BANK OF TANZANIA

DIRECTORS REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

DIRECTORS REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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BANK INFORMATION

PRINCIPAL PLACE OF BUSINESS:	2 Mirambo Street 11884 Dar es Salaam P.O. Box 2939 Dar es Salaam, Tanzania
REGISTERED OFFICE:	2 Mirambo Street 11884 Dar es Salaam BoT Head Office P.O. Box 2939 Dar es Salaam, Tanzania
GOVERNOR:	Prof. Benno J. Ndulu 2 Mirambo Street 11884 Dar es Salaam, Tanzania
SECRETARY TO THE BANK:	Mr. Yusto E. Tongola 2 Mirambo Street 11884 Dar es Salaam, Tanzania

BRANCHES:

Arusha Bank of Tanzania Building Nyerere Road P.O. Box 3043 Arusha, Tanzania	Mbeya Bank of Tanzania building Kadege Road P.O. Box 1203 Mbeya, Tanzania
Mwanza Bank of Tanzania Building Nyerere Road P.O. Box 1362 Mwanza, Tanzania	Zanzibar Bank of Tanzania building Gulioni Area P.O. Box 568 Zanzibar, Tanzania
Bank of Tanzania training institute Capri point area P.O. Box 131 Mwanza, Tanzania	
STATUTORY AUDITOR: Controller and Auditor General National Audit Office Samora Avenue/Ohio Street P.O. Box 9080 Dar es Salaam	DELEGATED AUDITORS: Deloitte & Touche 10th Floor, PPF Tower Cnr of Ohio Street & Garden Avenue P.O. Box 1559 Dar es Salaam

REPORT OF THE DIRECTORS

1. INTRODUCTION

The Directors present this report and the audited financial statements for the financial year ended 30 June 2014, which disclose the state of affairs of the Bank of Tanzania (the "Bank").

In order to provide easy currency distribution in the country and attain clean money policy, the Bank has been operating safe custody centres in some parts of the country. As a result, as at 30 June 2014, the Bank was operating eight safe custody centres in the country.

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

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

ESTABLISHMENT

The Bank of Tanzania was established by the Bank of Tanzania Act, 1965, that was passed by the National Assembly in December 1965. Subsequently, the Bank of Tanzania Act, 1965 was repealed in 1995 and 2006. The Bank currently operates under the Bank of Tanzania Act, 2006.

BANK'S VISION

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

BANK'S MISSION

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

2. STATUTE AND PRINCIPAL ACTIVITIES

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

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

- Formulate, implement and be responsible for monetary policy, including foreign exchange rate policy, to issue currency, to regulate and supervise banks and financial institutions including mortgage financing, development financing, lease financing, and revocation of licenses and to deal, hold and manage gold and foreign exchange reserves of Tanzania;
- Compile, analyse, and publish the monetary, financial, balance of payments statistics and other statistics covering various sectors of the national economy;
- Regulate and supervise the clearing and settlement system;

REPORT OF THE DIRECTORS (CONTINUED)

2. STATUTE AND PRINCIPAL ACTIVITIES (CONTINUED)

- Act as a banker and fiscal agent of the Government of the United Republic and the Revolutionary Government of Zanzibar ('the Governments'); and
- Ensure the integrity of the financial system and support the general economic policies of the Government and promote sound monetary, credit and banking conditions conducive to the development of the national economy.

3. RESOURCES AND STRENGTH

Resources and strengths that facilitate the Bank's endeavour in achieving its strategic objectives include human, financial, facility and technological resources. In terms of human capital, the Bank has well-qualified and committed staff dedicated to a long-term career in the Bank. Likewise, the management adheres to good governance and promotes labour relations. From its strategic perspective, the Bank enhances its financial sufficiency by improving management of its resources through prioritization of initiatives, implementing initiatives within the available financial envelope and prudently managing its sources of income. On technological side, the Bank has made significant efforts in adopting modern technology to improve its day-to-day operations. Further, the Bank has strategically located branches and custody centres, which facilitate efficient banking services and payments. The Bank has also undertaken various reforms that contribute to the attainment of its objectives. For example, the on-going modernization of the monetary policy framework is expected to improve the efficiency and effectiveness of the monetary policy implementation. Also, the on-going reforms of the Inter-Bank Money Market is expected to provide an avenue for improved efficiency and competition in the financial sector, necessary for the financial stability and smooth conduct of monetary policy.

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

During the Financial year 2013/14 the Bank's Corporate Plan focused on attaining three broad goals that basically translate its primary mandates. These are:

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

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

Maintaining price stability

In maintaining price stability, the Bank set to attain a target of single digit annual core inflation by June 2014 and maintain foreign currency reserve to cover 4.5 months of projected import of goods and services at all times.

During the year, both core and headline inflation rates declined from 8 percent and 7.6 percent recorded in June 2013 to 6.4 percent and 3.5 percent, respectively. The decline in headline inflation was on account of improved domestic food supply in the Eastern Africa region, prudent monetary policy stance and fiscal consolidation coupled with stability in nominal exchange rate.

Official gross foreign reserves rose to USD 4,634.1 million as of 30 June 2014 compared to USD 4,353.5 million recorded as of 30 June 2013. This level of official reserves was sufficient to cover about 4 months of projected import of goods and services. When excluding Foreign Direct Investments (FDI) related imports, the level of reserves is sufficient to cover about 4.5 months of projected imports.

REPORT OF THE DIRECTORS (CONTINUED)

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

Current account increased to USD 4,746.2 million in the year ending June, 2014 compared to USD 4,455.6 million recorded in the year ending June 2013, largely on account of good performance of traditional and manufactured goods exports. Notwithstanding, financial distress facing many of the Tanzania's trading partners which has resulted into downward pressure on the level of interest rates, hence low expectation on higher returns from foreign investments.

Promoting integrity and stability of the financial system

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

As at the end of June 2014, Non-Performing Loans (NPL) ratio decreased slightly to 8.09 per cent from 8.12 per cent in June, 2013. The Bank expects to achieve the set target of 5.0 per cent by the end of 2014 following establishment of the credit reference system which is one of the measures implemented towards improving credit risk management practices in the country.

At the end of June 2014, the ratio of liquid assets to demand liabilities increased to 38.4 per cent from 35.4 per cent recorded by end June 2013, which was above the regulatory minimum limit of 20.0 per cent. With regard to profitability, the banking sector remained profitable. As at the end of June 2014, the banking sector recorded a Return on Assets of 2.7 per cent, lower than 3.0 per cent recorded in June 2013. This achievement was in line with the set target of above 2.0 per cent by June 2014.

The Bank implemented On-site Examination System to facilitate paperless examination of banking institutions. The Bank also championed the establishment of the Tanzania Financial Stability Forum (TFSF) during the review period. The Forum reviewed action plans needed to enhance macro-prudential oversight and timeliness for respective sectors regulators to accomplish the actions.

Generally, the condition of the banking sector for the period ended June 2014, continued to be satisfactory and showed positive growth trend from the previous period. Other performance targets are also within the prescribed limits.

Under this objective, among other targets, the Bank strives to attain instant settlement on banking transactions at most 2 hours by June 2015, achieve Delivery Versus Payment (DVP) of 100 percent by June 2014, and maintain (T+2) Payment Versus Payment (PVP) and put in place complaints resolution desk by June 2015. The Bank also intends to propose establishment of Ombudsman mechanism by June 2016.

During the review period, the Bank coordinated the preparation of the National Financial Inclusion Framework, which was launched in December 2013 as a guide towards improving the level of financial inclusion in the country. Further, the Bank coordinated initiatives to develop National Payment Systems Act, which awaits enactment by the Parliament and issuance of Mobile Payments Regulations.

In addition, accessibility to financial services was further enhanced by licensing more banking institutions. Likewise, Point of Sales (POS) increased from 2,548 as at June 2013 to 2,552 by June 2014. The number of ATMs also increased from 1,442 as at 30 June 2013.to 1,481 by end June 2014 while mobile payment users increased from 29,126,517 to 31,830,289 by end June 2014. The number of mobile agents increased to 153,369 from 119,719. The Bank also licensed two credit reference bureaus and one financial leasing company in a bid to increase access to financial services.

REPORT OF THE DIRECTORS (CONTINUED)

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

The number of commercial banks that implemented the Straight Through Processing (STP) increased from 11 in June 2013 to 17 at end June 2014, which resulted to minimum complaints related to TISS delays in crediting final beneficiaries. On the other hand, the Bank achieved 100 per cent Delivery versus Payment (DVP) for government securities traded at the primary market and coordinated implementation of the East African Payment System (EAPS), which went live in November 2013.

To expedite financial sector reforms, six studies were conducted on establishment of commodity exchange market, consumer protection and financial literacy, housing, microfinance, financial leasing and mortgage finance.

Strengthening corporate governance

Improve organizational and individual performance

To improve organizational and individual performance, main target was to attain 80 percent of planned corporate objectives by June, 2014; and annual staff turnover rate not exceed 1 percent.

During the review period, the Bank adopted and started the implementation of Balanced Scorecards (BSC) methodology for planning and performance measurement.

Also, awareness sessions on the BSC were conducted involving 93 percent of the Bank's staff, while the process to engage consultant for development and implementation of BSC was concluded at the end of June 2014.

With regard to improvement of individual performance, more resources were directed to learning initiatives that support effective implementation of annual work plans of functional units and approved projects in line with the Bank's Core Competency Framework. Out of the target to train 1,316 staff by end June, 2014, a total of 450 staff were trained in the form of short courses, group courses, seminars, workshops and conferences.

In its efforts to enhance employees' satisfaction and improve staff performance, the Bank renewed the medical insurance contract with the service provider and introduced annual medical check-up facility to staff. The Bank also improved employees' welfare and benefits by introducing a Life Assurance Cover (LAC) in place of Group Personal Accident (GPA) insurance cover.

Improve efficiency and safety on Bank's operations

The Bank implemented Human Resource Management System (HRMS) to improve efficiency in staff payments processing time, reduction of paper usage, ease access to staff information, online absence management and enhancement of data integrity. Operationalization of the said system has created notable impact on the Bank's operations and direct positive impact on cost as well as processing time reduction.

Furthermore, business processes were improved through finalisation of Operational Procedures Manuals (OPMs) for Currency Operations, Administrative and General Services, Information Systems Services and Credit Guarantee Scheme.

REPORT OF THE DIRECTORS (CONTINUED)

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

Enhance compliance with legislation, regulations, policies and standards.

The Bank continued to comply with legislations, policies and standards. Consequently, audit queries were reduced by 60 percent and complied fully with the accounting and procurement requirements. Some staff were trained on Corporate Risk Management (CRM) framework, which enabled business units to update and consolidate their risk profiles. As a result, risk logs for the Bank's projects were prepared and 24 percent of projects with 'Very High' risk rating had their risks reduced to "Low".

Improve management of Bank's resources

In improving management of the Bank's resources, at least 70 percent of project completion was targeted as per approved Plan; 100 percent availability of required services and materials at all times; and 90 percent approved budget utilization by 30th June 2014.

At the beginning of the 2013/14 financial year, the Bank had a total of sixteen (16) projects, of which seven (7) were on construction, eight (8) were IT related and one project was a consultancy. Only one project namely, Human Resource Management Information System was completed during the review period, while some projects are lagging behind work schedules on account of various factors including delays in the finalization of procurement processes and changes in projects' scope.

On the other hand, the Bank also continued to maintain its properties and facilities including buildings, machinery, equipment and motor vehicles in order to ensure that they are always in good condition.

Regarding financial resources, the Bank managed its financial resources in line with international standards and internal financial regulations. As part of its expenditure management and governance, the Bank maintained discipline in monitoring its expenditure to ensure that they are within the approved budget and Medium-Term-Expenditure Framework (MTEF). The financial reporting for 2012/13, financial statements were prepared in accordance with International Financial Reporting Standards, the Bank of Tanzania Act, 2006 and National Board of Accountants and Auditors (NBAA). As a result, the Bank received a clean audit report from the external auditors.

