REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE BANK OF TANZANIA FOR THE YEAR ENDED 30 JUNE 2013

BANK OF TANZANIA

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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FOR THE YEAR ENDED 30 JUNE 2013

BANK INFORMATION

PRINCIPAL PLACE OF BUSINESS:	10 Mirambo Street BoT Mirambo Street P.O. BOX 2939 Dar es salaam, Tanzania
REGISTERED OFFICE:	10 Mirambo Street BoT Head Office P.O. BOX 2939 Dar es salaam, Tanzania
GOVERNOR:	Prof. Benno J. Ndulu BoT Head Office P.O. BOX 2939 Dar es salaam, Tanzania
SECRETARY TO THE BANK:	Mr. Yusto E. Tongola BoT Head Office P.O. BOX 2939 Dar es salaam, Tanzania

BRANCHES:

Arusha Bank of Tanzania Building Nyerere 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
Bank of Tanzania training institute Capripoint area P.0. Box 131 Mwanza, Tanzania	

PRINCIPAL AUDITOR: Controller and Auditor General National Audit Office Samora Avenue/Ohio Street P.O. Box 9080 Dar es Salaam	DELEGATED AUDITORS: Deloitte & Touche 10th Floor, PPF Tower Cnr of Ohio Street & Garden Avenue P.O. Box 1559 Dar es Salaam

1. INTRODUCTION

The Directors present this report and the audited financial statements for the financial year ended 30 June 2013, which disclose the state of affairs of the Bank of Tanzania (the "Bank").

In accordance with the Bank of Tanzania Act, 2006, the Board of Directors of the Bank of Tanzania is required to prepare financial statements showing the financial position of the Bank and the profit or loss for the year, changes in equity, cash flow and related notes.

In order to provide easy currency distribution in the country and attain clean money policy, the Bank opened two new currency safe custody centres in Bukoba and Pemba. As a result, as at 30 June 2013, the Bank was operating eight currencies custody centres in the country.

Finally, the Bank continued to monitor and disseminate economic activities at various regions in the country. Branches economic reports covering various regions were disseminated at various fora, including regional coordination committees and investors' forums.

ESTABLISHMENT

The Bank of Tanzania was established by the Bank of Tanzania Act, 1965, that was passed by the National Assembly in December 1965. Subsequently, the Bank of Tanzania Act, 1965 was repealed and replaced by the Bank of Tanzania Act, 2006.

BANK'S VISION

The vision of the Bank is: "To be a world-class model Central Bank focused on its core objectives with a highly qualified and motivated staff that has access to the state-of-the-art technology."

BANK'S MISSION

The Bank's mission is: "To formulate, define and implement monetary policy directed to the economic objective of maintaining domestic price stability conducive to a balanced and sustainable growth of the national economy".

2. STATUTE AND PRINCIPAL ACTIVITIES

Bank of Tanzania (BOT) is the Central Bank of the United Republic 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, to issue currency, to regulate and supervise banks and financial institutions including mortgage financing, development financing, lease financing, 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 and supervise the clearing and settlement system;
- Act as a banker and fiscal agent of the Government of the United Republic 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.

3. REVIEW OF BANK'S PERFORMANCE AND BROAD GOALS

During the Financial year 2012/13 the Bank's Corporate Plan focused on attaining three broad goals that basically translate its primary (natural) 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

In maintaining price stability, the Bank set to attain a target of annual core inflation of 5.0 percent by June 2013 and maintain foreign currency reserve to cover 4.5 months of projected import of goods and services at all times.

During the year, both core and headline inflation rates declined from 8 percent and 17.2 percent recorded in June 2012 to single digits of 6.6 percent and 7.6 percent, respectively. The decline in headline inflation was on account of improved domestic food supply in Eastern Africa region, prudent monetary policy stance and fiscal consolidation coupled with stability in nominal exchange rate.

Official gross foreign reserves rose to USD 4,353.5 million as of 30 June 2013 compared to USD 3,797.1 million recorded as of 30 June 2012. This level of official reserves was sufficient to cover about 4 months of projected import of goods and services. When excluding Foreign Direct Investments (FDI) related imports, the level of reserves is sufficient to cover about 4.3 months of projected imports. Despite the fact that the actual import cover is below the target of 4.5 months set for 2012/13, it is within the statutory level of 4.0 months.

Current account increased to US 4,455.6 million in the year ending June, 2013 compared to USD 4,288.1 million recorded in the year ending June 2012, largely on good performance of traditional and manufactured goods exports. Notwithstanding, financial distress facing many of Tanzania's trading partners has resulted into downward pressure on the level of interest rates, hence low expectation on higher returns from foreign investments.

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 Government 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.

During the year, the banking sector, continued to depict strong growth, safe and stable operations with steady growth in deposits, assets and capital. The banking sector continued to be liquid and profitable. Stress testing results on the biggest ten banks in terms of credit, foreign exchange, interest rates and liquidity risks indicated that they were resilient to the applied shocks.

During the year ended 30 June 2013 Non-Performing Loans (NPLs) decreased from 8.12 percent as at 30 June 2012 to 7.93 percent as at 30 June 2013. Most of the community banks continued to operate with impaired capital levels mainly due to loss making and growth not supported by proportionate capital.

3. REVIEW OF BANK'S PERFORMANCE AND BROAD GOALS (Continued)

Promoting integrity and stability of the financial system (Continued)

Banking financial institutions increased to 51 as at 30 June 2013 from 49 as at 30 June 2012 and the branches increased to 588 as at 30 June 2013 compared to 530 recorded by end June 2012. The Bank is finalizing the review of existing regulations and has introduced new guidelines for agency banking and consolidated supervision guidelines to incorporate new developments and challenges in the banking sector. Anti-Money Laundering Regulations, 2012 were issued by the Ministry of Finance and Economic Affairs during the year.

To ensure safety, effectiveness and efficiency of payment systems the Bank implemented various harmonization initiatives and standards on payment systems and infrastructure in line with the East Africa Community (EAC) and Southern African Development Cooperation (SADC) Central Banks' Memorandum of Understanding (MOU). The Bank also prepared Mobile Payment Regulations aimed at creating conducive regulatory environment. During the period, TIGO Pesa was allowed to operate multiple trust account with First National Bank (FNB), Stanbic Bank Tanzania Limited and CRDB Bank PLC with a view to widen payments system. In addition, Delivery Versus Payment (DVP) was achieved at 60 percent against the target of 100 percent.

The Bank continued to manage banking and currency services by adoption of good practices in printing, storage, distribution, processing as well as provision of efficient clearing, settlement and banking services to commercial banks, the Governments and other stakeholders. The clearing time remained at the level of T+1 (1 day) and T+2 (2 days) for high value and low value respectively which was below the target of T+0 (same day) set for both high value and low value to be achieved by June 2013. Performance on funds transfer processing time was T+0 as targeted. This was on account of implementation of Electronic Fund Transfer (EFT).

Strengthening corporate governance

The Bank's involvement in corporate governance is centred on effective management oversight, management of resources and properties, service delivery, management of business processes and risks, proactive engagements with stakeholders and re-focusing the Bank on core central banking functions.

The following are key achievements recorded during the year;

- Implemented changes to the organization structure whereby one directorate, Directorate of Financial Stability (DFS) and five departments namely, Budgeting and Financial Reports, Project Management, Crisis Management, Macro Surveillance and Micro Surveillance were established;
- Continued with initiatives for establishing new branches at Dodoma and Mtwara and strengthened operations of currency custody centres;
- Continued to take measures towards improving operational processes by implementing various ICT initiatives and projects including a sys aid, Microsoft outlook exchange, upgrade of Integrated Financial Management System (IFMS), Bloomberg portfolio analytical tool, interface of Central Banking System (CBS) and Society for Worldwide Inter Bank Financial Telecommunication (SWIFT), enhancement of Treasury Management System (TMS);
- Commenced implementation of the Human Resources Management Software (HRMS) as a measure to replace the Integrated Human Resources Information System (IHRS). The HRMS is expected to go live before end of January 2014;
- Adopted changes and developments that affect the Bank's financial reporting framework to ensure that the books of accounts and financial reports are compliant and consistent with the requirements of International Financial Reporting Standards (IFRS);
- Finalised the Corporate Risk Management (CRM) Framework;

3. REVIEW OF BANK'S PERFORMANCE AND BROAD GOALS (Continued)

- Continued to engage the stakeholders through workshops, conferences, media and Governor's monthly meetings on monetary policy developments with Chief Executive Officers of commercial banks and non-bank financial institutions; and
- Continued to protect national interest by fully participating in the review of EAC Common Market laws and regulations and on the negotiations of East African Monetary Union (EAMU) Protocol.

Other developments

Growth of currency in circulation

The position of currency in circulation as at 30 June 2013 was TZS 3,030,121.1 million as compared to TZS 2,705,223.5 million as at 30 June 2012, hence representing an increase of TZS 324,897.6 million equivalent to 12.0 percent.

Public education program

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

4. COMPOSITION OF THE BOARD OF DIRECTORS

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	63	Economist	10 July 2007	Tanzanian
2	Mr. Juma H. Reli[2]	Deputy Governor	57	Finance	14 February 2005	Tanzanian
3	Mr. Lila H. Mkila[2]	Deputy Governor	63	Statistician	26 June 2007	Tanzanian
4	Dr. Natu E. Mwamba	Deputy Governor	52	Economist	13 June 2011	Tanzanian
5	Prof. Haidari K. Amani	Member	65	Economist	08 January 2008	Tanzanian
6	Mr. Khamis M. Omar[1]	Member	48	Finance	20 April 2006	Tanzanian
7	Mr. Bedason Shallanda	Member	52	Economist	11 September 2010	Tanzanian
8	Mr. Yona S. Killagane	Member	59	Professional Accountant	08 March 2011	Tanzanian
9	Mrs. Esther Mkwizu	Member	61	Management Consultant	08 March 2011	Tanzanian
10	Mr. Athuman H. Mtengeti*	Secretary	60	Lawyer	08 March 2011	Tanzanian
11	Mr. Yusto E. Tongola**	Secretary	49	Lawyer	01 March 2013	Tanzanian

* Retired on 20 March, 2013.

**Appointed as Secretary to the Bank on 20 March, 2013

<u>KEY</u>

1. Principal Secretary to the Treasury, Revolutionary Government of Zanzibar.
2. Mr. Juma H. Reli and Mr. Lila H. Mkila were reappointed as Deputy Governors on 20 March 2013 for another three and four year terms respectively.

4. COMPOSITION OF THE BOARD OF DIRECTORS (Continued)

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

5. CORPORATE GOVERNANCE

Bank of Tanzania ascribes to the highest standards of corporate governance. The events of the past five years have led to unprecedented challenges for the Bank and the markets as a whole. The Bank through the Board of Directors and Management upholds and practices the principles of sound corporate governance.

To this end, the Bank's establishment Act, referred to as 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, it is expected to discharge other functions as may specifically be conferred or imposed upon it by the Act or any other written law.

(ii) In the discharge of its functions, four Committees are currently assisting the Bank's Board of Directors. These are Monetary Policy Committee, Audit Committee, Banking Supervision Committee and Finance and Investment Committee.

(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 two 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 cover 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 2013 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 Mkwizu	Member	Management Consultant	Tanzanian
7	Mr. Athuman H. Mtengeti*	Secretary	Lawyer	Tanzanian
8	Mr. Yusto E. Tongola**	Secretary	Lawyer	Tanzanian

* Retired on 20 March, 2013.
**Appointed as Secretary to the Bank on 20 March, 2013

5. CORPORATE GOVERNANCE (Continued)

(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; and review of 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 the external auditors' proposed audit scope, approach and audit deliverables, draft financial statements before submission to the External Auditors for audit; and also reviews the proposed audit fee.

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 2013 were as follows:

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

* Retired on 20 March, 2013.
**Appointed as Secretary to the Bank on 20 March, 2013.

(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, Permanent Secretary to the Treasury, Government of the United Republic of Tanzania and Principal Secretary to the Treasury, Revolutionary Government of Zanzibar and two Non-executive directors.

5. CORPORATE GOVERNANCE (Continued)

(c) Banking Supervision Committee (Continued)

The Banking Supervision Committee is responsible for: review of internal control and systems in banks and 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, 2013 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
7	Mr. Khamis M. Omar	Member	Finance	Tanzanian
8	Mr. Bedason Shallanda	Member	Economist	Tanzanian
5	Prof. Haidari K. Amani	Member	Economist	Tanzanian
6	Mr. Yona S. Killagane	Member	Professional Accountant	Tanzanian
7	Mr. Athuman H. Mtengeti*	Secretary	Lawyer	Tanzanian
8	Mr. Yusto E. Tongola**	Secretary	Lawyer	Tanzanian

* Retired on 20 March, 2013.
**Appointed as Secretary to the Bank on 20 March, 2013.

(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 three 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 by Laws; requests for disposal of immovable assets; and Annual Bank's Corporate Plan. The Committee also reviews requests for write off back of receivables and debts; financial policies and changes thereto; the appropriateness of the Bank's investment policy and assets allocation strategy; Risk Management Framework for the Bank's operations and Project Management framework.

5. CORPORATE GOVERNANCE (Continued)

(d) The Finance and Investment Committee (Continued)

The Members of the Finance and Investment Committee as at 30 June 2013 were as follows:

No	Name	Position	Qualification/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 Mkwizu	Member	Management Consultant	Tanzanian
8	Mr Athuman H. Mtengeti *	Secretary	Lawyer	Tanzanian
9	Mr. Yusto E. Tongola **	Secretary	Lawyer	Tanzanian

* Retired on 20 March, 2013.
**Appointed as Secretary to the Bank on 20 March, 2013.

6. MEETINGS

Responding to the challenges faced by the Bank, the Board held 12 meetings during the year ended 30 June 2013. In addition there were various meetings of the Board committees. All members of the Board showed themselves to be willing and able to devote their time required for the Board meetings.

Below is a summary indicating the number of meetings attended by members of the Board from 1 July 2012 to 30 June 2013.

		Number of meetings				
		Board	**MPC**	**BSC**	**AC**	**FIC**
	Number of meetings	**12**	**7**	**6**	**13**	**9**
	Names					
1	Prof. Benno J. Ndulu	12	7	5	N/A	9
2	Mr. Juma H. Reli	11	7	3	13	6
3	Mr. Lila H. Mkila	11	7	4	N/A	7
6	Dr. Natu E. Mwamba	11	7	4	N/A	9
4	Mr. Bedason Shallanda	11	7	5	N/A	N/A
5	Mr. Khamis M. Omar	12	7	5	N/A	N/A
7	Prof. Haidari K. Amani	12	7	5	13	9
8	Mrs. Esther Mkwizu	10	4	N/A	10	5
9	Mr. Yona S. Killagane	2	N/A	0	7	2
10	Mr Athuman H. Mtengeti *	8	3	3	10	4
11	Mr. Yusto E. Tongola **	4	4	3	3	5

* Retired on 20 March, 2013.
**Appointed as Secretary to the Bank on 20 March, 2013.

6. MEETINGS (Continued)

KEY

Board: Board of Directors

MPC: Monetary Policy Committee

BSC: Banking Supervision Committee

AC: Audit Committee

FIC: Finance and Investment Committee

7. INDEPENDENCE

All the 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 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 shall be subscribed and held only by the Government of the United Republic of Tanzania.

9. MANAGEMENT

Section 13(1) of the Bank of Tanzania Act, 2006 states that "the management of the Bank and the direction of its business and affairs is vested in the Governor and the Governor shall, in the exercise of such functions and direction, conform to the policy and other decisions made by the Board".

The Governor is assisted by three Deputy Governors. The Deputy Governors head various functions under them which involve fourteen directorates, four independent departments, four branches and Bank's training institute.

10. FUTURE DEVELOPMENT PLANS

The Bank will continue to implement three broad goals whereby strategies and key activities will be reformulated each year to reflect as accurate as possible, short and medium term corporate objectives in line with the Bank's mandate and emerging national, regional and international economic developments. The Bank will continue to take advantages of new technologies and innovations.

Similar to the previous plans, the Bank will continue to place emphasis on maintenance of price stability and financial stability in view of the fact that the two have emerged as explicitly twin objectives for central banks after the experience of the global financial crisis.

Further, the Bank will continue to strengthen corporate governance in order to ensure effective management of Bank's resources, properties, business processes and risks. The Bank will continue to make proactive engagements with stakeholders and provide necessary support services to facilitate attainment of the Bank's vision and mission.

10. FUTURE DEVELOPMENT PLANS (CONTINUED)

In addition, the Bank plans to:

- Continue implementing Medium Term Expenditure Framework (MTEF) as a multi-year budgeting instrument;
- Adopt a Balanced Scorecard (BSC) methodology as an instrument for performance measurement;
- Continue with construction of two additional branches at Dodoma and Mtwara;
- Construct and relocate Mwanza branch office;
- Open additional currency custody centres to ease currency distribution in the country;
- Modernise security monitoring systems at head office and branches;
- Acquire new software and to continue improving business operations through automation; and
- Acquire and continue maintaining its other existing assets.

11. RESULTS AND DIVIDEND

During the year the Bank operations registered a net operating loss of TZS 16,754.9 million (2012: TZS 52,893.1 million restated). The Banks accounting policy requires transfer of unrealized foreign exchange revaluation or gain and unrealized gain or loss to the Foreign Currency Revaluation Reserve and Securities Revaluation Reserve respectively. As a result, the Bank registered distributable profit amounting to TZS 80,252.2 million (2012: TZS 63,981.3 million)

12. FINANCIAL PERFORMANCE FOR THE YEAR

12.1 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. During the year, the Bank made various achievements as explained under Para 3.0 of this report.

Further in the course of its operations, the Bank made a total comprehensive loss of TZS 11,252.7 million (2012: TZS 45,864.5 million restated). The decline in operating loss was attributed to depreciation of TZS against major currencies. As a result, unlike in the previous year when the TZS appreciated against the major currencies resulting into a net foreign exchange revaluation loss of TZS 153,545.3 million, in the year ended 2013 the Bank registered a net foreign exchange revaluation gain of TZS 82,945.0 million. Further the Bank recorded unrealized losses on financial assets measured at Fair Value Through Profit and Loss (FVTPL) amounting to TZS 55,115.2 million (2012: Unrealised gains of TZS 77,890.9 million) following decline in market prices since May 2013 due to improving macroeconomic outlook and discussion regarding tapering of quantitative easing by the Federal Reserve Bank.

