THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE BANK OF TANZANIA FOR THE YEAR ENDED 30TH JUNE 2012

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BANK OF TANZANIA

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

TABLE OF CONTENTS

BANK INFORMATION

PRINCIPAL PLACE OF BUSINESS:	10 MIRAMBO STREET BoT HEAD OFFICE P.O. BOX 2939 DAR ES SALAAM, TANZANIA
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SECRETARY TO THE BANK:	MR. A. H. M. MTENGETI BoT HEAD OFFICE P. O. BOX 2939 DAR ES SALAAM, TANZANIA

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ARUSHA BANK OF TANZANIA BUILDING MAKONGORO ROAD P.O.BOX 3043 ARUSHA, TANZANIA	MBEYA BANK OF TANZANIA BUILDING KADEGE ROAD P.O.BOX 1203 MBEYA, TANZANIA
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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2012

1. INTRODUCTION

The Directors present this report and the audited financial statements for the financial year ended 30 June 2012, which disclose the state of affairs of the Bank.

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

ESTABLISHMENT

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 Subsequently, the Bank of Tanzania Act, 1965 was repealed and replaced by the Bank of Tanzania Act, 2006.

BANK'S VISION

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

BANK'S MISSION

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

2. STATUTE AND PRINCIPAL ACTIVITIES

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

Its functions and objectives are summarised as follows:

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

3. REVIEW OF BANK'S PERFORMANCE AND BROAD GOALS

During the year 2011/ 2012 the Bank's Corporate Plan focused on attaining three broad goals that basically translate its primary (natural) mandates. These are;

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

Basing on the three broad goals, review of the Bank's performance revealed the following;

Maintaining price stability

The Bank's performance objectives under this goal are to conduct monetary policy directed towards achieving low inflation and maintaining adequate foreign reserves. Annual inflation rate was 17.4 percent for the year ending 30 June 2012 higher than the target of 5.0 percent set for the year ending 30 June 2012. The increase in inflation rate was mainly attributed to increase in both food and energy prices. Average reserve money grew by 14.2 percent during the year ending 30 June 2012. Similarly, broad money supply (M2) grew by 12.7 percent while extended broad money supply (M3) grew by 11.8 percent.

Developments in money supply during the period were explained by increase in net domestic assets of the banking system as net foreign assets declined. Net domestic asset of banks increased by TZS 1,207.0 billion compared with TZS 1,614.8 billion recorded in the year ending 30 June 2011, largely due to increase in net claims on government and credit to the private sector. Private sector credit grew by 18.7 percent in the year ending 30 June 2012, compared with 25.7 percent recorded in the year ending 30 June 2011.

During the period under review, growth of net claims on government by the banking system decreased following expansion of credit to Government which was mostly explained by improvement in revenue collections and expenditure management during the year under review. On net basis, net claims on government stood at TZS 1,689.2 billion at the end of June 2012, down from TZS 1,950.4 billion recorded at the end of June 2011.

The continued strong growth in banks' credit to the private sector contributed in stimulating economic activities enabling the economy to grow by 6.4 percent in 2012, meanwhile; by the end of June 2012 the Bank had accumulated foreign official reserves sufficient to cover 4 months of projected imports of goods and services, which is broadly in line with the target.

Promoting stability of the financial system

Financial stability is defined as a smooth operation of the system of financial intermediation between households, firms and the government through a range of financial institutions. Stability in the financial system would be evidenced by an effective regulatory infrastructure, effective and well developed financial markets, and effective and sound financial institutions.

During the period under review, the financial system generally remained in a strong condition. Effective regulatory system and supervisory oversight contributed to stability of the Tanzanian financial system.

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

Promoting stability of the financial system (Continued)

During the year ending 30 June 2012, the banking sector remained sound and stable as reflected by the financial soundness indicators covering capital adequacy, asset quality, earnings and profitability, liquidity, sensitivity to market risk and access to bank lending.

Ratios of core capital and total capital to risk weighted assets and off balance sheet exposures were 17.47 percent and 18.07 percent respectively. The previous year ratios were 17.70 percent and 18.23 percent respectively compared to the legal minimum requirements of 10 percent and 12 percent respectively. The ratio of liquid assets to demand liabilities stood at 39.34 percent as compared to 43.22 percent reported in the previous year which was above the minimum regulatory requirement of 20 percent for individual institutions.

The ratio of total loans to customers' deposits stood at 67.50 percent, which is within the required threshold of 80.0 percent. The quality of assets of the banking system has improved as reflected by the ratio of non-performing loans (NPL) net of provisions to total capital, which decreased to 21.60 percent as at the end of June 2012, from 24.82 percent, recorded at the end of June 2011. The ratio of NPL to total loans has decreased slightly to 8.12 percent from 8.95 percent recorded at the end of June 2011. This is mainly due to improvements in credit administration by banking sector and strengthening oversight of credit accommodation by the Bank of Tanzania.

For the period up to 30 June 2012, banking sector recorded un-audited after tax profit of TZS 120.48 billion as compared to TZS 136.25 billion recorded in the period up to 30 June 2011. The sector's Return on Assets (ROA) and Return on Equity (ROE) were 2.45 percent and 13.60 percent respectively, compared to 2.97 percent and 17.91 percent record during previous year.

Banking sector ratio of foreign exchange exposure (Net Open Position) to total capital was 3.53 percent as compared to 3.73 percent reported in the previous year. This was within the regulatory limit of 10 percent of core capital required for individual institution. Lending to private sector increased to 22.97 percent of GDP from 19.67 percent recorded in the previous year.

Smooth conduct of financial markets operations resulted in low interest rates and moderate fluctuations in exchange rates. The Bank continued to play a dominant role in the inter-bank foreign exchange market during the period under review in order to meet demand and for sterilization purposes.

Strengthening corporate governance

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

During the period under review, the Bank's involvement in corporate governance centred on effective management oversight, management of resources and properties, service delivery, management of business processes and risks, proactive engagement with stakeholders, and refocusing the Bank on core central banking functions.

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

The remarkable achievements recorded under this broad goal involve;

- Implementation of Projects Management Framework;
- Adopting the changes and developments that affect the Bank's financial reporting framework to ensure that the books of accounts and financial reports are compliant and consistent with the requirements of IFRS;
- Continuing to engage with the stakeholders through workshops, conferences, media engagement and Governor's monthly meetings on monetary policy developments with Chief Executive Officers of commercial banks and non-bank financial institutions;
- Continuing to strengthen risk management and internal audit functions through staffing and capacity building programmes for effective internal control; and;
- Finalization of the review of the organization structure that resulted into additional departments and divisions in order to strengthen the supervisory role at lower levels.

Other developments

Growth of currency in circulation

The position of currency in circulation as at 30 June 2012 was TZS 2,705,223.5 million as compared to TZS 2,503,645.1 million as at 30 June 2011, hence representing an increase of TZS 201,578.4 million equivalent to 8.0 percent.

Public education program

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

4. COMPOSITION OF THE BOARD OF DIRECTORS

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

No	Name	Position	Age	Discipline	Date of Appointment	Nationality
1	Prof. Benno J. Ndulu	Governor and Chairman of the Board	62	Economist	08 January 2008	Tanzanian
2	Mr. Juma H. Reli[3]	Deputy Governor	56	Finance	10 July 2007	Tanzanian
3	Mr. Lila H. Mkila[3]	Deputy Governor	62	Statistician	10 July 2007	Tanzanian
4	Dr. Natu E. Mwamba	Deputy Governor	51	Economist	13 June 2011	Tanzanian

4. COMPOSITION OF THE BOARD OF DIRECTORS (Continued)

No	Name	Position	Age	Discipline	Date of Appointment	Nationality
5	Prof. Haidari K. Amani	Member	64	Economist	8 January 2008	Tanzanian
6	Mr. Khamis M. Omar[2]	Member	47	Finance	20 April 2006	Tanzanian
7	Mr. Bedason Shallanda	Member	51	Economist	11 September 2010	Tanzanian
8	Mr. Yona S. Killagane	Member	58	Professional Accountant	8 March 2011	Tanzanian
9	Mrs. Esther Mkwizu	Member	60	Management Consultant	8 March 2011	Tanzanian
10	Mr. Athman Mtengeti	Secretary	59	Lawyer	17 January 2008	Tanzanian

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

KEY
[1] Permanent Secretary to the Treasury, Government of the United Republic of Tanzania.
[2] Principal Secretary to the Treasury, Revolutionary Government of Zanzibar.
[3.] Mr. Juma H. Reli and Mr. Lila H, Mkila were reappointed as Deputy Governors on 11 July 2012 for another three and five year term respectively.

5. CORPORATE GOVERNANCE

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

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

(i) In terms of the provisions of Section 9(1) of the Bank of Tanzania Act, 2006, the Bank's Board of Directors is the supreme policy making body in the Bank, and apart from its specified function of approving the budget of the Bank, it is expected to discharge other functions as may specifically be conferred or imposed upon it by the Act or any other written law.

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

5. CORPORATE GOVERNANCE (Continued)

The Board is supported by the following committees:

(a) Monetary Policy Committee

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

The Members of the Monetary Policy Committee as at 30 June, 2012 were as follows:-

No	Name	Position	Discipline	Nationality
1	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2	Mr. Juma H. Reli	Member	Finance	Tanzanian
3	Mr. Lila H. Mkila	Member	Statistician	Tanzanian
4	Dr. Natu E. Mwamba	Member	Economist	Tanzanian
5	Prof. Haidari K. Amani	Member	Economist	Tanzanian
6	Mrs. Esther Mkwizu	Member	Management Consultant	Tanzanian
7	Mr. Athman H. Mtengeti	Secretary	Lawyer	Tanzanian

(b) The Audit Committee

Established under the provisions of Section 12(1) of the Bank of Tanzania Act 2006, the Audit Committee is largely composed of Non-Executive Directors. The Chairman of the Committee is a Non-Executive Director. The Deputy Governor-Administration and Internal Controls 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 culture; the adequacy of the internal control systems and compliance with International Financial Reporting Standards in preparation of financial statements; the overall effectiveness of the internal control and risk management frameworks; and review of the effectiveness of the system for monitoring compliance with laws and regulations.

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

5. CORPORATE GOVERNANCE (Continued)

(b) The Audit Committee (Continued)

With regard to **External Audit**, the Audit Committee reviews the external auditors' proposed audit scope, approach and audit deliverables; and review draft accounts before submission to the External Auditors for audit.

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 of implementation of internal auditors' findings and recommendations. The Audit Committee reports to the Board of Directors.

The Members of the Audit Committee as at 30 June, 2012 were as follows:-

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

(c) Banking Supervision Committee

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

The Banking Supervision Committee is responsible for: review of internal control and systems in banks and financial institutions; the Banking Supervision function; adequacy of the prevailing legal and regulatory framework; operating performance of banks, financial institutions and bureau de change with a view to ensuring safety and soundness in the banking system; financial stability reports before publication; and 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, 2012 were as follows:-

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

[2] Principal Secretary to the Treasury, Revolutionary Government of Zanzibar.

(d) The Finance and Investment Committee

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

The Finance and Investment Committee is responsible for review of the proposed budgets, reallocation of funds and supplementary budget requests; quarterly budget performance reports; Financial Regulations and Staff by- Laws; requests for disposal of immovable assets; and Annual Bank's Corporate Plan. The Committee also reviews requests for write off / back of receivables and debts; financial policies and changes thereto; the appropriateness of the Bank's investment policy and assets allocation strategy; Risk Management Framework for the Bank's operations; and Project Management framework.

The Members of the Finance and Investment Committee as at 30 June, 2012 were as follows:-

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

6. MEETINGS

Responding to the challenges faced by the Bank, the Board held 12 meetings during 2011/12. In addition there were various meetings of the Board committees. All members of the Board showed themselves to be willing and able to devote their time required for the Board meetings. Below is a summary indicating the number of meetings attended by members of the Board from 1 July 2011 to 30 June 2012.

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

KEY

Board: Board of Directors

FIC: Finance and Investment Committee

MPC: Monetary Policy Committee

BSC: Banking Supervision Committee

AC: Audit Committee

7. INDEPENDENCE

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

8. CAPITAL STRUCTURE

Section 17 of the Bank of Tanzania Act, 2006 states that “the authorized capital of the Bank shall be one hundred billion shillings, provided that it may be increased by such amount as may be determined by the Board, and authorized by the Minister, by Notice published in the Government Gazette.” The capital of the Bank shall be subscribed and held only by the Government of the United Republic of Tanzania.

9. MANAGEMENT

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

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

10. FUTURE DEVELOPMENT PLANS

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

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

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

In addition, the Bank plans to:

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

11. RESULTS AND DIVIDEND

During the year the Bank operations registered a net loss of TZS 52,431.4 million (2011: A net profit of TZS 715,892.6 million). As a result no dividend will be paid to Government (2010/11: TZS 173,240.5 million).

12. FINANCIAL PERFORMANCE FOR THE YEAR

12.1 Financial results

The performance of the Bank is measured on the basis of the achievements in implementing its core functions as detailed in the Bank of Tanzania Act, 2006. During the period, the Bank made various achievements as explained under Para 3.0 of this report.

Further in the course of its operations, the Bank made a total comprehensive loss of TZS 52,431.4 million (2011: comprehensive income TZS 727,793.5 million). The total recorded loss during the year is attributed to foreign exchange revaluation loss amounting to TZS 153,545.4 million (2011: foreign exchange revaluation gain of TZS 730,694.4 million) following strengthening of TZS against major currencies.
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12.2 Financial position

The financial position of the Bank is as set out in the statement of financial position shown on page 21. During the year total assets of the Bank increased by TZS 377,080.6 million. This was mainly attributed to the increase of cash and cash equivalent, loans and receivables and amount deferred in respect of currency cost amounting to TZS 282,813.0 million, TZS 94,916.2 million and TZS 75,371.4 million respectively. This was on account of increase in; cash balances with central banks, receivables from the URT Government and currency received from printers but not yet issued into circulation respectively.

On the other hand total equity and liabilities increased by TZS 382,080.6 million. This was mainly attributable to increase in currency in circulation and deposits from banks and non banks financial institutions amounting to TZS 201,578.4 million and TZS 694,213.1 million respectively. However, the impact was partly reduced by decrease in the balances as at 30 June 2012 in respect of BoT Liquidity Papers and Reserves which amounted to TZS 245,153.6 million and TZS 290,899.8 million respectively. The decrease in the Bank's reserves was mainly on account of 2010/11 dividend paid to the Governments, transfer of securities revaluation reserves to the income statement and loss for the year amounting to TZS 173,240.5 million, TZS 64,784.2 million and TZS 52,431.4 million respectively.

13. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

The non financial risks of the Bank were:

13. RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

(a) Operational Risk

Operational risk is the risk of both financial and non financial resulting from inadequate systems, management failures, ineffective internal control processes, fraud, theft and human errors.

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

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

(b) Human Resource Risk

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

(c) Legal Risk

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

In mitigating this type of the risk, the Bank ensures that all business agreements are contracted under Standard Industry Contracts, e.g. international swaps and derivatives association (ISDA), international securities markets association (ISMA), etc. Where new contracts and substantive changes to existing contracts are entered to, external lawyers are contracted. The Bank has in place a clear procedure of the delegation of authorities. Also strict code of conduct and ethics is used to minimize chances of causing legal disputes between the Bank and its counterparts.

(d) Reputational Risk

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the provision of Section 5(1) of the Bank of Tanzania Act, 2006, Public Procurement Act, No. 21 of 2004 and Public Procurement Regulations, 2005.

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

13. RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

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

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

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the National Payment System (NPS) and the issuing of notes and coins also expose the Bank to significant reputation risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems. The risk related to financial instruments has been disclosed under note 48 of the financial statements.The Board assessed the internal control systems throughout the financial year ended June 2012 and is of the opinion that they met accepted criteria.

14. SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Bank of Tanzania has adequate resources to continue taking its statutory activities for the foreseeable future.

15. EMPLOYEES WELFARE

15.1 Management and employees relationship

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

Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. The Bank provides a number of facilities aiming at improving the working environment and living standards of its employees. Such facilities include: medical services, transport to and from work, house allowance, employee training and development, leave travel assistance, long service awards for employees who have been in employment for continuous period of twenty five years, and loans and advances are provided to employees in accordance with the Bank's Staff By Laws and Financial Regulations in force.

15. EMPLOYEES WELFARE (Continued)

The Bank of Tanzania is an equal opportunity employer with a total of 1,349 staff as at 30 June 2012 (2011:1,324) out of which 58 percent are male and 42 percent are female.

15.2 Training facilities

The Bank has its own training facilities situated at the Bank of Tanzania Training Institute in Mwanza region. During the year, the Bank conducted a total of 53 bank courses all of which were conducted using available Bank's facilities The Bank prepares annual training programs that cater for Bank's needs and address gaps in the knowledge and experience of its staff.

15.3 Medical Assistance

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

15.4 Health and Safety

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

15.5 Financial Assistance to Staff

The Bank provides various loans to all confirmed employees depending on compliance to the Staff By Laws and Financial Regulations in force. These include house loans, motor vehicle loans, furniture loans, computer loans and various advances.

15.6 Persons with Disabilities

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

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

15.7 Employees Benefit plan

The Bank has an arrangement whereby the employer and employees make monthly contributions to pension schemes. Such contributions are mandatory and aggregate to twenty percent of the employee's basic salary. The details of benefits plan are provided under note No. 4.of the financial ststements

16. GENDER PARITY

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 30 June 2012 and 2011 the Bank had the following distribution of employees by gender.

16. GENDER PARITY (Continued)

Gender	2012	%	2011	%
Male	787	58.3	781	58.5
Female	562	41.7	553	41.4
Total	1 349	100.0	1 334	100.0

17. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 54 to these financial statements. The directors' emoluments have been disclosed in note 54.2 to the financial statements.

18. ENVIRONMENTAL CONTROL PROGRAM

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

19. CORPORATE SOCIAL RESPONSIBILITY

The Bank of Tanzania is committed to fulfilling part of its Corporate Social Responsibility (CSR) through supporting national activities in the United Republic of Tanzania and other areas of interest to the Bank. In this endeavour the Bank has in place donation guidelines that assist management of donations to the public as part of its corporate social responsibility. During the year the Bank donated a total of TZS 355.8 million. (2011: TZS 446.3 million).

20. CONTRIBUTION AND SUBSCRIPTIONS

The Bank made various subscriptions and contributions to various organisations which included the African Rural and Agricultural Credit Association (AFRACA); African Association of Central Banks (AACB); Macroeconomic and Financial Management Institute (MEFMI); Capital Markets and Securities Authority (CMSA); Deposit Insurance Board (DIB); Financial Institutions Development Project (FIDP II); Tanzanian Institute of Bankers (TIB); Other Professional Associations; and Charities. During 2011/12 such contributions and subscriptions amounted to TZS 3,285.3 million (2011: TZS 2,728.9 million).

21. SECRETARY TO THE BOARD

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

22. COMPLIANCE TO LAWS AND REGULATIONS

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

23. SERIOUSLY PREJUDICIAL

During the year ended 30 June 2012 there was no serious prejudicial matters to report as required by Tanzania Financial Reporting Standard No. 1 (Directors' Report).

24. STATEMENT OF COMPLIANCE

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

25. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of the Bank are responsible for the preparation of the financial statements, which give a true and fair view of the Bank's state of affairs and its operating results in accordance with the International Financial Reporting Standards (IFRS) and Bank of Tanzania Act, 2006. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether on account of fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. These controls are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets.

The directors confirm that the financial statements have been prepared in accordance with the International Financial Reporting Standards and give a true and fair view.

The directors confirm that the core functions of the Bank's were not affected and neither were the financial systems in the country. The directors assure stakeholders that the control environment at the Bank continued to operate effectively. In the current financial year various measures have been taken by directors and other parties in order to continue strengthening the internal controls, governance and risk management at the Bank.

The annual financial statements have been prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for the foreseeable future based on forecast and available cash resources. These financial statements support the viability of the Bank.

