Total TZS '000
<b>Assets</b>						
Cash and balances with central banks & other banks	1,074,108,885	875,977,521	-	-	-	1,950,086,406
Escrow accounts	-	-	-	-	8,033,971	8,033,971
Items in course of settlement	6,999,625	-	-	-	-	6,999,625
Holdings of Special Drawing Rights (SDRs)	-	-	-	-	386,216,122	386,216,122
Quota in International Monetary Fund (IMF)	-	-	-	-	507,635,007	507,635,007
Foreign currency marketable securities	89,202,473	190,289,702	947,283,963	4,017,892,166	51,504,824	5,296,183,128
Equity investment	-	-	-	-	8,768,522	8,768,522
Government securities	-	-	5,233,178	51,333,308	1,424,665,299	1,481,231,785
Advances to the Government	-	-	439,600,431	-	-	439,600,431
Loans and receivables	104,582,170	4,137,511	80,794,900	5,144,000	-	114,564,581
Other assets (excluding prepayments)	3,746,998	6,090,279	29,904,559	129,277,522	117,302,695	311,961,276
	1,278,640,151	1,076,495,013	1,502,827,031	4,203,646,996	2,504,126,440	10,565,735,631
<b>Liabilities</b>						
Currency in circulation	719,790,624	719,340,624	699,340,624	731,340,624	726,890,626	3,596,703,122
Deposits - banks and non-banks financial institutions	579,620,219	1,073,462,267	713,899,362	-	-	2,366,981,848
Deposits - others	83,798,405	125,697,607	83,798,405	133,367,362	-	426,661,779
Deposits - Government	-	-	-	-	10,198,233	10,198,233
Foreign currency financial liabilities	55,029,200	110,058,401	220,116,801	165,067,602	-	550,292,004
Poverty deduction and growth facility	-	4,560,010	6,200,030	748,752,789	-	759,512,829
Repurchase agreements	20,009,349	-	-	-	-	20,009,349
BoT liquidity papers	2,980,500	12,970,166	1,349,222,700	-	-	1,365,173,366
Retirements benefit obligations	-	-	-	7,303,269	-	7,303,269
Other liabilities	30,677,924	9,591,799	-	2,125,294	74,328,443	81,631,712
IMF related liabilities	-	-	-	482,112,690	-	482,112,690
Allocation of Special Drawing Rights (SDRs)	-	-	-	486,225,552	-	486,225,552
	1,491,906,221	2,055,680,874	3,072,577,922	2,756,315,162	811,417,302	10,187,897,501
<b>Net liquidity gap</b>	<b>(213,266,070)</b>	<b>(979,185,861)</b>	<b>(1,569,750,891)</b>	<b>1,447,331,814</b>	<b>1,692,709,138</b>	<b>377,838,130</b>



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(c) Liquidity risk (Continued)**

The following tables detail the Bank's maturity profiles of both financial assets and liabilities.

<b>2015</b>	<b>Less than 12 months TZS '000</b>	<b>Over 12 months TZS '000</b>	<b>Total TZS '000</b>
<b>Assets</b>			
Cash and balances with central banks & other banks	2,626,532,630	-	2,626,532,630
Escrow accounts	-	9,607,422	9,607,422
Items in course of settlement	1,223,038	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	314,464,770	314,464,770
Quota in International Monetary Fund	-	552,274,969	552,274,969
Foreign Currency Marketable securities	1,100,722,680	4,572,013,589	5,672,736,269
Equity investment	-	28,198,556	28,198,556
Government securities	-	1,558,532,122	1,558,532,122
Advance to the Government	69,953,767	-	69,953,767
Loans and receivables	348,906,517	40,574,285	389,480,802
Other assets (excluding prepayments)	24,516,140	243,537,448	268,053,588
<b>Total assets</b>	<u>4,171,854,772</u>	<u>7,319,203,161</u>	<u>11,491,057,933</u>
<b>Liabilities and equity</b>			
Currency in circulation	2,435,372,362	1,658,888,706	4,094,261,068
Deposit - banks and non-banks financial institutions	1,108,524,628	1,996,896,727	3,105,421,355
Deposit - governments	4,822,379	-	4,822,379
Deposit - Others	137,009,523	62,294,432	199,303,955
Foreign currency financial liabilities	466,788,035	-	466,788,035
Poverty reduction and growth facility	-	720,673,020	720,673,020
BOT liquidity papers	785,055,892	0	785,055,892
Other liabilities	79,201,282	2,209,912	81,411,194
Retirements benefit obligations	81,926,325	-	81,926,325
IMF related liabilities	-	524,509,360	524,509,360
Allocation of Special Drawing Rights (SDRs)	-	528,982,829	528,982,829
<b>Total liabilities</b>	<u>5,098,700,426</u>	<u>5,494,454,986</u>	<u>10,593,155,412</u>
<b>Net Liquidity gap</b>	<u>(926,845,654)</u>	<u>1,824,748,175</u>	<u>897,902,521</u>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(c) Liquidity risk (Continued)**

2014	Less than 12 months TZS '000	Over 12 months TZS '000	Total TZS '000
<b>Assets</b>			
Cash and balances with central banks & other banks	1,950,086,406	-	1,950,086,406
Escrow accounts	-	8,033,971	8,033,971
Items in course of settlement	6,999,625	-	6,999,625
Holdings of Special Drawing Rights (SDRs)	-	386,216,122	386,216,122
Quota in International Monetary Fund	-	507,635,007	507,635,007
Foreign Currency Marketable securities	1,226,786,138	4,069,396,990	5,296,183,128
Equity investment	-	8,768,522	8,768,522
Government securities	5,233,178	1,475,998,607	1,481,231,785
Advance to the Government	439,600,431	-	439,600,431
Loans and receivables	189,514,582	122,446,694	311,961,276
Other assets (excluding prepayments)	24,516,139	144,503,219	169,019,358
<b>Total assets</b>	<b><u>3,842,736,499</u></b>	<b><u>6,722,999,132</u></b>	<b><u>10,565,735,631</u></b>
<b>Liabilities and equity</b>			
Currency in circulation	2,138,471,872	1,458,231,250	3,596,703,122
Deposit - banks and non-banks financial institutions	2,366,981,848	-	2,366,981,848
Deposit - governments	10,198,233	-	10,198,233
Deposit - Others	293,294,417	133,367,362	426,661,779
Foreign currency financial liabilities	385,204,402	165,087,602	550,292,004
Poverty reduction and growth facility	10,760,040	748,752,789	759,512,829
Repurchase agreements	20,009,349	-	20,009,349
BOT liquidity papers	1,365,173,366	-	1,365,173,366
Other liabilities	40,269,723	2,125,294	42,395,017
Retirements benefit obligations	81,631,712	-	81,631,712
IMF related liabilities	-	482,112,690	482,112,690
Allocation of Special Drawing Rights (SDRs)	-	486,225,552	486,225,552
<b>Total liabilities</b>	<b><u>6,711,994,962</u></b>	<b><u>3,475,902,539</u></b>	<b><u>10,187,897,501</u></b>
<b>Net Liquidity gap</b>	<b><u>(2,869,258,463)</u></b>	<b><u>3,247,096,593</u></b>	<b><u>377,838,130</u></b>

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(d) Interest risk**

The interest rate risk is the exposure to possible adverse movements in interest rates. The parallel changes in the level of interest rates account for about 90 percent of the total interest rate risk. The remainder resulted from the changes in the shape which is steepening or flattening and curvature of the interest rate curves. The interest rate risk is managed through duration targeting. Duration measures sensitivity of a portfolio value to movements in market yields.