12.2 Financial position

The financial position of the Bank is as set out in the statement of financial position shown on page 21. During the year total assets of the Bank increased by TZS 1,252,220.9 million (2012: TZS 369,264.5 million as restated). The major areas of increase include foreign currency marketable securities, Government securities and cash and cash equivalent amounting to TZS 756,749.3 million, TZS 446,637.0 million and TZS 289,786.6 million respectively.

12. FINANCIAL PERFORMANCE FOR THE YEAR (Continued)

12.2 Financial position (Continued)

On the other hand total equity and liabilities increased by TZS 1,252,220.9 million (2012: TZS 369,264.5 million restated). Major areas of increase include BOT liquidity papers and currency in circulation amounting to TZS 623,831.4 million and TZS 324,897.5 million respectively. Other major increase was deposits banks and non-banks financial institutions (TZS 187,520.2 million) and poverty reduction and growth facility (TZS 183,989.9 million).

13. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the 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 system is designed to provide the Board with reasonable assurance that procedures in place are operating effectively.

The non-financial risks of the Bank were:

(a) Operational Risk

Operational risk is the risk of 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. Management, Risk Management, Internal Audit Function, Audit Committee and the Board, closely monitors 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.

(b) 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.

13. RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

(c) 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. International Swaps and Derivatives Association (ISDA), International Securities Markets Association (ISMA), etc. Where new 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.

(d) 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, No. 21 of 2004 and Public Procurement Regulations, 2005.

In view of the above, the Bank's management ensures that to the best of its 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 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 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 (NPS) 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. The risk related to financial instruments has been disclosed under note 48 of the financial statements.The Board assessed the internal control systems throughout the financial year ended June 2013 and is of the opinion that they met accepted criteria.

14. SOLVENCY

The Board of Directors confirms that 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 taking its statutory activities for the foreseeable future.

15. EMPLOYEES WELFARE

15.1 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 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 who have been in employment for continuous period of twenty five and thirty five years.

The Bank of Tanzania is an equal opportunity employer with a total of 1,335 staff as at 30 June 2013 (2012: 1,349) out of which 58.8 percent (2012: 58.3 percent) are male and 41.2 percent (2012: 41.7 percent) are female.

15.2 Training facilities

The Bank has training facilities at the Bank of Tanzania Training Institute in Mwanza region. During the year, the Bank conducted a total of 52 (2012: 53) bank courses for the Bank, financial institutions and others. The Bank prepares annual training programs that cater for Bank's needs and address gaps in the knowledge of its staff and the market in general.

15.3 Medical Assistance

All members of staff with a maximum number of five beneficiaries for each employee were availed medical insurance guaranteed by the Bank. During the year ended 30 June 2013, these were provided by Jubilee Insurance Company (2012: Strategies Insurance).

15.4 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.

15.5 Financial Assistance to Staff

The Bank provides various loans to confirmed employees in accordance with the staff bylaws and financial regulations in force. These include house loans, motor vehicle loans, personal loans, computer loans and various advances.

15.6 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 employees.

15. EMPLOYEES WELFARE (Continued)

15.7 Employees Benefit 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 note No. 3 to the financial statements.

16. 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 2013 and 2012 the Bank had the following distribution of employees by gender.

Gender	2013	%	2012	%
Male	785	58.8	787	58.3
Female	550	41.2	562	41.7
Total	**1 335**	**100.0**	**1 349**	**100.0**

17. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 56 to these financial statements. The directors' emoluments have been disclosed in Note 56 to the financial statements.

18. 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 its impact through the better use of its premises and inbuilt facilities to ensure that there is proper waste management.

19. CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling part of its Corporate Social Responsibility (CSR) through supporting national activities in the United Republic of Tanzania and other areas of interest to the Bank. In this endeavour the Bank has in place donation guidelines that assist in the implementation of corporate social responsibility. During the year the Bank donated a total of TZS 418.4 million. (2012: TZS 355.8 million).

20. 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); Tanzanian Institute of Bankers (TIB); Other Professional Associations; and Charities. During the year end 30 June 2013 such contributions and subscriptions amounted to TZS 2,965.9 million (2012: TZS 3,641.0 million).

21. SECRETARY TO THE BOARD

The Secretary to the Board 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.

22. COMPLIANCE TO LAWS AND REGULATIONS

In performing the activities of the Bank, various laws and regulations having the impact on the Banks operations are observed as a tool for financial management. These are Financial Regulations, Staff By Laws, Bank of Tanzania Act, 2006, Income Tax Act, 2004, Finance Act, Public Procurement Act, 2004 and related regulations.

23. SERIOUSLY PREJUDICIAL

During the year ended 30 June 2013 there was no serious prejudicial matters to report as required by Tanzania Financial Reporting Standard No. 1 (Directors' Report).

24. STATEMENT OF COMPLIANCE

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

25. 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 & Touché, Certified Public Accountants were appointed by CAG to audit the financial statements of the Bank on his behalf, pursuant to Section 33 of the Public Audit Act, No 11 of 2008.

Approved by the Board of Directors on 16 December 2013, and signed on its behalf by:

Prof. Benno J. Ndulu	Yona S. Killagane
The Governor and Chairman of the Board	Director and Chairman of the Audit Committee

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 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 16 December 2013, and signed on its behalf by:

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

Yona S. Killagane
Director and Chairman of the Audit Committee

Chairman
Board of Directors
Bank of Tanzania
10 Mirambo Street
P.O. Box 2939
Dar es Salaam.

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK OF TANZANIA FOR THE YEAR ENDED 30 JUNE 2013

I have audited the accompanying financial statements of the Bank of Tanzania which comprise the Statement of Financial Position as at 30 June 2013 Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out from pages 20 to 115 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) 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 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 (PAA) 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 44(2) of the Public Procurement Act No.21 of 2004 and Reg No. 31 of the Public Procurement (Goods, Works, Non-consultant services and Disposal of Public Assets by Tender) Regulations of 2005 requires me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and its Regulations.

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

Unqualified Opinion

In my opinion, the financial statements present fairly, in all material respects, financial position of Bank of Tanzania as at 30 June 2013 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 requirements of the Public Procurement Act, 2004 and its related Regulations of 2005.

Ludovick S.L.Utouh
CONTROLLER AND AUDITOR GENERAL
National Audit Office
Dar es Salaam, Tanzania

20th.... December 2013

BANK OF TANZANIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	30.06.2013 TZS '000	30.06.2012 TZS '000 Restated
Operating income			
Interest income	5	258,102,919	234,539,201
Interest expenses	6	(78,069,855)	(44,053,040)
Net interest income		**180,033,064**	**190,486,161**
Foreign exchange revaluation gains	7	82,944,993	-
Net unrealised gains on Financial Assets-FVTPL	8	-	77,890,871
Fees and commissions	9	21,041,268	33,613,080
Recovery of impaired shares in Associate Company	10	344,571	-
Recovery from receivables	11	-	25,373,053
Other income	12	4,198,255	15,573,333
		108,529,087	**152,450,337**
Net operating income		**288,562,151**	**342,936,498**
Operating expenses			
Administrative expenses	13	39,504,444	38,719,319
Foreign exchange revaluation losses	7	-	153,545,350
Net unrealised losses on Financial Assets-FVTPL	8	55,115,157	-
Currency issue and related expenses	14	58,926,678	61,479,775
Personnel expenses	15	108,711,508	94,216,939
Depreciation of property and equipment	33	32,704,439	35,842,213
Amortization of intangible assets	34	2,595,594	3,279,263
Other receivables written off	16	-	18,853
Loss on disposal of property and equipment	33	38,807	151,594
Other expenses	17	7,720,449	6,974,414
Impairment losses	18	-	1,601,903
		305,317,076	**395,829,623**
Operating loss for the year		**(16,754,925)**	**(52,893,125)**
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit or loss			
Net revaluation gain on equity investments	19	4,968,233	-
Remeasurement of defined benefit obligation	52	534,024	7,028,666
Other comprehensive income		**5,502,257**	**7,028,666**
Total comprehensive loss		**(11,252,668)**	**(45,864,459)**

BANK OF TANZANIA

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	30.06.2013 TZS '000	30.06.2012 TZS '000 Restated	30.06.2011 TZS '000 Restated
Assets				
Cash and balances with central banks & other banks	20	1,768,209,513	1,478,422,938	1,195,497,795
Escrow accounts	21	43,410,856	42,359,427	42,471,534
Items in course of settlement	22	1,456,137	34,815,938	5,776,431
Holdings of Special Drawing Rights (SDRs)	23	370,513,006	369,525,297	397,912,882
Quota in International Monetary Fund (IMF)	23	479,683,371	471,393,438	501,867,026
Foreign currency marketable securities	24	4,784,406,413	4,027,657,084	4,019,362,219
Equity investments	25	7,336,698	2,189,025	1,895,620
Government securities	26	1,497,107,651	1,050,470,656	1,000,864,589
Advances to the Government	27	75,456,879	283,004,718	348,369,754
Loans and receivables	28	187,208,501	183,100,745	101,000,624
Inventories	29	4,409,110	5,819,196	4,764,252
Investment in associate company	30	-	1	1
Deferred currency cost	31	138,446,612	139,540,818	64,169,465
Other assets	32	83,176,564	79,987,702	92,931,064
Property and equipment	33	794,173,809	812,728,800	831,687,449
Intangible assets	34	3,999,872	5,758,265	8,938,819
Total assets		10,238,994,992	8,986,774,048	8,617,509,524
Liabilities				
Currency in circulation	35	3,030,121,057	2,705,223,546	2,503,645,122
Deposits - banks and non-bank financial institutions	36	2,224,876,088	2,037,355,907	1,343,142,830
Deposits - Governments	37	-	8,899,318	13,806,368
Deposits - Others	38	198,310,200	334,134,239	274,379,716
Foreign currency financial liabilities	39	507,689,146	478,153,879	392,174,778
Poverty deduction and growth facility	40	723,094,344	539,104,400	578,194,213
Repurchase agreements	41	48,026,827	25,025,548	54,016,464
BoT liquidity papers	42	1,356,137,509	732,306,148	977,459,704
Provisions	43	5,692,539	3,731,306	3,612,788
Other liabilities	44	25,244,570	29,591,996	22,521,083
Defined benefit obligation	45	88,934,981	83,950,965	82,048,279
IMF related liabilities	23	455,318,872	431,556,956	477,585,339
Allocation of Special Drawing Rights (SDRs)	23	459,452,774	451,512,468	480,700,836
Total liabilities		9,122,898,907	7,860,546,676	7,203,287,520
Equity				
Authorised and Paid up Capital	46	100,000,000	100,000,000	100,000,000
Reserves	48	1,016,096,085	1,026,227,372	1,314,222,004
Total equity		1,116,096,085	1,126,227,372	1,414,222,004
Total equity and liabilities		10,238,994,992	8,986,774,048	8,617,509,524

These financial statements were approved and authorised by the Board of Directors for issue on 16 December 2013 and were signed on its behalf by:

Name: Benno J. Ndulu Title: Governor - Chairman Signature: ____________

Name: YONA S. KILLAGANE Title: DIRECTOR Signature: ____________

BANK OF TANZANIA

STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

Details	Share Capital	General Reserve	Retained Earnings	Capital Reserve	Foreign Exchange Equalisation Reserve	Reserve for Projects	Staff Housing Fund	Assets Revaluation Reserve	Securities Revaluation Reserve	Foreign Exchange Revaluation	Reserve for Dividends	Defined Benefit Reserves	Total
	(Note 46)	(Note 48(a))		(Note 48(b))	(Note 48 (c))	(Note 48(d))	(Note 48(e))	(Note 48(f))	(Note 48 (g))	(Note 48(h))	(Note 48(i))	(Note 48 (j)	
(Amounts in TZS'000)													
At 01 July 2012 (restated)	100,000,000	217,158,993	-	99,262,908	350,939,200	120,000,000	34,170,571	119,776,163	77,890,871	-	-	7,028,666	1,126,227,372
Loss for the year	-	-	(16,754,925)	-	-	-	-	-	-	-	-	-	(16,754,925)
Other comprehensive income	-	-	-	-	-	-	-	-	4,968,233	-	-	534,024	5,502,257
	100,000,000	217,158,993	(16,754,925)	99,262,908	350,939,200	120,000,000	34,170,571	119,776,163	82,859,104	-	-	7,562,690	1,114,974,704
Transfer of unrealised loss to foreign currency revaluation reserve*	-	-	41,892,007	-		-	-	-	-	(41,892,007)	-	-	-
Transfer of unrealised loss to foreign exchange equalisation reserve***	-	-	-	-	(41,892,007)	-	-	-	-	41,892,007	-	-	-
Transfer of unrealised fair value losses *	-	-	55,115,157	-	-	-	-	-	(55,115,157)	-	-	-	-
Staff Housing Compensatory Fund**	-	-	-	-	-	-	1,121,381	-	-	-	-	-	1,121,381
Appropriation of 2012/13 distributable profit	-	40,126,120	(80,252,239)	-	-	-	-	-	-	-	40,126,119	-	-
At 30 June 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

* Unrealised losses on foreign currency revaluation reserve and unrealised fair value losses excluded from computation of distributable profit, please refer to Note 48

** Net contribution to Staff Housing Compensatory Fund

*** Foreign exchange equalisation reserve has been utilised to offset unrealised loss on foreign currency translation.

BANK OF TANZANIA

STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

Details	Share Capital	General Reserve	Retained Earnings	Capital Reserve	Foreign Exchange Equalisation Reserve	Reserve for Projects	Staff Housing Fund	Assets Revaluation Reserve	Securities Revaluation Reserve	Foreign Exchange Revaluation Reserve	Mwalimu Nyerere Fund	Reserve for Dividends	Defined Benefit Reserves	Total
	(Note 46)	(Note 46(a))		(Note 46(b))	(Note 46 (c))	(Note 46(d))	(Note 46(e))	(Note 46(f))	(Note 46 (g))	(Note 46(h))			(Note 46 i))	
(Amounts in TZS'000)														
At 01 July 2011-(as previously stated)	100,000,000	272,634,332	-	99,262,908	463,264,603	120,000,000	33,614,325	119,925,981	64,784,192	41,219,947	1,000,000	173,240,459	-	1,488,946,747
Prior year adjustment-Note 2(a)	-	(78,386,511)	-	-	-	-	-	-	-	-	-	-	-	(78,386,511)
At 01 July 2011-Restated	100,000,000	194,247,821	-	99,262,908	463,264,603	120,000,000	33,614,325	119,925,981	64,784,192	41,219,947	1,000,000	173,240,459	-	1,410,560,236
Loss for the year (restated)	-	-	(52,893,125)	-	-	-	-	-	-	-	-	-	-	(52,893,125)
Transfer to Profit and Loss*				-	-	-	-	-	(64,784,192)	-	-	-	-	(64,784,192)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	7,028,666	7,028,666
	100,000,000	194,247,821	(52,893,125)	99,262,908	463,264,603	120,000,000	33,614,325	119,925,981	-	41,219,947	1,000,000	173,240,459	7,028,666	1,299,911,585
Transfer of realised foreign exchange revaluation gains	-	-	41,219,947	-	-	-	-	-	-	(41,219,947)	-	-	-	-
Transfer of foreign exchange revaluation loss to exchange revaluation reserve	-	-	153,545,350	-	(153,545,350)	-	-	-	-	-	-	-	-	-
Reversal of revaluation of disposed property	-	149,818	-	-	-	-	-	(149,818)	-	-	-	-	-	-
Transfer of unrealised fair value gains or losses to the Securities Revaluation Reserve	-	-	(77,890,871)	-	-	-	-	-	77,890,871	-	-	-	-	-
2010/11 Dividends paid to the Government	-	-	-	-	-	-	-	-	-	-	-	(173,240,459)	-	(173,240,459)
Payments to Mwalimu Nyerere Scholarship Deposit***	-	-	-	-	-	-	-	-	-	-	(1,000,000)	-	-	(1,000,000)
Staff Housing Compensatory Fund**	-	-	-	-	-	-	556,246	-	-	-	-	-	-	556,246
Transfer to General Reserve	-	22,761,354	(63,981,301)	-	41,219,947	-	-	-	-	-	-	-	-	-
At 30 June 2012 (restated)	100,000,000	217,158,993	-	99,262,908	350,939,200	120,000,000	34,170,571	119,776,163	77,890,871	-	-	-	7,028,666	1,126,227,372

* A total of TZS 64,784.2 million was transferred to profit and loss account when the Bank migrated to IFRS 9. This amount is included in the net gains in fair value of TZS 77,890.9 million recycled from equity.

** Net contribution to Staff Housing Compensatory Fund

*** This represents payment of TZS 1,000.0 million to the Mwalimu Nyerere Scholarship Fund out of distributable profit for 2010/11

BANK OF TANZANIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	30.06.2013 TZS '000	30.06.2012 TZS '000
Cash flows from operating activities			
Cash generated from operating activities	47	304,227,244	(192,602,756)
Dividends paid to the Government		-	(173,240,459)
Transfer to Mwalimu Nyerere Deposit Fund		-	(1,000,000)
Net cash generated from/(used in) operating activities		**304,227,244**	**(366,843,215)**
Cash flows from investing activities			
Purchase of property and equipment		(14,204,401)	(18,823,733)
Proceeds from disposal of property and equipment		8,129	121,831
Purchase of intangible assets		(837,201)	(98,709)
Net increse in Government securities		(446,636,995)	(49,606,068)
Increase in foreign currency marketable securities		(761,175,520)	(8,294,866)
Acquisition of equity shares		(179,440)	(306,327)
(Increase)/decrease in quota in International Monetary Fund (IMF)		(8,289,933)	30,473,588
(Increase)/decrease in holdings of SDRs		(987,709)	28,387,585
Net cash outflows from investing activities		**(1,232,303,070)**	**(18,146,699)**
Cash flows from financing activities			
Increase in notes and coins issued		324,897,511	201,578,425
Increase/(decrease) in IMF related liabilities		23,761,916	(46,028,382)
Increase in foreign currency financial liabilities		213,525,211	46,889,289
Increase/(decrease) in allocation of SDRs		7,940,306	(29,188,368)
Increase in deposits		42,796,824	761,876,639
Increase/(decrease) in Repurchase Agreements (REPOs)		23,001,279	(28,990,916)
Increase/(decrease) in BOT liquidity papers		623,831,361	(245,153,556)
Net cash inflows from financing activities		**1,259,754,408**	**660,983,131**
Net increase in cash and cash equivalent		**331,678,582**	**275,993,217**
Unrealized foreign exchange revaluation loss/ gains		(41,892,007)	6,931,926
Cash and cash equivalents:			
At the beginning of the year		1,478,422,938	1,195,497,795
At the end of the year	20	**1,768,209,513**	**1,478,422,938**

1. REPORTING ENTITY

Legal framework

The Bank of Tanzania was established under Section 4 of the Bank of Tanzania Act, 2006, to act as the Central Bank for the United Republic of Tanzania. Its main place of business is at 10 Mirambo Street, Dar es Salaam, Tanzania and it operates branches in Arusha, Mbeya, Mwanza and Zanzibar. 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 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 for 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, resolve. 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.