26. AUDITORS

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

Approved by the Board of Directors on 4th OCTOBER 2012, and signed on its behalf by:

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

AUDIT REPORT ON THE FINANCIAL STATEMENTS

Board Chairman,
Bank of Tanzania,
P. O. Box 2929,
DAR ES SALAAM.

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE BANK OF TANZANIA FOR THE YEAR ENDED 30TH JUNE 2012

Introduction

I have audited the accompanying financial statements of the Bank of Tanzania ('the Bank'), set out on pages 20 to 112, which comprise the statement of financial position as at 30th June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Controller and Auditor-General is the statutory auditor of the Bank of Tanzania pursuant to the provisions of Article 143 of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), Sections 30 – 33 of the Public Audit Act No. 11 of 2008 and Section 20(6) of the Bank of Tanzania Act, 2006.

Directors' responsibility for the financial statements

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

Controller and Auditor Generals' responsibility

My responsibility as auditor is to express an independent opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 professional judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; I considered the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Further, Sect. 44 (2) of Public Procurement Act No. 21 of 2004 and Reg. No. 31 of the of the Public Procurement (Goods, Works, Non-consultant services and Disposal of Public Assets by Tender) Regulations of 2005 requires me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and its Regulations.

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

Unqualified Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Bank of Tanzania Act, 2006.

Report on compliance with procurement legislation

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions I have reviewed as part of this audit, I state that I did not find any material divergences by management from the requirements of the Public Procurement Act of 2004 and its related Regulations of 2005.

Ludovick S. L. Utouh
Controller and Auditor General

Office of the Controller and Auditor General
National Audit Office
Dar es Salaam

18th October, 2012

BANK OF TANZANIA

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	30.06.2012	30.06.2011
		TZS '000	TZS '000
Operating income			
Interest income	6	234,539,200	209,886,943
Interest expenses	7	(44,053,040)	(40,806,742)
Net interest income		190,486,160	169,080,201
Foreign exchange revaluation gains	8	-	730,694,371
Net unrealised gains on Financial Assets-FVTPL	9	77,890,871	-
Fees and commissions	10	33,613,080	24,870,736
Recovery from receivables	11	25,373,053	-
Other income	12	15,573,333	62,500,485
		152,450,337	818,065,592
Net operating income		342,936,497	987,145,793
Operating expenses			
Administrative expenses	13	38,719,319	38,183,054
Foreign exchange revaluation losses	8	153,545,350	-
Currency issue and related expenses	14	61,479,775	61,731,710
Personnel expenses	15	93,755,205	80,025,362
Depreciation of property and equipment	32	35,842,213	33,248,992
Amortization of intangible assets	33	3,279,263	2,485,725
Amount written offs of other receivables	16	18,853	834
Loss on disposal of property and equipment	32	151,594	-
Other expenses	17	6,974,415	25,410,033
Impairment losses	18	1,601,903	30,167,442
		395,367,890	271,253,152
Operating (loss)/profit for the year		(52,431,393)	715,892,641
Other comprehensive income			
Other comprehensive income	19	-	11,900,867
Total comprehensive (loss)/income		(52,431,393)	727,793,508

BANK OF TANZANIA

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	30.06.2012	30.06.2011
		TZS '000	TZS '000
Assets			
Cash and balances with central banks & other banks	20	1,520,782,365	1,237,969,329
Items in course of settlement	21	34,815,938	5,776,431
Holdings of Special Drawing Rights (SDRs)	22	369,525,297	397,912,882
Foreign Currency Marketable securities	23	4,027,657,084	4,019,362,219
Equity investments	24	2,189,025	1,895,620
Government securities	25	1,050,470,656	1,000,864,589
Advances to the Government	26	283,004,718	348,369,754
Loans and receivables	27	195,916,833	101,000,624
Inventories	28	5,819,196	4,764,252
Investment in associate company	29	1	1
Quota in International Monetary Fund (IMF)	22	471,393,438	501,867,026
Deferred currency cost	30	139,540,818	64,169,465
Other assets	31	79,987,702	92,931,064
Property and equipment	32	812,728,800	831,687,449
Intangible assets	33	5,758,265	8,938,819
Total assets		**8,999,590,137**	**8,617,509,524**
Liabilities and equity			
Currency in circulation	34	2,705,223,546	2,503,645,122
Deposits - banks and non-bank financial institutions	35	2,037,355,907	1,343,142,830
Deposits - Governments	36	8,899,318	13,806,368
Deposits - Others	37	346,950,327	274,379,716
Foreign currency financial liabilities	38	478,153,879	392,174,778
Poverty Reduction and Growth Facility	39	539,104,400	578,194,213
Repurchase agreements	40	25,025,548	54,016,464
BoT liquidity papers	41	732,306,148	977,459,704
Provisions	42	12,200,924	7,274,556
Other liabilities	43	29,591,997	22,521,083
IMF related liabilities	22	431,556,956	477,585,339
Allocation of Special Drawing Rights (SDRs)	22	451,512,468	480,700,836
Total liabilities		**7,797,881,418**	**7,124,901,009**
Equity			
Authorised and Paid up Capital	44	100,000,000	100,000,000
Reserves	46	1,101,708,719	1,392,608,515
Total equity		**1,201,708,719**	**1,492,608,515**
Total equity and liabilities		**8,999,590,137**	**8,617,509,524**

These financial statements were approved by the Board of Directors for issue on 4th OCTOBER,2012 and

Name: Benno J. Ndulu Title: Chairman Signature: Ndulu

Name: Yona S. Killagane Title: Director Signature: Killagane

BANK OF TANZANIA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

Details	Share Capital	General Reserve	Retained Earnings	Capital Reserve	Foreign Exchange Equalisation Reserve	Reserve for Projects	Staff Housing Fund	Assets Revaluation Reserve	Securities Revaluation Reserve	Foreign Exchange Revaluation Reserve	Mwalimu Nyerere Fund	Reserve for Dividends	Total
	(Note 44)	(Note 46(a))		(Note 46(b))	(Note 46 (c))	(Note 46(d))	(Note 46(e))	(Note 46(f))	(Note 46 (g))	(Note 46(h))	(Note 46 i))		
(Amounts in TZS'000)													
At 01 July 2011	100,000,000	276,296,100	-	99,262,908	463,264,603	120,000,000	33,614,326	119,925,982	64,784,192	41,219,947	1,000,000	173,240,459	1,492,608,515
Profit for the year	-	-	(52,431,393)	-	-	-	-	-	-	-	-	-	(52,431,393)
Transfer to Profit and Loss*									(64,784,192)				(64,784,192)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-
	100,000,000	276,296,100	(52,431,393)	99,262,908	463,264,603	120,000,000	33,614,326	119,925,982	-	41,219,947	1,000,000	173,240,459	1,375,392,931
Transfer of realised foreign exchange revaluation gains	-	-	41,219,947	-	-	-	-	-	-	(41,219,947)	-	-	-
Transfer of foreign exchange revaluation loss to exchange revaluation reserve	-	-	153,545,350	-	(153,545,350)	-	-	-	-	-	-	-	-
Reversal of revaluation of disposed property	-	149,818	-	-	-	-	-	(149,818)	-	-	-	-	-
Transfer of unrealised fair value gains or losses to the Securities Revaluation Reserve	-	-	(77,890,871)	-	-	-	-	-	77,890,871	-	-	-	-
2010/11 Dividends paid to the Government	-	-	-	-	-	-	-	-	-	-	-	(173,240,459)	(173,240,459)
Payments to Mwalimu Nyerere Scholarship Deposit***	-	-	-	-	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
Staff Housing Compensatory Fund**							556,246						556,246
Transfer to General Reserve	-	23,223,086	(64,443,033)	-	41,219,947	-	-	-	-	-	-	-	-
At 30 June 2012	100,000,000	299,669,004	-	99,262,908	350,939,200	120,000,000	34,170,572	119,776,164	77,890,871	-	-	-	1,201,708,719

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

** Net contribution to Staff Housing Compensatory Fund

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

BANK OF TANZANIA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

Details	Share Capital	General Reserve	Retained Earnings	Capital Reserve	Exchange Equalization Reserve	Reserve for Projects	Staff Housing Fund Reserve	Assets Revaluation Reserve	Securities Revaluation Reserve	Foreign Currency Revaluation Reserve	Mwalimu Nyerere Fund	Reserve for Dividends	Total
	(Note 42)	(Note 43(a))		(Note 43(b))	(Note 43(c))	(Note 43(d))	(Note 43(e))	(Note 43(f))	(Note 43(g))	(Note 43(h))			
(Amounts in TZS'000)													
At 01 July 2010	100,000,000	208,738,399		99,262,908	142,997,293	20,000,000	19,834,200	73,773,032	99,036,275	904,315		1,669,901	766,216,323
Profit for the year	-	-	715,892,642	-	-	-	-	-	-	-	-	-	715,892,642
Other comprehensive income	-	-	-	-	-	-	-	46,152,950	(34,252,083)	-	-	-	- 11,900,867
	100,000,000	208,738,399	715,892,642	99,262,908	142,997,293	20,000,000	19,834,200	119,925,982	64,784,192	904,315	-	1,669,901	1,494,009,831
Transfer of realised foreign exchange revaluation gains	-	-	904,315	-	-	-	-	-	-	(904,315)	-	-	-
Transfer of unrealised foreign exchange revaluation gains to foreign currency revaluation reserve	-	-	(41,219,947)	-	-	-	-	-	-	41,219,947	-	-	-
Dividends paid to the Government	-	-	-	-	-	-	-	-	-	-	-	(1,669,901)	(1,669,901)
Proceeds from staff housing fund investment	-	-	-	-	-	-	268,585	-	-	-	-	-	268,585
Appropriation of residual profit for the year 2010/11	-	67,557,701	(675,577,010)	-	320,267,310	100,000,000	13,511,540	-	-	-	1,000,000	173,240,459	-
At 30 June 2011	100,000,000	276,296,100	-	99,262,908	463,264,603	120,000,000	33,614,326	119,925,982	64,784,192	41,219,947	1,000,000	173,240,459	1,492,608,515

BANK OF TANZANIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	30.06.2012	30.06.2011
		TZS '000	TZS '000
Cash flows from operating activities			
Cash generated (used in)/from operating activities	45	(192,714,862)	563,207,521
Dividends paid to the Government		(173,240,459)	(1,669,901)
Transfer to Mwalimu Nyerere Deposit Fund		(1,000,000)	-
Net cash generated from(used in) operating activities		(366,955,321)	561,537,620
Cash flows from investing activities			
Purchase of property and equipment		(18,823,733)	(30,968,539)
Proceeds from disposal of property and equipment		121,831	-
Purchase of intangible assets		(98,709)	(1,891,845)
Disposal/(acquisition) of government securities		(49,606,068)	3,338,479
Increase in foreign currency marketable securities		(8,294,866)	(804,824,324)
Acquisition of equity shares		(306,327)	-
Increase/decrease in quota in International Monetary Fund (IMF)		30,473,588	(97,150,477)
Increase/decrease in holdings of SDRs		28,387,585	(75,081,953)
Net cash outflows from investing activities		(18,146,698)	(1,006,578,659)
Cash flows from financing activities			
Increase in notes and coins issued		201,578,425	472,105,218
(Decrease)/increase in IMF related liabilities		(46,028,382)	93,210,121
Increase in foreign currency financial liabilities		46,889,289	158,209,893
(Decrease)/increase in allocation of SDRs		(29,188,368)	93,053,166
Incerease/(decrease) in deposits		761,876,639	(54,897,916)
Decrease in Repurchase Agreements (REPOs)		(28,990,916)	(62,999,198)
Decrease in BOT liquidity papers		(245,153,556)	(265,123,143)
Net cash inflows from financing activities		660,983,130	433,558,140
Net increase/(decrease) in cash and cash equivalent		275,881,111	(11,482,899)
Unrealized foreign exchange revaluation loss/ gains		6,931,926	41,219,947
Cash and cash equivalents:			
At the beginning of the year		1,237,969,329	1,208,232,281
At the end of the year	20	1,520,782,365	1,237,969,329

1. BASIS OF PREPARATION, FORM OF PRESENTATION AND LEGAL FRAMEWORK

Basis of preparation

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

Statement of compliance

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

Form of presentation

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

Legal framework

In terms of Section 4 of the Bank of Tanzania Act, 2006 (‘the Act’), the Bank of Tanzania (‘the Bank’) is established to act as the Central Bank for the United Republic of Tanzania. Its main place of business is at 10 Mirambo Street, Dar es Salaam, Tanzania and it operates branches in Arusha, Mbeya, Mwanza and Zanzibar. The Bank is an independent institution with its own legal personality and tables its reports to the Minister for Finance.

The Bank’s principal responsibilities are to:

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

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

1. BASIS OF PREPARATION, FORM OF PRESENTATION AND LEGAL FRAMEWORK (Continued)

Legal framework (Continued)

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

Section 18(1) of the Bank of Tanzania Act, 2006 provides that, the Bank shall establish and maintain:
(a) A General Reserve Fund;
(b) A Foreign Exchange Revaluation Reserve;
(c) other appropriate assets revaluation reserves or retained net unrealized gains reserves, set up under a decision of the Board to reflect changes in market values of the Bank's major assets and in accordance with the best international accounting practice; and
(d) Other special reserves or funds from time to time from appropriation of net profit.

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

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

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

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

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

1. BASIS OF PREPARATION, FORM OF PRESENTATION AND LEGAL FRAMEWORK (Continued)

Legal framework (Continued)

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

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

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

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 45.6 (b).

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

2. CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted by the Bank are consistent with those of the previous financial year except as follows:

IFRS 9-Financial Instruments

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 Financial Instruments (IFRS 9). IFRS 9 issued in November 2009 introduces new classification and measurement requirements for financial assets that replace the classification and measurement requirements previously included in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).

In October 2010, the IASB issued a revised version of IFRS 9 in which the IASB added requirements for classification and measurement of financial liabilities.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with early application permitted. IFRS 9 requires retrospective application (subject to some transitional provisions). However, entities that apply IFRS 9 in advance of its effective date for reporting periods beginning before 1 January 2012 can choose not to restate the comparative periods.

In the current year, the Bank has applied IFRS 9 Financial Instruments (IFRS 9) (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of its effective date. The Bank has chosen 1 July 2011 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets and financial liabilities) because the Bank decided to apply IFRS 9 in the current year and 30 June 2012 is the year end date of the current year. The Bank has applied IFRS 9 prospectively and comparative amounts have not been restated.

Financial assets

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by IFRS 9, debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the debt instruments are classified as at fair value through profit or loss (FVTPL).

Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Bank as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income that is generally recognised in profit or loss in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial liabilities

IFRS 9 also contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Trade date accounting.

The Bank changed its accounting policy from settlement date accounting to trade date accounting. Accordingly, all regular way purchases or sales of financial assets are recognised and derecognised on a trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Amendments resulting from Improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IFRS 7 Financial Instruments: Disclosures (Amendments)-transfer to the changes in accounting policies

This amendment is effective for annual periods beginning on or after 1 July 2011. – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Bank's disclosures regarding transfers of trade receivables previously affected .However, if the Bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

a. Going concern

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

b. Impairment of assets

(i) Impairment losses on loans and advances and Government Securities

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

The Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows in an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred. Please see the details in note 27.

(ii) Impairment of marketable securities

Currently there is no impairment of marketable securities as all instruments measures at fair value through profit or loss are not impaired. Prior to application of IFRS 9 these were available for sale financial assets. The impairment was subject to decline in value of the assets.

(iii) 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

c. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives and discount rates. Please see the details in Note 47.

d. Useful lives of property, 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 has made accounting estimation of the useful lives of assets based on the expected pattern of consumption of the future economic benefits and reviewed its depreciation rates.

e. Intangible assets

Where computer software is not an integral part of the related item of property and equipment, the software is capitalised as intangible asset.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Direct costs include software consultancy costs and an appropriate portion of overheads. Other development expenditures that do not meet these criteria are recognised as expense incurred development costs previously recognised as an expense are not recognised as asset in the subsequent period.

Internally generated software products include direct costs incurred by the Bank upon meeting the following criteria are recognised as intangible assets;

- 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 l 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 l the software product are available; and
- The expenditure attributable to the software product during its development can be measured reliably.

Other development expenditures that do not meet these criteria are recognised as expense incurred development costs previously recognised as an expense are not recognised as asset in the subsequent period.

Capitalised computer software, licence and development costs are amortised over their useful lives of four year.
Costs associated with maintaining computer software programmes are expenses as incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

Interest and similar income

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

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

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

Fees and commission income

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

Dividend income

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

Other income

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

Dividend payable

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

Employees' benefits including post employment benefits

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post retirement benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 2 percent and 18 percent respectively of the employee's monthly salaries to the state owned and managed (statutory) Funds namely the Parastatal Pension Fund (PPF) or the National Social Security Fund (NSSF). Apart from these monthly contributions, the Bank has no further commitments or obligations to the Funds. The contributions are charged to profit or loss in the year to which they relate.

Other employee benefits

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

Further, the Bank provides other employee retirement benefits in respect of employees on statutory retirement, confirmed employees retiring on medical grounds, if applicable, beneficiaries of the estate of a confirmed deceased employee through the administrator of the estate, and employees who served the Bank for fifteen (15) years or more subject to the conditions stipulated in the Bank's Staff By-laws. These benefits are determined and the Bank's obligations provided for one year before they fall due and charged to profit or loss.

Provision

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

Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented 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 (as amended under Finance Act, 2006) exempts the Bank from any taxation imposed by law in respect of income or profits. This exemption includes stamp duty in respect of instruments executed by or on behalf of the Bank.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

(i) Functional and presentation currency

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

(ii) 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 and from the translation at year-end exchange rates of monetary assets (bid price) and liabilities (offer price) denominated in foreign currencies are recognized in profit or loss.

Foreign exchange revaluation reserve under the legal framework

The realised foreign exchange gains and losses are separated from the unrealised. The unrealised part is excluded from distributable profits for the year and is carried in a separate reserve until realised in subsequent years thereby becoming part of the distributable profits.

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

Investment in associate company

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

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

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

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

Revaluation of the Bank's immovable property is conducted after every five years. During the year, M/S EMACK Tanzania Ltd, professional and Independent valuers, carried out valuation of the Bank's immovable properties as at 30 June 2012.The valuation of Bank's immovable assets was made on the basis of open market values. However, where market data were not easily available, reliable depreciated replacement cost was adopted. This basis is in line with International Valuation Standards (IV No.1 and 2; 2005 and 2007 as amended in 2008).The previous revaluation was carried out on 30 June 2006 by M/S Real Estate Surveyors and Associate Limited, professional and independent valuers.

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 which were applicable at 30 June 2012 were as follows:

Asset classification	Annual depreciation Rate	Useful life
Office Premises	1.0%	100 years
Staff Club Premises	1.0%	100 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	20.0%	5 years
Motor Vehicles	20.0%	5 years
Currency Processing Machines	12.5%	8 years
Machinery and Equipment	10.0%	10 years
Security Monitoring, Fire Detection and Fire Fighting Systems	20.0%	5 years
Office Furniture	15.0%	7 years

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Intangible assets

Intangible assets consist of computer application software and computer application licence packages. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Generally, costs associated with developing computer software programmes are recognised as an expense when incurred. Intangible assets acquired are measured on initial recognition at cost. Internally generated intangible assets are not capitalised and expenditure is charged against profit or loss in the year in which the expenditure is incurred.

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 20.0% – 33 1/3. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset 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 costs that it is intended to compensate. When the grant relates to an asset, it is recognised as deferred income and released as income in equal instalments over the expected useful life of the related asset.

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

Currency printing and minting expenses

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currency in circulation

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

Impairment of non financial assets

The Bank assesses at each reporting date whether there is an indication that a non financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or 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 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.

Leases

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

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

No significant payments are made in advance to the Government other than Government fees/rates normally paid on lease application and renewal based on fixed 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sale and Repurchase Agreements (REPOs)

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

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

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

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

The difference between sales and repurchase price is treated as interest expenditure and is recognized in profit or loss.