The policy target duration is 2.22 years with deviation allowance of  $\pm 0.25$  years. As of 30 June 2015 portfolio duration stood at 2.22 years while that of 30 June 2014 was 2.2 years.

The Bank uses both price value of one basis point (PVO1) and Value at Risk (VaR) measures to assess and monitor interest rate risk. The PVO1 measures approximate change in value of the portfolio for a one basis point (0.01 percent) change in yield. The use of PVO1 has limitations. Firstly, it is a good measure when the term structure is flat. Secondly, it assumes the movements in yield are parallel across maturity spectrum. Thus the Bank compliments it with VaR.

VaR is a probability-based measure of risk, which provides an estimate of the potential loss in value of the Bank's positions due to adverse interest rate movements over a defined time horizon with a specified confidence level. For the VaR numbers reported below, a one month time horizon and a 95 percent confidence level were used. This means that there is a 5 percent chance that the monthly income would fall below the expected monthly income by an amount at least as large as reported VaR. Historical data were used to estimate the reported VaR numbers. To better reflect current asset volatilities, the Bank weighted historical data to give greater importance to more recent observations. Because of such reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes in market conditions.

The table below shows various risk measured parameters.

Portfolio characteristics				
USD				
	30.06.2015		30.06.2014	
Positions of securities	98		96	
Duration	2.20 years		2.12 years	
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	1,628,613,289	3,215,383,552	1,758,373,215	2,900,735,542
Money Markets placements	579,560,558	1,144,230,799	734,576,727	1,211,809,190
EUR				
	30.06.2015		30.06.2014	
Positions of securities	35		51	
Duration	2.16 years		2.08 years	
Base currency	EUR	TZS '000	EUR	TZS '000
Market value of Marketable Securities	389,242,450	856,819,942	439,202,955	990,463,537

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(d) Interest risk (Continued)**

<b>GBP</b>				
	<b>30.06.2015</b>		<b>30.06.2014</b>	
Positions of securities	16		20	
Duration	2.45 years		2.30 years	
Base currency	GBP	TZS '000	GBP	TZS '000
Market value of Marketable Securities	175,306,441	544,447,461	179,971,732	506,765,806
Money Markets placements	49,021,331	152,245,057	53,399,994	150,364,120

<b>AUD</b>				
	<b>30.06.2015</b>		<b>30.06.2014</b>	
Positions of securities	14		14	
Duration	2.45 years		2.66 years	
Base currency	AUD	TZS '000	AUD	TZS '000
Market value of Marketable Securities	222,154,253	338,074,342	198,118,544	307,445,534
Money Markets placements	67,423,377	102,604,894	82,387,774	127,851,540

<b>CNY</b>				
	<b>30.06.2015</b>		<b>30.06.2014</b>	
Positions of securities	17		14	
Duration	1.89 years		1.94 years	
Base currency	CNY	TZS '000	CNY	TZS '000
Market value of Marketable Securities	613,189,507	195,233,407	612,195,075	162,918,394
Money Markets placements	133,235,064	42,420,712	153,999,997	40,982,741

<b>RAMP</b>				
	<b>30.06.2015</b>		<b>30.06.2014</b>	
Positions of securities	66		66	
Duration	2.14 years		2.14 years	
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	264,790,336	522,777,565	259,395,908	427,917,648

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 45. RISK MANAGEMENT (CONTINUED)

##### 45.3 Financial risks (Continued)

##### (d) Interest risk (Continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 95 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1 percent probability that losses could exceed the VaR.
- A one month holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be realistic in a situation where there is severe market illiquidity.
- VaR data is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the day.
- The model uses historical data from 1 July 2012 to 30 June 2015 as a basis for determining the possible ranges of outcomes and may not always cover all possible scenarios, especially those of an exceptional nature.

The Bank back tests its VaR by comparing actual profit or loss to the VaR estimation. The results of the back-testing process are one of the methods by which the Bank monitors the ongoing suitability of its VaR model.

The Bank also undertakes stress tests on positions on its statement of financial position. The results of the stress testing complement the VaR measure in informing management about financial risk on the statement of financial position.

Price of 1 BPS in USD

Details	30.06.2015		30.06.2014	
	USD	TZS '000	USD	TZS '000
USD	357,043	704,913	382,170	630,454
EUR	93,657	184,908	126,697	209,008
GBP	67,553	133,370	69,234	114,214
AUD	54,502	107,605	50,058	82,580
CNY	115,731	228,488	18,275	30,147
RAMP	62,705	123,798	58,528	96,551

The Bank invests in some securities, which trade on spread to the foreign government treasuries. To assess the relative risk of spread products, the Bank measures Credit Risk of one basis point (CR01). The CR01 measures changes in the value of spread product for a one basis point widening of spread. A spread is a difference in yield to maturity between government and spread securities of the same characteristics.

The table next page indicates the spread risks for comparative period in each of the three major currencies.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(d) Interest risk (Continued)**

Details	30.06.2015		30.06.2014	
	USD	TZS '000	USD	TZS '000
USD	48,789	96,324	82,990	136,906
EUR	22,814	45,042	126,443	208,588
GBP	79	156	68,770	113,448
AUD	54,406	107,414	49,903	82,323
CNY	115,107	227,258	18,233	30,078
RAMP	16,011	31,610	15,166	25,019

For measuring the sensitivity of the Bank's foreign exchange reserves to interest rate risk, the table below shows the sensitivity of the Bank's foreign reserves values in USD given 10, 20 and 30 basis points parallel change in yield curves of three major foreign reserves currencies i.e. USD, EUR and GBP.