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.

1. REPORTING ENTITY (Continued)

Legal framework (Continued)

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 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 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 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.

2(a) PRIOR YEAR ADJUSTMENT

A prior year adjustment has been made in relation to understatement of the fair value of the defined benefit obligation for the year ended 30 June 2012 by TZS 75,481.3 million. The financial statements for the financial year ended 30 June 2011 and 30 June 2012 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below:

Impact on statement of financial position:

	30.06.2011 TZS '000 as previously reported	**Prior year adjustment TZS '000**	**30.06.2011 TZS '000** as restated
Retirement benefit obligation	3,661,768	78,386,511	82,048,279
Reserves	1,392,608,515	78,386,511	1,314,222,004

	30.06.2012 TZS '000 as previously reported	**Prior year adjustment TZS '000**	**30.06.2012 TZS '000** as restated
Retirement benefit obligation	8,469,618	75,481,347	83,950,965
Reserves	1,101,708,719	75,481,347	1,026,227,372

Impact on total comprehensive loss for the year:

	30.06.2013 TZS '000	**30.06.2012 TZS '000**
Impact on profit (loss) for the year		
Increase in personnel expenses	3,269,908	461,734
Increase in loss for the year	3,269,908	461,734

Impact on other comprehensive income for the year	**30.06.2013 TZS '000**	**30.06.2012 TZS '000**
Increase in re-measurement of defined benefits obligations	(534 024)	(7 028 666)
Increase in other comprehensive income for the year	(534 024)	(7 028 666)
Net effect in total comprehensive loss for the year	2,735,884	(6,566,932)

The fair value of the defined benefit scheme for the year ended 30 June 2013 was determined by an independent Actuary as disclosed in Note 52.

2(b) ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARD (IFRS)

i) The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	Amends IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented. The amendments: Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' - rather than requiring a single continuous statement as was proposed in the exposure draft Require entities to group items presented in OCI based on whether they are potentially re-classifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified The Bank has adopted the changes to IAS 1 effective 1 July 2012 and opted to continue with the one statement approach as one of the permitted options. The amendments have been applied retrospectively, and hence the presentation on other comprehensive income has been modified to reflect the changes. Other than these changes, the application of the amendment to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

ii) New and revised IFRS in issue but not yet effective for the year ended 30 June 2013

	Effective for annual periods beginning on or after
New and Amendments to standards:	
IFRS 7, Offsetting Financial Assets and Financial Liabilities	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
Amendment to interpretations	
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

2(b) ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARD (IFRS) (Continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2013 and future annual periods

IFRS 7, Offsetting Financial Assets and Financial Liabilities

The amendments require the entity to disclose the right of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The amendment to IFRS 7 is required for annual period beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosure should be provided retrospectively for all comparative periods.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined.
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on.
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information).
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

iv) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2013 and future annual periods

IFRS 12, Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after 1 January 2013. The Bank will apply this amendment prospectively and the directors anticipate no impact to the Bank's financial statements unless the Bank acquires interest in other entities in the future periods.

IFRS 13, Fair Value Measurements

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

2(b) ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARD (IFRS) (Continued)

IFRS 13, Fair Value Measurements (Continued)

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

The Directors believe the adoption of the standard when effective will not have a material impact to the financial statements.

IAS 28 Investments in Associates and Joint Ventures (2011)

This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

The standard is effective for annual periods beginning on or after 1 January 2013. The Bank will apply this amendment prospectively. The directors, however, anticipate no material impact to the Bank's financial statements.

v) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2013 and future annual periods (Continued)

IAS 32, Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to offsetting requirements. Specifically the amendments clarify the meaning of 'currently has a legally enforceable right of offset' and 'simultaneous realisation and settlement'. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014 retrospective application required.

2(c) EARLY ADOPTION OF STANDARDS

IFRS 9, Financial Instruments

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

  The Directors adopted IFRS 9 in the Bank's financial statements for the annual period beginning 1 July 2011. At the date of initial application of IFRS 9 a total of TZS 64,784.2 million was cycled from security revaluation reserve to the profit and loss account.

IAS 19, Employee Benefit (as revised) 2011

In the current year, the Bank has applied IAS 19 Employee benefits as revised in 2011 and the related consequential amendments for the first time.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligation and plan assets. The amendment require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service cost. All the actuarial gains and losses are recognised immediately through other comprehensive income in order for the pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. Please refer to note 2(a) the Bank's financial statements for the restated balances of the defined benefit liability.

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 49.6.1 (b).

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 Tanzania 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.

Form of presentation

In exceptional circumstances, as prescribed by Section 41 of the Bank of Tanzania Act, 2006, the Bank may act as the "lender of last resort" to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. In some cases, confidence can best be sustained if the Bank's support is disclosed only when the conditions giving rise to potential instability in the economy have improved. Although the financial effects of such operations are included in the financial statements of the Bank, these statements may not explicitly identify such support.

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 and similar 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Statutory 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 of Tanzania (NSSF), Parastatal Pension Funds (PPF) and Public Service Pensions Fund (PSPF). 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 8,455.0 million to the funds during the year ended 30 June 2013 (2012: TZS 7,711.4 million).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and termination benefits

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 and after attaining a number of years in service with the Bank. Employees are also eligible to post-employment benefits as stipulated in the Staff By Laws. The provisions in the VA and Staff by Law constitute a defined benefits plan which has been accounted and disclosed in accordance with the requirements of International Accounting Standards 19: Employee Benefits.

This is an unfunded defined benefit plan for qualifying employees. There are two categories of benefits to Banks staffs. The first is payable to staffs employed for unspecified period of time and second is to executive management who are under specific contracts. Benefits are paid upon retirement, death or withdrawal after working for at least 15 years of service with the Bank.

The arrangement provides for the following benefits to permanent and pensionable staffs,

- Gratuity payment equivalent 10 percent of the average monthly salary over the last four years of service for each complete month of service
- Service bonus payment equal to the multiples of 12, 18 and 24 months' basic salary averaged over the last four years of service for those with 15-19, 20-24 and above 25 years of service respectively.
- Other benefits include survivors' benefit payment equivalent to the three months' salary and TZS 3.6 million and on death of employees, the Bank pays burial assistance expenses equivalent to the higher of three months' salary and TZS 6.0 million.
- The Bank also pays long service awards equivalent to TZS 3.0 million and TZS 4.0 million on the 25th and 35th anniversaries of service respectively.
  The Bank provides compulsory retirement age is 60 years with early retirement at age of 55 years at the discretion of the Bank.

The executive management do not qualify for the benefits applicable staffs employed for unspecified period of time except for the bonuses as stipulated under the staff by laws 2011.

The Bank provides for retirement benefit cost based on assessments made by independent actuaries. The first and most recent actuarial valuation was carried out as at 30th 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 an assumption about future salary growth. The assumptions used are applied for the purposes of compliance with 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 will not be 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and termination benefits (Continued)

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 costs.

Other employee benefits

The Bank provides free medical treatment to staffs and their dependants. The cost is charged to profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the end of the reporting period is recognized as an expense accrual.

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 a 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. This exemption includes stamp duty in respect of instruments executed by or on behalf of the Bank.

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.

However, 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 services. However, this excludes goods and services related to the Bank's primary functions.

Foreign currency translation

(i) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

(ii) Transactions and balances

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

Taxes

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.

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 distributable profits for the year and is carried in a separate 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.

Investment in associate company

The Bank's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post acquisition changes in the Bank's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The Statement of Comprehensive Income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

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, at which time it is reclassified as property and equipment in use.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

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 2012.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).

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 2013 were as follows:

Asset classification	Annual depreciation rate	Useful life
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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

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 cost:

- 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 I 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Where a significant portion of the risks and rewards of ownership are retained by the lesser, the lease is classified as operating lease. Payments made under operating lease are charged to profit or loss on a straight-line basis over the period of the lease.

As for the land owned by the Bank, the Bank obtained these on long term leasehold (mainly 99 years) from the Government.

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.

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 sales and repurchase price is treated as interest expenditure 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) as at fair value through profit or loss. Changes in fair value of these instruments are recognised through the profit or loss. Refer to note 24 of the accounts for further details.

Foreign Exchange Equalization Reserve

The Bank has a policy whereby both net realized and unrealized 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 30th June 2009 the Board determines the amount from the distributable profit to be transferred to the Foreign Exchange Equalization Reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments - initial recognition and subsequent measurement

Reserve for Dividend

This reserve accommodates the amount declared as dividend payable to the Governments. 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 indebtedness to the Bank, the Bank shall first apply the reminder of its net realized profits to the reduction or discharge of the Governments indebtedness.

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
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
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 and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective Interest Rate method (Continued)

Interest income is recognised in profit or loss and is included in the "interest income" line item. This includes Government Securities, Loans and Advances, ESCROW and Items in course of settlement.

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.

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 form Government, Banks and Financial institutions, BOT Liquidity papers, Poverty Reduction and Growth Facility, IMF liabilities and Repurchase Agreements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

De-recognition of financial assets and financial liabilities

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'.

Due from banks, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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.

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 fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Offsetting of financial assets and liabilities

Unless there is a currently legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously offsetting of financial assets and liabilities is not allowed.

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

b. Impairment of assets carried at amortised cost

Impairment losses on loans, advances and Government Securities

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. Please see the details in note 3.

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 measures at fair value through profit or loss are not impaired. Prior to application of IFRS 9 these were available for sale financial assets.

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. Please see the details in Note 47.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

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 benefit cost and termination benefits

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit credit method, which requires certain demographic and financial assumptions, including an assumption about future salary growth. 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. Please see the details in Note 52.

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.

	30.06.2013			30.06.2012		
	Received	Accrued	Total	Received	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
From foreign operations						
GBP investments	4,860,546	4,014,128	8,874,674	8,211,966	3,495,780	11,707,746
USD investments	27,564,776	8,385,351	35,950,127	36,702,680	10,599,086	47,301,766
EUR investments	9,792,092	11,572,275	21,364,367	11,934,972	12,449,299	24,384,271
AUD investments	8,282,841	3,246,639	11,529,480	-	-	-
CNY investments	1,048,854	788,048	1,836,902	-	-	-
Other foreign interest income	290,869	-	290,869	940,384	-	940,384
	51,839,978	**28,006,441**	**79,846,419**	**57,790,002**	**26,544,165**	**84,334,167**
From domestic operations						
Interest on domestic investments	99,012,230	37,997,026	137,009,256	75,531,040	22,095,802	97,626,842
Interest on loans and advances	-	41,026,288	41,026,288	51,056,166	-	51,056,166
Interest on staff loans	220,956	-	220,956	1,522,026	-	1,522,026
	99,233,186	**79,023,314**	**178,256,500**	**128,109,232**	**22,095,802**	**150,205,034**
	151,073,164	**107,029,755**	**258,102,919**	**185,899,234**	**48,639,967**	**234,539,201**

5 INTEREST INCOME (Continued)

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

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Income from instruments measured at fair value	79,846,419	84,334,166
Income from instruments measured at amortised cost	178,256,500	150,205,035
	258,102,919	**234,539,201**

6 INTEREST EXPENSES

	30.06.2013			30.06.2012		
	Paid	Accrued	Total	Paid	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Interest on BoT liquidity papers	5,092,224	71,400,467	76,492,691	2,417,486	38,267,939	40,685,425
Interest on repurchase agreements	1,161,174	26,827	1,188,001	2,216,425	25,548	2,241,973
Charges on IMF Drawings	389,163	-	389,163	1,125,642	-	1,125,642
	6,642,561	**71,427,294**	**78,069,855**	**5,759,553**	**38,293,487**	**44,053,040**

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.

7 FOREIGN EXCHANGE REVALUATION GAINS/(LOSSES)

During the year realized and unrealized net foreign exchange revaluation gains amounted to TZS 82,944.9 million. This amount has been included in the statement profit and loss in determining the Bank's 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 revaluations gain, an amount of TZS 41,892.0 million relating to unrealised loss has been transfered to the foreign exchange revaluation reserve.

	30.06.2013	30.06.2012
Reconciliation of realized and unrealized foreign exchange revaluation	**TZS '000**	**TZS '000**
Net realized foreign exchange revaluation gains/(losses) during the year	124,837,000	(120,003,007)
Add: Unrealized foreign exchange revaluation (losses)/gains during the	(41,892,007)	7,677,604
	82,944,993	**(112,325,403)**
Less: Opening balance	-	(41,219,947)
Net foreign exchange revaluation gains/(losses) during the year	**82,944,993**	**(153,545,350)**

8 NET UNREALISED (LOSSES)/GAINS ON FINANCIAL ASSETS-FVTPL

Financial Assets -FVTPL (USD)	(32,169,627)	42,227,510
Financial Assets -FVTPL (GBP)	(7,063,638)	12,631,650
Financial Assets -FVTPL (EUR)	(12,190,359)	23,031,711
Financial Assets -FVTPL (AUD)	(2,702,695)	-
Financial Assets -FVTPL (CNY)	(988,838)	-
Total	**(55,115,157)**	**77,890,871**

This represents the net decrease/increase in fair value of the measured at fair value through profit and loss. The value of this balance aggregated to TZS 55,115.2 million loss as at 30 June 2013 (2012: 77,890.9 million gain).

9 FEES AND COMMISSION

	30.06.2013	30.06.2012
	TZS '000	**TZS '000**
Commission on buying and selling foreign currency	19,166,136	32,603,158
Bureau de change application fees	230,000	250,546
Bureau de change registration fees	50,000	63,200
Banks and financial institutions applications/licensing fees	-	2,000
Bureau de change penalty fees	42,000	19,500
Tanzania Interbank Settlement System (TISS) fees and charges	1,493,317	627,507
Tender application fees	33,815	47,169
Clearing House fines and penalties	26,000	-
	21,041,268	**33,613,080**

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

10 RECOVERY OF IMPAIRMENT LOSS ON INVESTMENT IN ASSOCIATE COMPANY

	30.06.2013 TZS '000	30.06.2012 TZS '000
Reversal of impairment	**344,571**	**-**

During the year the Bank recovered its shares in Mwananchi Gold Company Limited amounting to TZS 344.6 million which was previously impaired.

11 RECOVERY FROM RECEIVABLES

Recovery from Economic Empowerment Funds	-	14,831,046
Recovery from Secured Loan to Mwananchi Gold Company Limited	-	10,542,007
	-	**25,373,053**

The Bank recovered the funds granted to National Microfinace Bank Limited and CRDB Bank PLC in favor of economic empowerment program in the financial year ended 30 June 2012. Further, following the decision by Mwananchi Gold Company Limited to dispose its landed property to raise funds, part of the amount collected was used to liquidate obligations due the Bank.

12 OTHER INCOME

	30.06.2013 TZS '000	30.06.2012 TZS '000
Foreign operations		
Realized gains on de-recognition of foreign currency marketable	963,693	869,603
Income from equity investment	112,441	119,810
Gains on inter-bank foreign exchange market (IFEM) operations	-	11,870,014
Miscellaneous income	328,673	150,842
	1,404,807	**13,010,269**
Domestic operations		
Income – domestic operations	430,750	1,529,674
Rental income from staff quarters	572,050	626,455
Income from hostel accommodation	63,057	77,293
Income from cafeteria operations	23,482	33,309
Realised gain on Mwananchi Gold Company Limited Shares	1,064,706	-
Miscellaneous income	639,403	296,333
	2,793,448	**2,563,064**
Total other income	**4,198,255**	**15,573,333**

13 ADMINISTRATIVE EXPENSES

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Board expenses	1,154,253	965,600
Transport and traveling expenses	6,756,061	6,671,341
Maintenance - computer, software and related expenses	6,819,803	5,741,459
Maintenance - furniture, machinery and equipment	835,904	2,520,434
Maintenance - bank premises	4,649,988	5,276,899
Legal and investigation expenses	470,488	544,335
Audit fees	670,000	659,858
Audit related expenses	41,474	182,839
Fees, rates and security expenses	2,539,286	2,093,350
Water and electricity	4,888,562	4,500,527
Telecommunication and postage	1,630,521	1,441,125
Printing, stationery and office supplies	1,342,892	1,328,298
Meetings, conferences and seminars	4,866,501	4,153,566
Hospitality	135,435	224,600
Budget and annual accounts preparation expenses	172,535	174,535
Insurance expenses	1,243,825	1,089,327
Other administrative expenses	1,286,916	1,151,226
	39,504,444	**38,719,319**

14 CURRENCY ISSUE AND RELATED EXPENSES

Notes printing and related expenses (see Note 31)	50,094,783	53,927,176
Coins minting and related expenses (see Note 31)	3,390,629	2,698,612
Cost of currency issued in circulation	**53,485,412**	**56,625,788**
Currency transport, storage and handling	2,199,771	1,577,004
Maintenance of currency machines	3,146,804	3,162,516
Other currency expenses	94,691	114,467
	58,926,678	**61,479,775**

The amount of TZS 53,485.4 million (2012: TZS 56,625.8 million) in respect of notes printing and coins minting and related expenses respectively, 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 2,199.8 million (2012:TZS 1,577.0 million) are in respect of inland currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred and recognized in the profit and loss and other comprehensive income during the year.

A total of TZS 3,146.8 million (2012: TZS 3,162.5 million) was incurred during the year in respect of currency machines maintenance expenses. Other currency related expenses aggregated to TZS 94.7 million (2012:TZS 114.5 million).