Financial assets measured at fair value through profit or loss

The Bank has designated marketable securities i.e. internally managed foreign securities and Reserve Advisory Management program (RAMP) as at fair value through profit or loss. These instruments failed the business model tests. Accordingly, they were designated at fair value through profit or loss.

Changes in fair value of these instruments are recognised through the profit and loss account.

Foreign Exchange Equalization Reserve

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

Effective 30th June 2009 the Board determines the amount from the distributable profit to be transferred to the Foreign Exchange Equalization Reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve for Dividend

This reserve accommodates the amount declared as dividend payable to the Governments. In accordance with Section 18 (5) of the Bank of Tanzania Act, 2006, the remainder of the net profits of the Bank is paid to the Governments as dividend. However, this is subject to the condition that if at the end of any financial year any of the Governments indebtedness to the Bank, the Bank shall first apply the reminder of its net realized profits to the reduction or discharge of the Governments indebtedness

Financial instruments – initial recognition and subsequent measurement

The Bank adopted early IFRS 9-Financial Instruments and opted not to restate the comparative figures. Accordingly, policies on the current figures are based in IFRS 9 and comparative figures are based on IAS 39-Financial Instruments Recognition and Measurements.

Date of recognition

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

Below is the summary of accounting policies under IFRS 9-Financial Instruments when compared with those under IAS 39-Financial Instruments Recognition and Measurements adopted by the Bank

<table>
<tr><th>Accounting policies based on IFRS 9</th><th>Accounting policies based on IAS 39</th></tr>
<tr><td>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 costs of acquisition or issue</td><td>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 costs of acquisition or issue</td></tr>
<tr><td>Classification of financial assets
• 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.</td><td>Classification of financial assets
The classification of the Bank's assets depends on the management intent
to hold the financial instruments. The financial assets were classified into four categories namely loans and
receivables, trading, available for sale and held to maturity</td></tr>
</table>

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies based on IFRS 9	Accounting policies based on IAS 39
Financial assets measured at fair value through profit or loss Assets classified as FVTPL are measured at fair value. Gains and losses that arise as a result of changes in fair value are recognised in profit or loss, Gains and losses that arise between the end of the last annual reporting period and the date an instrument is derecognised do not constitute a separate profit or loss on disposal. Such gains and losses will have arisen prior to disposal, while the item is still being measured at FVTPL, and should be recognised in profit or loss when they occur. Fair Value Through Other Comprehensive Income On initial recognition, the Bank made an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. The Bank's financial asset is held for trading if: • it has been acquired principally for the purpose of selling it in the near term; or • on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or • It is a derivative that is not designated and effective as a hedging instrument or a financial guarantee. • Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the securities revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal	Financial assets at fair value through profit or loss Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met: The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or The assets and liabilities are part of the Bank of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded. Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in "net operating income" Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in other operating income when the right to the payment has been established. Included in this classification are loans and advances to customers which are economically hedged by credit derivatives which do not qualify for hedge accounting as well as structured notes which are managed on a fair value basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies based on IFRS 9	Accounting policies based on IAS 39
of the investments. The Bank has designated its equity investment in Afrexim Bank and SWIFT through other comprehensive income. This is irrevocable commitment. Accordingly, such item is not reclassified when the financial asset is derecognised and is not assessed for impairment. Only dividend are recognised in profit or loss	
Amortised cost The effective interest 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 costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost. Interest income is recognised in profit or loss and is included in the "interest income" line item. .	Held to maturity financial investments Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the profit or loss. The losses arising from impairment of such investments are recognised in the profit or loss. The Bank classifies Government Securities it holds as held-to-maturity.
	Available for sale financial investments Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include money market and other debt instruments. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Securities Revaluation Reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies based on IFRS 9	Accounting policies based on IAS 39
	Income in 'Other operating income' or 'Other operating expenses'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial investments are recognised in the Statement of Comprehensive Income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in profit or loss and removed from the Securities Revaluation Reserve. The Bank classified some foreign currency marketable securities as available-for-sale financial assets. Foreign marketable money-market investments: The fair value of foreign marketable money-market investments is based on quoted bid rates, excluding transaction costs. Foreign marketable securities: The fair values of marketable securities are the quoted fair values as obtained from Bloomberg. The dealers utilise quoted market prices for quoted financial instruments and accepted valuation techniques for unquoted financial instruments in their determination of fair value.
Financial liabilities Issued financial instruments or their components, which are not at fair value through profit or loss, financial liabilities that arise when a transfer of financial asset does not qualify for derecognition 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. All of the Bank's financial liabilities are measured at amortised cost using the effective interest rate method	Other financial liabilities Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under 'Other financial liabilities', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. At initial recognition, other

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies based on IFRS 9	Accounting policies based on IAS 39
	financials are measured at fair value. After initial measurement, debt issued and other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate. The Bank has classified the following financial liabilities as "other financial liabilities": notes and coins issued; foreign currency financial liabilities; IMF Related Liabilities; and other liabilities.

De-recognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 costs.

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

Impairment of financial assets

The Bank assesses at each reporting date whether 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

For Government Securities investments the Bank assesses 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 pr loss. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

Due from banks, loans and advances

For 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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions 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.

Offsetting of financial assets and liabilities

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

Other liabilities

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other assets

Other assets are measured at fair value through profit or loss.

Cash and Cash equivalent

Cash and cash equivalent comprise of cash balances with central banks, time deposit with commercial banks and notes and coins denominated in foreign currency. Cash and cash equivalent is carried at amortised cost in the statement of financial position.

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 costs necessary to make the sale. Provision for impairment is made for slow moving and obsolete stocks.

Credit Guarantee Schemes

The schemes are operated in accordance with the rules governing the schemes and administered by the Bank of Tanzania on behalf of the Government as stipulated in their respective agency agreements. The primary objective of the schemes is to facilitate access to the credit facilities by guaranteeing loans granted by the participating financial institutions to Small and Medium Enterprises, Exporters and Development Projects.

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

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective and in some instances the Bank could early adopt standards which significantly have impact on its financial performance or position.

IFRS 13 Fair Value Measurement

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: [IFRS 13:5-7]

- share-based payment transactions within the scope of Share-based Payment
- leasing transactions within the scope of Leases (IAS 17)

Measurements that have some similarities to fair value but that are not fair value, such as net realisable value in Inventories (IAS 2) or value in use in impairment of Assets (IAS 36)\ Additional exemptions apply to the disclosures required by IFRS 13. This standard applies for annual periods beginning on or after 1 January 2013.

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (Continued)

IAS 1 (Revised) Presentation of Financial Statements (Amendments)

Amendments resulting from May 2010 Annual Improvements to IFRSs- Annual periods beginning on or after 1 January 2011.Amendments to revise the way other comprehensive income is presented issued June 2011- Annual periods beginning on or after 1 July 2012. The amendment is expected to have no impact on the financial statements of the Bank.

Amendments resulting from Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs) issued on 17 May 2012. Borrowing costs relating to qualifying assets for which the commencement date for capitalization is before the date of transition to IFRSs. It is effective for annual periods beginning on or before 1st January 2013.

IFRS 7 New offsetting disclosures

- Amendments related to the offsetting of assets and liabilities issued in December 2011
- Annual periods beginning on or after 1 January 2013 and interim periods within those periods.

IAS 1 Presentation of financial statements

On 16 June 2011, the IASB published amendments to IAS 1 Presentation of Financial Statements. The amendments to IAS 1 retain the 'one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be 'recycled' (e.g. cash-flow hedging, foreign currency translation), and those elements that will not (e.g. fair value through OCI items under IFRS 9).This amendment is effective July 2012.

Amendments resulting from annual improvements 2009-2011 Cycle (comparative information).

On 17 May 2012 issued amendment in order to clarify the requirements of providing comparative information when an entity provided financial statements beyond the minimum preceding period and clarification guidance on the requirements for providing additional than required by IFRS. These amendments were issued in May 2012 for annual periods beginning on or after 1st January 2013.

IAS 16 Property, Plant and Equipment

Amendments resulting from annual improvements 2009-2011 Cycle (comparative information)
The annual improvements which amended Para 8 of IAS 16 to clarify the classification of servicing equipments as property, plant and equipment when the equipment is used during more than one period would qualify as property, plant and equipment when they meet the definition of property, plant and equipment or otherwise classified as inventory. These amendments were issued in May 2012 for annual periods beginning on or after 1 January 2013.

IAS 19 Post employment benefits

In June 2011 the IASB revised IAS 19; this included eliminating an option that allowed an entity to defer the recognition of changes in net defined benefit liability and amending some of the disclosure requirements for defined benefit plans and multi-employer plans. This amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 32 Financial Instruments:

Presentation Amendments resulting from annual improvements 2009-2011 Cycle (comparative information).These amendments clarify that income tax relating to distributions to holders of an equity instrument and transactions costs of an equity transactions should be accounted for under IAS 12.More clarifications has been given in the basis for conclusions in Para 52A,52B and 58 link to the amendments. These amendments are for annual periods beginning on or after 1st January 2013.

6 INTEREST INCOME

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

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

	30.06.2012			30.06.2011		
	Received	Accrued	Total	Received	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
From foreign operations						
GBP investments	8,211,966	3,495,780	11,707,745	13,558,470	15,435	13,573,905
USD investments	36,702,680	10,599,086	47,301,766	53,239,575	34,501	53,274,076
EURO investments	11,934,972	12,449,299	24,384,271	32,694,631	103,916	32,798,548
Other foreign interest income	940,384	-	940,384	1,524,170	-	1,524,170
	57,790,002	26,544,165	84,334,166	101,016,847	153,852	101,170,699
From domestic operations						
Interest on domestic investments	75,531,040	22,095,802	97,626,842	68,477,639	20,739,697	89,217,336
Interest on loans and advances	51,056,166	-	51,056,166	11,353,038	8,070,586	19,423,624
Interest on staff loans	1,522,026	-	1,522,026	75,284	-	75,284
	128,109,232	22,095,802	150,205,034	79,905,961	28,810,283	108,716,244
	185,899,233	48,639,967	234,539,200	180,922,807	28,964,136	209,886,943

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2012

6 INTEREST INCOME (Continued)

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

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Income instruments measures at fair value	101,016,847	115,787,590
Income from instruments measures at amortised cost	79,905,961	89,217,336
	180,922,808	205,004,925
Income from Trading		4,882,017
	180,922,808	209,886,943

7 INTEREST EXPENSES

	30.06.2012			30.06.2011		
	Paid	Accrued	Total	Paid	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000		
Interest on BoT liquidity papers	2,417,486	38,267,939	40,685,425	9,185,984	28,613,395	37,799,379
Interest on repurchase agreements	2,216,425	25,548	2,241,973	1,150,707	16,464	1,167,171
Charges on IMF Drawings	1,125,642	-	1,125,642	1,840,191	-	1,840,191
	5,759,553	38,293,487	44,053,040	12,176,883	28,629,859	40,806,742

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.

8 FOREIGN EXCHANGE REVALUATION GAINS/LOSSES

During the year realized and unrealized net foreign exchange revaluation losses amounted to TZS 153,545.4 million. This amount has been included in the income statement in determining the Bank's profit for the year in order to comply with the requirements of IAS 21-Accounting for the Effects of Changes in Foreign Exchange Rates.

	30.06.2012	30.06.2011
Reconciliation of realized and unrealized foreign exchange revaluation	TZS '000	TZS '000
Net realized foreign exchange revaluation gains losses/(gains) during the year	(120,003,007)	690,378,739
Add: Unrealized foreign exchange revaluation gains during the year	7,677,604	41,219,947
	(112,325,403)	731,598,686
Add/Less: Opening balance	41,219,947	(904,315)
Net foreign exchange revaluation gains/(loss) during the year	(153,545,350)	730,694,371

	30.06.2012	30.06.2011
9 NET UNREALISED GAINS ON FINANCIAL ASSETS-FVTPL	TZS '000	TZS '000
Increase in FVTPL		
Financial Assets -FVTPL (USD)	45,149,810	-
Financial Assets -FVTPL (GBP)	15,326,829	-
Financial Assets -FVTPL (EUR)	27,473,764	-
Total	87,950,403	-
Decrease in FVTPL		
Financial Assets -FVTPL (USD)	(2,922,300)	-
Financial Assets -FVTPL (GBP)	(2,695,179)	-
Financial Assets -FVTPL (EUR)	(4,442,053)	-
Total	(10,059,532)	-
Net unrealised gains	77,890,871	-

This represents the net increase in fair value of the portfolio measured at fair value through profit and loss. The value of this balance aggregated to TZS 77,780.9 million as at 30 June 2012. This portfolio arose following adoption of IFRS 9: Financial Instruments effective 1 July 2011. Previously such changes were accommodated in equity through other comprehensive income.

10 FEES AND COMMISSION

Commission on buying and selling foreign currency	32,603,158	24,061,320
Bureau de change application fees	250,546	205,100
Bureau de change registration fees	63,200	51,000
Banks and financial institutions applications/licensing Fees	2,000	9,000
Bureau de change penalty fees	19,500	38,500
Tanzania Interbank Settlement System (TISS) fees and charges	627,507	475,302
Tender application fees	47,169	30,514
	33,613,080	24,870,736

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

	30.06.2012	30.06.2011
11 RECOVERY FROM RECEIVABLES	TZS '000	TZS '000
Recovery from Economic Empowerment Funds	14,831,046	-
Recovery from Secured Loan to Mwananchi Gold Company Ltd	10,542,007	-
	25,373,053	-

The Bank recovered the funds granted in favor of economic empowerment program during the year. Further, following the decision by Mwananchi Gold Company Ltd to dispose its landed property to raise funds, part of the amount collected was used to liquidate obligations due the Bank.

		30.06.2012	30.06.2011
12	OTHER INCOME	TZS '000	TZS '000
	Foreign operations		
	Realized gains on de-recognition of foreign currency marketable securities	869,603	39,588,395
	Income from equity investment	119,810	95,434
	Gains on inter-bank foreign exchange market (IFEM) operations	11,870,014	16,709,166
	Miscellaneous income	150,842	4,768,950
		13,010,269	61,161,945
	Domestic operations		
	Income – domestic operations	1,529,674	237,768
	Rental income staff quarters	626,455	619,591
	Income on hostel accommodation	77,293	51,503
	Income on cafeteria operations	33,309	34,596
	Miscellaneous income	296,333	395,082
		2,563,064	1,338,540
	Total other income	15,573,333	62,500,485
13	ADMINISTRATIVE EXPENSES		
	Board expenses	965,600	1,114,615
	Transport and traveling expenses	6,671,341	7,425,436
	Maintenance - computer, software and related expenses	5,741,459	4,046,057
	Maintenance - furniture, machinery and equipment	2,520,434	992,476
	Maintenance - bank premises	5,276,899	5,891,915
	Legal and investigation expenses	544,335	222,274
	Audit fees	659,858	547,131
	Audit related expenses	182,839	167,265
	Fees, rates and security expenses	2,093,350	2,243,002
	Water and electricity	4,500,527	3,346,272
	Telecommunication and postage	1,441,125	1,541,973
	Printing, stationery and office supplies	1,328,298	1,060,685
	Meetings, conferences and seminars	4,153,566	4,646,017
	Hospitality	224,600	232,499
	Budget and annual accounts preparation expenses	174,535	276,660
	Insurance expenses	1,089,327	844,411
	Other administrative expenses	1,151,226	3,584,366
		38,719,319	38,183,054
14	CURRENCY ISSUE AND RELATED EXPENSES		
	Notes printing and related expenses (see Note 30)	53,927,176	56,521,068
	Coins minting and related expenses (see Note 30)	2,698,612	1,534,030
	Cost of currency issued in circulation	56,625,788	58,055,098
	Currency transport, storage and handling	1,577,004	407,214
	Maintenance of currency machines	3,162,516	2,538,649
	Other currency expenses	114,467	730,749
		61,479,775	61,731,710

The amount of TZS 56,625.8 million (2011: TZS 58,055.1 million) in respect of notes printing and coins minting and related expenses respectively, refers to the proportionately amortized portion of deferred notes printing and coins minting cost for the currency notes and coins that were issued into circulation during the year. The amount of TZS 1,577.0 million (2011:TZS 407.2 million) are in respect of inland currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred and recognized in the Statement of Comprehensive Income during the year.

A total of TZS 3,162.5 million (2011: TZS 2,538.6 million) was incurred during the year in respect of currency machines maintenance expenses. Other currency related expenses aggregated to TZS 114.5 million (2011:TZS 730.7 million).

15	PERSONNEL EXPENSES	30.06.2012 TZS '000	30.06.2011 TZS '000
	Staff salaries and allowances	56,300,555	50,346,384
	Contribution to PPF scheme	6,551,041	5,965,087
	Contribution to NSSF scheme	1,160,403	1,081,860
	Staff medical expenses	3,466,256	2,952,566
	Staff training expenses	4,068,789	4,285,034
	Staff uniforms expenses	131,745	99,199
	Tanzania Union for Industrial and Commercial(TUICO) expenses	293,656	284,000
	Worker's Council expenses	857,038	888,137
	Course functions & field trips expenses	15,030	5,451
	Travel on leave expenses	3,774,350	3,472,530
	Retirement and separation benefits	9,504,316	4,737,463
	Condolence, survivors' benefits and related expenses	684,608	208,387
	Motor vehicles expenses	356,371	804,457
	Long term service awards	220,380	98,000
	Management car maintenance and other related expenses	4,024,205	2,638,515
	Furniture grant expenses	232,317	820,221
	HR planning policies expenses	1,132,966	680,237
	Cafeteria expenses	981,179	657,834
		93,755,205	80,025,362

Personnel expenses refer mostly to Bank's employee salaries and welfare expenses. In 2011/12 such expenses amounted to TZS 93,755.2 million (2011: TZS 80,025.4 million).

16	WRITE OFF	30.06.2012 TZS '000	30.06.2011 TZS '000
	Write off from receivables	18,853	834
		18,853	834

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

17	OTHER EXPENSES	30.06.2012 TZS '000	30.06.2011 TZS '000
	Foreign operations		
	Foreign reserve management expenses	1,234,623	1,138,102
	Financial markets development expenses	993,910	762,305
	Commission and fees on foreign operations	77,543	64,774
	Realized losses on de-recognition of foreign currency marketable securities	862,733	8,767,140
	Amortized premium	-	11,235,715
		3,168,809	21,968,036
	Domestic operations		
	Contribution to professional associations, charities	2,031,625	2,130,795
	Contribution to national development programs/projects	1,187,997	968,976
	Commission and fees on domestic operations	316,172	
	Contributions to other institutions	15,317	7,577
	Subscriptions	89,917	67,806
		3,641,028	3,175,154
	Cheques issued expenses	164,577	266,844
		6,974,415	25,410,033

17 ***Analysis of contributions and subscriptions (Continued)***

African Association of Central Banks and African Rural and Agriculture Credit Association	40,733	15,122
Contribution to NBAA and NBMM	292,300	67,806
Promotion of Tanzania Economy Abroad and Other Foreign Institutions	127,820	120,426
Contribution to Establishment of Tanzania Agricultural Development Bank	486,981	254,176
Contribution to African Research Consortium	156,981	-
Contribution CCBG	14,999	-
Tanzania Institute of Bankers	424,000	424,000
Deposit Insurance Board	229,662	309,049
Second Generation of Financial Sector Reforms	510,536	530,627
Monetary and Economic Financial Management Institute	521,250	527,685
Capital Markets and Securities Authority	480,000	480,000
Donations and Other Contributions	355,766	446,263
	3,641,028	3,175,154

18 IMPAIRMENT LOSSES

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Impairment of property and equipment	1,596,587	
Loans and receivables	5,316	30,167,442
	1,601,903	30,167,442

19 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Net change in fair value of available - for - sale financial assets	-	(34,252,083)
Property and equipments revaluation gains	-	46,152,950
	-	11,900,867

20 CASH AND CASH EQUIVALENT

Cash balances with Central Banks	1,472,439,465	73,776,413
Demand, time deposits with commercial banks and foreign currency notes and coins	48,159,094	1,164,039,063
Accrued interest on deposits	183,806	153,853
	1,520,782,365	1,237,969,329

Cash balances with Central Banks consist of demand deposits; two-day notes accounts and time deposits with maturities of less than three months and carry interest at market rates. There is no restriction on the use of these funds except for the balances related to Poverty Reduction and Budget Support (PRBS) and BIS OPEC funds which has zero balance as are designated for specific purposes.