**30.06.2015 (Amounts in USD equivalent)**

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,584,210)	(900,109)	(672,903)	(5,157,223)	(10,181,944)
20	(7,168,421)	(1,785,902)	(1,346,047)	(10,300,370)	(20,336,098)
30	(10,752,631)	(2,603,289)	(1,957,462)	(15,313,383)	(30,233,328)

**30.06.2014 (Amounts in USD equivalent)**

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,744,238)	(1,195,372)	(133,790)	(5,073,400)	(10,016,452)
20	(7,488,476)	(2,099,456)	(267,581)	(9,855,513)	(19,457,814)
30	(11,232,714)	(2,571,162)	(361,234)	(14,165,110)	(27,966,284)

**Yield decrease in 1 BPS**

**30.06.2015 (Amounts in USD equivalent)**

BPS	USD	EUR	GBP	Total USD	Total TZS '000
1	358,421	90,011	67,290	515,722	1,018,194

**30.06.2014 (Amounts in USD equivalent)**

BPS	USD	EUR	GBP	Total USD	Total TZS '000
1	358,419	90,007	67,288	515,714	1,018,178

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(d) Interest risk (Continued)**

It is also possible to stress test Bank's foreign reserves portfolio to mimic a variety of the extreme yet probable market conditions. To that end, the Bank considered three main scenarios i.e. spread widening, curve steepening and flattening by 50 basis points. The result of stress testing scenarios is as shown on the table below.

**30.06.2015 (Amounts in USD equivalent)**

BPS	USD	EUR	GBP	Total USD	Total TZS'000
Spread widening by 50	(17,920,945)	(1,134,230)	(4,018)	(19,059,193)	(37,628,710)
Curve Steepening by 50	(1,261,302)	(194,858)	(160,845)	(1,617,004)	(3,192,464)
Curve Flattening by 50	1,261,302	194,858	160,845	1,617,004	3,192,464

**30.06.2014 (Amounts in USD equivalent)**

BPS	USD	EUR	GBP	Total USD	Total TZS'000
Spread widening by 50	(18,016,625)	(1,784,441)	(667,397)	(20,468,463)	(40,411,042)
Curve Steepening by 50	(1,493,280)	(535,471)	(59,888)	(2,088,639)	(4,123,616)
Curve Flattening by 50	1,493,280	535,471	59,888	(2,088,639)	(4,123,616)

**Cash flow and fair value interest rate risk**

*Interest sensitivity of assets and liabilities*

For accounting purposes, cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, both in the United Republic of Tanzania and abroad. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Based on the sensitivity of the ten per cent deviation of the exchange rate against major currencies the impact on the Banks profit and equity was TZS 446,845.5 million. The deviation for 2014 was 4% and the impact in both equity and profit was TZS 11,945.6 million.

**(e) Currency risk**

The exchange rate risk (or currency risk) refers to the loss of the portfolio value or purchasing power of the portfolio occasioned by adverse foreign exchange rate movements. The Bank foreign reserves portfolio is denominated in a number of currencies whose exchange rates are subject to fluctuation on international foreign exchange market.

The Bank is exposed to this risk in the context of its holding of foreign exchange reserves, intervention in the local inter-bank foreign exchange market (IFEM) and foreign exchange transactions in the international foreign exchange market. Often, currency exposures are not out rightly hedged, but the currency risk is controlled through a target currency composition whose criteria are specified in the Foreign Exchange Reserves Policy and stated in the Investment Guidelines. The currency positions of the Bank as of 30 June 2015 and 2014 which provides the Bank's assets, liabilities and equity at carrying amounts, categorized by currency is summarized below.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(e) Currency risk (Continued)**

Details	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
<b>2015</b>							
<b>Assets</b>							
Cash and balances with central banks & other banks	160,599,363	2,252,546,050	49,145,916	-	-	184,241,301	2,626,532,630
Escrow accounts	-	9,607,422	-	-	-	-	9,607,422
Items in course of settlement	-	-	-	-	1,223,038	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	-	-	314,464,770	-	-	314,464,770
Quota in International Monetary Fund (IMF)	-	-	-	552,274,969	-	-	552,274,969
Foreign currency marketable securities	544,447,465	3,738,161,100	856,819,951	-	-	533,307,753	5,672,736,269
Equity investments	-	27,730,437	468,119	-	-	-	28,198,556
Government securities	-	-	-	-	1,558,532,122	-	1,558,532,122
Advances to the Government	-	-	-	-	69,953,767	-	69,953,767
Loans and receivables	-	-	-	-	389,480,802	-	389,480,802
Other assets (Excluding prepayments)	-	-	-	-	268,053,588	-	268,053,588
<b>Total financial assets</b>	<b>705,046,828</b>	<b>6,028,045,009</b>	<b>906,433,986</b>	<b>866,739,739</b>	<b>2,287,243,317</b>	<b>697,549,054</b>	<b>11,491,057,933</b>
<b>Liabilities</b>							
Currency in circulation	-	-	-	-	-	-	-
Deposits - banks and non-bank financial institutions	-	628,486,637	-	-	4,094,261,068	-	4,094,261,068
Deposits - Governments	-	-	-	-	2,476,924,718	-	3,105,421,355
Deposits - Others	166,368	-	-	-	4,822,379	-	4,822,379
Foreign currency financial liabilities	5,920	-	-	-	199,137,567	-	199,303,955
Poverty reduction and growth facility	-	460,679,157	5,701,440	-	401,518	-	466,788,035
BoT liquidity papers	-	-	-	720,673,020	-	-	720,673,020
Other liabilities	-	-	-	-	785,055,892	-	785,055,892
Retirement benefit obligation	5,116,083	-	-	-	69,774,351	6,520,760	81,411,194
IMF related liabilities	-	-	-	-	81926325	-	81,926,325
Allocation of Special Drawing Rights (SDRs)	-	-	-	524,509,360	-	-	524,509,360
<b>Net liquidity gap</b>	<b>5,288,371</b>	<b>1,089,175,794</b>	<b>5,701,440</b>	<b>1,774,165,209</b>	<b>7,712,303,838</b>	<b>6,520,760</b>	<b>10,593,155,412</b>
<b>Scenario of 10% appreciation/depreciation</b>	<b>699,758,457</b>	<b>4,939,869,215</b>	<b>900,732,546</b>	<b>(907,425,470)</b>	<b>N/A</b>	<b>691,028,294</b>	<b>897,902,521</b>
	<b>69,975,846</b>	<b>493,886,922</b>	<b>99,073,255</b>	<b>(90,742,547)</b>	<b>N/A</b>	<b>69,102,829</b>	<b>89,790,252</b>



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.3 Financial risks (Continued)**