15 PERSONNEL EXPENSES	**30.06.2013**	**30.06.2012**
	TZS '000	**TZS '000**
Staff salaries and allowances	59,436,067	56,300,555
Contribution to PPF scheme	7,213,967	6,551,041
Contribution to NSSF scheme	1,241,052	1,160,403
Staff medical expenses	3,018,208	3,466,256
Staff training expenses	4,473,178	4,068,789
Staff uniforms expenses	128,959	131,745
Tanzania Union for Industrial and Commercial (TUICO) expenses	361,512	293,656
Workers Council expenses	841,872	857,038
Course functions & field trips expenses	14,962	15,030
Travel on leave expenses	5,983,207	3,774,350
Condolence, survivors' benefits and related expenses	517,071	684,608
Motor vehicles expenses	632,937	356,371
Long term service awards	248,200	220,380
Management car maintenance and other related expenses	4,619,526	4,024,205
Furniture grant expenses	589,333	232,317
HR planning policies expenses	1,160,959	1,132,966
Cafeteria expenses	1,171,252	981,179
Defined benefits costs*	17,059,246	9,966,050
	108,711,508	**94,216,939**

*Included in the defined benefits cost are expenses resulting from actuarial valuation of the Defined Benefit Obligation amounting to TZS 5,518 million (2012: 8,931.4 million)

16 OTHER RECEIVABLES WRITTEN OFF	**30.06.2013**	**30.06.2012**
	TZS '000	**TZS '000**
Write off from other receivables	**-**	**18,853**

The write off charged to profit or loss for the year relates to outstanding items which could not be cleared through the normal accounting procedures.

	30.06.2013	**30.06.2012**
17 OTHER EXPENSES	**TZS '000**	**TZS '000**
Foreign operations		
Foreign reserve management expenses	1,344,924	1,234,623
Financial markets development expenses	1,068,889	993,910
Loss on inter-bank foreign exchange market (IFEM) operations	1,493,460	-
Commission and fees on foreign operations	109,452	77,543
Realized losses on de-recognition of foreign currency marketable	635,595	862,733
Amortized premium	7,511	-
	4,659,831	**3,168,809**

17 OTHER EXPENSES (Continued)	30.06.2013	30.06.2012
	TZS '000	TZS '000
Domestic operations		
Contribution to professional associations, charities	2,043,858	2,031,625
Contribution to national development programs/projects	815,177	1,187,997
Commission and fees on domestic operations	-	316,172
Contributions to other institutions	35,060	15,317
Subscriptions	71,851	89,917
	2,965,946	**3,641,028**
Cheques issued expenses	94,672	164,577
	7,720,449	**6,974,414**

Analysis of contributions and subscriptions

African Association of Central Banks and African Rural and Agriculture Credit Association	19,312	40,733
Contribution to National Board of Accountants and Auditors (NBAA) and National Board of Material Management (NBMM)	71,851	292,300
Promotion of Tanzania Economy Abroad and Other Foreign Institutions	15,719	127,820
Contribution to Establishment of Tanzania Agricultural Development	-	486,981
Contribution to African Research Consortium	-	156,981
Contribution - Committee of Central Bank Governors (CCBG)	15,748	14,999
Tanzania Institute of Bankers	466,400	424,000
Deposit Insurance Board	214,708	229,662
Second Generation of Financial Sector Reforms	708,137	510,536
Monetary and Economic Financial Management Institute	531,711	521,250
Capital Markets and Securities Authority	504,000	480,000
Donations and Other Contributions	418,360	355,766
	2,965,946	**3,641,028**

18 IMPAIRMENT LOSSES

Impairment of property and equipment	-	1,596,587
Loans and receivables	-	5,316
	-	**1,601,903**

19 COMPONENTS OF OTHER COMPREHENSIVE INCOME

Revaluation gain on equity investments	4,968,233	-
Remeasurement of defined benefit	534,024	7,028,666
	5,502,257	**7,028,666**

20 CASH AND CASH EQUIVALENT

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Cash balances with Central Banks	1,142,130,526	1,437,714,727
Demand, time deposits with commercial banks and foreign currency notes and coins	625,692,750	40,524,405
Accrued interest on deposits	386,237	183,806
	1,768,209,513	**1,478,422,938**

Cash and Cash Equivalent 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:

Demand deposits	623,505,124	11,778,602
Foreign currency notes and coins	2,187,626	1,655,755
	625,692,750	**13,434,357**

21 ESCROW ACCOUNTS

Tegeta Escrow Account	35,598,461	34,724,738
Bank of Tanzania Escrow	7,812,395	7,634,689
	43,410,856	**42,359,427**

Tegeta Escrow Account TZS 35,598.5 million.

This represents funds held by the Bank in foreign exchange as escrow agent of the United Republic of Tanzania and Independent Power Tanzania Limited (IPTL). Such funds which are held in the Tegeta escrow account in foreign currency had been invested in money markets instruments with a maturity not exceeding one year in accordance with the Escrow Agreement in force. As at 30 June 2013 the account had a balance of USD 22.2 million equivalent to TZS 35,598.5 million (2012: USD 22.1 millon equivalent to TZS 34,724.7 million.

Bank of Tanzania Escrow TZS 7,812.4 million.

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 had deposited funds into the account only once way back in March 2003 USD 5.0 million 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 2013 the account had a balance of USD USD 4.9 million equivalent to TZS 7,812.4 million (2012: USD 7.8 million) equivalent to TZS 7,634.7 million.

22 ITEMS IN COURSE OF SETTLEMENT

	30.06.2013	30.06.2012
	TZS '000	TZS '000
BoT Net Clearing Account	**1,456,137**	**34,815,938**

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.

23 INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES

	30.06.2013		30.06.2012	
	Equivalent SDR '000	Equivalent TZS '000	Equivalent SDR '000	Equivalent TZS '000
Assets				
Holding of SDRs	153,632	370,513,006	158,660	369,525,297
Quota in IMF	198,900	479,683,371	198,900	471,393,438
	352,532	**850,196,377**	**357,560**	**840,918,735**
Liabilities				
IMF Account No. 1	188,900	455,312,514	188,900	431,550,931
IMF Account No. 2	3	6,358	3	6,025
	188,903	**455,318,872**	**188,903**	**431,556,956**
Allocation of SDRs	190,510	459,452,774	190,510	451,512,468
	379,413	**914,771,646**	**379,413**	**883,069,424**

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 Drawing Rights (SDRs). The SDR balances in IMF accounts are translated into TZS and any unrealized 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 2013 was 0.8 percent (2012: 2.8 percent). A total of SDR 198.9 million equivalent to TZS 479,683.4 million (2012: SDR 198.9 million equivalent to TZS 471,393.4 million), is the 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 2013, the facility had a nil balance.

24 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:

	30.06.2013 **TZS '000**	**30.06.2012** **TZS '000**
Marketable Securities	4,756,786,209	4,000,348,340
Accrued interest	27,620,204	27,308,744
Total	**4,784,406,413**	**4,027,657,084**

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

	30.06.2013	**30.06.2012**
Sovereign Issues	**TZS '000**	**TZS '000**
USD	2,778,446,677	2,098,348,285
GBP	312,649,698	257,951,030
EUR	780,562,807	819,415,604
AUD	269,293,846	-
CNY	114,088,796	-
	4,255,041,824	**3,175,714,919**
Supranational Securities		
USD	217,196,958	191,638,586
GBP	25,651,852	18,542,831
EUR	84,684,562	54,476,312
AUD	12,897,888	-
	340,431,260	**264,657,729**
Agency Securities		
USD	108,785,587	516,451,366
GBP	15,269,661	15,255,650
EUR	37,257,877	28,268,677
	161,313,125	**559,975,693**
Total investments		
USD	3,104,429,222	2,806,438,237
GBP	353,571,211	291,749,511
EUR	902,505,246	902,160,593
AUD	282,191,734	-
CNY	114,088,796	-
Accrued interest	27,620,204	27,308,743
	4,784,406,413	**4,027,657,084**

25 EQUITY INVESTMENTS

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Equity investment in Afreximbank	7,056,734	1,882,698
Equity investment in SWIFT	279,964	306,327
	7,336,698	**2,189,025**

Equity investment in Afreximbank: TZS 7,056.7 million (2012: TZS 1,882.7 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 authorized equity interest in Afreximbank is 300 ordinary shares of par value of USD 10,000 each. As at 30 June 2013 the Bank paid a total of USD 1,200,000 (2012: USD 1,200,000). The proportion of the Bank equity interest to the total holding in this bank is 0.4 percent. These shares are measured at fair value through other comprehsnsive income.

Equity Investment in SWIFT: TZS 280.0 million (2012: TZS 306.3 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 By-laws and general membership rules.

During the year ended 30 June 2013, there was no allocation of shares. During the year ended 30 June 2012, the Bank was allocated and paid for 47 shares with face value of EUR 3,300 each. The allocation was based on the volume of messages the Bank has sent and received through SWIFT.

The number of shares allocated to each member is determined at least after every three years according to the by laws of the Company and is propossional 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 by laws 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 Bank's investment is measured at fair value through other comprehensive income.

26 GOVERNMENT SECURITIES

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Stocks	51,336,808	51,336,808
Treasury Bills	13,881,700	50,440,333
Special Treasury Bonds	1,188,148,228	720,853,823
Treasury EPA Stock	205,743,889	205,743,889
	1,459,110,625	**1,028,374,853**
Accrued interest	37,997,026	22,095,803
	1,497,107,651	**1,050,470,656**

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.

26 GOVERNMENT SECURITIES (Continued)

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 million and 15% Special Treasury Stock 2012/13 with face value of TZS 3.5 million. The stocks have semi annual coupon payments.

Treasury Bills

This represents treasury bills discounted to the Bank. As at 30 June 2013 treasury bills discounted was TZS 13,881.7 million (2012:TZS 50,440.3 million)

Special Treasury Bonds

Treasury Special Bonds are long-term coupon instruments issued at fixed and variable coupon for Government financing. With exception of a bond with face of TZS 160,475.0 million (2012 balance after redemption TZS 9,800 million) other remaining bonds with a value of TZS 1,027,673.2 million have fixed coupon rate and the semi annual interest arising thereof forms part of the Bank's interest income.

The 10 Year Special Government Bonds 2009/2019 with a face values of TZS 150,000.0 million and TZS 323,000 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.
Other Special bonds of TZS 155,000 million with floating interest rate based on the prevailing average yield to maturity for 5 years 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 5,475.0 million was rolled over from 5 years Government Bond with face value of TZS 36,500.0 million which matured in December 2010. This bond bears floating interest rate based on the prevailing average yield to maturity for 5 years with a cap of 14.92 percent. It is redeemed semi annually.
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.
The value of Special Bonds as at 30th June 2013 was TZS 1,188,148.2 million (2012:TZS 720,853.8 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 has 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 2008/18 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 2013 the aggregate position of Special EPA stocks was TZS 205,743.9 million (2012:TZS 205,743.9 million).

27 ADVANCES TO THE GOVERNMENT	30.06.2013 TZS '000	30.06.2012 TZS '000
Advances to the Government (URT) Note 37	**75,456,879**	**283,004,718**

As at 30 June 2013, the overall United Republic of Tanzania (URT) Government position ended with a net deficit balance of TZS 75,456.9 million as summarised under Note 37. 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 in accordance with 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 41,026.3 million (2012: TZS 51,056.2 million).

28 LOANS AND RECEIVABLES	30.06.2013 TZS '000	30.06.2012 TZS '000
Staff loans and advances	41,029,865	42,852,322
Accounts receivable	143,670,509	128,858,838
Secured loan to Mwananchi Gold Company Limited	-	10,593,102
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Intermediary accounts receivable	3,108,684	1,396,167
	192,953,058	**188,844,429**
Less: Write off	-	(18,853)
Provision for impairment	(5,744,557)	(5,724,831)
	187,208,501	**183,100,745**
Analysis of impairment by line items		
Staff loans and advances	199,255	199,255
Accounts receivable	401,302	381,575
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
	5,744,557	**5,724,830**
Movement in provision for impairment		
Balance at the beginning of the year	**5,724,830**	**40,905,639**
Additional impairment on accounts receivable	39,453	5,316
Reversal during the year	(19,726)	(25,375,711)
Write-offs	-	(9,810,414)
Balance at the end of the year	**5,744,557**	**5,724,830**

28 LOANS AND RECEIVABLES (Continued)

The Bank did not pledge any loans and receivables as securities against liabilities in 2013 and 2012.

(a) Accounts Receivable: TZS 143,670.5 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 2013, the account had a balance of TZS 143,670.5 million (2012: TZS 128,858.8 million). Major components under Accounts Receivable include the following: -

(i) Liquidity Management Receivable: TZS 41,746.7 million.

Included under accounts receivable is TZS 41,746.7 million (2012: TZS 21,432.9 million) relating to 2012/13 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 62,223.4 million.

During the year the URT Government net position was overdrawn by TZS 75,456.9 million (2012: TZS 283,004.7 million). Pursuant to Section 34 of the Bank of Tanzania Act, 2006, an amount of TZS 51,056.2 million was charged to the Government as interest on overdrawn position. Accordingly, interest aggregating to TZS 62,223.4 million is outstanding at 30 June 2013 (2012: 40,012.9).

(b) Staff Loans and Advances: TZS 41,029.9 million.

Employees of the Bank are entitled to loans and advances as approved in accordance with the Bank's Staff By - Laws 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 2013 the balance of staff loans and advances was TZS 41,029.9 million (2012: TZS 42,840.9 million).

29 INVENTORIES

The inventory balance consists of the following:	30.06.2013 TZS '000	30.06.2012 TZS '000
Currency machine spare parts	2,109,581	3,618,077
Building, machinery and maintenance consumables	770,855	672,006
Stationery	394,213	337,333
Drugs and medicines	124,224	123,814
Copier parts and consumables	318,481	312,923
Inventory in Transit	-	11,697
Cheque books	365,558	388,231
ICT accessories and consumables	326,198	355,115
	4,409,110	**5,819,196**

All inventories held by the Bank as at 30 June 2013 were for the internal consumption and not intended for sale.

30 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.

MGC 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.

	30.06.2013	30.06.2012
The investment in associate balance consists of the following:	TZS '000	TZS '000
Investment in Mwananchi Gold Company Limited	-	337,317
Share of Loss of Mwananchi Gold Company Limited	-	(337,316)
	-	**1**

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 which will see the Bank realise it's equity and finally complete the withdrawal of its stake in the company. The liquidation process is expected to be completed before the end of financial year 2013/14.

31 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 2012/13, the movement on deferred currency cost balance was as follows:

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Balance as at the beginning of the year	**139,540,818**	**64,169,465**
Add: Cost of currency received during the year	52,391,206	131,997,141
Less: Cost of currency issued in circulation (Note 14)	(53,485,412)	(56,625,788)
Balance as at the end of the year	**138,446,612**	**139,540,818**

32 OTHER ASSETS

Prepayments	7,099,375	12,452,571
Export Credit Guarantee Fund investments account	52,955,305	49,314,111
SME contribution investment account	6,914,823	6,736,225
Staff Housing Fund investment account	1,972,198	-
Accrued Interest on ECGS investment	2,890,416	2,026,733
Development Finance Guarantee investments account	6,276,042	5,896,996
Staff imprest	3,033,356	1,643,598
Petty cash balances	71,500	66,500
Mwalimu J.K. Nyerere Memorial Scholarship Fund investments account	1,910,517	1,577,865
Others	97,786	311,260
	83,221,318	**80,025,859**
Less: Provision for impairment	(44,754)	(38,157)
	83,176,564	**79,987,702**

32 OTHER ASSETS (Continued)

Analysis of impairment by lines	30.06.2013 TZS '000	30.06.2012 TZS '000
Prepayments	**44,753**	**38,157**

Movement in provision for impairment

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

	30.06.2013 TZS '000	30.06.2012 TZS '000
Balance at the beginning of the year	**38,157**	**38,157**
Transfer of impairment from loans and receivables	6,596	-
Balance at the end of the year	**44,753**	**38,157**

(i) Prepayment: TZS 7,099.4 million

The balance under prepayment for the year ending 30 June 2013 mainly covers TZS 3,404.6 million paid to Nandra Engineering and Construction Company Ltd as advance payment for construction of the Bank's branch in Mtwara, TZS 1,350.9 million paid to M/s Giesecke and Devrient FZE as advance payment for maintenance of currency machines and TZS 927.1 million paid to De La Rue Currency of United Kingdom for supply of currency notes (2012: TZS 4,635.4 million and TZS 6,022.9 million) paid to De La Rue Currency of United Kingdom and M/S CRANE AB of Sweden as advance payments for supply of currency notes respectively in accordance with the contract in force).

(ii) Export Credit Guarantee Investment Account: TZS 52,955.3 million

The balance represent funds invested in Treasury Bills in respect of Export Credit Guarantee Scheme fund. As at 30 June 2013 the account had a balance of TZS 52,955.3 million (2012:TZS 49,314.1 million).

33 PROPERTY AND EQUIPMENT

	Land and buildings	Machinery & equipment	Motor vehicles	Fixtures & fittings	Computers, servers & printers	Capital work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost/valuation							
At 01 July 2012	691,988,955	208,984,088	14,269,395	7,195,524	15,502,796	37,463,062	975,403,820
Reclassification	(500,000)	(100,541)	-	-	-	600,541	-
Write off	(5,000)	-	(276,501)	-	10,000		(271,501)
Additions	1,273,931	1,218,917	1,771,537	216,156	808,065	8,915,795	14,204,401
Disposal	-	(209,535)	-	(16,006)	(628,488)		(854,029)
Transfers**	2,070,320	16,908,668	-	-	-	(18,978,988)	-
At 30 June 2013	**694,828,206**	**226,801,597**	**15,764,431**	**7,395,674**	**15,692,373**	**28,000,410**	**988,482,691**
Accumulated depreciation							
At 01 July 2012	7,155,274	134,211,636	6,378,420	4,466,093	10,463,597	-	162,675,020
Write off	(5,000)	(689)	(276,501)	-	10,000		(272,190)
Charges for the Year	5,667,199	23,527,298	1,028,248	880,676	1,601,018	-	32,704,439
Disposal	-	(192,626)	-	(14,330)	(591,431)	-	(798,387)
At 30 June 2013	**12,817,473**	**157,545,619**	**7,130,167**	**5,332,439**	**11,483,184**	**-**	**194,308,882**
Net Book Value							
At 30 June 2013	**682,010,733**	**69,255,978**	**8,634,264**	**2,063,235**	**4,209,189**	**28,000,410**	**794,173,809**

There were neither amounts nor restrictions on title of property and equipment held by the Bank as at 30 June 2013.