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Demand and time deposits with commercial banks and foreign currency notes and coins consist of:		
Demand deposits	46,503,339	1,162,493,348
Foreign currency notes and coins	1,655,755	1,545,715
	48,159,094	1,164,039,063

21 ITEMS IN COURSE OF SETTLEMENT

BoT Clearing Account	34,815,938	5,776,431
	34,815,938	5,776,431

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.

22 INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES

	30.06.2012		30.06.2011	
	Equivalent SDR '000	Equivalent TZS '000	Equivalent SDR '000	Equivalent TZS '000
Assets				
Holding of SDRs	158,660	369,525,297	158,660	397,912,882
Quota in IMF	198,900	471,393,438	198,900	501,867,026
	357,560	840,918,735	357,560	899,779,907
Liabilities				
IMF Account No. 1	188,900	431,550,931	188,900	477,578,670
IMF Account No. 2	3	6,025	3	6,669
	188,903	431,556,956	188,903	477,585,339
Allocation of SDRs	190,510	451,512,468	190,510	480,700,836
	379,413	883,069,424	379,413	958,286,174

Relationship

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

Currency of Transactions with the IMF

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

Quota in IMF, Interest and Charges

Borrowings from the related Tanzania's quota are non interest bearing with no stated maturity, while borrowings from the General Resources Account of the IMF bears interest at rates set by the IMF on a weekly basis and are repayable according to the repayment schedules of the agreement. The interest rate as at 30 June 2012 was 2.8 percent, the same rate as it was in the previous year. A total of SDR 198.9 million, equivalent to TZS 471,393.4 million (2011: TZS 501,867.0 million), is the Tanzania's quota in the IMF representing the reserve tranche held with the IMF. On a quarterly basis, the IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position at a 1.9 percent to 2.33 percent annual floating rate.

Participation in the HIPC Initiative

The United Republic of Tanzania enjoys a debt relief program under the Highly Indebted Poor Countries (HIPC) initiative. Accordingly, the IMF administers a donor-contributed Fund in the form of a PRGF-HIPC Trust Umbrella Account for Tanzania. The facility is used to settle part of Tanzania's PRGF Loans as and when they fall due. As at 30 June 2012, the facility had a nil balance.

23 FOREIGN CURRENCY MARKETABLE SECURITIES

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

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Marketable Securities	4,000,348,340	3,984,920,300
Accrued interest	27,308,744	34,441,919
Total	4,027,657,084	4,019,362,219

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

Sovereign Issues		
USD	2,098,348,285	1,740,259,243
GBP	257,951,030	339,591,012
EUR	819,415,604	932,448,610
	3,175,714,919	3,012,298,865
Supranational Securities		
USD	191,638,586	267,165,762
GBP	18,542,831	20,052,460
EUR	54,476,312	28,279,733
	264,657,729	315,497,956
Agency Securities		
USD	516,451,366	835,204,018
GBP	15,255,650	15,993,163
EUR	28,268,677	44,812,327
	559,975,693	896,009,508

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Total investments		
USD	2,806,438,237	2,603,742,995
GBP	291,749,511	375,636,636
EUR	902,160,593	1,005,540,670
Accrued interest	27,308,744	34,441,919
	4,027,657,085	4,019,362,220

24 EQUITY INVESTMENTS

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Equity investment in Afreximbank	1,882,698	1,895,620
Equity investment in SWIFT	306,327	-
	2,189,025	1,895,620

Equity investment in Afreximbank: TZS 1,882.7 million

The African Export-Import Bank (Afreximbank) is a supranational institution, established on 27 October 1993. The Bank of Tanzania 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. Bank of Tanzania's authorized equity interest in Afreximbank is 300 ordinary shares of par value of USD 10,000 each. As at 30th June 2012 the Bank paid a total of USD 1,200,000. The proportion of Bank of Tanzania's equity interest to the total holding in this bank is 0.4 percent. These shares are measured at fair value through other comprehensive income.

24 EQUITY INVESTMENTS (Continued)

Equity Investment in SWIFT: TZS 306.3 million

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

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

During the year ended June 2012, the Bank was allocated and paid for 47 shares with face value of EUR 3,300 each. The allocation was based on the volume of messages the Bank has sent and received through SWIFT.

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

25 GOVERNMENT SECURITIES	30.06.2012 TZS '000	30.06.2011 TZS '000
Stocks	51,336,808	51,336,808
Treasury Bills	50,440,333	-
Special Treasury Bonds	720,853,823	637,855,000
LART Bonds	-	85,189,195
Treasury EPA Stock	205,743,889	205,743,889
	1,028,374,853	980,124,892
Accrued interest	22,095,803	20,739,697
	1,050,470,656	1,000,864,589

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

Stocks

Stocks of TZS 3.5 million were discounted by private sector to the Bank and Stocks of TZS 51,336.8 million resulted from conversion of interest arrears on July 1, 1999. The stocks have a fixed interest rate of 15%. The balance as at 30th June 2012 is TZS 51,336.8 million (2011: TZS 51,336.8 million)

Treasury Bills

This represents treasury bills discounted to the Bank of Tanzania. As at 30 June 2012 the cost value of such treasury bills amounted to TZS 50,440.3 million.

Special Treasury Bonds

Treasury Special Bonds are long-term coupon instruments issued at fixed and variable coupon for Government financing. The bonds with face value of TZS 169,600 million have a variable coupon based on the Prevailing average yield to maturity for 5-year bond with a cap of 14.92%. All bonds with exception of bonds with face of TZS 14,600 million (2011 balance after redemption TZS 9,800 million) are held to maturity and the semi annual interest arising thereof forms part of the Bank's interest income. 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.

25 GOVERNMENT SECURITIES (Continued)

Thereafter in 1999 the stock plus the earned interest were restructured into two stocks namely 15% Special Treasury Stock 2018/19 with face value of TZS 51,333 million and 15% Special Treasury Stock 2012/13 with face value of TZS 3.5 million. The stocks have semi annual coupon payments. The 10 Year Special Government Bonds 2009/2019 with a face values of TZS 150,000.0 million and 323,000 million were issued on 2nd June 2009. The issue was made in accordance with Section 34, 35 and 69 of the Bank of Tanzania Act, 2006. The bonds carry an annual coupon of 8.0 percent payable semi annually. The purpose of the bond was to bridge Government revenue shortfall mainly attributed to the impact of the global financial crisis to the economy. Other Special bonds are TZS 155,000 million and TZS 14,600 million with interest rate of 14.92 percent issued by the Government to finance horticultural expansion project in Arusha. The value of Special Bonds as at 30th June 2012 was TZS 720,853.8 million (2011:TZS 637,855.0 million). Reissue and conversion of two LART bonds into 11 percent 10-Year Special Government Bonds 2011/2012 with total face values of TZS 85,188.8 million account for the increase.

LART Bonds

Realization Trust (LART) bonds of 20 years maturity period in settlement of loans advanced to defunct parastatal organizations and co-operative unions by National Bank of Commerce (NBC) and CRDB Bank. These bonds have face values of TZS 11,658.5 million and TZS 73,530.7 million, matured on 25 November, 2011 and carry annual interests of 11 percent and 5 percent respectively payable semi-annually. The same were re issued as 11% 10 years Special Government Bonds 2011/2021 with total face value of TZS 85,188.8 million. As a result there were no outstanding LART bonds as at 30th June 2012 (2011:TZS 85,189.2 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 BoT to facilitate their administration and control. According to the arrangement of sharing such obligations, the externalization of EPA obligations is done on the basis of agreed exchange rates. The exchange rate differential between the TZS exchange rate prevailing when the beneficiaries are paid and the rate ruling when the funds were initially deposited to the commercial banks resulted into exchange losses, which are recoverable from the Government. However, as the Government could not in the short term raise the required levels of TZS to compensate the Bank for the losses, the Government had given approval to convert the reported amount of EPA losses into EPA stocks.

The Government has effective from 1st August 2008 reissued two EPA Special Stocks namely EPA Special Stock 2002/2052 and EPA Special Stock 2005/2055 with values of TZS 4,352.8 million and TZS 65,646.1 million and replaced them with EPA Special Stock 2008/18 and EPA Special Stock 2008/23 respectively. Their tenures were reviewed from 50 years and 55 years to 10 years and 15 years with annual coupons of 7.5 percent and 8.0 percent payable semi-annually respectively. Furthermore, on 1st 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 31st December 2007.The stock has a maturity of 20 years with annual coupon of 8.5 percent payable semi annually. As at 30 June 2012 the aggregate position of Special EPA stocks was TZS 205,743.9 million (2011:TZS 205,743.9 million).

	30.06.2012	30.06.2011
26 ADVANCES TO THE GOVERNMENT	TZS '000	TZS '000
Advances to the Government (URT) Note 36	283,004,718	348,369,754
	283,004,718	348,369,754

As at 30 June 2012, the overall United Republic of Tanzania (URT) Government position ended with a net deficit balance of TZS 283,004.7 million as summarised under Note 35. This position was attributable to overdrawn URT Government voted accounts. Such 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 rates as determined by the Bank in accordance with the Bank of Tanzania Act, 2006 and are repayable within one hundred and eighty days.

27 LOANS AND RECEIVABLES

	30.06.2012 TZS '000	30.06.2011 TZS '000
Staff loans and advances	55,668,410	38,965,329
Accounts receivable	128,858,838	86,160,559
Secured loan to Mwananchi Gold Company Limited	10,593,102	10,542,031
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Intermediary accounts receivable	1,396,167	1,094,344
	201,660,517	141,906,264
Less: Write off	(18,853)	-
Provision for impairment	(5,724,831)	(40,905,639)
	195,916,833	101,000,624

Analysis of impairment by line items

	30.06.2012 TZS '000	30.06.2011 TZS '000
Staff loans and advances	199,255	199,255
Accounts receivable	381,575	30,570,023
Secured loan to Mwananchi Gold Company Limited	-	4,992,361
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
	5,724,830	40,905,639

Movement in provision for impairment

	30.06.2012 TZS '000	30.06.2011 TZS '000
Balance at the beginning of the year	40,905,639	10,763,183
Additional impairment on accounts receivable	5,316	30,167,442
Exchange gain on impairment of Mwananchi Gold Company Limited	-	(24,152)
Reversal during the year	(25,375,711)	-
Write-offs	(9,810,414)	(834)
Balance at the end of the year	5,724,830	40,905,639

The write off relates to outstanding receivable from the Government in respect of input VAT for Group Five International whose tax free contract with the Bank was rescinded such that the TRA assessed the Input VAT amounting to TZS 9,810.4 million.

The Bank did not pledge any loans and receivables as securities against liabilities in 2012 and 2011.

(a) Accounts Receivable: TZS 128,858.8 million.

Accounts receivable represent short term claims and which are expected to be recovered within a period not exceeding twelve months and outstanding transactions made on trade date. As at 30 June 2012, the account had a balance of TZS 128,858.8 million (2011: TZS 86,160.6 million). Major components under Accounts Receivable include the following: -

(i) Liquidity Management Expenses: TZS 21,432.9 million.

Included under accounts receivable is TZS 21,432.9 million (2011: TZS 22,195.3 million) relating to 2011/12 URT Government share in respect of liquidity management costs. The URT Government and Bank of Tanzania share of liquidity management cost is based on the formula contained in the Memorandum of Understanding in force.

(ii) Interest Receivable on overdrawn Government accounts: TZS 40,012.9 million.

During the year the Government net position was overdrawn by TZS 283,004.7 million (2011: TZS 348,836.9 million). Pursuant to Section 34 of the Bank of Tanzania Act, 2006, an amount of TZS 40,012.9 million was charged to the Government as interest on overdrawn position.

27 LOANS AND RECEIVABLES (Continued)

(b) Staff Loans and Advances: TZS 55,668.4 million.

Employees of the Bank are entitled to loans and advances as approved in accordance with the Bank's Staff By - Laws and Financial Regulations in force. Staff loans are granted to employees to assist them in acquisition of residential houses, motor vehicles, computers and furniture. Staff advances are financial accommodation granted to employees to meet short term financial obligations. The advances/loans are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. These loans and advances are recovered from the employees' salaries on a monthly basis. The facilities are secured against the borrowers' employment and terminal benefits. As at 30 June 2012 the balance of staff loans and advances was TZS 55,668.4 million (2011: TZS 38,965.3 million). The increase of TZS 16,703.1 million noted during the period was mainly on account of staff loans granted to BoT employees in accordance with the regulations in force.

28 INVENTORIES

The inventory balance consists of the following:	30.06.2012 TZS '000	30.06.2011 TZS '000
Currency machine spare parts	3,618,077	2,370,552
Building, machinery and maintenance consumables	672,006	674,508
Stationery	337,332	364,905
Drugs and medicines	123,814	134,114
Copier parts and consumables	312,923	307,702
Inventory in Transit	11,697	6,279
Cheque books	388,231	528,924
ICT accessories and consumables	355,116	377,268
	5,819,196	4,764,252

All inventories held by the Bank as at 30 June 2012 were for the internal consumption and not intended for sale.

29 INVESTMENT IN ASSOCIATE COMPANY

The Bank holds 3,000 unquoted ordinary shares of Mwananchi Gold Company Limited (MGC Ltd) each with a par value of USD 40. Such holding is equivalent to 35 percent of the total MGC Ltd shares.

MGC is a Limited liability locally registered company whose principal activities include to:

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

The investment in associate balance consists of the following:	30.06.2012 TZS '000	30.06.2011 TZS '000
Investment in Mwananchi Company Limited	337,317	253,894
Share of Loss of Mwananchi Company Limited	(337,316)	(253,893)
	1	1

Following unsatisfactory performance by the Company, the operations ceased in 2007.

Since its cessation efforts to revamp the company failed and the Board of the company has agreed in principle, to pursue a scheme of arrangement with a view of bringing the operations of the company to an end in order to minimise further losses. The company is due to be placed under voluntary liquidation which will see the Bank realise it's equity and finally complete the withdrawal of its stake in the company. The liquidation process is expected to be completed before end of 2012/13.

30 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 2011/12, the movement on deferred currency cost balance was as follows:

30 DEFERRED CURRENCY COST (Continued)

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Balance as at 01 July 2011	64,169,465	62,414,861
Add: Cost of currency received during the year	131,997,141	59,809,703
Less: Cost of currency issued in circulation (Note 14)	(56,625,788)	(58,055,098)
Balance as at 30 June 2012	139,540,818	64,169,465

31 OTHER ASSETS

Prepayments	12,452,571	35,465,003
Export credit guarantee fund investments account	49,314,111	45,589,717
SME contribution investment account	6,736,225	6,201,877
Staff Housing Fund Investment		2,099,250
Accrued Interest on ECGS investment	2,026,733	767,509
Development finance guarantee investments account	5,896,996	650,249
Staff imprest	1,643,598	902,321
Petty cash balances	66,500	55,500
Others	1,889,125	1,237,793
	80,025,859	92,969,221
Less: Provision for impairment	(38,157)	(38,157)
	79,987,702	92,931,064
Analysis of impairment by line items		
Prepayments	38,157	38,157
	38,157	38,157

Movement in provision for impairment

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

	30.06.2011	30.06.2010
	TZS '000	TZS '000
Balance at the beginning of the year	38,157	44,755
Reversal	-	(6,598)
Balance at the end of the year	38,157	38,157

(i) Prepayment: TZS 12,452.6 million

The balance under prepayment mainly covers TZS 4,635.4 million and TZS 6,022.9 million paid to M/S De La Rue Currency of United Kingdom and M/S CRANE AB of Sweden as advance payments for supply of currency notes respectively in accordance with the contract in force. The amounts are amortised based on the currency received during the year.

(ii) Export Credit Guarantee Investment Account: TZS 49,314.1 million

The balance represent funds invested in Treasury Bills in respect of Export Credit Guarantee Scheme fund. As at 30 June 2012 the account had a balance of TZS 49,314.1 million (2011:TZS 35,335.1million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2012

32 PROPERTY AND EQUIPMENT

	Land and buildings	Machinery & equipment	Motor vehicles	Fixtures & fittings	Computers, servers & printers	Capital work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost/valuation							
At 01 July 2011	690,185,000	208,112,309	9,008,187	6,855,271	13,482,596	29,866,243	957,509,607
Additions	1,478,955	728,854	5,440,772	302,803	2,118,228	8,754,120	18,823,732
Disposal	(175,000)	(135,014.76)	(467,499)	(53,977)	(98,028)	-	(929,519)
Transfers**	500,000	277,939	287,934.00	91,427	-	(1,157,301)	-
At 30 June 2012	691,988,955	208,984,088	14,269,395	7,195,525	15,502,796	37,463,062	975,403,820
Accumulated depreciation and impairment							
At 01 July 2011	-	107,700,169	5,810,026	3,269,685	9,052,278	-	125,832,157
Charges for the Year	5,637,133	26,633,167	686,653	1,397,175	1,488,085	-	35,842,212
Disposal	(1,859)	(108,719)	(394,761)	(48,395)	(50,395)	-	(604,128)
Impairment	1,520,000	84,779	-	-	-	-	1,604,779
Transfers		(97,760)	276,502	(152,372)	(26,371)	-	-
At 30 June 2012	7,155,274	134,211,636	6,378,420	4,466,093	10,463,597	-	162,675,020
Net Book Value							
At 30 June 2012	684,833,681	74,772,452	7,890,975	2,729,431	5,039,199	37,463,062	812,728,800

There were neither amounts nor restrictions on title of property and equipment held by the Bank as at 30 June 2012.

32 PROPERTY AND EQUIPMENT (Continued)

	Land and buildings	Machinery & equipment	Motor vehicles	Fixtures & fittings	Computers, servers & printers	Capital work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost/valuation							
At 01 July 2010	646,052,919	206,128,082	9,041,089	6,446,990	11,667,790	20,596,973	899,943,843
Additions	17,225,169	2,031,223	-	408,281	1,814,806	9,489,060	30,968,539
Revaluation adjustment	(19,512,824)	-	-	-	-	-	(19,512,824)
Revaluation gains	46,152,950	-	-	-	-	-	46,152,950
Transfers**	266,786	(46,995)	-	-	-	(219,791)	-
Derecognition of assets		-	(32,902)	-	-	-	(32,902)
At 30 June 2011	690,185,000	208,112,309	9,008,187	6,855,271	13,482,596	29,866,243	957,519,606
Accumulated depreciation and impairment							
At 01 July 2010	14,266,869	82,568,164	5,219,128	2,511,698	7,629,863	-	112,195,722
Charges for the Year	5,319,366	25,132,005	617,219	757,987	1,422,415	-	33,248,992
Revaluation adjustment	(19,512,824)	-	-	-	-	-	(19,512,824)
Impairment adjustment	(73,411)	-	-	-	-	-	(73,411)
Derecognition of assets	-	-	(26,321)	-	-	-	(26,321)
At 30 June 2011	-	107,700,169	5,810,026	3,269,685	9,052,278	-	125,832,157
Net book value							
At 30 June 2011	690,185,000	100,412,141	3,198,162	3,585,586	4,430,318	29,866,243	831,687,449

32 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	30.06.2012	30.06.2011
	TZS '000	TZS '000
Cost	694,905,081	631,731,892
Accumulated depreciation and impairment	11,138,328	10,919,929
Carrying amount	683,766,753	620,811,963

Effective 2007/8 valuation of the Bank's immovable property is conducted after five years. The last revaluation on the ,the Bank's immovable properties were valued on 30 June 2011 by EMACK (T) Limited., a professional registered valuation firm (The previous revaluation was carried by M/S Real Estate Surveyors and Associates Limited on 30 June 2002).