**(f) Currency risk (Continued)**

**Details**

2014	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
<b>Assets</b>							
Cash and balances with central banks & other banks	188,412,291	1,584,244,737	7,094,566	4,632	-	170,330,180	1,950,086,406
Escrow accounts	-	8,033,971	-	-	-	-	8,033,971
Items in course of settlement	-	-	-	-	6,999,625	-	6,999,625
Holdings of Special Drawing Rights (SDRs)	-	-	-	386,216,122	-	-	386,216,122
Quota in International Monetary Fund (IMF)	-	-	-	507,635,007	-	-	507,635,007
Foreign currency marketable securities	505,874,249	3,329,950,249	989,102,105	-	-	-	5,296,183,128
Equity investment	-	8,324,558	443,964	-	-	471,256,525	8,768,522
Government securities	-	-	-	-	-	-	-
Advances to the Government	-	-	-	-	1,481,231,785	-	1,481,231,785
Loans and receivables	-	-	-	-	439,600,431	-	439,600,431
Other assets (excluding prepayments)	-	-	-	-	311,961,276	-	311,961,276
<b>Total financial assets</b>	<b>694,286,540</b>	<b>4,930,553,515</b>	<b>996,640,635</b>	<b>883,855,761</b>	<b>2,408,812,475</b>	<b>641,586,705</b>	<b>10,565,735,631</b>
<b>Liabilities</b>							
Currency in circulation	-	-	-	-	3,596,703,122	-	3,596,703,122
Deposits - banks and non-bank financial institutions	-	315,827,069	-	-	2,051,154,779	-	2,366,981,848
Deposits - Governments	-	-	-	-	10,198,233	-	10,198,233
Deposits - Others	356,180	-	-	-	426,305,599	-	426,661,779
Foreign currency financial liabilities	550,292,004	-	-	-	-	-	550,292,004
Poverty reduction and growth facility	-	-	-	759,512,829	-	-	759,512,829
Repurchase agreements	-	-	-	-	-	-	-
BoT liquidity papers	-	-	-	-	20,009,349	-	20,009,349
Other liabilities	3,111,969	-	-	-	1,365,173,366	-	1,365,173,366
Retirement benefit obligation	-	-	-	-	35,316,654	3,966,394	42,395,017
IMF related liabilities	-	-	-	-	81,631,712	-	81,631,712
Allocation of Special Drawing Rights (SDRs)	-	-	-	-	482,112,690	-	482,112,690
				486,225,552	-	-	486,225,552
<b>Net liquidity gap</b>	<b>553,750,153</b>	<b>315,827,069</b>	<b>996,640,635</b>	<b>1,245,738,381</b>	<b>8,068,605,504</b>	<b>3,966,394</b>	<b>10,187,897,501</b>
	<b>140,526,387</b>	<b>4,614,726,446</b>	<b>(351,882,620)</b>	<b>(351,882,620)</b>	<b>N/A</b>	<b>637,620,311</b>	<b>377,838,130</b>
<b>Scenario of 10% appreciation/depreciation</b>	<b>14,052,639</b>	<b>461,472,645</b>	<b>99,564,064</b>	<b>(35,188,262)</b>	<b>N/A</b>	<b>63,762,031</b>	<b>37,783,613</b>

**45. RISK MANAGEMENT (CONTINUED)**

**45.4 Non-financial risks**

**Operational risk**

Operational risk is the risk of loss in both financial and non-financial resulting from inadequate systems, management failures, ineffective internal control processes, fraud, theft and human errors.

The Bank addresses this risk inter alia through ensuring existence of Business Continuity Management (BCM) and sound internal control system which includes: operational and procedural manuals, ICT security policies, back up facilities, contingency planning, and independent internal audit function. Managing operational risk in the Bank is an integral part of day-to-day operations by the management. Risk management function, Risk Management Committee, Internal Audit Function, Management, Finance and Investment Committee of the Board and the Board, closely monitor this risk.

The Bank has taken various measures such as segregation of duties, instituting codes of conduct and ethics and setting out benchmark limits. The Bank understands the fact that the lower the human intervention, the lower the operational risk. In view of this fact, the Bank has automated most of its major operations.

**Human resource risk**

The particular nature of the activities of the Bank necessitates specialized knowledge in many areas. The Bank ensures that there is an adequate knowledge base for all specialized job requirements by investing significantly in human resource development in terms of capacity building and practical exposure. The Bank also organizes workshops, seminars, conferences and job attachments to its staff as an effort to improve its human resource requirements. It also revises its staff retention scheme to compete with the prevailing labour market.

**Legal risk**

Legal risk arises from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's clients and counter parties. The Bank aims at minimizing such uncertainties through continuous consultations with all relevant parties.

In mitigating this type of the risk, the Bank ensures that all business agreements are contracted under Standard Industry Contracts, e.g. ISDA, ISMA, etc. Where new contracts and substantive changes to existing contracts are entered to, external lawyers are contracted. The Bank has in place procedures for delegation of responsibilities. Also Code of Conduct and Ethics is used to minimize chances of causing legal disputes between the Bank and its counterparts.

**Reputational risk**

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the provision of Section 5(1) of the Bank of Tanzania Act, 2006, Public Procurement Act, 2011 and Public Procurement Regulations, 2013.

In view of the above, the management ensures that to the best of Bank's ability fulfils its fiduciary responsibilities. The Bank adheres to the best practices and applies principle of sound corporate governance. It also ensures that all relevant employees have clear understanding of the appropriate processes in respect of the best practices and principals of good governance.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**45. RISK MANAGEMENT (CONTINUED)**

**45.4 Non-financial risks (Continued)**

**Reputational risk**

The Bank therefore sets out policies and guidelines that govern sound functional operations within the Bank. The performance of these policies and guidelines are periodically reported to different levels of the Bank's management for control and compliance monitoring.

The top management of the Bank has the necessary freedom and discretion to exercise central banking functions. However, this freedom is exercised within the context of fiduciary duties of good governance and by ensuring a proper balance between accountability and the best interests of the Bank and its various stakeholders.

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the national payment system and the issuing of notes and coins also expose the Bank to significant reputation risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**46. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES**

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. A summary of significant accounting policies in Note 3 describes how classes of financial instruments are measured and how income and expenses, including fair value gains are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category:

2015	Amortised Cost TZS '000	FVTPL TZS '000	FVOCI TZS '000	Total TZS '000	Fair values TZS '000
<b>Financial assets</b>					
Cash and balances with central banks & other banks	2,626,532,630	-	-	2,626,532,630	2,626,532,630
Escrow accounts	9,607,422	-	-	9,607,422	9,607,422
Items in course of settlement	1,223,038	-	-	1,223,038	1,223,038
Holdings of Special Drawing Rights (SDRs)	314,464,770	-	-	314,464,770	314,464,770
Quota in International Monetary Fund (IMF)	552,274,969	-	-	552,274,969	552,274,969
Foreign currency marketable securities	-	5,672,736,269	-	5,672,736,269	5,672,736,269
Equity investment	-	-	-	-	-
Government securities	1,558,532,122	-	28,198,556	28,198,556	28,198,556
Advances to the Government	69,953,767	-	-	1,558,532,122	1,558,532,122
Loans and receivables	389,480,802	-	-	69,953,767	69,953,767
Other assets (Excluding prepayments)	268,053,588	-	-	389,480,802	389,480,802
				268,053,588	268,053,588
<b>Financial liabilities</b>					
Currency in circulation	4,094,261,068	-	-	4,094,261,068	4,094,261,068
Deposits - banks and non-banks financial institutions	3,105,421,355	-	-	3,105,421,355	3,105,421,355
Deposits - others	199,303,955	-	-	199,303,955	199,303,955
Deposits - Government	4,822,379	-	-	4,822,379	4,822,379
Foreign currency financial liabilities	466,788,035	-	-	466,788,035	466,788,035
Poverty deduction and growth facility	720,673,020	-	-	720,673,020	720,673,020
BoT liquidity papers	785,055,892	-	-	785,055,892	785,055,892
Other liabilities	81,411,194	-	-	81,411,194	81,411,194
Retirement benefit obligation	81,926,325	-	-	81,926,325	81,926,325
IMF related liabilities	524,509,360	-	-	524,509,360	524,509,360
Allocation of Special Drawing Rights (SDRs)	528,982,829	-	-	528,982,829	528,982,829