33 PROPERTY AND EQUIPMENT (Continued)

	Land and buildings	Machinery & equipment	Motor vehicles	Fixtures & fittings	Computers, servers & printers	Capital work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost/valuation							
At 01 July 2011	690,185,000	208,112,309	9,008,187	6,855,271	13,482,596	29,866,243	957,509,606
Additions	1,478,955	728,854	5,440,772	302,803	2,118,228	8,754,120	18,823,732
Disposal	(175,000)	(135,015)	(456,065)	(53,978)	(57,494)	-	(877,552)
Transfers**	-	177,398	-	91,428	(40,535)	(556,759)	(328,468)
At 30 June 2012	**691,488,955**	**208,883,546**	**13,992,894**	**7,195,524**	**15,502,795**	**38,063,604**	**975,127,318**
Accumulated depreciation and impairment							
At 01 July 2011	-	107,700,169	5,810,026	3,269,685	9,052,278	-	125,832,158
Charges for the Year	5,637,133	26,633,167	686,653	1,397,175	1,488,085	-	35,842,213
Disposal	(1,859)	(108,719)	(394,761)	(48,395)	(50,395)	-	(604,129)
Impairment	1,515,000	84,779	-	-	-	-	1,599,779
Transfers	5,000	(97,760)	-	(152,372)	(26,371)	-	(271,503)
At 30 June 2012	**7,155,274**	**134,211,636**	**6,101,918**	**4,466,093**	**10,463,597**	**-**	**162,398,518**
Net book value							
At 30 June 2012	**684,333,681**	**74,671,910**	**7,890,976**	**2,729,431**	**5,039,198**	**38,063,604**	**812,728,800**

33 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 were measured using the cost model, the carrying amounts of land and buildings would be as follows.

Details	**30.06.2013**	**30.06.2012**
	TZS '000	**TZS '000**
Cost	751,684,832	694,905,081
Accumulated depreciation and impairment	10,470,028	11,138,328
Carrying amount	**741,214,804**	**683,766,753**

Effective financial year 2007/8 valuation of the Bank’s immovable property is conducted after five years. The last revaluation on the ,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 extension of the Arusha office building, Mbeya and ,Currency shelves for Head Office and Zanzibar and currency processing machines. 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 2014.

33 PROPERTY AND EQUIPMENT (Continued)

Reconciliation of items disposed during the period by class of assets

Loss on Disposal of Property and Equipment

					30.06.2013	30.06.2012
	Cost	Accumulated Depreciation	Cost of disposal	Cash proceeds	Net gain/loss	Net gain/loss
CLASS OF ASSET	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Land and buildings	-	-	-	-	-	(173,141)
Machinery & equipment	165,587	152,867	7	936	11,791	(15,316)
Motor vehicles	-	-	-	-	-	(5,778)
Fixtures & fittings	-	-	-	-	-	8,019
Computers, servers & printers	572,156	538,001	54	7,193	27,016	34,622
	737,743	**690,868**	**61**	**8,129**	**38,807**	**(151,594)**

34 INTANGIBLE ASSETS

	Computer software	Computer software - WIP	Total
	TZS '000	TZS '000	TZS '000
2013			
Cost			
At 01 July 2012	22,899,956	161,861	23,061,817
Additions	260,477	576,724	837,201
Transfers	-	-	-
At 30 June 2013	**23,160,433**	**738,585**	**23,899,018**
Accumulated amortisation			
At 01 July 2012	17,280,861	22,691	17,303,552
Charges for the year	2,595,594	-	2,595,594
At 30 June 2013	**19,876,455**	**22,691**	**19,899,146**
Net book value			
At 30 June 2013	**3,283,978**	**715,894**	**3,999,872**
2012			
Cost			
At 01 July 2011	18,767,396	4,195,712	22,963,108
Additions	71,052	27,657	98,709
Transfers	4,061,508	(4,061,508)	-
At 30 June 2012	**22,899,956**	**161,861**	**23,061,817**
Accumulated amortisation			
At 01 July 2011	14,001,598	22,691	14,024,289
Charges for the year	3,279,263	-	3,279,263
At 30 June 2012	**17,280,861**	**22,691**	**17,303,552**
Net book value			
At 30 June 2012	**5,619,095**	**139,170**	**5,758,265**

35 CURRENCY IN CIRCULATION

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Notes		
Notes issued	7,217,434,302	7,391,390,265
Less: Notes in Custody	(4,229,072,111)	(4,730,494,329)
Notes in Circulation (A)	**2,988,362,191**	**2,660,895,936**
Coins		
Coins issued	58,518,810	54,934,265
Less: Coins in Custody	(16,759,944)	(10,606,655)
Coins in Circulation (B)	**41,758,866**	**44,327,610**
	3,030,121,057	**2,705,223,546**

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 3,030,121.1 million, (2012:TZS 2,705,223.5 million) is the face value of TZS 99,386.9million representing banknotes that were phased out in 2003.These notes represent the liability of the Bank and are exchangeable at the Bank's counters.

36 DEPOSITS - BANKS AND NON - BANK FINANCIAL INSTITUTIONS

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Deposit - commercial bank deposits		
Clearing	288,567,540	717,441,524
SMR	1,586,060,245	1,145,789,048
Domestic Banks Foreign Currency Deposits	340,100,698	153,567,983
Sub Total	**2,214,728,483**	**2,016,798,555**
Deposits - Non bank financial institutions		
Clearing	2,145,171	18,924,954
SMR	4,126,090	-
Domestic Non Banks Foreign Currency Deposits	3,876,344	1,632,398
Sub Total	**10,147,605**	**20,557,352**
Total Deposits	**2,224,876,088**	**2,037,355,907**

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

37 DEPOSITS - GOVERNMENTS

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Deposits - Voted		
URT Government	(263,866,358)	(528,973,745)
SMZ Government	(8,589,455)	4,324,434
Sub Total	**(272,455,813)**	**(524,649,311)**
Deposits - Un-voted		
URT Government	195,239,793	245,969,027
SMZ Government	1,759,141	4,574,884
Sub Total	**196,998,934**	**250,543,911**
Total URT Government	**(68,626,565)**	**(283,004,718)**
Total SMZ Government	**(6,830,314)**	**8,899,318**
Deposit Governments (Net)	**(75,456,879)**	**(274,105,400)**

As at 30 June 2013 the position of the Government of the United Republic of Tanzania (URT)and Revolutionary Government of Zanzibar (SMZ) voted accounts were overdrawn by TZS 263,868.4 million and TZS 8,589.5 million respectively. Pursuant to the provision of Section 34 of the Bank's Act, a total of TZS 41,026.3 million (2012: TZS 51,056.2 million) was charged during the year ended 30 June 2013 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 overdrawn position as at 30 June 2013 amounting to TZS 75,456.9 million (2012: TZS 283,004.7 million) has been reported as advance to the Government.

38 DEPOSITS - OTHERS

	30.06.2013	30.06.2012
	TZS '000	TZS '000
Export Credit Guarantee Fund	56,712,431	52,139,825
Small and Medium Enterprises Guarantee Fund	7,594,640	6,773,745
Redemption of Government Stock/Bonds	38,335	38,335
Tegeta Escrow	1,664,624	124,232,287
Development Finance Guarantee Fund	6,793,558	6,137,688
Debt Service cash cover	1,548,269	9,533,664
Deposit staff	9,380,278	6,484,876
Debt Conversion Scheme	2,098,960	2,098,960
Bank drafts issued	587,262	385,909
Deposit Insurance Fund	219,259	11,933,644
Economic Empowerment Programme	1,712,780	1,327,725
Tanzania Agriculture Development Bank	60,000,000	60,000,000
Mwalimu Julius K Nyerere Memorial Scholarship Fund	2,292,623	1,715,703
Mwananchi Gold Company Limited	4,947,083	-
Government obligations settlements	40,111,896	48,533,152
Miscellaneous deposits	319,783	510,308
	196,021,781	**331,845,821**
External Payment Arrears – NBC	2,288,419	2,288,418
	198,310,200	**334,134,239**

38 DEPOSITS - OTHERS (Continued)

Tegeta Escrow TZS Sub Account: TZS 1,664.6 million.

The Bank is a party to an ESCROW arrangement between Tanzania Electric Supply Company (TANESCO) and Independent Power Tanzania Limited (IPTL) for power purchase payments in favor of IPTL. The Bank receives deposits from TANESCO for such monthly power disputed bills claimed by IPTL.

During the year ended 30 June 2013 the Bank received TZS 16,500.0 million being deposits from TANESCO in respect of disputed claims from IPTL. In accordance with the ESCROW agreement, an amount of TZS 139,067.7 million was invested in Goverment financing papers (Treasury Bills) with tenure of 182 days. TANESCO and IPTL are still engaged in a legal tussle on the capacity charges, following disagreement in the interpretation of the Power Purchase Agreement (PPA). Resolution of the dispute will address the question of ownership of the funds that are held in the Escrow Account. As at 30 June 2013 the account had an net uninvested balance of TZS 1,664.6 million (2012: TZS 124,232.3 million). Details are as shown below:

	30.06.2013 TZS '000	30.06.2012 TZS '000
Balance as at the beginning of the year	**124,232,287**	**105,969,256**
Fund deposited	16,500,000	18,263,031
Funds invested in Treasury Bills	(139,067,663)	-
Balance as at end of the year	**1,664,624**	**124,232,287**

Development Finance Guarantee Fund: TZS 6,793.6 million.

Development finance guarantee fund consists of the following:

Capital contribution by the Government	56,500,000	59,148,895
Interest on refinancing loans	20,054,161	9,997,144
Interest earned on treasury bills	3,304,765	7,640,908
Sub Total	**79,858,926**	**76,786,947**
Less: Loans issued for refinancing facility	(73,065,368)	(70,649,259)
Net balance	**6,793,558**	**6,137,688**

Development Finance Guarantee Fund: TZS 6,793.6 million.

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 2013, Government Capital contribution made in Financial Years 2003/04 and 2005/06 to the Fund amounted to TZS 56,500.0 million. Interest received and accrued on refinancing and restructured loans aggregated to TZS 15,232.2 million (2012: TZS 12,816.1 million) while a total of TZS 3,304.8 million (2012: TZS 2,648.9 million)was earned as interest aggregated from the funds invested in treasury bills. A total of TZS 73,065.4 million (2012:70,649.3 million) has so far been issued as loans for refinancing facilities to flowers and vegetable export companies. As at 30 June 2013 the Fund had a balance of TZS 6,793.6 million (2012: TZS 6,137.7 million)

Government Obligations Settlement: TZS 40,111.9 million

This represents Government cash cover in order to settle forex obligations. As at 30 June 2013 such funds aggregated to TZS 40,111.9 million (2012:TZS 48,533.2 million).

38 DEPOSITS - OTHERS (Continued)

Export Credit Guarantee Fund: TZS 56,712.4 million.

The balance under this fund consists of the following:

	30.06.2013 TZS '000	30.06.2012 TZS '000
Export Credit Guarantee Fund	64,392,856	57,202,715
Less: ECGS Receivable	(7,680,425)	(5,062,890)
Total	**56,712,431**	**52,139,825**

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 2013 the Fund had a balance of TZS 56,712.4 million (2012: TZS 52,139.8 million) comprising of Government and the Bank's contributions and income from investment in treasury bills and guarantee fees.

Debt Service Cash Cover: TZS 1,548.3 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 2,292.6 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 2013 a total of TZS 1,910.5 million (2012: TZS 1,577.9 million) in respect of the Fund's resources had been invested in Government treasury bills and treasury bonds as per Note 32. As a result the Fund had a balance of TZS

39 FOREIGN CURRENCY FINANCIAL LIABILITIES

Foreign Currency Financial Liabilities consist of the following:

	30.06.2013 TZS '000	30.06.2012 TZS '000
Multilateral Debt Relief Initiative Fund	7,676,726	6,833,893
TEGETA Escrow	35,598,461	34,724,738
Special Projects	454,003,875	425,288,307
Multilateral Agencies	140,674	140,674
Central Banks Deposits	41,530	42,280
Other Foreign Currency Deposits	10,227,880	11,123,987
	507,689,146	**478,153,879**

39 FOREIGN CURRENCY FINANCIAL LIABILITIES (Continued)

Multilateral Debt Relief Initiative Funds: TZS 7,676.7 million

Multilateral debt initiative funds relate to debt relief relating to cancellation of Government of the United Republic of Tanzania indebtness to the IMF under the IMF-Multilateral Debt Relief Initiative (MDRI). As at 30 June 2013, the fund had a balance amounting to TZS 7,676.7 million (2012: TZS 6,833.9 million).

TEGETA Escrow: TZS 35,598.5 million

The Bank is a party to an ESCROW arrangement between Tanzania Electric Supply Company (TANESCO) and Independent Power Tanzania Limited (IPTL) for power purchase payments in favor of IPTL.The Bank receives deposits from TANESCO for such monthly disputed power bills claimed by IPTL.

TANESCO and IPTL are still engaged in a legal tussle on the capacity charges, following disagreement in the interpretation of the Power Purchase Agreement (PPA). Resolution of the dispute will address the question of ownership of the funds that are held in the Escrow Account. As at 30 June 2013 the account had a balance of USD 22.2 million (2012: USD 22.2 million) equivalent to TZS 35,598.5 million (2012: TZS 34,724.7 million).

Special Projects Funds: TZS 454,003.9 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 2013 the total balance in respect of Special Project accounts aggregated to TZS 454,003.9 million (2012: TZS 425,288.3 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 2013, such balances amounted to TZS 140.7 million (2012: TZS 140.7 million).

Other Foreign Currency Deposits TZS 10,227.9 million

This mainly consists of balance in respect of Mwananchi Gold Company Ltd . As at 30 June 2013, the balance was TZS 932.4 million (2012: TZS 11,124.0 million).

40 POVERTY REDUCTION AND GROWTH FACILITY (PRGF)

	30.06.2013 TZS '000	30.06.2012 TZS '000
Exogenous Shocks Facility - ESF (IMF Drawings)	**723,094,344**	**539,104,400**

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.

40 POVERTY REDUCTION AND GROWTH FACILITY (PRGF) (Continued)

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 159,120,000 (USD 245,767,568.01) equivalent to TZS 318,195.1 million being the first tranche. The Bank further received SDR 39,780,000 (USD 63,377,454.32) equivalent to TZS 83,288.1 million and SDR 19,890,000 (USD 29,027,300.84) 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. During the year the Government received loan facility of SDR 74.6 million equivalent to TZS 181,472.8 million on 20 February 2013.

As at 30 June 2013 the balance of PRGF account was TZS 723,094.3 million (2012:TZS 539,104.4 million).

41 REPURCHASE AGREEMENTS (REPOs)

	30.06.2013 TZS '000	30.06.2012 TZS '000
Repurchase Agreements	48,000,000	25,000,000
Accrued interest	26,827	25,548
	48,026,827	**25,025,548**

42 BOT LIQUIDITY PAPERS

BOT liquidity papers	1,284,737,042	694,038,209
Accrued interest	71,400,467	38,267,939
	1,356,137,509	**732,306,148**

As at 30 June, 2013 the maturities profile of BOT Liquidity Papers were follows:

35-Day Treasury Bills	5,965,455	3,892,500
91-Day Treasury Bills	76,849,985	58,315,768
182-Day Treasury Bills	378,066,470	233,098,653
364-Day Treasury Bills	823,855,132	398,731,288
	1,284,737,042	**694,038,209**

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.

43 PROVISIONS

	30.06.2013 TZS '000	30.06.2012 TZS '000 (restated)
Provision for leave pay	5,692,539	3,731,306
	5,692,539	**3,731,306**

43 PROVISIONS (Continued)

Movements in provisions	**30.06.2013**	**30.06.2012**
	TZS '000	**TZS '000**
Leave pay		
Carrying amount at the beginning of the year	**3,731,306**	**3,515,789**
Provision charged during the year	1,961,233	215,517
Carrying amount at the end of the year	**5,692,539**	**3,731,306**

44 OTHER LIABILITIES

Accounts payable	24,656,601	28,399,181
Accruals	-	659,858
Stale drafts payable	103,003	102,969
Employees tax payable	183,395	125,968
Others	301,571	304,020
	25,244,570	**29,591,996**

45 RETIREMENT BENEFIT OBLIGATION

Movements in the present value of defined benefit obligation in the current year were as follows;

Retirement benefits obligation	88,934,981	83,950,965
	88,934,981	**83,950,965**

Please refer to note 52 on details of the retirement benefit plan.

46 AUTHORISED AND PAID-UP SHARE CAPITAL

Authorized Capital	100,000,000	100,000,000
Issued and Paid-up Capital	**100,000,000**	**100,000,000**

The Authorized and paid up capital of the Bank is determined in accordance with Section 17(i) of the Bank of Tanzania Act, 2006.

