BANK OF TANZANIA

ANNUAL ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2016

Note to the Annual Accounts

The financial statements of the Bank are prepared in compliance with the Bank of Tanzania Act (the Act), International Financial Reporting Standards (IFRS), Tanzania Financial Reporting Standards (TFRS) and pronouncements made by both the International Accounting Standards Board (IASB) and the National Board of Accountants and Auditors (NBAA) from time to time. These requirements provide a basis for presentation, recognition and disclosure of various items in the relevant financial statements.

The Bank is the custodian of the foreign reserves of the country. These reserves are held in five main currencies namely United States Dollar, British Sterling Pound, Euro, Australia Dollar and Chinese Yuan. The Bank develops from time to time a strategic asset allocation policy that stipulates the holding levels of each currency depending on liquidity, investment, potential obligations and strategic needs of each currency. The Bank also holds Special Drawing Rights as part of reserve with the IMF and Quota as part of its subscription to IMF. These reserves are maintained in form of cash, short term deposits, investments in financial markets and equities.

While the foreign reserves are held in different currencies, financial statements are presented in Tanzanian Shillings as reporting currency at exchange rates in line with IFRS requirements. The financial statements are therefore prone to frequent fluctuations depending on the direction of the exchange rates. While the Bank is responsible for formulation and management of monetary policies, such fluctuations may result into profit or loss. Where there is a conflict between the monetary policy objectives and profitability, monetary policy objectives prevail.

The Bank's reserves accounted for 68.5% of the total assets as at 30 June 2016. According to the general accounting framework, the level of income is the function of growth of the level of earning assets held and vice versa. On this basis, the Bank's income has to large extent depended on the average holdings of foreign reserves during the year. Key drivers are changes in exchange rates, price of securities, yields, forex inflow and outflow. Given the depreciation of Tanzanian Shilling against major currencies during the year 2015/16, significant part of income came from foreign exchange movements.

In recognition of the volatility arising from this role, the Bank maintains adequate reserves to cushion for the potential losses that may affect the capital of the Bank. These measures have helped the Bank to effectively discharge its obligations while maintaining strong capital position.

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

REPORTS AND ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

CONTENTS

BANK INFORMATION

Registered office	Bank of Tanzania Head Office 2 Mirambo Street 11884 Dar es Salaam Tanzania
Governor	Prof. Benno J. Ndulu Bank of Tanzania Head Office 2 Mirambo Street 11884 Dar es Salaam Tanzania
Secretary to the Bank	Mr. Yusto E. Tongola Bank of Tanzania Head Office 2 Mirambo Street 11884 Dar es Salaam Tanzania

BRANCHES

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

Bank of Tanzania Training Institute
Capri point area
P.O. Box 131, Mwanza
Tanzania

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

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

Mtwara
Bank of Tanzania Building
Mikindani Area
P.O. Box 1446, Mtwara, 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

PRINCIPAL AUDITOR

Controller and Auditor General
National Audit Office
Samora Avenue/Ohio Street
P.O. Box 9080
Dar es Salaam, Tanzania

DELEGATED AUDITORS

Deloitte & Touche
10th Floor, PPF Tower
Cnr of Ohio Street & Garden Avenue
P.O. Box 1559
Dar es Salaam, Tanzania

REPORT OF THE DIRECTORS

1. INTRODUCTION

The Directors present this report together with the audited financial statements for the financial year ended 30 June 2016, which disclose the state of financial affairs of the Bank of Tanzania (the "Bank of Tanzania (BoT)").

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

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

ESTABLISHMENT

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

BANK'S VISION

The vision of the Bank is: "To be a world class Central Bank, in maintaining price and financial stability consistent with supporting economic growth".

BANK'S MISSION

The Bank's mission is: "To maintain price stability, and to promote integrity and stability of the financial system consistent with sustained growth of the national economy".

2. STATUTE AND PRINCIPAL ACTIVITIES

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

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

- Formulate, implement and be responsible for monetary policy, including foreign exchange rate policy, issue currency, regulate and supervise banks and financial institutions including mortgage financing, development financing, lease financing, licensing and revocation of licenses and to deal, hold and manage foreign exchange reserves of Tanzania;

- Compile, analyse, and publish the monetary, financial, balance of payments statistics and other statistics covering various sectors of the national economy;

- Regulate, monitor and supervise the payment, clearing and settlement systems;

- Act as a banker and fiscal agent of the Government of the United Republic of Tanzania and the Revolutionary Government of Zanzibar (the "Governments"); and

- Ensure the integrity of the financial system and support the general economic policies of the Government and promote sound monetary, credit and banking conditions conducive to the development of the national economy.

3. RESOURCES AND STRENGTHS

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

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

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

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

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

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

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

(a) Maintaining price stability

The Bank had set the target to maintain core inflation at single digit throughout the period to the end of June 2016 and maintaining official foreign reserves sufficient to cover at least 4.0 months of projected imports of goods and services, excluding those financed by foreign direct investment; and generating at least 0.75 percent return per annum on foreign reserves.

During the year, the core inflation rate rose slightly from 2.2 percent recorded in June 2015 to 3.0 percent in June 2016 and headline inflation rate declined from 6.1 percent in June 2015 to 5.5 percent in June 2016. The decline in headline inflation was on account of improved domestic food supply in the Eastern Africa region, prudent monetary policy stance and fiscal consolidation.

Official gross foreign reserves declined to USD 3,870.3 million as of 30 June 2016 compared to USD 4,402.2 million recorded as of 30 June 2015. This level of official reserves was however sufficient to cover about 4.0 months of projected import of goods and services excluding Foreign Direct Investments ("FDI") related imports.

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

The position of currency in circulation as at 30 June 2016 was TZS 4,374,339.5 million as compared to TZS 4,094,261.1 million as at 30 June 2015, representing an increase of TZS 280,078.5 million; equivalent to 6.8 percent (2015: 13.8 percent) in line with monetary policies of maintaining sustainable economic growth.

REPORT OF THE DIRECTORS (CONTINUED)

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

(b) Promoting integrity and stability of the financial system

Financial stability defined as a smooth operation of the system of financial intermediation between households, firms and the Governments through a range of financial institutions was evidenced by an effective regulatory infrastructure, well developed financial markets, and effective and sound financial institutions. The financial system remained stable and efficient in providing financial services to the economy during the financial year ended June 2016.

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

Risk emanating from Non-Financial Corporate ("NFC") sector moderated due to decrease in foreign currency denominated loan relative to equity, and increased use of internal financing as opposed to borrowing from banking system.

Insurance sector remained healthy as reflected by financial soundness indicators albeit declining profitability. Social Security Sector remained diversified, with increased membership albeit with a decline in return on investment. The payment systems continued to operate with minimum disruptions and settlement risks.

(c) Strengthening corporate governance

Improve work environment

This objective was measured by the survey that interrogated the level of satisfaction that staff have to the Bank's work environment. The overall survey results show that 79.6 percent of the Bank's staff are satisfied with work environment which equals to the target set during the planning stage. This survey confirms the baseline target set owing to the fact that there was no previous survey done to measure satisfaction with the work environment in the Bank.

Staffing

The Bank was adequately staffed with the right capabilities to accomplish its strategic and operational objectives. This position was as a result of implementation of human resource plans and strategies that enabled the Bank to fill vacant positions in time. Moreover, the Bank remained a favourable employer in the labour market with staff retention rate of 99.9 percent (2015: 99.9 percent).

Capacity building

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

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

(c) Strengthening corporate governance

Enhance compliance with Legislation, Regulations, Policies and Standards

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

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

Improve management of Bank's resources

The Bank continued to implement planned projects within allocated resources. Bank resources include both financial and non-financial assets. Major projects that recorded significant progress during the year include completion of Mtwara branch, senior staff houses in Mtwara, development of procurement management system, establishment of business work area recovery site in Dodoma, completion of data warehouse system phase II and memo automation system.

The Bank continued to manage its financial resources mainly on bonds and money market deposits to ensure adequate liquidity while maintaining capital preservation and maximising returns. During the year under review, the Bank continued to maintain its properties and facilities including buildings, machinery, equipment and motor vehicles in order to ensure that they are always in good working condition.

Bank's engagement with external stakeholders

The Bank continued to nurture its relationship with external stakeholders, seeking to gain confidence and trust in protecting the Bank's reputation. In order to improve its reputation, the Bank continued to address stakeholders' needs, expectations and providing timely responses to stakeholders' inquiries. The Bank continued to participate in various fora including Saba Saba and Nane Nane exhibitions to disseminate information and provide public awareness on its operations in areas of roles and functions of the Bank and notes and their security features.

Other developments

Public education programs

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

REPORT OF THE DIRECTORS (CONTINUED)

5. CORPORATE GOVERNANCE

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

No.	Name	Position	Age	Discipline	Date of Appointment	Nationality
1	Prof. Benno J. Ndulu	Governor and Chairman of the Board	66	Economist	08 January 2008	Tanzanian
2	Dr. Natu E. Mwamba	Deputy Governor	54	Economist	13 June 2011	Tanzanian
3	Mr. Julian B. Raphael [1]	Deputy Governor	60	Economist	26 January 2016	Tanzanian
4	Mr. Juma H. Reli [2]	Deputy Governor	60	Finance	14 February 2005	Tanzanian
5	Mr. Lila H. Mkila	Deputy Governor	65	Statistician	26 June 2007	Tanzanian
6	Prof. Haidari K. Amani	Member	67	Economist	08 January 2008	Tanzanian
7	Ms. Amina K. Shaaban [3]	Member	53	Economist	06 April 2016	Tanzanian
8	Mr. Bedason A. Shallanda [4]	Member	53	Economist	11 September 2010	Tanzanian
9	Mrs. Esther P. Mkwizu	Member	63	Management Consultant	08 March 2011	Tanzanian
10	Mr. Khamis M. Omar	Member	50	Finance	20 April 2006	Tanzanian
11	Mr. Omar S Mussa	Member	60	Finance	08 March 2014	Tanzanian
12	Mr. Yona S. Killagane	Member	62	Professional Accountant	08 March 2011	Tanzanian
13	Mr. Yusto E. Tongola	Secretary	52	Lawyer	20 March 2013	Tanzanian

KEY

[1] Replaced Mr. Juma Reli from 26 January 2016
[2] Retired on 10 July 2015
[3] Ex-officio replaced Mr. Bedason Shallanda from 06 April 2016
[4] Ex-officio transferred to another Ministry on 06 April 2016

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

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

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

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

5. CORPORATE GOVERNANCE (CONTINUED)

(a) Monetary Policy Committee

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

The Members of the Monetary Policy Committee as at 30 June 2016 were as follows:

No	Name	Position	Discipline	Nationality
1	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2	Dr. Natu E. Mwamba	Member	Economist	Tanzanian
3	Mr. Julian B. Raphael [1]	Member	Economist	Tanzanian
4	Mr. Juma H. Reli [2]	Member	Finance	Tanzanian
5	Mr. Lila H. Mkila	Member	Statistician	Tanzanian
6	Prof. Haidari K. Amani	Member	Economist	Tanzanian
7	Ms. Amina K. Shaaban [3]	Member	Economist	Tanzanian
8	Mr. Bedason A. Shallanda [4]	Member	Economist	Tanzanian
9	Mrs. Esther P. Mkwizu	Member	Management Consultant	Tanzanian
10	Mr. Khamis M. Omar	Member	Finance	Tanzanian
11	Mr. Omar S. Mussa	Member	Finance	Tanzanian
12	Mr. Yona S. Killagane	Member	Professional Accountant	Tanzanian
13	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

KEY:

[1] Replaced Mr. Juma Reli from 26 January 2016

[2] Retired on 10 July 2015

[3] Ex-officio replaced Mr. Bedason Shallanda from 06 April 2016

[4] Ex officio transferred to another Ministry on 06 April 2016

(b) The Audit Committee

Established under the provision 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 International Financial Reporting Standards ("IFRS") in the preparation of financial statements; the overall effectiveness of the internal control and risk management framework. The Committee also reviews requests for write off/ write back of items from the books of accounts and reviews the effectiveness of the system for monitoring compliance with laws and regulations.

5. CORPORATE GOVERNANCE (CONTINUED)

(b) The Audit Committee (Continued)

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 adequacy of the financial reporting process, reviews draft financial statements before submission to the external auditors for audit and the audited financial statements before approval and adoption by the Board.

With regard to **External Audit**, the Audit Committee reviews and approves the external auditors' proposed audit scope, approach and audit deliverables, reviews and approves 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 2016 were as follows:

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

KEY:

[1] Replaced Mr. Juma Reli from 26 January 2016

[2] Retired on 10 July 2015

(c) Banking Supervision Committee

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

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

5. CORPORATE GOVERNANCE (CONTINUED)

(c) Banking Supervision Committee (Continued)

The Members of the Banking Supervision Committee as at 30 June 2016 were as follows:

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

KEY:

[1] Replaced Mr. Juma Reli from 26 January 2016
[2] Retired on 10 July 2015
[3] Ex-officio replaced Mr. Bedason Shallanda from 06 April 2016
[4] Ex-officio transferred to another Ministry on 06 April 2016

(d) The Finance and Investment Committee

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

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

The Members of the Finance and Investment Committee as at 30 June 2016 were as follows:

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

KEY:

[1] Replaced Mr. Juma Reli from 26 January 2016
[2] Retired on 10 July 2015

REPORT OF THE DIRECTORS (CONTINUED)

6. MEETINGS

The Board held seventeen (17) meetings during the year ended 30 June 2016. In addition there were various meetings of the Board Committees. All members of the Board were able to devote their time required for the Board and Committee meetings.

Below is a summary indicating the number of meetings attended by members of the Board from 1 July 2015 to 30 June 2016.

		Number of meetings				
		Board	MPC	BSC	AC	FIC
No	Number of meetings	17	8	6	10	10
	Names					
1	Prof. Benno J. Ndulu	16	8	6	N/A	10
2	Dr. Natu E. Mwamba	17	7	6	3	10
3	Mr. Julian B. Raphael	6	2	2	4	5
4	Mr. Juma H. Reli	-	-	-	-	-
5	Mr. Lila H. Mkila	15	8	5	N/A	9
6	Prof. Haidari K. Amani	17	8	6	10	10
7	Ms. Amina K. Shaaban	1	1	1	N/A	N/A
8	Mr. Bedason A. Shallanda	4	1	1	N/A	N/A
9	Mrs. Esther P. Mkwizu	16	8	N/A	10	10
10	Mr. Khamis M. Omar	15	7	6	N/A	N/A
11	Mr. Omar S. Mussa	17	7	N/A	10	10
12	Mr. Yona S. Killagane	16	7	5	10	9
13	Mr. Yusto E. Tongola	17	6	6	10	9

KEY

Board: Board of Directors

MPC: Monetary Policy Committee

BSC: Banking Supervision Committee

AC: Audit Committee

FIC: Finance and Investment Committee

N/A: Not applicable

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

7. INDEPENDENCE

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

8. CAPITAL STRUCTURE

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

Due to the nature of the Bank's business and statutory requirements the whole capital is held in the form of equity. Different classes of reserves have been prescribed under section 18(1) of the Bank of Tanzania Act, 2006 and **Note 41** to these financial statements. The movement of the capital during the year is reflected under the Statement of Changes in Owners' Equity.

9. RELATIONSHIP WITH STAKEHOLDERS

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

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

(a) Issuance of bank notes and coins: The Bank provides secure, adequate, durable and portable bank notes and coins; ensure prompt circulation of currency through its network of branches and safe custody centres throughout the country; and promote public awareness on the currency handling and security features;

(b) Banking services: The Bank promptly facilitate payments, settlements and clearing of payment instruments for the Governments and financial institutions. Further, the Bank provides safe deposit custody for the Governments and financial institutions;

(c) Price stability: The Bank formulates and executes monetary policy that leads to stable domestic prices; provide policy advice to the governments; disseminate economic reports; ensure stable exchange rates; and conduct government securities auctions;

(d) Financial stability: The Bank promotes the stability of the financial system through effective regulation and supervision of banking system; provide safe and efficient payment systems; and promote public access to the financial services; and

(e) Internal customer requirements: The Bank attracts and retains high calibre staff with integrity, competency and accountability and provides conducive working environment and career development opportunities to its staff.

10. CASH FLOW PROJECTION

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

11. MANAGEMENT

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

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

REPORT OF THE DIRECTORS (CONTINUED)

12. FUTURE DEVELOPMENT PLANS

The Bank will continue to focus on its core mandate of maintaining price stability and promoting integrity and stability of the financial system. In achieving these, the main focus areas during the five year plan will be on leadership, where the Bank will endeavour to become a reputable organisation that is attracting and retaining highly committed, motivated, competent and innovative staff. The Bank will continue to deliver timely, reliable and cost effective services and continue to embrace more technology driven solutions; and excellence in executing its mandate, where the Bank will achieve price stability, safe, sound and inclusive financial system.

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

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

Further, the Bank will focus on service excellence in attending both internal and external stakeholders. In its service delivery, the Bank is dedicated to continue advising the Governments on economic policy related matters and serving the general public as its ultimate customers.

In addition, the Bank plans to:

- Continue implementing Medium Term Expenditure Framework ("MTEF") as a multi-year budgeting instrument;
- Continue implementing Balanced Score Card ("BSC") methodology as an instrument for corporate strategy and performance management;
- Acquire staff houses for Zanzibar branch and continue with the construction of staff residential premises at Arusha, Dodoma and Mtwara branches;
- Continue with the construction of new hostel at the training institute Mwanza, new office buildings for Mwanza branch and extension of Mbeya branch office;
- Construct staff club at Mbeya and Dodoma branches;
- Refurbish and modify 2 Mirambo Middle Building;
- Undertake feasibility study for establishment of Kigoma branch;
- Continue with process improvements initiatives that include MEMO automation, budget processing, business analytic tool; and
- Acquire and continue maintaining its other existing assets to support its operations.

13. RESULTS AND DIVIDENDS

During the year, the Bank operations registered an overall total comprehensive income of TZS 757,381.6 million (2015: TZS 577,338.4 million). The amount includes TZS 140,470.0 million net revaluation gains on fixed assets following revaluation of its immovable fixed assets conducted in 2016 (2015: Nil) and the net revaluation loss on equity investments of TZS 4,988.1 million (2015: Gain of TZS 10,133.7 million). The Bank recorded an operating profit of TZS 621,899.6 million (2015: TZS 567,204.7 million). The reported profit includes net unrealized foreign exchange revaluation gains of TZS 87,717.3 million (2015: TZS 358,240.9 million). The Bank's accounting policy requires transfer of net unrealized net foreign exchange revaluation gains or losses and net unrealized gains or losses on financial assets measured at FVTPL to the foreign exchange revaluation reserve and Securities revaluation reserve. After appropriate adjustments of various funds/appropriations (statement of changes in equity), the dividend amounting to TZS 300,000.0 million (2015: TZS 130,000.0 million) is payable to the Governments in compliance with the requirements of the Bank of Tanzania Act, 2006.

14. FINANCIAL PERFORMANCE FOR THE YEAR

(a) Financial results

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

In the course of its operations, the Bank made a total comprehensive income of TZS 757,381.6 million (2015: TZS 577,338.4 million). The income was mainly attributed to gains arising from depreciation of TZS against major currencies, increase in interest income and decline in interest expenses.

(b) Financial position

The financial position of the Bank is as set out in the Statement of Financial Position shown on page 25. During the year, total assets of the Bank increased by TZS 1,486,186.9 million (2015: TZS 910,933.7 million). The major areas of increase include Advances to Government, Quota in International Monetary Fund ("IMF"), other assets and cash and balances with central and other banks amounting to TZS 748,574.4 million, TZS 660,103.8 million, TZS 568,795.8 million and TZS 204,180.0 million, respectively. The impact of change was reduced by decrease in foreign currency marketable securities, holding of special drawing rights ("SDRs") and loans and receivables.