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**46. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES**

2014	Amortised Cost TZS '000	FVTPL TZS '000	FVOCI TZS '000	Total TZS '000	Fair values TZS '000
<b>Financial assets</b>					
Cash and balances with central banks & other banks	1,950,086,406	-	-	1,950,086,406	1,950,086,406
Escrow accounts	8,033,971	-	-	8,033,971	8,033,971
Items in course of settlement	6,999,625	-	-	6,999,625	6,999,625
Holdings of Special Drawing Rights (SDRs)	386,216,122	-	-	386,216,122	386,216,122
Quota in International Monetary Fund (IMF)	507,635,007	-	-	507,635,007	507,635,007
Foreign currency marketable securities	-	5,296,183,128	-	5,296,183,128	5,296,183,128
Equity investments	-	-	8,768,522	8,768,522	8,768,522
Government securities	1,481,231,785	-	-	1,481,231,785	1,481,231,785
Advances to the Government	439,600,431	-	-	439,600,431	439,600,431
Loans and receivables	311,961,276	-	-	311,961,276	311,961,276
Other assets (Excluding prepayments)	169,019,358	-	-	169,019,358	169,019,358
<b>Financial liabilities</b>					
Currency in circulation	3,596,703,122	-	-	3,596,703,122	3,596,703,122
Deposits - banks and non-bank financial institutions	2,366,981,848	-	-	2,366,981,848	2,366,981,848
Deposits - Governments	10,198,233	-	-	10,198,233	10,198,233
Deposits - Others	426,661,779	-	-	426,661,779	426,661,779
Foreign currency financial liabilities	550,292,004	-	-	550,292,004	550,292,004
Poverty reduction and growth facility	759,512,829	-	-	759,512,829	759,512,829
Repurchase agreements	20,009,349	-	-	20,009,349	20,009,349
BoT liquidity papers	1,365,173,366	-	-	1,365,173,366	1,365,173,366
Other liabilities	42,395,017	-	-	42,395,017	42,395,017
Retirement benefit obligation	81,631,712	-	-	81,631,712	81,631,712
IMF related liabilities	482,112,690	-	-	482,112,690	482,112,690
Allocation of Special Drawing Rights (SDRs)	486,225,552	-	-	486,225,552	486,225,552

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **47. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY**

##### **Financial instruments recorded at fair value**

Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

##### **Foreign currency marketable securities**

The marketable securities are quoted in actively traded markets which is the best evidence of fair value. The valuation techniques employ only observable market data.

##### **Fair value of derivatives**

The Bank values over the counter derivative instruments like swaps using a valuation technique with market-observable inputs. Swap models use present value calculations and include market determined foreign exchange rates. For listed derivatives like futures, the Bank uses prices quoted in the active markets.

Long dated derivative contracts are valued using a valuation technique with significant non-market-observable. These derivatives are valued using models that calculate the present value and incorporate various non-observable assumptions that include market rate volatilities.

##### **Unquoted equities securities.**

These Investments are valued using the market approach. The inputs to this methodology are observable inputs based on recent transactions. The data used were from recently published accounts of these entities. These were then corroborated to arrive at the fair values at the reporting date.

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

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

##### **Assets and liabilities for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to cash and cash equivalent, escrow accounts, Items in course of settlements, deposits, repurchase agreements and BoT liquidity papers and other liabilities without a specific maturity.

##### **Government securities**

The fair value of Government securities carried at amortised cost is estimated by using the interest rates that discount future cash flows to zero.

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****47. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)****Fair value of financial assets and liabilities**

Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

- Level 1 fair value measurements: are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments on exchanges for example Foreign Currency Marketable securities.
- Level 2 fair value measurements: are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from Bloomberg and the Dare salaam Securities Exchange.
- Level 3 fair value measurements: are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

**Fair value hierarchy**

The following table analyses within the value hierarchy the Bank are measured at fair value as at:

**30.06.2015**

<b>Description</b>	<b>Level 1 TZS '000</b>	<b>Level 2 TZS '000</b>	<b>Level 3 TZS '000</b>
Foreign currency marketable securities	5,672,736,269	-	-
Equity investments	-	28,189,556	-
<b>Total</b>	<b>5,672,736,269</b>	<b>28,189,556</b>	<b>-</b>

**30.06.2014**

<b>Description</b>	<b>Level 1 TZS '000</b>	<b>Level 2 TZS '000</b>	<b>Level 3 TZS '000</b>
Foreign currency marketable securities	5,296,183,128	-	-
Equity investments	-	8,768,522	-
<b>Total</b>	<b>5,296,183,128</b>	<b>8,768,522</b>	<b>-</b>

There were no transfers between levels 1, 2 and 3 in the period.

The following table gives information about how the fair value of these financial assets and liabilities are determined following table

If below observable inputs to valuation model were 10 per cent higher or lower while other variables were held constant, carrying amount of TZS 5,672,777.6 million and TZS 28,198.6 million Foreign Currency Marketable Securities and Equity Investments would have been higher or lower by TZS 567,277.8 million and TZS 2,819.9 million respectively. Swap and Futures would change by 20.0 million and 44.2 million respectively.

**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**47. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)**

The following table gives information about how the fair value of these financial assets and liabilities are determined

	Fair value at 2015	2014	Hierarchy	Valuation techniques and key Inputs	Significant unobservable Inputs	Relationship of unobservable input to fair value
	TZS '000	TZS '000				
Foreign currency marketable securities (Excluding futures)	5,672,736,269	5,296,183,128	I	Prices of listed securities	N/A	N/A
Equity investments	28,198,556	8,768,522	II	Net assets of the investee	N/A	N/A
Derivatives:						
Swap	199,637	-	II	Discounted Cashflows	N/A	N/A
Futures	441,975	293,984	I	Quoted prices	N/A	N/A

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value.