Enhance proactive engagement with stakeholders

To enhance proactive engagement with stakeholders, the main target was to achieve level of stakeholders' satisfaction of 80 percent by June 2014.

The Bank continued to build and maintain good relationship with both external and internal stakeholders seeking to obtain feedback; gain trust and promote the Bank's reputation to the public. At the regional and international levels, the focus continued to be on policy coordination and harmonization of the agreed macroeconomic convergence benchmarks.

The Bank maintained period post Monetary Policy Committee (MPC) meetings with Chief Executive Officers (CEOs) of commercial banks in order to communicate monetary policy decisions and obtain feed-back from the market participants.

REPORT OF THE DIRECTORS (CONTINUED)

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

The Bank published and distributed to the public various economic reports such as monthly economic reviews, quarterly economic bulletins and banking supervision reports. Bank branches continued to participate in regional consultative committee meetings to disseminate information on the Bank's undertakings and economic developments in the respective zones. The Bank also continued to disseminate information to the public through improved participation to the Saba-Saba, Nane-Nane exhibitions and Utumishi week.

On internal communication, the Bank engaged with its staff through various channels, in which six (6) publications of internal Newsletter were published through the Intranet. In addition, through the Bank libraries, the staff received updated services and improved their skills and knowledge.

Regarding regional integration, the Bank continued to participate in the regional and international fora such as East Africa Community (EAC) and Southern Africa Development Community (SADC) meetings as well as IMF/World Bank annual meetings for policy related discussions.

Efforts made under this objective have improved the good image of the Bank to the public and maintained the Bank's reputation in the eyes of regional and international community.

Other developments

Growth of currency in circulation

The position of currency in circulation as at 30 June 2014 was TZS 3,596,703.1 million as compared to TZS 3,030,121.1 million as at 30 June 2013, hence representing an increase of TZS 566,582.0 million; equivalent to 18.7 per cent (2013:12.0 per cent).

Public education programs

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

REPORT OF THE DIRECTORS (CONTINUED)

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

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	64	Economist	10 July 2007	Tanzanian
2	Mr. Juma H. Reli[1]	Deputy Governor	58	Finance	14 February 2005	Tanzanian
3	Mr. Lila H. Mkila[1]	Deputy Governor	64	Statistician	26 June 2007	Tanzanian
4	Dr. Natu E. Mwamba	Deputy Governor	53	Economist	13 June 2011	Tanzanian
5	Prof. Haidari K. Amani	Member	66	Economist	08 January 2008	Tanzanian
6	Mr. Khamis M. Omar[2]	Member	49	Finance	20 April 2006	Tanzanian
7	Mr. Bedason Shallanda	Member	53	Economist	11 September 2010	Tanzanian
8	Mr. Yona S. Killagane	Member	60	Professional Accountant	08 March 2011	Tanzanian
9	Mrs. Esther P. Mkwizu	Member	62	Management Consultant	08 March 2011	Tanzanian
9	Mr.Omar S Mussa[3]	Member	59	Finance	March 2014	Tanzanian
10	Mr. Yusto E. Tongola	Secretary	50	Lawyer	20 March 2013	Tanzanian

KEY

1. Mr. Juma H. Reli and Mr. Lila H. Mkila were reappointed as Deputy Governors on 20 March 2013 for another three and five year respectively.
2. Principal Secretary to the Treasury, Revolutionary Government of Zanzibar.
3. Appointed as board member in March 2014 for a period of three years term.

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

6. CORPORATE GOVERNANCE

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

6. CORPORATE GOVERNANCE (CONTINUED)

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

a. Monetary Policy Committee

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

The Members of the Monetary Policy Committee as at 30 June 2014 were as follows:

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

KEY

[1.] Appointed as board member on 8th March 2014 for a period of three years term

b. The Audit Committee

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

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

6. CORPORATE GOVERNANCE (CONTINUED)

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

The Members of the Audit Committee as at 30 June 2014 were as follows:

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

KEY

1. Appointed as Board member on 8th March 2014 for a period of three years term.

(c) Banking Supervision Committee

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

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

The Members of the Banking Supervision Committee as at 30 June, 2014 were as follows:

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

REPORT OF THE DIRECTORS (CONTINUED)

6. CORPORATE GOVERNANCE (CONTINUED)

d. The Finance and Investment Committee

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

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

The Members of the Finance and Investment Committee as at 30 June 2014 were as follows:

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

KEY

[1.] Appointed as Board member on 8th March 2014 for a period of three years term.

REPORT OF THE DIRECTORS (CONTINUED)

7. MEETINGS

Responding to the challenges faced by the Bank, the Board held 12 meetings during the year ended 30 June 2014. In addition there were various meetings of the Board committees. All members of the Board were able to devote their time required for the Board and Committee meetings.

Below is a summary indicating the number of meetings attended by members of the Board from 1 July 2013 to 30 June 2014.

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

KEY

Board: Board of Directors
MPC: Monetary Policy Committee
BSC: Banking Supervision Committee
AC: Audit Committee
FIC: Finance and Investment Committee

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

8. 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.

REPORT OF THE DIRECTORS (CONTINUED)

9. CAPITAL STRUCTURE

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

Due to the nature of the Bank's business and statutory requirements the whole capital is held in the form of equity. Different classes of reserves have been prescribed under section 18(1) of the Bank of Tanzania Act, 2006 and **Note 43** to the accounts.

10. RELATIONSHIP WITH STAKEHOLDERS

The Bank recognizes the importance of addressing the needs of its key customers in order to add value, satisfy its customers and finally fulfill its mission. The Bank's key customers include: The Governments, Banking Institutions, and Financial Institutions, development partners, general public and staff. The Bank is committed to delivering value to its customers through better services and good customer care while maintaining good relationship in its engagements.

Accordingly, the Bank fulfills its mandate by delivering the following services in a bid to meet its customers' needs and expectations:

a. Issuance of Notes and Coins: The Bank provides adequate, durable and portable banknotes and coins; ensure prompt circulation of currency throughout the country; and promote public awareness on the currency handling and security features.

b. Banking Services: The Bank promptly facilitate payments, settlements and clearing of payment instruments for the governments and financial institutions. Further the Bank provides safe deposit custody for the governments and financial institutions.

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

d. Financial Stability: The Bank promotes the stability of the financial system through effective regulation and supervision of banking system; provide safe and efficient payments systems; and improve public access to the financial services.

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

11. ACCOUNTING POLICIES

The accounting policies of the Bank disclosed in Note 3 to the financial statements have been approved by the Board. The accounting policies for financial instruments forms a significant part of the. The accounting policies have been updated to reflect the new and revised International Financial Reporting Standards.

12. CASH FLOW PROJECTION

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

REPORT OF THE DIRECTORS (CONTINUED)

13. MANAGEMENT

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

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

14. FUTURE DEVELOPMENT PLANS

With regards to the 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 scorecard methodology. Specifically, the Bank will take deliberate measures to create broad awareness and capacity building among staff to implement the Plan. In addition, the Bank will focus on enhancing application of modern technologies; improve its work processes and compliance with laws and regulation in order to improve operational efficiency in all its undertakings.

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

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

In addition, the Bank plans to:

- Continue implementing Medium Term Expenditure Framework (MTEF) as a multi-year budgeting instrument;
- Continue implementing Balanced Scorecard (BSC) methodology as an instrument for performance measurement;
- Continue with the construction of two additional branches and staff residential premises at Dodoma and Mtwara;
- Construct and relocate Mwanza branch office;
- Refurbish and modify 2 Mirambo Middle Building
- Open additional safe custody centres to ease currency distribution in the country;
- Modernise security monitoring systems at Head Office and branches;
- Acquire new software and continue improving business operations through automation; and
- Acquire and continue maintaining its other existing assets.

REPORT OF THE DIRECTORS (CONTINUED)

15. RESULTS AND DIVIDEND

During the year the Bank operations registered a net operating profit of TZS 194,843.0 million (2013: A loss of TZS 16,754.9 million). Out of that amount, TZS 37,221.2 million relates to unrealized foreign exchange revaluation gains (2013: unrealized foreign exchange revaluation loss of TZS of 41,892.0 million). The Bank's accounting policy requires transfer of unrealized foreign exchange revaluation gain or loss and unrealized gain or loss on financial assets measured at FVTPL to the Foreign Currency Revaluation Reserve and Securities Revaluation Reserve respectively. As a result in 2013/14 the Bank recorded distributable profit amounting to TZS 157,621.8 million (2013: TZS 80,252.2 million). Out of this amount the Bank declared dividend amounting to TZS 72,454.1 million (2013: TZS 40,126.1 million).

16. FINANCIAL PERFORMANCE FOR THE YEAR

16.1 Financial results

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

In the course of its operations, the Bank made a total comprehensive income of TZS 195,942.2 million (2013: loss of TZS 11,252.7 million). The operating income was mainly attributed to gains arising from depreciation of TZS against major currencies, increase in interest income and decline in operating expenses namely net unrealized losses on financial assets, personnel expenses and depreciation expenses.

16.2 Financial position

The financial position of the Bank is as set out in the Statement of Financial Position shown on page 26. During the year total assets of the Bank increased by TZS 1,226,789.5 million (2013: TZS 1,252,220.9 million). The major areas of increase include foreign currency marketable securities, Advances to the Government, cash and cash equivalent and loans and receivables amounting to TZS 511,776.7 million, TZS 364,143.6 million TZS 181,876.9 million ,and TZS 124,752.8 million , respectively.

On the other hand total equity and liabilities increased by TZS 1,226,789.5 million (2013: TZS 1,252,220.9 million). Major areas of increase include currency in circulation ,deposit others, deposit banks and Non-Banks Financial Institutions and reserves amounting to TZS 566,582.1 million, TZS 228,351.6 million, TZS 142,105.8 million and TZS 157,068.1 million respectively.

17. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

18. PRINCIPAL RISK AND UNCERTANITIES

The principal risks that may significantly affect the Bank's strategies and development are mainly operational, human resources, legal, reputational and financial risks. Below we provide a description of the operational risks facing the Bank:
The non-financial risks of the Bank were:

(a). Operational Risk

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

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

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

(b). Human Resource Risk

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

(c) Legal Risk

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

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

REPORT OF THE DIRECTORS (CONTINUED)

18. PRINCIPAL RISK AND UNCERTANITIES (CONTINUED)

(d) Reputational Risk

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

In view of the above, the Bank's management ensures that it fulfils its fiduciary responsibilities. The Bank adheres to the best practices and applies principle of sound corporate governance.

It also ensures that all relevant employees have clear understanding of the appropriate processes in respect of the best practices and principles of good governance.

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

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

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the National Payment System (NPS) and the issuing of notes and coins also expose the Bank to significant reputation risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems. The risks related to financial instruments have been disclosed under Note 44 of the financial statements. The Board assessed the internal control systems throughout the financial year ended June 2014 and is of the opinion that they met accepted criteria.

19. SOLVENCY

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

REPORT OF THE DIRECTORS (CONTINUED)

20. EMPLOYEES WELFARE

20.1 Management and employees relationship

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

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

The Bank of Tanzania is an equal opportunity employer with a total of 1,320 staff as at 30 June 2014 (2013: 1,335) out of which 59.2 per cent (2013: 58.8 per cent) are male and 40.8 per cent (2013: 41.2 per cent) are female.

20.2 Training facilities

The Bank has training facilities at the Bank of Tanzania Training Institute in Mwanza region. During the year, the Bank conducted a total of 54 (2013: 52) bank courses for the Bank, financial institutions and others. The Bank prepares annual training programs that cater for Bank's needs and address gaps in the knowledge of its staff and the market in general.

