REPORT OF THE CONTOLLER AND AUDITOR GENERAL

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE REPORTS AND ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

The Controller and Auditor General
National Audit Office of Tanzania
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December, 2017

AR/FSBoT/2017

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BANK OF TANZANIA

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

BANK OF TANZANIA

REPORTS AND ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

CONTENTS

BANK OF TANZANIA

BANK INFORMATION

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

BRANCHES

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

Bank of Tanzania Training Institute
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Tanzania

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

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

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

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

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

PRINCIPAL AUDITOR

Controller and Auditor General
National Audit Office
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Dar es Salaam, Tanzania

DELEGATED AUDITORS

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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2017

1. INTRODUCTION

The Directors present this report together with the audited financial statements for the financial year ended 30 June 2017, which disclose the state of financial affairs of the Bank of Tanzania (the "Bank, BoT").

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

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

ESTABLISHMENT

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

BANK'S VISION

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

BANK'S MISSION

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

2. STATUTE AND PRINCIPAL ACTIVITIES

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

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

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

3. RESOURCES AND STRENGTHS

The Bank possesses adequate resources and human capacity to implement its mandates as provided in the law. To achieve its strategic objectives the bank uses its human, financial and technological resources.

The Bank has highly skilled, committed, motivated and competent staff dedicated to a long-term career. Likewise, management adheres to good governance and promotes good labour relations. From its strategic perspective, the Bank enhances its financial sufficiency by improving management of its resources through prioritisation of initiatives, implementing initiatives within the available financial resources to generate adequate income to support its operations. On technological side, the Bank has made significant efforts of adopting modern technology to improve its day-to-day operations. Further, the Bank has strategically located branches and safe custody centres, which facilitate efficient banking services.

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

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

During the year, the Bank's Corporate Plan was formulated and implemented through balanced score card and Performance Measurement Process (PuMP) techniques, respectively. Besides restructuring its strategic objectives basing on the four perspectives of Balanced Score Card (BSC), the Bank continued to manage its plan under three broad goals as follows:

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

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

(a) Maintaining price stability

This entails keeping monetary conditions consistent with low and stable core inflation with the aim of attaining result of single digit and stable core inflation. The Bank had set the target to maintain core inflation not exceeding 5.0 percent throughout the period to the end of June 2017 and maintaining official foreign reserves sufficient to cover at least 4.0 months of projected imports of goods and services, excluding those financed by foreign direct investment; and generating at least 0.75 percent return per annum on foreign reserves.

During the year, the core inflation rate was maintained at an average rate of 2.4 percent. It decreased from 3.0 percent recorded in June 2016 to 1.9 percent in June 2017 while headline inflation rate remained at single digit throughout the year at an average rate of 5.3 percent. Headline inflation rose slightly to 6.4 in April 2017, driven mainly by rising food prices, thereafter, declined to 5.4 percent in June 2017. The decrease was mainly on account of decrease in prices of all main group indices items with exception of food and non-alcoholic beverages.

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

(a) Maintaining price stability (continued)

The gross foreign reserves potrayed increasing trend reaching 4.9 months in June 2017. The reserve level was USD 4,953.5 million as of 30 June 2017 compared to USD 3,870.3 million recorded as of 30 June 2016. This level of official reserves was sufficient to cover about 4.9 months of projected import of goods and services excluding Foreign Direct Investments ("FDI") related imports.

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

(b) Promoting integrity and stability of the financial system

Financial stability is defined as a smooth operation of the system of financial intermediation between households, firms and the Governments through a range of financial institutions as evidenced by an effective regulatory infrastructure, well developed financial markets and effective and sound financial institutions. The financial stability is measured by financial stability index and the target is that the index should not deviate from its normalized historical mean within a band of -3 and +3, that is ($-3<FSSI<3$). The index indicated an overal stable position with slight decline in quarter 2 and 3 due to non performing loans.

The banking sector, in aggregate terms, was profitable with an average return on assets of 2.2 percent and return on capital of 10.3 percent. The banking sector remained adequately capitalised despite persistence of credit risk challenges in aggregate terms with core capital well above minimum requirement during the period ending June 2017. The Bank eased monetary condition to reduce cost of funding, engaged banks to take various options including loan restructuring and directed them to use credit reference bureau for loan underwriting as measures to contain credit risk going forward.

Insurance sector remained sound reflecting its strong liquidity and capital base. Social Security Sector remained sound, with sustained operational efficiency. The payment systems continued to operate with minimum disruptions and settlement risks.

(c) Strengthening corporate governance

Improve work environment

This objective entails acquiring and maintaining adequate and safe facilities and working tools, adopting regulations, policies and good practices that bring about fairness, trust, inclusiveness, cooperation and information sharing amongst staff. It also involves developing and implementing fair performance and reward management practices. This objective is measured by the survey to interogate the level of satisfaction that staff have to the Bank's work environment. The overall survey results show that 80.0 percent (2016: 79.6 percent) of the Bank's staff are satisfied with work environment which equals to the target set during the planning stage.

Capacity building

To improve knowledge and skills of employees, the Bank continued to address skills requirements through the annual corporate training plan and budget. The aim was to have staff with skills that match the needs of the Bank.

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

(c) Strengthening corporate governance (continued)

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

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

Improve management of Bank's resources
The Bank continued to implement planned projects within allocated resources. Bank resources include both financial and non-financial assets. Major projects that recorded significant progress during the year include completion of procurement management system and acqusition of senior staff houses in Mtwara.

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

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

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

5. CORPORATE GOVERNANCE

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

No.	Name	Position	Age	Discipline	Date of Appointment	Nationality
1.	Prof. Benno J. Ndulu	Governor and Chairman of the Board	67	Economist	8 January 2008	Tanzanian
2.	Dr. Natu E. Mwamba[1]	Deputy Governor	55	Economist	13 June 2011	Tanzanian
3.	Mr. Julian B. Raphael	Deputy Governor	61	Economist	26 January 2016	Tanzanian
4.	Mr. Lila H. Mkila[2]	Deputy Governor	66	Statistician	26 June 2007	Tanzanian
5.	Dr. Yamungu M. Kayandabila[3]	Deputy Governor	45	Economist	31 May 2017	Tanzanian
6.	Dr. Bernard Y. Kibesse[4]	Deputy Governor	50	Economist	31 May 2017	Tanzanian
7.	Mr. Khamis M. Omar	Member	51	Finance	20 April 2006	Tanzanian
8.	Ms. Amina K. Shaaban [5]	Member	54	Economist	6 April 2016	Tanzanian
9.	Ms. Mary N. Maganga[6]	Member	50	Economist	1 June 2017	Tanzanian
10.	Prof. Haidari K. Amani[7]	Member	68	Economist	8 January 2008	Tanzanian
11.	Mrs. Esther P. Mkwizu[7]	Member	65	Management Consultant	8 March 2011	Tanzanian
12.	Mr. Omar S Mussa[7]	Member	60	Finance	8 March 2014	Tanzanian
13.	Mr. Yona S. Killagane[7]	Member	62	Professional Accountant	8 March 2011	Tanzanian
14.	Prof. Nehemia E. Osoro[8]	Member	70	Economist	1 June 2017	Tanzanian
15.	Mr. Joseph O. Haule[8]	Member	61	Economist	1 June 2017	Tanzanian
16.	Mr. Geoffrey I. Mwambe[8]	Member	42	Economist	1 June 2017	Tanzanian
17.	Mr. Yusto E. Tongola	Secretary	53	Lawyer	20 March 2013	Tanzanian

KEY

[1] Retired on 12 June 2017
[2] Retired on 16 June 2017
[3] Appointed on 31 May 2017
[4] Appointed on 31 May 2017
[5] Ex-officio replaced on 1 June 2017
[6] Ex-officio appointed to replace Ms. Amina Shaaban from 1 June 2017
[7] Non-Executive Directors retired on 7 March 2017
[8] Non-Executive Directors appointed on 1 June 2017

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

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

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

(i) In terms of the provisions of Section 9(1) of the Bank of Tanzania Act, 2006, the Board of Directors of the Bank is the supreme policy making body, and the approving authority of the corporate plan and budget of the Bank;

5. CORPORATE GOVERNANCE (CONTINUED)

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

(a) Monetary Policy Committee

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

The Members of the Monetary Policy Committee that served during the year ended 30 June 2017 were as follows.:

No	Name	Position	Discipline	Nationality
1.	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2.	Dr. Natu E. Mwamba [1]	Member	Economist	Tanzanian
3.	Mr. Julian B. Raphael	Member	Economist	Tanzanian
4.	Mr. Lila H. Mkila [2]	Member	Statistician	Tanzanian
5.	Dr. Yamungu M. Kayandabila [3]	Member	Economist	Tanzanian
6.	Dr. Bernard Y. Kibesse [3]	Member	Economist	Tanzanian
7.	Ms. Amina K. Shaaban [4]	Member	Economist	Tanzanian
8.	Ms. Mary N. Maganga [5]	Member	Economist	Tanzanian
9.	Prof. Haidari K. Amani [6]	Member	Economist	Tanzanian
10.	Mrs. Esther P. Mkwizu [6]	Member	Management Consultant	Tanzanian
11.	Mr. Khamis M. Omar	Member	Finance	Tanzanian
12.	Mr. Omar S. Mussa [6]	Member	Finance	Tanzanian
13.	Mr. Yona S. Killagane [6]	Member	Professional Accountant	Tanzanian
14.	Prof. Nehemia E. Osoro [7]	Member	Economist	Tanzanian
15.	Mr. Joseph O. Haule [7]	Member	Economist	Tanzanian
16.	Mr. Geoffrey I. Mwambe [7]	Member	Economist	Tanzanian
17.	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

KEY:

[1] Retired on 12 June 2017
[2] Retired on 16 June 2017
[3] Appointed on 31 May 2017
[4] Ex-officio replaced from 1 June 2017
[5] Ex officio appointed to replace Ms. Amina Shaaban from 1 June 2017
[6] Retired on 7 March 2017
[7] Appointed on 1 June 2017

(b) The Audit Committee

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

5. CORPORATE GOVERNANCE (CONTINUED)

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

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

With regard to External Audit, the Audit Committee reviews and approves the external auditors' proposed audit scope, approach and audit deliverables, reviews and approves the proposed audit fee.

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

The Members of the Audit Committee that served during the year ended 30 June 2017 were as follows:

No	Name	Position	Discipline	Nationality
1.	Mr. Yona S. Killagane[1]	Chairman	Professional Accountant	Tanzanian
2.	Prof. Nehemia E. Osoro[2]	Chairman	Economist	Tanzanian
3.	Mr. Julian B. Raphael	Member	Economist	Tanzanian
4.	Prof. Haidari K. Amani[1]	Member	Economist	Tanzanian
5.	Mrs. Esther P. Mkwizu[1]	Member	Management Consultant	Tanzanian
6.	Mr. Omar S. Mussa[1]	Member	Finance	Tanzanian
7.	Mr. Joseph O. Haule[2]	Member	Economist	Tanzanian
8.	Mr. Geoffrey I.Mwambe[2]	Member	Economist	Tanzanian

KEY:
[1] Retired on 7 March 2017
[2] Appointed on 1 June 2017

(c) Banking Supervision Committee

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

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

5. CORPORATE GOVERNANCE (CONTINUED)

(c) Banking Supervision Committee (continued)

The Members of the Banking Supervision Committee that served during the year ended 30 June 2017 were as follows:

No	Name	Position	Discipline	Nationality
1.	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2.	Dr. Natu E. Mwamba[1]	Member	Economist	Tanzanian
3.	Mr. Julian B. Raphael	Member	Economist	Tanzanian
4.	Mr. Lila H. Mkila[2]	Member	Statistician	Tanzanian
5.	Dr. Yamungu M. Kayandabila[3]	Member	Economist	Tanzanian
6.	Dr. Bernard Y. Kibesse[3]	Member	Economist	Tanzanian
7.	Ms. Amina Shaaban [4]	Member	Economist	Tanzanian
8.	Mr. Bedason A. Shallanda [5]	Member	Economist	Tanzanian
9.	Mr. Khamis M. Omar	Member	Finance	Tanzanian
10.	Prof. Haidari K. Amani[6]	Member	Economist	Tanzanian
11.	Prof. Nehemia E. Osoro[7]	Member	Economist	Tanzanian
12.	Mr. Joseph O. Haule[7]	Member	Economist	Tanzanian
13.	Mr. Geoffrey I. Mwambe[7]	Member	Economist	Tanzanian
14.	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

KEY:

[1] Retired on 12 June 2017
[2] Retired on 16 June 2017
[3] Appointed on 31 May 2017
[4] Ex-officio replaced on 1 June 2017
[5] Ex-officio appointed on 1 June 2017
[6] Retired on 7 March 2017
[7] Appointed on 1 June 2017

(d) The Finance and Investment Committee

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

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

5. CORPORATE GOVERNANCE (CONTINUED)

(e) The Finance and Investment Committee (continued)

The Members of the Finance and Investment Committee that served during the year ended 30 June 2017 are as follows:

No	Name	Position	Discipline	Nationality
1.	Prof. Benno J. Ndulu	Chairman	Economist	Tanzanian
2.	Dr. Natu E. Mwamba	Member	Economist	Tanzanian
3.	Mr. Julian B. Raphael	Member	Economist	Tanzanian
4.	Mr. Lila H. Mkila	Member	Statistician	Tanzanian
5.	Dr. Yamungu M. Kayandabila	Member	Economist	Tanzanian
6.	Dr. Bernard Y. Kibesse	Member	Economist	Tanzanian
7.	Prof. Haidari K. Amani	Member	Economist	Tanzanian
8.	Mrs. Esther P. Mkwizu	Member	Management Consultant	Tanzanian
9.	Mr. Omar S. Mussa	Member	Finance	Tanzanian
10.	Mr. Yona S. Killagane	Member	Professional Accountant	Tanzanian
11.	Prof. Nehemia Osoro	Member	Economist	Tanzanian
12.	Mr. Joseph O. Haule	Member	Economist	Tanzanian
13.	Mr. Geoffrey I. Mwambe	Member	Economist	Tanzanian
14.	Mr. Yusto E. Tongola	Secretary	Lawyer	Tanzanian

KEY:

[1] Retired on 12 June 2017
[2] Retired on 16 June 2017
[3] Appointed on 31 May 2017
[4] Retired on 7 March 2017
[5] Appointed on 1 June 2017

6. MEETINGS

The Board held fourteen (14) meetings during the year ended 30 June 2017. In addition there were various meetings of the Board Committees. All members of the Board were able to devote their time required for the Board and Committee meetings.

Below is a summary indicating the number of meetings attended by each members of the Board from 1 July 2016 to 30 June 2017.

		Number of meetings				
		Board	MPC	BSC	AC	FIC
No	Number of meetings	14	5	5	5	5
	Names					
1.	Prof. Benno J. Ndulu	13	5	5	N/A	5
2.	Dr. Natu E. Mwamba[1]	9	4	4	N/A	3
3.	Mr. Julian B. Raphael	9	5	3	5	4
4.	Mr. Lila H. Mkila[2]	10	4		N/A	3
5.	Dr. Yamungu M. Kayandabila[3]	2	-	-	N/A	1
6.	Dr. Bernard Y. Kibesse[3]	1	-	-	N/A	1
7.	Ms. Amina K. Shaaban[4]	4	3	2	N/A	N/A
8.	Ms. Mary N. Maganga[5]	2	-	-	N/A	N/A
9.	Mr. Khamis M. Omar	9	2	1	N/A	N/A
10.	Prof. Haidari K. Amani[6]	12	5	5	5	4

<u>KEY</u>

Board: Board of Directors

MPC: Monetary Policy Committee

BSC: Banking Supervision Committee

AC: Audit Committee

FIC: Finance and Investment Committee

6. MEETINGS (CONTINUED)

		Number of meetings					KEY
		Board	MPC	BSC	AC	FIC	
No	Number of meetings	14	5	5	5	5	**N/A**: Not applicable
	Names						
11.	Mrs. Esther P. Mkwizu	10	4	N/A	5	4	
12.	Mr. Omar S. Mussa	11	5	N/A	5	4	
13.	Mr. Yona S. Killagane	9	4	4	5	3	
14.	Prof. Nehemia E. Osoro	2	-	-	-	1	
15.	Mr. Joseph Haule	-	-	-	-	-	
16.	Mr. Geoffrey Mwambe	2	-	-	-	1	
17.	Mr. Yusto E. Tongola	12	4	4	3	4	

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

7. INDEPENDENCE

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

8. CAPITAL STRUCTURE

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

Due to the nature of the Bank's business and statutory requirements, the whole capital is held in the form of equity. Different classes of reserves have been prescribed under section 18(1) of the Bank of Tanzania Act, 2006 and **Note 40** to these financial statements. The movement of the capital during the year is reflected under the Statement of Changes in Equity.

9. RELATIONSHIP WITH STAKEHOLDERS

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

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

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

9. RELATIONSHIP WITH STAKEHOLDERS (CONTINUED)

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

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

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

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

10. CASH FLOW PROJECTION

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

11. MANAGEMENT

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

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

12. FUTURE DEVELOPMENT PLANS

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

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

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

12. FUTURE DEVELOPMENT PLANS (CONTINUED)

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

In addition, the Bank plans to:

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

13. RESULTS AND DIVIDENDS

During the year, the Bank operations registered an overall total comprehensive income of TZS 216,705.3 million (2016: TZS 757,381.6 million). The amount includes net revaluation gain on equity investments of TZS 1,483.9 million (2016: loss of TZS 4,988.1 million). The Bank recorded an operating profit of TZS 228,704.4 million (2016: TZS 621,899.6 million). The reported profit includes net unrealized foreign exchange revaluation gains of TZS 119,665.1 million (2016: TZS 87,717.3 million). The Bank's accounting policy requires transfer of net unrealized net foreign exchange revaluation gains or losses and net unrealized gains or losses on financial assets measured at FVTPL to the foreign exchange revaluation reserve and Securities revaluation reserve. After appropriate adjustments of various funds/appropriations (statement of changes in equity), the dividend amounting to TZS 300,000.0 million (2016: TZS 300,000.0 million) is payable to the Governments in compliance with the requirements of the Bank of Tanzania Act, 2006.

14. FINANCIAL PERFORMANCE FOR THE YEAR

(a) Financial results

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

In the course of its operations, the Bank made a total comprehensive income of TZS 216,705.3 million (2016: TZS 757,381.6 million). The decline in total comprehensive income was mainly attributed to stable TZS relative to major currencies thus decrease in income arising from foreign exchange revaluation, low gains on inter-bank foreign exchange market operations and loss arising from decrease in price valuation of Bank's foreign investments measured at Fair Value through Profit or Loss.

14. FINANCIAL PERFORMANCE FOR THE YEAR (CONTINUED)

(b) Financial position

The financial position of the Bank is as set out in the Statement of Financial Position shown on page 25. During the year, total assets of the Bank increased by TZS 2,785,447.4 million (2016: TZS 1,486,186.9 million). The major areas of increase includes: Cash and balances with central and other banks and foreign currency marketable securities by TZS 2,065,633.1 million and TZS 637,098.4 million respectively. The balance in the items in the course of settlement also increased on account of increased volume of transactions processed through TISS following payment of monthly Government employees' salaries and other Government effected at the year end. The increase in total assets was explained by increase in liabilities mainly Governments non voted deposits and liquidity papers.

15. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

16. KEY RISKS AND UNCERTAINITIES

The key risks that may significantly affect the Bank's strategies and development are mainly financial, operational and strategic. Below we provide a description of the operational and strategic risks facing the Bank. The risks related to financial instruments have been disclosed under **Note 42** of the financial statements:

Operational risk

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

- Human resource risk

16. KEY RISKS AND UNCERTAINITIES (CONTINUED)

Operational risk (continued)

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

- **Business disruption and security risks**

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

The Bank addresses these risks inter alia through ensuring existence of Business Continuity Management ("BCM") plan and sound internal control system, which include 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 monitor this risk.

- **Legal risk**

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

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

- **Strategic risk**

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

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

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

16. KEY RISKS AND UNCERTAINITIES (CONTINUED)

- **Strategic 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 good governance and having regard to a proper balance between accountability and the best interests of the Bank and its various stakeholders.

The function of the Bank of overseeing and ensuring the integrity of the financial system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the National Payment System ("NPS") and the issuing of notes and coins also expose the Bank to a significant risk. The Bank adheres to international best practices and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems. The Board assessed the internal control systems throughout the financial year ended June 2017 and is of the opinion that they met accepted criteria.

17. SOLVENCY

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

18. EMPLOYEES WELFARE

(a) Management and employee's relationship

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

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

(b) Training facilities

The Bank has training facilities at the Bank of Tanzania Training Institute in Mwanza region. During the year, the Training Institute conducted 83 (2016: 54) courses for the Bank of Tanzania Staff, Banking Institutions, East Africa Monetary Union ("EAMU") and other Stakeholders. The Training Institute prepares annual training programs according to the Bank's Corporate Training Plan that caters for Bank's staff. The Training Institute also designs and implements courses for EAMU and Banking institutions in order to address gaps identified in the performance of their staff that require training intervention. The training Institute is also bestowed with training of specified courses for Southern African Development Community ("SADC").

18. EMPLOYEES WELFARE (CONTINUED)

(c) Medical Assistance

All members of staff with a maximum number of five beneficiaries for each employee were availed with medical insurance services. During the year ended 30 June 2017 and 2016, Jubilee Insurance Company provided these services.

(d) Health and safety

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

(e) Financial assistance to staff

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

(f) Persons with disabilities

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

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

(g) Employee's pension plan

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

(h) Voluntary agreement and worker's council

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

19. GENDER PARITY

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability, that does not impair ability to discharge duties. As at 30 June 2017 and 2016, the Bank had the following distribution of employees by gender.

Gender	2017	%	2016	%
Male	786	61.3	826	60.0
Female	497	38.7	551	40.0
Total	1,283	100	**1,377**	**100.0**

20. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in **Note 49** to these financial statements. The directors' emoluments and key management personnel have been disclosed in **Note 49** to the financial statements.

21. ENVIRONMENTAL CONTROL PROGRAM

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

22. CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling part of its Corporate Social Responsibility ("CSR") through supporting national activities and other areas of interest to the Bank in the United Republic of Tanzania. In this endeavour, the Bank has in place Donation Guidelines that assist in the implementation of CSR. During the year, the Bank donated a total of TZS 265.0 million (2016: TZS 4,167.0 million) to various community groups.

23. CONTRIBUTION AND SUBSCRIPTIONS

The Bank made various subscriptions and contributions to various organisations which included the African Rural and Agricultural Credit Association ("AFRACA"); African Association of Central Banks (AACB); Macroeconomic and Financial Management Institute ("MEFMI"); Capital Markets and Securities Authority ("CMSA"); Deposit Insurance Board ("DIB"); Financial Institutions Development Project ("FIDP II"); Tanzania Institute of Bankers ("TIB") and Other Professional Associations and Charities. During the year ended 30 June 2017, such contributions and subscriptions amounted to TZS 3,671.9 million (2016: TZS 9,059.4 million). There was no donation made to any political party during the year.

24. SECRETARY TO THE BANK

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

25. COMPLIANCE WITH LAWS AND REGULATIONS

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

26. SERIOUS PREJUDICIAL MATTERS

During the year ended 30 June 2017, there were no serious prejudicial matters to report as required by Tanzania Financial Reporting Standard No. 1 - Directors' Report.

27. STATEMENT OF COMPLIANCE

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

28. AUDITORS

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

Approved by the Board of Directors on ..22.....December.....2017 and signed on its behalf by:

Prof. Benno J. Ndulu The Governor and Chairman of the Board	Prof. Nehemia E. Osoro Director and Chairman of the Audit Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

Approved by the Board of Directors on ...22..December.......2017, and signed on its behalf by:

Prof. Benno J. Ndulu	Prof. Nehemia E. Osoro
The Governor and Chairman of the Board	Director and Chairman of the Audit Committee

BANK OF TANZANIA

DECLARATION OF THE HEAD OF FINANCE

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

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

I, Jamhuri Joseph Ngelime, being the Head of Finance of the Bank of Tanzania hereby acknowledge my responsibility of ensuring that financial statements for the year ended 30 June 2017 have been prepared in compliance with International Financial Reporting Standards, NBAA's Pronouncements and the Bank of Tanzania Act, 2006.

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

....

Director of Finance

NBAA Membership No.: ACPA 1497

22 December 2017

AUDIT REPORT ON THE FINANCIAL STATEMENTS

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

REF: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK OF TANZANIA FOR THE YEAR ENDED 30 JUNE 2017

Report on the financial statements

Opinion

I have audited the financial statements of Bank of Tanzania (the "Bank"), set out on pages 25 to 122, which comprise of the statement of financial position at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of Bank of Tanzania as at 30 June 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), NBAA Pronouncements and comply with the requirements of the Bank of Tanzania Act, 2006.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in Responsibilities Controller and Auditor General for the audit of the financial statements section of my report. I am independent of the Bank in accordance with the National Board of Accountant and Auditors (NBAA) Code of Ethics, which is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants, together with other ethical requirements that are relevant to my audit of the financial statements in Tanzania, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

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

Other Information

The Directors are responsible for the other information, including the Directors report. The other information does not include the financial statements and auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Bank of Tanzania Act, 2006 and for such internal controls as Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Responsibilities of the Controller and Auditor General on the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

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

Compliance with Public Procurement Act

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

Benjamin Mashauri Magai
Ag.CONTROLLER AND AUDITOR GENERAL
National Audit Office
Dar es Salaam, Tanzania

29/12/ 2017

BANK OF TANZANIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Notes	30.06.2017 TZS '000	30.06.2016 TZS '000
Operating income			
Interest income	5	460,414,483	447,389,263
Interest expenses	6	(26,381,918)	(22,549,949)
Net interest income		**434,032,565**	**424,839,314**
Net foreign exchange revaluation gains	7	166,560,337	468,394,930
Net gains on financial assets – FVTPL	8	-	3,270,915
Fees and commissions	9	32,998,037	22,226,064
Other operating income	10	17,385,693	36,677,758
		216,944,067	**530,569,667**
Total operating income		**650,976,632**	**955,408,981**
Operating expenses			
Net losses on financial assets – FVTPL	8	113,553,336	-
Administrative expenses	11	66,995,964	66,619,505
Currency issue and related expenses	12	91,769,324	84,275,680
Personnel expenses	13	118,609,013	146,534,290
Other operating expenses	14	8,350,661	14,277,207
Depreciation of property and equipment	28	21,544,964	19,096,238
Loss on disposal of property and equipment	28	4,258	1,330,965
Amortisation of intangible assets	29	1,444,734	1,375,452
		422,272,254	**333,509,337**
Profit before tax		**228,704,378**	**621,899,644**
Income tax expense		-	-
Profit for the year		**228,704,378**	**621,899,644**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial valuation loss	45	(13,483,000)	-
Net revaluation gain/(loss) on equity investments	15	1,483,942	(4,988,060)
Net revaluation gain on fixed assets revaluation		-	140,469,980
Total comprehensive income		**216,705,320**	**757,381,564**

BANK OF TANZANIA

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	30.06.2017 TZS '000	30.06.2016 TZS '000
Assets			
Cash and balances with central banks and other banks	16	4,896,345,671	2,830,712,599
Escrow accounts	17	10,856,450	10,602,238
Items in course of settlement	18	51,823,613	2,399,563
Holdings of Special Drawing Rights (SDRs)	19	29,043,708	55,835,295
Quota in International Monetary Fund (IMF)	19	1,234,836,479	1,212,378,799
Foreign currency marketable securities	20	6,007,849,343	5,370,750,903
Equity investments	21	29,189,495	26,450,665
Government securities	22	1,492,306,664	1,490,568,528
Advances to the Government	23	1,546,553,483	1,191,810,509
Loans and receivables	24	374,076,710	142,710,020
Inventories	25	6,394,309	5,763,233
Deferred currency cost	26	74,172,807	59,980,145
Other assets	27	108,661,403	699,876,880
Property and equipment	28	976,494,439	952,664,535
Intangible assets	29	5,902,204	6,555,456
Total assets		**16,844,506,778**	**14,059,059,368**
Liabilities			
Currency in circulation	30	4,354,606,292	4,374,339,542
Deposits - Banks and non-bank financial institutions	31	2,922,444,156	2,899,940,762
Deposits - Governments	32	2,215,796,335	395,271,716
Deposits - Others	33	1,253,578,936	636,135,917
Foreign currency financial liabilities	34	930,393,612	824,828,680
Poverty reduction and growth facility	35	502,201,325	653,398,418
BoT liquidity papers	36	588,312,538	97,038,856
Provisions	37	5,999,009	5,736,569
Other liabilities	38	92,173,820	130,881,340
Retirement benefit obligation	45	16,046,813	25,075,865
IMF related liabilities	19	1,049,439,846	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	19	591,378,689	580,623,424
Total liabilities		**14,522,371,371**	**11,653,629,281**
Equity			
Authorised and paid up share capital	39	100,000,000	100,000,000
Reserves	40	2,222,135,407	2,305,430,087
Total equity		**2,322,135,407**	**2,405,430,087**
Total equity and liabilities		**16,844,506,778**	**14,059,059,368**

The financial statements on page 25 to 122 were approved and authorised by the Board of Directors for issue on ...22 December 2017... and signed on its behalf by:

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

Prof. Nehemia E. Osoro
Director and Chairman of the Audit Committee

BANK OF TANZANIA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

Details	Share capital Note 39	General reserve Note 40 (a)	Retained earnings	Capital reserve Note 40 (b)	Equalisation reserve Note 40 (c)	Reserve for projects Note 40 (d)	Staff housing fund Note 40 (e)	Assets revaluation reserve Note 40 (f)	Financial Sector Development fund Note 40 (g)	Securities revaluation reserve Note 40 (h)	Foreign exchange revaluation reserve Note 40 (i)	Reserve for dividends Note 40 (j)	Defined benefit reserves Note 40 (k)	Total
(Amounts in TZS '000)														
At 1 July 2016	100,000,000	376,286,560	-	99,262,908	727,746,713	210,000,000	99,445,805	260,246,143	32,454,978	10,531,659	181,892,631	300,000,000	7,562,690	2,405,430,087
Profit for the year	-	-	228,704,378	-	-	-	-	-	-	-	-	-	-	228,704,378
Other comprehensive income	-	-	-	-	-	-	-	-	-	1,483,942	-	-	(13,483,000)	(11,999,058)
	100,000,000	376,286,560	228,704,378	99,262,908	727,746,713	210,000,000	99,445,805	260,246,143	32,454,978	12,015,601	181,892,631	300,000,000	(5,920,310)	2,622,135,407
Transfer of unrealised gain on foreign exchange revaluation to retained earnings*	-	-	(119,665,106)	-	(351,240,172)	-	-	-	-	-	470,905,278	-	-	-
Transfer of realised gain to foreign exchange revaluation reserve*	-	-	181,892,631	-	-	-	-	-	-	-	(181,892,631)	-	-	-
Transfer of unrealised gains to securities revaluation reserve	-	-	93,281,638	-	(93,281,638)	-	-	-	-		-	-	-	-
Transfer of realised losses from securities revaluation reserve	-	-	(17,712,877)	-	-	-	-	-	-	17,712,877	-	-	-	-
Financial sector development fund income	-		(4,338,307)	-	-	-	-	-	4,338,307	-	-	-	-	-
Staff housing fund**	-	-	(3,379,508)	-	-	-	3,379,508	-	-	-	-	-	- -	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(300,000,000)	-	(300,000,000)
Transfer to payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2016/17 net profit	-	22,870,438	(358,782,849)	-	25,912,411	-	10,000,000	-	-	-	-	300,000,000	-	-
At 30 June 2017	**100,000,000**	**399,156,998**	**-**	**99,262,908**	**309,137,314**	**210,000,000**	**112,825,313**	**260,246,143**	**36,793,285**	**29,728,482**	**470,905,278**	**300,000,000**	**(5,920,314)**	**2,322,135,407**

* Realised gains on foreign currency revaluation reserve included in distributable profit and unrealised gains excluded from computation of distributable profit, please refer **Note 7**.
** Staff Housing Fund includes net contribution of Compensatory Fund of TZS 3,379,508,000.0 during the year ended 30 June 2017.

BANK OF TANZANIA

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

Details	Share capital Note 39	General reserve Note 40 (a)	Retained earnings	Capital reserve Note 40 (b)	Equalisation reserve Note 40 (c)	Reserve for projects Note 40 (d)	Staff housing fund Note 40 (e)	Assets revaluation reserve Note 40 (f)	Financial Sector Development fund Note 40 (g)	Securities revaluation reserve Note 40 (h)	Foreign exchange revaluation reserve Note 40 (i)	Reserve for dividends Note 40 (j)	Defined benefit reserves Note 40 (k)	Total
(Amounts in TZS '000)														
At 1 July 2015	100,000,000	298,329,037	-	99,262,908	395,107,764	180,000,000	58,741,575	119,776,163	30,000,000	1,027,526	358,240,860	130,000,000	7,562,690	1,778,048,523
Profit for the year	-	-	621,899,644	-	-	-	-	-	-	-	-	-	-	621,899,644
Other comprehensive income	-	-	-	-	-	-	-	140,469,980	-	(4,988,060)	-	-	-	135,481,920
	100,000,000	298,329,037	621,899,644	99,262,908	395,107,764	180,000,000	58,741,575	260,246,143	30,000,000	(3,960,534)	358,240,860	130,000,000	7,562,690	2,535,430,087
Transfer of unrealised gain on foreign exchange revaluation to retained earnings*	-	-	(87,717,317)	-	-	-	-	-	-	-	87,717,317	-	-	-
Transfer of realised gain on foreign currency revaluation reserve*	-	-	264,065,546	-	-	-	-	-	-	-	(264,065,546)	-	-	-
Transfer of unrealised gains to securities revaluation reserve	-	-	(12,120,227)	-	-	-	-	-	-	12,120,227	-	-	-	-
Transfer of realised loss from securities revaluation reserve	-	-	(2,371,966)	-	-	-	-	-	-	2,371,966	-	-	-	-
Financial sector development fund income	-	-	(2,454,978)	-	-	-	-	-	2,454,978	-	-	-	-	-
Staff housing fund**	-	-	(1,725,468)	-	-	-	1,725,468	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	(80,000,000)	-	(80,000,000)
Transfer to payables	-	-	-	-	-	-	-	-	-	-	-	(50,000,000)	-	(50,000,000)
Appropriation of 2015/16 net profit	-	77,957,523	(779,575,234)	-	332,638,949	30,000,000	38,978,762	-	-	-	-	300,000,000	-	-
At 30 June 2016	100,000,000	376,286,560	-	99,262,908	727,746,713	210,000,000	99,445,805	260,246,143	32,454,978	10,531,659	181,892,631	300,000,000	7,562,690	2,405,430,087

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

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

BANK OF TANZANIA

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Notes	30.06.2017 TZS '000	30.06.2016 TZS '000
Cash flows from operating activities			
Cash generated /(used in) from operating activities	41	**2,472,305,091**	**(118,650,857)**
Cash flows from investing activities			
Purchase of property and equipment	28	(45,401,633)	(38,318,816)
Proceeds from disposal of property and equipment	28	7,507	337,345
Purchase of intangible assets	29	(930,632)	(2,456,364)
(Increase)/decrease in foreign currency marketable securities		(637,098,440)	301,985,366
(Increase)/decrease in Government securities		(1,738,136)	67,963,594
Acquisition of equity shares		(1,254,888)	(3,240,169)
Increase in quota in International Monetary Fund (IMF)		(22,457,680)	(660,103,830)
Decrease in holdings of SDRs		26,791,587	258,629,475
Cash used in investing activities		**(682,082,315)**	**(75,203,399)**
Cash flows from financing activities			
(Decrease)/increase in currency in circulation		(19,733,250)	280,078,474
(Decrease)/increase in IMF related liabilities		(132,115,439)	438,574,230
Increase in foreign currency financial liabilities		105,564,932	358,040,645
Increase in allocation of SDRs		10,755,265	51,640,595
Increase/(decrease) in BoT liquidity papers		491,273,682	(688,017,036)
Dividends paid to the Government		(300,000,000)	(80,000,000)
Dividends payable to the Government		-	(50,000,000)
Cash generated from investing activities		**155,745,190**	**310,316,908**
Net increase in cash and cash equivalent		**1,945,967,966**	**116,462,652**
Unrealised foreign exchange revaluation gains	7	119,665,106	87,717,317
Cash and cash equivalents:			
At the beginning of the year		2,830,712,599	2,626,532,630
At the end of the year	16	**4,896,345,671**	**2,830,712,599**

1. REPORTING ENTITY

Legal framework

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

The Bank's principal responsibilities are to:

- Conduct monetary policy and manage the exchange rate policy of the Tanzania Shillings aimed at supporting orderly, balanced and sustainable economic growth 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.

Section 17 of the Bank of Tanzania Act, 2006, (the Act) provides that the authorised capital of the Bank to be one hundred billion Tanzanian Shillings (TZS 100 billion). The capital may be increased by such amount as may be determined by the Board, and authorised by the Minister of Finance and Planning, by notice published in the Gazette.

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

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

(a) A General Reserve Fund;

(b) A Foreign Exchange Revaluation Reserve;

(c) Other appropriate assets revaluation reserves or retained net unrealised gains reserves, set up under a decision of the Board to reflect changes in market values of the Bank's major assets and in accordance with the best international accounting practice; and

(d) Other special reserves or funds from time to time from appropriation of net profit.

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.

1. REPORTING ENTITY (CONTINUED)

Legal framework (continued)

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

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

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

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

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

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

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

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

The following are new and revised IFRSs that are effective from annual periods beginning on or after 1 January 2016. The Bank's accounting policy and practice, where applicable, are in line with the Amendments to IAS 1, IAS 16 and IAS 38, and Annual improvements 2012-2014 Cycle, specifically IAS 19. The Management has noted the requirements of other effective amendments but has not applied because they are not applicable to the Bank's operations.