On the other hand total equity and liabilities increased by the same amount of TZS 1,486,186.9 million (2015: TZS 910,933.7 million) to TZS 13,862,905.0 million (2015: TZS 12,376,718.2 million). Major areas of increase include deposit - others, IMF related liabilities, Foreign currency financial liabilities and Currency in circulation amounting to TZS 540,433.8 million, TZS 505,848.8 million, TZS 358,040.6 million and TZS 280,078.5 million, respectively. The net increase was however reduced mainly by net redemption of BoT liquidity papers and decrease in deposits – Banks and non-bank financial institutions amounting TZS 688,017.0 million and TZS 205,480.6 million, respectively.

15. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

16. KEY RISKS AND UNCERTAINITIES

The key risks that may significantly affect the Bank's strategies and development are mainly financial, operational and strategic. Below we provide a description of the operational and strategic risks facing the Bank. The risks related to financial instruments have been disclosed under **Note 43** of the financial statements:

Operational risk

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

- **Human resource risk**

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

REPORT OF THE DIRECTORS (CONTINUED)

16. KEY RISKS AND UNCERTAINITIES (CONTINUED)

- **Business disruption and security risks**

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

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

- **Legal risk**

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

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

16. KEY RISKS AND UNCERTAINITIES

- **Strategic risk**

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

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

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

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

16. KEY RISKS AND UNCERTAINITIES (Continued)

- **Strategic risk**

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

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the National Payment System ("NPS") and the issuing of notes and coins also expose the Bank to a significant risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems. The Board assessed the internal control systems throughout the financial year ended June 2016 and is of the opinion that they met accepted criteria.

17. SOLVENCY

The Board of Directors confirms that IFRS's have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Bank of Tanzania has adequate resources to continue carrying out its statutory activities for the foreseeable future.

18. EMPLOYEES WELFARE

(a) Management and employees relationship

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

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

The Bank of Tanzania is an equal opportunity employer with a total of 1,377 staff as at 30 June 2016 (2015: 1,389) out of which 60.0 per cent (2015: 60.0 per cent) were male and 40.0 per cent (2015: 40.0 per cent) were female.

REPORT OF THE DIRECTORS (CONTINUED)

18. EMPLOYEES WELFARE (Continued)

(b) Training facilities

The Bank has training facilities at the Bank of Tanzania Training Institute in Mwanza region. During the year, the Training Institute conducted 83 (2015: 54) courses for the Bank of Tanzania Staff, Banking Institutions, East Africa Monetary Union ("EAMU") and other Stakeholders. The Training Institute prepares annual training programs according to the Bank's Corporate Training Plan that cater for Bank's staff. The Training Institute also design and implement courses for EAMU and Banking institutions in order to address gaps identified in the performance of their staff that require training intervention. The training Institute is also bestowed with training of specified courses for Southern African Development Community ("SADC").

(c) Medical Assistance

All members of staff with a maximum number of five beneficiaries for each employee were availed with medical insurance services. During the year ended 30 June 2016 and 2015, these services were provided by Jubilee Insurance Company.

(d) 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.

(e) Financial assistance to staff

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

(f) Persons with disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned.

In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Bank continues and appropriate training is arranged. It is the policy of the Bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

(g) Employee's pension plan

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

(h) Voluntary agreement and worker's council

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

REPORT OF THE DIRECTORS (CONTINUED)

19. 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 2016 and 2015 the Bank had the following distribution of employees by gender.

Gender	**2016**	**%**	**2015**	**%**
Male	826	60.0	833	60.0
Female	551	40.0	556	40.0
Total	**1377**	**100.0**	**1389**	**100.0**

20. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in **Note 50** to these financial statements. The directors' emoluments and key management personnel have been disclosed in **Note 50** to the financial statements.

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

22. CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling part of its Corporate Social Responsibility ("CSR") through supporting national activities and other areas of interest to the Bank in the United Republic of Tanzania. In this endeavour, the Bank has in place Donation Guidelines that assist in the implementation of CSR. During the year, the Bank donated a total of TZS 4,167.0 million (2015: TZS 354.2 million) the donation was with respect to school desk for "Elimu Bure" initiative.

23. CONTRIBUTION AND SUBSCRIPTIONS

The Bank made various subscriptions and contributions to various organisations which included the African Rural and Agricultural Credit Association ("AFRACA"); African Association of Central Banks (AACB); Macroeconomic and Financial Management Institute ("MEFMI"); Capital Markets and Securities Authority ("CMSA"); Deposit Insurance Board ("DIB"); Financial Institutions Development Project ("FIDP II"); Tanzania Institute of Bankers ("TIB") and Other Professional Associations and Charities. During the year ended 30 June 2016, such contributions and subscriptions amounted to TZS 9,059.4 million (2015: TZS 3,909.6 million). There was no donation made to any political party during the year.

24. SECRETARY TO THE BANK

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

REPORT OF THE DIRECTORS (CONTINUED)

25. COMPLIANCE WITH LAWS AND REGULATIONS

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

26. SERIOUS PREJUDICIAL MATTERS

During the year ended 30 June 2016, there were no serious prejudicial matters to report as required by Tanzania Financial Reporting Standard No. 1 - Directors' Report.

27. STATEMENT OF COMPLIANCE

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

28. 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

28. AUDITORS (Continued)

2005), Sections 30 -33 of the Public Audit Act No. 11 of 2008 and Section 20(6) of the Bank of Tanzania Act, 2006. Deloitte & Touche, Certified Public Accountants were appointed by CAG to audit the Bank's financial statements on his behalf, pursuant to Section 33 of the Public Audit Act, No 11 of 2008.

Approved by the Board of Directors on ...08...Dec.. 2016, and signed on its behalf by:

Prof. Benno J. Ndulu	Mr. 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 issued by the International Accounting Standards Board ("IASB"), National Board of Accountants and Auditors' ("NBAA") Pronouncements 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, NBAA's Pronouncements 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 ....08...Dec...... 2016, and signed on its behalf by:

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

DECLARATION OF THE HEAD OF FINANCE

The National Board of Accountants and Auditors ("NBAA") according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the Bank concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of the Bank showing true and fair view of the Bank's financial position and financial performance in accordance with applicable International Financial Reporting Standards, NBAA's pronouncements and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as under the statement of directors' responsibilities on page 20.

I Jamhuri Joseph Ngelime being the Head of Finance of the Bank of Tanzania hereby acknowledge my responsibility of ensuring that financial statements for the year ended 30 June 2016 have been prepared in compliance with International Financial Reporting Standards, NBAA's Pronouncements and the Bank of Tanzania Act, 2006.

I thus confirm that the financial statements give a true and fair view position of the Bank of Tanzania as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ....

Position: Director of Finance

NBAA Membership No.: ACPA 497

Date: 08 Dec 2016

AUDIT REPORT ON THE FINANCIAL STATEMENTS

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

REF: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK OF TANZANIA FOR THE YEAR ENDED 30 JUNE 2016

I have audited the accompanying financial statements of the Bank of Tanzania which comprise the Statement of Financial Position as at 30 June 2016, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out from pages 24 to 124 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, the NBAA Pronouncements and the Bank of Tanzania Act, 2006. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Responsibilities of the Controller and Auditor General

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

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

In addition, Sect. 10 (2) of the Public Audit Act 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 authorised.

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

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

AUDIT REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Unqualified Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Bank of Tanzania as at 30 June 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, NBAA Pronouncements and Bank of Tanzania Act, 2006.

Report on Other Legal and Regulatory Requirements

Compliance with Public Procurement Act

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

Prof. Mussa J. Assad
CONTROLLER AND AUDITOR GERENAL
National Audit Office
Dar es Salaam, Tanzania
……20……Dec……..2016

Controller and Auditor - General

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	30.06.2016 TZS '000	30.06.2015 TZS '000
Operating income			
Interest income	5	447,389,263	347,608,808
Interest expenses	6	(22,549,949)	(97,568,815)
Net interest income		**424,839,314**	**250,039,993**
Net foreign exchange revaluation gains	7	468,394,930	634,054,476
Net gains on financial assets – FVTPL	8	3,270,915	-
Fees and commissions	9	22,226,064	22,998,041
Other operating income	10	36,677,758	11,255,116
		530,569,667	**668,307,633**
Total operating income		**955,408,981**	**918,347,626**
Operating expenses			
Net losses on financial assets – FVTPL	8	-	18,020,039
Administrative expenses	11	66,619,504	55,803,376
Currency issue and related expenses	12	84,275,680	82,660,036
Personnel expenses	13	146,534,291	110,969,109
Other operating expenses	14	14,277,207	58,052,583
Depreciation of property and equipment	28	19,096,238	23,637,315
Loss on disposal of property and equipment	28	1,330,965	250,533
Amortisation of intangible assets	29	1,375,452	1,749,903
		333,509,337	**351,142,894**
Profit before tax		**621,899,644**	**567,204,732**
Income tax expense		-	-
Profit for the year		**621,899,644**	**567,204,732**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net revaluation (loss)/gain on equity investments	15	(4,988,060)	10,133,693
Net revaluation gain on fixed assets revaluation		140,469,980	-
Total comprehensive income		**757,381,564**	**577,338,425**

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	30.06.2016 TZS '000	30.06.2015 TZS '000
Assets			
Cash and balances with central banks and other banks	16	2,830,712,599	2,626,532,630
Escrow accounts	17	10,602,238	9,607,422
Items in course of settlement	18	2,399,563	1,223,038
Holdings of Special Drawing Rights (SDRs)	19	55,835,295	314,464,770
Quota in International Monetary Fund (IMF)	19	1,212,378,799	552,274,969
Foreign currency marketable securities	20	5,370,750,903	5,672,736,269
Equity investments	21	26,450,665	28,198,556
Government securities	22	1,490,568,528	1,558,532,122
Advances to the Government	23	818,528,205	69,953,767
Loans and receivables	24	142,710,020	389,480,802
Inventories	25	5,763,233	8,446,630
Deferred currency cost	26	59,980,145	37,040,553
Other assets	27	877,004,907	308,209,073
Property and equipment	28	952,664,535	794,543,081
Intangible assets	29	6,555,456	5,474,544
Total assets		**13,862,905,091**	**12,376,718,226**
Liabilities			
Currency in circulation	30	4,374,339,542	4,094,261,068
Deposits – Banks and non-bank financial institutions	31	2,899,940,762	3,105,421,355
Deposits – Governments	32	21,989,412	4,822,379
Deposits – Others	33	739,737,733	199,303,955
Foreign currency financial liabilities	34	824,828,680	466,788,035
Poverty reduction and growth facility	35	653,398,418	720,673,020
BoT liquidity papers	36	97,038,856	785,055,892
Provisions	37	5,736,569	5,514,291
Other liabilities	38	130,881,340	81,411,194
Retirement benefit obligation	39	98,602,076	81,926,325
IMF related liabilities	19	1,030,358,192	524,509,360
Allocation of Special Drawing Rights (SDRs)	19	580,623,424	528,982,829
Total liabilities		**11,457,475,004**	**10,598,669,703**
Equity			
Authorised and paid up share capital	40	100,000,000	100,000,000
Reserves	41	2,305,430,087	1,678,048,523
Total equity		**2,405,430,087**	**1,778,048,523**
Total equity and liabilities		**13,862,905,091**	**12,376,718,226**

The financial statements on page 24 to 124 were approved and authorised by the Board of Directors for issue on ...08..Dec....2016........ and signed on its behalf by:

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

Details	Share capital Note 40	General reserve Note 41 (a)	Retained earnings	Capital reserve Note 41 (b)	Equalisation reserve Note 41 (c)	Reserve for projects Note 41 (d)	Staff housing fund Note 41 (e)	Assets revaluation reserve Note 41 (f)	Financial Sector Development fund Note 41 (g)	Securities revaluation reserve Note 41 (h)	Foreign exchange revaluation reserve Note 41 (i)	Reserve for dividends Note 41 (j)	Defined benefit reserves Note 41 (k)	Total
(Amounts in TZS '000)														
At 01 July 2015	100,000,000	298,329,037	-	99,262,908	395,107,764	180,000,000	58,741,575	119,776,163	30,000,000	1,027,526	358,240,860	130,000,000	7,562,690	1,778,048,523
Profit for the year	-	-	621,899,644	-	-	-	-	-	-	-	-	-	-	621,899,644
Other comprehensive income	-	-	-	-	-	-	-	140,469,980	-	(4,988,060)	-	-	-	135,481,920
	100,000,000	298,329,037	621,899,644	99,262,908	395,107,764	180,000,000	58,741,575	260,246,143	30,000,000	(3,960,534)	358,240,860	130,000,000	7,562,690	2,535,430,087
Transfer of unrealised gain on foreign exchange revaluation to retained earnings*	-	-	(87,717,317)	-	-	-	-	-	-	-	87,717,317	-	-	-
Transfer of realised gain to foreign currency revaluation reserve*	-	-	264,065,546	-	-	-	-	-	-	-	(264,065,546)	-	-	-
Transfer of unrealised gains to securities revaluation reserve	-	-	(12,120,227)	-	-	-	-	-	-	12,120,227	-	-	-	-
Transfer of realised loss from securities revaluation reserve	-	-	(2,371,966)							2,371,966				
Financial sector development fund income	-	-	(2,454,978)	-	-	-	-	-	2,454,978	-	-	-	-	-
Staff housing fund**	-	-	(1,725,468)	-	-	-	1,725,468	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(80,000,000)	-	(80,000,000)
Transfer to payables	-	-	-	-	-	-	-	-	-	-	-	(50,000,000)	-	(50,000,000)
Appropriation of 2015/16														
net profit	-	77,957,523	(779,575,234)	-	332,638,949	30,000,000	38,978,762	-	-	-	-	300,000,000	-	-
At 30 June 2016	100,000,000	376,286,560	-	99,262,908	727,746,713	210,000,000	99,445,805	260,246,143	32,454,978	10,531,659	181,892,631	300,000,000	7,562,690	2,405,430,087

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

** Staff Housing Fund includes net contribution of Compensatory Fund of TZS 1,725,468,120 during the year ended 30 June 2016.

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

Details	Share capital	General reserve	Retained earnings	Capital reserve	Equalisation reserve	Reserve for projects	Staff housing fund	Assets revaluation reserve	Financial Sector Development fund	Securities revaluation reserve	Foreign exchange revaluation reserve	Reserve for dividends	Defined benefit reserves	Total
	Note 40	Note 41 (a)		Note 41 (b)	Note 41 (c)	Note 41 (d)	Note 41 (e)	Note 41 (f)	Note 41 (g)	Note 41 (h)	Note 41 (i)	Note 41 (j)	Note 41 (k)	
(Amounts in TZS '000)														
At 01 July 2014	100,000,000	273,047,290	-	99,262,908	340,571,593	150,000,000	44,425,064	119,776,163	-	28,843,184	37,221,206	72,454,104	7,562,690	1,273,164,202
Profit for the year	-	-	567,204,732	-	-	-	-	-	-	-	-	-	-	567,204,732
Other comprehensive income	-	-	-	-	-	-	-	-	-	10,133,693	-	-	-	10,133,693
	100,000,000	273,047,290	567,204,732	99,262,908	340,571,593	150,000,000	44,425,064	119,776,163	-	38,976,877	37,221,206	72,454,104	7,562,690	1,850,502,627
Transfer of realised gain on foreign exchange revaluation to retained earnings*	-	-	37,221,206	-	-	-	-	-	-	-	(37,221,206)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(72,454,104)	-	(72,454,104)
Transfer of unrealised loss to equalisation reserve	-	-	-	-	29,641,320	-	-	-	-	(29,641,320)	-	-	-	-
Transfer of unrealised gain to foreign currency revaluation reserve*	-	-	(358,240,860)	-	-	-	-	-	-	-	358,240,860	-	-	-
Transfer of unrealised loss to securities revaluation	-	-	8,308,031	-	-	-	-	-	-	(8,308,031)	-	-	-	-
Staff housing fund**	-	-	(1,675,637)	-	-	-	1,675,637	-	-	-	-	-	-	-
Appropriation of 2014/15 net profit	-	25,281,747	(252,817,472)	-	24,894,851	30,000,000	12,640,874	-	30,000,000	-	-	130,000,000	-	-
At 30 June 2015	100,000,000	298,329,037	-	99,262,908	395,107,764	180,000,000	58,741,575	119,776,163	30,000,000	1,027,526	358,240,860	130,000,000	7,562,690	1,778,048,523

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

** Staff Housing Fund includes net contribution of Compensatory Fund of TZS 1,675,637,000 during the year ended 30 June 2015.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Notes	30.06.2016 TZS '000	30.06.2015 TZS '000
Cash flows from operating activities			
Cash (used in)/generated from operating activities	42	**(118,650,857)**	**997,175,756**
Cash flows from investing activities			
Purchase of property and equipment	28	(38,318,816)	(28,170,273)
Proceeds from disposal of property and equipment	28	337,345	170,145
Purchase of intangible assets	29	(2,456,364)	(2,719,023)
Decrease/(increase) in foreign currency marketable securities		301,985,366	(376,553,141)
Decrease/(increase) in Government securities		67,963,594	(77,300,337)
Acquisition of equity shares		(3,240,169)	(9,296,341)
Increase in quota in International Monetary Fund (IMF)		(660,103,830)	(44,639,962)
Decrease in holdings of SDRs		258,629,475	71,751,352
Cash used in investing activities		**(75,203,399)**	**(466,757,580)**
Cash flows from financing activities			
Increase in notes and coins issued		280,078,474	497,557,946
Increase in IMF related liabilities		438,574,230	3,556,861
Increase/(decrease) in foreign currency financial liabilities		358,040,645	(83,503,969)
Increase in allocation of SDRs		51,640,595	42,757,277
Decrease in Repurchase Agreements (REPOs)		-	(20,009,349)
Decrease in BOT liquidity papers		(688,017,036)	(580,117,474)
Dividends paid to the Government		(80,000,000)	(72,454,104)
Dividends payable to the Government		(50,000,000)	-
Cash generated from/(used in) financing		**310,316,908**	**(212,212,812)**
Net increase in cash and cash equivalent		**116,462,652**	**318,205,364**
Unrealised foreign exchange revaluation gains	7	87,717,317	358,240,860
Cash and cash equivalents:			
At the beginning of the year		2,626,532,630	1,950,086,406
At the end of the year	16	**2,830,712,599**	**2,626,532,630**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1. REPORTING ENTITY

Legal framework

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

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 authorised capital of the Bank shall be one hundred billion Tanzanian Shillings (TZS 100 billion), provided that it may be increased by such amount as may be determined by the Board, and authorised by the Minister of Finance and Planning, 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 a transfer from the General Reserve of such amounts as the Board may decide, with the approval of the Minister. The paid up capital of the Bank 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 unrealised 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. REPORTING ENTITY (CONTINUED)

Legal framework (continued)

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 authorised capital, the General Reserve Fund, the Foreign Exchange Revaluation Reserve and other appropriate asset revaluation reserves or retained net unrealised gains reserves set up by the Board are below five per cent of monetary liabilities all profits shall be retained to the General Reserve Fund, the Foreign Exchange Revaluation Reserve and to any other asset revaluation reserve.

Section 18(4) of the Act provides that; unrealised 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 realised components shall be transferred to the Statement of Profit or Loss and Other Comprehensive Income.

Section 18(5) of the Act, requires both realised and unrealised gains and losses to be included in the profit calculation but only the residual of any net realised 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 realised profits to the reduction or discharge of the indebtedness and thereafter such amount as relates to the net realised profits of the Bank in the relevant financial year shall be paid out of the Consolidated Fund to the Treasury of the Government of the United Republic of Tanzania and the Revolutionary Government of Zanzibar in accordance with the formula agreed upon by the Governments.

Section 19(1) of the Act, provides that, where the Bank's Statement of Financial Position indicates that the amount of its assets is less than the amount of its liabilities and the statutory fund, the Minister of Finance and Planning 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. REPORTING ENTITY (CONTINUED)

Legal framework (continued)

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. ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARDS (IFRS)

(a) New and revised IFRSs that are mandatorily effective for the year

The available new and revised IFRSs are effective from annual periods beginning on or after 1 January 2016. The Bank has not early adopted any of the IFRSs. However, the Management has noted the editorial corrections made on various IFRSs and applied immediately, where applicable.