20.3 Medical Assistance

All members of staff with a maximum number of five beneficiaries for each employee were availed with medical insurance guaranteed by the Bank. During the year ended 30 June 2014, these services were provided by Jubilee Insurance Company as it was in 2013.

20.4 Health and Safety

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

20.5 Financial Assistance to Staff

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

REPORT OF THE DIRECTORS (CONTINUED)

20. EMPLOYEES WELFARE (CONTINUED)

20.6 Persons with Disabilities

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

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

20.7 Employees' 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 details of benefits plan are provided under Note 3 to the financial statements.

20.8 Voluntary agreement and Workers Council

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

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 30 June 2014 and 2013 the Bank had the following distribution of employees by gender.

Gender	2014	%	2013	%
Male	781	59.2	785	58.8
Female	539	40.8	550	41.2
Total	1320	100	1 335	100.0

22. RELATED PARTY TRANSACTIONS

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

23. ENVIRONMENTAL CONTROL PROGRAM

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

REPORT OF THE DIRECTORS (CONTINUED)

24. CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling part of its Corporate Social Responsibility (CSR) through supporting national activities in the United Republic of Tanzania and other areas of interest to the Bank. In this endeavour the Bank has in place Donation Guidelines that assist in the implementation of CSR. During the year the Bank donated a total of TZS 361.9 million (2013: TZS 418.4 million).

25. 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); Other Professional Associations and Charities. During the year ended 30 June 2014 such contributions and subscriptions amounted to TZS 3,926.7 million (2013: TZS 2,965.9 million).

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.

27. COMPLIANCE WITH LAWS AND REGULATIONS

In performing the activities of the Bank, various laws and regulations having the impact on the Banks operations are observed as a tool for financial management. These are Financial Regulations, Staff By Laws, Bank of Tanzania Act, 2006, Income Tax Act, 2004, Finance Act, Public Procurement Act, 2011 and related regulations.

28. SERIOUS PREJUDICIAL MATTERS

During the year ended 30 June 2014 there was no serious prejudicial matters to report as required by Tanzania Financial Reporting Standard No. 1 (Directors' Report).

29. STATEMENT OF COMPLIANCE

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

REPORT OF THE DIRECTORS (CONTINUED)

30. 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 ……12 November……2014, and signed on its behalf by:

Prof. Benno J. Ndulu	Mrs. Esther P. Mkwizu
The Governor and Chairman of the Board	Director and Chairperson of the Audit Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

Approved by the Board of Directors on ……12 November…… 2014, and signed on its behalf by:

Prof. Benno J. Ndulu	Mrs. Esther P. Mkwizu
The Governor and Chairman of the Board	Director and Chairperson of the Audit Committee

AUDIT REPORT ON THE FINANCIAL STATEMENTS

Board Chairman,
Bank of Tanzania,
P.O. Box 2939,
DAR ES SALAAM.

REF: REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK OF TANZANIA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the accompanying financial statements of the Bank of Tanzania which comprise the Statement of Financial Position as at 30 June 2014, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out from pages 25 to 118 of this report.

Directors' Responsibility for the financial statements

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

Responsibilities of the Controller and Auditor General

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

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

Further, Sect (44) (2) of the Public Procurement Act No.21 of 2004 as amplified under Regulation 31 of the Public Procurement Regulation of 2005 (Goods, Works, Non-consultant services and Disposal of Assets by tender) and Sect 48(3) of the Public Procurement Act No. 9 of 2011 require me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and Regulations.

AUDIT REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

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

Unqualified Opinion

In my opinion, the financial statements present fairly, in all material respects, financial position of Bank of Tanzania as at 30 June 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Bank of Tanzania Act, 2006.

Report on Other Legal and Regulatory Requirements

Compliance with Public Procurement Act

In view of my responsibility on the procurement legislation, and taking into consideration the procurement transactions and processes I reviewed as part of this audit, I state that I did not find any material divergences by management from the requirement of the Public Procurement Act No 21 of 2004 and its related Regulations of 2005 and Public Procurement Act No. 9 of 2011.

Prof. Mussa J. Assad
CONTROLLER AND AUDITOR GENERAL

National Audit Office
Dar es Salaam, Tanzania

23rd December, 2014

CONTROLLER AND AUDITOR - GENERAL

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Note	30.06.2014 TZS '000	30.06.2013 TZS '000
Operating income			
Interest income	5	311,854,565	258,102,919
Interest expenses	6	(139,698,722)	(78,069,855)
Net interest income		**172,155,843**	**180,033,064**
Foreign exchange revaluation gains	7	249,856,946	82,944,993
Fees and commissions	9	21,046,790	21,041,268
Gain on disposal of property and equipment	28	21,855	-
Other income	10	17,393,130	4,542,826
		288,318,721	**108,529,087**
Operating income		**460,474,564**	**288,562,151**
Operating expenses			
Administrative expenses	11	49,542,828	39,504,444
Net unrealised losses on Financial Assets-FVTPL	8	13,600,824	55,115,157
Currency issue and related expenses	12	63,451,810	58,926,678
Personnel expenses	13	99,189,017	108,711,508
Depreciation of property and equipment	28	28,583,943	32,704,439
Amortization of intangible assets	29	1,452,655	2,595,594
Loss on disposal of property and equipment	28	-	38,807
Other expenses	14	9,810,512	7,720,449
		265,631,589	**305,317,076**
Profit/(loss) for the year		**194,842,975**	**(16,754,925)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net revaluation gain on equity investments (non recycling)		1,099,237	4,968,233
Items that may be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation		-	534,024
Total other comprehensive income		1,099,237	5,502,257
Total comprehensive income/(loss)		**195,942,212**	**(11,252,668)**

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	30.06.2014 TZS '000	30.06.2013 TZS '000
Assets			
Cash and balances with central banks & other banks	15	1,950,086,406	1,768,209,513
Escrow accounts	16	8,033,971	43,410,856
Items in course of settlement	17	6,999,625	1,456,137
Holdings of Special Drawing Rights (SDRs)	18	386,216,122	370,513,006
Quota in International Monetary Fund (IMF)	18	507,635,007	479,683,371
Foreign currency marketable securities	19	5,296,183,128	4,784,406,413
Equity investments	20	8,768,522	7,336,698
Government securities	21	1,481,231,785	1,497,107,651
Advances to the Government	22	439,600,431	75,456,879
Loans and receivables	23	311,961,276	187,208,501
Inventories	24	4,584,140	4,409,110
Deferred currency cost	26	85,302,787	138,446,612
Other assets	27	184,245,056	83,176,564
Property and equipment	28	790,430,801	794,173,809
Intangible assets	29	4,505,424	3,999,872
Total assets		**11,465,784,481**	**10,238,994,992**
Liabilities			
Currency in circulation	30	3,596,703,122	3,030,121,057
Deposits - banks and non-bank financial institutions	31	2,366,981,848	2,224,876,088
Deposits - Governments	32	10,198,233	-
Deposits - Others	33	426,661,779	198,310,200
Foreign currency financial liabilities	34	550,292,004	507,689,146
Poverty reduction and growth facility	35	759,512,829	723,094,344
Repurchase agreements	36	20,009,349	48,026,827
BoT liquidity papers	37	1,365,173,366	1,356,137,509
Provisions	38	4,722,778	5,692,539
Other liabilities	39	42,395,017	25,244,570
Retirement benefit obligation	40	81,631,712	88,934,981
IMF related liabilities	18	482,112,690	455,318,872
Allocation of Special Drawing Rights (SDRs)	18	486,225,552	459,452,774
Total liabilities		**10,192,620,279**	**9,122,898,907**
Equity			
Authorised and Paid up Capital	41	100,000,000	100,000,000
Reserves	43	1,173,164,202	1,016,096,085
Total equity		1,273,164,202	1,116,096,085
Total equity and liabilities		**11,465,784,481**	**10,238,994,992**

These financial statements were approved and authorised by the Board of Directors for issue on 12 NOV. 2014 ... and were signed on its behalf by:

Name: Benno J. Ndulu Title: Governor Signature: BNdulu:

Name: Esther P. Mkwizu Title: Board Member Signature: [signature]

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

Details	Share Capital	General Reserve	Retained Earnings	Capita Reserve	Foreign Exchang Equalisation Reserve	Reserve fo Projects	Staff Housin Fund	Assets Revaluatio Reserve	Securities Revaluation Reserve	Foreign Exchange Revaluatio	Reserve fo Dividends	Defined Benefi Reserves	Total
	(Note 41)	(Note 43(a))	-	(Note 43(b))	(Note 43 (c))	(Note 43(d))	(Note 43(e))	(Note 43(f))	(Note 43 (g))	(Note 43(h))	(Note 43(i))	(Note 43 (j))	
(Amounts in TZS'000)													
At 01 July 2013	100,000,000	257,285,113	-	99,262,908	309,047,193	120,000,000	35,291,952	119,776,163	27,743,947	-	40,126,119	7,562,690	1,116,096,08
Profit for the year	-	-	194,842,975	-	-	-	-	-	-	-	-	-	194,842,97
Other comprehensive income	-	-	-	-	-	-	-	-	1,099,237	-	-	-	1,099,23
	100,000,000	257,285,113	194,842,975	99,262,908	309,047,193	120,000,000	35,291,952	119,776,163	28,843,184	-	40,126,119	7,562,690	1,312,038,29
Transfer of unrealised gain to foreign currency revaluation reserve	-	-	(37,221,206)	-	-	-	-	-	-	37,221,206	-	-	
Transfer of foreign exchange revaluation loss to exchange revaluation reserve	-	-		-	-	-	-						
Dividends paid	-	-	-	-	-	-	-	-	-	-	(40,126,119)		(40,126,11
Staff Housing Compensatory Fund	-	-	-	-	-	-	1,252,024	-	-	-	-	-	1,252,02
Appropriation of 2013/14 distributable profit	-	15,762,177	(157,621,769)	-	31,524,400	30,000,000	7,881,088	-	-	-	72,454,104	-	
At 30 June 2014	100,000,000	273,047,290	-	99,262,908	340,571,593	150,000,000	44,425,064	119,776,163	28,843,184	37,221,206	72,454,104	7,562,690	1,273,164,20

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

Details	Share Capital	General Reserve	Retained Earnings	Capital Reserve	Foreign Exchange Equalisation Reserve	Reserve for Projects	Staff Housing Fund	Assets Revaluation Reserve	Securities Revaluation Reserve	Foreign Exchange Revaluation	Reserve for Dividends	Defined Benefit Reserves	Total
	(Note 41)	(Note 43(a))		(Note 43(b))	(Note 43 (c))	(Note 43(d))	(Note 43(e))	(Note 43(f))	(Note 43 (g))	(Note 43(h))	(Note 43(i))	(Note 43 (j)	
(Amounts in TZS'000)													
At 01 July 2012 (restated)	100,000,000	217,158,993	-	99,262,908	350,939,200	120,000,000	34,170,571	119,776,163	77,890,871	-	-	7,028,666	1,126,227,37
Loss for the year	-	-	(16,754,925)	-	-	-	-	-	-	-	-	-	(16,754,92
Other comprehensive income	-	-	-	-	-	-	-	-	4,968,233	-	-	534,024	5,502,25
	100,000,000	217,158,993	(16,754,925)	99,262,908	350,939,200	120,000,000	34,170,571	119,776,163	82,859,104	-	-	7,562,690	1,114,974,70
Transfer of unrealised loss to foreign currency revaluation reserve*	-	-	41,892,007	-	-	-	-	-	-	(41,892,007)	-	-	
Transfer of unrealised loss to foreign exchange equalisation reserve***	-	-	-	-	(41,892,007)	-	-	-	-	41,892,007	-	-	
Transfer of unrealised fair value losses *	-	-	55,115,157	-	-	-	-	-	(55,115,157)	-	-	-	
Staff Housing Compensatory Fund**	-	-	-	-	-	-	1,121,381	-	-	-	-	-	1,121,38
Appropriation of 2012/13 distributable profit	-	40,126,120	(80,252,239)	-	-	-	-	-	-	-	40,126,119	-	
At 30 June 2013	100,000,000	257,285,113	-	99,262,908	309,047,193	120,000,000	35,291,952	119,776,163	27,743,947	-	40,126,119	7,562,690	1,116,096,08