Work- in - progress relates to capital expenditure incurred in the extension of the Arusha office building, Mbeya and ,Currency shelves for Head Office and Zanzibar and currency processing machines. No depreciation is charged on capital work in progress until it is substantially completed. Based on the assessment made by the project quantity surveyors, it is anticipated that the above projects will be completed during financial year ending 30 June 2013.

32 PROPERTY AND EQUIPMENT (Continued)

Reconciliation of items disposed during the period by class of assets

Loss on Disposal of Property and Equipment

	30.06.2012				30.06.2012	30.06.2011
	Cost	Accumulated Depreciation	Cost of disposal	Cash proceeds	Net gain/loss	Net gain/loss
CLASS OF ASSET	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Land and buildings	175,000	1,859			(173,141)	-
Machinery & equipment	135,015	108,719	339	8,447	(15,316)	3,230
Motor vehicles	57,494	50,395	77	1,398	(5,778)	-
Fixtures & fittings	53,978	48,395	383	13,986	8,019	(814)
Computers, servers & printers	456,065	394,761	2,073	98,000	34,622	369
	877,552	604,129	2,872	121,831	151,594	2,785

33 INTANGIBLE ASSETS

	Computer software	Computer software - WIP	Total
	TZS '000	TZS '000	TZS '000
2012			
Cost/valuation			
At 01 July 2011	18,767,396	4,195,712	22,963,108
Additions	71,052	27,657	98,709
Transfers	4,061,508	(4,061,508)	-
At 30 June 2012	22,899,956	161,861	23,061,817
Accumulated amortisation and impairment			
At 01 July 2011	14,001,598	22,691	14,024,289
Charges for the Year	3,279,263	-	3,279,263
At 30 June 2012	17,280,861	22,691	17,303,552
Net book value			
At 30 June 2012	5,619,095	139,170	5,758,265
2011			
Cost/valuation			
At 01 July 2010	16,875,551	4,195,712	21,071,263
Additions	1,891,845	-	1,891,845
At 30 June 2011	18,767,396	4,195,712	22,963,108
Accumulated amortisation and impairment			
At 01 July 2010	11,515,873	22,691	11,538,564
Charges for the Year	2,485,725	-	2,485,725
At 30 June 2011	14,001,598	22,691	14,024,289
Net book value			
At 30 June 2011	4,765,798	4,173,021	8,938,819

34 CURRENCY IN CIRCULATION

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Notes		
Notes issued	8,217,596,041	5,851,818,467
Less: Notes in Custody	(5,556,700,105)	(3,387,733,795)
Notes in Circulation (A)	2,660,895,936	2,464,084,672
Coins		
Coins issued	54,934,265	50,307,107
Less: Coins in Custody	(10,606,655)	(10,746,657)
Coins in Circulation (B)	44,327,610	39,560,450
	2,705,223,546	2,503,645,122

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 2,705,223.5 million is the face value of TZS 99,386.9 million representing banknotes that were phased out in 2003.These notes represent the liability of the Bank of Tanzania and are exchangeable at the Bank counters.

35 DEPOSITS - BANKS AND NON - BANK FINANCIAL INSTITUTIONS

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Deposit - commercial bank deposits		
Clearing	717,441,524	180,159,253
SMR	1,145,789,048	1,093,341,778
Domestic Banks Foreign Currency Deposits	153,567,983	60,886,615
Sub Total	2,016,798,555	1,334,387,646
Deposits - Non bank financial institutions		
Clearing	18,924,954	8,321,590
Domestic Non Banks Foreign Currency Deposits	1,632,398	433,594
Sub Total	20,557,352	8,755,184
Total Deposits	2,037,355,907	1,343,142,830

Statutory minimum reserve 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

36 DEPOSITS - GOVERNMENTS

	30.06.2012	30.06.2011
Deposits - Voted		
URT Government	(528,973,745)	(548,332,614)
SMZ Government	4,324,434	8,640,519
Sub Total	(524,649,311)	(539,692,095)
Deposits - Un-voted		
URT Government	245,969,027	199,962,860
SMZ Government	4,574,884	5,165,849
Sub Total	250,543,911	205,128,709
Total URT Government	(283,004,718)	(348,369,754)
Total SMZ Government	8,899,318	13,806,368

36 DEPOSITS - GOVERNMENTS (Continued)

During 2011/12 the position of the Government of the United Republic of Tanzania (URT) voted accounts were overdrawn in various periods. As at 30 June 2012 the overdrawn position of URT Government voted accounts reached TZS 524,649.3 million. Pursuant to the provision of Section 34 of the Bank's Act, a total of TZS 11,353.0 million was charged in 2011/12 as interest on overdrawn URT Government position in various periods at the interest rate equal to the average monthly rates charged on treasury bills. Government deposit balances are non-interest earning. The overdrawn position as at 30 June 2012 amounting to TZS 283,004.7 million (2011: TZS 348,369.8million) has been reported as a receivable advance to the Government.

37 DEPOSITS - OTHERS

	30.06.2012 TZS '000	30.06.2011 TZS '000
Export credit guarantee fund	52,139,825	46,904,517
Small and medium enterprises guarantee fund	6,773,745	5,843,749
Redemption of Government Stock/Bonds	38,335	10,589,775
Tegeta Escrow	124,232,287	105,969,256
Development finance guarantee fund	18,953,776	11,166,661
Debt Service Cash Cover	9,533,664	25,059,325
Deposit Staff	6,484,876	5,869,747
Debt Conversion Scheme	2,098,960	2,098,960
Bank Drafts Issued	385,909	173,873
Deposit Insurance Fund	11,933,644	37,962
Economic Empowerment Programme	1,327,725	1,616,501
Tanzania Agriculture Development Bank	60,000,000	30,000,000
Mwalimu Nyerere Scholarship Fund	1,715,703	581,077
Government Obligations Settlements	48,533,152	25,562,366
Miscellaneous Deposits	510,308	617,528
	344,661,909	272,091,298
External Payment Arrears – NBC	2,288,418	2,288,418
	346,950,327	274,379,716

Tegeta Escrow TZS Sub Account: TZS 124,232.3 million.

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

TANESCO and IPTL are still engaged in a legal tussle on the capacity charges, following disagreement in the interpretation of the Power Purchase Agreement (PPA). Resolution of the dispute will address the question of ownership of the funds that are held in the Escrow Account. As at 30th June 2012 the account had a balance Such deposits accumulated to TZS 124,232.3 million (2011: TZS 105,569.3 million).

Development finance guarantee fund: TZS 18,953.8 million.

Development finance guarantee fund consists of the following:

	30.06.2012 TZS '000	30.06.2011 TZS '000
Capital contribution by the Government	59,148,895	56,500,000
Interest on refinancing loans	9,997,144	13,849,405
Interest earned on treasury bills	7,640,908	2,485,427
Sub Total	76,786,947	72,834,832
Less: Loans issued for refinancing facility	(57,833,171)	(61,668,171)
Net balance	18,953,776	11,166,661

37 DEPOSITS - OTHERS (Continued)

Development finance guarantee fund: TZS 18,953.8 million.

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

As at 30 June 2012, Government Capital contribution made in 2003/04 and 2005/06 to the Fund amounted to TZS 56,500.0 million. Interest received and accrued on refinancing loans aggregated to TZS 15,771.9 million while a total of TZS 2,4485.4 million was earned as interest from the funds invested in treasury bills. A total of TZS 61,668.2 million has so far been issued as loans for refinancing facilities to flowers and vegetable export companies. As at 30 June 2012 the Fund had a balance of TZS 18,953.8 million (2011: TZS 11,166.7 million)

Government obligations settlement: TZS 48,533.2 million

This represents Government cash cover in order to settle foreix obligations. As at 30 June 2012 such funds aggregated to TZS 48,533.2 million (2011:TZS 25,562.4 million).

Export Credit Guarantee Fund: TZS 52,139.8 million.
The balance under this fund consists of the following

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Export credit guarantee fund	57,202,715	51,967,407
Less: ECGS Receivable	(5,062,890)	(5,062,890)
Total	52,139,825	46,904,517

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 2012 the Fund had a balance of TZS 52,139.8 million (2011: TZS 46,904.3 million) comprising of Government and BOT contributions and income from investment in treasury bills and guarantee fees.

Debt Service Cash Cover: TZS 9,533.7 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 utilization of previous disbursements, so as to justify further disbursements. The balance has remained the same since no report has been received to facilitate payments.

Mwalimu Nyerere Scholarship Fund: TZS 1,715.7 million

Included in Deposit Others is a balance of cash in respect of the late Mwalimu Nyerere Memorial Scholarship Fund. The Fund was established by the Bank of Tanzania on 12 October, 2009 in honor of the life of the Father of the Nation Mwalimu Julius Kambarage Nyerere. The objective of the Fund is to sponsor the best performing female students pursuing mathematics and science degree at University level. As at 30 June 2012 the Fund had a balance of TZS 1,715.7 million (2011: TZS 581.1 million). During 2011/12 a total of TZS 1,000.0 million was appropriated to this Fund from 2010/11 distributable profit.

38 FOREIGN CURRENCY FINANCIAL LIABILITIES

Foreign Currency Financial Liabilities consist of the following:

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Multilateral Debt Relief Initiative Fund	6,833,893	10,560,187
TEGETA Escrow	34,724,738	34,926,612
Special Projects	425,288,307	339,306,615
Multilateral Agencies	140,674	4,181,556
Central Banks Deposits	42,280	57,745
Other Foreign Currency Deposits	11,123,987	3,142,063
	478,153,879	392,174,778

Multilateral Debt Relief Initiative Funds: TZS 6,833.9 million

Multilateral debt initiative funds relate to debt relief relating to cancellation of Tanzania Government indebtness to the IMF under the IMF-Multilateral Debt Relief Initiative (MDRI). As at 30 June 2012, such a fund had a balance aggregating to TZS 6,833.9 million (2011: TZS 10,560.2 million).

TEGETA Escrow: TZS 34,724.7 million

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

TANESCO and IPTL are still engaged in a legal tussle on the capacity charges, following disagreement in the interpretation of the Power Purchase Agreement (PPA). Resolution of the dispute will address the question of ownership of the funds that are held in the Escrow Account. As at 30th June 2012 the account had a balance of TZS 34,724.7 million (2011: TZS 34,926.6 million).

Special Projects Funds: TZS 425,288.3 million

These are Government funds received from donors for financing various Government projects. The projects are managed and monitored by the Ministry of Finance or other appointed project implementation agency. As at 30th June 2012 the total balance in respect of Special Project accounts aggregated to TZS 425,288.3 million (2011: TZS 339,306.6 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 2012, such balances amounted to TZS 140.7 million (2011: TZS 4,181.6 million)

Other Foreign Currency Deposits TZS 11,124.0 million

This balance mainly consists of balance in respect of Mwananchi Gold Company Ltd .

39 POVERTY REDUCTION AND GROWTH FACILITY (PRGF)

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Exogenous Shocks Facility - ESF (IMF Drawings)	539,104,400	578,194,213
	539,104,400	578,194,213

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

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

The Government of United Republic of Tanzania (URT) has entered into an Exogenous Shocks Facility -(ESF) arrangement with the IMF for SDR 218.79 million, equivalent to USD 318.17 million on 29th May 2009. Following approval, the Bank had on 12 June 2009 received a total of SDR 159,120,000 (USD 245,767,568.01) equivalent to TZS 318,195.1 million being the first tranche. The Bank further received SDR 39,780,000 equivalent to USD 63,377,454.32 and SDR 19,890,000 equivalent to USD 29,027,300.84 on 10th December 2009 and 14th June 2010 respectively. The first tranche is repayable in ten years, including five and half years grace period, payable semi annually in ten equal installments on 14 December and 14 June beginning 14th December 2014. The loan carry an interest of 0.5 percent per annum payable semi annually beginning 14th December 2009.

As at 30 June 2012 the balance of PRGF account was TZS 539,104.4 million (2011:TZS 578,194.2 million).

	30.06.2012	30.06.2011
40 REPURCHASE AGREEMENTS (REPOs)	TZS '000	TZS '000
Repurchase Agreements	25,000,000	54,000,000
Accrued interest	25,548	16,464
	25,025,548	54,016,464

41 BOT LIQUIDITY PAPERS

BOT liquidity papers	694,038,209	948,846,309
Accrued interest	38,267,939	28,613,395
	732,306,148	977,459,704

As at 30 June, 2012 the maturities profile of BOT Liquidity Papers were follows:

35-Day Treasury Bills	3,892,500	11,621,565
91-Day Treasury Bills	58,315,768	158,789,858
182-Day Treasury Bills	233,098,653	229,087,565
364-Day Treasury Bills	398,731,288	549,347,321
	694,038,209	948,846,309

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

	30.06.2012	30.06.2011
42 PROVISIONS	TZS '000	TZS '000
Provision for leave pay	3,731,306	3,515,789
Provision for retirement benefits	8,469,618	3,661,768
Provision for legal expenses	-	97,000
	12,200,924	7,274,556

42 *Movements in provisions (Continued)*

Leave pay

Carrying amount at the beginning of the period	3,515,789	3,515,789
Additional provision made during the period	215,517	0
Carrying amount at the end of the period	3,731,306	3,515,789

Retirement benefits

Carrying amount at the beginning of the period	4,038,775	3,945,439
Additional provision made during the period	2,815,333	3,809,358
Amount used during the period	2,423,265	(3,374,416)
Amount reversed during the period	(807,755)	(341,607)
Carrying amount at the end of the period	8,469,618	4,038,775

43 OTHER LIABILITIES

Accounts payable	28,399,181	21,573,458
Accruals	659,858	547,131
Stale drafts payable	102,969	103,073
Employees tax payable	125,968	137,074
Others	304,021	160,347
	29,591,997	22,521,083

44 AUTHORISED AND PAID-UP SHARE CAPITAL

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

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

		30.06.2012	30.06.2011
45	CASH (USED BY)/ GENERATED FROM OPERATIONS	TZS '000	TZS '000
	(Loss)/profit for the Year	(52,431,393)	715,892,642
	Adjustment for:		
	Other comprehensive income	-	11,900,867
	Depreciation of property and equipment	35,842,213	33,248,991
	Amortization of intangible assets	3,279,263	2,485,725
	Transfer of securities revaluation reserve balance	(64,784,192)	-
	Interest on staff housing investments	556,246	268,585
	Net loss on disposal of property and equipment	151,594	-
	Transfer of PPE	56,966	
	Unrealised Foreign Exchange Revaluation loss/ gains	(6,931,926)	(46,219,781)
	Provision for impairment	1,605,095	30,167,442
	Increase in fair value of equity investment	12,923	(240,368)
	Bad debts written off	18,853	834
		(82,624,359)	747,504,936
	Changes in working capital		
	Increase in loans and receivables	(94,930,378)	(12,762,976)
	Increase/decrease in advances to the Government	65,365,036	(172,724,215)
	Increase/decrease in deferred currency cost	(75,371,353)	(1,754,605)
	Decrease in other assets	12,943,362	1,952,416
	Increase in inventories	(1,054,944)	(232,406)
	Increase in items in course of settlement	(29,039,507)	(4,403,488)
	Decrease in other liabilities and provisions	11,997,280	5,627,859
	Net changes in working capital	(110,090,504)	(184,297,416)
	Net cash generated from/(used in) operations	(192,714,862)	563,207,520

46	RESERVES		
	General Reserve	299,669,004	276,296,100
	Capital Reserve	99,262,908	99,262,908
	Foreign Exchange Equalization Reserve	350,939,200	463,264,603
	Reserve for Capital Projects	120,000,000	120,000,000
	Staff Housing Fund	34,170,572	33,614,326
	Assets Revaluation Reserve	119,776,164	119,925,982
	Securities Revaluation Reserve	77,890,871	64,784,192
	Foreign Currency Revaluation Reserve	-	41,219,947
	Mwalimu Nyerere Scholarship Fund	-	1,000,000
	Reserve for Dividends	-	173,240,459
		1,101,708,719	1,392,608,515

46. RESERVES (Continued)

a. General Reserve

In accordance with Section 18(1) of the Bank of Tanzania Act, 2006, the Bank is required to maintain a General Reserve Fund. The amount maintained in this account relates to annual appropriation of distributable profits determined by virtue of Section 18(2) of the aforesaid Act. "The Bank shall transfer to the General Reserve Fund twenty five percent of the net profits until such time that the total capital of the Bank reach a sum equivalent to at least ten per centum of the total assets of the Bank less its assets in gold and foreign currencies. Thereafter, the Bank shall transfer not less than ten percent of its net profits to the General Reserve Fund. As at 30 June 2012 the reserve had a balance of TZS 299,669.0 million (2011: TZS 276,296.1 million).

b. Capital Reserve

The Capital Reserve was established in 2001/02. On an annual basis the amount spent to finance capital projects from the Reserve for Projects account is transferred to this reserve. The reserve is permanent in nature and can only be available for enhancement of share capital when need arises. As at 30 June 2012 the reserve had a balance of TZS 99,262.9 million (2011: TZS 99,262.9 million).

c. Foreign Exchange Equalization Reserve

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

The justification for the establishment of the aforesaid reserve as part of the equity of the Bank centres on the requirement of the Bank, among other business entities requiring management to ensure preservation of capital, in terms of mitigating risks that can cause capital impairment or impairment of the entity's assets. As at 30 June 2012 the total amount standing at the credit of the Foreign Exchange Equalization Reserve amounted to TZS 350,939.2 million (2011:TZS 463,264.6 million).

d. Reserve for Capital Projects

This reserve was established by a resolution of the Bank's Board of Directors in 1991/92. The purpose of the reserve is to provide funds for financing 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, 2011 the reserve had a balance of TZS 120,000.0 million (2011: TZS 120,000.0 million).

e. Staff Housing Fund

The Staff Housing Fund was established by a resolution of the Board of Directors in 1989/90. The purpose of this fund is to provide housing loans to Bank's employees. On an annual basis, the Board determines the amount to be appropriated into the fund out of distributable profits. During the year, the amount appropriated was two percent of the distributable profit. As at 30 June 2012, the fund had a balance of TZS 34,170.6 million (2011: TZS 33,614.3 million) that include interest on fund's investments.

46. RESERVES (Continued)

f. Assets Revaluation Reserve

The Bank maintains Assets Revaluation Reserve to account for revaluation surpluses or deficits. To ensure compliance with requirement of International Accounting Standard on property, plant and equipment (IAS 16), if an asset-carrying amount increases as a result of revaluation, the increase is credited directly to other comprehensive income. However, this amount is not available for distribution. Accordingly, it is appropriated in the asset revaluation. If an asset's carrying amount decreases as a result of revaluation, the decrease is recognized in profit or loss to the extent that it exceeds credit balance existing in the revaluation surplus in respect of that asset. During the year the Bank recorded assets revaluation gain amounting to TZS 46,152.9 million As at 30 June 2012, the reserve had a balance of TZS 119,776.2 million (2011:TZS 119,925.9 million).

g. Securities Revaluation Reserve

The Bank maintains a Securities Revaluation Reserve to account for unrealized gains and losses arising from changes in fair value of financial instruments measures at fair value through profit or loss. As at 30 June 2012 the reserve had a balance of TZS 77,890.9 million (2011: TZS 64,784.2 million).

h. Foreign Currency Revaluation Reserve

In accordance with Section 18(4) of the Bank of Tanzania Act, 2006, unrealized gains or losses on foreign exchange are transferred to this reserve account. However, pursuant to the requirements of the International Financial Reporting Standards (IFRS), in particular IAS – 21, all realized and unrealized foreign exchange valuations should be taken to the income statement.