(b) New and revised IFRS in issue but not yet effective for the year

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and Amendments to standards:	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 1 Disclosure Initiative	1 January 2016
Amendments to IAS 7 Disclosure Initiative	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
Annual improvements 2012-2014 Cycle	1 January 2016

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

(b) New and revised IFRS in issue but not yet effective for the year

IFRS 9 Financial Instruments

IASB issued a finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in classification and measurement of financial assets and financial liabilities; impairment methodology and hedge accounting. IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets. Management has assessed the requirement of this amendment on the Bank's financial reporting framework and is of the opinion that upon application the Bank will change its impairment policy to recognise credit loss even without an occurrence of a credit event.

In addition, the version introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Management is still assessing the requirement of this standard including the amendments and its impact on the Bank's financial reporting framework when it falls due.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous Generally Accepted Accounting Principles (GAAP), both on initial adoption of IFRS and in subsequent financial statements.

Management has assessed the requirement of these standard on the Bank's financial reporting framework and is of the opinion that the standard will have no impact.

IFRS 15 Revenue from Contracts with Customers

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

The amendments clarify that promised goods or services may include granting licenses, the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract and clarify the factors that indicate that two or more promises to transfer goods or services to a customer are not separately identifiable.

Management is still assessing the requirement of this standard including the amendments and its impact on the Bank's financial reporting framework when it falls due.

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

(b) New and revised IFRS in issue but not yet effective for the year (Continued)

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective of the standard is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity.

Specifically, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. On the other hand, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 supersedes:

- IAS 17 Leases;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- SIC-15 Operating Leases—Incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Management is still assessing the requirement of this standard including the amendments and its impact on the Bank's financial reporting framework when it falls due.

Amendments to IAS 1 Disclosure Initiative

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

- Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;

- Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of Other Comprehensive Income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and

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

(b) New and revised IFRS in issue but not yet effective for the year (Continued)

Amendments to IAS 1 Disclosure Initiative (Continued)

- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

  Management has assessed the requirement of these amendments on the Bank's financial reporting framework and is of the opinion that the presentation of the financial statements is in line with the amendments and there will be no further impact.

Amendments to IAS 7 Disclosure Initiative

This amendment to IAS 7 introduces the requirement for an entity to provide disclosures that enable users of financials statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. To satisfy this requirement an entity shall disclose the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values; and
- other changes.

Management has assessed the requirement of these amendments on the Bank's financial reporting framework and is of the opinion that they will have no impact other than additional disclosure.

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

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

- Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;

- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and

- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Management is still assessing the requirement of these amendments and its impact on the Bank's financial reporting framework when it falls due.

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

(b) New and revised IFRS in issue but not yet effective for the year (Continued)

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

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

- **IFRS 1** — Permits first-time adopters to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs. The purpose is to avoid the potential use of hindsight when applying amendments to annual improvements to IFRSs 2012–2014 Cycle, issued in September 2014,;

- **IFRS 5** — Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued;

- **IFRS 7** — Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements;

- **IAS 19** — Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid; and

- **IAS 34** — Clarify the meaning of ‘elsewhere in the interim report’ and require a cross-reference.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in **Note 43**.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

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

Statement of compliance

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Interest income

For all financial instruments measured at amortised cost, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental cost that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fees and commission income

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

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

Expenses

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

Interest expenses

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

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

Administrative expenses

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses (Continued)

Other expenses

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

Employees' benefits including post-employment benefits

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

Retirement benefits

The Bank has a statutory obligation to make contributions for retirement benefits to its employees. All eligible employees of the Bank are currently members of the social security schemes operating in Tanzania. The funds where employees are members are National Social Security Fund (NSSF), Parastatal Pension Fund (PPF), Public Service Pensions Fund (PSPF) and Local Authority Provident Fund (LAPF). Under these schemes, the Bank and employee contribute 18 percent and 2 percent respectively of employee's basic salary every month. New employees who are members of other funds are allowed to continue their membership to any statutory pension funds. The Bank contributed a total of TZS 10,832.8 million to the funds during the year ended 30 June 2016 (2015: TZS 9,547.3 million).

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

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

The total accumulated obligation to the Bank relating to this arrangement is based on assessments made by independent actuaries. The actuarial valuation was carried out as at 30 June 2016 by Alexander Forbes, Financial Services (East Africa) based in Nairobi - Kenya. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits (Continued)

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

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

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

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

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

Other employee benefits

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

Provisions

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

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

Taxes

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes (Continued)

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

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Foreign exchange revaluation reserve under the legal framework

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

(a) For each foreign currency account or security for the case of securities accounts; cash inflows and outflows are determined.

(b) Each inflow is valued using the prevailing exchange rate.

(c) Each outflow is revalued using the prevailing exchange rate and compared with the rate at which the outflow was recognised in the books of accounts. Where specific originating rate cannot be identified, the applicable is determined on First in First out (FIFO) basis. The difference between the two entries represent revaluation gains or losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign exchange revaluation reserve under the legal framework (Continued)

(d) All balances in foreign currencies are revalued using prevailing exchange rates. The differences between the values at the time when the related instrument was recognised and the current values represent unrealised losses or gains as the case may be.

Property and equipment

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

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

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

Revaluation of the Bank's immovable property is conducted every five years. M/S M & R Agency Limited, professional and Independent valuers, carried out the valuation of the Bank's immovable properties as at 30 June 2016. The valuation of the 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.

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 2016 and 2015 were as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (Continued)

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 is charged on 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 amortisation and accumulated impairment losses.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

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

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

Capital grant

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currency printing and minting expenses

These expenses include ordering, printing, minting, freight, carriage insurance and handling expenses which 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 account.

Currency in circulation

This 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.

The Bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether or not there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Operating Lease

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Lease (Continued)

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

Repurchase and Resale Agreements (REPOs and Reverse REPOs)

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

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

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

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

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

Foreign Exchange Equalisation Reserve

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve for Dividend

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

Financial instruments - initial recognition and subsequent measurement

Date of recognition

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

Initial recognition of financial instruments

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

Classification of financial assets

Amortised cost

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (Continued)

Fair Value through Other Comprehensive Income (FVTOCI)

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

Effective Interest Rate method

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

Interest income is recognised in profit or loss.

Financial liabilities

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

De-recognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Bank of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and
- Either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

De-recognition of financial assets and financial liabilities (Continued)

Financial assets (Continued)

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. These include currency in circulation; deposits from governments, banks, financial institutions and other financial institutions; BOT liquidity papers; poverty reduction and growth facility; IMF liabilities; and repurchase agreements.

Offsetting of financial assets and financial liabilities

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

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

Determination of fair value

The fair value for financial instruments traded in active markets at reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction cost.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and supranational institutions, loans and advances

Amounts due from banks, loans and advances are carried at amortised cost. The Bank first assesses individually whether or not there is objective evidence of impairment that exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Due from banks and supranational institutions, loans and advances (Continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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.

Government Securities

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other liabilities

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

Items in course of settlement, Advance to the Government and Other assets

These are measured at carrying amounts which approximates their fair value due to the short period between reporting date and settlements of these assets.

Cash and Cash equivalent

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

Escrow Accounts

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

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

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

Both assets and liabilities representing these funds are initially measured at fair value and subsequently measured at amortised cost where they have specific dates of maturity. Details of the accounts have been shown under **Note 17** of the accounts.

Derivatives

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives (Continued)

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

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

International Monetary Fund (IMF) related balances

Relationship

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

Currency of Transactions with the IMF

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

Quota in IMF, Interest and Charges

Borrowings from the related Tanzania's quota are non-interest bearing with no stated maturity, while borrowings from the General Resources Account of the IMF bears interest at rates set by the IMF on a weekly basis and are repayable according to the repayment schedules of the agreement.

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 inventories.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit Guarantee Schemes (Continued)

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 JUDGMENT AND ESTIMATES

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

(a) Going concern

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

(b) Impairment of assets carried at amortised cost

Impairment losses on items in cash and balances with central banks, escrow account, items in course of settlement, holdings of special drawing rights (SDR), quota in international monetary fund (IMF) government securities, advances to the government, loans and receivables and other assets.

The Bank reviews its financial assets measured at amortised cost at each reporting date to assess whether an impairment loss should be recognised in profit or loss. In particular, judgment 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) 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.

(d) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives and discount rates. Details have been provided under **Note 43** to these accounts.

(e) 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.

(f) Retirement benefits

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit credit method, which requires certain demographic, financial and future salary growth assumptions. A degree of judgement is required in establishing market yields, long term expectations, the notional contribution rate and other inputs used in the actuarial valuation. Details have been provided under **Note 46** to these accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Contingent liabilities

The Bank has provided for the liabilities arising out of contractual obligations. Professional expert advice is taken on establishing litigation provisions. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgments than other types of provisions. When cases are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists as a result of a past event, estimating the probability of outflows and making estimates of the amount of any outflows that may arise. As matters progress through various stages of the cases. Management together with legal advisers evaluate on an ongoing basis whether provisions should be recognised, and the estimated amounts of any such provisions, revising previous judgments and estimates as appropriate.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. INTEREST INCOME (CONTINUED)

			30.06.2016			30.06.2015
	Received	Accrued	Total	Received	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
From foreign operations						
GBP investments	10,093,459	4,373,899	14,467,358	9,585,359	5,309,175	14,894,534
USD investments	50,449,494	12,637,526	63,087,020	36,832,436	10,757,999	47,590,435
EUR investments	6,721,722	6,342,003	13,063,725	7,315,207	8,682,604	15,997,811
AUD investments	13,433,884	4,334,668	17,768,552	12,240,761	4,695,730	16,936,491
CNY investments	7,367,157	569,268	7,936,425	5,338,290	915,724	6,254,014
Other foreign interest income	160,158	-	160,158	211,490	-	211,490
	88,225,874	28,257,364	116,483,238	71,523,543	30,361,232	101,884,775
From domestic operations						
Interest on domestic investments	123,079,505	31,061,959	154,141,464	115,994,072	33,850,341	149,844,413
Interest on loans and advances	161,236,511	-	161,236,511	91,980,270	-	91,980,270
Interest on staff loans	303,195	-	303,195	314,769	-	314,769
Interest on Repurchase Agreements (Reverse REPO)	15,224,855	-	15,224,855	3,584,581	-	3,584,581
	299,844,066	31,061,959	330,906,025	211,873,692	33,850,341	245,724,033
	388,069,940	59,319,323	447,389,263	283,397,235	64,211,573	347,608,808

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

	30.06.2016	**30.06.2015**
	TZS '000	**TZS '000**
Income from instruments measured at fair value	103,998,153	95,457,876
Income from instruments measured at amortised cost	343,391,110	252,150,932
	447,389,263	**347,608,808**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INTEREST EXPENSES

	30.06.2016			30.06.2015		
	Paid	Accrued	Total	Paid	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Interest on BoT liquidity papers	17,887,304	3,129,566	21,016,870	39,613,179	57,168,074	96,781,253
Interest on repurchase agreements	1,216,011	-	1,216,011	515,921	-	515,921
Charges on IMF Drawings	317,068	-	317,068	271,641	-	271,641
	19,420,383	**3,129,566**	**22,549,949**	**40,400,741**	**57,168,074**	**97,568,815**

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

During the year, realised and unrealised net foreign exchange revaluation gains amounted to TZS 468,394.9 million (2015: TZS 634,054.5 million). This amount has been included in the statement of profit or loss in determining the Bank's net operating profit for the year in order to comply with the requirements of IAS 21 - Accounting for the Effects of Changes in Foreign Exchange Rates. Out of the total net foreign exchange revaluation gains, an amount of TZS 87,717.3 million (2015: TZS 358,240.9 million) relating to unrealised gain is not available for payment of dividend and according to the Bank of Tanzania Act 2006 has been transferred to the foreign exchange revaluation reserve (refer to **Note 41 (i)**).

Analysis of foreign exchange valuation	**30.06.2016**	**30.06.2015**
	TZS '000	**TZS '000**
Net realised foreign exchange revaluation gains during the year	380,677,613	275,813,616
Net unrealised foreign exchange revaluation gains during the year	87,717,317	358,240,860
	468,394,930	**634,054,476**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	30.06.2016			30.06.2015		
	Realised	Unrealised	Total	Realised	Unrealised	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
USD	(4,162,180)	17,226,663	13,064,484	(933,524)	(3,000,567)	(3,934,091)
GBP	(1,210,606)	1,327,901	117,295	(3,205,815)	548,722	(2,657,093)
EUR	(532,330)	(5,835,611)	(6,367,941)	(3,921,936)	(6,937,808)	(10,859,744)
AUD	(2,668,450)	(934,703)	(3,603,153)	(1,450,383)	905,873	(544,510)
CNY	(275,746)	335,977	60,230	(200,350)	175,749	(24,601)
Total	**(8,849,312)**	**12,120,227**	**3,270,915**	**(9,712,008)**	**(8,308,031)**	**(18,020,039)**

This represents the net increase or decrease in fair value of the financial assets measured at fair value through profit or loss. The value of this balance aggregated to a gain of TZS 3,270.9 million (2015: loss of TZS 18,020.0 million).

9 FEES AND COMMISSIONS

	30.06.2016	30.06.2015
	TZS '000	TZS '000
Commission on foreign operations	19,956,573	20,936,419
Tanzania Interbank Settlement System (TISS) fees and charges	1,859,868	1,630,522
Bureau de change application fees	262,500	266,500
Bureau de change registration fees	78,000	69,000
Bureau de change penalty fees	15,000	31,520
Tender application fees	26,078	31,080
Banks and financial institutions applications/licensing fees	28,045	25,000
Clearing House fines and penalties and other fees	-	8,000
	22,226,064	**22,998,041**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. OTHER OPERATING INCOME

	30.06.2016 TZS '000	30.06.2015 TZS '000
Foreign operations		
Gains on inter-bank foreign exchange market (IFEM) operations	13,181,848	-
Miscellaneous income	8,201,585	169,194
Realised gains on de-recognition of foreign currency marketable securities	1,607,482	1,427,695
Income from equity investment	351,128	16
Other income from foreign operations	**23,342,043**	**1,596,905**
Domestic operations		
Miscellaneous income	6,948,074	1,717,808
Income – domestic operations	3,984,502	5,575,689
Staff contributions *	1,725,468	1,675,637
Rental income from staff quarters	595,880	587,572
Income from hostel accommodation	32,079	64,431
Income from cafeteria operations	49,712	37,074
Other income from domestic operations	**13,335,715**	**9,658,211**
Total other income	**36,677,758**	**11,255,116**

*Net contribution to Staff Housing Compensatory Fund

12. ADMINISTRATIVE EXPENSES

	30.06.2016 TZS '000	30.06.2015 TZS '000
Maintenance - computer, software and related expenses	13,474,833	12,156,020
Transport and traveling expenses	9,129,613	8,694,215
Meetings, conferences and seminars	6,415,630	7,105,162
Water and electricity	6,343,567	6,604,340
Maintenance - bank premises	6,414,987	6,129,021
Increase in provision	5,593,844	-
Insurance expenses	2,581,457	2,329,597
Fees, rates and security expenses	2,843,024	2,214,468
Printing, stationery and office supplies	1,930,204	2,176,852
Telecommunication and postage	2,166,681	1,878,577
Board expenses	1,888,216	1,845,241
Other administrative expenses	3,540,494	1,427,119
Maintenance - furniture, machinery and equipment	1,361,037	1,247,505
Audit fees	1,183,673	957,903
Budget and annual accounts preparation expenses	544,557	496,573
Hospitality	419,961	266,255
Audit related expenses	174,726	164,002
Legal and investigation expenses	613,000	110,526
	66,619,504	**55,803,376**

13. CURRENCY AND RELATED EXPENSES

	30.06.2016 TZS '000	30.06.2015 TZS '000
Notes printing and related expenses (Note 26)	67,330,636	71,549,653
Coins minting and related expenses (Note 26)	7,553,987	4,873,666
Cost of currency issued in circulation	**74,884,623**	**76,423,319**
Maintenance of currency machines	4,673,372	2,553,488
Currency transport, storage and handling	3,724,685	3,498,258
Other currency expenses	993,000	184,971
Other currency related costs	**9,391,057**	**6,236,717**
Total currency and related expenses	**84,275,680**	**82,660,036**

The amount of TZS 74,884.6 million (2015: TZS 76,423.3 million) is in respect of notes printing and coins minting and related expenses, refers to the proportionately amortised portion of deferred notes printing and coins minting cost for the currency notes and coins that were issued into circulation during the year.

A total of TZS 4,673.4 million (2015: TZS 2,553.5 million) was incurred during the year in respect of currency machines maintenance expenses. The amount of TZS 3,724.7 million (2015: TZS 3,498.3 million) is in respect of currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred during the year. Other currency related expenses aggregated to TZS 993.0 million (2015: TZS 185.0 million).

14. PERSONNEL EXPENSES

	30.06.2016 TZS '000	30.06.2015 TZS '000
Staff salaries and allowances	80,717,451	70,125,056
Staff retirement benefit	21,552,672	-
Contribution to social security schemes	10,832,794	9,547,343
Staff medical expenses	6,595,418	5,788,517
Travel on leave expenses	5,859,350	5,646,743
Management car maintenance and other related expenses	6,340,350	5,323,669
Staff training expenses	4,504,933	5,064,955
Motor vehicles expenses	1,857,904	2,321,151
HR planning policies expenses	2,100,506	2,159,068
Workers Council expenses	965,508	1,293,627
Furniture grant expenses	2,453,391	1,389,920
Cafeteria expenses	1,578,760	1,327,122
Tanzania Union for Industrial and Commercial (TUICO) expenses	610,885	466,545
Staff uniforms expenses	296,419	273,767
Condolence and related expenses	252,122	224,580
Course functions & field trips expenses	15,828	17,046
	146,534,291	**110,969,109**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. OTHER OPERATING EXPENSES

	30.06.2016	30.06.2015
	TZS '000	TZS '000
Foreign operations		
Loss on inter-bank foreign exchange market (IFEM) operations	-	50,243,739
Foreign reserve management expenses	1,630,709	1,932,358
Financial markets development expenses	1,580,344	1,354,295
Commission and fees on foreign operations	1,277,266	258,884
Amortised premium	54,911	223,772
	4,543,230	**54,013,048**
Domestic operations		
Contribution to professional associations, charities	6,872,327	2,479,308
Contribution to national development programs/projects	2,014,375	1,341,106
Subscriptions	172,740	89,162
	9,059,442	**3,909,576**
Cheques issued expenses	555,860	129,959
Commission and fees on domestic operations	118,675	-
	674,535	**129,959**
	14,277,207	**58,052,583**

Analysis of donations, contributions and subscriptions

Donations and other contributions	4,167,000	354,184
Monetary and Economic Financial Management Institute	878,588	806,529
Second Generation of Financial Sector Reforms	696,612	846,323
Capital Markets and Securities Authority	675,000	613,000
Contribution to Establishment of Tanzania Agricultural Development Bank	520,000	66,000
Contribution to National Risk Assessment	499,981	-
Tanzania Institute of Bankers	489,720	489,720
Contribution to National Board of Accountants and Auditors (NBAA) and National Board of Material Management (NBMM)	448,955	275,975
Deposit Insurance Board	313,186	251,738
Contribution to African Research Consortium	195,000	165,000
Contribution - Committee of Central Bank Governors (CCBG)	102,782	30,363
African Association of Central Banks and African Rural and Agriculture Credit Association	72,618	9,031
Promotion of Tanzania Economy Abroad and Other Foreign Institutions	-	1,713
	9,059,442	**3,909,576**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	30.06.2016 TZS '000	30.06.2015 TZS '000
Net revaluation (losses)/gains on equity investments	**(4,988,060)**	**10,133,693**

The loss of TZS 4,988.1 million (2015: gain of TZS 10,133.7 million) is in respect of revaluation loss/gain on the Bank's shares in Afreximbank and SWIFT. The investments are measured at fair value through other comprehensive income and are revalued at the end of each year.

17. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	30.06.2016 TZS '000	30.06.2015 TZS '000
Cash balances with Central Banks	490,062,226	914,621,770
Demand, time deposits with commercial banks and foreign currency notes and coins	2,339,724,853	1,711,461,391
Accrued interest on deposits	925,520	449,469
	2,830,712,599	**2,626,532,630**

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

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

	30.06.2016 TZS '000	30.06.2015 TZS '000
Demand deposits	2,335,211,582	1,708,427,605
Foreign currency notes and coins	4,513,271	3,033,786
	2,339,724,853	**1,711,461,391**

18. ESCROW ACCOUNT

Bank of Tanzania Escrow	**10,602,238**	**9,607,422**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. ESCROW ACCOUNT (Continued)

The Government deposited funds into this account once in March 2003 of USD 5.0 million that was equivalent to TZS 5,256.0 million. Some of the funds were utilised to settle due obligations before financial crises. The balance on the account earns interest. As at 30 June 2016, the account had a balance of USD 4.9 million equivalent to TZS 10,602.2 million. (2015: USD 4.9 million equivalent to TZS 9,607.4 million)

ITEMS IN COURSE OF SETTLEMENT	30.06.2016 TZS '000	30.06.2015 TZS '000
BoT net clearing account	**2,399,563**	**1,223,038**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES

	30.06.2016		30.06.2015	
	Equivalent SDR '000	Equivalent TZS '000	Equivalent SDR '000	Equivalent TZS '000
Assets				
Holdings of SDR's	18,323	55,835,295	113,250	314,464,770
Quota in IMF	397,800	1,212,378,799	198,900	552,274,969
	416,123	**1,268,214,094**	**312,150**	**866,739,739**
Liabilities				
IMF Account No.1	338,071	1,030,347,541	188,897	524,499,656
IMF Account No.2	3	10,651	3	9,704
	338,074	1,030,358,192	188,900	524,509,360
Allocation of SDRs	190,527	580,623,424	190,510	528,982,829
	528,601	**1,610,981,616**	**379,410**	**1,053,492,189**

Following the IMF reforms on quota and governance that included doubling of IMF quotas and re-alignment of quotas shares, the Tanzania's quota in IMF increased to SDR 397.8 million equivalent to TZS 1,212,378.8 million (2015: SDR 198.9 million equivalent to TZS 552,275.0 million). On a quarterly basis, the IMF pays interest (remuneration) to those members who have a remunerated reserve tranche position at the adjusted rate of remuneration. As at June 2016, reserve tranche stood at SDR 59.7 million (2015: SDR 10.0 million) whereas the adjusted rate of remuneration was 0.5 percent (2015: 0.4 percent).

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 2016, the facility had a nil balance.

20. FOREIGN CURRENCY MARKETABLE SECURITIES

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

Financial assets measured at fair value through profit and loss (FVTPL):	30.06.2016 TZS '000	30.06.2015 TZS '000
Marketable securities	5,343,419,060	5,642,824,505
Accrued interest	27,331,843	29,911,764
	5,370,750,903	**5,672,736,269**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. FOREIGN CURRENCY MARKETABLE SECURITIES (Continued)

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

	30.06.2016 TZS '000	30.06.2015 TZS '000
Sovereign Issues		
USD	3,362,684,975	3,400,883,865
GBP	423,808,598	538,760,319
EUR	679,264,046	768,423,937
AUD	368,286,848	331,439,204
CNY	151,587,869	195,237,350
	4,985,632,336	**5,234,744,675**
Supranational Securities		
USD	179,102,480	165,327,013
GBP	-	5,687,143
EUR	34,810,285	65,667,876
AUD	7,137,796	6,635,147
CNY	6,531,247	
	227,581,808	**243,317,179**
Agency Securities		
USD	108,796,464	142,034,522
GBP	8,857,524	-
EUR	12,550,928	22,728,129
	130,204,916	**164,762,651**

	30.06.2016 TZS '000	30.06.2015 TZS '000
Total investments		
USD	3,650,583,919	3,708,245,400
GBP	432,666,122	544,447,462
EUR	726,625,259	856,819,942
AUD	375,424,644	338,074,351
CNY	158,119,116	195,237,350
Accrued interest	27,331,843	29,911,764
	5,370,750,903	**5,672,736,269**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. EQUITY INVESTMENTS

	30.06.2016	30.06.2015
	TZS '000	TZS '000
Investment in equity are designated at fair value through other comprehensive income (FVTOCI):		
Equity investment in Afreximbank	25,805,570	27,730,437
Equity investment in SWIFT	645,095	468,119
	26,450,665	**28,198,556**

Equity investment in Afreximbank: TZS 25,805.6 million (2015: TZS 27,730.4 million)

The African Export-Import Bank (Afreximbank) is a supranational institution, established on 27 October 1993. The Bank holds an investment in the equity of Afreximbank. Afreximbank is a grouping of regional central banks and financial institutions designed to facilitate intra and extra African trade. The Bank's equity interest in Afreximbank is 718 ordinary shares (2015: 709) of par value of USD 10,000 each. As at 30 June 2016, the Bank's equity aggregated to USD 2,872,000 representing two fifth of the Bank's paid up shares in Afreximbank (2015: USD 2,836,000). The proportion of the Banks equity interest to the total holding in this bank is 0.70 percent. These shares are measured at fair value through other comprehensive income.

Equity Investm ent in SWIFT: TZS 645.1 million (2015: TZS 468.1 million)

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

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

The number of shares allocated to each member is determined at least after every three years according to the Bylaws of the Company and is proportional to the annual contributions paid for the network based services to the Company. The members have the obligation to give up or take up the resulting change in shares. The Bylaws of the Company state that shares are only reimbursed when a member resigns, or when a member has to give up shares following reallocation. This investment is measured at fair value through other comprehensive income. During the year, under review the Bank had a total of 62 shares at a price of EUR 3,430 (2015: 62 shares at a price of 3,430).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. GOVERNMENT SECURITIES

Amortised cost:	30.06.2016 TZS '000	30.06.2015 TZS '000
Stocks	51,333,308	51,333,308
Treasury Bills	19,756,144	83,836,356
Special Treasury Bonds	1,182,673,228	1,183,768,228
Treasury EPA Stock	205,743,889	205,743,889
	1,459,506,569	1,524,681,781
Accrued interest	31,061,959	33,850,341
	1,490,568,528	**1,558,532,122**

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

Stocks

Advances granted to the Government which were to be repaid at the end of financial year 1994 were converted into five years 25% Special Stock 1993/98 of TZS 42,243.0 million. Thereafter in 1999, the stock plus the earned interest were restructured into two stocks namely 15% Special Treasury Stock 2018/19 with face value of TZS 51,333.3 million. As at June 2016 the value of stock stood at TZS 51,333.3 million (2015: TZS 51,333.3 million)

Treasury Bills

This represents treasury bills discounted by commercial banks to the Bank. The decrease is a result of monetary policy implemented during the period. As at 30 June 2016, the value of treasury bills discounted was TZS 19,756.1 million (2015: TZS 83,836.4 million).

Special Treasury Bonds

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

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

22. GOVERNMENT SECURITIES (CONTINUED)

Special Treasury Bonds (Continued)

The 5 year special bond of TZS 155,000.0 million with floating interest rate based on the prevailing average yield to maturity with a cap of 14.92 percent issued by the Government to finance horticultural expansion project in Arusha matured on 28 December 2015. This bond was rolled over on December 2015 after its maturity from 5 years to 2 years Special bond of TZS 55,000.0 million with interest rate of 7.82%, 3 years Special Bond of TZS 50,000.0 million with interest rate of 8.27% and 5 years Special Bond TZS 50,000.0 million with interest rate of 9.18%

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, the bond aimed at redressing the accumulated deficit position of the United Republic of Tanzania Government as at 30 June 2012. The bond face value was TZS 469,484.4 million with interest of 11.44 percent payable semi-annually.

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

During the year under review, partial redemption and maturity of special bonds amounted to TZS 2,190.0 million and TZS 3.5 million, respectively. The value of Special Bonds as at 30 June 2016 was TZS 1,182,673.2 million (2015: TZS 1,183,768.2 million).

Treasury EPA Stock

Treasury EPA Stocks represent External Payment Arrears (EPA) that date back to 1980's when the defunct National Bank of Commerce (NBC) had external commercial obligations that were in arrears for lack of foreign exchange. These were later on transferred to the Bank to facilitate their administration and control. According to the arrangement of sharing such obligations, the externalisation 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. GOVERNMENT SECURITIES (CONTINUED)

Treasury EPA Stock (Continued)

The Government effective from 1 August 2008 reissued two EPA Special Stocks namely EPA Special Stock 2002/2052 and EPA Special Stock 2005/2055 with values of TZS 4,352.8 million and TZS 65,646.1 million and replaced them with EPA Special Stock 2008/28 and EPA Special Stock 2008/23 respectively. Their tenures were reviewed from 50 years and 55 years to 10 years and 15 years with annual coupons of 7.5 percent and 8.0 percent payable semi-annually respectively. Furthermore, on 1 August 2008 the Government issued EPA Special Stock with face value of TZS 135,745.1 million to accommodate external payment arrears exchange losses incurred up to 31 December 2007. The stock has a maturity of 20 years with annual coupon of 8.5 percent payable semi-annually. As at 30 June 2016, the aggregate position of Special EPA stocks was TZS 205,743.9 million (2015: TZS 205,743.9 million).

23. ADVANCES TO THE GOVERNMENT

	30.06.2016 TZS '000	30.06.2015 TZS '000
Advances to the Government (URT) - **Note 32**	**818,528,205**	**69,953,767**

As at 30 June 2016, the overall United Republic of Tanzania (URT) Government position ended with a net deficit balance of TZS 818,528.2 million (2015: TZS 69,953.8 million) as summarised under **Note 32**. This position was attributable to overdrawn URT Government voted accounts. Advances were made in line with Section 34 of the Bank of Tanzania Act, 2006 and were solely for the purpose of providing temporary financial accommodation to the URT Government. Such advances bear interest at rates equivalent to the weighted average yield of short term maturities as determined by the Bank in accordance with the Bank of Tanzania Act, 2006 and are repayable within one hundred and eighty days. Interest charged on advances amounted to TZS 43,621.2 million (2015: TZS 91,980.3 million).

24. LOANS AND RECEIVABLES

	30.06.2016 TZS '000	30.06.2015 TZS '000
Accounts receivable	78,426,232	338,689,603
Staff loans and advances	70,122,825	51,257,918
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Intermediary accounts receivable	18,246	18,998
	153,711,303	395,110,519
Provision for impairment	(11,001,283)	(5,629,717)
	142,710,020	**389,480,802**

Analysis of impairment by line items

	30.06.2016 TZS '000	30.06.2015 TZS '000
Interest recoverable from government	5,241,621	-
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Staff loans and advances	329,293	199,348
Accounts receivable	286,369	286,369
	11,001,283	**5,629,717**

Movement in provision for impairment

	30.06.2016 TZS '000	30.06.2015 TZS '000
Balance at the beginning of the year	5,629,717	5,645,190
Interest recoverable from government	5,241,621	-
Impairment on staff loans and advances	216,240	93
Reversal during the year	(86,295)	(15,566)
Balance at the end of the year	**11,001,283**	**5,629,717**

The Bank did not pledge any loans and receivables as securities against liabilities in 2016 and 2015. 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 2016, the account had a balance of TZS 142,710.0 million (2015: TZS 389,480.8 million).

24. LOANS AND RECEIVABLES (CONTINUED)

a) Accounts Receivable: TZS 78,426.2 million

Major components under Accounts Receivable include the following:

(i) Interest receivable on Liquidity Management: TZS 9,399.3 million

Included under accounts receivable is TZS 9,399.3 million (2015: TZS 77,529.2 million) relating to 2015/16 URT Government share in respect of interest on 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 43,643.3 million

During the year, the URT Government net position was overdrawn by TZS 818,528.2 million (2015: TZS 69,953.8 million). Pursuant to Section 34 of the Bank of Tanzania Act, 2006, an amount of TZS 43,643.3 million (2015: TZS 91,980.3 million) was charged to the Government as interest on overdrawn position. Accordingly, interest aggregating to TZS 43,192.1 million is outstanding as at 30 June 2016 (2015: TZS 145,077.2 million).

(iii) Standby credit facility:

The commercial banks have access to the standby credit facility with a maturity of one day order to settle their obligations in their clearing balances to avoid systematic risk when their balances are not sufficient but expect maturity of various instruments. Such facility is available at market rate prevailing on that particular date. At 30 June 2016, such facility had no outstanding balance (2015: TZS 44,169.5 million).

b) Staff Loans and Advances: TZS 70,122.8 million

Employees of the Bank are entitled to loans and advances as approved in accordance with the Bank's Staff Bylaws and Financial Regulations in force. Staff loans are granted to employees to assist them in acquisition of residential houses, motor vehicles, computers and furniture. Staff advances are financial accommodation granted to employees to meet short term financial obligations. The advances/loans are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. These loans and advances are recovered from the employees' salaries on a monthly basis. The facilities are secured against the borrowers' employment and terminal benefits. As at 30 June 2016, the balance of staff loans and advances was TZS 70,122.8 million (2015: TZS 51,257.9 million).

25. INVENTORIES

The inventory balance consists of the following:	**30.06.2016 TZS '000**	**30.06.2016 TZS '000**
Currency machine spare parts	2,935,731	4,975,213
Building, machinery and maintenance consumables	898,536	952,411
Stationery	531,322	549,867
ICT accessories and consumables	549,038	426,402
Cheque books	378,226	703,939
Copier parts and consumables	354,915	376,754
Drugs and medicines	114,630	115,651
Inventory in Transit	835	346,393
	5,763,233	**8,446,630**

All inventories held by the Bank as at 30 June 2016 were for the internal consumption and not intended for sale.

26. 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 2015/16, the movement on deferred currency cost balance was as follows:

	30.06.2016 TZS '000	**30.06.2015 TZS '000**
Balance as at the beginning of the year	37,040,553	85,302,787
Add: Cost of currency received during the year	97,824,215	28,161,085
Less: Cost of currency issued in circulation (Note 12)	(74,884,623)	(76,423,319)
Balance as at the end of the year	**59,980,145**	**37,040,553**

27. OTHER ASSETS

	30.06.2016 TZS '000	30.06.2015 TZS '000
Reverse REPO	605,000,000	79,500,000
Export Credit Guarantee Fund investments account (ECGS)	81,138,922	76,890,440
Staff Benefits Fund Investments	73,526,211	80,054,787
Prepayments	51,133,997	40,155,485
Financial Sector Development Fund	32,454,976	-
SME contribution investment account	14,060,630	11,224,792
Accrued Interest on ECGS investment	5,049,110	4,555,823
Intermediary accounts	4,502,059	-
Sundry receivables	3,712,563	489,338
Mwalimu J.K. Nyerere Memorial Scholarship Fund investments	3,353,154	3,099,533
Staff imprest	1,799,467	4,390,206
Staff Housing Fund investment account	1,173,818	7,777,169
Petty cash balances	100,000	71,500
	877,004,907	**308,209,073**

(i) Staff Benefits Fund Investment: TZS 73,526.2 million

This represents the investments in treasury bills of TZS 35,530.1 million (2015: TZS 23,855.3 million), bonds TZS 34,208.6 million (2015: TZS 52,343.3 million) and accrued interest made by the Staff Benefits Fund amounting to TZS 3,787.5 million (2015: TZS 3,856.2 million).

(ii) Export Credit Guarantee Investment Account: TZS 81,138.9 million

The balance represent funds invested in Treasury Bills in respect of Export Credit Guarantee Scheme fund. As at 30 June 2016 the account had a balance of TZS 81,138.9 million (2015: TZS 76,890.4 million).

(iii) Prepayment: TZS 51,134.0 million

The balance under prepayment for the year ending 30 June 2016 mainly covers TZS 1,921.5 million paid to De la Rue as advance payment in respect of notes printing, TZS 5,900.0 million paid to National Housing Corporation for construction of Staff Houses at Mtwara Municipality, advance payment paid to CRANE AB in respect of bank notes printing of TZS 24,546.2 million, advance payment paid to Royal mint in respect of currency spare part machines TZS 2,854.0 million, payment made to Mint Finland in respect of coins minting of TZS 2,347.4 million, payment to China Civil Engineering in respect of construction of new office building in Mwanza Branch of TZS 4,072.8 million, advance payment to Giescke Devrient TZS 1,350.9 million, advance payment to Government procurement Service Agent TZS 1,863.3 million and TRA TZS 1,008.2 million in respect of tax expenses.

(iv) Reverse repo: TZS 605,000.0 million

The balance represents funds advanced to commercial banks under reverse REPO contracts. Under the agreements commercial banks sell securities to the Bank and simultaneously agree to purchase the same securities at a specified future date at a fixed price. The difference between sale and repurchase price is treated as interest income and is recognised in profit or loss. As at 30 Jun 2016 the balance of reverse REPO contracts was TZS 605,000.0 million (2015: 79,500.0 million).

28. PROPERTY AND EQUIPMENT

2016	Land and buildings TZS '000	Machinery and equipment TZS '000	Motor vehicles TZS '000	Fixtures and fittings TZS '000	Computers, servers and printers TZS '000	Capital work in progress TZS '000	Total TZS '000
Cost/valuation							
At 01 July 2015	721,805,066	232,072,019	17,607,384	8,496,344	20,783,502	35,981,712	1,036,746,027
Additions	3,450,657	2,663,374	5,963,021	279,577	5,178,093	20,784,094	38,318,816
Revaluation*	111,947,792	-	-	-	-	-	111,947,792
Disposal	(140,015)	(1,083,955)	(815,589)	(258,472)	(1,669,503)	(1,155,783)	(5,123,317)
At 30 June 2016	**837,063,500**	**233,651,438**	**22,754,816**	**8,517,449**	**24,292,092**	**55,610,023**	**1,181,889,318**
Accumulated depreciation							
At 01 July 2015	22,696,413	190,039,624	9,218,139	6,264,870	13,983,900	-	242,202,946
Charges for the year	5,931,394	9,049,510	1,101,274	452,728	2,561,332	-	19,096,238
Revaluation*	(28,522,188)	-	-	-	-	-	(28,522,188)
Reversal of impairment loss**	(97,206)						(97,206)
Disposal	(8,413)	(1,009,520)	(681,855)	(219,441)	(1,535,778)	-	(3,455,007)
At 30 June 2016	**-**	**198,079,614**	**9,637,558**	**6,498,157**	**15,009,454**	**-**	**229,224,783**
Net book value							
At 30 June 2016	**837,063,500**	**35,571,824**	**13,117,258**	**2,019,292**	**9,282,638**	**55,610,023**	**952,664,535**

* Net revaluation gains on Bank's immovable properties are recorded in Other Comprehensive income.

** Reversal of impairment loss is recorded under the Profit and Loss.

28. PROPERTY AND EQUIPMENT (CONTINUED)

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

28. 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	30.06.2016 TZS '000	30.06.2015 TZS '000
Cost	577,245,406	676,141,709
Accumulated depreciation and impairments	(76,313,886)	(56,763,913)
Carrying amount	500,931,520	619,377,796

Effective financial year 2007/8 valuation of the Bank's immovable property is conducted after five years. The Bank's immovable properties were revalued during the year ended 30 June 2016 by M/S M & R Agency Limited, a professional registered valuation firm. Prior to the revaluation performed on Bank's immovable properties in current year, the last revaluation was performed for the year ended 30 June 2011 by EMACK (T) Limited, a professional registered valuation firm.