	Level I	Level II	Level III	Total
<b>Assets</b>				
Cash and balances with central banks & other banks	2,626,532,630	-	-	2,626,532,630
Escrow accounts	-	9,607,422	-	9,607,422
Items in course of settlement	-	1,223,038	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	314,464,770	-	314,464,770
Quota in International Monetary Fund (IMF)	-	552,274,969	-	552,274,969
Foreign currency marketable securities	5,672,736,269	-	-	5,672,736,269
Equity investments	-	28,198,556	-	28,198,556
Government securities	-	1,558,532,122	-	1,558,532,122
Loans, receivables and advances	-	459,434,569	-	459,434,569
Other assets (Excluding prepayments)	-	268,053,588	-	268,053,588
	<b>8,299,268,899</b>	<b>3,191,789,034</b>	-	<b>11,491,057,933</b>
<b>Liabilities</b>				
Currency in circulation	-	4,094,261,068	-	4,094,261,068
Deposits - banks and non-bank financial institutions	-	3,105,421,355	-	3,105,421,355
Deposits - Governments	-	4,822,379	-	4,822,379
Deposits - Others	-	199,303,955	-	199,303,955
Foreign currency financial liabilities	-	466,788,035	-	466,788,035
Poverty reduction and growth facility	-	720,673,020	-	720,673,020
BoT liquidity papers	-	785,055,892	-	785,055,892
Other liabilities	-	81,411,194	-	81,411,194
Retirement benefit obligation	-	81,926,325	-	81,926,325
IMF related liabilities	-	524,509,360	-	524,509,360
Allocation of Special Drawing Rights (SDRs)	-	528,982,829	-	528,982,829
	-	<b>10,593,155,412</b>	-	<b>10,593,155,412</b>



**BANK OF TANZANIA**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**48. RETIREMENT BENEFIT PLAN**

**DEFINED BENEFIT PLAN**

The Bank maintains funded retirement benefit plan. Under the plan employees are entitled to benefits upon meeting requirements as stipulated in the Bank's Financial Regulations, 2011 and Staff Bylaws, 2011.

The plan typically exposes the Bank to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment Risk	The present value of the defined benefit obligations is calculated using a discount rate determined by the yield on long term Government bond. The higher the discount rate the higher the defined benefits obligations payable by the Bank.
Interest Rate Risk	A decrease in the long term government bond interest will increase the plan liability.
Longevity Risk	The present value of the defined benefits obligations is calculated by reference to the best estimate of the mortality rate of plan members both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary Risk	The present value of the defined benefits obligations is calculated by reference to the future salaries of the members. As such an increase/decrease in the salary of the members will increase the plan's liability.

The principle assumptions used for the purposes of the actuarial valuation included disc Discount rate, Expected return on scheme assets, Future salary increase, Mortality rate, Withdrawals, Ill-Health and Compulsory Retirement Age.

Movements in the present value of defined benefit obligation in the current year were as follows;

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Opening benefit obligation	81,631,712	88,934,981
Interest from investments	3,204,253	-
Benefits paid	(2,909,640)	(7,303,269)
<b>Closing benefits obligation</b>	<b>81,926,325</b>	<b>81,631,712</b>

# BANK OF TANZANIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 48. RETIREMENT BENEFIT PLAN

#### Sensitivity analysis

The results of the actuarial valuation are more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount used, we have relied on the duration of the liability. Based on this methodology, the one percent change in the discount rate will result into an increase in the defined benefits obligations to TZS 82,578.3 million (2014: TZS 81,631,7 million).

Since the bulk of benefits payable under the arrangement are salary related, the sensitivity of a liability to a change in the salary escalation assumption is not expected to be materially different. However, the impact of a change in salary escalation is expected to be less than the impact of a change in the discount rate as a portion of the liability. In this case long service awards would not be affected by a change in the salary escalation rate.

#### Effect on Bank's cash flow

The benefits arrangement is unfunded and the Bank pays benefits from the defined benefit obligation as and when they arise. The timing of the benefit payments from the arrangement will be influenced by the age at which employees leave the Bank.

#### Duration

Weighted average duration of the liability as at 30 June 2015 is 4.5 years (2014: 4.5 years).

### 49. CAPITAL

Section 17 of the Bank of Tanzania Act, 2006 states that "the authorized capital of the Bank shall be one hundred billion shillings, provided that it may be increased by such amount as may be determined by the Board, and authorized by the Minister, by Notice published in the Government Gazette."

The capital of the Bank is subscribed and held only by the Government of the United Republic of Tanzania. The equity of the Bank includes share capital and reserves. During the year, movement of equity is as shown below and further details are provided in the statement of changes in *owners' equity* on page 24.

	30.06.2015	30.06.2014
	TZS '000	TZS '000
Capital	100,000,000	100,000,000
Reserves	1,678,048,523	1,173,164,202
Total	<u>1,778,048,523</u>	<u>1,273,164,202</u>

The Bank is not subject to any capital adequacy regulatory requirements concerning the level of capital in relation to assets it holds, although the Bank of Tanzania Act, 2006 sets out how the statutory annual net profit for the year shall be allocated. The principal source of capital increase is through appropriations of annual profits to various reserves.

The Bank is not for profit organization, nor does it seek profit maximization. Instead it seeks to make profit commensurate with normal market returns in areas where it conducts normal commercial operations.

## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **49. CAPITAL (CONTINUED)**

Capital is not actively managed and the relative low risk nature of most of the Bank's activities means that it is not capital intensive. Its purpose is to cover unexpected losses. The most significant unexpected losses are likely to rise out of the support operations and the Bank's role as the lender of last resort, or from losses on price movements and changes in exchange rates on the Bank's foreign investments.

#### **50. CONTINGENT LIABILITIES**

Contingent liabilities arise in the normal course of the Bank's business activities. In order to meet the financial needs of the government, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

##### **(a) Outstanding legal matters**

In the ordinary course of business the Bank is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed to determine the likelihood of the Bank incurring a liability. In those instances where it is concluded that it is more likely that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant statement of financial position date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. However the Bank does not currently expect the final outcome of any such case to have a material adverse effect on its financial position.

Pursuant to the Bank of Tanzania Act, 2006 the Bank of Tanzania is a Banker to the Government of the United Republic of Tanzania. Arising from that responsibility there is a legal dispute relating to a transaction involving the Government of the United Republic of Tanzania and D.P. Valambhia in which the Bank was involved in its capacity as a Banker to the Government of the United Republic of Tanzania. A Garnishee Order was issued by the High Court of Tanzania on 4 June 2001 ordering the Bank of Tanzania to pay a decree holder USD 55,099,117.66 from funds of the Government of the United Republic of Tanzania in the custody of the Bank of Tanzania.

Pursuant to the Order, the Government instituted court proceeding against the decree holder and the Bank on the same matter. The assets/properties of the Bank and the Government under the custody of the Bank are granted immunity against execution and attachment, subject to the provisions of the Act.

The Bank features as 2nd Defendant in the Court proceedings in which the Attorney General is challenging regularity of the Garnishee Order issued by the High Court of Tanzania, immobilizing Government accounts in satisfaction of a decree passed in favour of D.P. Valambhia (1st Defendant). The prayers sought against the Bank are declaratory, and key among them is that the Bank should not, in anyway whatsoever, act on the impugned Garnishee Order.

This matter is awaiting delivery of judgment and there is no financial implication should the Court issue any adverse decision against the Bank.