* Unrealised losses on foreign currency revaluation reserve and unrealised fair value losses excluded from computation of distributable profit, please refer to Note 43
** Net contribution to Staff Housing Compensatory Fund
*** Foreign exchange equalisation reserve has been utilised to offset unrealised loss on foreign currency translation.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	30.06.2014 TZS '000	30.06.2013 TZS '000
Cash flows from operating activities			
Cash (used in)/generated from operating activities	42	(309,603,298)	304,227,244.00
Dividends paid to the Government		(40,126,119)	-
Net cash (used in)/generated from operating activities		**(349,729,417)**	**304,227,244.00**
Cash flows from investing activities			
Purchase of property and equipment		(24,983,710)	(14,204,401)
Proceeds from disposal of property and equipment		38,667	8,129
Purchase of intangible assets		(1,958,207)	(837,201)
Net decrease/(increase) in Government securities		15,875,866	(446,636,995)
Increase in foreign currency marketable securities		(511,776,715)	(761,175,520)
Acquisition of equity shares		-	(179,440)
Increase in quota in International Monetary Fund (IMF)		(27,951,636)	(8,289,933)
Increase in holdings of SDRs		(15,703,116)	(987,709)
Net cash outflows from investing activities		**(566,458,851)**	**(1,232,303,070)**
Cash flows from financing activities			
Increase in notes and coins issued		566,582,065	324,897,511
Increase in IMF related liabilities		26,793,818	23,761,916
Increase in foreign currency financial liabilities		79,021,343	213,525,211
Increase in allocation of SDRs		26,772,778	7,940,306
Increase in deposits		380,655,572	42,796,824
(Decrease)/increasing Repurchase Agreements (REPOs)		(28,017,478)	23,001,279
Increase in BOT liquidity papers		9,035,857	623,831,361
Net cash inflows from financing activities		**1,060,843,955**	**1,259,754,408**
Net increase in cash and cash equivalent		**144,655,687**	**331,678,582**
Unrealized foreign exchange revaluation gains/(loss)		37,221,206	(41,892,007)
Cash and cash equivalents:			
At the beginning of the year		1,768,209,513	1,478,422,938
At the end of the year	15	**1,950,086,406**	**1,768,209,513**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. REPORTING ENTITY

Legal framework

The Bank of Tanzania currently operates under Section 4 of the Bank of Tanzania Act, 2006, to act as the Central Bank for the United Republic of Tanzania. Its main place of business is at 2 Mirambo Street, Dar es Salaam, Tanzania and it operates branches in Arusha, Mbeya, Mwanza and Zanzibar. The Bank is an independent institution with its own legal personality and tables its reports to the Minister for Finance.

The Bank's principal responsibilities are to:

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

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

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

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

(a) A General Reserve Fund;

(b) A Foreign Exchange Revaluation Reserve;

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 CONTINUED)

1. REPORTING ENTITY (CONTINUED)

Legal framework (Continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

1. REPORTING ENTITY (CONTINUED)

Legal framework (Continued)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

2 ADOPTION OF NEW AND REVISED INTERNATIONAL STANDARD (IFRS)

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

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. As a result of the amendments to IFRS 7, the Bank has expanded disclosures about offsetting financial assets and financial liabilities under Note 3.
New and revised standards on consolidation joint arrangements, associates and disclosures	In May 2011, a package of five standards in consolidation joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards. Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the Bank does not have subsidiaries, joint arrangements and associates.
IFRS 13 Fair Value Measurement	The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).
Amendments to IFRS 1 Government loans	The amendments provide relief for first-time adopters of IFRSs to by amending IFRS 1 to allow prospective application of IAS 39 and IFRS 9 and paragraph 10A of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance to government loans outstanding at the date of transition to IFRSs. The application of the amendment had no effect on the Bank's financial statements as this was not first time adoption of IFRSs by the Bank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

b. New and revised IFRS in issue but not yet effective for the year ended 30 June 2014

New and Amendments to standards:	Effective for annual periods beginning on or after
IFRS 14 Regulatory Deferral Accounts issued	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Amendments to IAS 16 and 41, Agriculture: Bearer Plants Amendments	1 January 2016
Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 16 and 38, additional guidance how to calculate depreciation and amortisation	1 January 2016
Amendments to IAS 35) Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting1 January 2014	1 January 2014
Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRIC 21 Levies	1 January 2014

c. Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2014 and future annual periods

IFRS 7, Offsetting Financial Assets and Financial Liabilities

The amendments require the entity to disclose the right of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The amendment to IFRS 7 is required for annual accounting period beginning on or after 1 January 2014 and interim periods within those annual periods. The disclosure should be provided retrospectively for all comparative periods.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

c. Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2014 and future annual periods (Continued)

As a result of the amendments to IFRS 7, the Bank has expanded disclosures about offsetting financial assets and financial liabilities under Note 3.

The impact of IFRS 13 is summarised below

Impact on measurement

Valuation of shares in Afrexim and SWIFT now based on valuation inputs at the reporting date

Portfolio based valuation methodology restricted to those which meet specific criteria:

- Entity must have documented risk management strategy
- The entity provide information on the basis of net risk exposure to the key management personnel
- Only for instruments measured at fair value

Impact on disclosure

Many disclosures that are currently required annually by IFRS become quarterly under IFRS 13 as indicated

- Level I,II and III table
- Transfer in and out of level I and II
- Sensitivity analysis of level III instruments
- Day I profit and loss reconciliation
- Unrealised profit or loss on level III instrument held at the quarter
- Narrative regarding interrelationships between unobservable parameters for each level III instruments class including a range for unobservable parameters.

A level I, II and III table of financial instruments not measured at fair value.

IAS 32, Offsetting Financial Assets and Financial Liabilities

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

The management has assessed the requirement of this standard on the Bank’s financial reporting framework and is of the opinion that will have no impact.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

d. ANNUAL IMPROVEMENT CYCLES

In December 2013, the IASB issued Annual Improvements to IFRSs 2010-2012 Cycle, a collection of amendments to IFRSs, in response to eight issues addressed during the 2010-2012 cycle. The amendments reflect issues discussed by the IASB during the project cycle that began in 2010, and that were subsequently included in the exposure draft of proposed amendments to IFRSs, Annual Improvements to IFRSs 2010-2012 Cycle (published in May 2012).

Issues

The issues included in this cycle are:

- IFRS 2: Amend the Definition of 'vesting condition and marketing condition and adds definition of service condition and performance condition'
- IFRS 3: Accounting for contingent consideration in a business combination. The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination.
- IFRS 8: Aggregation of operating segments to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated
- IFRS 8: Reconciliation of the total of the reportable segments' assets to the entity's assets and clarify reconciliation of segment assets only when segmental reporting is made regularly.
- IFRS 13: Short-term receivables and payables - Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and Payables on an undiscounted basis (amends basis for conclusions only).

AS 16 and IAS 38 Revaluation method - proportionate restatement of accumulated depreciation Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

IAS 24 Key management personnel - Clarify how payments to entities providing management services are to be disclosed.

The amendments are effective for annual periods beginning on or after 1 July 2014, although entities are permitted to apply them earlier. The Directors are still assessing the impact the application of these improvements to IFRSs might on the Bank's financial statements when adopted.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

d. ANNUAL IMPROVEMENT CYCLES (CONTINUED)

In December 2013, the IASB issued Annual Improvements to IFRSs 2011-2013 Cycle, a collection of amendments to IFRSs, in response to four issues addressed during the 2011-2013 cycle. The amendments reflect issues discussed by the IASB during the project cycle that began in 2011, and that were subsequently included in the Exposure Draft of proposed amendments to IFRSs, Annual Improvements to IFRSs 2011-2013 Cycle (published in November 2012). The amendments are effective for annual periods beginning on or after 1 July 2014, although entities are permitted to apply them earlier.

Issues

The issues included in this cycle are:

- IFRS 1: Meaning of effective IFRSs; the objective of this amendment is to clarify the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1 First-time Adoption of IFRSs.

IFRS 3: Scope exceptions for joint ventures; - The objective of this amendment is to clarify that paragraph 2(a) of IFRS 3 Business Combinations:

a. excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and

b. the scope exception only applies to the financial statements of the joint venture or the joint operation itself.

- IFRS 13: Scope of paragraph 52 (portfolio exception); - Paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. This is referred to as the portfolio exception. The objective of this amendment is to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. and

- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property. - The objective of this amendment is to clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgement is based on the guidance in IFRS 3.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

d. ANNUAL IMPROVEMENT CYCLES (CONTINUED)

The amendments are effective for annual periods beginning on or after 1 July 2014, although entities are permitted to apply them earlier. The Directors are still assessing the impact the application of these improvements to IFRSs might on the Bank's financial statements when adopted.

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 44**.

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

Basis of preparation

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

Statement of compliance

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

Form of presentation

In exceptional circumstances, as prescribed by Section 41 of the Bank of Tanzania Act, 2006, the Bank may act as the "lender of last resort" to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. In

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

some cases, confidence can best be sustained if the Bank's support is disclosed only when the conditions giving rise to potential instability in the economy have improved. Although the financial effects of such operations are included in the financial statements of the Bank, these statements may not explicitly identify such support.

Revenue recognition

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

Interest and similar income

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

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.

Revenue recognition

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividend income

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

Other income

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

Dividend payable

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

Employees' benefits including post-employment benefits

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

Retirement benefits

The Bank has a statutory obligation to make contributions for retirement benefits to its employees. All eligible employees of the Bank are currently members of the social security

schemes operating in Tanzania. The funds where employees are members are: National Social Security Fund (NSSF), Parastatal Pension Fund (PPF), Public Service Pensions Fund (PSPF) and Local Authority Provident Fund (LAPF). Under these schemes the Bank and employee contribute 18 percent and 2 percent respectively of employee's basic salary every month. New employees who are members of other funds are allowed to continue their membership to any statutory pension funds. The Bank contributed a total of TZS 8,867.2 million to the funds during the year ended 30 June 2014 (2013: TZS 8,455.0 million).

The Bank signed a Voluntary Agreement (VA) with the Tanzania Union of Industrial and Commercial Workers (TUICO) which provides for a number of benefits on retirement upon attaining a number of years in service with the Bank as specified in the Bank's Staff By-Laws. 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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits (Continued)

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 30th June 2013 by Alexander Forbes, Financial Services (East Africa), Nairobi - Kenya. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit credit method, which requires certain demographic and financial assumptions, including 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 be reclassified to profit or loss.

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

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

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

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

Other employee benefits

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (Continued)

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

Taxes

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

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

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

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (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 recognized in profit or loss.

Foreign exchange revaluation reserve under the legal framework

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

(a) For each major currency USD, GBP, EUR, AUD, CNY and SDR; cash inflows and outflows are determined at yearly intervals.

(b) Proportions of outflows against the inflows on a First in First out (FIFO) basis are determined for the year and this is assumed to be the proportion of realised gains or losses that have to be separated from the accumulated realized and unrealized amount in the Foreign Currency Revaluation Reserve.

(c) The realised amounts are computed based on the proportions determined in (b) above.