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

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

Gain or (loss) on disposal of property and equipment.				30.06.2016	30.06.2015
	Cost	Accumulated depreciation	Cash proceeds	Net gains/ (loss)	Net gains/ (loss)
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Class of asset					
Land and buildings	140,015	8,413	-	(131,602)	(42,281)
Machinery & equipment	1,083,955	1,009,520	44,679	(29,756)	(225,541)
Motor vehicles	815,589	681,855	231,030	97,296	76,297
Fixtures & fittings	258,472	219,441	30,116	(8,915)	(1,964)
Capital work in progress	1,155,783	-	-	(1,155,783)	(57,044)
Computers, servers & printers	1,669,503	1,535,778	31,520	(102,205)	
	5,123,317	**3,455,007**	**337,345**	**(1,330,965)**	**(250,533)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. INTANGIBLE ASSETS

	Computer software	Computer software - WIP	Total
	TZS '000	TZS '000	TZS '000
2016			
COST			
At 1 July 2015	25,778,826	2,797,422	28,576,248
Additions	594,277	1,862,087	2,456,364
Transfer	1,461,512	(1,461,512)	-
At 30 June 2016	**27,834,615**	**3,197,997**	**31,032,612**
Accumulated amortisation			
At 1 July 2015	23,079,013	22,691	23,101,704
Charges for the year	1,375,452	-	1,375,452
At 30 June 2016	**24,454,465**	**22,691**	**24,477,156**
Net book value			
At 30 June 2016	**3,380,150**	**3,175,306**	**6,555,456**
2015			
COST			
At 1 July 2014	23,528,416	2,328,809	25,857,225
Additions	1,066,546	1,652,477	2,719,023
Transfer	1,183,864	(1,183,864)	-
At 30 June 2015	25,778,826	2,797,422	28,576,248
Accumulated amortisation			
At 1 July 2014	21,329,110	22,691	21,351,801
Charges for the year	1,749,903	-	1,749,903
At 30 June 2015	23,079,013	22,691	23,101,704
Net book value			
At 30 June 2015	**2,699,813**	**2,774,731**	**5,474,544**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. CURRENCY IN CIRCULATION

	30.06.2016 TZS '000	30.06.2015 TZS '000
Notes		
Notes issued	7,428,139,356	6,072,444,842
Less: Notes in Custody	(3,126,966,936)	(2,039,062,651)
Notes in Circulation	4,301,172,420	4,033,382,191
Coins		
Coins issued	122,868,302	108,054,970
Less: Coins in Custody	(49,701,180)	(47,176,093)
Coins in Circulation	73,167,122	60,878,877
Total currency in circulation	4,374,339,542	4,094,261,068

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

Furthermore, included under notes and coins in circulation figure of TZS 4,374.3 million (2015: TZS 4,094,261.1 million) is the face value of TZS 99,386.9 million (2015: TZS 99,386.9 million) representing banknotes that were phased out in 2003.

31. DEPOSITS – BANKS AND NON-BANK FINANCIAL INSTITUTIONS

	30.06.2016 **TZS '000**	**30.06.2015** **TZS '000**
Deposits – commercial bank deposits		
Clearing	-	469,687,520
Domestic bank deposits/SMR	2,338,440,963	1,992,392,135
Domestic Banks Foreign Currency Deposits	504,321,746	622,697,659
Sub total	**2,842,762,709**	**3,084,777,314**
Deposits – Non bank financial institutions		
Clearing	54,483,448	12,140,471
SMR	403,500	3,642,253
Domestic Non-Banks Foreign Currency Deposits	2,291,105	4,861,317
Sub total	**57,178,053**	**20,644,041**
Total deposits	**2,899,940,762**	**3,105,421,355**

31. DEPOSITS – BANKS AND NON-BANK FINANCIAL INSTITUTIONS (CONTINUED)

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 issued on 30 April 2015 in accordance with Section 44 of the Bank of Tanzania Act, 2006 and Sections 4 and 71 of the Banking and Financial Institutions Act, 2006.

32. DEPOSITS – GOVERNMENTS

	30.06.2016 TZS '000	30.06.2015 TZS '000
Deposits/(overdrawn) – Voted accounts		
URT Government	(1,191,810,509)	(409,003,935)
SMZ Government	21,968,298	5,397,815
Sub total	(1,169,842,211)	(403,606,120)
Deposits/(overdrawn) – Unvoted accounts		
URT Government	373,282,304	339,050,168
SMZ Government	21,114	(575,436)
Sub total	373,303,418	338,474,732
Total URT Government	**(818,528,205)**	**(69,953,767)**
Total SMZ Government	**21,989,412**	**4,822,379**
Deposit Governments (Net)	**(796,538,793)**	**(65,131,388)**

As at 30 June 2016 the position of the Government of the United Republic of Tanzania (URT) voted accounts were overdrawn by TZS 1,191,810.5 million (2015: TZS 409,003.9 million). Pursuant to the provision of Section 34 of the Bank's Act, a total of TZS 43,621.2 million (2015: TZS 91,980.3 million) was charged during the year ended 30 June 2016 as interest on overdrawn Governments position in various periods at the interest rate equal to the average monthly rates charged on treasury bills. Government deposit balances are non-interest earning. The net overdrawn position as at 30 June 2016 amounting to TZS 796,538.8 million (2015: TZS 65,131.4 million) has been reported as advance to the Government.

32. DEPOSITS – GOVERNMENTS

DEPOSITS - OTHERS	30.06.2016 TZS '000	30.06.2015 TZS '000
Deposits-Parastatals United Republic of Tanzania	559,013,947	-
Export Credit Guarantee Fund	88,211,633	82,976,416
Government obligations settlements	30,554,180	71,292,958
Deposit staff	18,987,674	16,867,577
Small and Medium Enterprises Guarantee Fund	14,658,909	12,383,223
Deposit Insurance Fund	12,153,896	1,226,675
Miscellaneous deposits	4,052,772	2,511,781
Mwalimu Julius K Nyerere Memorial Scholarship Fund	3,392,010	3,120,844
External Payment Arrears – NBC	2,288,419	2,288,419
Debt Conversion Scheme	2,098,960	2,098,960
Debt Service cash cover	1,778,331	2,420,453
Economic Empowerment Programme	1,372,960	1,394,999
Bank drafts issued	1,063,458	348,123
Redemption of Government Stock/Bonds	110,584	38,785
Mwananchi Gold Company Limited	-	334,742
	739,737,733	**199,303,955**

33. DEPOSITS – OTHERS

Development Finance Guarantee Fund:

	30.06.2016 TZS '000	30.06.2015 TZS '000
Development finance guarantee fund consists of the following:		
Capital contribution by the Government	56,500,000	56,500,000
Less: Transfer of loans proceeds to ECGF,SME-CGS	(2,416,830)	(466,830)
Net capital contribution	54,083,170	56,033,170
Interest on refinancing and structured loans	15,760,856	15,760,856
Sub Total	69,844,026	71,794,026
Less: Loans issued for refinancing facility	(69,844,026)	(71,794,026)
Net balance	-	-

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.

33. DEPOSITS – OTHERS (CONTINUED)

As at 30 June 2016, Government Capital contribution made in financial years 2002/03 and 2003/04 to the Fund amounted to TZS 56,500.0 million. Interest received and accrued on refinancing and restructured loans aggregated to TZS 15,760.9 million (2015: TZS 15,760.9 million). A total outstanding balance of TZS 69,844.0 million (2015: TZS 71,794.0 million) has so far been issued as loans for refinancing facilities to flowers and vegetable export companies. As at 30 June 2016 and 2015, the Fund had no balance.

Government Obligations Settlement: TZS 30,554.2 million

This represents Government cash cover in order to settle forex obligations. As at 30 June 2016 such funds aggregated to TZS 30,554.2 million (2015: TZS 71,293.0 million).

Mwananchi Gold Company Limited:

This represents net deposit of Mwananchi Gold Company Limited at the Bank. The movement of the deposit during the year is indicated below.	30.06.2016	30.06.2015
	TZS '000	TZS '000
Opening balance	334,742	572,029
Maturity on treasury bills investments	-	550,000
Payment to shareholders	(334,742)	-
Investments in Treasury bills	-	(536,787)
Transfers to commercial banks	-	(240,000)
Payment of statutory tax	-	(10,500)
	-	334,742

Export Credit Guarantee Fund: TZS 88,211.6 million.

The balance under this fund consists of the following:	**30.06.2016**	**30.06.2015**
	TZS '000	**TZS '000**
Export Credit Guarantee Fund	95,126,592	90,627,238
Less: ECGS receivable/ impairment	(6,914,959)	(7,650,821)
	88,211,633	**82,976,417**

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 2016, the Fund had a balance of TZS 88,211.6 million (2015: TZS 82,976.4 million) comprising of Government and the Bank's contributions and income from investment in treasury bills and guarantee fees.

33. DEPOSITS – OTHERS (CONTINUED)

Debt Service Cash Cover: TZS 1,778.3 million

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

Debt Conversion Scheme: TZS 2,098.9 million.

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

Mwalimu Julius K Nyerere Memorial Scholarship Fund: TZS 3,392.0 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 honour 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 2016, a total of TZS 3,353.1 million (2015: TZS 3,099.5 million) in respect of the Fund's resources had been invested in Government treasury bills and treasury bonds as per **Note 27**. As a result, the Fund had a balance of TZS 3,392.0 million (2015: TZS 3,120.8 million).

34. FOREIGN CURRENCY FINANCIAL LIABILITIES

Foreign Currency Financial Liabilities consist of the following:	**30.06.2016 TZS '000**	**30.06.2015 TZS '000**
Special Projects	729,954,528	432,902,351
Other Foreign Currency Deposits	63,234,285	15,150,300
Multilateral Debt Relief Initiative Fund	19,844,912	8,726,445
Non Paris Club Liabilities Escrow	10,602,238	9,607,422
Central Banks Deposits	1,052,043	260,843
Multilateral Agencies	140,674	140,674
	824,828,680	**466,788,035**

Special Projects Funds: TZS 729,954.5 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 and Planning or other appointed project implementation agency. As at 30 June 2016, the total balance in respect of Special Project accounts aggregated to TZS 729,954.5 million (2015: TZS 432,902.4 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. FOREIGN CURRENCY FINANCIAL LIABILITIES (CONTINUED)

Other Foreign Currency Deposits: TZS 63,234.3 million

This mainly consists of balance in respect of Vneshecomonbank Moscow Russia (TZS 14,900.7 million) Spread Reduction Account (TZS 1,631.1 million) and transfers of GBP foreign banks (TZS 44,138.4 million). As at 30 June 2016, the balance was TZS 63,234.3 million (2015: TZS 15,150.3 million).

Non Paris Club Liabilities Escrow: TZS 10,602.2 million

This account represent funds deposited by the United Republic of Tanzania Government under memorandum of economic and financial policies arrangement pending agreement with the relevant group of non-Paris creditors. As at 30 June 2016, the account had a balance of TZS 10,602.2 million (2015: TZS 9,607.4 million).

Multilateral Debt Relief Initiative Funds: TZS 19,844.9 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 2016, the fund had a balance amounting to TZS 19,844.9 million (2015: TZS 8,726.4 million).

Central Banks Deposits: TZS 1,052.0 million

These are funds deposited by the Bank of Uganda and Reserve Bank of Rwanda to accommodate clearing of transactions in their respective currencies i.e. UGX and RWF. As at 30 June 2016, the accounts had a balance of TZS 1,052.0 million (2015: TZS 260.8 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 2016, such balances amounted to TZS 140.7 million (2015: TZS 140.7 million).

35. POVERTY REDUCTION AND GROWTH FACILITY (PRGF)

	30.06.2016	30.06.2015
	TZS '000	TZS '000
IMF Drawings	653,398,418	720,673,020

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.

35. 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 159.1 million (USD 245. 8 million) equivalent to TZS 318,195.1 million being the first tranche. The Bank further received SDR 39.8 million (USD 63.4 million) equivalent to TZS 83,288.1 million and SDR 19.9 million (USD 29.0 million) equivalent to TZS 40,200.3 million on 10 December 2009 and 14 June 2010 respectively. The first tranche is repayable in ten years, including five and half year's grace period, payable semi-annually in ten equal instalments on 14 December and 14 June beginning 14 December 2014. The loan carry an interest of 0.5 percent per annum payable semi-annually beginning 14 December 2009. On 20 February 2013, the Government received a loan facility of SDR 74.6 million equivalent to TZS 181,472.8 million.

As at 30 June 2016, the balance of PRGF account was TZS 653,398.4 million (2015: TZS 720,673.0 million).

36. BOT LIQUIDITY PAPERS

	30.06.2016	**30.06.2015**
	TZS '000	**TZS '000**
BOT liquidity papers	93,909,290	727,887,818
Accrued interest	3,129,566	57,168,074
	97,038,856	**785,055,892**

As at 30 June 2016 the maturities profile of BOT Liquidity Papers held to maturity were as follows:

91-Day Treasury Bills	1,279,095	44,543,782
182-Day Treasury Bills	11,068,813	303,952,190
364-Day Treasury Bills	81,561,382	379,391,846
	93,909,290	**727,887,818**

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 recognised in profit and loss account as interest expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. PROVISIONS

	30.06.2016 TZS '000	30.06.2015 TZS '000
Provision for leave pay	**5,736,569**	**5,514,291**

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

Movement in provisions	30.06.2016 TZS '000	30.06.2015 TZS '000
Leave pay		
Carrying amount at the beginning of the year	5,514,291	4,722,778
Increase in provision	222,278	791,513
Carrying amount at the end of the year	**5,736,569**	**5,514,291**

38. OTHER LIABILITIES

Accounts payable	114,067,834	69,663,846
Sundry payables	16,146,762	11,449,033
Other employee cost payable	561,523	193,095
Stale drafts payable	105,221	105,220
	130,881,340	**81,411,194**

39. RETIREMENT BENEFIT OBLIGATION

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

Retirement benefits obligation	**98,602,076**	**81,926,325**

Please refer to **Note 46** on details of the retirement benefit plan.

40. AUTHORISED AND PAID UP SHARE CAPITAL

Authorised and paid up share capital	**100,000,000**	**100,000,000**

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

41. RESERVES

	30.06.2016 TZS '000	30.06.2015 TZS '000
General Reserve	376,286,560	298,329,037
Capital Reserve	99,262,908	99,262,908
Equalisation Reserve	727,746,713	395,107,764
Reserve for Projects	210,000,000	180,000,000
Staff Housing Fund	99,445,805	58,741,575
Assets Revaluation Reserve	260,246,143	119,776,163
Financial Sector Development fund	32,454,978	30,000,000
Securities Revaluation Reserve	10,531,659	1,027,526
Foreign Exchange Revaluation Reserve	181,892,631	358,240,860
Reserve for Dividends	300,000,000	130,000,000
Defined Benefit Reserves	7,562,690	7,562,690
	2,305,430,087	**1,678,048,523**

(a) General Reserve

In accordance with Section 18(1) of the Bank of Tanzania Act, 2006, the Bank is required to maintain a General Reserve Fund. The amount maintained in this account relates to annual appropriation of distributable profits determined by virtue of Section 18(2) of the aforesaid Act. The Act requires the Bank to transfer to the General Reserve Fund twenty five percent of the net profits until such time that the total capital of the Bank reach a sum equivalent to at least ten per centum of the total assets of the Bank less its assets in gold and foreign currencies. Thereafter, the Bank is required to transfer not less than ten percent of profits to the General Reserve Fund. As at 30 June 2016 the reserve had a balance of TZS 376,286.6 million (2015: TZS 298,329.0 million).

(b) Capital Reserve

The Capital Reserve was established on 30 June 2002. On an annual basis the amount spent to finance capital projects from the Reserve for Projects account is transferred to this reserve. The reserve is permanent in nature and can only be available for enhancement of share capital when need arises. As at 30 June 2016, the reserve had the same balance as it was on 30 June 2015 of TZS 99,262.9 million.

(c) Equalisation Reserve

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

41. RESERVES (CONTINUED)

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 2016, the reserve had a balance of TZS 727,746.7 million (2015: TZS 395,107.8 million).

(d) Reserve for Projects

This reserve was established by a resolution of the Bank's Board of Directors on 30 June 1992. The purpose of the reserve is to provide funds for financing major capital projects of the Bank. On an annual basis, the Board determines the amount to be appropriated from the distributable profit to the reserve. As at 30 June 2016 the reserve had a balance of TZS 210,000 million (2015: TZS 180,000.0 million).

(e) Staff Housing Fund

The Staff Housing Fund was established by a resolution of the Board of Directors on 30 June 1990. The purpose of this fund is to finance housing loans to Bank's employees. On an annual basis, the Board appropriates five percent of the distributable profit to the fund. As at 30 June 2016, the fund had a balance of TZS 99,445.8 million (2015: TZS 58,741.6 million) that include interest on fund's investments.

(f) Assets Revaluation Reserve

The Bank maintains Assets Revaluation Reserve to account for revaluation surpluses or deficits. To ensure compliance with requirement of International Accounting Standard (IAS 16), Property, Plant and Equipment if an asset-carrying amount increases as a result of revaluation, the increase is credited directly to other comprehensive income. However, this amount is not available for distribution. Accordingly, it is retained in the asset revaluation reserve. If an asset's carrying amount decreases on account of revaluation, the decrease is recognised in profit or loss to the extent that it exceeds credit balance existing in the asset revaluation reserve in respect of that asset. As at 30 June 2016, the reserve had a balance of TZS 260,246.1 million (2015: TZS 119,776.2 million).

(g) Financial Sector Development Fund.

This is a Fund established by the Board on 30 June 2016 pursuant to Section 18(1) (d) of the Bank of Tanzania Act, 2006 to foster execution of the Bank's mandate on financial sector development. The fund complements donor funds directed towards financial sector reforms. As at 30 June 2016, the fund had TZS 32,455.0 million (2015: TZS 30,000 million)

(h) Securities Revaluation Reserve

The Bank maintains Securities Revaluation Reserve to account for unrealised gains and losses arising from changes in fair value of financial instruments measured at fair value. As at 30 June 2016, the reserve had a total balance of TZS 10,531.7 million (2015: TZS 1,027.5 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41. RESERVES (CONTINUED)

(i) Foreign Exchange Revaluation Reserve

In accordance with Section 18(4) of the Bank of Tanzania Act, 2006, unrealised gains or losses on foreign exchange are transferred to this reserve account. In accounting for unrealised gains or losses the Bank complies with the requirements of both IFRS and the Bank of Tanzania Act (2006). Pursuant to the requirements of the International Accounting Standard (IAS – 21) the Effects of Changes in Foreign Exchange Rates, all realised and unrealised foreign exchange valuations should be taken to the profit or loss. As at 30 June 2016, the reserve had a total balance of TZS 181,892.6 million (2015: credit of TZS 358,240.9 million).

Both realised and unrealised gains and losses are therefore taken to profit or loss for purposes of computation of profit or loss for the year. Until such gains or losses are realised, they are not available for distribution; in the interim, the unrealised amounts are reflected in the Foreign Currency Revaluation Reserve. The separation of realised from unrealised exchange gains and losses is done by use of an “inventory accounting for foreign exchange net assets and liabilities”.

(j) Reserve for Dividend

This reserve accommodates the amount declared as dividend payable to the Governments after end of the accounting period. As at 30 June 2016, the reserve had a balance of TZS 300,000 million (2015: TZS 130,000.0 million).

(k) Defined Benefit Reserve

This reserve was established in June 2013 in order to accommodate re-measurements arising from change in actuarial assumptions to ensure compliance with International Accounting Standard (IAS 19 as revised in 2011)- Employee Benefits. As at 30 June 2016, the reserve had the same balance as it was on 30 June 2015 of TZS 7,562.7 million.