New and Amendments to standards:

IFRS 14 Regulatory Deferral Accounts
Amendments to IAS 1 Disclosure Initiative
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
Amendments to IAS 27 Equity Method in Separate Financial Statements
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
Annual improvements 2012-2014 Cycle: IAS 19

Amendments to IAS 1 Disclosure Initiative

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

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

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

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

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

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

Management has assessed the requirement of these amendments on the Bank's financial reporting framework and is of the opinion that the methods of depreciation and amortisation are in compliance with the amendments and there is no further impact.

Annual improvements 2012-2014 Cycle

Annual Improvements 2012-2014 Cycle made amendment to **IAS 19** to clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

Management has assessed the requirement of this amendment on the Bank's financial reporting framework and is of the opinion that the Tanzanian shillings denominated bonds that are used in estimating the discount rate are in compliance with the amendments and there is no further impact.

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

The Bank has not early adopted any of the following new and revised IFRSs that have been issued but are not yet effective. Commentary is provided for the amendments and standards that is applicable to the Bank's operations:

New and Amendments to standards:	**Effective for annual periods beginning on or after**
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 7 Disclosure Initiative	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

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

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

New and Amendments to standards:	Effective for annual periods beginning on or after
Amendments to IAS 40 Transfers of Investment Property	1 January 2018
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018

IFRS 9 Financial Instruments

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

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

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

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

IFRS 16 supersedes:

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

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation defines the date of transaction for application of paragraphs 21 – 22 of IAS 21, when determining the exchange rate to use. As per the interpretation, date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Management has assessed the requirement of interpretation on the Bank's financial reporting framework and is of the opinion that the determination of transaction date referred to is in line with the definition of this interpretation and there will be no further impact.

Amendments to IAS 7 Disclosure Initiative

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of financial statements

The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in **Note 42**.

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

Basis of preparation

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

Statement of compliance

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

Revenue recognition

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

Interest income

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Fees and commission income

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

Dividend income

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

Other income

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

Dividend payable

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

Expenses

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

Interest expenses

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

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

Administrative expenses

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

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

Other expenses

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' benefits including post-employment benefits

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

Retirement benefits

The Bank has a statutory obligation to contribute for retirement benefits to its employees. All eligible employees of the Bank are currently members of the social security schemes operating in Tanzania. The funds where employees are members are National Social Security Fund (NSSF), Parastatal Pension Fund (PPF), Public Service Pensions Fund (PSPF) and Local Authority Provident Fund (LAPF). Under these schemes, the Bank and employee contribute 18 percent and 2 percent respectively of employee's basic salary every month. New employees who are members of other funds are allowed to continue their membership to any statutory pension funds.

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

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

The total accumulated obligation to the Bank relating to this arrangement is based on assessments made by independent actuaries. The actuarial valuation was carried out as at 30 June 2017 by Zamara Actuarial, Administrator and Consultants Limited based in Nairobi - Kenya. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Other employee benefits

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

Provisions

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

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

Taxes

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

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

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Foreign exchange revaluation reserve under the legal framework

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

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

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

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

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

Property and equipment

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

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

Depreciation rates applicable as at 30 June 2017 and 2016 were as follows:

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

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

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

Intangible assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Internally developed software products include direct cost incurred by the Bank and are recognised as intangible assets upon meeting the following criteria:

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

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

Capital grant

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

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

Currency printing and minting expenses

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currency in circulation

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

Impairment of non-financial assets

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

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

Operating Lease

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

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

Repurchase and Resale Agreements (REPOs and Reverse REPOs)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Repurchase and Resale Agreements (REPOs and Reverse REPOs) (continued)

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

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

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

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

Foreign Exchange Revaluation Reserve

The Bank has a policy whereby both net realised and unrealised foreign exchange gains and losses are firstly recognised in profit or loss in accordance with the requirements of IAS 21 (The Effects of Changes in Foreign Exchange Rates). The net realised foreign exchange gains (losses) for the year arising from daily revaluation of foreign assets and liabilities form part of the distributable profits while the net unrealised foreign exchange revaluation gains (losses) are transferred to the Foreign Exchange Revaluation Reserve.

Reserve for Dividend

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

Financial instruments - initial recognition and subsequent measurement

Date of recognition

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

Initial recognition of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets

Amortised cost

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

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

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

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

Fair Value through Other Comprehensive Income (FVTOCI)

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

Effective Interest Rate method

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

Interest income is recognised in profit or loss.

Financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

De-recognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

Offsetting of financial assets and financial liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Determination of fair value

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

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

Impairment of financial assets

The Bank assesses at each reporting date whether or not there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Government Securities

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

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

Due from banks and supranational institutions, loans and advances

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment of loans and advances'.

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Other liabilities

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

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

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

Cash and Cash equivalent

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Escrow Accounts

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

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

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

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

Derivatives

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

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

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

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

International Monetary Fund (IMF) related balances

Relationship

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

Currency of Transactions with the IMF

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

International Monetary Fund (IMF) related balances (continued)

Quota in IMF, Interest and Charges

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

Inventories

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

Credit Guarantee Schemes

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

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

(a) Going concern

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

4. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (CONTINUED)

(b) Impairment of assets carried at amortised cost

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

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

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

(c) Impairment of other financial assets

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

Impairment exists when the carrying amount exceeds its recoverable amount and the asset is written down to the recoverable amount. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

(d) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives and discount rates. Details have been provided under **Note 42** to these accounts.

4. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES (CONTINUED)

(e) Useful lives of property and equipment

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

(f) Retirement benefits

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit credit method, which requires certain demographic, financial and future salary growth assumptions. A degree of judgement is required in establishing market yields, long term expectations, the notional contribution rate and other inputs used in the actuarial valuation. Details have been provided under **Note 45** to these accounts.

(g) Contingent liabilities

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

5. INTEREST INCOME

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

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

	30.06.2017			30.06.2016		
	Received	Accrued	Total	Received	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
From foreign operations						
GBP investments	9,968,860	4,131,280	14,100,140	10,093,459	4,373,899	14,467,358
USD investments	64,172,125	18,319,945	82,492,070	50,449,494	12,637,526	63,087,020
EUR investments	8,438,824	7,519,665	15,958,489	6,721,722	6,342,003	13,063,725
AUD investments	12,927,230	3,511,784	16,439,014	13,433,884	4,334,668	17,768,552
CNY investments	9,899,589	1,438,621	11,338,210	7,367,157	569,268	7,936,425
Other foreign interest income	1,116,798	-	1,116,798	160,158	-	160,158
	106,523,426	**34,921,295**	**141,444,721**	**88,225,874**	**28,257,364**	**116,483,238**
From domestic operations						
Interest on domestic investments	115,006,224	28,435,954	143,442,178	123,079,505	31,061,959	154,141,464
Interest on loans and advances	157,149,217	-	157,149,217	161,236,511	-	161,236,511
Interest on staff loans	357,422	-	357,422	303,195	-	303,195
Interest on Repurchase Agreements (Reverse REPO)	18,020,945	-	18,020,945	15,224,855	-	15,224,855
	290,533,808	**28,435,954**	**318,969,762**	**299,844,066**	**31,061,959**	**330,906,025**
	397,057,234	**63,357,249**	**460,414,483**	**388,069,940**	**59,319,323**	**447,389,263**

5. INTEREST INCOME (CONTINUED)

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

	30.06.2017 TZS '000	30.06.2016 TZS '000
Income from instruments measured at fair value	115,796,911	103,998,153
Income from instruments measured at amortised cost	344,617,572	343,391,110
	460,414,483	**447,389,263**

6. INTEREST EXPENSES

	30.06.2017			30.06.2016		
	Paid TZS '000	Accrued TZS '000	Total TZS '000	Paid TZS '000	Accrued TZS '000	Total TZS '000
Interest on BoT liquidity papers	998,285	24,691,450	25,689,735	17,887,304	3,129,566	21,016,870
Interest on repurchase agreements	219,169	-	219,169	1,216,011	-	1,216,011
Charges on IMF Drawings	473,014	-	473,014	317,068	-	317,068
	1,690,468	**24,691,450**	**26,381,918**	**19,420,383**	**3,129,566**	**22,549,949**

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

7. FOREIGN EXCHANGE REVALUATION GAINS

During the year, the Bank recorded a total net foreign exchange revaluation gains amounting to TZS 166,560.3 million (2016: TZS 468,394.9 million). This amount has been included in the statement of profit or loss in determining the Bank's net operating profit for the year in order to comply with the requirements of IAS 21 - Accounting for the Effects of Changes in Foreign Exchange Rates. Out of the total net foreign exchange revaluation gains, an amount of TZS 119,665.1 million (2016: TZS 87,717.3 million) relating to unrealised gain is not available for distribution of dividend and according to the Bank of Tanzania Act, 2006 has been transferred to the foreign exchange revaluation reserve (refer to **Note 40 (i)**).

Analysis of foreign exchange valuation	**30.06.2017 TZS '000**	**30.06.2016 TZS '000**
Net realised foreign exchange revaluation gains during the year	46,895,231	380,677,613
Net unrealised foreign exchange revaluation gains during the year	119,665,106	87,717,317
	166,560,337	**468,394,930**

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

		30.06.2017			**30.06.2016**	
	Realised TZS '000	**Unrealised TZS '000**	**Total TZS '000**	**Realised TZS '000**	**Unrealised TZS '000**	**Total TZS '000**
USD	(7,200,343)	(58,312,684)	(65,513,027)	(4,162,180)	17,226,663	13,064,483
GBP	(1,947,361)	(11,433,310)	(13,380,671)	(1,210,606)	1,327,901	117,295
EUR	(10,182,916)	(11,292,521)	(21,475,437)	(532,330)	(5,835,611)	(6,367,941)
AUD	(1,039,414)	(9,079,664)	(10,119,078)	(2,668,450)	(934,703)	(3,603,153)
CNY	98,336	(3,163,459)	(3,065,123)	(275,746)	335,977	60,231
Total	**(20,271,698)**	**(93,281,638)**	**(113,553,336)**	**(8,849,312)**	**12,120,227**	**3,270,915**

This represents the net increase or decrease in fair value of the financial assets measured at fair value through profit or loss. The value of this balance aggregated to a loss of TZS 113,553.3 million (2016: gain of TZS 3,270.9 million).

9. FEES AND COMMISSIONS

	30.06.2017 TZS '000	**30.06.2016 TZS '000**
Commission on foreign operations	26,140,147	19,956,573
Tanzania Interbank Settlement System (TISS) fees and charges	2,023,793	1,859,868
Bureau de change application fees	229,500	262,500
Bureau de change registration fees	53,000	78,000
Bureau de change penalty fees	4,094,500	15,000
Tender application fees	56,061	26,078
Banks and financial institutions applications/licensing fees	401,036	28,045
	32,998,037	**22,226,064**

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

10. OTHER OPERATING INCOME

	30.06.2017 TZS '000	30.06.2016 TZS '000
Foreign operations		
Gains on inter-bank foreign exchange market (IFEM) operations	1,421,812	13,181,848
Miscellaneous income	-	8,201,585
Realised gains on de-recognition of foreign currency marketable securities	2,000,346	1,607,482
Income from equity investment	608,581	351,128
Other income from foreign operations	**4,030,739**	**23,342,043**
Domestic operations		
Miscellaneous income	5,366,760	6,948,074
Income - domestic operations	3,961,775	3,984,502
Staff contributions *	3,379,508	1,725,468
Rental income from staff quarters	615,380	595,880
Income from hostel accommodation	11,617	32,079
Income from cafeteria operations	19,914	49,712
Other income from domestic operations	**13,354,954**	**13,335,715**
Total other income	**17,385,693**	**36,677,758**

*Net contribution to Staff Housing Compensatory Fund

11. ADMINISTRATIVE EXPENSES

	30.06.2017 TZS '000	30.06.2016 TZS '000
Maintenance - computer, software and related expenses	15,168,099	13,474,833
Transport and traveling expenses	9,821,771	9,129,613
Meetings, conferences and seminars	4,949,197	6,415,630
Water and electricity	6,370,971	6,343,567
Maintenance - bank premises	7,155,209	6,414,987
Insurance expenses	3,479,933	2,581,457
Fees, rates and security expenses	3,333,907	2,843,024
Printing, stationery and office supplies	1,945,226	1,930,204
Telecommunication and postage	2,228,973	2,166,681
Board expenses	1,026,933	1,888,216
Other administrative expenses	7,564,423	9,134,338
Maintenance - furniture, machinery and equipment	1,513,559	1,361,037
Audit fees	918,100	1,183,673
Budget and annual accounts preparation expenses	644,821	544,558
Hospitality	252,372	419,961
Audit related expenses	62,730	83,127
Strengthening of Internal audit expenses	479,181	91,599
Legal and investigation expenses	80,559	613,000
	66,995,964	**66,619,505**

12. CURRENCY AND RELATED EXPENSES

	30.06.2017 TZS '000	30.06.2016 TZS '000
Notes printing and related expenses (Note 26)	71,787,889	67,330,636
Coins minting and related expenses (Note 26)	9,753,649	7,553,987
Cost of currency issued in circulation	**81,541,538**	**74,884,623**
Maintenance of currency machines	2,105,666	4,673,372
Currency transport, storage and handling	4,146,770	3,724,685
Other currency expenses	3,975,350	993,000
Other currency related costs	**10,227,786**	**9,391,057**
Total currency and related expenses	**91,769,324**	**84,275,680**

The amount of TZS 81,541.5 million (2016: TZS 74,884.6 million) is in respect of notes printing and coins minting and related expenses, refers to the proportionately amortised portion of deferred notes printing and coins minting cost for the currency notes and coins that were issued into circulation during the year.

A total of TZS 2,105.7 million (2015: TZS 4,673.4 million) was incurred during the year in respect of currency machines maintenance expenses. The amount of TZS 4,146.8 million (2016: TZS 3,724.7 million) is in respect of currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred during the year. Other currency related expenses aggregated to TZS 3,975.4 million (2016: TZS 993.0 million).

13. PERSONNEL EXPENSES

	30.06.2017 TZS '000	30.06.2016 TZS '000
Staff salaries and allowances	75,929,578	80,717,451
Contribution to social security schemes	10,244,163	10,832,794
Staff medical expenses	7,199,946	6,595,418
Travel on leave expenses	5,836,808	5,859,350
Management car maintenance and other related expenses	5,733,799	6,340,350
Staff training expenses	3,471,418	4,504,933
Motor vehicles expenses	793,456	1,857,904
HR planning policies expenses	2,030,853	2,100,506
Workers Council expenses	1,229,264	965,508
Furniture grant expenses	898,278	2,453,391
Cafeteria expenses	1,472,489	1,578,760
Tanzania Union for Industrial and Commercial (TUICO) expenses	641,136	610,885
Staff uniforms expenses	291,604	296,419
Condolence and related expenses	262,498	252,122
Course functions & field trips expenses	9,723	15,828
Staff retirement benefit	2,564,000	21,552,671
	118,609,013	**146,534,290**

14. OTHER OPERATING EXPENSES

	30.06.2017 TZS '000	30.06.2016 TZS '000
Foreign operations		
Foreign reserve management expenses	1,627,712	1,630,709
Financial markets development expenses	1,514,891	1,580,344
Commission and fees on foreign operations	1,213,629	1,332,177
Amortised premium	-	-
	4,356,232	**4,543,230**
Domestic operations		
Contribution to professional associations, charities	2,756,191	6,872,327
Contribution to national development programs/projects	636,280	2,014,375
Contribution to other institutions	-	-
Subscriptions	279,476	172,740
	3,671,947	**9,059,442**
Cheques issued expenses	322,482	555,860
Commission and fees on domestic operations	-	118,675
	322,482	**674,535**
	8,350,661	**14,277,207**

Analysis of donations, contributions and subscriptions

Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)	837,666	878,588
Second Generation of Financial Sector Reforms	281,318	696,612
Capital Markets and Securities Authority	675,000	675,000
Tanzania Institute of Bankers	612,400	489,720
Contribution to National Board of Accountants and Auditors (NBAA) and National Board of Material Management (NBMM)	448,664	448,955
Deposit Insurance Board	248,696	313,186
Contribution to African Research Consortium	194,925	195,000
Contribution - Committee of Central Bank Governors (CCBG)	10,036	102,782
African Association of Central Banks and African Rural and Agriculture Credit Association	98,242	72,618
Donations and other contributions	-	4,167,000
Contribution to Establishment of Tanzania Agricultural Development Bank	265,000	520,000
Contribution to National Risk Assessment	-	499,981
	3,671,947	**9,059,442**

15. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	30.06.2017 TZS '000	30.06.2016 TZS '000
Net revaluation gains/ (losses) on equity investments	1,483,942	(4,988,060)

The gain of TZS 1,483.9 million (2016: loss of TZS 4,988.1 million) is in respect of revaluation loss/gain on the Bank's shares in Afreximbank and SWIFT. The investments are measured at fair value through other comprehensive income and are revalued at the end of each year.

16. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	30.06.2017 TZS '000	30.06.2016 TZS '000
Cash balances with Central Banks	704,988,724	490,062,226
Demand, time deposits with commercial banks and foreign currency notes and coins	4,187,677,869	2,339,724,853
Accrued interest on deposits	3,679,078	925,520
	4,896,345,671	**2,830,712,599**

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

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

	30.06.2017 TZS '000	30.06.2016 TZS '000
Demand deposits	4,181,881,330	2,335,211,581
Foreign currency notes and coins	5,796,539	4,513,271
	4,187,677,869	**2,339,724,852**

17. ESCROW ACCOUNT

Bank of Tanzania Escrow	**10,856,450**	**10,602,238**

This account was opened under the memorandum of economic and financial policies arrangement of the United Republic of Tanzania Government. Under the arrangement it was agreed to establish an external escrow account into which the URT Government would pay a significant portion of the estimated debt service due to the relevant group of non-Paris creditors. The URT Government Deposits the funds into the account pending agreement with creditors. In line with the arrangement, the funds are available to confirmed creditors.

The Government deposited funds into this account once in March 2003 of USD 5.0 million that was equivalent to TZS 5,256.0 million. Some of the funds were utilised to settle due obligations before financial crises. The balance on the account earns interest. As at 30 June 2017, the account had a balance of USD 4.9 million equivalent to TZS 10,856.5 million. (2016: USD 4.9 million equivalent to TZS 10,602.2 million).

18. ITEMS IN COURSE OF SETTLEMENT

	30.06.2017 TZS '000	30.06.2016 TZS '000
BoT net clearing account	**51,823,613**	**2,399,563**

This balance represents values of outward clearing instruments, held by the Bank while awaiting clearance in the normal course of business. This include values of clearing instruments both 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 in the clearing house. The increase in 2017 relates to significant amount relating to government payments following automation of payments of the central and local government operations.

19. INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES

	30.06.2017		30.06.2016	
	Equivalent SDR '000	Equivalent TZS '000	Equivalent SDR '000	Equivalent TZS '000
Assets				
Holdings of SDR's	18,323	29,043,708	18,323	55,835,295
Quota in IMF	397,800	1,234,836,479	397,800	1,212,378,799
	416,123	**1,263,880,187**	**416,123**	**1,268,214,094**
Liabilities				
IMF Account No.1	338,071	1,049,428,996	338,071	1,030,347,541
IMF Account No.2	3	10,850	3	10,651
	338,074	**1,049,439,846**	**338,074**	**1,030,358,192**
Allocation of SDRs	**190,527**	**591,378,689**	**190,527**	**580,623,424**

Following the IMF reforms on quota and governance that included doubling of IMF quotas and re-alignment of quotas shares, the Tanzania's quota in IMF increased to SDR 397.8 million equivalent to TZS 1,234,836.5 million (2016: SDR 397.8 million equivalent to TZS 1,212,378.8 million). On a quarterly basis, the IMF pays interest (remuneration) to those members who have a remunerated reserve tranche position at the adjusted rate of remuneration. As at June 2017, reserve tranche stood at SDR 59.7 million (2016: SDR 59.7 million) whereas the adjusted rate of remuneration was 0.5 percent (2016: 0.5 percent).

Participation in the HIPC Initiative

The United Republic of Tanzania enjoys a debt relief program under the Highly Indebted Poor Countries (HIPC) initiative. Accordingly, the IMF administers a donor-contributed Fund in the form of a PRGF-HIPC Trust Umbrella Account for Tanzania. The facility is used to settle part of Tanzania's PRGF Loans as and when they fall due. As at 30 June 2017, the facility had a nil balance.

20. FOREIGN CURRENCY MARKETABLE SECURITIES

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

Financial assets measured at fair value through profit and loss (FVTPL):	30.06.2017 TZS '000	30.06.2016 TZS '000
Marketable securities	5,976,607,127	5,343,419,060
Accrued interest	31,242,216	27,331,843
	6,007,849,343	**5,370,750,903**

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

	30.06.2017 TZS '000	30.06.2016 TZS '000
Sovereign Issues		
USD	3,917,363,100	3,362,684,975
GBP	450,049,378	423,808,598
EUR	681,409,901	679,264,046
AUD	374,865,481	368,286,848
CNY	264,079,543	151,587,869
	5,687,767,403	**4,985,632,336**
Supranational Securities		
USD	141,278,637	179,102,480
EUR	16,788,383	34,810,285
AUD	7,537,290	7,137,796
CNY	-	6,531,247
	165,604,309	**227,581,808**
Agency Securities		
USD	116,724,007	108,796,464
GBP	-	8,857,524
EUR	6,511,407	12,550,927
	123,235,414	**130,204,915**
Total Investments		
USD	4,175,365,744	3,650,583,919
GBP	450,049,378	432,666,122
EUR	704,709,691	726,625,258
AUD	382,402,771	375,424,644
CNY	264,079,543	158,119,116
Accrued Interest	31,242,216	27,331,843
	6,007,849,343	**5,370,750,903**

21. EQUITY INVESTMENTS

	30.06.2017 TZS '000	30.06.2016 TZS '000
Investment in equity are designated at fair value through other comprehensive income (FVTOCI):		
Equity investment in Afreximbank	28,452,891	25,805,570
Equity investment in SWIFT	736,604	645,095
	29,189,495	**26,450,665**

Equity investment in Afreximbank: TZS 28,452.9 million (2016: TZS 25,805.6 million)

The African Export-Import Bank (Afreximbank) is a supranational institution, established on 27 October 1993. The Bank holds an investment in the equity of Afreximbank. Afreximbank is a grouping of regional central banks and financial institutions designed to facilitate intra and extra African trade. The Bank's equity interest in Afreximbank is 742 ordinary shares (2016: 718) of par value of USD 10,000 each. As at 30 June 2017, the Bank's equity aggregated to USD 2,872,000 representing two fifth of the Bank's paid up shares in Afreximbank (2016: USD 2,872,000). The proportion of the Banks equity interest to the total holding in this bank is 0.70 percent. These shares are measured at fair value through other comprehensive income.

Equity Investment in SWIFT: TZS 736.6 million (2016: TZS 645.1 million)

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

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

The number of shares allocated to each member is determined at least after every three years according to the Bylaws of the Company and is proportional to the annual contributions paid for the network based services to the Company. The members have the obligation to give up or take up the resulting change in shares. The Bylaws of the Company state that shares are only reimbursed when a member resigns, or when a member has to give up shares following reallocation. This investment is measured at fair value through other comprehensive income. During the year, under review the Bank had a total of 62 shares at a price of EUR 4,340 (2016: 62 shares at a price of 3,430).

22. GOVERNMENT SECURITIES

Amortised cost:	30.06.2017 TZS '000	30.06.2016 TZS '000
Stocks	51,333,308	51,333,308
Treasury Bills	1,900	19,756,144
Special Treasury Bonds	1,182,673,228	1,182,673,228
Treasury EPA Stock	205,743,889	205,743,889
	1,439,752,325	1,459,506,569
Accrued interest	28,435,954	31,061,959
Accrued interest receivable	24,118,385	-
	1,492,306,664	**1,490,568,528**

22. GOVERNMENT SECURITIES (CONTINUED)

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

Stocks

Advances granted to the Government which were to be repaid at the end of financial year 1994 were converted into five years 25% Special Stock 1993/98 of TZS 42,243.0 million. Thereafter in 1999, the stock plus the earned interest were restructured into two stocks namely 15% Special Treasury Stock 2018/19 with face value of TZS 51,333.3 million. As at June 2017 the value of stock stood at TZS 51,333.3 million (2016: TZS 51,333.3 million)

Treasury Bills

This represents treasury bills discounted by commercial banks to the Bank. As at 30 June 2017, the value of treasury bills discounted was TZS 1.9 million (2016: TZS 19,756.1 million).

Special Treasury Bonds

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

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

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

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

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

The value of Special Bonds as at 30 June 2017 was TZS 1,182,673.2 million (2016: TZS 1,182,673.2 million).

22. GOVERNMENT SECURITIES (CONTINUED)

Treasury EPA Stock

Treasury EPA Stocks represent External Payment Arrears (EPA) that date back to 1980's when the defunct National Bank of Commerce (NBC) had external commercial obligations that were in arrears for lack of foreign exchange. These were later on transferred to the Bank to facilitate their administration and control. According to the arrangement, the externalisation of EPA obligations is done on the basis of agreed exchange rates. The exchange rate differential between the exchange rate prevailing when the beneficiaries are paid and the agreed rate resulted into exchange losses, which are recoverable from the Government. Funding of the resulting obligations was obtained through issuance of EPA stocks..

The Government effective from 1 August 2008 reissued two EPA Special Stocks namely EPA Special Stock 2002/2052 and EPA Special Stock 2005/2055 with values of TZS 4,352.8 million and TZS 65,646.1 million and replaced them with EPA Special Stock 2008/28 and EPA Special Stock 2008/23 respectively. Their tenures were reviewed from 50 years and 55 years to 10 years and 15 years with annual coupons of 7.5 percent and 8.0 percent payable semi-annually respectively. Furthermore, on 1 August 2008 the Government issued EPA Special Stock with face value of TZS 135,745.1 million to accommodate external payment arrears exchange losses incurred up to 31 December 2007. The stock has a maturity of 20 years with annual coupon of 8.5 percent payable semi-annually. As at 30 June 2017, the aggregate position of Special EPA stocks was TZS 205,743.9 million (2016: TZS 205,743.9 million).

23. ADVANCES TO THE GOVERNMENT

	30.06.2017 TZS '000	30.06.2016 TZS '000
Advances to the Government (URT) - **Note 32**	**1,546,553,483**	**1,191,810,509**

Advances to the Governments represent temporary financial accommodation to finance short term financial gap between the receipts from budgeted revenue and payments of the Governments. The advances bear interest at rates equivalent to the weighted average yield of short term maturities as determined by the Bank in accordance with the Bank of Tanzania Act, 2006 and are repayable within one hundred and eighty days. Total advance outstanding at the year end amounted to, TZS 1,546,553.5 million (2016: TZS 1,191,810.5 million) as summarised under **Note 32**.

24. LOANS AND RECEIVABLES

	30.06.2017 TZS '000	30.06.2016 TZS '000
Accounts receivable	302,295,006	78,426,232
Staff loans and advances	78,468,497	70,122,825
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Intermediary accounts receivable	17,248	18,246
	385,924,751	**153,711,303**
Provision for impairment	(11,848,041)	(11,001,283)
	374,076,710	**142,710,020**

Analysis of impairment by line items

Interest recoverable from government	5,241,621	5,241,621
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Staff loans and advances	1,176,051	329,293
Accounts receivable	286,369	286,369
	11,848,041	**11,001,283**

Movement in provision for impairment

Balance at the beginning of the year	11,001,283	5,629,717
Interest recoverable from government	-	5,241,621
Impairment on staff loans and advances	846,758	216,240
Reversal during the year	-	(86,295)
Balance at the end of the year	**11,848,041**	**11,001,283**

The Bank did not pledge any loans and receivables as securities against liabilities in 2017 and 2016. Accounts receivable represent short term claims which are expected to be recovered within a period not exceeding twelve months and outstanding transactions made on trade date. As at 30 June 2017, the account had a balance of TZS 403,715.4 million (2016: TZS 142,710.0 million).

a) Accounts Receivable: TZS 302,295 million

Major components under Accounts Receivable include the following:

(i) Interest receivable on Liquidity Management: TZS 18,172 million

Included under accounts receivable is TZS 33,517.7 million (2016: TZS 9,399.3 million) relating to 2016/17 URT Government share in respect of interest on liquidity management costs. The URT Government and Bank of Tanzania share of liquidity management cost is based on the formula contained in the Memorandum of Understanding between BoT and the Government

(ii) Interest receivable on overdrawn Government accounts: TZS 200,792.5 million

During the year, the URT Government net position was overdrawn by TZS 1,547,548.0 million (2016: TZS 1,202,899.0 million). Pursuant to Section 34 of the Bank of Tanzania Act, 2006, an amount of TZS 157,149.2 million (2016: TZS 43,643.3 million) was charged to the Government as interest on overdrawn position. Interest outstanding as at 30 June 2017 amaounted to TZS 200,792.5 million is outstanding as at 30 June 2017 (2016: TZS 43,192.1 million).

24. LOANS AND RECEIVABLES (CONTINUED)

a) Accounts Receivable: TZS 302,295.0 million (Continued)

(iii) Standby credit facility:

The commercial banks have access to the standby credit facility with a maturity of one day to settle their obligations in their clearing balances to avoid systematic risk when their balances are not sufficient to cover their obligations. Such facility is available at market rate prevailing on that particular date subject to provision of securities as collateral. At 30 June 2017, such facility had a balance of TZS 2,400.0 million as compared to a nil balance as at 30 June 2016

b) Staff Loans and Advances: TZS 78,468.5 million

Employees of the Bank are entitled to loans and advances as approved in accordance with the Bank's Staff Bylaws and Financial Regulations in force. Staff loans are granted to employees to assist them in acquisition of residential houses, motor vehicles, computers, furniture and short term needs. 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' monthly salaries. The facilities are secured against the borrowers' employment and terminal benefits.. As at 30 June 2017, the balance of staff loans and advances was TZS 78,468.5 million (2016: TZS 70,122.8 million).

25. INVENTORIES

The inventory balance consists of the following:	30.06.2017 TZS '000	30.06.2016 TZS '000
Currency machine spare parts	4,587,017	2,935,731
Building, machinery and maintenance consumables	944,458	898,536
Stationery	583,154	531,322
ICT accessories and consumables	563,642	549,038
Cheque books	157,097	378,226
Copier parts and consumables	360,467	354,915
Drugs and medicines	179,737	114,630
Inventory in Transit	-	835
Less: Inventory impairment	(981,263)	-
	6,394,309	**5,763,233**

All inventories held by the Bank as at 30 June 2017 were for the internal consumption to support Bank's operations and not intended for sale.

26. DEFERRED CURRENCY COST

This account represents direct cost relating to notes printing and coins minting held by the Bank. During financial year 2016/17, the movement on deferred currency cost account was as follows:

	30.06.2017 TZS '000	30.06.2016 TZS '000
Balance as at the beginning of the year	59,980,145	37,040,553
Add: Cost of currency received during the year	95,734,200	97,824,215
Less: Cost of currency issued in circulation (Note 12)	(81,541,538)	(74,884,623)
Balance as at the end of the year	**74,172,807**	**59,980,145**

27. OTHER ASSETS

	30.06.2017 TZS '000	30.06.2016 TZS '000
Prepayments	28,910,529	51,133,997
Reverse REPO	7,000,000	605,000,000
Financial Sector Development Fund	33,826,141	32,454,976
Staff imprest	1,301,320	1,799,467
Intermediary accounts	1,094,142	4,502,059
Staff Housing Fund investment account	33,767,152	1,173,818
Petty cash balances	131,000	100,000
Sundry receivables	2,631,119	3,712,563
	108,661,403	**699,876,880**

(i) Prepayment: TZS 28,910.5 million

The balance under prepayment for the year ending 30 June 2017 mainly covers; TZS 13,201.5 million paid as advance payment in respect of notes printing, TZS 2,898.1 million paid in respect of construction of new office building in Mwanza Branch, advance payment in respect of banknotes destruction machines TZS 2,153.0 million and medical insurance of TZS 1,381.9 million in respect of insurance premium.

(ii) Reverse repo: TZS 7,000.0 million

The balance represents short term advance granted to commercial banks under reverse REPO contracts. Under the agreements commercial banks sell securities to the Bank and simultaneously agree to purchase the same securities at a specified future date at a fixed price. The difference between sale and repurchase price is treated as interest income and is recognised in profit or loss. As at 30 Jun 2017 the balance of reverse REPO contracts was TZS 7,000.0 million (2016: 605,000.0 million).

28. PROPERTY AND EQUIPMENT

2017	Land and buildings TZS '000	Machinery and equipment TZS '000	Motor vehicles TZS '000	Fixtures and fittings TZS '000	Computers, servers and printers TZS '000	Capital work in progress TZS '000	Total TZS '000
Cost/valuation							
At 01 July 2016	837,063,500	233,651,438	22,754,816	8,517,449	24,292,092	55,610,023	1,181,889,318
Additions	24,127,851	3,449,201	2,050,393	1,256,305	839,727	13,678,156	45,401,633
Disposal	-	(59,980)	-	(7,321)	(104,045)	-	(171,346)
Transfers	34,097,161	6,669,818	-		-	(40,766,979)	-
At 30 June 2017	**895,288,512**	**243,710,477**	**24,805,209**	**9,766,433**	**25,027,774**	**28,521,200**	**1,227,119,605**
Accumulated depreciation							
At 01 July 2016	-	198,079,614	9,637,558	6,498,157	15,009,454	-	229,224,783
Impairment	-	-	-	-	-	15,000	15,000
Charges for the year	7,310,296	9,161,524	1,933,873	414,725	2,724,546	-	21,544,964
Disposal	-	(58,759)	-	(6,320)	(94,502)	-	(159,581)
At 30 June 2017	**7,310,296**	**207,182,379**	**11,571,431**	**6,906,562**	**17,639,498**	**15,000**	**250,625,166**
Net book value							
At 30 June 2017	**887,978,216**	**36,528,098**	**13,233,778**	**2,859,871**	**7,388,276**	**28,506,200**	**976,494,439**

28. PROPERTY AND EQUIPMENT (CONTINUED)

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

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

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

28. PROPERTY AND EQUIPMENT (CONTINUED)

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

Details	**30.06.2017 TZS '000**	**30.06.2016 TZS '000**
Cost	620,046,585	577,245,406
Accumulated depreciation and impairments	(83,641,403)	(76,313,886)
Carrying amount	**536,405,182**	**500,931,520**

Effective financial year 2007/8 valuation of the Bank's immovable property is conducted after five years. The Bank's immovable properties were revalued during the year ended 30 June 2016 by M/S M & R Agency Limited, a professional registered valuation firm.

Work-in-progress relates to capital expenditure incurred in the extension of the Dodoma office building, Mbeya Branch, New Office building Mwanza Branch and Executive Hostel Training Institute. No depreciation is charged on capital work in progress until it is substantially completed.

28. PROPERTY AND EQUIPMENT (CONTINUED)

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

Gain or (loss) on disposal of property and equipment					30.06.2017	30.06.2016
	Cost TZS '000	Accumulated depreciation TZS '000	Cost of Disposal TZS '000	Cash proceeds TZS '000	Net gains/(loss) TZS '000	Net gains/(loss) TZS '000
Class of asset						
Land and buildings	-	-	-	-	-	(131,602)
Machinery & equipment	59,980	58,759	216	510	(711)	(29,756)
Motor vehicles	-	-	-	-	-	97,296
Fixtures & fittings	7,321	6,320	867	2,052	1,051	(8,915)
Capital work in progress	-	-	-	-	-	(1,155,783)
Computers, servers & printers	104,045	94,502	2,090	4,945	(4,598)	(102,205)
	171,346	**159,581**	**3,173**	**7,507**	**(4,258)**	**(1,330,965)**

29. INTANGIBLE ASSETS

2017	Computer software TZS '000	Computer software - WIP TZS '000	Total TZS '000
Cost			
At 1 July 2016	27,834,615	3,197,997	31,032,612
Additions	370,422	560,210	930,632
Write-off	-	(139,150)	(139,150)
Transfer in/(out)	576,744	(576,744)	-
At 30 June 2017	**28,781,781**	**3,042,313**	**31,824,094**
Accumulated amortisation			
At 1 July 2016	24,454,465	22,691	24,477,156
Charge for the year	1,444,734	-	1,444,734
At 30 June 2017	**25,899,199**	**22,691**	**25,921,890**
Net book value			
At 30 June 2017	**2,882,582**	**3,019,622**	**5,902,204**
2016			
Cost			
At 1 July 2015	25,778,826	2,797,422	28,576,248
Additions	594,277	1,862,087	2,456,364
Transfer in/(out)	1,461,512	(1,461,512)	-
At 30 June 2016	**27,834,615**	**3,197,997**	**31,032,612**
Accumulated amortisation			
At 1 July 2015	23,079,013	22,691	23,101,704
Charge for the year	1,375,452	-	1,375,452
At 30 June 2016	**24,454,465**	**22,691**	**24,477,156**
Net book value			
At 30 June 2016	**3,380,150**	**3,175,306**	**6,555,456**

30. CURRENCY IN CIRCULATION

Notes	**30.06.2017 TZS '000**	**30.06.2016 TZS '000**
Notes issued	9,151,592,892	7,428,139,356
Less: Notes in Custody	(4,892,599,323)	(3,126,966,936)
Notes in Circulation	**4,258,993,569**	**4,301,172,420**
Coins		
Coins issued	148,502,270	122,868,302
Less: Coins in Custody	(52,889,547)	(49,701,180)
Coins in Circulation	**95,612,723**	**73,167,122**
Total currency in circulation	**4,354,606,292**	**4,374,339,542**

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 deducted from notes and coins issued to reflect actual liability for notes and coins in circulation.