47 CASH GENERATED FROM/(USED BY) OPERATIONS

	30.06.2013	30.06.2012
	TZS '000	TZS '000
		(restated)
Loss for the year	**(16,754,925)**	**(52,893,125)**
Adjustment for:		
Other comprehensive income	5,502,257	-
Depreciation of property and equipment	32,704,439	35,842,213
Amortization of intangible assets	2,595,594	3,279,263
Transfer of securities revaluation reserve balance	-	(64,784,192)
Interest on staff housing investments	1,121,381	556,246
Net loss on disposal of property and equipment	38,807	151,594
Transfer of property and equipment	-	56,966
Unrealised foreign exchange revaluation loss/ gains	41,892,007	(6,931,926)
Provision for impairment	-	1,605,095
Increase in fair value of equity investment	-	12,923
Bad debts written off	-	18,853
	67,099,560	**(83,086,090)**
Changes in working capital		
(Increase) /decrease in Escrow assets	(1,051,429)	112,107
Increase in loans and receivables	(4,107,756)	(94,930,378)
Decrease in advances to the Government	207,547,839	65,365,036
Decrease/(increase) in deferred currency cost	1,094,206	(75,371,353)
(Increase)/decrease in other assets	(3,188,862)	12,943,362
Decrease/(increase) in inventories	1,410,086	(1,054,944)
Decrease/(increase) in items in course of settlement	33,359,801	(29,039,507)
Increase in other liabilities and provisions	2,063,799	12,459,011
Net changes in working capital	**237,127,684**	**(109,516,666)**
Net cash generated from/(used in) operations	**304,227,244**	**(192,602,756)**

48 RESERVES

General Reserve	257,285,113	217,158,993
Capital Reserve	99,262,908	99,262,908
Foreign Exchange Equalization Reserve	309,047,193	350,939,200
Reserve for Capital Projects	120,000,000	120,000,000
Staff Housing Fund	35,291,952	34,170,571
Assets Revaluation Reserve	119,776,163	119,776,163
Securities Revaluation Reserve	27,743,947	77,890,871
Reserves for Dividend	40,126,119	-
Staff Benefits Reserve	7,562,690	7,028,666
	1,016,096,085	**1,026,227,372**

48. RESERVES (Continued)

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 Bank shall 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 shall transfer not less than ten percent of profits to the General Reserve Fund. As at 30 June 2013 the reserve had a balance of TZS 257,285.1 million (2012: TZS 217,159.0 million restated).

b) Capital Reserve

The Capital Reserve was established in financial year 2001/02. 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 2013 the reserve had the same balance as it was on 30 June 2012 of TZS 99,262.9 million.

c) Foreign Exchange Equalization Reserve

The reserve was established on 30 June 2006. The Foreign Exchange Equalization Reserve acts as a cushion against any significant future exchange losses, which may arise from any significant appreciation of Tanzania Shilling compared to other international currencies a condition which if left unabated may cause a high risk of a significant erosion of the Bank's net worth and financial stability.

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 2013 the total amount standing at the credit of the Foreign Exchange Equalization Reserve amounted to TZS 309,047.2 million (2012: TZS 350,939.2 million).

d) Reserve for Capital Projects

This reserve was established by a resolution of the Bank's Board of Directors in 1991/92. 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, 2013 the reserve had a balance of TZS 120,000.0 million (2012: TZS 120,000.0 million).

e) Staff Housing Fund

The Staff Housing Fund was established by a resolution of the Board of Directors in 1989/90. The purpose of this fund is to provide housing loans to Bank's employees. On an annual basis, the Board determines the amount to be appropriated into the fund out of distributable profits. As at 30 June 2013, the fund had a balance of TZS 35,291.9 million (2012: TZS 34,170.6 million) that include interest on fund's investments.

48. RESERVES (Continued)

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 appropriated 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 revaluation surplus in respect of that asset. As at 30 June 2013, the reserve had a balance of TZS 119,776.2 million (2012: TZS 119,776.2 million restated).

g) Securities Revaluation Reserve

The Bank maintains a Securities Revaluation Reserve to account for unrealized gains and losses arising from changes in fair value of financial instruments measures at fair value through profit or loss. As at 30 June 2013 the reserve had a balance of TZS 27,743.9 million (2012: TZS 77,890.9 million restated).

h) Foreign Currency 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. However, pursuant to the requirements of the International Accounting Standard the effects of changes in foreign exchange rates (IAS – 21), all realized and unrealized foreign exchange valuations should be taken to the income statement.

Both realized and unrealized gains and losses are therefore taken to Income Statement 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 82,945.0 million (2012: loss of TZS 153,545.3 million). Out of revaluation gains of TZS 82,945.0 million, net unrealised loss amount of TZS 41,892.0 million was transferred to foreign currency revaluation reserve. The balance of TZS 124,837.0 million related to realised gains forms part of the distributable profit for the year end 30 June 2013. As at 30 June 2013 the reserve had a zero balance as TZS 41,892.0 million (2012: TZS 0) was transferred to Foreign Exchange Equalisation Reserve.

i) Reserve for Dividend

This reserve accommodates the amount declared as dividend payable to the Governments. As at 30 June 2013 the reserve had the balance of 40,126.1 million compared to zero balance of previous year.

j) Defined Benefit Reserve

This reserve was established by the Board in 2012 in order to accommodate re-measurements arising from change in actuarial assumptions to ensure compliance with International Accounting standard on Employee Benefits (IAS 19 as revised in 2011). As at 30 June 2013 the reserve had a balance of TZS 7,562.7 million (2012: TZS 7,028.7 million restated).

49. RISK MANAGEMENT

49.1 Introduction

Risk is inherent in the Bank's activities but is managed through a process of identification, measuring, prioritization, monitoring and reviewing policies, subject to risk limits and other controls. This process of risk management is critical to the Bank's continued profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk, credit risk and liquidity risk).

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

Risk Management at the Bank forms an integral part of reserves management within the governance structure of the Bank starting from the level of the Board. Risk management is carried out under the Foreign Exchange Reserves Management Policy and Strategic Asset Allocation approved by the Board. The Finance and Investment Committee of the Board is responsible for reviewing the appropriateness of Foreign Reserve Management Policy and make recommendations to the Board. The Investment committee is responsible for approving and monitoring compliance with Foreign Exchange Reserves Management guidelines.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Strategy in using financial instruments

By nature, the Bank's activities necessitate the use of financial instruments. The Bank accepts deposits from commercial banks and the Government, the required minimum reserves from commercial banks operating in the United Republic of Tanzania. 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.

Foreign exchange deposits placed with the Bank and foreign exchange acquired by the Bank through the use of International Monetary Fund (IMF) resources, Interbank Foreign Exchange Market and through the Government of the United Republic of Tanzania constitute the sources of foreign exchange reserves of the Bank. 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 liquidity against external shocks, implementation of monetary and exchange rate policies, and providing confidence to the markets. In view of the Bank's priorities of safe investment, 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.

In this framework, most of the financial risks to which the Bank is exposed arise while fulfilling its legal obligations, such as implementing monetary and exchange rate policies, managing foreign exchange reserves and rendering certain banking services to the banking sector and the Government of the United Republic of Tanzania.

49. RISK MANAGEMENT (Continued)

49.1 Introduction (Continued)

The Bank is exposed to credit, market and liquidity risks due to the aforementioned operations. In the process of implementing monetary and exchange rate policies the Bank is exposed to financial risks arising from the change in cross currency exchange rates.

Financial risks that arise in the management of foreign exchange reserves result from market behaviour. The Bank endeavours to minimize such risks by managing them in accordance with the Strategic Asset Allocation framework. Foreign exchange reserves are managed by observing the investment criteria defined in the Investment Policies approved by the Board and in compliance with the targets and limits stipulated in the Investment Guidelines, which are reviewed by the Investment Committee once a year or whenever need arise.

49.2 Risk Management Structure

49.2.1 The Board of Directors

The Board of Directors is responsible for approving the risk management framework and policy to guide the management in managing and monitoring risks.

49.2.2 Management

Management is responsible for identifying, measuring, ranking, and monitoring the risks within the approved risk management framework and policy. In performing these roles the following functional departments are involved.

49.2.3 Risk Management Function

The risk management function is responsible for establishing and maintaining a comprehensive corporate wide risk management framework for mitigating and responding to risks. In discharging this responsibility it develops a Corporate Risk Management (CRM) framework, develop and implement action plans for risk mitigation in each functional unit and monitor implementation of risk management action plans in each functional unit.

49.2.4 Financial Markets Function

The Financial Markets Function is responsible for the development and implementation of the risk management framework for reserves management. It identifies measures and monitors risks arising from reserves management and implementation of monetary policy.

49.2.5 Internal Audit Function

Risk Management processes in the Bank is audited by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

49.3 Risk measurement and reporting systems

The Bank's financial risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

49. RISK MANAGEMENT (Continued)

49.3 Risk measurement and reporting systems (Continued)

The models 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.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The compiled financial risk data is examined, analyzed and processed in order to identify risks and control them on a timely basis. This information is presented and explained to the Board of Directors. On a monthly basis, detailed reporting of interest, currency, liquidity and geographic risks takes place. The Finance and 49.3 Investment Committee of the Board receives quarterly investment reports, which cover inter alia comprehensive risk management reports.

A daily and weekly briefing is given to the surveillance and liquidity management meeting on; the performance of Treasury Bills and Treasury Bonds market, Repurchase Agreements, Inter Foreign Exchange Market (IFEM), interbank cash market, reserve money, daily liquidity forecast, government revenue and expenditure, utilization of market limits and any other risk developments.

49.4 Risk mitigation

As part of its overall risk management, the Bank uses various limits specified in its guidelines and policies to manage exposures resulting from changes in interest rates, foreign currencies, equity risk, credit risk and exposure arising from forecast transactions. Such limits specify various types of risk and the amount the Bank is willing and able to take.

Consequently, interest rate risk arising from foreign investment is mitigated by targeting average duration of the foreign assets and investing in low risk assets such as short-term government debt. Strategic currency risk is mitigated by limiting foreign assets to major reserves currencies in such a way that the weight of individual currency matches expected Government and the Bank's foreign obligations in that currency. To lessen the impact of the credit risk, the Bank engages with counterparts of high credit quality which have been rated by International Credit Rating Agencies. From time to time depending on the type of transaction, the Bank demands collateral of high market value to protect against credit risks. In the course of mitigating its financial risks, the Bank does not utilize derivative instruments. Derivative instruments may be used during monetary policy implementation.

49.5 Excessive risk concentration

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

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

49. RISK MANAGEMENT (Continued)

49.6.1 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 his 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. In this framework, 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 F1 according to Standard and Poor's (S&P) with a maturity up to one year while it can invest in securities issued or directly guaranteed by foreign governments and Supranational which have a long-term rating of at least 'A' according to S&P or an equivalent credit rating. 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.

Securities issued by the US, UK, German and France governments can constitute 100 percent of the Bank's foreign reserves. Investments in other selected OECD countries are limited to 10 percent of the investible foreign reserves. Sovereign agencies and supranational are limited to one third of the total reserves in a bid to protect the Bank against spread risks. 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 guideline, using the fundamental and the financial analysis methods. 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 remains 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 2013 and 30 June 2012 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).

49. RISK MANAGEMENT (Continued)

49.6.1 Financial risks (Continued)

a) Credit risk (Continued)

	30.06.2013		30.06.2012	
	TZS '000	**TZS Share (%)**	**TZS '000**	**TZS Share (%)**
Central Banks:				
(AAA)	1,142,130,526	13.53%	1,437,714,727	17.92%
Foreign Commercial Banks:				
F1+	626,078,987	7.42%	40,708,211	0.51%
Escrow accounts				
Tegeta Escrow:				
A+	35,598,461	0.42%	34,724,738	0.43%
Bank of Tanzania Escrow:				
AA	7,812,395	0.09%	7,634,689	0.10%
Loans and Receivables :				
NR	187,208,501	2.22%	183,100,745	2.28%
Investment Securities:	6,271,519,100		5,078,127,740	
Marketable Securities:	4,784,406,413	56.69%	4,027,657,084	50.20%
AAA	2,029,255,690		4,027,657,084	
AA+	2,577,727,952			
AA	114,125,771			
Government Securities:				
NR	1,497,107,651	17.74%	1,050,470,656	13.09%
Advance to the Government:				
NR	75,456,879	0.89%	283,004,718	3.53%
Others				
NR	83,318,272	0.99%	957,911,397	11.94%
Total	**8,439,118,085**	**100%**	**8,022,926,965**	**100%**

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

The sectoral classification of the Bank's credit exposure as at 30 June 2013 is as follows:

Details	Foreign Country Treasury	Supranational Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Government Guaranteed Agencies	Tanzania Treasury	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2013							
Due from banks							
Central Banks	1,134,929,012	4,834,649	-	-	-	2,366,865	1,142,130,526
Commercial Banks	-	-	-	626,078,987	-	-	626,078,987
Escrow accounts		-	-	43,410,856	-	-	43,410,856
Loans and Receivables	-	-	187,208,501		-	75,456,879	262,665,380
Investment in securities							
Foreign Currency Marketable securities	4,279,712,530	342,869,987	-	84,057,692	77,766,204	-	4,784,406,413
Equity investments	-	-	-	7,336,698	-	-	7,336,698
Government securities	-	-	-	-	-	1,497,107,651	1,497,107,651
Others	-	-	-	-	-	1,062,697,525	1,062,697,525
Total	**5,414,641,542**	**347,704,636**	**187,208,501**	**760,884,233**	**77,766,204**	**2,637,628,920**	**9,425,834,036**

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

The sectoral classification of the Bank's credit exposure as of 30 June 2012 is as follows:

Details	Foreign Country Treasury	Supranational Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Government Guaranteed Agencies	Tanzania Treasury	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2012							
Due from banks							
Central Banks	1,449,424,732	-	-	-	-	2,161,244	1,451,585,976
Commercial Banks	-	-	-	26,836,962	-	-	26,836,962
Escrow accounts	-	-	-	42,359,427	-	-	42,359,427
Loans and Receivables	-	-	183,100,745	-	-	283,004,718	466,105,463
Investment in securities							
Foreign Currency Marketable securities	3,569,997,688	271,953,222	-	31,108,174	154,598,001	-	4,027,657,085
Government securities	-	-	-	-	-	1,050,470,656	1,050,470,656
Equity investments	-	-	-	2,189,025	-	-	2,189,025
Others	-	-	-	843,107,760	-	-	843,107,760
Total	**5,019,422,420**	**271,953,222**	**183,100,745**	**945,601,348**	**154,598,001**	**1,335,636,618**	**7,910,312,354**

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as at 30 June 2013 is as follows:

2013	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
Assets						
Cash and balances with central banks & other banks	98,821,517	885,039,229	125,050,759	31,626,281	1,592,740	1,142,130,526
Deposits with Commercial Banks	-	-	315,084,253	310,994,734	-	626,078,987
Escow accounts	-	-	7,812,395	35,598,461	-	43,410,856
Items in course of settlement	1,456,137	-	-	-	-	1,456,137
Holdings of Special Drawing Rights (SDRs)	-	370,513,006	-	-	-	370,513,006
Foreign currency marketable securities	2,291,581,779	730,208,598	1,247,550,533	515,065,503	-	4,784,406,413
Equity investment	-	-	-	279,964	7,056,734	7,336,698
Government securities	1,497,107,651	-	-	-	-	1,497,107,651
Advances to the Government	75,456,879	-	-	-	-	75,456,879
Loans and receivables	192,953,058	-	-	-	-	192,953,058
Quota in International Monetary Fund (IMF)	-	479,683,371	-	-	-	479,683,371
Other assets	76,121,943	-	-	-	-	76,121,943
Total Assets	**4,233,498,964**	**2,465,444,204**	**1,695,497,940**	**893,564,943**	**8,649,474**	**9,296,655,526**
Liabilities						
Currency in circulation	3,030,121,057	-	-	-	-	3,030,121,057
Deposits - banks and non-banks financial institutions	2,224,876,088	-	-	-	-	2,224,876,088
Deposits - others	198,310,200	-	-	-	-	198,310,200
Foreign currency financial liabilities	507,689,146	-	-	-	-	507,689,146
Poverty deduction and growth facility	723,094,344	-	-	-	-	723,094,344
Repurchase agreements	48,026,827	-	-	-	-	48,026,827
BoT liquidity papers	1,356,137,509	-	-	-	-	1,356,137,509
Other liabilities	25,244,570	-	-	-	-	25,244,570
IMF related liabilities	455,318,872	-	-	-	-	455,318,872
Allocation of Special Drawing Rights (SDRs)	-	459,452,774	-	-	-	459,452,774
Total liabilities	**8,568,818,614**	**459,452,774**	**-**	**-**	**-**	**9,028,271,388**

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

2012	Tanzania	USA	UK	Other European Countries	Other Countries	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets						
Cash and balances with central banks & other banks	-	798,372,287	72,579,299	290,317,195	290,317,195	1,451,585,976
Demand, Foreign Currency Notes & Coins & Time deposits with Commercial Banks	-	20,767,060	13,836,951	31,133,140	3,459,238	69,196,389
Escow accounts			7,634,689	34,724,738		42,359,427
Items in course of settlement	34,815,938	-	-	-	-	34,815,938
Holdings of Special Drawing Rights (SDRs)	-	369,525,297	-	-	-	369,525,297
Foreign currency marketable securities	-	2,716,002,750	295,178,600	994,268,679	22,207,055	4,027,657,084
Equity investment	-	-	-	-	2,189,025	2,189,025
Government securities	1,050,470,656	-	-	-	-	1,050,470,656
Advances to the Government	283,004,718	-	-	-	-	283,004,718
Loans and receivables	192,953,058	-	-	-	-	192,953,058
Investment in associate company	1	-	-	-	-	1
Quota in International Monetary Fund (IMF)	-	471,393,438	-	-	-	471,393,438
Other assets	76,121,943	-	-	-	-	76,121,943
Total Assets	**1,637,366,314**	**4,376,060,832**	**389,229,539**	**1,350,443,752**	**318,172,513**	**8,071,272,950**
Liabilities						
Currency in circulation	2,705,223,546	-	-	-	-	2,705,223,546
Deposits - banks and non-banks financial institutions	2,037,355,907	-	-	-	-	2,037,355,907
Deposits - Governments	8,899,318	-	-	-	-	8,899,318
Deposits - others	334,134,239	-	-	-	-	334,134,239
Foreign currency financial liabilities	478,153,879	-	-	-	-	478,153,879
Poverty Reduction and Growth Facility	539,104,400	-	-	-	-	539,104,400
Repurchase agreements	25,025,548	-	-	-	-	25,025,548
BoT liquidity papers	732,306,148	-	-	-	-	732,306,148
Other liabilities	29,591,996	-	-	-	-	29,591,996
IMF related liabilities	431,556,956	-	-	-	-	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	451,512,468	-	-	-	451,512,468
Total liabilities	**7,321,351,937**	**451,512,468**	**-**	**-**	**-**	**7,772,864,405**

49. RISK MANAGEMENT (Continued)

49.6.1 Financial risks (Continued)

a) Credit risk (Continued)

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.