42. CASH GENERATED FROM/ USED IN OPERATING ACTIVITIES

	30.06.2016 TZS '000	30.06.2015 TZS '000
Profit for the year	757,381,564	577,338,425
Adjustment for:		
Depreciation of property and equipment	19,096,238	23,637,315
Amortisation of intangible assets	1,375,452	1,749,903
Net loss on disposal of property and equipment	1,330,965	250,533
Unrealised foreign exchange revaluation gains	(87,717,317)	(358,240,860)
Fixed assets revaluation gain	(140,567,186)	-
Decrease/(increase) in fair value of equity investment	4,988,060	(10,133,693)
	555,887,776	234,601,623
Changes in working capital		
Increase in escrow assets	(994,816)	(1,573,451)
(Increase)/decrease in items in course of settlement	(1,176,525)	5,776,587
(Increase)/decrease in items in advances to government	(748,574,438)	369,646,664
Decrease/(increase) in loans and receivables	246,770,782	(77,519,526)
Decrease/(increase) in inventories	2,683,397	(3,862,490)
(Increase)/decrease in deferred currency costs	(22,939,592)	48,262,234
Increase in other assets	(568,795,834)	(123,964,017)
Increase in deposits	352,120,218	505,705,829
Increase in other liabilities and provisions	66,368,175	40,102,303
Net changes in working capital	**(674,538,633)**	**762,574,133**
Cash (used in)/generated from operations	**(118,650,857)**	**997,175,756**

43. RISK MANAGEMENT

43.1 Introduction

The Bank has adopted a Corporate Risk Management Framework ("CRM") supported by policy and guideline to direct risk management process. CRM serves to ensure that all risks inherent in the operations are effectively managed, so that the Bank can in turn attain its strategic goals and objectives.

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

43. RISK MANAGEMENT (CONTINUED)

43.1 Introduction (Continued)

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

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

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

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

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

43.2 Risk Management Structure

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

43. RISK MANAGEMENT (CONTINUED)

43.2 Risk Management Structure

(a) Board of Directors

The Board of Directors is responsible for:

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

(b) Finance and Investment Committee of the Board

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

- Reviewing and recommending approval of the Corporate Risk Profile, associated mitigation strategies and other reports on Risk Management;
- Assisting the Board in reviewing implementation reports of risk management initiatives in the Bank;
- Advising the Board on all Risk Management undertakings in the Bank; and
- Giving directives to Management on issues related to Risk management.

(c) Management

The Management is responsible for:

- Establishing, implementing and maintaining risk management system in accordance with the Corporate Risk Management and Investment Management Policies;
- Formulating the framework, policy and recommending the risk limits and tolerance; and
- Reporting to the Finance and Investment Committee of the Board on implementation process of the policy.

(d) Management Risk Committee (MRC)

It is responsible for:

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

43. RISK MANAGEMENT (CONTINUED)

43.2 Risk Management Structure (continued)

(e) Risk Management Function

Risk Management function is responsible for:

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

(f) Internal Audit Function

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

43.3 Financial Risks

(a) Credit Risk

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

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

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

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (continued)

(a) Credit Risk (continued)

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

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

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

Investment Bank and Bank for International Settlements.

Total assets of the Bank exposed to credit risk as of 30 June 2016 and 30 June 2015 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(a) Credit Risk (Continued)

Description	30.06.2016		30.06.2015	
	TZS '000	Share (%)	TZS '000	Share (%)
Central Banks				
AAA	490,062,226	3.83%	914,621,770	7.96%
Foreign Commercial Banks				
F1+	2,336,137,102	18.28%	1,708,877,074	14.88%
Escrow accounts				
AA	10,602,238	0.08%	9,607,422	0.08%
Items in course of settlement:				
NR	2,399,563	0.02%	1,223,038	0.01%
Loans, receivables & advances to the government				
NR	961,238,225	7.52%	459,434,569	4.00%
Investment in securities				
Marketable securities	5,370,750,903	42.02%	5,672,736,269	49.38%
AAA	4,406,288,633		4,373,541,423	
AA+	297,155,376		920,941,442	
AA	511,167,816		160,590,669	
AA-	5,987,227		213,342,677	
A+	150,151,851		4,320,058	
Equity investments				
NR	26,450,665	0.21%	28,198,556	0.25%
Government securities				
NR	1,490,568,528	11.66%	1,558,532,122	13.57%
Other assets (excluding prepayments)				
NR	825,870,910	6.46%	268,053,588	2.33%
Holdings of Special Drawing Rights (SDRs)				
NR	55,835,295	0.44%	314,464,770	2.74%
Quota in International Monetary Fund (IMF)				
NR	1,212,378,799	9.48%	552,274,969	4.81%
	12,782,294,454	**100.00%**	**11,488,024,147**	**100.00%**

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(a) Credit Risk (Continued)

The sectoral classification of the Bank's credit exposure as at 30 June 2016 is as follows:

Details 2016	Foreign Country Treasury TZS '000	Supranational Institutions TZS '000	Domestic Financial Institutions TZS '000	Foreign Financial Institutions TZS '000	Government Guaranteed Agencies TZS '000	Tanzania Treasury TZS '000	Total TZS '000
Central Banks, Foreign Commercial Banks and Escrow accounts							
Central Banks	485,548,955	-	-	-	-	4,513,271	490,062,226
Commercial Banks	-	-	-	2,336,137,102	-	-	2,336,137,102
Escrow accounts	-	-	-	10,602,238	-	-	10,602,238
Investment in securities							
Foreign Currency Marketable securities	5,037,992,192	221,881,669	-	11,227,667	99,649,375	-	5,370,750,903
Equity investments	-	-	-	26,450,665	-	-	26,450,665
Government securities	-	-	-	-	-	1,490,568,528	1,490,568,528
Others							
Items in course of settlement	-	-	2,399,563	-	-	-	2,399,563
Loans, receivables and advances	-	-	142,710,020	-	-	818,528,205	961,238,225
Other assets (excluding prepayments)	-	-	-	-	-	825,870,910	825,870,910
Holdings of Special Drawing Rights (SDRs)	-	55,835,295	-	-	-	-	55,835,295
Quota in International Monetary Fund (IMF)	-	1,212,378,799	-	-	-	-	1,212,378,799
	5,523,541,147	**1,490,095,763**	**145,109,583**	**2,384,417,672**	**99,649,375**	**3,139,480,914**	**12,782,294,454**

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(a) Credit Risk (Continued)

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

Details 2015	Foreign Country Treasury TZS '000	Supranational Institutions TZS '000	Domestic Financial Institutions TZS '000	Foreign Financial Institutions TZS '000	Government Guaranteed Agencies TZS '000	Tanzania Treasury TZS '000	Total TZS '000
Central Banks, Foreign Commercial Banks and Escrow accounts							
Central Banks	914,621,770	-	-	-	-	-	914,621,770
Commercial Banks	-	-	-	1,708,877,074	-	-	1,708,877,074
Escrow accounts	-	-	-	9,607,422	-	-	9,607,422
Investment in securities							
Foreign Currency Marketable securities	5,154,210,660	213,244,847	-	173,344,840	131,935,922	-	5,672,736,269
Equity investments	-	-	-	28,198,556	-	-	28,198,556
Government securities	-	-	-	-	-	1,558,532,122	1,558,532,122
Others							
Items in course of settlement	-	-	1,223,038	-	-	-	1,223,038
Loans, receivables and advances	-	-	298,116,365	-	-	161,318,204	459,434,569
Other assets (excluding prepayments)	-	-	-	-	-	268,053,588	268,053,588
Holdings of Special Drawing Rights (SDRs)	-	314,464,770	-	-	-	-	314,464,770
Quota in International Monetary Fund (IMF)	-	552,274,969	-	-	-	-	552,274,969
	6,068,832,430	**1,079,984,586**	**299,339,403**	**1,920,027,892**	**131,935,922**	**1,987,903,914**	**11,488,024,147**

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(a) Credit Risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as at 30 June 2016 is as follows:

Details	Tanzania	USA	UK	Other European Countries	Other Countries	Total
2016	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Assets						
Cash and balances with central banks & other banks	845,585	1,295,113,369	248,977,713	1,161,660,281	119,602,380	2,826,199,328
Escrow accounts	-	-	10,602,238	-	-	10,602,238
Items in course of settlement	2,399,563	-	-	-	-	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	55,835,295	-	-	-	55,835,295
Quota in International Monetary Fund (IMF)	-	1,212,378,799	-	-	-	1,212,378,799
Foreign currency marketable securities	-	3,454,331,610	415,952,221	934,584,878	565,882,194	5,370,750,903
Equity investment	-	-	-	645,095	25,805,570	26,450,665
Government securities	1,490,568,528	-	-	-	-	1,490,568,528
Advances to the Government	818,528,205	-	-	-	-	818,528,205
Loans and receivables	142,710,020	-	-	-	-	142,710,020
Other assets (excluding prepayments)	825,870,910	-	-	-	-	825,870,910
Total assets	**3,280,922,811**	**6,017,659,073**	**675,532,172**	**2,096,890,254**	**711,290,144**	**12,782,294,454**
Liabilities						
Currency in circulation	4,374,339,542	-	-	-	-	4,374,339,542
Deposits – banks and non-banks financial institutions	2,899,940,762	-	-	-	-	2,899,940,762
Deposits – Government	21,989,412	-	-	-	-	21,989,412
Deposits – others	739,737,733	-	-	-	-	739,737,733
Foreign currency financial liabilities	824,828,680	-	-	-	-	824,828,680
Poverty deduction and growth facility	-	653,398,418	-	-	-	653,398,418
BoT liquidity papers	97,038,856	-	-	-	-	97,038,856
Retirement benefit obligation	98,602,076	-	-	-	-	98,602,076
Other liabilities	130,881,340	-	-	-	-	130,881,340
IMF related liabilities	-	1,030,358,192	-	-	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	580,623,424	-	-	-	580,623,424
Total liabilities	**9,187,358,401**	**2,264,380,034**	**-**	**-**	**-**	**11,451,738,435**

43. RISK MANAGEMENT (CONTINUED)

3.3 Financial Risks (continued)

(a) Credit risk (continued)

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

Details 2015	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 and other banks	3,036,185	1,092,663,197	248,991,460	1,162,296,972	116,511,030	2,623,498,844
Escrow accounts	-	-	9,607,422	-	-	9,607,422
Items in course of settlement	1,223,038	-	-	-	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	314,464,770	-	-	-	314,464,770
Quota in International Monetary Fund (IMF)	-	552,274,969	-	-	-	552,274,969
Foreign currency marketable securities	-	3,448,399,954	548,992,056	1,111,232,265	564,111,994	5,672,736,269
Equity investment	-	-	-	468,119	27,730,437	28,198,556
Government securities	1,558,532,122	-	-	-	-	1,558,532,122
Advances to the Government	69,953,767	-	-	-	-	69,953,767
Loans and receivables	389,480,802	-	-	-	-	389,480,802
Other assets (excluding prepayments)	268,053,588	-	-	-	-	268,053,588
Total assets	**2,290,279,502**	**5,407,802,890**	**807,590,938**	**2,273,997,356**	**708,353,461**	**11,488,024,147**
Liabilities						
Currency in circulation	4,094,261,068	-	-	-	-	4,094,261,068
Deposits - banks and non-banks financial institutions	3,105,421,355	-	-	-	-	3,105,421,355
Deposits – Government	4,822,379	-	-	-	-	4,822,379
Deposits – others	199,303,955	-	-	-	-	199,303,955
Foreign currency financial liabilities	466,788,035	-	-	-	-	466,788,035
Poverty deduction and growth facility	-	720,673,020	-	-	-	720,673,020
Retirement benefit obligation	81,926,325	-	-	-	-	81,926,325
BoT liquidity papers	785,055,892	-	-	-	-	785,055,892
Other liabilities	81,411,194	-	-	-	-	81,411,194
IMF related liabilities	-	524,509,360	-	-	-	524,509,360
Allocation of Special Drawing Rights (SDRs)	-	528,982,829	-	-	-	528,982,829
Total liabilities	**8,818,990,203**	**1,774,165,209**	**-**	**-**	**-**	**10,593,155,412**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(b) Credit Quality per Class of FInancial Assets

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

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
30.06.2016				
Cash and cash equivalents	2,826,199,328	-	-	2,826,199,328
Escrow accounts	10,602,238	-	-	10,602,238
Items in course of settlement	2,399,563	-	-	2,399,563
Foreign currency marketable securities	5,370,750,903	-	-	5,370,750,903
Equity investments	26,450,665	-	-	26,450,665
Government securities	1,490,568,528	-	-	1,490,568,528
Loans, receivables and advances	949,290,381	946,561	11,001,283	961,238,225
Other assets (excluding prepayments)	825,870,910	-	-	825,870,910
Holdings of Special Drawing Rights (SDRs)	55,835,295	-	-	55,835,295
Quota in International Monetary Fund	1,212,378,799	-	-	1,212,378,799
	12,770,346,610	**946,561**	**11,001,283**	**12,782,294,454**
30.06.2015				
Cash and cash equivalents	2,623,498,844	-	-	2,623,498,844
Escrow accounts	9,607,422	-	-	9,607,422
Items in course of settlement	1,223,038	-	-	1,223,038
Foreign currency marketable securities	5,672,736,269	-	-	5,672,736,269
Equity investments	28,198,556	-	-	28,198,556
Government securities	1,558,532,122	-	-	1,558,532,122
Loans, receivables and advances	453,804,852	-	5,629,717	459,434,569
Other assets (excluding prepayments)	268,053,588	-	-	268,053,588
Holdings of Special Drawing Rights (SDRs)	314,464,770	-	-	314,464,770
Quota in International Monetary Fund	552,274,969	-	-	552,274,969
	11,482,394,430	**-**	**5,629,717**	**11,488,024,147**

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(b) Credit Quality per Class of Financial Assets

Details	Total	Neither past due nor impaired	Less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	> 120 days
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2016	961,238,225	949,290,381	530,319	1,916	1,833	1,705	11,412,071
2015	459,434,569	453,804,852	-	-	-	-	5,629,717

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

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

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 pay-out 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.

	30.06.2016 Gross Maximum Exposure TZS '000	30.06.2015 Gross Maximum Exposure TZS '000
Cash and cash equivalents	2,826,199,328	2,623,498,844
Escrow accounts	10,602,238	9,607,422
Items in the course of settlements	2,399,563	1,223,038
Foreign currency marketable securities	5,370,750,903	5,672,736,269
Equity investments	26,450,665	28,198,556
Government securities	1,490,568,528	1,558,532,122
Loans, receivables and advances	961,238,225	459,434,569
Other assets (Excluding prepayments)	825,870,910	268,053,588
Holdings of Special Drawing Rights (SDRs)	55,835,295	314,464,770
Quota in International Monetary Fund	1,212,378,799	552,274,969

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(b) Credit Quality per Class of Financial Assets

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

	Asset TZS '000	Liability TZS '000
2016		
Futures	-	890,928
Swaps	205,434	-
2015		
Futures	-	441,975
Swaps	199,637	-

(c) Liquidity Risk

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

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

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

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial risks (Continued)

(c) Liquidity Risk (Continued)

By contractual maturity analysis of financial instruments

Details	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000	Over 5 Years TZS '000	Total TZS '000
2016						
Assets						
Cash and balances with central banks & other banks	1,391,209,975	1,439,502,624		-	-	2,830,712,599
Escrow accounts	-	-	-	-	10,602,238	10,602,238
Items in course of settlement	2,399,563	-	-	-	-	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	-	-	-	55,835,295	55,835,295
Quota in International Monetary Fund (IMF)					1,212,378,799	1,212,378,799
Foreign currency marketable securities	17,472,381	277,304,976	853,823,980	4,207,525,383	14,624,183	5,370,750,903
Equity investment	-	-	-	-	26,450,665	26,450,665
Government securities	-	13,387,925	6,368,220	683,686,074	787,126,309	1,490,568,528
Advances to the Government	-	-	818,528,205	-	-	818,528,205
Loans and receivables	14,674	80,451	77,217,836	26,870,439	38,526,620	142,710,020
Other assets (excluding prepayments)	10,919,461	18,751,348	92,073,086	704,127,015	-	825,870,910
Total assets	**1,422,016,054**	**1,749,027,324**	**1,848,011,327**	**5,622,208,911**	**2,145,544,109**	**12,786,807,725**
Liabilities						
Currency in circulation	875,362,055	875,362,055	851,024,154	889,964,796	882,626,482	4,374,339,542
Deposit - banks and non-banks financial institutions	1,035,251,414	-	-	-	1,864,689,348	2,899,940,762
Deposits - Governments	21,989,412	-	-	-		21,989,412
Deposit others	213,812,025	180,161,491	120,107,661	225,656,556	-	739,737,733
Foreign currency financial liabilities	824,828,680	-	-	-	-	824,828,680
Poverty Reduction and Growth Facility	-	915,654	160,386,659	489,202,710	2,893,395	653,398,418
BOT liquidity papers	-	12,347,907	84,690,949	-	-	97,038,856
Other liabilities	99,987,578	25,290,126	-	5,603,636	-	130,881,340
Retirements benefit obligations	-	-	7,030,389	12,624,500	78,947,187	98,602,076
IMF Related Liabilities	-	-	-	1,030,358,192	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	-	-	580,623,424	-	580,623,424
Total liabilities	**3,071,231,164**	**1,094,077,233**	**1,223,239,812**	**3,234,033,814**	**2,829,156,412**	**11,451,738,435**
Net liquidity gap	**(1,649,215,110)**	**654,950,091**	**624,771,515**	**2,388,175,097**	**(683,612,303)**	**1,335,069,290**

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial risks (Continued)

(c) Liquidity Risk (Continued)

By contractual maturity analysis of financial instruments

Details	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000	Over 5 Years TZS '000	Total TZS '000
2015						
Assets						
Cash and balances with central banks & other banks	1,772,858,650	741,129,750	112,544,230	-	-	2,626,532,630
Escrow accounts	-	-	-	-	9,607,422	9,607,422
Items in course of settlement	1,223,038	-	-	-	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	-	-	-	314,464,770	314,464,770
Quota in International Monetary Fund (IMF)	-	-	-	-	552,274,969	552,274,969
Foreign currency marketable securities	74,835,180	123,881,857	902,005,645	4,552,564,501	19,449,086	5,672,736,269
Equity investment	-	-	-	-	28,198,556	28,198,556
Government securities	-	-	-	768,617,431	789,914,691	1,558,532,122
Advances to the Government	-	-	69,953,767	-	-	69,953,767
Loans and receivables	-	347,392,369	460,219	21,670,484	19,957,730	389,480,802
Other assets (excluding prepayments)	3,746,997	6,090,279	29,904,560	228,311,752	-	268,053,588
	1,852,663,865	1,218,494,255	1,114,868,421	5,571,164,168	1,733,867,224	11,491,057,933
Liabilities						
Currency in circulation	819,314,721	819,314,721	796,535,118	832,982,485	826,114,023	4,094,261,068
Deposits - banks and non-banks financial institutions	1,109,386,967	-	-	-	1,996,034,388	3,105,421,355
Deposits - others	-	199,303,955	-	-	-	199,303,955
Deposits - Government	-	4,822,379	-	-	-	4,822,379
Foreign currency financial liabilities	466,788,035	-	-	-	-	466,788,035
Poverty deduction and growth facility	-	720,673,020	-	-	-	720,673,020
BoT liquidity papers	105,627,010	348,760,600	330,668,282	-	-	785,055,892
Retirements benefit obligations	-	-	-	7,030,389	74,895,936	81,926,325
Other liabilities	62,148,270	15,768,937	-	3,493,987	-	81,411,194
IMF related liabilities	-	-	-	524,509,360	-	524,509,360
Allocation of Special Drawing Rights (SDRs)	-	-	-	528,982,829	-	528,982,829
	2,563,265,003	2,108,643,612	1,127,203,400	1,896,999,050	2,897,044,347	10,593,155,412
Net liquidity gap	**(710,601,138)**	**(890,149,357)**	**(12,334,979)**	**3,674,165,118**	**(1,163,177,123)**	**897,902,521**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(c) Liquidity Risk (Continued)

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

2016	Less than 12 months TZS '000	Over 12 months TZS '000	Total TZS '000
Assets			
Cash and balances with central banks & other banks	2,830,712,599	-	2,830,712,599
Escrow accounts	-	10,602,238	10,602,238
Items in course of settlement	2,399,563	-	2,399,563
Holdings of Special Drawing Rights (SDRs)		55,835,295	55,835,295
Quota in International Monetary Fund		1,212,378,799	1,212,378,799
Foreign Currency Marketable securities	1,148,601,336	4,222,149,567	5,370,750,903
Equity investment	-	26,450,665	26,450,665
Government securities	19,756,143	1,470,812,385	1,490,568,528
Advance to the Government	818,528,205	-	818,528,205
Loans and receivables	77,312,960	65,397,060	142,710,020
Other assets (excluding prepayments)	79,356,843	746,514,067	825,870,910
Total assets	**4,976,667,649**	**7,810,140,076**	**12,786,807,725**
Liabilities			
Currency in circulation	2,601,970,282	1,772,369,260	4,374,339,542
Deposit - banks and non-banks financial institutions	1,035,251,414	1,864,689,348	2,899,940,762
Deposit - governments	21,989,412		21,989,412
Deposit - Others	518,583,236	221,154,497	739,737,733
Foreign currency financial liabilities	824,828,680		824,828,680
Poverty reduction and growth facility	-	653,398,418	653,398,418
BOT liquidity papers	97,038,856	-	97,038,856
Other liabilities	125,277,704	5,603,636	130,881,340
Retirements benefit obligations	-	98,602,076	98,602,076
IMF related liabilities	-	1,030,358,192	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	580,623,424	580,623,424
Total liabilities	**5,224,939,584**	**6,226,798,851**	**11,451,738,435**
Net Liquidity gap	**(248,271,935)**	**1,583,341,225**	**1,335,069,290**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(c) Liquidity Risk (Continued)

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

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(d) Interest Rate Risk

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

The policy target duration is 2.22 years with deviation allowance of ± 0.25 years. As of 30 June 2016 portfolio duration stood at 2.22 years while that of 30 June 2015 was 2.2 years.