The notes and coins in circulation figure of TZS 4,354,606.3 million (2016: TZS 4,374,339.5 million) includes banknotes that were phased out in 2003 with the face value of TZS 99,386.9 million (2016: TZS 99,386.9 million) still in circulation.

31. DEPOSITS - BANKS AND NON-BANK FINANCIAL INSTITUTIONS

	30.06.2017 TZS '000	**30.06.2016 TZS '000**
Deposits - commercial bank deposits		
Domestic bank deposits/SMR	75,865,633	55,516,185
Domestic Banks Foreign Currency Deposits	2,758,307,034	2,787,246,524
Sub total	**2,834,172,667**	**2,842,762,709**
Deposits - Non bank financial institutions		
Clearing	84,668,187	54,483,448
SMR	403,500	403,500
Domestic Non-Banks Foreign Currency Deposits	3,199,802	2,291,105
Sub total	**88,271,489**	**57,178,053**
Total deposits	**2,922,444,156**	**2,899,940,762**

Domestic deposits include, general purpose deposits, clearing balances and Statutory minimum reserve (SMR). SMR deposits are based on a ratio determined by the Bank to the total deposits of the banks and non-bank financial institution for monetary policy purposes. Banks and non-bank financial institutions are required to hold at the Bank of Tanzania a prescribed percentage of their total deposits as prescribed in circular No.1 issued on 30 April 2015 in accordance with Section 44 of the Bank of Tanzania Act, 2006 and Sections 4 and 71 of the Banking and Financial Institutions Act, 2006.

32. DEPOSITS - GOVERNMENTS

	30.06.2017 TZS '000	30.06.2016 TZS '000
Deposits/(overdrawn) - Voted accounts		
URT Government	(1,546,553,483)	(1,191,810,509)
SMZ Government	1,024,043	21,968,298
Sub total	**(1,545,529,440)**	**1,169,842,211**
Deposits/(overdrawn) - Unvoted accounts		
URT Government	2,200,874,845	373,282,304
SMZ Government	13,897,447	21,114
Sub total	2,214,772,292	373,303,418
Total URT Government	**654,321,362**	**(818,528,205)**
Total SMZ Government	**14,921,490**	**21,989,412**
Deposit Governments (Net)	**669,242,852**	**(796,538,793)**

As at 30 June 2017 the position of the Government of the United Republic of Tanzania (URT) voted accounts were overdrawn by TZS 1,546,553.5 million (2016: TZS 1,191,810.5 million). Pursuant to the provision of Section 34 of the Bank's Act, a total of TZS 157,149.2 million (2016: TZS 161,236.5 million) was charged during the year ended 30 June 2017 as interest on overdrawn Governments position in various periods at the interest rate equal to the average monthly rates charged on treasury bills. Government deposit balances are non-interest earning.

33. DEPOSITS - OTHERS

	30.06.2017 TZS '000	30.06.2016 TZS '000
Deposits-Parastatals United Republic of Tanzania	1,067,982,386	559,013,947
Export Credit Guarantee Fund	1,576,508	2,023,601
Government obligations settlements	44,233,201	30,554,180
Deposit staff	16,481,585	18,987,674
Small and Medium Enterprises Guarantee Fund	518,985	598,279
Deposit Insurance Fund	15,104,113	12,153,896
Miscellaneous deposits*	93,599,754	4,052,772
Mwalimu Julius K Nyerere Memorial Scholarship Fund	48,637	38,856
External Payment Arrears - NBC	2,288,419	2,288,419
Debt Conversion Scheme	2,098,960	2,098,960
Debt Service cash cover	2,643,192	1,778,331
Economic Empowerment Programme	2,019,005	1,372,960
Bank drafts issued	679,335	1,063,458
Redemption of Government Stock/Bonds	4,304,856	110,584
	1,253,578,936	**636,135,917**

* Included in miscellaneous is TZS 88,680.8 million in respect of Federal Bank of Middle East (FBME) funds transferred from FBME clearing accounts to cater for bank liquidation process.

33. DEPOSITS - OTHERS (CONTINUED)

Development Finance Guarantee Fund:

	30.06.2017 TZS '000	30.06.2016 TZS '000
Development finance guarantee fund consists of the following:	**TZS '000**	**TZS '000**
Capital contribution by the Government	56,500,000	56,500,000
Less: Transfer of loans proceeds to ECGF,SME-CGS	(2,806,830)	(2,416,830)
Net capital contribution	53,693,170	54,083,170
Interest on refinancing and structured loans	15,760,856	15,760,856
Sub Total	69,454,026	69,844,026
Less: Loans issued for refinancing facility	(69,454,026)	(69,844,026)
Net balance	-	-

The Fund was established by the Government of the United Republic of Tanzania with the purpose of financing development projects that manufacture products for export purposes. The Government supports development efforts by business with potential to export their products by providing required guarantee to finance the infrastructure in those businesses.

As at 30 June 2017, Government Capital contribution made in financial years 2002/03 and 2003/04 to the Fund amounted to TZS 56,500.0 million. Interest received and accrued on refinancing and restructured loans aggregated to TZS 15,760.9 million (2016: TZS 15,760.9 million). The total accumulated fund as at 30 June 2017 amounted to TZS 69,454.0 million (2016: TZS 69,844.0 million) which represented the total loans issued for refinancing facilities to flowers and vegetable export companies on the same.

Government Obligations Settlement: TZS 44,233.2 million

This represents Government cash cover in order to settle outstanding foreign currency obligations. The balance as at 30 June 2017 amounted to TZS 44,233.2 million (2016: TZS 30,554.2 million).

33. DEPOSITS - OTHERS (CONTINUED)

Export Credit Guarantee Fund: TZS 1,576.5 million.

The balance under this fund consists of the following:	30.06.2017 TZS '000	30.06.2016 TZS '000
Export Credit Guarantee Fund	5,157,051	4,891,358
Less: ECGS receivable/ impairment	(6,733,559)	(6,914,959)
	(1,576,508)	(2,023,601)

The Export Credit Guarantee Fund (the "Fund") was established by the Government of the United Republic of Tanzania in 2001 under the export credit guarantee scheme, in a bid to promote exports. The Fund provides guarantees to commercial banks to cover risk of default for the loans issued. As at 30 June 2017, the Fund had a net balance of TZS 1,576.5 million (2016: TZS 2,023.6 million). It is a net of Government and the Bank's contributions, accumulated income from investment in treasury bills and guarantee fees and impairments.

Debt Service Cash Cover: TZS 2,643.2 million

The amount represents URT Government funds deposited with the Bank equivalent to the foreign URT Government obligations and other services awaiting externalisation.

Debt Conversion Scheme: TZS 2,099.0 million.

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

Mwalimu Julius K Nyerere Memorial Scholarship Fund: TZS 48.6 million

Included in Deposit Others, is the Mwalimu Julius K. Nyerere Memorial Scholarship Fund. The Fund was established by the Bank of Tanzania on 12 October 2009 in honour of the life of the Father of the Nation, Mwalimu Julius Kambarage Nyerere. The objective of the Fund is to sponsor best performing students pursuing mathematics, science, accounting, finance and information technology degrees at the University level in Tanzania. As at 30 June 2017, a total of TZS 3,667.8 million (2016: TZS 3,353.1 million) in respect of the Fund's resources had been invested in Government treasury bills and treasury bonds. As a result, the Fund had a balance of TZS 48.6 million (2016: TZS 38.9 million).

34. FOREIGN CURRENCY FINANCIAL LIABILITIES

Foreign Currency Financial Liabilities consist of the following:

	30.06.2017 TZS '000	30.06.2016 TZS '000
Special Projects	875,543,170	729,954,528
Other Foreign Currency Deposits	22,431,296	63,234,285
Multilateral Debt Relief Initiative Fund	20,320,738	19,844,912
Non Paris Club Liabilities Escrow	10,856,450	10,602,238
Central Banks Deposits	1,101,284	1,052,043
Multilateral Agencies	140,674	140,674
	930,393,612	**824,828,680**

Special Projects Funds: TZS 875,543.2 million

These are United Republic of Tanzania Government funds received from donors for financing various Government projects. The projects are managed and monitored by the Ministry of Finance and Planning or other appointed project implementation agency. As at 30 June 2017, the total balance in respect of Special Project accounts aggregated to TZS 875,543.2 million (2016: TZS 729,954.5 million).

Other Foreign Currency Deposits: TZS 22,431.5 million

This mainly consists of balance in respect of Vnesheconombank Moscow Russia (TZS 14,900.7 million) Spread Reduction Account (TZS 1,631.1 million) and transfers of GBP foreign banks (TZS 44,138.4 million). As at 30 June 2017, the balance was TZS 22,431.3 million (2016: TZS 63,234.3 million).

Non Paris Club Liabilities Escrow: TZS 10,856.5 million

This account represent funds deposited by the United Republic of Tanzania Government under memorandum of economic and financial policies arrangement pending agreement with the relevant group of non-Paris creditors. As at 30 June 2017, the account had a balance of TZS 10,856.5 million (2016: TZS 10,602.2 million).

Multilateral Debt Relief Initiative Funds: TZS 20,320.7 million

Multilateral debt initiative funds relate to debt relief relating to cancellation of Government of the United Republic of Tanzania indebtness to the IMF under the IMF-Multilateral Debt Relief Initiative (MDRI). As at 30 June 2017, the fund had a balance amounting to TZS 20,320.7 million (2016: TZS 19,844.9 million).

Central Banks Deposits: TZS 1,101.3 million

These are funds deposited by the Bank of Uganda and Reserve Bank of Rwanda to accommodate clearing of transactions in their respective currencies i.e. UGX and RWF. As at 30 June 2017, the accounts had a balance of TZS 1,101.3 million (2016: TZS 1,052.0 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 2017, such balances amounted to TZS 140.7 million (2016: TZS 140.7 million).

35. POVERTY REDUCTION AND GROWTH FACILITY (PRGF)

	30.06.2017 TZS '000	30.06.2016 TZS '000
IMF Drawings	**502,201,325**	**653,398,418**

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

The Government of United Republic of Tanzania (URT) has entered into an Exogenous Shocks Facility - (ESF) arrangement with the IMF for SDR 218.79 million (USD 318.17 million) on 29 May 2009. Following approval, the Bank had on 12 June 2009 received a total of SDR 159.1 million (USD 245. 8 million) equivalent to TZS 318,195.1 million being the first tranche. The Bank further received SDR 39.8 million (USD 63.4 million) equivalent to TZS 83,288.1 million and SDR 19.9 million (USD 29.0 million) equivalent to TZS 40,200.3 million on 10 December 2009 and 14 June 2010 respectively. The first tranche is repayable in ten years, including five and half year's grace period, payable semi-annually in ten equal instalments on 14 December and 14 June beginning 14 December 2014. The loan carry an interest of 0.5 percent per annum payable semi-annually beginning 14 December 2009. On 20 February 2013, the Government received a loan facility of SDR 74.6 million equivalent to TZS 181,472.8 million.

As at 30 June 2017, the balance of PRGF account was TZS 502,201.3 million (2016: TZS 653,398.4 million).

36. BOT LIQUIDITY PAPERS

	30.06.2017 TZS '000	30.06.2016 TZS '000
BOT liquidity papers	563,621,088	93,909,290
Accrued interest	24,691,450	3,129,566
	588,312,538	**97,038,856**

As at 30 June 2017 the maturities profile of BOT Liquidity Papers held to maturity were as follows:

35-Day Treasury Bills	27,969,215	-
91-Day Treasury Bills	23,788,054	1,279,095
182-Day Treasury Bills	334,969,173	11,068,812
364-Day Treasury Bills	176,894,646	81,561,382
	563,621,088	**93,909,289**

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

37. PROVISIONS

	30.06.2017 TZS '000	30.06.2016 TZS '000
Provision for leave pay	**5,999,009**	**5,736,569**

Relates to the estimated monetary liability for employees' earned but not taken leave entitlement at the end of the reporting period. The maximum allowance for number of leaves days accumulated is 56 days. Only leave falling under this period are accumulated. The movements between the two periods are recognised in the profit and loss accounts.

Movement in provisions	**30.06.2017 TZS '000**	**30.06.2016 TZS '000**
Leave pay		
Carrying amount at the beginning of the year	5,736,569	5,514,291
Increase in provision	262,440	222,278
Carrying amount at the end of the year	**5,999,009**	**5,736,569**

38. OTHER LIABILITIES

Accounts payable	85,609,871	114,067,834
Stale draft payables	108,330	105,221
Other employee cost payable	480,657	561,523
Sundry payables	5,974,962	16,146,762
	92,173,820	**130,881,340**

39. AUTHORISED AND PAID UP SHARE CAPITAL

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

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

40. RESERVES

	30.06.2017 TZS '000	30.06.2016 TZS '000
(a) General Reserve	399,156,998	376,286,560
(b) Capital Reserve	99,262,908	99,262,908
(c) Equalisation Reserve	309,137,314	727,746,713
(d) Reserve for Projects	210,000,000	210,000,000
(e) Staff Housing Fund	112,825,313	99,445,805
(f) Assets Revaluation Reserve	260,246,143	260,246,143
(g) Foreign Exchange Revaluation Reserve	470,905,278	181,892,631
(h) Securities Revaluation Reserve	29,728,482	10,531,659
(i) Financial Sector Development Fund	36,793,285	32,454,978
(j) Reserve for Dividends	300,000,000	300,000,000
(k) Defined Benefit Reserves	(5,920,314)	7,562,690
	2,222,135,407	**2,305,430,087**

(a) General Reserve

In accordance with Section 18(1) of the Bank of Tanzania Act, 2006, the Bank is required to maintain a General Reserve Fund. The amount maintained in this account relates to annual appropriation of distributable profits determined by virtue of Section 18(2) of the aforesaid Act. The Act requires the Bank to transfer to the General Reserve Fund twenty five percent of the net profits until such time that the total capital of the Bank reach a sum equivalent to at least ten per centum of the total assets of the Bank less its assets in gold and foreign currencies. Thereafter, the Bank transfers not less than ten percent of profits to the General Reserve Fund. As at 30 June 2017 the reserve had a balance of TZS 399,157.0 million (2016: TZS 376,286.6 million).

(b) Capital Reserve

The Capital Reserve was established on 30 June 2002. On an annual basis the amount spent to finance capital projects from the Reserve for Projects account is transferred to this reserve. The reserve is permanent in nature and can only be available for enhancement of share capital when need arises. As at 30 June 2017, the reserve had the same balance as it was on 30 June 2016 of TZS 99,262.9 million.

(c) Equalisation Reserve

The reserve was established on 30 June 2006 as foreign exchange equalisation reserve and amended on 30 June 2015 to include cushion for future losses on fair value movements on securities. The reserve acts as a cushion against any significant future losses, which may arise from significant appreciation of Tanzanian Shilling compared to other international currencies, and unfavourable movement in market prices of financial instruments measured at fair value. The reserve is also available to absorb unrealised losses that cannot be absorbed by the opening balances in that account.

The justification for the establishment of the aforesaid reserve as part of the equity of the Bank centres on the requirement of the Bank, among other business entities requiring management to ensure preservation of capital, in terms of mitigating risks that can cause capital impairment or impairment of the entity's assets. As at 30 June 2016, the reserve had a balance of TZS 309,137.3 million (2016: TZS 727,746.7 million).

40. RESERVES (CONTINUED)

(d) Reserve for Projects

This reserve was established by a resolution of the Bank's Board of Directors on 30 June 1992. The purpose of the reserve is to provide funds for financing major capital projects of the Bank. On an annual basis, the Board determines the amount to be appropriated from the distributable profit to the reserve. The Board considered the balance available in this account as at 30 June 2016 to be adequate to meet current and future projects. As at 30 June 2017 the reserve had a balance of TZS 210,000.0 million (2016: TZS 210,000.0 million).

(e) Staff Housing Fund

The Staff Housing Fund was established by a resolution of the Board of Directors on 30 June 1990. The purpose of this fund is to finance housing loans to Bank's employees. On an annual basis, the Board determines the amount to be appropriated from the distributable profit to the reserve. As at 30 June 2017, the fund had a balance of TZS 112,825.3 million (2016: TZS 99,445.8 million). The increase during the year was on account of interest earned from fund's investments and appropriation of TZS 10,000.0 million from distributable profits.

(f) Assets Revaluation Reserve

The Bank maintains Assets Revaluation Reserve to account for revaluation surpluses or deficits. To ensure compliance with requirement of International Accounting Standard (IAS 16), Property, Plant and Equipment if an asset-carrying amount increases as a result of revaluation, the increase is credited directly to other comprehensive income. However, this amount is not available for distribution. Accordingly, it is retained in the asset revaluation reserve. If an asset's carrying amount decreases on account of revaluation, the decrease is recognised in profit or loss to the extent that it exceeds credit balance existing in the asset revaluation reserve in respect of that asset. As at 30 June 2017, the reserve had a balance of TZS 260,246.1 million (2016: TZS 260,246.1 million).

(g) Financial Sector Development Fund.

This is a Fund established by the Board on 30 June 2016 pursuant to Section 18(1) (d) of the Bank of Tanzania Act, 2006 to foster execution of the Bank's mandate on financial sector development. The fund complements donor funds directed towards financial sector reforms. As at 30 June 2017, the fund had TZS 36,793.3 million (2016: TZS 32,455.0 million). The increase is on account of interest income earned from the Fund's investments.

(h) Securities Revaluation Reserve

The Bank maintains Securities Revaluation Reserve to account for unrealised gains and losses arising from changes in fair value of financial instruments measured at fair value. As at 30 June 2017, the reserve had a total balance of TZS 29,728.5 million (2016: TZS 10,531.7 million).

(i) Foreign Exchange Revaluation Reserve

In accordance with Section 18(4) of the Bank of Tanzania Act, 2006, unrealised gains or losses on foreign exchange are transferred to this reserve account. In accounting for unrealised gains or losses the Bank complies with the requirements of both IFRS and the Bank of Tanzania Act (2006). Pursuant to the requirements of the International Accounting Standard (IAS – 21) the Effects of Changes in Foreign Exchange Rates, all realised and unrealised foreign exchange valuations should be taken to the profit or loss. As at 30 June 2016, the reserve had a total balance of TZS 470,905.3 million (2016: TZS 181,892.6 million).

40. RESERVES (CONTINUED)

(i) Foreign Exchange Revaluation Reserve (continued)

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

(j) Reserve for Dividend

This reserve accommodates the amount declared as dividend payable to the Governments after end of the accounting period. During the year ended 30 June 2017, the Bank declared dividend of TZS 300,000.00 million. As at 30 June 2017, the reserve had a balance of TZS 300,000.0 million (2016: TZS 300,000.0 million).

(k) Defined Benefit Reserve

This reserve was established in June 2013 in order to accommodate re-measurements arising from change in actuarial assumptions to ensure compliance with International Accounting Standard (IAS 19 as revised in 2011)- Employee Benefits. During the year ended 30 June 2017 an actuarial loss of TZS 13,483,000.0 million was recorded following revision of actuarial assumptions. As at 30 June 2017, the reserve had a loss balance of TZS 5,920.3 million as compared to a gain of TZS 7,562.7 million in 2016.