30.06.2013

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalents	1,768,209,513	-	-	1,768,209,513
Marketable Securities	4,784,406,413	-	-	4,784,406,413
Escrow accounts	43,410,856	-	-	43,410,856
Equity Investment	7,336,698	-	-	7,336,698
Loans and Receivables	181,463,944	-	5,744,557	187,168,680
Other assets	76,065,689	-	44,754	98,548,644
Total	**6,860,893,113**	**-**	**5,789,311**	**6,889,080,804**

30.06.2012

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalents	1,478,422,938	-	-	1,478,422,938
Escrow accounts	42,359,427	-	-	42,359,426
Marketable Securities	4,027,657,084	-		4,027,657,084
Investment in Associate Company	337,317	-	337,316	1
Equity Investment	2,189,025	-	-	2,189,025
Loans and Receivables	166,815,054	10,542,007	5,743,684	183,100,745
Other assets	80,232,084	206,228	38,157	79,787,699
Total	**5,798,031,782**	**10,748,235**	**6,119,157**	**5,813,516,918**

49. RISK MANAGEMENT (Continued)

49.6.1 Financial risks (Continued)

a) Credit risk (Continued)

As at 30 June 2013, aging analysis of loans and receivables is as follows:

Details	Total	Neither past due nor impaired	Less than 30 days	31 to 60 days	61-90 days	91-120 days	> 120 days
2013	192,953,058	187,208,501	-	-	-	-	5,744,557
2012	188,844,429	183,150,745	-	-	-	-	5,743,684

See Note 28 for more detailed information with respect to allowance for impairment losses on loans and receivables and other assets.

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

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 difficult has arisen, projected receipts and the expected payout should bankruptcy ensure, 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.

The maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (that is netting agreements that do not qualify for offsetting in accordance with IAS 32) is as follows:

Details	30.06.2013 Gross Maximum Exposure TZS '000	30.06.2012 Gross Maximum Exposure TZS '000
Cash and cash equivalents	1,768,209,513	1,478,422,938
Escrow accounts	43,410,856	42,359,427
Marketable Securities	4,784,406,413	4,027,657,084
Government Securities	1,497,107,651	1,050,470,656
Advances to the Government	75,456,879	283,004,718
Loans and Receivables	192,953,058	188,844,429
Other Assets	76,050,443	67,506,788
Holding on Special Borrowing Rights	370,513,506	369,525,297
Quota in Internal Monetary Fund IMF	479,683,371	471,393,438

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risk (Continued)

c) Liquidity Risk (Continued)

Liquidity risk is the risk that the Bank though solvent, either does not have sufficient resources available to meet its obligations when they fall due, or can secure them only by converting assets to cash at a price lower than their fair value. Thus inability of the Bank to meet its own foreign exchange obligations and that of government timely without incurring huge price concession is reflected as liquidity risk.

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 trenches. 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 Banking based on the remaining period at Statement of Financial Position date to contractual maturity date.

49 RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

b) Liquidity risk (Continued)
- by Contractual maturity analysis of financial instruments

	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2013						
Assets						
Cash and balances with central banks & other banks	1,520,385,788	247,823,725	-	-	-	1,768,209,513
Escrow accounts	43,410,856	-	-	-	-	43,410,856
Items in course of settlement	1,456,137	-	-	-	-	1,456,137
Holdings of Special Drawing Rights (SDRS)	370,513,006	-	-	-	-	370,513,006
Foreign currency marketable securities	32,006,935	488,575,203	761,913,131	3,455,848,000	46,063,144	4,784,406,413
Equity investment	-	-	-	-	7,336,698	7,336,698
Government securities	-	-	37,997,026	-	1,459,110,625	1,497,107,651
Advance to the Government	-	-	75,456,879	-	-	75,456,879
Loans and receivables	-	8,430,797	139,346,094	16,354,018	17,293,214	181,424,123
Quota in International Monetary Fund	-	-	-	-	479,683,371	479,683,371
Other assets	5,241,293	-	63,857,518	-	-	69,098,811
Total assets	**1,973,014,016**	**744,829,725**	**1,078,570,648**	**3,472,202,018**	**2,009,487,053**	**9,278,103,458**
Liabilities						
Currency in circulation	1,212,048,423	909,036,317	909,036,317	-	-	3,030,121,057
Deposit - banks and non banks financial institutions	2,224,876,088	-	-	-	-	2,224,876,088
Deposit others	43,014,029	114,631	137,241,232	17,940,307	-	198,310,199
Foreign currency financial liabilities	418,459,212	101,527,007	76,199,366	126,908,759	-	723,094,344
Poverty Reduction and Growth Facility	-		6,072,613	488,640,596	429,120	495,142,329
Repurchase Agreements	48,026,827	-	-	-	-	48,026,827
BOT liquidity papers	5,965,454	76,849,985	1,273,322,070	-	-	1,356,137,509
Defined benefit obligation	-	-	5,746,570	83,188,411	-	88,934,981
Other liabilities	8,220,590	6,477,321	-	1,666,464	8,880,195	25,244,570
IMF Related Liabilities	-	-	6,358	455,312,514	-	455,318,872
Allocation of Special Drawing Rights (SDRs)	-	-	45,945,277	91,890,555	321,616,942	459,452,774
Total Liabilities	**3,960,610,623**	**1,094,005,261**	**2,453,569,803**	**1,265,547,606**	**330,926,258**	**9,104,659,550**
Net Liquidity gap	**(1,987,596,607)**	**(349,175,537)**	**(1,374,999,155)**	**2,206,654,412**	**1,678,560,795**	**173,443,908**

BANK OF TANZANIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

49 RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

b) Liquidity risk (Continued)
- by Contractual maturity analysis of financial instruments

	Up to 1 Month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 Years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2012						
Assets						
Cash and balances with central banks & other banks	834,406,815	644,016,123	-	-	-	1,478,422,938
Escrow accounts	42,359,427	-	-	-	-	42,359,427
Items in course of settlement	34,815,938	-	-	-	-	34,815,938
Holdings of Special Drawing Rights (SDRs)	-	4,108,168	365,417,129	-	-	369,525,297
Foreign currency marketable securities	36,662,328	52,236,382	641,207,618	3,297,550,756	-	4,027,657,084
Equity investment	-	-	-	-	2,189,025	2,189,025
Government securities	-	-	-	844,726,767	205,743,889	1,050,470,656
Advance to Government	-	-	283,004,718	-	-	283,004,718
Loans and receivables	16,987,232	68,816,222		97,297,291	-	183,100,745
Quota in International Monetary Fund	-	-		471,393,438	-	471,393,438
Other assets	1,710,098	1,820,470	64,004,563	-	-	67,535,131
Total assets	**966,941,838**	**770,997,365**	**1,353,634,028**	**4,710,968,253**	**207,932,914**	**8,010,474,397**
Liabilities						
Currency in circulation	386,460,507	1,159,381,519	1,159,381,520	-	-	2,705,223,546
Deposit - banks and non banks financial institutions	900,845,025	773,265,166	1,031,113,355	-	-	2,705,223,546
Deposit - Governments	2,882,956	1,920,115	4,096,247	-	-	8,899,318
Deposit - Others	55,403,937	73,314,730	88,936,449	116,479,123	-	334,134,239
Foreign currency financial liabilities	95,630,776	238,562,153	109,236,212	34,724,738	-	478,153,879
Poverty Reduction and Growth Facility	-	2,654,402	3,339,046	456,069,298	77,041,654	539,104,400
Repurchase agreements	25,025,548	-	-	-	-	25,025,548
BOT liquidity papers	-	3,892,500	728,413,648	-	-	732,306,148
Defined benefit obligation	-	-	4,984,016	78,966,949	-	83,950,965
Other liabilities	6,061,989	8,751,830	14,778,177	-	-	29,591,996
IMF Related Liabilities	-	-	-	431,556,956	-	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	-	-	451,512,468	-	451,512,468
Total Liabilities	**1,472,310,738**	**2,261,742,415**	**3,144,278,670**	**1,569,309,532**	**77,041,654**	**8,524,683,009**
Net Liquidity gap	**(505,368,900)**	**(1,490,745,050)**	**(1,790,644,642)**	**3,141,658,720**	**130,891,260**	**(514,208,612)**

49 RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

b) Liquidity risk (Continued)

The table below shows analysis of assets and liabilities according to when they expect to be recovered or settled:

	Less than 12 months	Over 12 months	Total
2013	**TZS '000**	**TZS '000**	**TZS '000**
Assets			
Cash and balances with central banks & other banks	1,768,209,513	-	1,768,209,513
Escrow accounts	43,410,856	-	43,410,856
Items in course of settlement	1,456,137	-	1,456,137
Holdings of Special Drawing Rights (SDRs)	-	370,513,006	370,513,006
Foreign Currency Marketable securities	520,582,138	4,263,824,275	4,784,406,413
Equity investment	-	7,336,698	7,336,698
Government securities	-	1,497,107,651	1,497,107,651
Advance to the Government	75,456,879	-	75,456,879
Loans and receivables	153,561,269	33,647,232	187,208,501
Quota in International Monetary Fund	-	479,683,371	479,683,371
Other assets	83,176,564	-	83,176,564
Total assets	**2,645,853,357**	**6,652,112,233**	**9,297,965,590**
Liabilities and equity			
Currency in circulation	3,030,121,057	-	3,030,121,057
Deposit - banks and non banks financial institutions	2,224,876,088	-	2,224,876,088
Deposit - Others	180,369,892	17,940,307	198,310,199
Foreign currency financial liabilities	596,185,585	126,908,759	723,094,344
Poverty reduction and growth facility	6,072,613	717,021,731	723,094,344
Repurchase agreements	48,026,827	-	48,026,827
BOT liquidity papers	1,356,137,509	-	1,356,137,509
Other liabilities	25,244,570	-	25,244,570
IMF related liabilities	-	455,318,872	455,318,872
Allocation of Special Drawing Rights (SDRs)	45,945,277	413,507,497	459,452,774
Total liabilities	**7,512,979,419**	**1,730,697,166**	**9,243,676,585**
Net Liquidity gap	**(4,867,126,062)**	**4,921,415,067**	**54,289,005**

49 RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

b) Liquidity risk (Continued)

The table below shows analysis of assets and liabilities according to when they expect to be recovered or settled:

	Less than 12 months	Over 12 months	Total
2012	**TZS '000**	**TZS '000**	**TZS '000**
Assets			
Cash and balances with central banks & other banks	1,478,422,938	-	1,478,422,938
Escrow accounts	42,359,427	-	42,359,427
Items in course of settlement	34,815,938	-	34,815,938
Holdings of Special Drawing Rights (SDRs)	-	369,525,297	369,525,297
Foreign currency marketable securities	730,106,328	3,297,550,756	4,027,657,084
Equity investment	-	2,189,025	2,189,025
Government securities	-	1,050,470,656	1,050,470,656
Advance to the Government	283,004,718		283,004,718
Loans and receivables	85,803,454	97,297,291	183,100,745
Investment in associate company	-	1	1
Quota in International Monetary Fund	-	471,393,438	471,393,438
Other assets	67,535,131	12,463,990	79,999,121
Total assets	**2,722,047,934**	**5,300,890,454**	**8,022,938,388**
Liabilities and equity			
Currency in circulation	2,705,223,546	-	2,705,223,546
Deposit - banks and non banks financial institutions	2,037,355,907	-	2,037,355,907
Deposit - Governments	8,899,318	-	8,899,318
Deposit - Others	204,839,027	129,295,212	334,134,239
Foreign currency financial liabilities	95,630,776	382,523,103	478,153,879
Poverty Reduction and Growth Facility	5,993,449	533,110,951	539,104,400
Repurchase agreements	25,025,548	-	25,025,548
BOT liquidity papers	732,306,148	-	732,306,148
Other liabilities	29,591,995	-	29,591,995
IMF Related liabilities	-	431,556,956	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	451,512,468	451,512,468
Total liabilities	**5,844,865,714**	**1,927,998,690**	**7,772,864,404**
Net Liquidity gap	**(3,122,817,780)**	**3,372,891,764**	**250,073,984**

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risk (Continued)

c) Interest Risk (Continued)

The interest rate risk is the exposure of the Bank 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. Duration of 1.5 indicates that the portfolio's value will change by approximately 1.5 percent if rates change by 1percent.

The policy target duration is 2 years with deviation allowance of ± 1.5 months. As of 30 June 2013 portfolio duration stood at 2.3 years while that of 30 June 2012 was 2.5 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 (0.01percent) 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							
	30.06.2013				**30.06.2012**		
Positions of securities	174		174		192		192
Base currency	USD		TZS '000		USD		TZS '000
Market value of Marketable Securities	2,708,844,230		4,784,406,413		2 656 602 091		4,027,657,084
Duration	2.30 years		2.3 years		2.5 years		2.5 years
Spread Duration	0.5 years		0.5 years		0.5 years		0.5 years

The tracking errors and VaR was as per breakdown below

Details	**30.06.2013**			**30.06.2012**		
	USD		**TZS '000**	**USD**		**TZS '000**
Monthly Tracking Error				9 471 482		14 859 903
95 percent Monthly VaR	(36,651,336)		(58,840,614)	(15 579 202)		(24 442 365)

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risk (Continued)

c) 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% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1% 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 2013 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 value of 1 BPS in USD

Details	30.06.2013			30.06.2012		
	USD		TZS '000	USD		TZS '000
USD	352,846		566,469	369 022		578, 963.89
EUR	139,561		223,154	138 900		340 ,112.02
GBP	52,853		83,482	48 404		95, 599.25
	545,260		**873,105**	**556 326**		**1, 014, 675**

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 below indicates the spread risks for comparative period in each of the three major currencies.

	30.06.2013			30.06.2012		
	USD		TZS '000	USD		TZS '000
USD	93,329		149,305	92 500		145 125
EUR	36,275		57,795	129 058		316 011
GBP	7,715		12,843	15 931		31 464
Total	137,319		**219,943**	**237 489**		**492 601**

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.

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risk (Continued)

c) Interest Risk (Continued)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(933,287)	(362,745)	(77,153)	(1,373,185)	(2,204,552)
20	(1,866,574)	(725,419)	(154,306)	(2,746,299)	(4,408,991)
30	(2,799,862)	(1,087,043)	(208,313)	(4,095,218)	(6 ,574,586)

30.06.2012 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(1 104 885)	(144 281)	(101 282)	(1 350 448)	(2 118 732)
20	(2 209 770)	(288 563)	(202 564)	(2 700 897)	(4 237 464)
30	(3 314 655)	(389 560)	(273 462)	(3 977 676)	(6 240 616)

Yield decrease in 1 BPS

30.06.2013 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	933,287	362,745	77,153	1,373,185	2,204,552
20	1,866,574	725,419	154,306	2,749,266	4,408,991
30	2,799,862	1,087,043	208,313	4,095,218	6,574,586

30.06.2012 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	1 104 885	144 281	101 282	1 350 448	2 118 732
20	2 209 770	288 563	202 564	2 700 897	4 237 464
30	3 314 655	389 560	273 462	3 977 676	6 240 616

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 steeping and flattening by 50 basis points. The result of stress testing scenarios is as shown on the table below.

30.06.2013 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(4,666,436)	(1,813,725)	(385,765)	(6,865,926)	(11,022,764)
Curve Steepening by 50	(1,429,671)	(585,819)	(296,450)	(2,311,940)	(3,711,658)
Curve Flattening by 50	1,429,671	585,819	296,450	2,311,940	3,711,695

30.06.2012 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(2,789,437)	(1,899,170)	(526,592)	(5,215,199)	(8,277,824)
Curve Steepening by 50	(1,176,638)	(1,590,863)	(257,228)	(3,024,728)	(4,801,000)
Curve Flattening by 50	(1,879,838)	(1,434,618)	(233,220)	(3,547,676)	(5,631,048)

49. RISK MANAGEMENT (Continued)

49.6.1 Financial Risk (Continued)

c) Interest Risk (Continued)

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. The exposures to both kinds of interest rate risk arise in the course of the Bank's activities. Based on the sensitivity of the 10 % deviation of the exchange rate against major currencies the impact on the Banks profit and equity was TZS 11,945.6 million. The deviation for 2012 was 4% and the impact in both equity and profit was TZS 19.309.9 million.

49.6.4 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 approved Foreign Exchange Reserves Policy and stated in the Bank's Financial Guidelines. The currency positions of the Bank as of 30 June 2013 and 2012 which provides the Bank's assets, liabilities and equity at carrying amounts, categorized by currency is summarized below.

49 RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

d) Currency risk (Continued)

	GBP	USD	EUR	SDR	TZS	Others	Total
2013	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets							
Cash and balances with central banks & other banks	265,559,243	1,365,107,408	20,277,128	-	-	117,265,734	1,768,209,513
Escrow accounts		43,410,856	-	-	-	-	43,410,856
Items in course of settlement	-	13,545	(27,322)	-	1,469,914	-	1,456,137
Holdings of Special Drawing Rights (SDRs)	-	-	-	370,513,006	-	-	370,513,006
Foreign Currency Marketable securities	357,505,706	3,512,843,208	914,057,499	-	-	-	4,784,406,413
Equity Investment	-	7,056,734	279,964	-	-	-	7,336,698
Government securities	-	-	-	-	1,497,107,651	-	1,497,107,651
Advances to the Government	-	-	-	-	75,456,879	-	75,456,879
Loans and receivables	-	-	-	-	187,208,501	-	187,208,501
Quota in International Monetary Fund (IMF)	-	-	-	479,683,371	-	-	479,683,371
Other assets	-	-	-	-	83,176,564	-	83,176,564
Total assets	**623,064,949**	**4,928,431,752**	**934,587,269**	**850,196,377**	**1,844,419,509**	**117,265,734**	**9,297,965,589**
Liabilities							
Currency in circulation	-	-	-	-	3,030,121,057	-	3,030,121,057
Deposit - banks and non banks financial institutions	-	343,977,042	-	-	1,880,899,046	-	2,224,876,088
Deposit - Governments	-	-	-	-	-	-	-
Deposit - others	-	-	-	-	198,310,200	-	198,310,200
Foreign currency financial liabilities	-	507,689,146	-	-	-	-	507,689,146
Poverty Reduction and Growth Facility	-	-	-	723,094,344	-	-	723,094,344
Repurchase Agreements	-	-	-	-	48,026,827	-	48,026,827
BOT liquidity papers	-	-	-	-	1,356,137,509	-	1,356,137,509
Other liabilities	-	-	-	-	25,244,570	-	25,244,570
IMF related liabilities	-	-	-	-	455,318,872	-	455,318,872
Allocation of Special Drawing Rights (SDRs)	-	-	-	459,452,774	-	-	459,452,774
Total liabilities	**-**	**851,666,188**	**-**	**1,182,547,118**	**6,994,058,081**	**-**	**9,028,271,387**
Net balance sheet position	623,064,949	4,076,765,564	934,587,269	(332,350,741)	(5,149,638,572)	117,265,734	269,694,202
Scenario of 10% appreciation	62,306,495	4,239,836,186	93,458,727	(33,235,074)	(514,963,857)	11,726,573	26,969,420

During the year a sensitity of 10% was used (2012: 8.5%).