Property and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (Continued)

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

Depreciation is charged to profit or loss on a straight-line basis to write off the cost of property and equipment to their residual values over their expected useful lives. These residual values and expected useful lives are re-assessed on an annual basis and adjusted for prospectively, if appropriate. The review of residual values takes into account the amount that the Bank would currently obtain on disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful or economic life (whichever is earlier). Depreciation rates applicable as at 30 June 2014 were as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (Continued)

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

Intangible assets

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

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

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

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The annual rate of amortisation, which has been consistently applied, is 25 percent. The amortisation period and the amortisation method for an intangible asset are reviewed at the reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

recognised in profit or loss. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Capital grant

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

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

Currency printing and minting expenses

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

Currency in circulation

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

Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Operating Lease

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

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

No significant payments are made in advance to the Government other than Government fees/rates normally paid on lease application and renewal based on Government rates that are published from time to time and which are insignificant and not related to the value of land or period of occupation.

Sale and Repurchase Agreements (REPOs)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sale and Repurchase Agreements (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 repurchase price is treated as interest expense and is recognized in profit or loss.

Financial assets measured at fair value through profit or loss

The Bank has designated marketable securities i.e. internally managed foreign securities and Reserve Advisory Management Program (RAMP) at fair value through profit or loss. Changes in fair value of these instruments are recognised through the profit or loss. Details have been provided under Note 19 of the account.

Foreign Exchange Equalization Reserve

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

Reserve for Dividend

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments - initial recognition and subsequent measurement

Date of recognition

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

Initial recognition of financial instruments

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

Classification of financial assets

Amortised cost

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

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

Financial assets measured at fair value through profit or loss

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

Fair Value through Other Comprehensive Income

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective Interest Rate method

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

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

Financial liabilities

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

De-recognition of financial assets and financial liabilities

Financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial assets (Continued)

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. These include Currency in Circulation; Deposits form Government, Banks and 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 IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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'.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Due from banks and supranational institutions, loans and advances

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

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

Other liabilities

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

Other assets

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

Cash and Cash equivalent

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

Escrow Accounts

These represent funds held by the Bank in foreign exchange as escrow agent of the United Republic of Tanzania and Independent Power Tanzania Limited (IPTL) and funds deposited by the United Republic of Tanzania following a memorandum of economic and financial policies arrangement pending agreement with creditors.

The escrow funds are 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 Escrow balances are reviewed to ensure that sufficient funds will be available when payments are due.

Initially these funds are measured at fair value. Subsequently, they are measured at amortised cost. Details of the accounts have been shown under **Note 16**, **33 and 34** of the accounts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Offsetting of financial assets and liabilities

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

Credit Guarantee Schemes

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

a. Going concern

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

b. Impairment of assets carried at amortised cost

Impairment losses on loans, advances and Government Securities

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

The Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows in an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred. Details have been provided under Note 3 to these accounts.

c. Impairment of marketable securities

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

d. Impairment of other financial assets

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

d. Impairment of other financial assets (Continued)

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

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

e. Fair value of financial instruments

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

f. Useful lives of property and equipment

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

g. Retirement benefits

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

5 INTEREST INCOME

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

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

	30.06.2014			30.06.2013		
	Received	Accrued	Total	Received	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
From foreign operations						
GBP investments	7,453,973	5,395,596	12,849,569	4,860,546	4,014,128	8,874,674
USD investments	26,669,977	6,968,708	33,638,685	27,564,776	8,385,351	35,950,127
EUR investments	7,036,611	12,123,448	19,160,059	9,792,092	11,572,275	21,364,367
AUD investments	11,643,531	4,460,032	16,103,563	8,282,841	3,246,639	11,529,480
CNY investments	3,278,959	926,313	4,205,272	1,048,854	788,048	1,836,902
Other foreign interest income	396,646	-	396,646	290,869	-	290,869
	56,479,697	**29,874,097**	**86,353,794**	**51,839,978**	**28,006,441**	**79,846,419**
From domestic operations						
Interest on domestic investments	119,261,471	32,963,182	152,224,653	99,012,230	37,997,026	137,009,256
Interest on loans and advances	73,002,733	-	73,002,733	-	41,026,288	41,026,288
Interest on staff loans	273,385	-	273,385	220,956	-	220,956
	192,537,589	**32,963,182**	**225,500,771**	**99,233,186**	**79,023,314**	**178,256,500**
	249,017,286	**62,837,279**	**311,854,565**	**151,073,164**	**107,029,755**	**258,102,919**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

5 INTEREST INCOME (Continued)

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

	30.06.2014	30.06.2013
	TZS '000	TZS '000
Income from instruments measured at fair value	86,353,794	79,846,419
Income from instruments measured at amortised cost	225,500,771	178,256,500
	311,854,565	**258,102,919**

6 INTEREST EXPENSES

	30.06.2014			30.06.2013		
	Paid	Accrued	Total	Paid	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Interest on BoT liquidity papers	51,338,967	87,075,744	138,414,711	5,092,224	71,400,467	76,492,691
Interest on repurchase agreements	730,314	9,349	739,663	1,161,174	26,827	1,188,001
Charges on IMF Drawings	544,348	-	544,348	389,163	-	389,163
	52,613,629	**87,085,093**	**139,698,722**	**6,642,561**	**71,427,294**	**78,069,855**

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

7 FOREIGN EXCHANGE REVALUATION GAINS

During the year realized and unrealized net foreign exchange revaluation gains amounted to TZS 249,856.9 million (2013: TZS 82,945.0 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 37,221.2 million relating to unrealised gain has been transferred to the foreign exchange revaluation reserve.

	30.06.2014	30.06.2013
Reconciliation of realized and unrealized foreign exchange revaluation	**TZS '000**	**TZS '000**
Net realized foreign exchange revaluation gains during the year	212,635,740	124,837,000
Add:Unrealized foreign exchange revaluation gains/ (losses) during the year	37,221,206	(41,892,007)
Net foreign exchange revaluation gains during the year	**249,856,946**	**82,944,993**

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

Financial Assets -FVTPL (USD)	2,667,608	(32,169,627)
Financial Assets -FVTPL (GBP)	(10,604,929)	(7,063,638)
Financial Assets -FVTPL (EUR)	(3,423,759)	(12,190,359)
Financial Assets -FVTPL (AUD)	(3,806,938)	(2,702,695)
Financial Assets -FVTPL (CNY)	1,567,194	(988,838)
Total	**(13,600,824)**	**(55,115,157)**

This represents the net decrease in fair value of the financial assets measured at fair value through profit or loss. The value of this balance aggregated to a loss of TZS 13,600.8 million as at 30 June 2014 (2013: 55,115.2 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

9 FEES AND COMMISSIONS

	30.06.2014	30.06.2013
	TZS '000	**TZS '000**
Commission on foreign operations	19,411,058	19,166,136
Bureau de change application fees	231,500	230,000
Bureau de change registration fees	66,000	50,000
Banks and financial institutions applications/licensing fees	1,000	-
Bureau de change penalty fees	34,500	42,000
Tanzania Interbank Settlement System (TISS) fees and charges	1,230,188	1,493,317
Tender application fees	55,823	33,815
Clearing House fines and penalties and other fees	16,721	26,000
	21,046,790	**21,041,268**

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

10 OTHER INCOME

	30.06.2014	30.06.2013
	TZS '000	**TZS '000**
Foreign operations		
Realized gains on de-recognition of foreign currency marketable securities	939,394	963,693
Income from equity investment	170,628	112,441
Gains on inter-bank foreign exchange market (IFEM) operations	3,002,798	-
Miscellaneous income	3,998	328,673
	4,116,818	**1,404,807**
Domestic operations		
Income – domestic operations	825,032	430,750
Rental income from staff quarters	562,349	572,050
Income from hostel accommodation	68,668	63,057
Income from cafeteria operations	38,605	23,482
Realised gain on Mwananchi Gold Company Limited Shares	-	1,064,706
Miscellaneous income	1,087,730	639,403
Write back of payables	10,693,928	-
Recovery from receivables	-	344,571
	13,276,312	**3,138,019**
Total other income	**17,393,130**	**4,542,826**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

10 OTHER INCOME (CONTINUED)

The Bank's implemented the Integrated Financial Management System (IFMS) since July 2007 which became the main system of the Bank for generating financial reports. The amount written back during the year under review represents balances in the accounts payable regarded as non-existing obligations on net basis.

11 ADMINISTRATIVE EXPENSES

	30.06.2014	30.06.2013
	TZS '000	TZS '000
Board expenses	1,376,742	1,154,253
Transport and traveling expenses	8,002,640	6,756,061
Maintenance - computer, software and related expenses	9,608,484	6,819,803
Maintenance - furniture, machinery and equipment	2,433,814	835,904
Maintenance - bank premises	5,123,845	4,649,988
Legal and investigation expenses	201,858	470,488
Audit fees	697,950	670,000
Audit related expenses	160,621	41,474
Fees, rates and security expenses	2,213,676	2,539,286
Water and electricity	5,645,267	4,888,562
Telecommunication and postage	1,681,999	1,630,521
Printing, stationery and office supplies	1,668,301	1,342,892
Meetings, conferences and seminars	5,372,975	4,866,501
Hospitality	227,104	135,435
Budget and annual accounts preparation expenses	409,197	172,535
Insurance expenses	1,879,546	1,243,825
Other administrative expenses	2,838,809	1,286,916
	49,542,828	**39,504,444**

12 CURRENCY ISSUE AND RELATED EXPENSES

Notes printing and related expenses (see Note 26)	56,366,755	50,094,783
Coins minting and related expenses (see Note 26)	2,508,331	3,390,629
Cost of currency issued in circulation	**58,875,086**	**53,485,412**
Currency transport, storage and handling	2,405,039	2,199,771
Maintenance of currency machines	2,048,704	3,146,804
Other currency expenses	122,981	94,691
	63,451,810	**58,926,678**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

12 CURRENCY ISSUE AND RELATED EXPENSES (CONTINUED)

The amount of TZS 58,875.1 million (2013: TZS53,485.4 million) in respect of notes printing and coins minting and related expenses respectively, refers to the proportionately amortized portion of deferred notes printing and coins minting cost for the currency notes and coins that were issued into circulation during the year.

The amount of TZS 2,405.1 million (2013:TZS 2,199.8 million) is in respect of currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred during the year. A total of TZS 2,048.7 million (2013: TZS 3,146.8 million) was incurred during the year in respect of currency machines maintenance expenses. Other currency related expenses aggregated to TZS 122.9 million (2013:TZS 94.7 million).