41. CASH GENERATED FROM/ USED IN OPERATING ACTIVITIES

	30.06.2017 TZS '000	30.06.2016 TZS '000
Total comprehensive income	**228,704,378**	**621,899,644**
Adjustment for:		
Depreciation of property and equipment	21,544,964	19,096,238
Amortisation of intangible assets	1,444,734	1,375,452
Net loss on disposal of property and equipment	4,258	1,330,965
Unrealised foreign exchange revaluation gains (note 7)	(119,665,106)	(87,717,317)
Fixed assets revaluation gain	-	-
Write off	139,150	-
Provision/(reversal) for impairment	15,000	(97,206)
Actuarial valuation loss (note 45)	(13,483,000)	-
	118,704,378	**555,887,776**
Changes in working capital		
Increase in escrow assets	(254,212)	(994,816)
Increase in items in course of settlement	(49,424,050)	(1,176,525)
Increase in items in advances to Government	(354,742,974)	(748,574,438)
(Increase)/decrease in loans and receivables	(231,366,690)	246,770,782
(Increase)/decrease in inventories	(631,076)	2,683,397
Increase in deferred currency costs	(14,192,662)	(22,939,592)
Decrease/(increase) in other assets	591,215,477	(568,795,834)
Increase in deposits	2,460,471,032	352,120,218
(Decrease)/increase in other liabilities and provisions	(47,474,132)	66,368,175
Net changes in working capital	**2,353,600,713**	**(674,538,633)**
Cash generated from/(used in) operations	**2,472,305,091**	**(118,650,857)**

42. RISK MANAGEMENT

42.1 Introduction

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

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

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

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

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

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

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

42. RISK MANAGEMENT (CONTINUED)

42.2 Risk management structure

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

(a) Board of Directors

The Board of Directors is responsible for:

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

(b) Finance and Investment Committee of the Board

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

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

(c) Management

The Management is responsible for:

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

(d) Management risk committee (MRC)

It is responsible for:

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

42. RISK MANAGEMENT (CONTINUED)

42.2 Risk management structure

(e) Risk Management Function

Risk Management function is responsible for:

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

(f) Internal audit function

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

42.3 Financial risks

(a) Credit risk

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

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

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

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(a) Credit risk (continued)

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

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

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

Total assets of the Bank exposed to credit risk as of 30 June 2017 and 30 June 2016 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).

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(a) Credit risk (continued)

Description	30.06.2017 TZS '000	30.06.2017 Share (%)	30.06.2016 TZS '000	30.06.2016 Share (%)
Central Banks				
AAA	689,481,207	4.38%	490,062,226	3.77%
Foreign Commercial Banks				
F1+	4,206,864,464	26.71%	2,340,650,373	18.03%
Escrow accounts				
AA	10,856,450	0.07%	10,602,238	0.08%
Items in course of settlement:				
NR	51,823,613	0.33%	2,399,563	0.02%
Loans, receivables & advances to the government				
NR	1,920,630,193	12.19%	1,334,520,529	10.28%
Investment in securities				
Marketable securities	6,007,849,343	38.14%	5,370,750,903	41.37%
AAA	4,795,181,170		4,406,288,633	
AA+	77,954,419		297,155,376	
AA	764,082,675		511,167,816	
AA-	101,464,817		5,987,227	
A+	269,166,262		150,151,851	
Equity investments				
NR	29,189,495	0.19%	26,450,665	0.20%
Government securities				
NR	1,492,306,664	9.47%	1,490,568,528	11.48%
Other assets (excluding prepayments)				
NR	79,750,874	0.51%	648,742,883	5.00%
Holdings of Special Drawing Rights (SDRs)				
NR	29,043,708	0.18%	55,835,295	0.43%
Quota in International Monetary Fund (IMF)				
NR	1,234,836,479	7.84%	1,212,378,799	9.34%
	15,752,632,490	**100.00%**	**12,982,962,002**	**100.00%**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(a) Credit risk (Continued)

The sectoral classification of the Bank's credit exposure as at 30 June 2017 is as follows:

Details 2017	Foreign Country Treasury TZS '000	Supranational Institutions TZS '000	Domestic Financial Institutions TZS '000	Foreign Financial Institutions TZS '000	Government Guaranteed Agencies TZS '000	Tanzania Treasury TZS '000	Total TZS '000
Central Banks, Foreign Commercial Banks and Escrow accounts							
Central Banks	683,720,134	-	-	-	-	5,761,073	689,481,207
Commercial Banks	-	-	-	4,206,864,464	-	-	4,206,864,464
Escrow accounts	-	-	-	10,856,450	-	-	10,856,450
Investment in securities							
Foreign Currency Marketable securities	5,717,579,163	166,315,573	-	18,112,668	105,841,939	-	6,007,849,343
Equity investments	-	-	-	29,189,495	-	-	29,189,495
Government securities	-	-	-	-	-	1,492,306,664	1,492,306,664
	-						
Others							
Items in course of settlement	-	-	51,823,613	-	-	-	51,823,613
Loans, receivables and advances	-	-	374,076,710	-	-	1,546,553,483	1,920,630,193
Other assets (excluding prepayments)	-	-	-	-	-	79,750,874	79,750,874
Holdings of Special Drawing Rights (SDRs)	-	29,043,708	-	-	-	-	29,043,708
Quota in International Monetary Fund (IMF)	-	1,234,836,479	-	-	-	-	1,234,836,479
	6,401,299,297	**1,430,195,760**	**425,900,323**	**4,265,023,077**	**105,841,939**	**3,124,372,094**	**15,752,632,490**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(a) Credit risk (Continued)

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

Details 2016	Foreign Country Treasury TZS '000	Supranational Institutions TZS '000	Domestic Financial Institutions TZS '000	Foreign Financial Institutions TZS '000	Government Guaranteed Agencies TZS '000	Tanzania Treasury TZS '000	Total TZS '000
Central Banks, Foreign Commercial Banks and Escrow accounts							
Central Banks	485,548,955	-	-	-	-	4,513,271	490,062,226
Commercial Banks	-	-	-	2,340,650,373	-	-	2,340,650,373
Escrow accounts	-	-	-	10,602,238	-	-	10,602,238
Investment in securities							
Foreign Currency Marketable securities	5,037,992,192	221,881,669	-	11,227,667	99,649,375	-	5,370,750,903
Equity investments	-	-	-	26,450,665	-	-	26,450,665
Government securities	-	-	-	-	-	1,490,568,528	1,490,568,528
Others							
Items in course of settlement	-	-	2,399,563	-	-	-	2,399,563
Loans, receivables and advances	-	-	142,710,020	-	-	1,191,810,509	1,334,520,529
Other assets (excluding prepayments)	-	-	-	-	-	648,742,883	648,742,883
Holdings of Special Drawing Rights (SDRs)	-	55,835,295	-	-	-	-	55,835,295
Quota in International Monetary Fund (IMF)	-	1,212,378,799	-	-	-	-	1,212,378,799
	5,523,541,147	**1,490,095,763**	**145,109,583**	**2,388,930,943**	**99,649,375**	**3,335,635,191**	**12,982,962,002**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(a) Credit risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as at 30 June 2017 is as follows:

Details 2017	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	5,796,539	818,821,035	466,722,942	3,527,255,796	77,749,359	4,896,345,671
Escrow accounts	-	-	10,856,450	-	-	10,856,450
Items in course of settlement	51,823,613	-	-	-	-	51,823,613
Holdings of Special Drawing Rights (SDRs)	-	29,043,708	-	-	-	29,043,708
Quota in International Monetary Fund (IMF)	-	1,234,836,479	-	-	-	1,234,836,479
Foreign currency marketable securities	-	4,164,469,851	405,906,404	792,999,902	644,473,186	6,007,849,343
Equity investment	-	-	-	736,604	28,452,891	29,189,495
Government securities	1,492,306,664	-	-	-	-	1,492,306,664
Advances to the Government	1,546,553,483	-	-	-	-	1,546,553,483
Loans and receivables	374,076,710	-	-	-	-	374,076,710
Other assets (excluding prepayments)	79,750,874	-	-	-	-	79,750,874
Total assets	**3,550,307,883**	**6,247,171,073**	**883,485,796**	**4,320,992,302**	**750,675,436**	**15,752,632,490**
Liabilities						
Currency in circulation	4,354,606,292	-	-	-	-	4,354,606,292
Deposits - banks and non-banks financial institutions	2,922,444,156	-	-	-	-	2,922,444,156
Deposits - Government	2,215,796,335	-	-	-	-	2,215,796,335
Deposits - others	1,253,578,936	-	-	-	-	1,253,578,936
Foreign currency financial liabilities	930,393,612	-	-	-	-	930,393,612
Poverty deduction and growth facility	-	502,201,325	-	-	-	502,201,325
BoT liquidity papers	588,312,538	-	-	-	-	588,312,538
Other liabilities	92,173,820	-	-	-	-	92,173,820
IMF related liabilities	1,049,439,846	-	-	-	-	1,049,439,846
Allocation of Special Drawing Rights (SDRs)	-	591,378,689	-	-	-	591,378,689
Total liabilities	**13,406,745,535**	**1,093,580,014**	-	-	-	**14,500,325,549**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(a) Credit risk (continued)

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

Details 2016	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
Assets						
Cash and balances with central banks and other banks	4,513,271	1,295,113,369	248,977,713	1,161,660,281	120,447,965	2,830,712,599
Escrow accounts	-	-	10,602,238	-	-	10,602,238
Items in course of settlement	2,399,563	-	-	-	-	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	55,835,295	-	-	-	55,835,295
Quota in International Monetary Fund (IMF)	-	1,212,378,799	-	-	-	1,212,378,799
Foreign currency marketable securities	-	3,454,331,610	415,952,221	934,584,878	565,882,194	5,370,750,903
Equity investment	-	-	-	645,095	25,805,570	26,450,665
Government securities	1,490,568,528	-	-	-	-	1,490,568,528
Advances to the Government	1,191,810,509	-	-	-	-	1,191,810,509
Loans and receivables	142,710,020	-	-	-	-	142,710,020
Other assets (excluding prepayments)	648,742,883	-	-	-	-	648,742,883
Total assets	**3,480,744,774**	**6,017,659,073**	**675,532,172**	**2,096,890,254**	**712,135,729**	**12,982,962,002**
Liabilities						
Currency in circulation	4,374,339,542	-	-	-	-	4,374,339,542
Deposits - banks and non-banks financial institutions	2,899,940,762	-	-	-	-	2,899,940,762
Deposits – Government	395,271,716	-	-	-	-	395,271,716
Deposits – others	636,135,917	-	-	-	-	636,135,917
Foreign currency financial liabilities	2,899,940,762	-	-	-	-	2,899,940,762
Poverty deduction and growth facility	-	653,398,418	-	-	-	653,398,418
BoT liquidity papers	97,038,856	-	-	-	-	97,038,856
Other liabilities	130,881,340	-	-	-	-	130,881,340
IMF related liabilities	-	1,030,358,192	-	-	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	580,623,424	-	-	-	580,623,424
Total liabilities	**11,433,548,895**	**2,264,380,034**	**-**	**-**	**-**	**13,697,928,929**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(b) Credit quality per class of financial assets

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

Details	Neither past due nor impaired TZS '000	Past due but not impaired TZS '000	Individually impaired TZS '000	Total TZS '000
30.06.2017				
Cash and cash equivalents	4,896,345,671	-	-	4,896,345,671
Escrow accounts	10,856,450	-	-	10,856,450
Items in course of settlement	51,823,613	-	-	51,823,613
Foreign currency marketable securities	6,007,849,343	-	-	6,007,849,343
Equity investments	29,189,495	-	-	29,189,495
Government securities	1,492,306,664	-	-	1,492,306,664
Loans, receivables and advances	1,919,069,074	1,561,119	11,848,041	1,932,478,234
Other assets (excluding prepayments)	79,750,874	-	-	79,750,874
Holdings of Special Drawing Rights (SDRs)	29,043,708	-	-	29,043,708
Quota in International Monetary Fund	1,234,836,479	-	-	1,234,836,479
	15,751,071,371	**1,561,119**	**11,848,041**	**15,764,480,531**
30.06.2016				
Cash and cash equivalents	2,830,712,599	-	-	2,830,712,599
Escrow accounts	10,602,238	-	-	10,602,238
Items in course of settlement	2,399,563	-	-	2,399,563
Foreign currency marketable securities	5,370,750,903	-	-	5,370,750,903
Equity investments	26,450,665	-	-	26,450,665
Government securities	1,490,568,528	-	-	1,490,568,528
Loans, receivables and advances	1,333,573,968	946,561	11,001,283	1,345,521,812
Other assets (excluding prepayments)	648,742,883	-	-	648,742,883
Holdings of Special Drawing Rights (SDRs)	55,835,295	-	-	55,835,295
Quota in International Monetary Fund	1,212,378,799	-	-	1,212,378,799
	12,982,015,441	**946,561**	**11,001,283**	**12,993,963,285**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

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

Details	Total TZS '000	Neither past due nor impaired TZS '000	< 30 days TZS '000	31 - 60 days TZS '000	61 - 90 days TZS '000	91 - 120 days TZS '000	> 120 days TZS '000
2017	1,932,478,234	1,919,069,074	76,473	390,246	-	74,134	12,868,307
2016	1,345,521,812	1,333,573,968	530,319	1,916	1,833	1,705	11,412,071

Details on provision for impairment losses on loans and receivables have been provided under **Note 24**. The Bank does not hold collateral for financial liabilities pledged as security.

Individually assessed allowances:

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

	30.06.2017 Gross Maximum Exposure TZS '000	30.06.2016 Gross Maximum Exposure TZS '000
Cash and cash equivalents	4,896,345,671	2,826,199,328
Escrow accounts	10,856,450	10,602,238
Items in the course of settlements	51,823,613	2,399,563
Foreign currency marketable securities	6,007,849,343	5,370,750,903
Equity investments	29,189,495	26,450,665
Government securities	1,492,306,664	1,490,568,528
Loans, receivables and advances	1,920,630,193	1,334,520,529
Other assets (Excluding prepayments)	79,750,874	648,742,883
Holdings of Special Drawing Rights (SDRs)	29,043,708	55,835,295
Quota in International Monetary Fund	1,234,836,479	1,212,378,799

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

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

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

	Asset TZS '000	Liability TZS '000
2017		
Futures	441,257	-
Swaps	1,577,047	-
2016		
Futures	-	890,928
Swaps	205,434	-

(c) Liquidity risk

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

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

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

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(c) Liquidity risk (continued)

By contractual maturity analysis of financial instruments

Details 2017	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000
Assets				
Cash and balances with central banks & other banks	2,996,856,953	1,899,488,718	-	-
Escrow accounts	-	-	-	-
Items in course of settlement	51,823,613	-	-	-
Holdings of Special Drawing Rights (SDRs)	-	-	-	-
Quota in International Monetary Fund (IMF)	-	-	-	-
Foreign currency marketable securities	125,706,739	261,716,982	962,974,420	4,657,451,202
Equity investment	-	-	-	-
Government securities	24,118,385	-	1,929	51,974,974
Advance to the Government	-	-	1,546,553,483	
Loans and receivables	38,634,090	22,198,890	209,341,353	54,621,497
Other assets (excluding prepayments)	12,351,821	-	34,878,932	32,520,121
Total assets	**3,249,491,601**	**2,183,404,590**	**2,753,750,117**	**4,796,567,794**
Liabilities				
Currency in circulation	4,354,606,292	-	-	-
Deposit - banks and non-banks financial institutions	2,922,444,156	-	-	-
Deposits - Governments	2,215,796,335	-	-	-
Deposit others	1,253,578,936	-	-	-
Foreign currency financial liabilities	930,393,612	-	-	-
Poverty Reduction and Growth Facility	-	26,519,355	164,059,421	278,391,139
BOT liquidity papers	28,115,910	24,174,260	536,022,368	-
Other liabilities	64,766,996	1,206	-	27,405,618
IMF Related Liabilities	-	-	-	1,049,439,846
Allocation of Special Drawing Rights (SDRs)	-	-	-	591,378,689
Total liabilities	**11,769,702,237**	**50,694,821**	**700,081,789**	**1,946,615,292**
Net liquidity gap	**(8,520,210,636)**	**2,132,709,769**	**2,053,668,328**	**2,849,952,502**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(c) Liquidity risk (continued)

By contractual maturity analysis of financial instruments

Details 2016	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000	Over 5 Years TZS '000	Total TZS '000
Assets						
Cash and balances with central banks & other banks	1,391,209,975	1,439,502,624		-	-	2,830,712,599
Escrow accounts	-	-	-	-	10,602,238	10,602,238
Items in course of settlement	2,399,563	-	-	-	-	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	-	-	-	55,835,295	55,835,295
Quota in International Monetary Fund (IMF)					1,212,378,799	1,212,378,799
Foreign currency marketable securities	17,472,381	277,304,976	853,823,980	4,207,525,383	14,624,183	5,370,750,903
Equity investment	-	-	-	-	26,450,665	26,450,665
Government securities	-	13,387,925	6,368,220	683,686,074	787,126,309	1,490,568,528
Advances to the Government	-	-	1,191,810,509	-	-	1,191,810,509
Loans and receivables	14,674	80,451	77,217,836	26,870,439	38,526,620	142,710,020
Other assets (excluding prepayments)	10,919,461	18,751,348	92,073,086	526,998,988	-	648,742,883
	1,422,016,054	**1,749,027,324**	**2,221,293,631**	**5,445,080,884**	**2,145,544,109**	**12,982,962,002**
Liabilities						
Currency in circulation	4,374,339,542	-	-	-	-	4,374,339,542
Deposits - banks and non-banks financial institutions	1,035,251,414	-	-	-	1,864,689,348	2,899,940,762
Deposits - others	636,135,917	-	-	-	-	636,135,917
Deposits - Government	395,271,716	-	-	-	-	395,271,716
Foreign currency financial liabilities	824,828,680	-	-	-	-	824,828,680
Poverty deduction and growth facility	-	915,654	160,386,659	489,202,710	2,893,395	653,398,418
BoT liquidity papers	-	12,347,907	84,690,949	-	-	97,038,856
Other liabilities	99,987,578	25,290,126	-	5,603,636		130,881,340
IMF related liabilities	-	-	-	1,030,358,192	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	-	-	580,623,424	-	580,623,424
	7,365,814,847	**38,553,687**	**245,077,608**	**2,105,787,962**	**1,867,582,743**	**11,622,816,847**
Net liquidity gap	**(5,943,798,793)**	**1,710,473,637**	**1,976,216,023**	**3,339,292,922**	**277,961,366**	**1,360,145,155**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(c) Liquidity risk (continued)