49 RISK MANAGEMENT (Continued)

49.6.1 Financial Risks (Continued)

d) Currency risk (Continued)

	GBP	USD	EUR	SDR	TZS	Others	Total
2012	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Assets							
Cash and balances with central banks & other banks	146,108,707	1,075,465,177	250,995,960	-	-	5,853,094	1,478,422,938
Escrow accounts	-	42,359,427	-	-	-	-	42,359,427
Items in course of settlement	-	-	-	-	34,815,938	-	34,815,938
Holdings of Special Drawing Rights (SDRs)	-	-	-	369,525,297	-	-	369,525,297
Foreign Currency Marketable securities	295,178,600	2,817,871,290	914,607,194	-	-	-	4,027,657,084
Equity Investment	-	1,882,698	306,327	-	-	-	2,189,025
Government securities	-	-	-	-	1,050,470,656	-	1,050,470,656
Advances to the Government	-	-	-	-	283,004,718	-	283,004,718
Loans and receivables	-	-	-	-	183,100,745	-	183,100,745
Quota in International Monetary Fund (IMF)	-	-	-	471,393,438	-	-	471,393,438
Other assets	-	-	-	-	79,987,702	-	79,987,702
Total assets	441,287,307	3,937,578,592	1,165,909,481	840,918,735	1,631,379,759	5,853,094	8,022,926,968
Liabilities							
Currency in circulation	-	-	-	-	2,705,223,546	-	2,705,223,546
Deposit - banks and non banks financial institutions	-	155,200,381	-	-	1,882,155,526	-	2,037,355,907
Deposit - Governments	-	-	-	-	8,899,318	-	8,899,318
Deposit - others	-	-	-	-	334,134,239	-	334,134,239
Poverty Reduction and Growth Facility	-	-	-	539,104,400	-	-	539,104,400
Repurchase Agreements	-	-	-	-	25,025,548	-	25,025,548
BOT liquidity papers	-	-	-	-	732,306,148	-	732,306,148
Other liabilities	-	-	-	-	29,591,998	-	29,591,995
IMF Related Liabilities	-	-	-	-	431,556,956	-	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	-	-	451,512,468		-	451,512,468
Total liabilities	-	155,200,381	-	990,616,868	3,443,669,733	-	7,294,710,525
Net balance sheet position	441,287,307	3,782,378,211	1,165,909,481	(149,698,133)	(1,812,289,974)	5,853,094	728,216,443
Scenario of 8.5% appreciation	37,509,421	321,502,148	99,102,306	(12,724,341)	(154,044,648)	497,513	61,898,398

49. RISK MANAGEMENT (Continued)

49.7 Non-Financial Risks

49.7.1 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. Management, Internal Audit Function, Audit Committee and the Board, closely monitors 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.

49.7.2 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.

49.7.3 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 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.

49.7.4 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, No. 21 of 2004 and Public Procurement Regulations, 2005.

In view of the above, the Bank's management ensures that to the best of its 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.

49. RISK MANAGEMENT (Continued)

49.7 Non-Financial Risks (Continued)

49.7.1 Operational Risk (Continued)

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 (NPS) 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.

50. 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.

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 Deposits without a specific maturity.

51. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Government securities

The fair value of Government securities carried at amortised cost are estimated by using the interest rates that discount future cash flows to zero.

Fair value of financial assets and liabilities

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. 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 June 2013:

Description	Level 1 (TZS '000')	Level 2 (TZS '000')	Level 3 (TZS '000')
Foreign currency marketable securities	4,784,406,413	-	-
Equity Investments	-	7 ,336, 698	-
Total	**4,784,406,413**	**7 ,336, 698**	**-**

30 June 2012:

Description	Level 1 (TZS '000')	Level 2 (TZS '000')	Level 3 (TZS '000')
Foreign currency marketable securities	4,027,654,084	-	-
Total	**4,027,654,084**	**-**	**-**

There were no transfers between levels 1, 2 and 3 in the period.

50 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:

	Amortised Cost	FVTPL	FVOCI	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2013					
Financial assets					
Cash and balances with central banks & other banks	1,768,209,513	-	-	1,768,209,513	1,768,209,513
Escrow Accounts	43,410,856	-	-	43,410,856	43,410,856
Items in course of settlement	1,456,137	-	-	-	-
Holdings of Special Drawing Rights (SDRs)	370,513,006	-	-	370,513,006	370,513,006
Foreign Currency Marketable securities	-	4,784,406,413		4,784,406,413	4,784,406,413
Equity instruments	-	-	7,336,698	7,336,698	7,336,698
Advance to the Government	75,456,879	-	-	75,456,879	75,456,879
Government securities	1,497,107,651		-	1,497,107,651	1,497,107,651
Loans and receivables	41,029,865	-	-	41,029,865	41,029,865
Quota in International Monetary Fund (IMF)	479,683,371	-	-	479,683,371	479,683,371
Financial liabilities					
Currency in circulation	3,030,121,057	-	-	3,030,121,057	3,030,121,057
Foreign currency financial liabilities	507,689,146	-	-	507,689,146	507,689,146
Deposit - Governments	2,224,876,088	-	-	2,224,876,088	2,224,876,088
Deposit - others	198,310,200	-	-	198,310,200	198,310,200
Poverty deduction and growth facility	723,094,344	-	-	723,094,344	723,094,344
Repurchase agreements	48,026,827	-	-	48,026,827	48,026,827
BoT liquidity papers	1,356,137,509	-	-	1,356,137,509	1,356,137,509
Other liabilities	5,692,539	-	-	5,692,539	5,692,539
IMF related liabilities	25,244,570	-	-	25,244,570	25,244,570
Allocation of Special Drawing Rights (SDRs)	455,318,872	-	-	455,318,872	455,318,872

50 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Continued)

	Amortised Cost	FVTPL	OCI	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2012					
Financial assets					
Cash and balances with central banks & other banks	1,478,422,938	-	-	1,478,422,938	1,478,422,938
Escrow Accounts	42,359,427	-	-	42,359,427	42,359,427
Items in course of settlement	34,815,938	-	-	34,815,938	34,815,938
Holdings of Special Drawing Rights (SDRs)	369,525,297	-	-	369,525,297	369,525,297
Foreign Currency Marketable securities	-	4,027,657,084	-	4,027,657,084	4,027,657,084
Equity instruments	-	-	2,189,025	2,189,025	2,189,025
Advance to the Government	283,004,718	-	-	283,004,718	283,004,718
Government securities	1,050,470,656		-	1,050,470,656	1,050,470,656
Loans and receivables	183,100,745	-	-	183,100,745	183,100,745
Quota in International Monetary Fund (IMF)	471,393,438	-	-	471,393,438	471,393,438
Financial liabilities					
Currency in circulation	2,705,223,546	-	-	2,705,223,546	2,705,223,546
Foreign currency financial liabilities	478,153,879	-	-	478,153,879	478,153,879
Deposits - banks and non-bank financial institutions	2,037,355,907	-	-	2,037,355,907	2,037,355,907
Deposits - Governments	8,899,318	-	-	8,899,318	8,899,318
Deposits - Others	334,134,239	-	-	334,134,239	334,134,239
Poverty Reduction and Growth Facility	539,104,400	-	-	539,104,400	539,104,400
Repurchase agreements	25,025,548	-	-	25,025,548	25,025,548
BoT liquidity papers	732,306,148	-	-	732,306,148	732,306,148
Other liabilities	29,591,998	-	-	29,591,998	29,591,998
IMF related liabilities	431,556,956	-	-	431,556,956	431,556,956
Allocation of Special Drawing Rights (SDRs)	451,512,468	-	-	451,512,468	451,512,468

52. RETIREMENT BENEFIT PLAN

Defined Benefit Plan

The Bank maintains unfunded 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 by Laws, 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 were as follows.

Year end	30.06.2013	30.06.2012
Discount rate (% p.a)	15.3%	15.2%
Expected return on scheme assets (% p.a)	n/a	n/a
Non-Executives - Future salary increase (% p.a)	6.0%	6.0%
Executives-Future salary increases (% p.a)	3.0%	3.0%
Future increases in Long Service Award (% p.a)	0.0%	0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	n/a	n/a
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill-Health	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Compulsory Retirement Age (years)	60	60

52. RETIREMENT BENEFIT PLAN (Continued)

Defined Benefit Plan (Continued)

Amount recognized in statement of profit or loss and other comprehensive income in respect of this defined benefit plans are as follows.

	30.06.2013	30.06.2012
	TZS '000	TZS '000
		(restated)
Current service cost	2,585,666	2,705,196
Net interest cost	12,248,994	11,092,571
Components of defined benefits cost re-cognised in profit or loss	**14,834,660**	**13,797,767**
Re-measurement on defined benefit liability:		
Actuarial gain arising from changes in financial assumptions	(534,024)	(7,028,666)
Components of defined benefit cost recognised in other comprehensive income	(534,024)	(7,028,666)
Total	**14,300,636**	**6,769,101**

The current service cost and net interest expense for the year are included in the personnel expenses in profit or loss. The re-measurement of the net defined liability is included in other comprehensive income.

The amount included in the statement of financial position arising from the Banks obligation in respect of its defined benefit plan is as follows:

	30.06.2013	30.06.2012
	TZS '000	TZS '000
		(restated)
Present value of unfunded obligations	88,934,981	83,950,965
Defined Benefit Obligation recognised in the Statement of Financial Position	**88,934,981**	**83,950,965**

Movements in the present value of defined benefit obligation in the current year were as follows;

	30.06.2013	30.06.2012	30.06.2011
	TZS '000	TZS '000	TZS '000
		(restated)	(restated)
Opening benefit obligation	83,950,965	82,048,279	85,422,695
Current service cost	2,585,666	2,705,196	-
Interest cost	12,248,994	11,092,571	-
Actuarial (gain)/loss in experience	(103,859)	(113,825)	-
Actuarial (gain)/loss in assumptions	(430,165)	(6,914,841)	-
Benefits paid	(9,316,620)	(4,866,415)	(3,374,416)
Closing benefits obligation	**88,934,981**	**83,950,965**	**82,048,279**

52. RETIREMENT BENEFIT PLAN (Continued)

Defined Benefit Plan (Continued)

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 93,418.8 million (2012: TZS 88,459.9 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

The weighted average duration of the liability as at 30 June 2013 is 5.1 years (2012; 5.4 years).

53. 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 22

Details	**30.06.2013 TZS '000**	**30.06.2012 TZS '000**
Capital	100,000,000	100,000,000
Reserves	1,016,096,085	1,026,227,372
Total	**1,116,096,085**	**1,126,227,372**

53. CAPITAL (Continued)

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 retention of un-distributable element of the profit.

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.

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.

54. 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.

54.1 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.

54. CONTINGENT LIABILITIES

54.3 Outstanding Legal Matters (continued)

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.

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.

The court proceedings have not been concluded.

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.

54.3 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 2013 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:

a) To ascertain how the remaining debt as at 2004 has been handled.
b) To compile and establish the current stock of the remaining EPA debts.
c) 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.

54. CONTINGENT LIABILITIES (Continued)

54.3 External Payment Arrears Deposit Account (Continued)

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.

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

54.3 Export Credit Guarantee Scheme (ECGS)

The Bank is an agent of the Government on the operationalisation 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 2013 outstanding guarantees aggregated to TZS 233,151.0 million (2012: TZS 300,100.9 million) while the balance of the Fund as at 30 June 2013 was TZS 56,738.4 million (2012: TZS 52,138.8 million). The movement of the Fund during the year is as summarized below:

54. CONTINGENT LIABILITIES (Continued)

54.3 Export Credit Guarantee Scheme (ECGS) (Continued)

	30.06.2013 TZS '000	30.06.2012 TZS '000
Balance of funds		
Capital	19,155,186	21,772,722
Surplus	37,583,193	30,366,122
Total	**56,738,379**	**52,138,844**

54.4. Small & Medium Enterprises - Credit Guarantee Scheme

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 that 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 2013 outstanding guarantees had a value aggregating to TZS 574.9 million (2012: TZS 825.0 million) while the balance of the fund as at 30 June 2013 was TZS 7,594.6 million (2012: TZS 6,773.7 million).

55. OUTSTANDING COMMITMENTS

55.2 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 authorized equity interest in Afrexim bank is 306 ordinary shares of par value USD 10,000 each payable in five equal instalments. Two instalments with value of USD 1.2 million have been called and paid up.

As at 30 June 2013, the Bank had a commitment of USD 1.8 million in respect of three instalments of uncalled and unpaid capital attached to its shareholding in the Afrexim bank. The Bank proportion of equity total holding in the Afrexim bank is 0.4 percent.

55.2 Capital commitments

As at 30 June 2013, the Bank's capital commitments in respect of, Property and Equipment, Intangible Assets and major capital projects aggregated to TZS 65,513.1 million (2012: 42,937.7 million). The major capital expenditure commitments items is as reflected herewith below.

Particulars	30.06.2013 TZS '000	30.06.2012 TZS '000
Office buildings	7,735,000	4,650,000
Residential buildings	8,302,465	2,456,200
Machinery and equipment	11,097,900	8,334,900
Information, communication and Technology (ICT)	2,499,444	1,025,800
Motor vehicles	4,634,000	3,002,100
Furniture and fittings	464,345	197,600
Intangible assets	3,857,387	4,602,100
Work in progress	26,922,600	14,425,000
Total	**65,513,141**	**38,693,700**

55. OUTSTANDING COMMITMENTS (Continued)

55.2 Capital commitments (Continued)

The above commitments have been included and approved for payment in accordance with the 2013/2014 Approved Budget Estimates.

55.3 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 56.8 million (2012: TZS 37.7 million) involving eleven retired staff with their spouses who retired since financial year 2009/10.

56. 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:

56.1 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 27) include advances to employees that as at 30 June 2013 amounted to TZS 56,371.5 million (2012: TZS 55,668.4 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 break down of loans and emoluments granted to key management personnel.

		30.06.2013	30.06.2012
		TZS '000	**TZS '000**
i	**Loans to Senior Management (i.e. Governor, Deputy Governors and Directors)**		
	At start of the year	430,588	828,000
	Loans granted during the year	925,772	494,863
	Loans repaid during the year	(964,874)	(892,275)
	Balance end of the year	**391,486**	**430,588**
ii	**Emoluments to Senior Management Personnel (Governor, Deputy Governors and Directors)**		
	Salaries, allowances and benefits	3,608,040	2,438,043
	Post-employment benefits	1,220,000	911,144
	Total	**4,828,040**	**3,349,187**

56. RELATED PARTY DISCLOSURES (Continued)

56.1 Loans and emoluments to key management personnel (Continued)

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 2013, the number of key management personnel was 29 (2012: 27).

56.2 Directors' remunerations

During the year ending 30 June 2013, emoluments paid to the members of the Board amounted to TZS 950.2 million (2012: TZS 887.3 million). These emoluments include salaries and benefits of Non – Executive directors. As of 30 June 2013 and 30 June 2012 there were no loans advanced to the Non-Executive Directors of the Board. Further, there were no related party transactions with Non-Executive Directors of the Board.

56.3 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 2013, the following balances, which are included in the statement of financial position in various categories, were outstanding:

	30.06.2013	**30.06.2012**
	TZS '000	**TZS '000**
Due from Governments of Tanzania (Note 27)	75,456,879	344,954 ,118
IMF funds on-lent to the Government (Note 23)	479,683,371	471, 393 ,438
Deposits-RGZ (Note 37)	-	8, 899, 318
Investments in Government Securities (Note 26)	1,497,107,651	1,050,470,656
Structured Financing Facility (Note 38)	73,065,368	70,649,259
Export Credit Guarantee Fund (Note 38)	56,712,431	52,139,825
Small and Medium Enterprises Guarantee Fund (Note 38)	7,594,640	6, 773, 745

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.

56 RELATED PARTY DISCLOSURES (Continued)

56.5 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.

The balance outstanding from the Fund and included under Deposit Others as at 30 June 2013 was TZS 11,913.1 million (2012: TZS 37.9 million).

56.6 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.

57. EVENTS AFTER THE REPORTING DATE

Payment of interest on government overdrawn position

On 2 September 2013, the Bank received TZS 50,000.0 million from the United Republic of Tanzania Government as settlement of outstanding interest charged to the URT Government on overdrawn position relating to financial year 2011/12 TZS 21,297.2 million and part of 2012/13 TZS 28,702.9 million. As a result, outstanding interest obligations for financial year 2012/13 have been reduced to TZS 33,350.0 million.

Change of Shareholding of IPTL

Independent Power Telecommunication Limited (IPTL), a limited liability company registered in Tanzania in 1994, the company has two shareholders namely VIP Engineering and Marketing Limited “VIP” holding 30 per cent of shares and Mechmar holding 70 per cent of shares. The company has been involved into a number court dispute moving from the High Court to Court of Appeal. As a result of the said disputes, on 5th July, 2006 the Bank vide an agreement between IPTL and Government of Tanzania “GOT” had to step in to handle an escrow account as agent for IPTL and GOT . Consequently, The Bank has continued to be joined as a necessary party in all Court proceedings and as escrow agent. The Bank has successfully in all times defended the interest of its Principals i.e. IPTL and GOT against any adverse orders as far as the Escrow Account is concerned.

On 19th August, 2013 VIP decided to sell off its 30 per cent of its shares in IPTL to Pan African Power Solutions (PAP). Following the recent High Court order the Bank has already handed over all proceeds of the Escrow account to the new owners’.

Payment of liquidity management costs

On 14th November 2013, the Government paid TZS 30,793.8 million being settlement of Government share of liquidity management costs for 2012/13.

Establishment of Staff Benefits Fund

On 11th December 2013 the Board of Directors approved establishment of the Bank’s employees’ staff benefits fund. The fund will start with a seed capital of TZS 88,934.9 million, the equivalent to Defined Benefits obligation as at 30 June 2013, through a transfer from the General Reserve. Funds in this reserve will be invested to earn a return that will assist in meeting future obligations payable. The Fund will be operationalized effective January 2014.