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

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

The tables below show various risk measured parameters.

Portfolio characteristics				
USD				
	30.06.2016		**30.06.2015**	
Positions of securities		106		98
Duration		2.21 years		2.20 years
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	1,399,543,430	3,048,527,132	1,628,613,289	3,215,383,552
Money Markets placements	847,500,000	1,847,189,366	579,560,558	1,144,230,799

EUR				
	30.06.2016		**30.06.2015**	
Positions of securities		25		35
Duration		1.98years		2.16 years
Base currency	EUR	TZS '000	EUR	TZS '000
Market value of Marketable Securities	300,379,583	726,625,258	389,242,450	856,819,942

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(d) Interest Rate RIsk (Continued)

GBP				
	30.06.2016		30.06.2015	
Positions of securities		15		16
Duration		2.37years		2.45 years
Base currency	GBP	TZS '000	GBP	TZS '000
Market value of Marketable Securities	148,958,384	436,966,805	175,306,441	544,447,461
Money Markets placements	83,500,000	245,089,762	49,021,331	152,245,057

AUD				
	30.06.2016		30.06.2015	
Positions of securities		14		14
Duration		2.45 years		2.45 years
Base currency	AUD	TZS '000	AUD	TZS '000
Market value of Marketable Securities	234,438,019	379,689,889	222,154,253	338,074,342
Money Markets placements	55,750,000	90,378,555	67,423,377	102,604,894

CNY				
	30.06.2016		30.06.2015	
Positions of securities		16		17
Duration		1.86years		1.89 years
Base currency	CNY	TZS '000	CNY	TZS '000
Market value of Marketable Securities	483,904,080	158,625,749	613,189,507	195,233,407
Money Markets placements	242,500,000	79,571,125	133,235,064	42,420,712

RAMP				
	30.06.2016		30.06.2015	
Positions of securities		65		66
Duration		2.23years		2.14 years
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	284,701,526	620,316,069	264,790,336	522,777,565

VaR for three major currencies in USD

Details	30.06.2016		30.06.2015	
	USD	TZS '000	USD	TZS '000
USD	8,400,936	18,303,460	8,464,429	16,711,386
EUR	762,953	1,662,277	1,291,028	2,548,886
GBP	1,326,023	2,889,060	1,075,955	2,124,266

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(d) Interest Rate Risk (Continued)

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

- A 95 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1 percent probability that losses could exceed the VaR.
- A one month holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be realistic in a situation where there is severe market illiquidity.
- VaR data is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the day.
- The model uses historical data from 1 July 2012 to 30 June 2016 as a basis for determining the possible ranges of outcomes and may not always cover all possible scenarios, especially those of an exceptional nature.

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

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

Price of 1 BPS in USD

Details	**30.06.2016**		**30.06.2015**	
	USD	TZS '000	USD	TZS '000
USD	311,195	678,013	357,043	704,913
EUR	65,822	143,409	93,657	184,908
GBP	46,979	102,355	67,553	133,370
AUD	33,560	73,119	54,502	107,605
CNY	2,037	4,439	115,731	228,488
RAMP	63,945	139,320	62,705	123,798

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(d) Interest Rate Risk (Continued)

Details	30.06.2016		30.06.2015	
	USD	TZS '000	USD	TZS '000
USD	40,737	88,755	48,789	96,324
EUR	17,581	38,304	22,814	45,042
GBP	2,001	4,359	79	156
AUD	33,539.10	73,073	54,406	107,414
CNY	2,034.20	4,432	115,107	227,258
RAMP	20,931	45,603	16,011	31,610

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

30.06.2016 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,111,947)	(658,219)	(469,789)	(4,239,955)	(9,237,761)
20	(6,223,893)	(1,301,473)	(939,577)	(8,464,943)	(18,442,916)
30	(9,335,840)	(1,861,875)	(1,268,429)	(12,466,144)	(27,160,495)

30.06.2015 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,584,210)	(900,109)	(672,903)	(5,157,222)	(10,181,944)
20	(7,168,421)	(1,785,902)	(1,346,047)	(10,300,370)	(20,336,098)
30	(10,752,631)	(2,603,289)	(1,957,462)	(15,313,382)	(30,233,328)

Yield decrease in 1 BPS

30.06.2016 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
1	311,195	65,822	46,979	423,996	923,777

30.06.2015 (Amounts in USD equivalent)

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

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(d) Interest Rate Risk (Continued)

It is also possible to stress test Bank's foreign reserves portfolio to mimic a variety of the extreme yet probable market conditions. To that end, the Bank considered three main scenarios i.e. spread widening, curve steeping and flattening by 50 basis points. The result of stress testing scenarios is as shown on the table below.

30.06.2016 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
Spread widening by 50	(2,036,854)	(879,070)	(100,061)	(3,015,985)	(6,571,051)
Curve Steepening by 50	(1,035,542)	(127,413)	(91,668)	(1,254,623)	(2,733,499)
Curve Flattening by 50	1,035,542	127,413	91,668	1,254,623	2,733,499

30.06.2015 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
Spread widening by 50	(17,920,945)	(1,134,230)	(4,018)	(19,059,193)	(37,628,710)
Curve Steepening by 50	(1,261,302)	(194,858)	(160,845)	(1,617,005)	(3,192,464)
Curve Flattening by 50	1,261,302	194,858	160,845	1,617,005	3,192,464

Cash flow and fair value interest rate risk

Interest sensitivity of assets and liabilities

For accounting purposes, cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, both in the United Republic of Tanzania and abroad. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Based on the sensitivity of the ten per cent deviation of the exchange rate against major currencies the impact on the Banks profit and equity was TZS 148,480.5 million (2015: TZS 89,790.3 million).

(e) Currency Risk

The exchange rate risk (or currency risk) refers to the loss of the portfolio value or purchasing power of the portfolio occasioned by adverse foreign exchange rate movements. The Bank foreign reserves portfolio is denominated in a number of currencies whose exchange rates are subject to fluctuation on international foreign exchange market.

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial Risks (Continued)

(e) Currency RIsk (Continued)

The Bank is exposed to this risk in the context of its holding of foreign exchange reserves, intervention in the local inter-bank foreign exchange market (IFEM) and foreign exchange transactions in the international foreign exchange market. Often, currency exposures are not out rightly hedged, but the currency risk is controlled through a target currency composition whose criteria are specified in the Foreign Exchange Reserves Policy and stated in the Investment Guidelines. The currency positions of the Bank as of 30 June 2016 and 2015 which provides the Bank's assets, liabilities and equity at carrying amounts, categorised by currency is summarised below.

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial risks (Continued)

(e) Currency Risk (Continued)

Details	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
2016							
Assets							
Cash and balances with central banks & other banks	296,993,180	2,284,918,459	21,735,070	-	-	227,065,890	2,830,712,599
Escrow accounts	-	10,602,238	-	-	-	-	10,602,238
Items in course of settlement	-	23,901		-	2,324,593	51,069	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	-	-	55,835,295	-	-	55,835,295
Quota in International Monetary Fund (IMF)	-	-	-	1,212,378,799	-	-	1,212,378,799
Foreign currency marketable securities	437,093,036	3,668,429,937	726,832,215	-	-	538,395,715	5,370,750,903
Equity investments	-	25,936,089	514,576	-	-	-	26,450,665
Government securities	-	-	-	-	1,490,568,528	-	1,490,568,528
Advances to the Government	-	-	-	-	818,528,205	-	818,528,205
Loans and receivables	-	-	-	-	142,710,020	-	142,710,020
Other assets (Excluding prepayments)	-	-	-	-	825,870,910	-	825,870,910
Total financial assets	734,086,216	5,989,910,624	749,081,861	1,268,214,094	3,280,002,256	765,512,674	12,786,807,725
Liabilities							
Currency in circulation	-	-	-	-	4,374,339,542	-	4,374,339,542
Deposits - banks and non-bank financial institutions	-	244,344,412	-	-	2,655,596,350	-	2,899,940,762
Deposits - Governments	-	-	-	-	21,989,412	-	21,989,412
Deposits - Others	-	242,924,537	-	-	495,393,320	1,419,876	739,737,733
Foreign currency financial liabilities	16,273,712	704,972,017	76,066,288	-	2,825,368	24,691,295	824,828,680
Poverty reduction and growth facility	-	-	-	653,398,418	-	-	653,398,418
BoT liquidity papers	-	-	-	-	97,038,856	-	97,038,856
Other liabilities	8,205,143	-	-	-	112,218,242	10,457,955	130,881,340
Retirement benefit obligation	-	-	-	-	98,602,076	-	98,602,076
IMF related liabilities	-	-	-	-	1,030,358,192	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	-	-	580,623,424	-	-	580,623,424
	24,478,855	1,192,240,966	76,066,288	1,234,021,842	8,888,361,358	36,569,126	11,451,738,435
Net liquidity gap	709,607,361	4,797,669,658	673,015,573	34,192,252	N/A	728,943,548	1,335,069,290
Scenario of 10% appreciation/depreciation	70,960,736	479,766,966	67,301,557	3,419,225	N/A	72,894,355	133,506,929

43. RISK MANAGEMENT (CONTINUED)

43.3 Financial risks (Continued)

(f) Currency Risk (Continued)

Details	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
2015							
Assets							
Cash and balances with central banks & other banks	160,599,363	2,252,546,050	49,145,916	-	-	164,241,301	2,626,532,630
Escrow accounts	-	9,607,422	-	-	-	-	9,607,422
Items in course of settlement	-	-	-	-	1,223,038	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	-	-	314,464,770	-	-	314,464,770
Quota in International Monetary Fund (IMF)	-	-	-	552,274,969	-	-	552,274,969
Foreign currency marketable securities	544,447,465	3,738,161,100	856,819,951	-	-	533,307,753	5,672,736,269
Equity investments	-	27,730,437	468,119	-	-	-	28,198,556
Government securities	-	-	-	-	1,558,532,122	-	1,558,532,122
Advances to the Government	-	-	-	-	69,953,767	-	69,953,767
Loans and receivables	-	-	-	-	389,480,802	-	389,480,802
Other assets (Excluding prepayments)	-	-	-	-	268,053,588	-	268,053,588
Total financial assets	705,046,828	6,028,045,009	906,433,986	866,739,739	2,287,243,317	697,549,054	11,491,057,933
Liabilities							
Currency in circulation	-	-	-	-	4,094,261,068	-	4,094,261,068
Deposits - banks and non-bank financial institutions	-	628,496,637	-	-	2,476,924,718	-	3,105,421,355
Deposits - Governments	-	-	-	-	4,822,379	-	4,822,379
Deposits - Others	166,368	-	-	-	199,137,587	-	199,303,955
Foreign currency financial liabilities	5,920	460,679,157	5,701,440	-	401,518	-	466,788,035
Poverty reduction and growth facility	-	-	-	720,673,020	-	-	720,673,020
BoT liquidity papers	-	-	-	-	785,055,892	-	785,055,892
Other liabilities	5,116,083	-	-	-	69,774,351	6,520,760	81,411,194
Retirement benefit obligation					81,926,325		81,926,325
IMF related liabilities	-	-	-	524,509,360	-	-	524,509,360
Allocation of Special Drawing Rights (SDRs)	-	-	-	528,982,829	-	-	528,982,829
	5,288,371	1,089,175,794	5,701,440	1,774,165,209	7,712,303,838	6,520,760	10,593,155,412
Net liquidity gap	699,758,457	4,938,869,215	900,732,546	(907,425,470)	N/A	691,028,294	897,902,521
Scenario of 10% appreciation/depreciation	**69,975,846**	**493,886,922**	**90,073,255**	**(90,742,547)**	**N/A**	**69,102,829**	**89,790,252**

43. RISK MANAGEMENT (CONTINUED)

43.4 Non-Financial Risks

Operational Risk

This risk stems from inadequate or failed internal processes, people and systems, or from external events. The risk can potentially disrupt continuity of critical business operations and processes and thereby impede attainment of strategic goals and objectives.

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

The Bank has taken various measures such as segregation of duties, instituting codes of conduct and ethics and setting out benchmark limits. The Bank understands the fact that the lower the human intervention, the lower the operational risk. In view of this fact, the Bank has automated most of its major operations.

Human Resource Risk

This risk relates to unavailability of skilled manpower, training and development programs, compensation, benefits, mis-aligned HR policies, work life imbalance and policy constraints. The Bank is prone to human resource risk due to its particular nature of the activities which, necessitates specialised knowledge in many areas.

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

Legal Risk

Legal risk arise out of adverse judgment, risks associated with failure of processes, systems and resources to support legal and regulatory requirements, or actions that can result into legal dispute against the organisation.

In mitigating this type of the risk, the Bank ensures that all business agreements are contracted under Standard Industry Contracts, e.g. ISDA, ISMA, etc. Where new contracts and substantive changes to existing contracts are entered to, external lawyers are contracted. The Bank has in place procedures for delegation of responsibilities. Also Code of Conduct and Ethics and continuous consultations with all relevant parties are used to minimise chances of causing legal disputes between the Bank and its counterparts

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. RISK MANAGEMENT (CONTINUED)

43.4 Non-Financial Risks (Continued)

Reputational Risk

Reputational risk arises from the failure of an organisation to meet the expectations of its clients, stakeholders and the general public. The risk also emanates from failure to comply with relevant laws and contractual agreements.

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 and other laws and regulations.

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

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

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

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the national payment system and the issuing of notes and coins also expose the Bank to significant reputation risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems.

44. 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:

2016	Amortised Cost TZS '000	FVTPL TZS '000	FVOCI TZS '000	Total TZS '000	Fair values TZS '000
Financial assets					
Cash and balances with central banks & other banks	2,830,712,599	-	-	2,830,712,599	2,830,712,599
Escrow accounts	10,602,238	-	-	10,602,238	10,602,238
Items in course of settlement	2,399,563	-	-	2,399,563	2,399,563
Holdings of Special Drawing Rights (SDRs)	55,835,295	-	-	55,835,295	55,835,295
Quota in International Monetary Fund (IMF)	1,212,378,799	-	-	1,212,378,799	1,212,378,799
Foreign currency marketable securities	-	5,370,750,903	-	5,370,750,903	5,370,750,903
Equity investment	-	-	26,450,665	26,450,665	26,450,665
Government securities	1,490,568,528	-	-	1,490,568,528	1,490,568,528
Advances to the Government	818,528,205	-	-	818,528,205	818,528,205
Loans and receivables	142,710,020	-	-	142,710,020	142,710,020
Other assets (Excluding prepayments)	825,870,910	-	-	825,870,910	825,870,910
Financial liabilities					
Currency in circulation	4,374,339,542	-	-	4,374,339,542	4,374,339,542
Deposits - banks and non-banks financial institutions	2,899,940,762	-	-	2,899,940,762	2,899,940,762
Deposits - others	739,737,733	-	-	739,737,733	739,737,733
Deposits - Government	21,989,412	-	-	21,989,412	21,989,412
Foreign currency financial liabilities	824,828,680	-	-	824,828,680	824,828,680
Poverty deduction and growth facility	653,398,418	-	-	653,398,418	653,398,418
BoT liquidity papers	97,038,856	-	-	97,038,856	97,038,856
Other liabilities	130,881,340	-	-	130,881,340	130,881,340
Retirement benefit obligation	98,602,076	-	-	98,602,076	98,602,076
IMF related liabilities	1,030,358,192	-	-	1,030,358,192	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	580,623,424	-	-	580,623,424	580,623,424

44. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Amortised Cost	FVTPL	FVOCI	Total	Fair values
2015	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Financial assets					
Cash and balances with central banks & other banks	2,626,532,630	-	-	2,626,532,630	2,626,532,630
Escrow accounts	9,607,422	-	-	9,607,422	9,607,422
Items in course of settlement	1,223,038	-	-	1,223,038	1,223,038
Holdings of Special Drawing Rights (SDRs)	314,464,770	-	-	314,464,770	314,464,770
Quota in International Monetary Fund (IMF)	552,274,969	-	-	552,274,969	552,274,969
Foreign currency marketable securities	-	5,672,736,269	-	5,672,736,269	5,672,736,269
Equity investment	-	-	28,198,556	28,198,556	28,198,556
Government securities	1,558,532,122	-	-	1,558,532,122	1,558,532,122
Advances to the Government	69,953,767	-	-	69,953,767	69,953,767
Loans and receivables	389,480,802	-	-	389,480,802	389,480,802
Other assets (Excluding prepayments)	268,053,588	-	-	268,053,588	268,053,588
Financial liabilities					
Currency in circulation	4,094,261,068	-	-	4,094,261,068	4,094,261,068
Deposits - banks and non-banks financial institutions	3,105,421,355	-	-	3,105,421,355	3,105,421,355
Deposits - others	199,303,955	-	-	199,303,955	199,303,955
Deposits - Government	4,822,379	-	-	4,822,379	4,822,379
Foreign currency financial liabilities	466,788,035	-	-	466,788,035	466,788,035
Poverty deduction and growth facility	720,673,020	-	-	720,673,020	720,673,020
BoT liquidity papers	785,055,892	-	-	785,055,892	785,055,892
Other liabilities	81,411,194	-	-	81,411,194	81,411,194
Retirement benefit obligation	81,926,325	-	-	81,926,325	81,926,325
IMF related liabilities	524,509,360	-	-	524,509,360	524,509,360
Allocation of Special Drawing Rights (SDRs)	528,982,829	-	-	528,982,829	528,982,829

45. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY

Financial Instruments Recorded at Fair Value

Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Foreign Currency Marketable Securities

The marketable securities are quoted in actively traded markets which is the best evidence of fair value. The valuation techniques employ only observable market data.

Fair Value of Derivatives

The Bank values over the counter derivative instruments like swaps using a valuation technique with market-observable inputs. Swap models use present value calculations and include market determined foreign exchange rates. For listed derivatives like futures, the Bank uses prices quoted in the active markets.

Long dated derivative contracts are valued using a valuation technique with significant non–market-observable. These derivatives are valued using models that calculate the present value and incorporate various non–observable assumptions that include market rate volatilities.

Unquoted Equities Securities.

These Investments are valued using the market approach. The inputs to this methodology are observable inputs based on recent transactions. The data used were from recently published accounts of these entities. These were then corroborated to arrive at the fair values at the reporting date.