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

2017 **Assets**	**Less than 12 months** **TZS '000**	**Over 12 months** **TZS '000**	**Total** **TZS '000**
Cash and balances with central banks & other banks	4,896,345,671	-	4,896,345,671
Escrow accounts	-	10,856,450	10,856,450
Items in course of settlement	51,823,613	-	51,823,613
Holdings of Special Drawing Rights (SDRs)	-	29,043,708	29,043,708
Quota in International Monetary Fund	-	1,234,836,479	1,234,836,479
Foreign Currency Marketable securities	1,350,398,141	4,657,451,202	6,007,849,343
Equity investment	-	29,189,495	29,189,495
Government securities	24,120,314	1,468,186,350	1,492,306,664
Advance to the Government	1,546,553,483	-	1,546,553,483
Loans and receivables	270,174,333	103,902,377	374,076,710
Other assets (excluding prepayments)	47,230,753	32,520,121	79,750,874
	8,186,646,308	**7,565,986,182**	**15,752,632,490**
Liabilities			
Currency in circulation	4,354,606,292	-	4,354,606,292
Deposit - banks and non-banks financial institutions	2,922,444,156	-	2,922,444,156
Deposit - Others	1,253,578,936	-	1,253,578,936
Deposit - Government	2,215,796,335	-	2,215,796,335
Foreign currency financial liabilities	930,393,612	-	930,393,612
Poverty reduction and growth facility	190,578,776	311,622,549	502,201,325
BOT liquidity papers	588,312,538	-	588,312,538
Other liabilities	64,768,202	27,405,618	92,173,820
IMF related liabilities	-	1,049,439,846	1,049,439,846
Allocation of Special Drawing Rights (SDRs)	-	591,378,689	591,378,689
Total liabilities	**12,520,478,847**	**1,979,846,702**	**14,500,325,549**
Net Liquidity gap	**(4,333,832,539)**	**5,586,139,480**	**1,252,306,941**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(c) Liquidity risk (continued)

2016 Assets	Less than 12 months TZS '000	Over 12 months TZS '000	Total TZS '000
Cash and balances with central banks & other banks	2,830,712,599	-	2,830,712,599
Escrow accounts	-	10,602,238	10,602,238
Items in course of settlement	2,399,563	-	2,399,563
Holdings of Special Drawing Rights (SDRs)		55,835,295	55,835,295
Quota in International Monetary Fund		1,212,378,799	1,212,378,799
Foreign Currency Marketable securities	1,148,601,337	4,222,149,566	5,370,750,903
Equity investment	-	26,450,665	26,450,665
Government securities	19,756,145	1,470,812,383	1,490,568,528
Advance to the Government	1,191,810,509	-	1,191,810,509
Loans and receivables	77,312,961	65,397,059	142,710,020
Other assets (excluding prepayments)	121,743,895	526,998,988	648,742,883
Total assets	**5,392,337,009**	**7,590,624,993**	**12,982,962,002**
Liabilities			
Currency in circulation	4,374,339,542	-	4,374,339,542
Deposit - banks and non-banks financial institutions	1,035,251,414	1,864,689,348	2,899,940,762
Deposit - governments	395,271,716	-	395,271,716
Deposit - Others	636,135,917	-	636,135,917
Foreign currency financial liabilities	824,828,680		824,828,680
Poverty reduction and growth facility	161,302,313	492,096,105	653,398,418
BOT liquidity papers	97,038,856	-	97,038,856
Other liabilities	125,277,704	5,603,636	130,881,340
IMF related liabilities	-	1,030,358,192	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	580,623,424	580,623,424
Total liabilities	**7,649,446,142**	**3,973,370,705**	**11,622,816,847**
Net Liquidity gap	**(2,257,109,133)**	**3,617,254,288**	**1,360,145,155**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(d) Interest rate risk

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

The risk budget for active management relative to the benchmark is limited to 30 basis points in a year or 9 basis points in a month. In other words, the potential losses of the portfolio relative to the benchmark will not exceed the targeted amount. As of 30 June 2017 portfolio duration stood at 1.37 years while that of 30 June 2016 was 2.22 years.

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

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

The tables below show various risk measured parameters.

Portfolio characteristics				
USD				
	30.06.2017		30.06.2016	
Positions of securities	217		106	
Duration	2.11 years		2.21 years	
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	1,689,437,913	3,769,103,209	1,399,543,430	3,048,527,132
Money Markets placements	1,508,815,025	3,366,137,050	847,500,000	1,847,189,366

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(d) Interest rate risk (continued)

EUR				
	30.06.2017		30.06.2016	
Positions of securities		75		25
Duration		2.33years		1.98years
Base currency	EUR	TZS '000	EUR	TZS '000
Market value of Marketable Securities	251,024,812	639,304,093	300,379,583	726,625,258
GBP				
	30.06.2017		30.06.2016	
Positions of securities		25		15
Duration		2.40 years		2.37years
Base currency	GBP	TZS '000	GBP	TZS '000
Market value of Marketable Securities	140,283,534	405,906,311	148,958,384	436,966,805
Money Markets placements	91,536,887	264,859,310	83,500,000	245,089,762
AUD				
	30.06.2017		30.06.2016	
Positions of securities		22		14
Duration		2.25years		2.45 years
Base currency	AUD	TZS '000	AUD	TZS '000
Market value of Marketable Securities	201,450,547	345,501,386	234,438,019	379,689,889
Money Markets placements	79,070,418	135,611,143	55,750,000	90,378,555

CNY				
	30.06.2017		30.06.2016	
Positions of securities		30		16
Duration		2.08years		1.86years
Base currency	CNY	TZS '000	CNY	TZS '000
Market value of Marketable Securities	720,448,797	237,050,060	483,904,080	158,625,749
Money Markets placements	491,652,401	161,768,930	242,500,000	79,571,125

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(d) Interest rate risk (continued)

RAMP				
	30.06.2017		30.06.2016	
Positions of securities		64		65
Duration		2.15years		2.23years
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	272,783,489	608,574,774	284,701,526	620,316,069

VaR for three major currencies in USD

Details	30.06.2017		30.06.2016	
	USD	TZS '000	USD	TZS '000
USD	9,037,523	20,162,538	8,400,936	18,303,460
EUR	1,058,079	2,360,554	762,953	1,662,277
GBP	1,029,154	2,296,023	1,326,023	2,889,060

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

- A 95 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1 percent probability that losses could exceed the VaR.
- A one month holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be realistic in a situation where there is severe market illiquidity.
- VaR data is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the day.
- The model uses historical data from 1 July 2012 to 30 June 2017 as a basis for determining the possible ranges of outcomes and may not always cover all possible scenarios, especially those of an exceptional nature.

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

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

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(d) Interest rate risk (continued)

Price of 1 BPS in USD

Details	30.06.2017 USD	30.06.2017 TZS '000	30.06.2016 USD	30.06.2016 TZS '000
USD	357,655	797,921	311,195	678,013
EUR	70,121	156,438	65,822	143,409
GBP	43,740	97,583	46,979	102,355
AUD	34,946	77,964	33,560	73,119
CNY	22,210	49,550	2,037	4,439
RAMP	61,521	137,252	63,945	139,320

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

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

Details	30.06.2017 USD	30.06.2017 TZS '000	30.06.2016 USD	30.06.2016 TZS '000
USD	31,245	69,707	40,737	88,755
EUR	1,572	3,507	17,581	38,304
GBP	751	1,675	2,001	4,359
AUD	3,939	8,788	33,539	73,073
CNY	33	74	2,034	4,432
RAMP	16,071	35,854	20,931	45,603

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

30.06.2017 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,576,555)	(701,214)	(437,401)	(4,715,170)	(10,519,453)
20	(7,153,109)	(1,389,176)	(874,803)	(9,417,088)	(21,009,341)
30	(10,729,664)	(2,044,569)	(118,496)	(12,892,729)	(28,763,428)

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(d) Interest rate risk (continued)

30.06.2016 (Amounts in USD equivalent)

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

Yield decrease in 1 BPS
30.06.2017 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
1	357,655	70,121	43,740	471,516	1,051,943

30.06.2016 (Amounts in USD equivalent)

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

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

30.06.2017 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS'000
Spread widening by 50	(1,562,244)	(78,605)	(37,537)	(1,678,386)	(3,744,447)
Curve Steepening by 50	(965,882)	(370,477)	118,496	(1,217,863)	(2,717,029)
Curve Flattening by 50	965,882	370,477	(118,496)	1,217,863	2,717,029

30.06.2016 (Amounts in USD equivalent)

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

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(d) Interest rate risk (continued)

Cash flow and fair value interest rate risk

Interest sensitivity of assets and liabilities
For accounting purposes, cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, both in the United Republic of Tanzania and abroad. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

(e) Currency risk

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

Based on the sensitivity of the ten per cent deviation of the exchange rate against major currencies the impact on the Banks profit and equity was TZS 958,027.2 million (2016: TZS 694,342.8 million).

The Bank is exposed to this risk in the context of its holding of foreign exchange reserves, intervention in the local inter-bank foreign exchange market (IFEM) and foreign exchange transactions in the international foreign exchange market. Often, currency exposures are not out rightly hedged, but the currency risk is controlled through a target currency composition whose criteria are specified in the Foreign Exchange Reserves Policy and stated in the Investment Guidelines. The currency positions of the Bank as of 30 June 2017and 2016 which provides the Bank's assets, liabilities and equity at carrying amounts, categorised by currency is summarised below.

BANK OF TANZANIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(e) Currency risk (continued)

Details	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
2017							
Assets							
Cash and balances with central banks & other banks	305,131,065	4,192,132,830	26,887,795	-	-	372,193,981	4,896,345,671
Escrow accounts	-	10,856,450	-	-	-	-	10,856,450
Items in course of settlement	-	-	-	-	51,823,613	-	51,823,613
Holdings of Special Drawing Rights (SDRs)	-	-	-	29,043,708	-	-	29,043,708
Quota in International Monetary Fund (IMF)	-	-	-	1,234,836,479	-	-	1,234,836,479
Foreign currency marketable securities	405,906,402	4,380,087,265	639,304,233	-	-	582,551,443	6,007,849,343
Equity investments	-	28,452,891	736,604	-	-	-	29,189,495
Government securities	-	-	-	-	1,492,306,664	-	1,492,306,664
Advances to the Government	-	-	-	-	1,546,553,483	-	1,546,553,483
Loans and receivables	-	56,421,914	-	-	317,654,796	-	374,076,710
Other assets (Excluding prepayments)	-	-	-	-	79,750,874	-	79,750,874
Total financial assets	**711,037,467**	**8,667,951,350**	**666,928,632**	**1,263,880,187**	**3,488,089,430**	**954,745,424**	**15,752,632,490**
Liabilities							
Currency in circulation	-	-	-	-	4,354,606,292	-	4,354,606,292
Deposits - banks and non-bank financial institutions	-	450,585,149	-	-	2,471,859,007		2,922,444,156
Deposits - Governments	-	-	-	-	2,215,796,335	-	2,215,796,335
Deposits - Others	1,413,328	206,041,476	1,942,661	-	1,043,326,535	854,936	1,253,578,936
Foreign currency financial liabilities	44,113	919,618,831	10,190,767	-	539,901	-	930,393,612
Poverty reduction and growth facility	-	-	-	502,201,325	-	-	502,201,325
BoT liquidity papers	-	-	-	-	588,312,538	-	588,312,538
Other liabilities	-	-	-	-	92,173,820	-	92,173,820
IMF related liabilities	-	-	-	-	1,049,439,846	-	1,049,439,846
Allocation of Special Drawing Rights (SDRs)				591,378,689	-	-	591,378,689
	1,457,441	**1,576,245,456**	**12,133,428**	**1,093,580,014**	**11,816,054,274**	**854,936**	**14,500,325,549**
Net liquidity gap	**709,580,026**	**7,091,705,894**	**654,795,204**	**170,300,173**	**N/A**	**953,890,488**	**9,580,271,785**
Scenario of 10% appreciation/depreciation	**70,958,003**	**709,170,589**	**65,479,520**	**17,030,017**	**N/A**	**95,389,049**	**958,027,179**

42. RISK MANAGEMENT (CONTINUED)

42.3 Financial risks (continued)

(f) Currency risk (continued)

Details	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
2016							
Assets							
Cash and balances with central banks & other banks	296,993,180	2,284,918,459	21,735,070	-	-	227,065,890	2,830,712,599
Escrow accounts	-	10,602,238	-	-	-	-	10,602,238
Items in course of settlement	-	23,901		-	2,324,593	51,069	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	-	-	55,835,295	-	-	55,835,295
Quota in International Monetary Fund (IMF)	-	-	-	1,212,378,799	-	-	1,212,378,799
Foreign currency marketable securities	437,093,036	3,668,429,937	726,832,215	-	-	538,395,715	5,370,750,903
Equity investments	-	25,936,089	514,576	-	-	-	26,450,665
Government securities	-	-	-	-	1,490,568,528	-	1,490,568,528
Advances to the Government	-	-	-	-	1,191,810,509	-	818,528,205
Loans and receivables	-	-	-	-	142,710,020	-	142,710,020
Other assets (Excluding prepayments)	-	-	-	-	648,742,883	-	648,742,883
Total financial assets	734,086,216	5,989,910,624	749,081,861	1,268,214,094	3,476,156,533	765,512,674	12,982,962,002
Liabilities							
Currency in circulation	-	-	-	-	4,374,339,542	-	4,374,339,542
Deposits - banks and non-bank financial institutions	-	244,344,412	-	-	2,655,596,350	-	2,899,940,762
Deposits - Governments	-	-	-	-	395,271,716	-	395,271,716
Deposits - Others	-	242,924,537	-	-	391,791,504	1,419,876	636,135,917
Foreign currency financial liabilities	16,273,712	704,972,017	76,066,288	-	2,825,368	24,691,295	824,828,680
Poverty reduction and growth facility	-	-	-	653,398,418	-	-	653,398,418
BoT liquidity papers	-	-	-	-	97,038,856	-	97,038,856
Other liabilities	8,205,143	-	-	-	112,218,242	10,457,955	130,881,340
IMF related liabilities	-	-	-	-	1,030,358,192	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	-	-	580,623,424	-	-	580,623,424
	24,478,855	1,192,240,966	76,066,288	1,234,021,842	9,059,439,770	36,569,126	11,622,816,867
Net liquidity gap	709,607,361	4,797,669,658	673,015,573	34,192,252	N/A	728,943,548	6,943,428,392
Scenario of 10% appreciation/depreciation	70,960,736	479,766,966	67,301,557	3,419,225	N/A	72,894,355	694,342,839

42. RISK MANAGEMENT (CONTINUED)

42.4 Non-financial risks

Operational risk

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

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

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

Human resource risk

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

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

Legal risk

Legal risk arise out of adverse judgment, risks associated with failure of processes, systems and resources to support legal and regulatory requirements, or actions that can result into legal dispute against the organisation.
In mitigating this type of the risk, the Bank ensures that all business agreements are contracted under Standard Industry Contracts, e.g. ISDA, ISMA, etc. Where new contracts and substantive changes to existing contracts are entered to, external lawyers are contracted. The Bank has in place procedures for delegation of responsibilities. Also Code of Conduct and Ethics and continuous consultations with all relevant parties are used to minimise chances of causing legal disputes between the Bank and its counterparts.

42. RISK MANAGEMENT (CONTINUED)

42.4 Non-financial risks (continued)

Reputational risk

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

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

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

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

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

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

43. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. A summary of significant accounting policies in **Note 3** describes how classes of financial instruments are measured and how income and expenses, including fair value gains are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category:

2017	Amortised Cost TZS '000	FVTPL TZS '000	FVOCI TZS '000	Total TZS '000	Fair values TZS '000
Financial assets					
Cash and balances with central banks & other banks	4,896,345,671	-	-	4,896,345,671	4,896,345,671
Escrow accounts	10,856,450	-	-	10,856,450	10,856,450
Items in course of settlement	51,823,613	-	-	51,823,613	51,823,613
Holdings of Special Drawing Rights (SDRs)	29,043,708	-	-	29,043,708	29,043,708
Quota in International Monetary Fund (IMF)	1,234,836,479	-	-	1,234,836,479	1,234,836,479
Foreign currency marketable securities	-	6,007,849,343	-	6,007,849,343	6,007,849,343
Equity investment	-	-	29,189,495	29,189,495	29,189,495
Government securities	1,492,306,664	-	-	1,492,306,664	1,492,306,664
Advances to the Government	1,546,553,483	-	-	1,546,553,483	1,546,553,483
Loans and receivables	374,076,710	-	-	374,076,710	374,076,710
Other assets (Excluding prepayments)	79,750,874	-	-	79,750,874	79,750,874
Financial liabilities					
Currency in circulation	4,354,606,292	-	-	4,354,606,292	4,354,606,292
Deposits - banks and non-banks financial institutions	2,922,444,156	-	-	2,922,444,156	2,922,444,156
Deposits - others	1,253,578,936	-	-	1,253,578,936	1,253,578,936
Deposits - Government	2,215,796,335	-	-	2,215,796,335	2,215,796,335
Foreign currency financial liabilities	930,393,612	-	-	930,393,612	930,393,612
Poverty deduction and growth facility	502,201,325	-	-	502,201,325	502,201,325
BoT liquidity papers	588,312,538	-	-	588,312,538	588,312,538
Other liabilities	92,173,820	-	-	92,173,820	92,173,820
IMF related liabilities	1,049,439,846	-	-	1,049,439,846	1,049,439,846
Allocation of Special Drawing Rights (SDRs)	591,378,689	-	-	591,378,689	591,378,689

43. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2016	Amortised Cost TZS '000	FVTPL TZS '000	FVOCI TZS '000	Total TZS '000	Fair values TZS '000
Financial assets					
Cash and balances with central banks & other banks	2,830,712,599	-	-	2,830,712,599	2,830,712,599
Escrow accounts	10,602,238	-	-	10,602,238	10,602,238
Items in course of settlement	2,399,563	-	-	2,399,563	2,399,563
Holdings of Special Drawing Rights (SDRs)	55,835,295	-	-	55,835,295	55,835,295
Quota in International Monetary Fund (IMF)	1,212,378,799	-	-	1,212,378,799	1,212,378,799
Foreign currency marketable securities	-	5,370,750,903	-	5,370,750,903	5,370,750,903
Equity investment	-	-	26,450,665	26,450,665	26,450,665
Government securities	1,490,568,528	-	-	1,490,568,528	1,490,568,528
Advances to the Government	1,191,810,509	-	-	1,191,810,509	1,191,810,509
Loans and receivables	142,710,020	-	-	142,710,020	142,710,020
Other assets (Excluding prepayments)	648,742,883	-	-	648,742,883	648,742,883
Financial liabilities					
Currency in circulation	4,374,339,542	-	-	4,374,339,542	4,374,339,542
Deposits - banks and non-banks financial institutions	2,899,940,762	-	-	2,899,940,762	2,899,940,762
Deposits - others	636,135,917	-	-	636,135,917	636,135,917
Deposits - Government	395,271,716	-	-	395,271,716	395,271,716
Foreign currency financial liabilities	824,828,680	-	-	824,828,680	824,828,680
Poverty deduction and growth facility	653,398,418	-	-	653,398,418	653,398,418
BoT liquidity papers	97,038,856	-	-	97,038,856	97,038,856
Other liabilities	130,881,340	-	-	130,881,340	130,881,340
IMF related liabilities	1,030,358,192	-	-	1,030,358,192	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	580,623,424	-	-	580,623,424	580,623,424

44. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY

Financial instruments recorded at fair value

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

Foreign currency marketable securities

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

Fair value of derivatives

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

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

Unquoted equities securities.