13 PERSONNEL EXPENSES

	30.06.2014	30.06.2013
	TZS '000	TZS '000
Staff salaries and allowances	64,593,774	59,436,067
Contribution to PPF scheme	7,615,826	7,213,967
Contribution to NSSF scheme	1,251,393	1,241,052
Staff medical expenses	5,099,397	3,018,208
Staff training expenses	4,187,596	4,473,178
Staff uniforms expenses	166,355	128,959
Tanzania Union for Industrial and Commercial (TUICO) expenses	907,230	361,512
Workers Council expenses	435,055	841,872
Course functions & field trips expenses	14,541	14,962
Travel on leave expenses	3,225,382	5,983,207
Condolence, survivors' benefits and related expenses	871,690	517,071
Motor vehicles expenses	781,963	632,937
Long term service awards	206,000	248,200
Management car maintenance and other related expenses	5,088,523	4,619,526
Furniture grant expenses	1,378,146	589,333
HR planning policies expenses	2,108,807	1,160,959
Cafeteria expenses	1,257,339	1,171,252
Defined benefits costs*	-	17,059,246
	99,189,017	**108,711,508**

*Included in the defined benefits cost are expenses resulting from actuarial valuation of the Defined Benefit Obligation amounting to nill (2013: TZS 17,059.2 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

14 OTHER EXPENSES

	30.06.2014	30.06.2013
	TZS '000	**TZS '000**
Foreign operations		
Foreign reserve management expenses	1,665,887	1,344,924
Financial markets development expenses	958,947	1,068,889
Loss on inter-bank foreign exchange market (IFEM) operations	-	1,493,460
Commission and fees on foreign operations	101,510	109,452
Realized losses on de-recognition of foreign currency marketable securities	1,030,596	635,595
Amortized premium	38,758	7,511
	3,795,698	**4,659,831**
Domestic operations		
Contribution to professional associations, charities	2,141,155	2,043,858
Contribution to national development programs/projects	2,085,819	815,177
Contributions to other institutions	131,708	35,060
Subscriptions	-	71,851
	4,358,682	**2,965,946**
Miscellaneous expenses		
Cheques issued expenses	93,848	94,672
Other receivables written off	1,377,952	-
Impairment losses	184,332	-
	1,656,132	**94,672**
	9,810,512	**7,720,449**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

14 OTHER EXPENSES (CONTINUED)

Analysis of contributions and subscriptions	30.06.2014 TZS '000	30.06.2013 TZS '000
African Association of Central Banks and African Rural and Agriculture Credit Association	19,755	19,312
Contribution to National Board of Accountants and Auditors (NBAA) and National Board of Material Management (NBMM)	71,116	71,851
Promotion of Tanzania Economy Abroad and Other Foreign Institutions	15,564	15,719
Contribution to Establishment of Tanzania Agricultural Development Bank	121,593	-
Contribution to African Research Consortium	143,090	-
Contribution - Committee of Central Bank Governors (CCBG)	18,150	15,748
Tanzania Institute of Bankers	489,720	466,400
Deposit Insurance Board	257,047	214,708
Second Generation of Financial Sector Reforms	1,677,422	708,137
Monetary and Economic Financial Management Institute	554,328	531,711
Capital Markets and Securities Authority	558,940	504,000
Donations and Other Contributions	431,957	418,360
	4,358,682	**2,965,946**

15 CASH AND CASH EQUIVALENT

	30.06.2014 TZS '000	30.06.2013 TZS '000
Cash balances with Central Banks	601,779,607	1,142,130,526
Demand, time deposits with commercial banks and foreign currency notes and coins	1,347,874,131	625,692,750
Accrued interest on deposits	432,668	386,237
	1,950,086,406	**1,768,209,513**

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

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

Demand deposits	1,678,330,842	623,505,124
Foreign currency notes and coins	1,689,615	2,187,626
	1,680,020,457	**625,692,750**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)4

16 ESCROW ACCOUNTS

	30.06.2014	30.06.2013
	TZS '000	**TZS '000**
Tegeta Escrow Account	-	35,598,461
Bank of Tanzania Escrow	8,033,971	7,812,395
	8,033,971	**43,410,856**

Tegeta Escrow Account

This represents funds held by the Bank in foreign exchange as escrow agent of Government of the United Republic of Tanzania and Independent Power Tanzania Limited (IPTL). Such funds which are held in the Tegeta escrow account in foreign currency had been invested in money markets instruments with a maturity not exceeding one year in accordance with the Escrow Agreement in force. During the year under review the BOT duty as escrow agent came to end. Accodingly, all investments were released out of the escrow account funds in accordance with the instructions of the principal parties to the escrow account and the court order. Further details have been indicated under note 33.

Bank of Tanzania Escrow TZS 8,034.0 million.

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

The Government deposited funds into this account once in March 2003 of USD 5.0 million equivalent to TZS 5,256.0 million .Some of the funds were utilized to settle due obligations before financial crises. The balance on the account earns interest. As at 30 June 2014 the account had a balance of USD USD 4.9 million equivalent to TZS 8,034.0 million (2013: USD 4.9 million) equivalent to TZS 7,812.4 million.

17 ITEMS IN COURSE OF SETTLEMENT

	30.06.2014	30.06.2013
	TZS '000	**TZS '000**
BoT Net Clearing Account	6,999,625	1,456,137

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)4

18 INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES

	30.06.2014		30.06.2013	
	Equivalent SDR '000	Equivalent TZS '000	Equivalent SDR '000	Equivalent TZS '000
Assets				
Holding of SDRs	153,632	386,216,122	153,632	370,513,006
Quota in IMF	198,900	507,635,007	198,900	479,683,371
	352,532	**893,851,129**	**352,532**	**850,196,377**
Liabilities				
IMF Account No. 1	188,900	482,103,771	188,900	455,312,514
IMF Account No. 2	3	8,919	3	6,358
	188,903	**482,112,690**	**188,903**	**455,318,872**
Allocation of SDRs	190,510	486,225,552	190,510	459,452,774
	379,413	**968,338,242**	**379,413**	**914,771,646**

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

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

Quota in IMF, Interest and Charges
Borrowings from the related Tanzania's quota are non interest bearing with no stated maturity, while borrowings from the General Resources Account of the IMF bears interest at rates set by the IMF on a weekly basis and are repayable according to the repayment schedules of the agreement. The interest rate as at 30 June 2014 was 0.8 percent (2013: 0.8 percent). A total of SDR 198.9 million equivalent to TZS 507,635.0 million (2013: SDR 198.9 million equivalent to TZS 479,683.4 million), is the Tanzania's quota in the IMF representing the reserve tranche held with the IMF. On a quarterly basis, the IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position at a 1.9 percent to 2.33 percent annual floating rate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

18 INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES (CONTINUED)

Participation in the HIPC Initiative

The United Republic of Tanzania enjoys a debt relief program under the 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 2014, the facility had a nil balance.

19 FOREIGN CURRENCY MARKETABLE SECURITIES

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

	30.06.2014	**30.06.2013**
	TZS '000	**TZS '000**
Marketable Securities	5,266,743,773	4,756,786,209
Accrued interest	29,439,355	27,620,204
Total	**5,296,183,128**	**4,784,406,413**

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

	30.06.2014	**30.06.2013**
Sovereign Issues	**TZS '000**	**TZS '000**
USD	2,781,988,181	2,778,446,677
GBP	441,350,628	312,649,698
EUR	810,150,659	780,562,807
AUD	292,375,008	269,293,846
CNY	162,881,858	114,088,796
	4,488,746,334	**4,255,041,824**
Supranational Securities		
USD	232,589,497	217,196,958
GBP	28,397,672	25,651,852
EUR	110,195,927	84,684,562
AUD	9,875,043	12,897,888
	381,058,139	**340,431,260**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

19 FOREIGN CURRENCY MARKETABLE SECURITIES (CONTINUED)

	30.06.2014	30.06.2013
Agency Securities	**TZS '000**	**TZS '000**
USD	309,368,321	108,785,587
GBP	30,933,342	15,269,661
EUR	56,637,637	37,257,877
	396,939,300	**161,313,125**

Total investments		
USD	3,323,945,999	3,104,429,222
GBP	500,681,642	353,571,211
EUR	976,984,223	902,505,246
AUD	302,250,051	282,191,734
CNY	162,881,858	114,088,796
Accrued interest	29,439,355	27,620,204
	5,296,183,128	**4,784,406,413**

20 EQUITY INVESTMENTS

	30.06.2014	30.06.2013
	TZS '000	**TZS '000**
Equity investment in Afreximbank	8,324,558	7,056,734
Equity investment in SWIFT	443,964	279,964
	8,768,522	**7,336,698**

Equity investment in Afreximbank:
TZS 8,324.6 million (2013: TZS 7,056.7 million)

The African Export-Import Bank (Afreximbank) is a supranational institution, established on 27 October 1993. The Bank holds an investment in the equity of Afreximbank. Afreximbank is a grouping of regional central banks and financial institutions designed to facilitate intra and extra African trade. The Bank's authorized equity interest in Afreximbank is 313 ordinary shares of par value of USD 10,000 each. As at 30 June 2014 the Bank's called and paid up capital aggregated to USD 1,252,000 representing two fifth of the Bank's shares in Afreximbank. (2013: USD 1,224,000). The proportion of the Banks equity interest to the total holding in this bank is 0.7 percent. These shares are measured at fair value through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

20 EQUITY INVESTMENTS (CONTINUED)

Equity Investment in SWIFT: TZS 443.9 million (2013: TZS 280.0 million)

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

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

There was no allocation of shares during the year ended 30 June 2014 and the previous period. The change in value is as a result of unrealised of valuation gain on the shares.

The number of shares allocated to each member is determined at least after every three years according to the By-Laws of the Company and is 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 By Laws of the Company state that shares are only reimbursed when a member resigns , or when a member has to give up shares following reallocation. This Bank's investment is measured at fair value through other comprehensive income.

21 GOVERNMENT SECURITIES

	30.06.2014 TZS '000	30.06.2013 TZS '000
Stocks	51,333,308	51,336,808
Treasury Bills	5,233,178	13,881,700
Special Treasury Bonds	1,185,958,228	1,188,148,228
Treasury EPA Stock	205,743,889	205,743,889
	1,448,268,603	**1,459,110,625**
Accrued interest	32,963,182	37,997,026
	1,481,231,785	**1,497,107,651**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

21 GOVERNMENT SECURITIES (CONTINUED)

Stocks

Advances granted to the Government which were to be repaid at the end of financial year 1994 were converted into five years 25% Special Stock 1993/98 of TZS 42,243.0 million. Thereafter in 1999 the stock plus the earned interest were restructured into two stocks namely 15% Special Treasury Stock 2018/19 with face value of TZS 51,333 million and 15% Special Treasury Stock 2012/13 with face value of TZS 3.5 million. The stocks have semi annual coupon payments.

Treasury Bills

This represents treasury bills discounted to the Bank. As at 30 June 2014 treasury bills discounted was TZS 5,233.2 million (2013:TZS 13,881.7 million).

Special Treasury Bonds

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

The 10 Year Special Government Bonds 2009/2019 with a face values of TZS 150,000.0 million and TZS 323,000 million were issued on 2nd June 2009. The issue was made in accordance with Section 34, 35 and 69 of the Bank of Tanzania Act, 2006. The bonds carry an annual coupon of 8.0 percent payable semi annually. The purpose of the bond was to bridge Government revenue shortfall mainly attributed to the impact of the global financial crisis to the economy.

Other Special bonds of TZS 155,000 million with floating interest rate based on the prevailing average yield to maturity for 5 years with a cap of 14.92 percent issued by the Government to finance horticultural expansion project in Arusha.

The 5 years Special Government bond 2010/2015 with face value of TZS 5,475.0 million was rolled over from 5 years Government Bond with face value of TZS 36,500.0 million which matured in December 2010. This bond bears floating interest rate based on the prevailing average yield to maturity for 5 years with a cap of 14.92 percent. It is redeemed semi annually.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

21 GOVERNMENT SECURITIES (CONTINUED)

Special Treasury Bonds

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

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

The value of Special Bonds as at 30 June 2014 was TZS 1,185,958.2 million (2013:TZS 1,188,148.2million).

During the year under review partial redemption and maturity of special bonds amounted to TZS 2,190.0 million and TZS 3.5 million respectively.

Treasury EPA Stock

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

The Government has effective from 1 August 2008 reissued two EPA Special Stocks namely EPA Special Stock 2002/2052 and EPA Special Stock 2005/2055 with values of TZS 4,352.8 million and TZS 65,646.1 million and replaced them with EPA Special Stock 2008/18 and EPA Special Stock 2008/23 respectively. Their tenures were reviewed from 50 years and 55 years to 10 years and 15 years with annual coupons of 7.5 percent and 8.0 percent payable semi-annually respectively. Furthermore, on 1 August 2008 the Government issued EPA Special Stock with face value of TZS 135,745.1 million to accommodate external payment arrears exchange losses incurred up to 31 December 2007.The stock has a maturity of 20 years with annual coupon of 8.5 percent payable semi annually. As at 30 June 2014 the aggregate position of Special EPA stocks was TZS 205,743.9 million (2013:TZS 205,743.9 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

22 ADVANCES TO THE GOVERNMENT	30.06.2014	30.06.2013
	TZS '000	TZS '000
Advances to the Government (URT) Note 32	439,600,431	75,456,879

As at 30 June 2014, the overall United Republic of Tanzania (URT) Government position ended with a net deficit balance of TZS 439,600.4 million as summarised under Note 32. This position was attributable to overdrawn URT Government voted accounts. Advances were made in line with Section 34 of the Bank of Tanzania Act, 2006 and were solely for the purpose of providing temporary financial accommodation to the URT Government. Such advances bear interest at rates equivalent to the weighted average yield of short term maturities as determined by the Bank in accordance with the Bank of Tanzania Act, 2006 and are repayable within one hundred and eighty days. Interest charged on advances amounted to TZS 73,002.7 million (2013: TZS 41,026.3 million).