Fair value of Financial Assets and Liabilities not carried at Fair Value

Below are the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements:

Assets and Liabilities for which Fair Value Approximates carrying Value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to cash and cash equivalent, escrow accounts, Items in course of settlements, deposits, repurchase agreements and BoT liquidity papers and other liabilities without a specific maturity.

Government Securities

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

45. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

Fair value of financial assets and liabilities

Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

- **Level 1 fair value measurements**: are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments on exchanges for example Foreign Currency Marketable securities.
- **Level 2 fair value measurements**: are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from Bloomberg and the Dare salaam Securities Exchange.
- **Level 3 fair value measurements**: are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Fair Value Hierarchy

The following table analyses within the value hierarchy the Bank are measured at fair value as at:

30.06.2016

Description	Level 1 TZS '000	Level 2 TZS '000	Level 3 TZS '000
Foreign currency marketable securities	5,370,750,903	-	-
Equity investments	-	26,450,665	-
Total	**5,370,750,903**	**26,450,665**	-

30.06.2015

Description	Level 1 TZS '000	Level 2 TZS '000	Level 3 TZS '000
Foreign currency marketable securities	5,672,736,269	-	-
Equity investments	-	28,189,556	-
Total	**5,672,736,269**	**28,189,556**	-

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

The following table gives information about how the fair value of these financial assets and liabilities are determined following table

If below observable inputs to valuation model were 10 per cent higher or lower while other variables were held constant, carrying amount of TZS 5,370,750.9 million and TZS 26,450.7 million Foreign Currency Marketable Securities and Equity Investments would have been higher or lower by TZS 537,075.0 million and TZS 2,645.1 million respectively. Swap and Futures would change by 20.5 million and 125.6 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

45. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

The following table gives information about how the fair value of these financial assets and liabilities are determined

	Fair value at 2016 TZS '000	2015 TZS '000	Hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable input to fair value
Foreign currency marketable securities (Excluding futures)	5,370,750,903	5,672,736,269	1	Prices of listed securities	N/A	N/A
Equity investments	26,450,66	28,198,556	2	Net assets of the investee	N/A	N/A
Derivatives:						
Swap Asset	205,434	199,637	2	Discounted Cash flows	N/A	N/A
Futures Liability	890,935	441,975	1	Quoted prices	N/A	N/A

45. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value.

2016	Level 1	Level 2	Level 3	Total
Assets	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Cash and balances with central banks & other banks	2,830,712,599	-	-	2,830,712,599
Escrow accounts	-	10,602,238	-	10,602,238
Items in course of settlement	-	2,399,563	-	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	55,835,295	-	55,835,295
Quota in International Monetary Fund (IMF)	-	1,212,378,799	-	1,212,378,799
Foreign currency marketable securities	5,370,750,903	-	-	5,370,750,903
Equity investment	-	26,450,665	-	26,450,665
Government securities	-	1,490,568,528	-	1,490,568,528
Advances to the Government	-	818,528,205	-	818,528,205
Loans and receivables	-	142,710,020	-	142,710,020
Other assets (Excluding prepayments)	-	825,870,910	-	825,870,910
	8,201,463,502	**4,585,344,223**	**-**	**12,786,807,725**
Liabilities				
Currency in circulation	-	4,374,339,542	-	4,374,339,542
Deposits - banks and non-banks financial institutions	-	2,899,940,762	-	2,899,940,762
Deposits - others	-	739,737,733	-	739,737,733
Deposits - Government	-	21,989,412	-	21,989,412
Foreign currency financial liabilities	-	824,828,680	-	824,828,680
Poverty deduction and growth facility	-	653,398,418	-	653,398,418
BoT liquidity papers	-	97,038,856	-	97,038,856
Other liabilities	-	130,881,340	-	130,881,340
Retirement benefit obligation	-	98,602,076	-	98,602,076
IMF related liabilities	-	1,030,358,192	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	580,623,424	-	580,623,424
	-	**11,451,738,435**		**11,451,738,435**

45. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities not measured at fair value.

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Cash and balances with central banks & other banks	2,626,532,630	-	-	2,626,532,630
Escrow accounts	-	9,607,422	-	9,607,422
Items in course of settlement	-	1,223,038	-	1,223,038
Holdings of Special Drawing Rights (SDRs)	-	314,464,770	-	314,464,770
Quota in International Monetary Fund (IMF)	-	552,274,969	-	552,274,969
Foreign currency marketable securities	5,672,736,269	-	-	5,672,736,269
Equity investment	-	28,198,556	-	28,198,556
Government securities	-	1,558,532,122	-	1,558,532,122
Advances to the Government	-	69,953,767	-	69,953,767
Loans and receivables	-	389,480,802	-	389,480,802
Other assets (Excluding prepayments)	-	268,053,588	-	268,053,588
	8,299,268,899	**3,191,789,034**	**-**	**11,491,057,933**
Liabilities				
Currency in circulation	-	4,094,261,068	-	4,094,261,068
Deposits - banks and non-banks financial institutions	-	3,105,421,355	-	3,105,421,355
Deposits - others	-	4,822,379	-	4,822,379
Deposits - Government	-	199,303,955	-	199,303,955
Foreign currency financial liabilities	-	466,788,035	-	466,788,035
Poverty deduction and growth facility	-	720,673,020	-	720,673,020
BoT liquidity papers	-	785,055,892	-	785,055,892
Other liabilities	-	81,411,194	-	81,411,194
Retirement benefit obligation	-	81,926,325	-	81,926,325
IMF related liabilities	-	524,509,360	-	524,509,360
Allocation of Special Drawing Rights (SDRs)	-	528,982,829	-	528,982,829
	-	**10,593,155,412**		**10,593,155,412**

46. RETIREMENT BENEFIT PLAN

DEFINED BENEFIT PLAN

The Bank maintains funded retirement benefit plan. Under the plan employees are entitled to benefits upon meeting requirements as stipulated in the Bank's Financial Regulations, 2011 and Staff Bylaws, 2011.

The plan typically exposes the Bank to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment Risk	The present value of the defined benefit obligations is calculated using a discount rate determined by the yield on long term Government bond. The higher the discount rate the higher the defined benefits obligations payable by the Bank.
Interest Rate Risk	A decrease in the long term government bond interest will increase the plan liability.
Longevity Risk	The present value of the defined benefits obligations is calculated by reference to the best estimate of the mortality rate of plan members both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary Risk	The present value of the defined benefits obligations is calculated by reference to the future salaries of the members. As such an increase/decrease in the salary of the members will increase the plan's liability.

The principle assumptions used for the purposes of the actuarial valuation included disc Discount rate, Expected return on scheme assets, Future salary increase, Mortality rate, Withdrawals, Ill-Health and Compulsory Retirement Age.

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

	30.06.2016 TZS '000	30.06.2015 TZS '000
Opening benefit obligation	81,926,325	81,631,712
Current service costs	2,629,000	-
Interest cost	16,690,000	-
Interest from investments	12,772,000	3,204,253
Benefits paid	(15,415,249)	(2,909,640)
Closing benefits obligation	**98,602,076**	**81,926,325**

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 to 102,665.3 million (2015: TZS 82,578.3 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

46. RETIREMENT BENEFIT PLAN (CONTINUED)

Sensitivity analysis (continued)

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. Weighted average duration of the liability as at 30 June 2016 is 4.1 years (2015: 4.5 years).

Effect on Bank's cash flow

The benefits arrangement is funded 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.

47. CAPITAL

Section 17 of the Bank of Tanzania Act, 2006 states that "the authorised 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 authorised 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 26*

	30.06.2016	**30.06.2015**
	TZS '000	**TZS '000**
Capital	100,000,000	100,000,000
Reserves	2,305,430,087	1,678,048,523
Total	**2,405,430,087**	**1,778,048,523**

The Bank is not subject to any capital adequacy regulatory requirements concerning the level of capital in relation to assets it holds, although the Bank of Tanzania Act, 2006 sets out how the statutory annual net profit for the year shall be allocated. The principal source of capital increase is through appropriations of annual profits to various reserves.

The Bank is not for profit organisation, nor does it seek profit maximisation. 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.

47. CAPITAL (CONTINUED)

Capital is not actively managed and the relative low risk nature of most of the Bank's activities means that it is not capital intensive. Its purpose is to cover unexpected losses. The most significant unexpected losses are likely to rise out of the support operations and the Bank's role as the lender of last resort, or from losses on price movements and changes in exchange rates on the Bank's foreign investments.

48. CONTINGENT LIABILITIES

Contingent liabilities arise in the normal course of the Bank's business activities. In order to meet the financial needs of the government, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

(a) Outstanding legal matters

In the ordinary course of business the Bank is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed to determine the likelihood of the Bank incurring a liability. In those instances where it is concluded that it is more likely that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant statement of financial position date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. However the Bank does not currently expect the final outcome of any such case to have a material adverse effect on its financial position.

Pursuant to the Bank of Tanzania Act, 2006 the Bank of Tanzania is a Banker to the Government of the United Republic of Tanzania. Arising from that responsibility there is a legal dispute relating to a transaction involving the Government of the United Republic of Tanzania and D.P. Valambhia in which the Bank was involved in its capacity as a Banker to the Government of the United Republic of Tanzania. A Garnishee Order was issued by the High Court of Tanzania on 4 June 2001 ordering the Bank of Tanzania to pay a decree holder USD 55,099,117.66 from funds of the Government of the United Republic of Tanzania in the custody of the Bank of Tanzania.

Pursuant to the Order, the Government instituted court proceeding against the decree holder and the Bank on the same matter. The assets/properties of the Bank and the Government under the custody of the Bank are granted immunity against execution and attachment, subject to the provisions of the Act.

The Bank features as 2nd Defendant in the Court proceedings in which the Attorney General is challenging regularity of the Garnishee Order issued by the High Court of Tanzania, immobilizing Government accounts in satisfaction of a decree passed in favour of D.P. Valambhia (1st Defendant). The petitions sought against the Bank are declaratory, and key among them is that the Bank should not, in anyway whatsoever, act on the impugned Garnishee Order.

48. CONTINGENT LIABILITIES (CONTINUED)

(a) Outstanding legal matters (Continued)

This matter is awaiting delivery of judgment and there is no financial implication should the Court issue any adverse decision against the Bank.

On the basis of the above facts, it is the opinion of the Directors that the assets/properties of the Bank are well safeguarded. Accordingly, there are no other significant legal cases requiring disclosure.

(b) External payment arrears deposit account

During the 1970s and 1980s there was a 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 2016 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 the reconciliation and resolution of the remaining balance, on 14 April 2009 the Bank engaged a consultant, M/S Lazard Freres's & CIE to assist in the process.

The objectives of the exercise were:

(i) To ascertain how the remaining debt as at 2004 has been handled.

(ii) To compile and establish the current stock of the remaining EPA debts.

(iii) To develop, jointly with the Ministry of Finance and Planning and Bank of Tanzania, a strategy and action plan to handle the unsettled claims.

The consultant submitted an inception report in August 2009 which was not accepted by the Bank.

Further, the original contract expired on 14 January 2010 while the consultant was yet to provide the expected contract deliverables. Subsequent follow ups on the matter with the consultant's assignment proved futile. Due to non-responsiveness of the consultant to the Bank's subsequent follow ups, on 25 July 2011, the Bank wrote to the World Bank to seek for their advice on the way forward, which was not provided.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48. CONTINGENT LIABILITIES (CONTINUED)

(b) External payment arrears deposit account (Continued)

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 and Planning. The transfer was in line with the Bank's program for shedding-off non-core activities

(c) Export credit guarantee scheme (ECGS)

The Bank is an agent of the Government on the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48. CONTINGENT LIABILITIES (CONTINUED)

(c) Export credit guarantee scheme (ECGS) (Continued)

As at 30 June 2016, outstanding guarantees aggregated to TZS 425,074 million (2015: TZS 439,834.4 million) while the balance of the Fund as at 30 June 2016 was TZS 88,211.6 million (2015: TZS 82,976.4 million). The movement of the Fund during the year is as summarised below:

	30.06.2016 TZS '000	30.06.2015 TZS '000
Balance of funds		
Capital	28,372,812	26,155,514
Surplus	59,838,821	56,820,903
Total	**88,211,633**	**82,976,417**

(d) Small & medium enterprises – credit guarantee schemes

The Bank operates this scheme by issuing guarantees on behalf of the Government to financial institutions covering medium and long-term finance to SMEs on a pilot as long as the capital funds in the CGS-SME accounts are not leveraged more 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 2016, there was no outstanding guarantees as it was for the period ended June 2015. The balance of the fund as at 30 June 2016 was TZS 6,338.0 million (2015: TZS 4,549.8 million).

49. OUTSTANDING COMMITMENTS

UNCALLED AND UNPAID CAPITAL TO AFREXIM BANK

The Afreximbank was established on 27 October 1993. The major function of the bank is to finance and facilitate trade among African countries and between Africa and the rest of the world. The Bank's equity interest in Afreximbank is 616 ordinary shares of par value of USD 10,000 each (2015:709). As at 30 June 2016 the Bank's equity aggregated to USD 2,872,000 representing the called and paid up shares forming two fifth of the Bank's shares in Afreximbank (2015: USD 2,836,000). The proportion of the Banks equity interest to the total holding in this bank is 0.7 percent.

As at 30 June 2016, the Bank had a commitment of USD 4.3 million in respect of three instalments of uncalled and unpaid capital attached to its shareholding in the Afreximbank.

49. OUTSTANDING COMMITMENTS (CONTINUED)

CAPITAL COMMITMENTS

As at 30 June 2016, the Bank's capital commitments in respect of, Property and Equipment, Intangible Assets and major capital projects aggregated to TZS 73,656,201 million (2015: 69,630.0 million). The major capital expenditure commitments item is as reflected herewith below:

	30.06.2016	**30.06.2015**
Particulars	**TZS '000**	**TZS '000**
Office buildings	39,388,640	16,074,459
Residential buildings	10,239,063	2,644,663
Machinery and equipment	12,972,795	10,953,617
Information, communication and technology (ICT)	1,568,757	2,054,393
Motor vehicles	1,926,000	9,518,000
Furniture and fittings	2,176,056	1,654,150
Intangible assets	3,734,890	1,880,930
On-going projects	1,650,000	24,849,774
Total	**73,656,201**	**69,629,986**

The above commitments have been included and approved for payment in accordance with the 2016/2017 Approved Budget Estimates.

POST EMPLOYMENT BENEFITS

Effective July 2008, the Bank has a medical insurance arrangement, which covers retired employees and their spouses. At the reporting date the Bank had insurance commitment amounting to TZS 231.1 million (2015: TZS 145.7 million) involving retired staff with their spouses who retired since financial year 2009/10.

50. RELATED PARTY DISCLOSURES

In the course of its operations, the Bank enters into transactions with related parties, which include the Government of the United Republic of Tanzania, the ultimate shareholder of the Bank, the Deposit Insurance Fund and key management personnel. The related party transactions during the year are as follows:

Loans and emoluments to key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. The Bank's key management personnel are the Governor, Deputy Governors', Non-Executive Directors and Directors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

50. RELATED PARTY DISCLOSURES (CONTINUED)

Loans and emoluments to key management personnel (Continued)

The Bank extends loans facilities to the Governor, the Deputy Governors and its members of staff. Loans and receivables (**Note 24**) included advances to employees that as at 30 June 2016 amounted to TZS 70,983.6 million (2015: TZS 51,257.9 million). The advances are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. The following is the breakdown of loans and emoluments granted to key management personnel except Non-Executive Directors.

		30.06.2016 TZS '000	30.06.2015 TZS '000
i	**Loans to Senior Management (i.e. Governor, Deputy Governors and Directors)**		
	At start of the year	365,522	178,586
	Loans granted during the year	1,216,318	1,069,968
	Loans repaid during the year	(892,151)	(883,032)
	Balance end of the year	**689,689**	**365,522**
ii	**Emoluments to Senior Management Personnel (Governor, Deputy Governors and Directors)**		
	Salaries, allowances and benefits	4,742,664	4,731,075
	Post-employment benefits	1,292,589	1,281,000
	Total	**6,035,253**	**6,012,075**

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 2016, the number of key management personnel was 29 (2015: 29).

Directors' remunerations

During the year ending 30 June 2016, emoluments paid to the members of the Board amounted to TZS 1,052.0 million (2015: TZS 1,237.7 million). These emoluments include benefits of Non - Executive Directors. Non-Executive Directors are not entitled to loans and advances.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

50. RELATED PARTY DISCLOSURES (CONTINUED)

Government of the United Republic of Tanzania (Continued)

As at the close of business on 30 June 2016, the following balances, which are included in the statement of financial position in various categories, were outstanding:

	30.06.2016 TZS '000	30.06.2015 TZS '000
Due from Governments of Tanzania (Note 23 and 32)	818,528,205	69.953,767
IMF funds on-lent to the Government (Note 19)	1,212,378,799	552,274,969
Deposits – Revolutionary Government of Zanzibar (Note 32)	21,989,412	4,822,379
Investments in Government Securities (Note 22)	1,490,568,528	1,558,532,122
Structured Financing Facility (Note 33)	69,844,026	71,794,026
Export Credit Guarantee Fund (Note 33)	88,211,633	82,976,417
Small and Medium Enterprises Guarantee Fund (Note 33)	14,658,909	12,383,223

The above Schemes are administered by the Bank on behalf of the Government of the United Republic of Tanzania. Funds are deposited with the Bank and no interest is paid on these balances.

The Governments of Republic of Tanzania (URT) and Revolutionary Government of Zanzibar (RGZ) deposits are governments funds held by the Bank as Governments' bank.

Deposit Insurance Fund Board

The Bank has a close working relationship with the Deposit Insurance Board, an entity incorporated under the Banking and Financial Institution Act, 1991 (as amended 2006). The Bank provides it with staff, subvention and office accommodation.

During the year the Bank made contributions to the Deposit Insurance Board amounting to TZS 265.5 million (2015: TZS 251.7 million). The balance outstanding from the Fund included under Deposit Others as at 30 June 2016 was TZS 12,153.9 million (2015: TZS 1,226.7 million).

Mwananchi Gold Company Limited

The Bank had investments of 3,000 unquoted ordinary shares in Mwananchi Gold Company Limited each with a par value of USD 40. The shareholding was equivalent to 35 percent of the total MGC Ltd shares

Following unsatisfactory performance of the MGC Limited, the company's operations ceased in 2007 and the Bank impaired its share of investments. The company was placed under voluntary liquidation and the Bank realised its equity and its investment. The return of the final meeting was filed on 19th June, 2015 therefore, the company was deemed dissolved in September 2015 on expiration of three months as per the Companies Act, 2002. Any residual after settlements of claims is transferred to shareholders.

50. RELATED PARTY DISCLOSURES (CONTINUED)

Mwananchi Gold Company Limited (Continued)

During the year, the company transferred all its balance with the Bank to shareholders TZS 334.7 million and to its account with commercial bank TZS 177.6 million.

51. EVENTS AFTER THE REPORTING DATE

Value Added Tax

Following removal of exemption of VAT on financial services, the Bank is required to pay Value Added Tax (VAT) on all Bank services except interest on loans effective 1 July 2016. This will have a prospective effect on reducing the tax paid by BoT.

Court ruling of ex-staff against the Bank

On 3rd October, 2016 the court ruled in favour of thirty one (31) ex-staff among 552 ex-employees who were retrenched by the Bank in December, 1993 in accordance with the Voluntary Agreement but were not satisfied with the exercise.

At this juncture, none of the decisions delivered by the courts confers rights to the said ex-employees for reinstatement or compensation on monetary terms. It follows, therefore, that enforcement of the ex-employees rights will involve filing a fresh matter in court, specifically stating which remedies they want to enforce and proving each and every allegation put in the case.

The Directors are of the view that there is no sufficient evidence to warrant provisioning against the contingent liability for the year ended 30 June 2016.

There is no other item post year end other than the one disclosed above.