On the basis of the above facts, it is the opinion of the directors that the assets/properties of the Bank are well safeguarded. Accordingly, there are no other significant legal cases requiring disclosure.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 50. CONTINGENT LIABILITIES (CONTINUED)

##### (b) External payment arrears deposit account

During the 1970s and 1980s there was a serious shortage of foreign currencies in the country, which required the Government to control and prioritise foreign payments (forex). Tanzania importers were required to remit equivalent amount of TZS with the then National Bank of Commerce (NBC) for the required amount of forex and subject to availability of forex and priority, the forex amount would be remitted to the intended overseas suppliers.

However due to the forex shortage not all funds deposited with the then NBC by private and public importers were remitted to the overseas suppliers' accounts.

In 1985, the Government of the United Republic of Tanzania formally assumed the responsibility of handling liabilities arising from External Payment Arrears deposit account (EPA) from the then NBC. The Bank was given the responsibility to manage EPA liabilities on behalf of the Government of the United Republic of Tanzania. As at 30 June 2015 the balance in this liability account has remained at the same level as it was in the previous year of TZS 2,288.4 million since the Bank has suspended all transactions relating to EPA pending reconciliation and resolution of the remaining external payment arrears. In order to undertake reconciliation and resolution of the remaining balance, on 14 April 2009 the Bank engaged a consultant, M/S Lazard Freres's & CIE to assist in the process.

The objectives of the exercise were:

- (i) To ascertain how the remaining debt as at 2004 has been handled.
- (ii) To compile and establish the current stock of the remaining EPA debts.
- (iii) To develop, jointly with the Ministry of Finance and Economic Affairs and Bank of Tanzania, a strategy and action plan to handle the unsettled claims.

The Consultant submitted an inception report in August 2009 which was not accepted by the Bank.

Further, the original contract expired on 14 January 2010 while the consultant was yet to provide the expected contract deliverables. Subsequent follow ups on the matter with the consultant's assignment proved futile. Due to non-responsiveness of the consultant to the Bank's subsequent follow ups, on 25 July 2011, the Bank wrote to the World Bank to seek for their advice on the way forward, which was not provided.

On 25 August 2011, the consultant wrote to the Bank demanding renewal of the expired contract; to include:

- Upward revision of the price of the contract to USD 843,700 from the original amount of USD 663,950;
- Implicitly complaining for not being paid initial fee amounting to USD 175,000 after submitting inception report; and
- Revising some items on the original contract.

Based on the original contract, the consultant would have been paid initial fee after submitting an inception report that is acceptable to the client. However, the earlier submitted report fell short of the required standard and the consultant was notified.

On 14 April 2012, the Bank officially informed the consultant about the expired contract and that the Bank had no intention to renew the same.

**BANK OF TANZANIA****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****50. CONTINGENT LIABILITIES (CONTINUED)****(b) External payment arrears deposit account (Continued)**

The consultant was further informed that since the inception report that was submitted in August 2009 was not accepted by the client, there is no any accrued liability to the Bank.

The Bank's further efforts to solicit detailed information from the World Bank on work that was done by M/S Lazard Freres during the Debt Buyback Scheme that ended in year 2004 have proved futile. The efforts were aimed at obtaining information that would have paved way for another consultant to be engaged to perform the assignment. The Bank later sought legal advice on how to bring EPA to a close. On the basis of legal advice that was obtained, and following a Board of Directors Resolution, on 20th November 2012 the Bank officially wrote to the Minister for Finance to transfer operations and management of the External Payment Arrears Account and public debt back to the Ministry of Finance. The transfer was in line with the Bank's program for shedding-off non-core activities

**(c) Export credit guarantee scheme (ECGS)**

The Bank is an agent of the Government on the operationalization of the Export Credit Guarantee Scheme. The scheme is charged with the responsibility of considering guarantee applications from financial institutions, and on behalf of the Principal, issue guarantees to financial institutions covering short and long term finance to exporters as long as the capital funds in the ECGS accounts are not leveraged more than 1:5. As a result there is a contingent liability under this scheme in respect of guarantees, limited to five times the balance of the Fund in accordance with the agency agreement in force.

As at 30 June 2015, outstanding guarantees aggregated to TZS 439,834.4 million (2014: TZS 444,334.4 million) while the balance of the Fund as at 30 June 2015 was TZS 82,976.4 million (2014: TZS 71,072.1 million). The movement of the Fund during the year is as summarized below:

	<b>30.06.2015</b>	<b>30.06.2014</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Balance of funds		
Capital	26,155,514	24,580,514
Surplus	<u>56,820,903</u>	<u>46,491,581</u>
<b>Total</b>	<b><u>82,976,417</u></b>	<b><u>71,072,095</u></b>

**(d) Small & medium enterprises – credit guarantee schemes**

The Bank operates this scheme by issuing guarantees on behalf of the Government to financial institutions covering medium and long-term finance to SMEs on a pilot as long as the capital funds in the CGS-SME accounts are not leveraged more than 1:3. There is a contingent liability under this scheme in respect of guarantees, limited to three times the balance of the Fund in accordance with the Agency agreement in force. As at 30 June 2015, outstanding guarantees had a nil balance (2014: had a nil balance) while the balance of the fund as at 30 June 2015 was TZS 4,549.8 million (2014: TZS 7,594.6 million).

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 51. OUTSTANDING COMMITMENTS

##### UNCALLED AND UNPAID CAPITAL TO AFREXIM BANK

The Afrexim bank was established on 27 October 1993. The major function of the bank is to finance and facilitate trade among African countries and between Africa and the rest of the world. The Bank's equity interest in Afreximbank is 616 ordinary shares of par value of USD 10,000 each (2014:313). As at 30 June 2015 the Bank's equity aggregated to USD 2,464,000 representing two fifth of the Bank's shares in Afreximbank (2014: USD 1,252,000). The proportion of the Banks equity interest to the total holding in this bank is 0.7 percent.

As at 30 June 2015, the Bank had a commitment of USD 3.7 million in respect of three instalments of uncalled and unpaid capital attached to its shareholding in the Afrexim bank.

##### CAPITAL COMMITMENTS

As at 30 June 2015, the Bank's capital commitments in respect of, Property and Equipment, Intangible Assets and major capital projects aggregated to TZS 69,630.0 million (2014: 61,573.8 million). The major capital expenditure commitments item is as reflected herewith below:

Particulars	30.06.2015 TZS '000	30.06.2014 TZS '000
Office buildings	16,074,459	8,921,800
Residential buildings	2,644,663	10,836,965
Machinery and equipment	10,953,617	11,297,900
Information, communication and technology (ICT)	2,054,393	2,199,629
Motor vehicles	9,518,000	4,634,000
Furniture and fittings	1,654,150	1,076,345
Intangible assets	1,880,930	4,341,987
On-going projects	24,849,774	18,265,200
<b>Total</b>	<b>69,629,986</b>	<b>61,573,826</b>

The above commitments have been included and approved for payment in accordance with the 2014/2015 Approved Budget Estimates.