Both realized and unrealized gains and losses are therefore taken to Income Statement for purposes of computation of profit or loss for the year. Until such gains or losses are realized, they are not available for distribution; in the interim, the unrealized amounts are reflected in the Foreign Currency Revaluation Reserve. The separation of realized from unrealized exchange gains and losses is done by use of an "inventory accounting for foreign exchange net assets and liabilities". During the year the Bank operations generated foreign exchange revaluation losses. As a result no unrealised amount was transferred to foreign exchange revaluation reserve as at 30 June 2012 (2011: TZS 41,219.9 million).

i. Mwalimu Nyerere Scholarship Fund

The reserve was established in 2011. The objective of the reserve is to accumulate sufficient balances in order to contribute to the Mwalimu Nyerere Scholarship Fund that sponsors the best performing female students pursuing mathematics degree at university level. The amount distributed to this Fund is determined by the Board of Directors

The justification for the establishment of the aforesaid reserve as part of the equity of the Bank centres on the honour of the life of the Father of the Nation Mwalimu Julius Kambarage Nyerere. As at 30 June 2012 the reserve had a zero balance (2011: TZS 1,000.0 million).

47. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS UNDER IFRS (AND IAS 39 AT THE DATE OF INITIAL APPLICATION

At the date of initial application of IFRS 9 a total of TZS 64,784.2 million was cycled from Securities Revaluation Reserve to the profit and loss account. Below is a summary of comparison between IAS 39 and IFRS 9 at the date of initial application.

Description	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 (in million TZS)	New carrying amount under IFRS 9 (in million TZS)
Cash and cash equivalent	Loans and Receivables	Financial assets at amortized cost	1,237,969,329	1,237,969,329
Items in course of settlement	Loans and Receivables	Financial assets at fair value through profit or loss	5,776,431	5,776,431
Holdings of Special Drawing Rights	Loans and Receivables	Financial assets at amortized cost	397,912,882	397,912,882
Financial Assets Held for Trading	Held for trading	Financial assets at fair value through profit or loss	413,254,057	413,254,057
Foreign currency marketable securities-Available for Sale	Available for sale	Financial assets at fair value through profit or loss	3,606,108,163	3,606,108,163
Equity investment - Available for Sale	Available for sale	Financial assets at FVTOCI	1,895,620	1,895,620

48. RISK MANAGEMENT

48.1 Introduction

Risk is inherent in the Bank's activities but is managed through a process of identification, measuring, prioritization, monitoring and reviewing policies, subject to risk limits and other controls. This process of risk management is critical to the Bank's continued profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk, credit risk and liquidity risk).

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

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

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

Strategy in using financial instruments

By nature, the Bank's activities necessitate the use of financial instruments. The Bank accepts deposits from commercial banks and the Government, the required minimum reserves from commercial banks operating in the United Republic of Tanzania. It also accepts or places short-term funds/securities through open market operations in order to achieve the reserve target and influence the short-term interest rates; the primary tool of monetary policy to establish price stability.

Foreign exchange deposits placed with the Bank and foreign exchange acquired by the Bank through the use of International Monetary Fund (IMF) resources, Inter bank Foreign Exchange Market and through the Government of the United Republic of Tanzania constitute the sources of foreign exchange reserves of the Bank. The Bank holds foreign exchange reserves for the purposes of servicing foreign debts and other Government obligations as a fiscal agent of the Government of the United Republic of Tanzania and for servicing its own foreign exchange obligations, The Bank also holds foreign exchange reserves for liquidity against external shocks, implementation of monetary and exchange rate policies, and providing confidence to the markets. In view of the Bank's priorities of safe investment, liquidity and return, as stipulated by the Bank of Tanzania Act, 2006, the Bank with a prudent approach, subjects its foreign exchange reserves to investments in international markets.

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

48. RISK MANAGEMENT (Continued)

48.1 Introduction Continued

<u>Strategy in using financial instruments (Continued)</u>

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

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

48.1 Risk Management Structure

48.2.1 The Board of Directors

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

48.2.2 Management

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

48.2.3 Risk Management Function

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

48.2.4 Financial Markets Function

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

48.2.5 Internal Audit Function

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

48. RISK MANAGEMENT (Continued)

48.3 Risk measurement and reporting systems

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

The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact occur.

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

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

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

48.4 Risk mitigation

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

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

48.5 Excessive risk concentration

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

48. RISK MANAGEMENT (Continued)

48.5 Excessive risk concentration (Continued)

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

48.6 Financial risks

48.6.1 Credit risk

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

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

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

Accordingly, for short term investments, the Bank takes on exposure to issuers/issues having at least F1 according to Standard and Poor's (S&P) with a maturity up to one year while it can invest in securities issued or directly guaranteed by foreign governments and Supranational which have a long-term rating of at least 'A' according to S&P or an equivalent credit rating. The average maturity of the long term investments is guided by the Investment Guidelines which is reviewed and approved by the Investment Committee once a year.

Securities issued by the US, UK, German and France governments can constitute 100 percent of the Bank's foreign reserves. Investments in other selected OECD countries are limited to 10 percent of the investible foreign reserves. Sovereign agencies and supranational are limited to one third of the total reserves in a bid to protect the Bank against spread risks. By settling this overall credit risk limit within the scope of Investment Guidelines, the Bank aims to prevent credit risk from exceeding its risk tolerance.

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

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

48. RISK MANAGEMENT (Continued)

48.6.1 Credit risk (Continued)

Total assets of the Bank exposed to credit risk as of 30 June 2012 and 30 June 2011 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).

48.6 Financial risks

48.6.1 Credit risk

	30.06.2012		30.06.2011	
	TZS '000	TZS Share (%)	TZS '000	TZS Share (%)
Description				
Due from banks				
Deposits				
Central Banks (AAA)	1,451,585,976	18%	73,776,413	0.97%
Foreign Commercial Banks	69,196,389	1%	1,164,192,916	15.33%
F1+	69,196,389		1,164,192,916	
F1				
NR				
Loans and Receivables	195,916,833	2.4%	101,000,624	1.33%
Investment Securities	5,078,127,740	50%	4,019,362,219	52.5%
Marketable Securities	4,027,657,084	50%		
AAA	4,027,657,084		3,606,108,163	
AA+			388,453,821	
AA			11,311,874	
A+			13,488,362	
N/R				
Trading-AAA				
AA				
AA				
Government Securities	1,050,470,656	13%	1,000,864,588	13.18%
Advances to the Government	283,004,718	4%	348,369,754	4.87%
Others	957,911,397	12%	887,874,012	11.70%
Total	6,573,941,244	100.00%	7,595,440,528	100.00%

48. RISK MANAGEMENT (Continued)

48.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

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

Details	Foreign Country Treasury	Supranational Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Government Guaranteed Agencies	Tanzania Treasury	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2012							
Due from banks							
Central Banks	1,449,424,732					2,161,243.69	1,451,585,976
Commercial Banks				69,196,389			69,196,389
Loans and Receivables	-	-	195,916,833	-	-	283,004,718	478,921,551
Investment in securities							-
Foreign Currency Marketable securities	3,569,997,688	271,953,222		31,108,174	154,598,001	-	4,027,657,084
Government securities	-	-	-	-	-	1,050,470,656	1,050,470,656
Others	-	-		843,107,760	-	-	843,107,760
Total	5,019,422,420	271,953,222	195,916,833	943,412,323	154,598,001	1,335,636,618	7,920,939,417

48. RISK MANAGEMENT (Continued)

48.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

The sectoral classification of the Bank's credit exposure as of 30 June 2011 is as follows:

Details	Foreign Country Treasury	Supranational Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Government Guaranteed Agencies	Tanzania Treasury	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2011							
Due from banks							
Central Banks	1,031,732,293	-	-	-	-	1,646,597	1,033,378,891
Commercial Banks	-	-	204,590,438	-	-	-	204,590,438
Loans and Receivables	-	-	158,270,213	-	-	199,604,317	449,370,378
Investment in securities							
Held - for - trading financial assets	350,095,172	9,682,034	-	11,311,874	42,164,977	-	413,254,057
Available - for - sale financial assets	2,995,098,115	315,497,956	120,188,085	175,324,007	-	-	3,606,108,163
Held-to-maturity Government securities	-	-	-	-	-	1,054,190,244	1,000,864,589
Others	-	-	57,422,400	-	-	-	98
Total	4,376,925,581	325,179,990	540,471,136	186,635,881	42,164,977	1,255,441,158	6,707,566,614

48. RISK MANAGEMENT (Continued)

48.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as of 30 June 2012 is as follows:

2012	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
Assets						
Cash and balances with central banks & other banks		798,372,287	72,579,299	290,317,195	290,317,195	1,451,585,976
Demand, Foreign Currency Notes & Coins & Time Deposits with Commercial Banks		20,767,059.90	13,836,951	31,133,140	3,459,238	69,196,389
Items in course of settlement	34,815,938	-	-	-	-	34,815,938
Holdings of Special Drawing Rights (SDRs)	-	369,525,297	-	-	-	369,525,297
Foreign Currency Marketable securities	-	2,716,002,750	295,178,600	994,268,679	22,207,055	4,027,657,084
Equity investment	-	-	-	-	2,189,025	2,189,025
Government securities	1,050,470,656	-	-	-	-	1,050,470,656
Advances to the Government	283,004,718	-	-	-	-	283,004,718
Loans and receivables	195,916,833	-	-	-	-	195,916,833
Inventories	5,819,196	-	-	-	-	5,819,196
Investment in associate company	1	-	-	-	-	1
Quota in International Monetary Fund (IMF)	-	471,393,438	-	-	-	471,393,438
Deferred currency cost	139,540,818	-	-	-	-	139,540,818
Other assets	79,987,702	-	-	-	-	79,987,702
Plant, property and equipment	812,728,801					812,728,801
Intangible	5,758,265					5,758,265
Total Assets	2,608,042,929	4,376,060,831	381,594,850	1,315,719,015	318,172,513	8,999,590,138
Liabilities						
Currency in circulation	2,705,223,546	-	-	-	-	2,705,223,546
Deposits - banks and non-banks financial institutions	2,037,355,907	-	-	-	-	2,037,355,907
Deposits - Governments	8,899,318	-	-	-	-	8,899,318
Deposits - others	346,950,327	-	-	-	-	346,950,327
Foreign currency financial liabilities	478,153,879	-	-	-	-	478,153,879
Poverty Reduction and Growth Facility	539,104,400	-	-	-	-	539,104,400
Repurchase agreements	25,025,548	-	-	-	-	25,025,548
BoT liquidity papers	732,306,148	-	-	-	-	732,306,148
Provisions	12,200,924	-	-	-	-	12,200,924
Other liabilities	29,591,997	-	-	-	-	29,591,997
IMF related liabilities	431,556,956	-	-	-	-	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	451,512,468	-	-	-	451,512,468
Shareholders equity	1,201,708,719	-	-	-	-	1,201,708,719
Total liabilities and equity	8,548,077,669	451,512,468	-	-	-	8,999,590,137

48. RISK MANAGEMENT (Continued)

48.6.1 Financial Risks (Continued)

a) Credit Risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as of 30 June 2011 is as follows:

	Tanzania	USA	UK	Other European Countries	Other Countries	Total
2011	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets						
Cash and balances with central banks & other banks	1,646,597	61,375,094	10,964,774	951,929,887	7,462,539	1,033,378,891
Demand, Foreign Currency Notes & Coins & Time Deposits with Commercial Banks	-	17,623,107	15,217,238	171,221,542	528,552	204,590,438
Items in course of settlement	5,776,431	-	-	-	-	5,776,431
Holdings of Special Drawing Rights (SDRs)	-	397,912,882	-	-	-	397,912,882
Foreign Currency Marketable securities	-	1,972,007,195	322,554,602	1,261,509,555	463,290,867	4,019,362,220
Equity investment	-	-	-	-	1,895,620	1,895,620
Government securities	1,000,864,589	-	-	-	-	1,000,864,589
Advances to the Government	348,369,754	-	-	-	-	348,369,754
Loans and receivables	101,000,624	-	-	-	-	101,000,624
Inventories	4,764,252	-	-	-	-	4,764,252
Investment in associate company	1	-	-	-	-	1
Quota in International Monetary Fund (IMF)	-	501,867,026	-	-	-	501,867,026
Deferred currency cost	64,169,466	-	-	-	-	64,169,466
Other assets	92,931,062	-	-	-	-	92,931,062
	-	-	-	-	-	-
	8,938,819	-	-	-	-	8,938,819
Total Assets	1,628,461,596	2,950,785,303	348,736,613	2,384,660,984	473,177,578	7,785,822,075
Liabilities						
Currency in circulation	2,503,645,122	-	-	-	-	2,503,645,122
Deposits - banks and non-banks financial institutions	1,343,142,830	-	-	-	-	1,343,142,830
Deposits - Governments	13,806,368	-	-	-	-	13,806,368
Deposits - others	274,379,716	-	-	-	-	274,379,716
Foreign currency financial liabilities	392,174,778	-	-	-	-	392,174,778
Poverty Reduction and Growth Facility	578,194,210	-	-	-	-	578,194,210
Repurchase agreements	54,016,464	-	-	-	-	54,016,464
BoT liquidity papers	977,459,705	-	-	-	-	977,459,705
Provisions	7,274,558	-	-	-	-	7,274,558
Other liabilities	22,521,083	-	-	-	-	22,521,083
IMF related liabilities	477,585,340	-	-	-	-	477,585,340
Allocation of Special Drawing Rights (SDRs)	-	480,700,836	-	-	-	480,700,836
Shareholders equity	1,492,608,515	-	-	-	-	1,492,608,515
Total liabilities and equity	8,136,808,688	480,700,836	-	-	-	8,617,509,524

48. RISK MANAGEMENT (Continued)

48.6 Financial risks

48.6.1 Credit risk

Credit quality per class of financial assets

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

30.06.2012

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalent	1,520,782,366	-	-	1,520,782,366
Marketable Securities	4,027,657,084	-	-	4,027,657,084
Investment in Associate Company	337,317	-	337,316	1
Equity Investment	2,189,025	-	-	2,189,025
Loans and Receivables	227,059,813	10,542,007	20,600,973	195,916,833
Other assets	80,232,084	206,228	38,157	79,787,699
Total	6,500,605,648	10,748,235	20,976,446	5,819,546,490

30.06.2011

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalent	1,237,969,329	-	-	1,237,945,479
Available for Sale	3,606,108,163	-	-	3,606,108,163
Financial assets Held for Trading	413,254,057	-	-	413,254,057
Government Securities Held to Maturity	1,001,864,588	-	-	1,001,864,588
Investment in Associate Company	339,632	-	-	339,632
Equity Investment	1,895,620	-	-	1,895,620
Loans and Receivables	58,151,126	12,682,057	30,167,442	101,000,624

48. RISK MANAGEMENT (Continued)

48.6 Financial risks

48.6.1 Credit risk

As at 30 June 2012, aging analysis of loans and receivables is as follows:

Details	Total	Neither past due nor impaired	Less than 30 days	31 to 60 days	61-90 days	91-120 days	> 120 days
2012	195,916,833	175,318,519					20,598,314
2011	101,000,624	38,965,329	14,306,690			569	47,728,036

See note 24 and 28 for more detailed information with respect to allowance for impairment losses on loans and receivables and other assets.

The Bank does not hold collateral for financial liabilities pledged as security. The fair value of collateral that the Bank holds as at 30 June 2011 amounts to TZS 4,238.4 million. The collateral consisted of security on property.

Individually assessed allowances

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

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

	30.06.2012	30.06.2011
Details	Gross Maximum Exposure	Gross Maximum Exposure
	TZS '000	TZS '000
Cash and cash equivalent	1,520,782,366	1,237,969,329
Marketable Securities	4,027,657,084	4,019,362,220
Government Securities	1,050,470,656	1,001,643,791
Advances to the Government	283,004,718	348,369,754
Loans and Receivables	201,641,663	101,000,624
Other Assets	80,025,856	92,931,064

48. RISK MANAGEMENT (Continued)

48.6 Financial risks (Continued)

48.6.1 Liquidity risk

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

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

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

48 RISK MANAGEMENT (Continued)

48.6.2 Financial Risks (Continued)

b) Liquidity risk (Continued)

- by Contractual maturity analysis of financial instruments

	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2012						
Assets						
Cash and balances with central banks & other banks	869,131,553	651,650,813				1,520,782,365
Items in course of settlement	34,815,938	-	-	-	-	34,815,938
Holdings of Special Drawing Rights (SDRS)		1,819,441	249,719,277			369,525,297
Foreign Currency Marketable securities	36,662,328	52,236,382	641,207,618	3,297,368,880		4,027,475,207
Equity investment	-	-	-	-	2,189,025	2,189,025
Government securities	-	-		822,630,964	205,743,889	1,028,374,853
Advance to the Government	-	-	283,004,718	-	-	283,004,718
Loans and receivables	16,987,232	68,816,222	104,969,380	5,144,000	-	195,916,833
Quota in International Monetary Fund	-	-		471,393,438	-	471,393,438
Deferred currency cost	-	-	139,540,818	-	-	139,540,818
Other assets	1,710,098	1,820,470	64,004,560		-	67,535,128
Total assets	959,307,148	776,343,328	1,482,446,371	4,596,537,281	207,932,915	8,140,553,622
Liabilities						
Currency in circulation	386,460,507	1,159,381,520	1,159,381,520			2,705,223,546
Deposit - banks and non banks financial institutions	900,845,025	773,265,166	361,529,765		-	2,035,639,956
Deposit Governments	2,882,956	1,920,115	4,096,246			8,899,318
Deposit others	55,403,937	73,314,730	88,936,449	124,232,287		341,887,402
Foreign currency financial liabilities	95,630,776	239,076,940	109,236,212	34,724,738	-	478,668,665
Poverty Reduction and Growth Facility		2,654,402	3,339,046	220,476,392	77,041,654	303,511,494
Repurchase Agreements	25,025,548	-	-	-	-	25,025,548
BOT liquidity papers	-	3,892,500	728,413,648	-	-	732,306,148
Provisions	223,692	310,787	12,067,047	-	-	12,601,525
Other liabilities	6,061,989	8,751,830	14,778,178	-	-	29,591,997
IMF Related Liabilities	-	-	-	431,556,956	-	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	-	-	451,512,468	-	451,512,468
Total Equity and Liabilities	1,472,534,430	2,262,567,989	2,481,778,110	1,262,502,841	77,041,654	7,556,425,023
Net Liquidity gap	(513,227,282)	(1,486,224,661)	(999,331,739)	3,334,034,441	130,891,261	584,128,599
Cumulative gap	(513,227,282)	(1,999,451,943)	(2,998,783,681)	335,250,760	466,142,021	-

48 RISK MANAGEMENT (Continued)

48.6.2 Financial Risks (Continued)

b) Liquidity risk (Continued)

- by Contractual maturity analysis of financial instruments

	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2011						
Assets						
Cash and balances with central banks & other banks	128,629,868	1,109,339,461	-	-	-	1,237,969,329
Items in course of settlement	5,776,431	-	-	-	-	5,776,431
Holdings of Special Drawing Rights (SDRs)	397,912,882	-	-	-	-	397,912,882
Foreign Currency Marketable securities	16,208,739	59,405,226	548,238,287	3,276,875,887	118,634,080	4,019,362,220
Equity investment	-	-	-	-	1,895,620	1,895,620
Government securities	-	-	86,761,403	441,103,186	473,000,000	1,000,864,589
Advance to Government						348,369,754
Loans and receivables	-	-	348,369,754	-	-	101,000,624
Quota in International Monetary Fund	1,100,904	15,641,905	18,331,020	65,926,795	-	501,867,026
Deferred currency cost	-	-	501,867,026	-	-	64,169,466
Other assets	-	-	64,169,466	-	-	57,268,927.00
Total assets	1,001,441	3,075,204	17,627,989	35,564,293	-	7,736,456,868
Liabilities						
Currency in circulation	751,093,537	1,752,551,586	-	-	-	2,503,645,122
Deposit - banks and non banks financial institutions	128,182,262	256,364,524	830,413,781	128,182,262	-	1,343,142,830
Deposit - Governments	2,761,274	4,141,911	6,903,184	-	-	13,806,368
Deposit - Others	6,043,537	25,461,013	32,815,189	210,059,978		274,379,716
Foreign currency financial liabilities	392,174,778	-	-	-	-	392,174,778
Poverty Reduction and Growth Facility	706,500	706,500	3,866,597	184,520,079	388,394,537	578,194,213
Repurchase agreements	54,016,464	-	-	-	-	54,016,464
BOT liquidity papers	-	11,621,565	965,838,139	-	-	977,459,704
Provisions	-	68,660	7,205,896	-	-	7,274,556
Other liabilities	4,415,486	4,223,618	13,197,776	-	-	21,836,880
IMF Related Liabilities	-	-	-	477,585,339	-	477,585,339
Allocation of Special Drawing Rights (SDRs)	-	-	-	480,700,836	-	480,700,836
Total Equity and Liabilities	1,339,393,837	2,055,139,376	1,860,240,563	1,481,048,494	388,394,537	7,124,216,806
Net Liquidity gap	(1,338,392,396)	(2,052,064,172)	(1,842,612,574)	(1,445,484,200)	(388,394,537)	612,240,061
Cumulative gap	(1,338,392,396)	(3,390,456,568)	(5,233,069,142)	(6,678,553,342)	(7,066,947,879)	-