23 LOANS AND RECEIVABLES	30.06.2014	30.06.2013
	TZS '000	TZS '000
Staff loans and advances	41,375,114	41,029,865
Accounts receivable	267,522,182	143,670,509
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Intermediary accounts receivable	3,565,170	3,108,684
	317,606,466	**192,953,058**
Provision for impairment	(5,645,190)	(5,744,557)
	311,961,276	**187,208,501**
Analysis of impairment by line items		
Staff loans and advances	199,255	199,255
Accounts receivable	301,935	401,302
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
	5,645,190	**5,744,557**
Movement in provision for impairment		
Balance at the beginning of the year	**5,744,557**	**5,724,830**
Additional impairment on accounts receivable	58,368	39,453
Reversal during the year	(99,367)	(19,726)
Write-offs	(58,368)	-
Balance at the end of the year	**5,645,190**	**5,744,557**

The Bank did not pledge any loans and receivables as securities against liabilities in 2014 and 2013.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

23 LOANS AND RECEIVABLES (CONTINUED)

(a) Accounts Receivable: TZS 267,522.2 million.

Accounts receivable represent short term claims and which are expected to be recovered within a period not exceeding twelve months and outstanding transactions made on trade date. As at 30 June 2014, the account had a balance of TZS 267,522.2 million (2013: TZS 143,670.5 million). Major components under Accounts Receivable include the following: -

(i) Liquidity Management Receivable: TZS 27,364.4 million.

Included under accounts receivable is TZS 27,364.4 million (2013: TZS 41,746.7 million) relating to 2013/14 URT Government share in respect of liquidity management costs. The URT Government and Bank of Tanzania share of liquidity management cost is based on the formula contained in the Memorandum of Understanding in force.

(ii) Interest Receivable on overdrawn Government accounts: TZS 53,430.5 million.

During the year the URT Government net position was overdrawn by TZS 439,600.4 million (2013: TZS 75,456.9 million). Pursuant to Section 34 of the Bank of Tanzania Act, 2006, an amount of TZS 73,002.7 million was charged to the Government as interest on overdrawn position. Accordingly, interest aggregating to TZS 53,430.5 million is outstanding as at 30 June 2014 (2013: 62,223.4 million).

(iii) Standby credit facility: (TZS 101,017.0 million).

The commercial banks have access to the stand by credit facility with a maturity of one day in order to settle their obligations in their clearing balances to avoid systematic risk when their balances are not sufficient but expect maturity of various instruments. Such facility is available at market rate prevailing on that particular date. At 30 June 2014 such facility had an outstanding balance of TZS 101,017.0 million (2013 nil balance).

(b) Staff Loans and Advances: TZS 41,375.1 million.

Employees of the Bank are entitled to loans and advances as approved in accordance with the Bank's Staff By - Laws and Financial Regulations in force. Staff loans are granted to employees to assist them in acquisition of residential houses, motor vehicles, computers and furniture. Staff advances are financial accommodation granted to employees to meet short term financial obligations. The advances/loans are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. These loans and advances are recovered from the employees' salaries on a monthly basis. The facilities are secured against the borrowers' employment and terminal benefits. As at 30 June 2014 the balance of staff loans and advances was TZS 41,375.1 million (2013: TZS 41,029.9 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

24 INVENTORIES

The inventory balance consists of the following:	30.06.2014 TZS '000	30.06.2013 TZS '000
Currency machine spare parts	2,112,133	2,109,581
Building, machinery and maintenance consumables	760,629	770,855
Stationery	397,295	394,213
Drugs and medicines	112,637	124,224
Copier parts and consumables	307,721	318,481
Inventory in Transit	2,536	-
Cheque books	434,119	365,558
ICT accessories and consumables	457,070	326,198
	4,584,140	**4,409,110**

All inventories held by the Bank as at 30 June 2014 were for the internal consumption and not intended for sale.

25 INVESTMENT IN ASSOCIATE COMPANY

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

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

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

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

Since its cessation efforts to revamp the company failed, the Board of the company agreed in principle, to pursue a scheme of arrangement with a view of bringing the operations of the company to an end in order to minimise further losses. The company has been placed under voluntary liquidation. The Bank realised it's equity and its investment. Currently the liquidation process is expected to be completed before the end of financial year 2014/15 after addressing remaining issues with relevant authorities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

26 DEFERRED CURRENCY COST

The balance under this account represents deferred notes printing and coins minting expenses relating to costs of printed notes and minting coins that have not yet been released in circulation. During financial year 2013/14, the movement on deferred currency cost balance was as follows:

	30.06.2014	30.06.2013
	TZS '000	TZS '000
Balance as at the beginning of the year	138,446,612	139,540,818
Add: Cost of currency received during the year	5,731,261	52,391,206
Less: Cost of currency issued in circulation (Note 12)	(58,875,086)	(53,485,412)
Balance as at the end of the year	85,302,787	138,446,612

27 OTHER ASSETS

Staff Benefits Fund Investments	82,041,469	-
Prepayments	15,225,698	7,099,375
Export Credit Guarantee Fund investments account	67,481,328	52,955,305
SME contribution investment account	10,290,517	6,914,823
Staff Housing Fund investment account	-	1,972,198
Accrued Interest on ECGS investment	2,574,922	2,890,416
Development Finance Guarantee investments account	278,881	6,276,042
Staff imprest	3,675,498	3,033,356
Petty cash balances	71,500	71,500
Mwalimu J.K. Nyerere Memorial Scholarship Fund investments account	2,497,013	1,910,517
Others	108,230	97,785
	184,245,056	**83,221,317**
Less: Provision for impairment	-	(44,753)
	184,245,056	**83,176,564**

Analysis of impairment by lines

Prepayments	-	44,753

Movement in provision for impairment

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

27 OTHER ASSETS (CONTINUED)	30.06.2014	30.06.2013
	TZS ‘000	TZS ‘000
Balance at the beginning of the year	44,753	38,157
Write off	(44,753)	-
Transfer of impairment from loans and receivables	-	6,596
Balance at the end of the year	**-**	**44,753**

(i) Prepayment: TZS 15,522.2 million

The balance under prepayment for the year ending 30 June 2014 mainly covers TZS 2,737.5 million paid to Nandra Engineering and Construction Company Ltd as advance payment for construction of the Bank’s branch in Mtwara, TZS 5,900.0 million paid to National Housing Corporation for construction of Staff Houses, TZS 1,760.8 million paid to Royal Mint in respect of coins printing. .

(ii) Export Credit Guarantee Investment Account: TZS 67,481.3 million

The balance represent funds invested in Treasury Bills in respect of Export Credit Guarantee Scheme fund. As at 30 June 2014 the account had a balance of TZS 67,481.3 million (2013:TZS 52,955.3 million).

(iii) Staff Benefits Fund Investment (TZS 82,041.5 million).

This represents the investments in treasury bills, bonds and accrued interest made by the Staff Benefits Fund amounting to TZS 28,324.3 million, TZ 49,281.6 million and TZS 3,583.5 million respectively.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

28. PROPERTY AND EQUIPMENT

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

There were neither amounts nor restrictions on title of property and equipment held by the Bank as at 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

28. PROPERTY AND EQUIPMENT (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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.

	30.06.2014	**30.06.2013**
Details	**TZS '000**	**TZS '000**
Cost	775,038,012	751,684,832
Accumulated depreciation and impairment	(37,213,940)	(10,470,028)
Carrying amount	737,824,072	741,214,804

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

Work- in - progress relates to capital expenditure incurred in the extension of the Arusha office building, Mbeya and ,Currency shelves for Head Office and Zanzibar and currency processing machines. No depreciation is charged on capital work in progress until it is substantially completed. Based on the assessment made by the project quantity surveyors, it is anticipated that the above projects will be completed during financial year ending 30 June 2015.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

28 PROPERTY AND EQUIPMENT (CONTINUED)

Reconciliation of items disposed during the period by class of assets

Gain/(loss) on disposal of Property and Equipment

					30.06.2014	30.06.2013
	Cost	Accumulated Depreciation	Net Book Value	Cash proceeds	Net gain/loss	Net gain/loss
CLASS OF ASSET	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Machinery & equipment	69,769	61,127	8,642	2,790	(5,852)	(11,791)
Motor vehicles	49,258	44,911	4,347	32,220	27,873	-
Fixtures & fittings	17,396	15,518	1,878	3,594	1,716	-
Computers, servers & printers	4,322	2,377	1,945	63	(1,882)	(27,016)
	140,745	**123,933**	**16,812**	**38,667**	**21,855**	**(38,807)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

29 INTANGIBLE ASSETS

	Computer software	Computer software - WIP	Total
	TZS '000	TZS '000	TZS '000
2014			
Cost			
At 01 July 2013	23,160,433	738,585	23,899,018
Additions	367,983	1,590,224	1,958,207
At 30 June 2013	**23,528,416**	**2,328,809**	**25,857,225**
Accumulated amortisation			
At 01 July 2013	19,876,455	22,691	19,899,146
Charges for the year	1,452,655	-	1,452,655
At 30 June 2014	**21,329,110**	**22,691**	**21,351,801**
Net book value			
At 30 June 2014	**2,199,306**	**2,306,118**	**4,505,424**
2013			
Cost			
At 01 July 2012	22,899,956	161,861	23,061,817
Additions	260,477	576,724	837,201
At 30 June 2013	**23,160,433**	**738,585**	**23,899,018**
Accumulated amortisation			
At 01 July 2012	17,280,861	22,691	17,303,552
Charges for the year	2,595,594	-	2,595,594
At 30 June 2013	**19,876,455**	**22,691**	**19,899,146**
Net book value			
At 30 June 2013	**3,283,978**	**715,894**	**3,999,872**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

30 CURRENCY IN CIRCULATION

	30.06.2014 TZS '000	30.06.2013 TZS '000
Notes		
Notes issued	7,282,622,664	7,217,434,302
Less: Notes in Custody	(3,738,260,862)	(4,229,072,111)
Notes in Circulation (A)	**3,544,361,802**	**2,988,362,191**
Coins		
Coins issued	58,133,711	58,518,810
Less: Coins in Custody	(5,792,391)	(16,759,944)
Coins in Circulation (B)	**52,341,320**	**41,758,866**
	3,596,703,122	**3,030,121,057**

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

Furthermore, included under notes and coins in circulation figure of TZS 3,596,703.1 million (2013:TZS 3,030,121.1 million) is the face value of TZS 99,386.9 (2013: 99,386.9 million) representing banknotes that were phased out in 2003.These notes represent the liability of the Bank and are exchangeable at the Bank's counters.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

31 DEPOSITS - BANKS AND NON - BANK FINANCIAL INSTITUTIONS

	30.06.2014 TZS '000	30.06.2013 TZS '000
Deposit - commercial bank deposits		
Clearing	252,248,187	288,567,540
SMR	1,782,135,186	1,586,060,245
Domestic Banks Foreign Currency Deposits	313,813,374	340,100,698
Sub Total	**2,348,196,747**	**2,214,728,483**
Deposits - Non bank financial institutions		
Clearing	11,544,962	2,145,171
SMR	5,226,444	4,126,090
Domestic Non Banks Foreign Currency Deposits	2,013,695	3,876,344
Sub Total	**18,785,101**	**10,147,605**
Total Deposits	**2,366,981,848**	**2,224,876,088**

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

32 DEPOSITS - GOVERNMENTS

	30.06.2014 TZS '000	30.06.2013 TZS '000
Deposits - Voted		
URT Government	(608,732,388)	(263,866,358)
SMZ Government	8,195,178	(8,589,455)
Sub Total	**(600,537,210)**	**(272,455,813)**
Deposits - Un-voted		
URT Government	169,131,957	195,239,793
SMZ Government	2,003,055	1,759,141
Sub Total	**171,135,012**	**196,998,934**
Total URT Government	**(439,600,431)**	**(68,626,565)**
Total SMZ Government	**10,198,233**	**(6,830,314)**
Deposit Governments (Net)	**(429,402,198)**	**(75,456,879)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

32 DEPOSITS - GOVERNMENTS (CONTINUED)

As at 30 June 2014 the position of the Government of the United Republic of Tanzania (URT) voted accounts were overdrawn by TZS 608,732.4 million (2013: 263,866.4 million). Pursuant to the provision of Section 34 of the Bank's Act, a total of TZS 73,002.7 million (2013: TZS 41,026.3 million) was charged during the year ended 30 June 2014 as interest on overdrawn Governments position in various periods at the interest rate equal to the average monthly rates charged on treasury bills. Government deposit balances are non-interest earning. The net overdrawn position as at 30 June 2014 amounting to TZS 429,402.2 million (2013: TZS 75,456.9million) has been reported as advance to the Government.