##### POST EMPLOYMENT BENEFITS

Effective July 2008, the Bank has a medical insurance arrangement, which covers retired employees and their spouses. At the reporting date the Bank had insurance commitment amounting to TZS 145.7 million (2014: TZS 137.7 million) involving retired staff with their spouses who retired since financial year 2009/10.

# BANK OF TANZANIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 52. RELATED PARTY DISCLOSURES

In the course of its operations, the Bank enters into transactions with related parties, which include the Government of the United Republic of Tanzania, the ultimate shareholder of the Bank, the Deposit Insurance Fund and key management personnel. The related party transactions during the year are as follows:

#### Loans and emoluments to key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. The Bank's key management personnel are the Governor, Deputy Governors, Non-Executive Directors and Directors.

The Bank extends loan facilities to the Governor, the Deputy Governors and its members of staff. Loans and advances (Note 24) included advances to employees that as at 30 June 2015 amounted to TZS 51,257.9 million (2014: TZS 41,375.1 million). The advances are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. The following is the breakdown of loans and emoluments granted to key management personnel except Non-Executive directors.

	30.06.2015 TZS '000	30.06.2014 TZS '000
<b>i Loans to Senior Management (i.e. Governor, Deputy Governors and Directors)</b>		
At start of the year	178,586	391,486
Loans granted during the year	1,069,968	495,605
Loans repaid during the year	(883,032)	(708,505)
Balance end of the year	<u>365,522</u>	<u>178,586</u>
<b>ii Emoluments to Senior Management Personnel (Governor, Deputy Governors and Directors)</b>		
Salaries, allowances and benefits	4,731,075	3,788,442
Post-employment benefits	<u>1,281,000</u>	<u>1,281,000</u>
Total	<u>6,012,075</u>	<u>5,069,442</u>

In accordance with Section 15 of the Bank of Tanzania Act, 2006, remuneration of the Governor and Deputy Governors is determined by the President of the United Republic of Tanzania. The Board determines remuneration of directors including Secretary to the Bank. As at 30 June 2015, the number of key management personnel was 29 (2014: 29).

#### Directors' remunerations

During the year ending 30 June 2015, emoluments paid to the members of the Board amounted to TZS 1,237.7 million (2014: TZS 1,220.3 million). These emoluments include benefits of Non-Executive directors. Non-Executive Directors are not entitled to loans and advances. As of 30 June 2015 and 30 June 2014 there were no related party transactions with Non-Executive Directors of the Board.

## BANK OF TANZANIA

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 52. RELATED PARTY DISCLOSURES (CONTINUED)

##### Government of the United Republic of Tanzania

Transactions entered into with the Government include:

- (a) No interest and no Bank charges on Government deposits accounts;
- (b) Cost sharing of liquidity management cost arising from issue and redemption of liquidity papers and Repurchase Agreements in accordance with the memorandum of understanding in force.
- (c) Settlement of foreign currency denominated obligations;
- (d) Financial accommodation on temporary short falls in Government revenue;
- (e) Other duties including agency of the Government as provided under the Bank of Tanzania Act, 2006.

As at the close of business on 30 June 2015, the following balances, which are included in the statement of financial position in various categories, were outstanding:

	30.06.2015	30.06.2014
	TZS '000	TZS '000
Due from Governments of Tanzania (Note 23 and 33)	69,953,767	439,600,431
IMF funds on-lent to the Government (Note 19)	552,274,969	507,635,007
Deposits – Revolutionary Government of Zanzibar (Note 33)	4,822,379	10,198,233
Investments in Government Securities (Note 22)	1,558,532,122	1,481,231,785
Structured Financing Facility (Note 34)	71,794,026	73,594,055
Export Credit Guarantee Fund (Note 34)	82,976,417	71,072,095
Small and Medium Enterprises Guarantee Fund (Note 34)	<u>12,383,223</u>	<u>10,515,754</u>

The above Schemes are administered by the Bank on behalf of the Government of the United Republic of Tanzania. Funds are deposited with the Bank and no interest is paid on these balances.

The Governments of Republic of Tanzania (URT) and Revolutionary Government of Zanzibar (RGZ) deposits are governments funds held by the Bank as Governments' bank.

##### Deposit Insurance Fund Board

The Bank has a close working relationship with the Deposit Insurance Fund Board, an entity incorporated under the Banking and Financial Institution Act, 1991 (as amended 2006). The Bank provides it with staff, subvention and office accommodation.

During the year the Bank made contributions to the Deposit Insurance Fund Board amounting to TZS 251.7 million (2014: TZS 257.0 million). The balance outstanding from the Fund and included under Deposit Others as at 30 June 2015 was TZS 1,226.7 million (2014: TZS 519.9 million).

##### Bank of Tanzania Training Institute – Mwanza

Bank of Tanzania Training Institute – Mwanza is operated as a branch and the results of its operations are incorporated in the financial statements of the Bank.

##### Mwananchi Gold Company Limited

The Bank had investments of 3,000 unquoted ordinary shares in Mwananchi Gold Company Limited each with a par value of USD 40. The shareholding was equivalent to 35 percent of the total MGC Ltd shares



## **BANK OF TANZANIA**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **52. RELATED PARTY DISCLOSURES (CONTINUED)**

##### **Mwananchi Gold Company Limited (Continued)**

Following unsatisfactory performance of the MGC Limited, the operations ceased in 2007 and the Bank impaired its share of investments. The company has been placed under voluntary liquidation and the Bank has realised its equity and its investment.

As at 30 June 2015, the company maintains its deposit accounts with a total balance of TZS 334.7 million (2014: TZS 572.0 million).

#### **53. EVENTS AFTER THE REPORTING DATE**

##### **Value Added Tax Act, 2014**

Effective 1 July 2015, the Bank is required to pay Value Added Tax (VAT) on goods or services provided to the Bank for implementing its primary functions at a rate of 18 percent of the value of goods and service as provided by the Value Added Tax Act, 2014.

From 1 July 2012 to 30 June 2015, the Bank was required to pay Value Added Tax (VAT) on goods or services provided to the Bank for implementing its primary functions at a rate of 18 percent of 55 percent of the value of goods and service.

In effect, the Bank will pay 18 percent of 45 percent more VAT after 1 July 2015.

Besides change in VAT, there were no other events after reporting period that would have material impact to the financial statements.

##### **Dissolution of Mwananchi Gold Company Limited**

The Bank held equivalent to 35 percent of the total MGC Ltd shares which was recovered in June 2013. The company was placed under voluntary liquidation following its unsatisfactory performance Note 26. The return of the final meeting was filed on 19th June, 2015 therefore, the company is deemed dissolved in September 2015 on expiration of three months as per the Companies Act, 2002. Any residual after settlements of claims is transferred to shareholders.