48. RISK MANAGEMENT (Continued)

48.6.2 Financial Risks (Continued)

b) Liquidity risk (Continued)

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

	Less than 12 months	Over 12 months	Total
2012	TZS '000	TZS '000	TZS '000
Assets			
Cash and balances with central banks & other banks	1,520,782,365	-	1,520,782,365
Items in course of settlement	34,815,938	-	34,815,938
Holdings of Special Drawing Rights (SDRs)	-	369,525,297	369,525,297
Foreign Currency Marketable securities	88,898,710	3,938,758,374	4,027,657,084
Equity investment	-	2,189,025	2,189,025
Government securities		1,050,470,656	1,050,470,656
Advance to the Government	283,004,718	-	283,004,718
Loans and receivables	85,803,454	110,113,380	195,916,833
Inventories	5,819,196	-	5,819,196
Investment in associate company	-	1	1
Quota in International Monetary Fund	-	471,393,438	471,393,438
Deferred currency cost	-	139,540,818	139,540,818
Other assets	79,987,702	-	79,987,702
Property and equipments		812,728,800	812,728,800
Intangible assets		5,758,265	5,758,265
Total assets	2,099,112,083	6,081,990,990	8,999,590,137
Liabilities and equity			
Currency in circulation	2,705,223,546	-	2,705,223,546
Deposit - banks and non banks financial institutions	2,037,355,907	-	2,037,355,907
Deposit - Governments	8,899,318	-	8,899,318
Deposit - Others	217,655,115	129,295,212	346,950,327
Foreign Currency Financial Liabilities	95,630,776	382,523,103	478,153,879
Poverty Reduction and Growth Facility	5,993,449	533,110,952	539,104,400
Repurchase Agreements	25,025,548	-	25,025,548
BOT Liquidity Papers	732,306,148	-	732,306,148
Provisions	12,200,924	-	12,200,924
Other liabilities	29,591,997	-	29,591,997
IMF Related liabilities	-	431,556,956	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	451,512,468	451,512,468
Authorized and Paid up Capital	-	100,000,000	100,000,000
Reserves	-	1,101,708,719	1,101,708,719
Total liabilities and equity	5,869,882,727	3,129,707,410	8,999,590,137

48. RISK MANAGEMENT (Continued)

48.6.2 Financial Risks (Continued)

b) Liquidity risk (Continued)

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

	Less than 12 months	Over 12 months	Total
2011	TZS '000	TZS '000	TZS '000
Assets			
Cash and balances with central banks & other banks	1,237,969,329	-	1,237,969,329
Items in course of settlement	5,776,431	-	5,776,431
Holdings of Special Drawing Rights (SDRs)	397,912,882	-	397,912,882
Held - for - trading financial assets	44,353,216	368,900,841	413,254,057
Available - for - sale financial assets	579,499,037	3,026,609,127	3,606,108,163
Available - for - sale equity investment	-	1,895,620	1,895,620
Held - to - maturity Government securities	85,982,201	914,882,388	1,000,864,589
Advances to the Government	348,369,754	-	348,369,754
Loans and receivables	35,073,829	65,926,794	101,000,623
Inventories	4,764,252	-	4,764,252
Investment in associate company	-	1	1
Quota in International Monetary Fund	-	501,867,026	501,867,026
Deferred currency cost	64,169,466	-	64,169,466
Other assets	57,366,768	35,564,293	92,931,062
Property and equipments	-	831,687,449	831,687,449
Intangible assets	-	8,938,819	8,938,819
Total assets	2,861,237,164	5,756,272,359	8,617,509,524
Liabilities and equity			
Currency in circulation	2,503,645,122	-	2,503,645,122
Deposit - banks and non banks financial institutions	1,214,960,568	128,182,262	1,343,142,830
Deposit - Governments	6,903,184	6,903,184	13,806,368
Deposit - Others	64,319,739	210,059,978	274,379,716
Foreign currency financial liabilities	392,174,778	-	392,174,778
Poverty Reduction and Growth Facility	5,279,597	572,914,616	578,194,213
Repurchase agreements	54,016,464	-	54,016,464
BOT liquidity papers	977,459,704	-	977,459,704
Provisions	7,274,556	-	7,274,556
Other liabilities	22,521,083	-	22,521,083
IMF Related Liabilities	-	477,585,339	477,585,339
Allocation of Special Drawing Rights (SDRs)	-	480700835.8	480,700,836
Authorized and Paid up Capital	-	100,000,000	100,000,000
Reserves	-	1,392,608,515	1,392,608,515
Total liabilities and equity	5,248,554,795	3,368,954,730	8,617,509,524

48. RISK MANAGEMENT (Continued)

48.7 Financial risks (Continued)

48.6.2 Interest risk

The interest rate risk is the exposure of the Bank to possible adverse movements in interest rates. The parallel changes in the level of interest rates account for about 90 percent of the total interest rate risk. The remainder resulted from the changes in the shape which is steepening or flattening and curvature of the interest rate curves. The interest rate risk is managed through duration targeting. Duration measures sensitivity of a portfolio value to movements in market yields. Duration of 1.5 indicates that the portfolio's value will change by approximately 1.5 percent if rates change by 1percent.

The policy target duration is 2 years with deviation allowance of ± 1.5 months. As of 30 June 2012 portfolio duration stood at 2.5 years while that of 30 June 2011 was 2.1 years.

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

VaR is a probability-based measure of risk, which provides an estimate of the potential loss in value of the Bank's available for sale 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 huge leap in reported VaR numbers resulted from the increase in the level of Available for Sale and financial assets at fair value through profit or loss securities and the recent credit crisis which increased correlation among asset classes. VaR is highly sensitive to correlation among asset classes.

The table below shows various risk measured parameters

Portfolio Characteristics							
	30.06.2012				30.06.2011		
Positions of securities	231		231		192		192
Base currency	USD		TZS '000		USD		TZS '000
Market value of Marketable Securities	2 656 602 091		4,167,969,586		2,544,415,464		3,606,108,163
Money Markets placements					691,503,976		1,110,584,533
Duration	2.5 years		2.5 years		2.11 years		2.11 years
Spread Duration	0.5 years		0.5 years		0.47 years		0.47 years

48. RISK MANAGEMENT (Continued)

48.6 Financial risks (Continued)

48.6.2 Interest risk (Continued)

The tracking errors and VaR was as per breakdown below

Details	30.06.2012			30.06.2011		
	USD		TZS '000	USD		TZS '000
Monthly Tracking Error	9 471 482		14 859 903	9,237,973		14,593,042
95 percent Monthly VaR	(15 579 202)		(24 442 365)	(24,003,418)		(24,518,981)

Price value of 1 BPS in USD

Details	30.06.2012				30.06.2011		
	USD		TZS '000		USD		TZS '000
USD	369 022		578 963.89		339,990		537,075
EUR	138 900		340 112.02		151,881		239,923
GBP	48 404		95 599.25		55,541		87,737
	556 326		1 014 675		547,413		864,735

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

	30.06.2012			30.06.2011		
	USD		TZS '000	USD		TZS '000
USD	92 500		145 125	86,727		137,001
EUR	129 058		316 011	19,395		30,638
GBP	15 931		31 464	16,502		26,068
Total	237 489		492 601	122,824		193,707

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.

48. RISK MANAGEMENT (Continued)

48.6 Financial risks (Continued)

48.6.2 Interest risk (Continued)

30.06.2012 (Amounts in USD equivalent)

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

30.06.2011 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,607,324)	(1,783,434)	(723,246)	(6,114,004)	(9,658,170)
20	(7,214,648)	(3,566,868)	(1,446,492)	(12,228,008)	(19,316,340)
30	(10,821,972)	(4,815,272)	(1,952,764)	(17,590,008)	(27,786,584)

Yield decrease in 1 BPS

30.06.2012 (Amounts in USD equivalent)

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

30.06.2011 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	3,607,324	1,783,434	723,246	6,114,004	9,658,169,981
20	7,214,648	3,566,868	1,446,492	12,228,008	19,316,339,978
30	10,821,972	4,815,272	1,952,764	17,590,008	27,786,584,311

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.

48. RISK MANAGEMENT (Continued)

48.6 Financial risks (Continued)

48.6.2 Interest risk (Continued)

30.06.2012 (Amounts in USD equivalent)

BPS	UUSD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(2,789,437)	(1,899,170)	(526,592)	(5,215,199)	(8277824.12)
Curve Steepening by 50	(1,176,638)	(1,590,863)	(257,228)	(3,024,728)	(4,801,000)
Curve Flattening by 50	(1,879,838)	(1,434,618)	(233,220)	(3,547,676)	(5,631,048)

30.06.2011 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(2,790,937)	(1,726,518)	(531,911)	(5,049,365)	(7,976,382)_
Curve Steepening by 50	(1,179,838)	(1,420,413)	(342,970)	(3,533,221)	(5,359,726)
Curve Flattening by 50	(1,769,838)	(1,420,414)	(342,970)	(3,533,221)	(5,378,444)

Cash flow and fair value interest rate risk

Interest sensitivity of assets and liabilities

For accounting purposes, cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, both in the United Republic of Tanzania and abroad. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The exposures to both kinds of interest rate risk arise in the course of the Bank's activities. Based on the sensitivity of the 4 % deviation of the exchange rate against major currencies the impact on the Banks profit and equity was TZS 19.309.9 million. The deviation for 2011 was 8.5% and the impact in both equity and profit was TZS 150,428.4 million.

48.6.3 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 exchange rate movements. The Bank foreign reserves portfolio is denominated in a number of currencies whose exchange rates are subject to fluctuation on international foreign exchange market.

The Bank is exposed to this risk in the context of its holding of foreign exchange reserves, intervention in the local inter-bank foreign exchange market (IFEM) and foreign exchange transactions in the international foreign exchange market. Often, currency exposures are not out rightly hedged, but the currency risk is controlled through a target currency composition whose criteria are specified in the approved Foreign Exchange Reserves Policy and stated in the Guidelines. The currency positions of the Bank as of 30 June 2012 and 2011 which provides the Bank's assets, liabilities and equity at carrying amounts, categorized by currency is summarized below.

48. RISK MANAGEMENT (Continued)

48.7 Non Financial Risks

48.7.1 Operational Risk

Operational risk is the risk of loss in both financial and non financial resulting from inadequate systems, management failures, ineffective internal control processes, fraud, theft and human errors.

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

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

48.7.2 Human Resource Risk

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

48.7.3 Legal Risk

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

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

48.7.4 Reputational Risk

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the provision of Section 5(1) of the Bank of Tanzania Act, 2006, Public Procurement Act, No. 21 of 2004 and Public Procurement Regulations, 2005.

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

48. RISK MANAGEMENT (Continued)

48.7 Non Financial risks (Continued)

48.7.4 Reputational Risk (Continued)

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

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

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

BANK OF TANZANIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2012

48. RISK MANAGEMENT (Continued)

48.6 Financial Risks (Continued)

d) Currency risk (Continued)

2012	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
Assets							
Cash and balances with central banks & other banks	146,108,707	1,117,824,604	250,995,960			5,853,094	1,520,782,365
Items in course of settlement	-	-	-	-	34,815,938	-	34,815,938
Holdings of Special Drawing Rights (SDRs)	-		-	369,525,297	-	-	369,525,297
Foreign Currency Marketable securities	295,178,600	2,817,689,413	914,607,194				4,027,475,207
Equity Investment	-	1,882,698	306,327	-	-	-	2,189,025
Government securities	-	-	-	-	1,050,470,656	-	1,050,470,656
Advances to the Government	-	-	-	-	283,004,718	-	283,004,718
Loans and receivables	-	-	-	-	195,916,833	-	195,916,833
Inventories	-	-	-	-	5,819,196	-	5,819,196
Investment in associate company	-	1	-	-	-	-	1
Quota in International Monetary Fund (IMF)	-	-	-	471,393,438	-	-	471,393,438
Deferred currency cost	-	-	-	-	139,540,818	-	139,540,818
Other assets	-	-	-	-	79,987,702	-	79,987,702
Property and equipment	-	-	-	-	812,728,800	-	812,728,800
Intangible assets	-	-	-	-	5,758,265	-	5,758,265
Total assets	441,287,307	3,937,396,716	1,165,909,482	840,918,735	2,608,042,927	5,853,094	8,999,408,260
Liabilities							
Currency in circulation	-	-	-	-	2,705,223,546	-	2,705,223,546
Deposit - banks and non banks financial institutions	-	155,200,381	-	-	1,882,155,526	-	2,037,355,907
Deposit - Governments	-	-	-	-	8,899,318	-	8,899,318
Deposit - others	-	-	-	-	346,950,327	-	346,950,327
Foreign currency financial liabilities							-
Poverty Reduction and Growth Facility	-	-	-	539,104,400	-	-	539,104,400
Repurchase Agreements	-	-	-	-	25,025,548	-	25,025,548
BOT liquidity papers	-	-	-	-	732,306,148	-	732,306,148
Provisions	-	-	-	-	12,200,924	-	12,200,924
Other liabilities	-	-	-	-	29,591,997	-	29,591,997
IMF Related Liabilities	-	-	-	431,556,956	-	-	431,556,956
Allocation of Special Drawing Rights (SDRs)	-	-	-	451,512,468	-	-	451,512,468
Total liabilities	-	155,200,381	-	1,422,173,824	5,742,353,334	-	7,319,727,539
Equity	-	-	-	-	100,000,000	-	100,000,000
Reserves	-	-	-	-	1,101,708,719	-	1,101,708,719
Total equity	-	-	-	-	1,201,708,719	-	1,201,708,719
Total liabilities and equity	-	155,200,381	-	1,422,173,824	6,944,062,052	-	8,521,436,258
Net balance sheet position	441,287,307	3,782,196,335	1,165,909,482	(581,255,090)	(4,336,019,125)	5,853,094	-
Scenario of 4.04% appreciation	17,828,007	152,800,732	47,102,743	(23,482,706)	(175,175,173)	236,465	-

48. RISK MANAGEMENT (Continued)

48.6 Financial Risks (Continued)

d) Currency risk (Continued)

	GBP	USD	EUR	SDR	TZS	Others	Total
2011	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets							
Cash and balances with central banks & other banks	136,779,864	802,030,825	291,034,469	-	-	8,124,171	1,237,969,329
Items in course of settlement	-	-	-	-	5,776,431	-	5,776,431
Holdings of Special Drawing Rights (SDRs)	-	-	-	397,912,882	-	-	397,912,882
Held - for - trading financial assets	-	413,254,057	-	-	-	-	413,254,057
Available - for - sale financial assets	375,636,635	2,224,930,858	1,005,540,669	-	-	-	3,606,108,163
Available - for - sale equity investment	-	1,895,620	-	-	-	-	1,895,620
Held - to - maturity Government securities	-	-	-	-	1,000,864,589	-	1,000,864,589
Advances to Government	-	-	-	-	199,604,317	-	199,604,317
Loans and advances	-	-	-	-	158,270,213	-	158,270,213
Inventories	-	-	-	-	4,764,252	-	4,764,252
Investment in associate company	-	1	-	-	-	-	1
Quota in International Monetary Fund (IMF)	-	-	-	501,867,026	-	-	501,867,026
Deferred currency cost	-	-	-	-	64,169,466	-	64,169,466
Other assets	-	-	-	-	100,639,718	-	100,639,718
Property and equipment	-	-	-	-	812,211,490	-	812,211,490
Intangible assets	-	-	-	-	6,722,191	-	6,722,191
Total assets	512,416,499	3,442,111,362	1,296,575,138	899,779,907	2,353,022,668	8,124,171	8,512,029,745
Liabilities							
Currency in circulation	-	-	-	-	2,503,645,122	-	2,503,645,122
Deposit banks and non-banks financial institutions	-	127,412,137	-	-	1,740,687,483	-	1,868,099,620
Deposit - Governments	-	-	-	-	13,806,368	-	13,806,368
Deposit - others	-	-	-	-	346,363,938	-	346,363,938
Foreign currency financial liabilities	1,975	382,196,156	9,808,528	-	140,609	27,509	392,174,777
Poverty Reduction and Growth Facility	-	-	-	578,194,213	-	-	578,194,213
Repurchase agreements	-	-	-	-	54,016,464	-	54,016,464
BOT liquidity papers	-	-	-	-	977,459,705	-	977,459,705
Provisions	-	-	-	-	7,274,557	-	7,274,557
Other liabilities	-	-	-	-	53,999,627	-	53,999,627
IMF Related Liabilities	-	-	-	477,585,340	-	-	477,585,340
Allocation of Special Drawing Rights (SDRs)	-	-	-	480,700,836	-	-	480,700,836
Total liabilities	1,975	509,608,293	9,808,528	1,536,480,389	3,193,748,752	27,509	7,753,320,568
Equity	-	-	-	-	100,000,000	-	100,000,000
Reserves	-	-	-	-	1,392,608,515	-	1,392,608,515
Total equity	-	-	-	-	1,492,608,515	-	1,492,608,515
Total liabilities and equity	1,975	509,608,293	9,808,528	1,536,480,389	4,686,357,267	27,509	9,245,929,083
Net balance sheet position	512,414,524	2,932,503,069	1,286,766,610	(636,700,481)	(2,333,334,599)	8,096,662	-
Scenario of 8.5% appreciation	43,555,235	249,262,761	109,375,162	(54,119,541)	(198,333,441)	688,216	-

49. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY

The following table shows analysis of financial instruments recorded at fair value by the level of fair value hierarchy

			30.06.2012
	Level 1	Level 2	Level 3
	TZS'000'	TZS'000'	TZS'000'
Marketable Securities	4,027,657,084	-	-
	4,027,654,084	-	-
			30.06.2011
Held for trading securities	413,254,057	-	-
Available for sale securities	3,606,108,163	-	-
	4,019,362,220	-	-

During the year ended 30 June 2012 all the financial instruments were determined basing on the unadjusted quoted prices for identical instruments in active markets, that is the quoted prices were readily and regularly available from the pricing service. Such prices represented actual and regularly occurring market transactions on an arm's length basis.

During the period, there were no fair value measurements for financial instruments determined using valuation techniques such as valuing an instrument using a current price for identical instrument if there is not an active market for those instruments. Accordingly there were no financial instruments measured in level two and three.