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

Fair value of financial assets and liabilities not carried at fair value

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

Assets and liabilities for which fair value approximates carrying value

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

Government securities

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

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

Fair value of financial assets and liabilities

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

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

Fair value hierarchy

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

30.06.2017

Description	**Level 1 TZS '000**	**Level 2 TZS '000**	**Level 3 TZS '000**
Foreign currency marketable securities	6,007,849,343	-	-
Equity investments	-	29,189,495	-
Total	**6,007,849,343**	**29,189,495**	-

30.06.2016

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

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

If below observable inputs to valuation model were 10 per cent higher or lower while other variables were held constant, carrying amount of TZS 6,007,849.3 million and TZS 29,189.5 million Foreign Currency Marketable Securities and Equity Investments would have been higher or lower by TZS 600,784.9 million and TZS 2,919.0 million respectively. Swap and Futures would change by 157,704.7 million and 44,125.7 million, respectively.

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

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

	Fair value at 2017 TZS '000	Fair value at 2016 TZS '000	Hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable input to fair value
Foreign currency marketable securities (Excluding futures)	6,007,408,086	5,370,750,903	1	Prices of listed securities	N/A	N/A
Equity investments	29,189,495	26,450,66	2	Net assets of the investee	N/A	N/A
Derivatives:						
Swap Asset	1,577,047	205,434	2	Discounted Cash flows	N/A	N/A
Futures Asset/(Liability)	441,257	890,935	1	Quoted prices	N/A	N/A

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

2017	Level 1 TZS '000	Level 2 TZS '000	Level 3 TZS '000	Total TZS '000
Assets				
Cash and balances with central banks & other banks	4,896,345,671	-	-	4,896,345,671
Escrow accounts	-	10,856,450	-	10,856,450
Items in course of settlement	-	51,823,613	-	51,823,613
Holdings of Special Drawing Rights (SDRs)	-	29,043,708	-	29,043,708
Quota in International Monetary Fund (IMF)	-	1,234,836,479	-	1,234,836,479
Foreign currency marketable securities	6,007,849,343	-	-	6,007,849,343
Equity investment	-	29,189,495	-	29,189,495
Government securities	-	1,492,306,664	-	1,492,306,664
Advances to the Government	-	1,546,553,483	-	1,546,553,483
Loans and receivables	-	374,076,710	-	374,076,710
Other assets (Excluding prepayments)	-	79,750,874	-	79,750,874
	10,904,195,014	**4,848,437,476**	**-**	**15,752,632,490**
Liabilities				
Currency in circulation	-	4,354,606,292	-	4,354,606,292
Deposits - banks and non-banks financial institutions	-	2,922,444,156	-	2,922,444,156
Deposits - others	-	1,253,578,936	-	1,253,578,936
Deposits - Government	-	2,215,796,335	-	2,215,796,335
Foreign currency financial liabilities	-	930,393,612	-	930,393,612
Poverty deduction and growth facility	-	502,201,325	-	502,201,325
BoT liquidity papers	-	588,312,538	-	588,312,538
Other liabilities	-	92,173,820	-	92,173,820
IMF related liabilities	-	1,049,439,846	-	1,049,439,846
Allocation of Special Drawing Rights (SDRs)	-	591,378,689	-	591,378,689
	-	**14,500,325,549**	**-**	**14,500,325,549**

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

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

2016 Assets	Level 1 TZS '000	Level 2 TZS '000	Level 3 'ZS '000	Total TZS '000
Cash and balances with central banks & other banks	2,830,712,599	-	-	2,830,712,599
Escrow accounts	-	10,602,238	-	10,602,238
Items in course of settlement	-	2,399,563	-	2,399,563
Holdings of Special Drawing Rights (SDRs)	-	55,835,295	-	55,835,295
Quota in International Monetary Fund (IMF)	-	1,212,378,799	-	1,212,378,799
Foreign currency marketable securities	5,370,750,903	-	-	5,370,750,903
Equity investment	-	26,450,665	-	26,450,665
Government securities	-	1,490,568,528	-	1,490,568,528
Advances to the Government	-	1,191,810,509	-	1,191,810,509
Loans and receivables	-	142,710,020	-	142,710,020
Other assets (Excluding prepayments)	-	648,742,883	-	648,742,883
	8,201,463,502	**4,781,498,500**	**-**	**12,982,962,002**
Liabilities				
Currency in circulation	-	4,374,339,542	-	4,374,339,542
Deposits - banks and non-banks financial institutions	-	2,899,940,762	-	2,899,940,762
Deposits - others	-	636,135,917	-	636,135,917
Deposits - Government	-	395,271,716	-	395,271,716
Foreign currency financial liabilities	-	824,828,680	-	824,828,680
Poverty deduction and growth facility	-	653,398,418	-	653,398,418
BoT liquidity papers	-	97,038,856	-	97,038,856
Other liabilities	-	130,881,340	-	130,881,340
IMF related liabilities	-	1,030,358,192	-	1,030,358,192
Allocation of Special Drawing Rights (SDRs)	-	580,623,424	-	580,623,424
	-	**11,622,816,847**		**11,622,816,847**

45. RETIREMENT BENEFIT PLAN

Defined Benefit Plan

The Bank operates a funded lump sum end of service and Long Service Award Benefit Fund. The Scheme was registered effective 13 April 2017 by Social Security Regulatory Authority. Under the plan employees are entitled to benefits upon meeting requirements as stipulated in the Bank's Financial Regulations, 2011 and Staff Bylaws, 2015 and the Scheme rules.

The plan provides benefits of a defined benefit nature. Therefore one of the main risks relating to the benefits under the Scheme is the rates of salary growth. As most of the benefits are based on the final salary, any changes in salary that differ from the salary escalation rate assumed will have a direct bearing on the benefits paid and the present value of the benefit obligation under the Scheme.

45. RETIREMENT BENEFIT PLAN (CONTINUED)

Defined Benefit Plan (Continued)

Similarly, any increases to the fixed lump sum amounts that differ from the assumed escalation rates for these amounts will also have a direct bearing on the benefits paid and the present value of the benefit obligation under the Scheme. The plan typically exposes the Bank to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

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

Actuarial valuation of the Scheme was carried out for the year ended 30 June 2017. The principle assumptions used for the purposes of the valuation included discount rate, expected return on Scheme assets, future salary increase, mortality rate, withdrawals, Ill-Health and compulsory retirement age as per the below:

Actuarial Assumptions

	30.06.2017	**30.06.2016**
Discount rate (% p.a.)	16.20%	18.90%
Expected return on Scheme assets (% p.a.)	n/a	n/a
Non-Executives - Future salary increases (% p.a.)	6.0%	6.0%
Executives - Future salary increases (% p.a.)	0.00%	0.00%
Future increases in Long Service Awards (% p.a.)		
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	n/a	n/a
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill - Health	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement Age	60 years	60 years

45. RETIREMENT BENEFIT PLAN (CONTINUED)

Defined Benefit Plan (Continued)

As per the fund operations and valuation, the movements in the present value of defined benefit obligation in the current year were as follows:

	30.06.2017 TZS '000	30.06.2016 TZS '000
Opening benefit obligation	98,602,076	94,698,325
Current service costs	2,244,000	2,629,000
Past service cost	108,000	-
Interest cost	17,303,000	16,690,000
Employee contribution	543,000	-
Actuarial (gain)/loss in experience	(3,719,000)	-
Actuarial (gain)/loss in assumptions	11,067,000	-
Benefits paid	(16,890,000)	(15,415,249)
Closing benefits obligation	**109,258,076**	**98,602,076**

A summary of the distribution of the Scheme assets as at 30 June 2017, based on the Scheme management accounts, is shown in the table below;

	30.06.2017 TZS "000	30.06.2016 TZS "000
Cash	642,381	25,075,865
Treasury Bonds plus accrued Interest	36,932,006	35,609,162
Treasury Bills plus accrued Interest	56,968,588	37,917,049
Retirement Benefits Payable	(1,331,712)	-
Net Assets	**93,211,263**	**98,602,076**

Being a funded Scheme, the defined obligation/(asset) is presented in net terms after consideration of the Scheme assets as per the below;

	30.06.2017 TZS "000	30.06.2016 TZS "000
Present value of funded obligations	109,258,076	98,602,076
Fair value of Scheme assets	(93,211,263)	(98,602,076)
Present value of net obligation/ (asset)	16,046,813	-
Defined benefit obligation/ (asset) recognized in the balance sheet	**16,046,813**	**-**

45. RETIREMENT BENEFIT PLAN (CONTINUED)

Defined Benefit Plan (Continued)

Included in the computation are benefit plan expenses which are recognized in the Statement of Profit or Loss statement. Below are the components:

Service cost	**30 June 2017**
	TZS '000
Current service cost net of employees' contributions	2,244,000
Past service cost	108,000.00
Total Service Cost	**2,352,000**
Interest Cost	
Interest cost on defined benefit obligation	17,303,000
Interest income on plan assets	(17,091,000)
Net Interest Cost on Balance Sheet Liability	**212,000**
Total included in profit or loss in respect of Scheme	**2,564,000**

Re-measurement on defined benefit are measured through other comprehensive Income and it is composed of the below;

Remeasurements (OCI)	**30 June 2017**
	TZS '000
Actuarial (gain)/ loss - obligation	7,348,000
Return on plan assets (excluding amount in interest cost)	6,135,000
Amount recognised in OCI statement for the financial year	**13,483,000**

Sensitivity analysis

The results of the actuarial valuation are more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount used, we have relied on the duration of the liability. Based on this methodology, the one percent change in the discount rate will result into an increase in the defined benefits obligations to TZS to 114.0 billion (2016: TZS 102.7 billion).

Since the bulk of benefits payable under the arrangement are salary related, the sensitivity of a liability to a change in the salary escalation assumption is not expected to be materially different. However, the impact of a change in salary escalation is expected to be less than the impact of a change in the discount rate as a portion of the liability. In this case long service awards would not be affected by a change in the salary escalation rate. Weighted average duration of the liability as at 30 June 2017 is 4.3 years (2016: 4.1 years).

Effect on Bank's cash flow

The benefits arrangement is funded and the Bank pays benefits from the defined benefit obligation as and when they arise. The timing of the benefit payments from the arrangement will be influenced by the age at which employees leave the Bank.

46. CAPITAL

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

The capital of the Bank is subscribed and held only by the Government of the United Republic of Tanzania. The equity of the Bank includes share capital and reserves. During the year, movement of equity is as shown below and further details are provided in the statement of changes in *owners' equity on page 26.*

	30.06.2017 TZS '000	**30.06.2016 TZS '000**
Capital	100,000,000	100,000,000
Reserves	2,222,135,407	2,305,430,087
Total	**2,322,135,407**	**2,405,430,087**

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

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

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

47. CONTINGENT LIABILITIES

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

(a) External payment arrears deposit account

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.

47. CONTINGENT LIABILITIES (CONTINUED)

During the 1970s and 1980s there was a shortage of foreign currencies in the country, which required the Government to control and prioritise foreign payments (forex). Tanzania importers were required to remit equivalent amount of TZS with the then National Bank of Commerce (NBC) for the required amount of forex and subject to availability of forex and priority, the forex amount would be remitted to the intended overseas suppliers.

However due to the forex shortage not all funds deposited with the then NBC by private and public importers were remitted to the overseas suppliers' accounts.

In 1985, the Government of the United Republic of Tanzania formally assumed the responsibility of handling liabilities arising from External Payment Arrears deposit account (EPA) from the then NBC. The Bank was given the responsibility to manage EPA liabilities on behalf of the Government of the United Republic of Tanzania. As at 30 June 2017 the balance in this liability account has remained at the same level as it was in the previous year of TZS 2,288.4 million since the Bank has suspended all transactions relating to EPA pending reconciliation and resolution of the remaining external payment arrears. In order to undertake the reconciliation and resolution of the remaining balance, on 14 April 2009 the Bank engaged a consultant, M/S Lazard Freres's & CIE to assist in the process.

The objectives of the exercise were:

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

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

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

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

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

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

- Upward revision of the price of the contract to USD 843,700 from the original amount of USD 663,950;
- Implicitly complaining for not being paid initial fee amounting to USD 175,000 after submitting inception report; and
- Revising some items on the original contract.

Based on the original contract, the consultant would have been paid initial fee after submitting an inception report that is acceptable to the client. However, the earlier submitted report fell short of the required standard and the consultant was notified.

On 14 April 2012, the Bank officially informed the consultant about the expired contract and that the Bank had no intention to renew the same.

The consultant was further informed that since the inception report that was submitted in August 2009 was not accepted by the client, there is no any accrued liability to the Bank.

47. CONTINGENT LIABILITIES (CONTINUED)

The Bank's further efforts to solicit detailed information from the World Bank on work that was done by M/S Lazard Freres during the Debt Buyback Scheme that ended in year 2004 have proved futile. The efforts were aimed at obtaining information that would have paved way for another consultant to be engaged to perform the assignment. The Bank later sought legal advice on how to bring EPA to a close. On the basis of legal advice that was obtained, and following a Board of Directors Resolution, on 20th November 2012 the Bank officially wrote to the Minister for Finance to transfer operations and management of the External Payment Arrears Account and public debt back to the Ministry of Finance and Planning. The transfer was in line with the Bank's program for shedding-off non-core activities

(b) Export credit guarantee scheme (ECGS)

The Bank is an agent of the Government on the operationalisation of the Export Credit Guarantee Scheme. The scheme is charged with the responsibility of considering guarantee applications from financial institutions, and on behalf of the Principal, issue guarantees to financial institutions covering short and long term finance to exporters as long as the capital funds in the ECGS accounts are not leveraged more than 1:5. As a result there is a contingent liability under this scheme in respect of guarantees, limited to five times the balance of the Fund in accordance with the agency agreement in force.

As at 30 June 2017, outstanding guarantees aggregated to TZS 425,074 million (2015: TZS 439,834.4 million) while the balance of the Fund as at 30 June 2017 was TZS 1,576.5 million (2016: TZS 2,023.6 million). The movement of the:

(c) Small & medium enterprises - credit guarantee schemes

The Bank operates this scheme by issuing guarantees on behalf of the Government to financial institutions covering medium and long-term finance to SMEs on a pilot as long as the capital funds in the CGS-SME accounts are not leveraged more that 1:3. There is a contingent liability under this scheme in respect of guarantees, limited to three times the balance of the Fund in accordance with the Agency agreement in force. As at 30 June 2017, there was no outstanding guarantees as it was for the period ended June 2016. The balance of the fund as at 30 June 2017 was TZS 518.9 million (2016: TZS 598.3 million).

48. OUTSTANDING COMMITMENTS

Capital commitments

As at 30 June 2017, the Bank's capital commitments in respect of, Property and Equipment, Intangible Assets and major capital projects aggregated to TZS 79,988.0 million (2016: 73,656.2 million). The major capital expenditure commitments item is as reflected herewith below:

Particulars	**30.06.2017 TZS '000**	**30.06.2016 TZS '000**
Office buildings	22,828,537	39,388,640
Residential buildings	12,258,633	10,239,063
Machinery and equipment	19,959,767	12,972,795
Information, communication and technology (ICT)	2,882,709	1,568,757
Motor vehicles	2,950,000	1,926,000
Furniture and fittings	1,333,323	2,176,056
Intangible assets	5,030,956	3,734,890
On-going projects	12,744,085	1,650,000
Total	**79,988,010**	**73,656,201**

48. OUTSTANDING COMMITMENTS

Capital commitments (continued)

The above commitments have been included and approved for payment in accordance with the 2017/2018 Approved Budget Estimates.

Post employment benefits

Effective July 2008, the Bank has a medical insurance arrangement, which covers retired employees and their spouses. At the reporting date the Bank had insurance commitment amounting to TZS 231.1 million (2016: TZS 231.1 million) involving retired staff with their spouses who retired since financial year 2009/10.

49. RELATED PARTY DISCLOSURES

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

a. 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 loans facilities to the Governor, the Deputy Governors and its members of staff. Loans and receivables (**Note 24**) included advances to employees that as at 30 June 2017 amounted to TZS 78,468.5 million (2016: TZS 70,983.6 million). The advances are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. The following is the breakdown of loans and emoluments granted to key management personnel except Non-Executive Directors.

		30.06.2017 TZS '000	30.06.2016 TZS '000
i	**Loans to Senior Management (i.e. Governor, Deputy Governors and Directors)**		
	At start of the year	689,689	365,522
	Loans granted during the year	2,058,138	1,216,318
	Loans repaid during the year	(1,008,727)	(892,151)
	Balance end of the year	**1,739,100**	**689,689**
ii	**Emoluments to Senior Management Personnel (Governor, Deputy Governors and Directors)**		
	Salaries, allowances and benefits	4,530,199	4,742,664
	Post-employment benefits	1,494,111	1,292,589
	Total	**6,024,310**	**6,035,253**

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 2017, the number of key management personnel was 25 (2016: 25).

49. RELATED PARTY DISCLOSURES (CONTINUED)

b. Directors' remunerations

During the year ending 30 June 2017, emoluments paid to the members of the Board amounted to TZS 371.0 million (2016: TZS 1,052.0 million). These emoluments include benefits of Non - Executive Directors. Non-Executive Directors are not entitled to loans and advances.

c. Government of the United Republic of Tanzania

Transactions entered into with the Government include:

(a) No interest and no Bank charges on Government deposits accounts;
(b) Cost sharing of liquidity management cost arising from issue and redemption of liquidity papers and Repurchase Agreements in accordance with the memorandum of understanding in force.
(c) Settlement of foreign currency denominated obligations;
(d) Financial accommodation on temporary short falls in Government revenue;
(e) Other duties including agency of the Government as provided under the Bank of Tanzania Act, 2006.

As at the close of business on 30 June 2017, the following balances, which are included in the statement of financial position in various categories, were outstanding:

	30.06.2017 TZS '000	30.06.2016 TZS '000
Due from Governments of Tanzania (Note 23 and 32)	1,546,553,483	1,191,810,509
IMF funds on-lent to the Government (Note 19)	1,234,836,479	1,212,378,799
Deposits - Revolutionary Government of Zanzibar (Note 32)	14,921,490	21,989,412
Investments in Government Securities (Note 22)	1,492,306,664	1,490,568,528
Structured Financing Facility (Note 33)	69,454,026	69,844,026
Export Credit Guarantee Fund (Note 33)	1,576,508	2,023,601
Small and Medium Enterprises Guarantee Fund (Note 33)	518,985	598,279

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

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

Deposit Insurance Fund Board

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

During the year, the Bank contribution to the Deposit Insurance Board amounting to TZS 248.7 million (2016: TZS 265.5 million). The balance outstanding from the Fund included under Deposit Others as at 30 June 2017 was TZS 15,104.1 million (2016: TZS 12,153.9 million).