50 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. A summary of significant accounting policies in Note 4 describes how classes of financial instruments are measured and how income and expenses, including fair value gains are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category:

	Amortised Cost	FVTPL	OCI	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2012					
Financial assets					
Cash and balances with central banks & other banks	1,520,782,365	-	-	1,520,782,365	1,520,782,365
Items in course of settlement		34,815,938	-	34,815,938	34,815,938
Holdings of Special Drawing Rights (SDRs)	369,525,297	-	-	369,525,297	369,525,297
Foreign Currency Marketable securities	-	4,027,657,084.25		4,027,657,084	4,027,657,084
Equity instruments	-	-	2,189,025.25	2,189,025	2,189,025
Advance to the Government	283,004,718	-	-	283,004,718	283,004,718
Government securities	1,050,470,656		-	1,050,470,656	1,050,470,656
Loans and receivables	66,261,512	-	-	66,261,512	66,261,512
Quota in International Monetary Fund (IMF)	471,393,438	-	-	471,393,438	471,393,438
Financial liabilities					
Currency in circulation	2,705,223,546	-	-	2,705,223,546	2,705,223,546
Foreign currency financial liabilities	478,153,879	-	-	478,153,879	478,153,879
Poverty Reduction and Growth Facility	539,104,400	-	-	539,104,400	539,104,400
Repurchase agreements	25,025,548	-	-	25,025,548	25,025,548
BoT liquidity papers	732,306,148	-	-	732,306,148	732,306,148
Other liabilities	12,200,924	-	-	12,200,924	12,200,924
IMF related liabilities	29,591,997	-	-	29,591,997	29,591,997
Allocation of Special Drawing Rights (SDRs)	431,556,955.86	-	-	431,556,956	431,556,956

50 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Continued)

	Loans and receivables	Held to maturity	Held for trading	Available for sale	Other financial assets and liabilities	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2011							
Financial assets							
Cash and balances with central banks & other banks	1,502,652,013	-	-	-	-	1,502,652,013	1,502,652,013
Items in course of settlement	5,776,431.47	-	-	-	0	5,776,431	5,776,431
Holdings of Special Drawing Rights (SDRs)	-	-	0	-	397,912,882	397,912,882	397,912,882
Foreign Currency Marketable securities	-	-	413,254,057	3,608,003,783	-	4,021,257,840	4,021,257,840
Advance to the Government	348,369,754	-	-	-	-	348,369,754	348,369,754
Government securities	-	1,054,190,244	-	-	0	1,054,190,244	1,054,190,244
Loans and receivables	158,270,213	-	-	-	0	158,270,213	158,270,213
Quota in International Monetary Fund (IMF)	501,867,026	-	-	-	0	501,867,026	501,867,026
Other assets	-	-	-	82,615,265	-	82,615,265	82,615,265
Financial liabilities							
Currency in circulation	-	-	-	-	2,503,645,122	2,503,645,122	2,503,645,122
Foreign currency financial liabilities	-	-	-	-	460,863,594	460,863,594	460,863,594
Poverty Reduction and Growth Facility	-	-	-	-	578,194,213.12	578,194,213	578,194,213
Repurchase agreements	-	-	-	-	54,016,464	54,016,464	54,016,464
BoT liquidity papers	-	-	-	-	977,459,705	977,459,705	977,459,705
Other liabilities	-	-	-	-	51,945,777	51,945,777	51,945,777
IMF related liabilities	-	-	-	-	477,585,340	477,585,340	477,585,340
Allocation of Special Drawing Rights (SDRs)	-	-	-	-	480,700,836	480,700,836	480,700,836

51. CAPITAL

Section 17 of the Bank of Tanzania Act, 2006 states that "the authorized capital of the Bank shall be one hundred billion shillings, provided that it may be increased by such amount as may be determined by the Board, and authorized by the Minister, by Notice published in the Government Gazette."

The capital of the Bank is subscribed and held only by the Government of the United Republic of Tanzania. The equity of the Bank includes share capital and reserves. During the year, movement of equity was as shown below and further detailed in the statement of changes in owners' equity on page 23

	30.06.2012	30.06.2011
Details	TZS (Millions)	TZS (Millions)
Capital	100,000	100,000
Reserves	1,101,709	1,392,608
Total	1,201,709	1,492,608

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

The Bank is not for profit organization, nor does it seek profit maximization. Instead it seeks to make profit commensurate with normal market returns in areas where it conducts normal commercial operations

Capital is not actively managed and the relative low risk nature of most of the Bank's activities means that it is not capital intensive. Its purpose is to cover unexpected losses. The most significant unexpected losses are likely to rise out of the support operations and the Bank's role as the lender of last resort or from losses on the foreign exchange reserves should the Tanzania Shilling appreciate significantly against other world currencies.

52. CONTINGENT LIABILITIES

Contingent liabilities arise in the normal course of the Bank's business activities. To meet the financial needs 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

52.1 Outstanding Legal Matters

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

52. CONTINGENT LIABILITIES (Continued)

52.1 Outstanding Legal Matters (Continued)

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 of Tanzania 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 4th June 2001 ordering the Bank of Tanzania to pay a decree holder US$ 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.

Due to the above, it is in the opinion of the directors that the assets/properties of the Bank are well safeguarded. There are no other significant legal cases requiring disclosure.

52.2 External Payment Arrears Deposit Account

During the 1970s and 1980s there was a serious shortage of foreign currencies in the country, which required the Government to control and prioritise foreign payments (forex). Tanzania importers were required to remit equivalent amount of TZS with the 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 supplier.

However due to the forex shortage not all funds deposited with 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 NBC. The Bank of Tanzania (BoT) was given the responsibility to manage EPA liabilities on behalf of the Government. As at 30 June 2012 the balance in this liability account was TZS 2,288.4 million (2011: TZS 2,288.4 million). This balance represents funds in original values that await externalization to the various overseas suppliers. Differences between exchange rate prevailing on date of actual payments and the exchange rate used in recording the original EPA liabilities are usually met by the Government.

In the mean time, the Bank has suspended all transactions relating to EPA. Further, on 14th April 2009 the Bank engaged a consultant, M/S Lazard Freres's & CIE to assist in the reconciliation and resolution of the remaining External Payment arrears. The objectives of the exercise were:

a) To ascertain how the remaining debt as at 2004 has been handled.
b) To compile and establish the current stock of the remaining EPA debts.
c) To develop, jointly with the Ministry of Finance and Economic Affairs and Bank of Tanzania, a strategy and action plan to handle the unsettled claims.

52. CONTINGENT LIABILITIES (Continued)

External Payment Arrears Deposit Account

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

The original contract expired on 14th 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 BOT's subsequent follow ups, on 25th July 2011, the Bank wrote to the World Bank to seek for their advice on the way forward, which was not provided.

On 25th August 2011, the consultant wrote to the Bank demanding renewal of the expired contract; to include:

I. Upward revision of the price of the contract to USD 843,700 from the original amount of USD 663,950;

II. Implicitly complaining for not being paid initial fee amounting to USD 175,000 after submitting inception report; and

III. 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 14th 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 pave way for another consultant to be engaged to perform the assignment. The Bank has sought legal advice on how to bring EPA to a close. Meanwhile, The Bank of Tanzania has included the EPA account and management of public debt, in its program for shedding-off non-core activities

52.3 Export Credit Guarantee Scheme (ECGS)

The Bank is an agent of the Government on the operationalisation of the Export Credit Guarantee Scheme. The scheme is charged with the responsibility of considering guarantee applications from financial institutions, and on behalf of the Principal, issue guarantees to financial institutions covering short and long term finance to exporters as long as the capital funds in the ECGS accounts are not leveraged more than 1:5. As a result there is a contingent liability under this scheme in respect of guarantees, limited to five times the balance of the Fund in accordance with the agency agreement in force. As at 30th June 2011 outstanding guarantees aggregated to TZS 332,666.6 million (2011: TZS 251,211.6 million) while the balance of the Fund as at 30th June 2012 was TZS 52,139.8 million (2011: TZS 46,904.5 million). The movement of the Fund during the year is as summarized below.

52. CONTINGENT LIABILITIES (Continued)

52.3 Export Credit Guarantee Scheme (ECGS)

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Balance of funds		
Capital	21,772,722	21,772,722
Surplus	30,366,122	24,716,866
Total	52,138,844	46,489,588

52.4 Small & Medium Enterprises –Credit Guarantee Scheme

The Bank operational 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 30th June 2012 outstanding guarantees had a value aggregating to 825.0 million (2011: TZS 825.0 million) while the balance of the fund as at 30th June 2012 was TZS 8,920.5 million (2011: TZS 6,257.7 million).

53. OUTSTANDING COMMITMENTS

53.1 Uncalled and unpaid Capital to Afrexim Bank

The Afrexim bank was established on 27th 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 of Tanzania's authorized equity interest in Afrexim bank is 300 ordinary shares of par value USD 10,000 each payable in five equal instalments. Two instalments with value of USD 1.2 million have been called and paid up.

53.2 Uncalled and unpaid Capital to Afrexim Bank

As at 30 June 2012, the Bank had a commitment of USD 1.8 million in respect of three instalments of uncalled and unpaid capital attached to its shareholding in the Afrexim bank. The Bank of Tanzania proportion of equity total holding in the Afrexim bank is 0.4 percent.

The Bank has entered into contracts with M/S De La Rue Currency of United Kingdom and M/S CRANE AB of Sweden for printing and supply of bank notes. M/S De La Rue Currency of United Kingdom will print and supply TZS 1,000 denomination banknotes at a total cost of GBP 20,992,500.With regard to M/S CRANE AB of Sweden, the company will print and supply banknotes with denominations of TZS 500, TZS 2000, TZS 5,000 and TZS 10,000 at a total cost of EUR 88,184,220. As at 30 June 2012 outstanding commitments were GBP 10.2 million and EUR 29.7 million respectively. The Bank's management is confident that net income and other funding arrangements will be sufficient to meet these commitments when they fall due for settlement.

53. OUTSTANDING COMMITMENTS (Continued)

53.3 Capital commitments

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

	30.06.2012	30.06.2011
Particulars	TZS (Millions)	TZS (Millions)
Office buildings	4,650.0	13,501.90
Residential buildings	2,456.2	1,486.00
Machinery and Equipment	8,334.9	9,404.80
Information, Communication and Technology (ICT)	1,025.8	2,350.10
Motor vehicles	3,002.1	5,686.50
Furniture and fittings	197.6	1,198.20
Intangible assets	4,602.1	1,867.50
Work in progress	14,425.0	-
Total	42,937.7	35,495.00

The above commitments have been included and approved for payment in accordance with the 2012/2013 Approved Budget Estimates.

53.4 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 37.7 million involving eleven retired staff with their spouses who retired since 2009/10.

54. 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:

54.1 Loans and emoluments to key management personnel

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

The Bank extends loan facilities to its members of staff, the Governor and the Deputy Governors. Loans and advances (Note 27) include advances to employees that as at 30 June 2012 amounted to TZS 55,668.4 million (2011: TZS 38,965.3 million). The advances are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. The following is the break down of loans and emoluments granted to key management personnel.

54. RELATED PARTY DISCLOSURES (Continued)

54.1 Loans to key management personnel (Continued)

		30.06.2012	30.06.2011
		TZS '000	TZS '000
i	Loans to Senior Management (i.e. Governor, Deputy Governors and Directors)		
	At start of the year	828,000	507,939
	Loans granted during the year	494,863	1,040,559
	Loans repaid during the year	(892,275)	(720,498)
	Balance	430,588	828,000
ii	Emoluments to Senior Management Personnel (Directors)		
	Salaries, allowances and benefits	2,438,043	2,346,496
	Post employment benefits	911,144	448,651
	Total	3,349,187	2,795,147

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 2012, the number of key management personnel was 27 (2011: 27).

54.2 Directors' remunerations

In 2011/12, emoluments paid to the members of the Board amounted to TZS 887.3 million (2011: TZS 890.5 million). These emoluments include salaries and benefits of Non – Executive directors. As of 30 June 2012 and 30 June 2011 there were no loans advanced to the Non-Executive Directors of the Board. Further, there were no related party transactions with Non-Executive Directors of the Board.

54.3 Government of the United Republic of Tanzania

Transactions entered into with the Government include:

(a) No interest and no Bank charges on Government deposits accounts;
(b) Cost sharing of liquidity management costs 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 debt and other remittances at a fee;
(d) Financial accommodation on temporary short falls in Government positions;
(e) Other duties including agency of the Government as provided under the Bank of Tanzania Act, 2006

54. RELATED PARTY DISCLOSURES (Continued)

54.3 Government of the United Republic of Tanzania (Continued)

As at the close of business on 30 June 2012, the following balances, which are included in the statement of financial position in various categories, were outstanding:

	30.06.2012	30.06.2011
	TZS '000	TZS '000
Due from Government of Tanzania (Note 25 and 26)	344 954 118	51,562
IMF funds on-lent to the Government (Note 22)	471 393 438	477,585,339
Deposits-RGZ (Note 36)	8 899 318	13,806,368
Investments in Government Securities (Note 25)	1 047 246 233	1,000,864.589
Structured Financing Facility (Note 37)	57 833 171	61,668,171
Export Credit Guarantee Fund (Note 37)	47 076 755	45,589,717
Small and Medium Enterprises Guarantee Fund (Note 37)	6 773 745	6,201,877

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.

54.4 Deposit Insurance Fund Board

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

The balance outstanding from the Fund and included in deposit others as at year end was TZS 11,913.1 million (2011: TZS 37.9 million).

54.5 Bank of Tanzania Training Institute – Mwanza

Bank of Tanzania Training Institute – Mwanza is operated as a branch and the results of its operations are incorporated in the financial statements of the Bank.

54.6 Loans to Associate Company – Mwananchi Gold Company Limited (MGCL)

Mwananchi Gold Company Limited ((Company) started operations on 1st January 2006 with the Bank subscribing 35 percent in equity stake. Besides the equity subscribed, the Bank granted loans amounting to USD 6,673,507.9. The loans are secured against MGCL industrial property located at Vingunguti Industrial Area. The loan attracts interest at Libor + 0.50 four basis points.

54. RELATED PARTY DISCLOSURES (Continued)

54.6 Loans to Associate Company – Mwananchi Gold Company Limited (MGCL) – (Continued)

MGCL ceased operations in 2007 due to unsatisfactory performance. Since its cessation, efforts to revamp the Company failed and the board of the Company agreed in principle to pursue a scheme of arrangement with a view of bringing the operations of the Company to an end in order to minimize further losses.

On 18th January 2012, the Board of Directors of Mwananchi Gold Co. Ltd Company, resolved to dispose its landed property to raise funds which would be used to liquidate obligations due to its creditors, including the Bank of Tanzania. On 16th July 2012 the Bank of Tanzania received a sum of USD 6,751,866.96, being the sum constituting principal and interest of the loan amount which was extended to Mwananchi Gold Co. Ltd. The Company is due to be placed under voluntary liquidation, which will see the Bank realise its equity and formally complete the withdrawal of its stake in the Company. It is expected that the liquidation will be completed before end of the financial year, 2012/2013.

55. EVENTS AFTER THE REPORTING DATE

55.1 Adjusting events

55.1.1 Receipt of USD 6,751,866.96 from Mwananchi Gold Company Limited (MGCL)

On 16 July 2012 the Bank received USD 6,751,866.96 equivalent to TZS 10,593.1 million from Mwananchi Gold Company Ltd being a sum constituting principal and interest of the loan amount the Bank had extended to the above company. The amount received was a result of MGC Ltd Boards resolution made on 13 June 2012.

55.1.2 Write off input VAT TZS 9,813.1 million

The BoT tax exemption status was erroneously rescinded in 2005/06 by the Finance Act of 2005. As a result the Tanzanian Revenue Authority (TRA) assessed input VAT to M/S Group Five International Ltd while implementing the 10 Mirambo Office extension and Gullioni Office Projects. To ensure smooth implementation of the project the Bank had to refund the company in anticipation of a refund from the Government. The Government did not grant approval despite various strenuous efforts taken by the Bank. To ensure compliance with the requirements of IAS 39- Recognition and Measurements of financial instruments this amount was fully impaired in 2010/11. in June 2012 management requested approval to write off this amount. At its sitting in August 2012 the Board of Directors approved a write off TZS 9,813.1 million

55.2 Non adjusting events

55.2.1 Diversification of Bank's Portfolio to include Chinese Yuan and Australian Dollar

The Bank's foreign exchange reserves which amounted to USD 3.7 billion as at 30 June 2012 is denominated mainly in USD, EUR and GBP. To appropriately manage liquidity risk and enhance returns, the foreign reserves are divided into three main tranches: namely Liquidity, Investment and Stable.

55. EVENTS AFTER THE REPORTING DATE (Continued)

55.2.1 Diversification of Bank's Portfolio to include Chinese Yuan and Australian Dollar (Continued)

According to the existing investment guidelines, investment tranche, which accounts for about 80% of the total reserves, is held in USD, EUR and GBP in the ratio of 65%, 25% and 10% respectively.

Uncertainties and financial-market tensions have contributed to a marked deterioration in the economic outlook. Advanced economies, despite of measures/ or various bailouts by their governments, have been and are still facing challenges on performance and growth due to prevailing stress in the financial markets and the low global economic growth. Continuing Euro-zone debt crisis have led into many global investors to find ways on how they can diversify their investments and enhance returns as markets are offering zero to negative yield. Of recent, demand has been rising from investors seeking to gain from Chinese growth and Australian strong economic performance as alternative to uncertainties posed by heightened crisis in the developed markets. Fore stance, most international fixed-income investors seeking to diversify their currency holdings into the Yuan, the offshore CNH market in Hong Kong is seen as among the viable options.

On the other hand Australia is dubbed as a new safe haven. It has a very low debt and budget deficit to GDP ratios. As of 13th July 2012, its debt to GDP ratio was only 30.3%. Also, according to Bloomberg, Australia has a budget surplus of 0.42% of GDP.

Australian is rated AAA by all major global credit rating agencies. It also worth noting that, inflation in Australia is low and is getting smaller. Further, the yields are significantly higher than those of comparable USA or other major developed economies.

Based on the aforesaid facts, the Bank on 27 August 2012 diversified its portfolio to include Chinese Yuan and Australian dollar in its portfolio.

55.2.2 Barclays Bank Plc LIBOR Scandal

Barclays Bank Plc has engulfed itself in a scandal to fix London Interbank Offered Rate (LIBOR) in 2008. LIBOR is calculated by averaging a survey of banks' daily estimates of how much it would cost them to borrow from one another for different time frames and in different currencies. Specifically, each morning at 11AM, the British Bankers Association, BBA which publishes the rate asks 16 prominent banks in London the rate they could borrow funds from other banks in the interbank market. The rate is an average derived from 16 quotations provided by banks after the four highest and lowest quotations have been eliminated.

The rate is very important as it is used as a benchmark for more than $10 trillion in lending to businesses and consumers worldwide. In the United States, it is linked to the interest rates on student loans, credit cards and even some mortgages.

In Tanzania, most of the concessional and even some non-concessional loans between government and its creditors are valued/ paid based on LIBOR as reference rate plus a margin. Further, many foreign exchange based private loans issued by commercial banks in Tanzania and abroad to resident and non-resident companies operating in Tanzania are based on LIBOR.

55. EVENTS AFTER THE REPORTING DATE (Continued)

55.1.1 Barclays Bank Plc LIBOR Scandal (Continued)

On reserves management, LIBOR is used as a benchmark for money markets portfolios after deducting 0.125% to get a retail bidding rate. The monthly reports published by the Bank indicate that the benchmark rate for money market is LIBID 3 month average. LIBID is LIBOR minus 0.125%

Following the global financial crisis which peaked in 2008 on the collapse of Lehman Brothers, the LIBOR skyrocketed. As a result, 'some' of the participating banks started to provide a much lower rates as they could not afford to be seen that they were having liquidity problems. Further, it was in the interest of their parent companies as some of their obligations depended on LIBOR rates.

Barclays decided to cooperate with regulators who are still investigating 12 other banks and decided to pay a hefty fine of GBP 290 million. Other banks under investigations include Citigroup and HSBC Holdings Plc.

As explained above, one bank alone cannot manipulate the LIBOR as it might find itself as an outlier hence eliminated from the computations. The belief in the market is that the LIBOR manipulations were a wide spread practice. In a statement, Barclays bank indicated that other banks were posting lower submissions than Barclays while their cost of funding were believed to be higher than the Barclays'.
As the banks set LIBOR low, the Directors are of the opinion that there is no negative impact suffered by the Bank. The impact on reserves management is not that significant either. Excess returns, difference between portfolio return and benchmark returns would have been overstated during the period of manipulation.

56. COMPARATIVE FIGURES

During the current year, there were no cases necessitating adjustments or restating of the previous year figures so that they are comparable with the current financial year.