33 DEPOSITS - OTHERS

	30.06.2014 TZS '000	30.06.2013 TZS '000
Export Credit Guarantee Fund	71,072,095	56,712,431
Small and Medium Enterprises Guarantee Fund	10,515,754	7,594,640
Redemption of Government Stock/Bonds	5,409,826	38,335
Tegeta Escrow	-	1,664,624
Development Finance Guarantee Fund	298,143	6,793,558
Debt Service cash cover	1,867,576	1,548,269
Deposit staff	11,585,708	9,380,278
Debt Conversion Scheme	2,098,960	2,098,960
Bank drafts issued	606,798	587,262
Deposit Insurance Fund	519,950	219,259
Economic Empowerment Programme	1,405,384	1,712,780
Tanzania Agriculture Development Bank	60,000,000	60,000,000
Mwalimu Julius K Nyerere Memorial Scholarship Fund	2,797,648	2,292,623
Mwananchi Gold Company Limited	572,029	4,947,083
Government obligations settlements	254,437,557	40,111,896
Miscellaneous deposits	1,185,932	319,783
	424,373,360	**196,021,781**
External Payment Arrears – NBC	2,288,419	2,288,419
	426,661,779	**198,310,200**

Tegeta Escrow TZS Sub Account:

The Bank was a party to an Escrow Agreement between Government of the United Republic of Tanzania and Independent Power Tanzania Limited (IPTL) for power purchase payments in favor of IPTL. The Bank, as an escrow agent received deposits from TANESCO for such monthly power disputed bills claimed by IPTL.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

33 DEPOSITS - OTHERS (CONTINUED)

Tegeta Escrow TZS Sub Account: (Continued)

Way back in 2000 dispute ensued between the two shareholders of IPTL "the company", namely VIP Engineering and Marketing" VIP" and Mechmar Corporation (Malaysia) Bernad "Mechmar". This dispute prompted one of the IPTL shareholders namely, "VIP" to petition for winding up orders of the company before the High Court in Tanzania. On 26 August, 2013 VIP filed a notice for withdrawal of its petition for winding up of IPTL and sought consequential orders which among others were for the provisional liquidator to hand over all the affairs of IPTL to Pan Africa Power Solutions (PAP) including portion of benefits in the escrow funds.

On 5th September 2013, the court delivered a ruling in which an order for withdraw of the notice for winding up petition filed by VIP was granted and its consequential orders as prayed by VIP. It follows that, the court "dejure" brought to an end the shareholders dispute.

Thereafter, the principal parties to the escrow agreement agreed to the withdraw the entire sum in the escrow account in line with the terms of the escrow agreement and executed an agreement for delivery of escrow funds. Upon payment of the escrow account funds in accordance with the instructions of the principal parties to the escrow account and the court order , BOT duty as escrow agent came to an end.

	30.06.2014	30.06.2013
	TZS '000	**TZS '000**
Balance as at the beginning of the year	**1,664,624**	**124,232,287**
Fund deposited	-	16,500,000
Funds invested in Treasury Bills	-	(139,067,663)
Redemption of the ESCROW	(1,664,624)	-
Balance as at end of the year	**-**	**1,664,624**

Development Finance Guarantee Fund: TZS 298.1 million.

Development finance guarantee fund consists of the following:

Capital contribution by the Government	56,500,000	56,500,000
Interest on refinancing loans	17,372,936	20,054,161
Interest earned on treasury bills	19,262	3,304,765
Sub Total	**73,892,198**	**79,858,926**
Less: Loans issued for refinancing facility	(73,594,055)	(73,065,368)
Net balance	**298,143**	**6,793,558**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

33 DEPOSITS - OTHERS (CONTINUED)

Development Finance Guarantee Fund

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

As at 30 June 2014, 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 .17,372.9 million (2013: TZS 20,054.1 million) while a total of TZS 19.2 million (2013: TZS 3,304.8 million) was earned as interest aggregated from the funds invested in treasury bills. A total of TZS 73, 594.1 million (2013: TZS 73,065.4 million) has so far been issued as loans for refinancing facilities to flowers and vegetable export companies. As at 30 June 2014 the Fund had a balance of TZS 298.1 million (2013: TZS 6,793.6 million)

Government Obligations Settlement: TZS 254,437.6 million

This represents Government cash cover in order to settle forex obligations. As at 30 June 2014 such funds aggregated to TZS 254,437.6 million (2013:TZS 40,111.9 million).

Mwananchi Gold Company Limited: TZS 572.0 million

This represents net deposit of Mwananchi Gold Company Limited at the Bank. The movement of the deposit during the year is indicated below.

	30.06.2014	**30.06.2013**
	TZS '000	**TZS '000**
Opening balance	4,947,083	-
Funds transferred from USD deposit account	-	5,551,729
Maturity on treasury bills investments	3,984,206	5,712,810
Payment to shareholders	(3,932,866)	-
Investments in Treasury bills	(3,243,500)	(5,551,720)
Transfers to commercial banks	-	(305,000)
Payment of statutory tax	(1,182,893)	(460,736)
	572,029	**4,947,083**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

33 DEPOSITS - OTHERS (CONTINUED)

Export Credit Guarantee Fund: TZS 71,072.1 million.

The balance under this fund consists of the following:

Export Credit Guarantee Fund	78,767,994	64,392,856
Less: ECGS Receivable	(7,695,899)	(7,680,425)
Total	**71,072,095**	**56,712,431**

The Export Credit Guarantee Fund (the "Fund") was established by the Government of the United Republic of Tanzania in 2001 under the export credit guarantee scheme, in a bid to promote exports. The Fund provides guarantees to commercial banks to cover risk of default in repaying the loans by their borrowers. As at 30 June 2014, the Fund had a balance of TZS 72,184.8 million (2013: TZS 56,712.4 million) comprising of Government and the Bank's contributions and income from investment in treasury bills and guarantee fees.

Debt Service Cash Cover: TZS 1,867.6 million

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

Debt Conversion Scheme: TZS 2,098.9 million.

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

Mwalimu Julius K Nyerere Memorial Scholarship Fund: TZS 2,797.6 million

Included in Deposit Others, is a balance of cash in respect of Mwalimu Julius K. Nyerere Memorial Scholarship Fund. The Fund was established by the Bank of Tanzania on 12 October, 2009 in honor of the life of the Father of the Nation Mwalimu Julius Kambarage Nyerere. The objective of the Fund is to sponsor the best performing students pursuing mathematics, science, accounting, finance and information technology degrees at the University level in Tanzania. As at 30 June 2014 a total of TZS 2,497.0 million (2013: TZS 1,910.5 million) in respect of the Fund's resources had been invested in Government treasury bills and treasury bonds as per Note 21. As a result the Fund had a balance of TZS 2,797.6.million (2013: TZS 2,292.6 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

34 FOREIGN CURRENCY FINANCIAL LIABILITIES

Foreign Currency Financial Liabilities consist of the following:

	30.06.2014	30.06.2013
	TZS '000	TZS '000
Multilateral Debt Relief Initiative Fund	7,664,734	7,676,726
TEGETA Escrow	-	35,598,461
Special Projects	530,959,153	454,003,875
Multilateral Agencies	140,674	140,674
Central Banks Deposits	41,530	41,530
Other Foreign Currency Deposits	11,485,913	10,227,880
	550,292,004	**507,689,146**

Multilateral Debt Relief Initiative Funds: TZS 7,676.7 million

Multilateral debt initiative funds relate to debt relief relating to cancellation of Government of the United Republic of Tanzania indebtness to the IMF under the IMF-Multilateral Debt Relief Initiative (MDRI). As at 30 June 2014, the fund had a balance amounting to TZS 7,664.7 million (2013: TZS 7,676.7 million).

TEGETA Escrow

The Bank was a party to an Escrow Agreement between Tanzania Electric Supply Company (TANESCO) and Independent Power Tanzania Limited (IPTL) for power purchase payments in favor of IPTL. The Bank, as an escrow agent received deposits from TANESCO for such monthly power disputed bills claimed by IPTL.

During the year under review the ESCROW account came to an end. Details have been indicated under Note 33 to the accounts.

Special Projects Funds: TZS 530,959.2 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 or other appointed project implementation agency. As at 30 June 2014 the total balance in respect of Special Project accounts aggregated to TZS 530,958.2 million (2013: TZS 454,003.8 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

34 FOREIGN CURRENCY FINANCIAL LIABILITIES (CONTINUED)

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 2014, such balances amounted to TZS 140.7 million (2013: TZS 140.7 million).

Other Foreign Currency Deposits TZS 11,485.9 million

This mainly consists of balance in respect of Vneshecomonbank Moscow Russia (TZS 6,774.7 million), Spread Reduction Account (TZS 1,992.9 million) and Transfers by commercial banks (TZS 1,992.2 million). As at 30 June 2014, the balance was TZS 11,485.9 million (2013: TZS 10,227.9 million).

35 POVERTY REDUCTION AND GROWTH FACILITY (PRGF)

	30.06.2014 TZS '000	30.06.2013 TZS '000
Exogenous Shocks Facility - ESF (IMF Drawings)	**759,512,829**	**723,094,344**

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

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

As at 30 June 2014 the balance of PRGF account was TZS 759,512.8 million (2013:TZS 723,094.34 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

36 REPURCHASE AGREEMENTS (REPOs)

	30.06.2014	30.06.2013
	TZS '000	TZS '000
Repurchase Agreements	20,000,000	48,000,000
Accrued interest	9,349	26,827
	20,009,349	**48,026,827**

37 BOT LIQUIDITY PAPERS

BOT liquidity papers	1,278,097,622	1,284,737,042
Accrued interest	87,075,744	71,400,467
	1,365,173,366	**1,356,137,509**

As at 30 June, 2014 the maturities profile of BOT Liquidity Papers were follows:

35-Day Treasury Bills	2,980,500	5,965,455
91-Day Treasury Bills	129,701,659	76,849,985
182-Day Treasury Bills	297,074,689	378,066,470
364-Day Treasury Bills	848,340,774	823,855,132
	1,278,097,622	**1,284,737,042**

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

38 PROVISIONS

Provision for leave pay	4,722,778	5,692,539
	4,722,778	**5,692,539**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

38 PROVISIONS (CONTINUED)

Movements in provisions	30.06.2014 TZS '000	30.06.2013 TZS '000
Leave pay		
Carrying amount at the beginning of the year	5,692,539	3,731,306
Provision used during the year	(969,761)	-
Provision charged during the year	-	1,961,233
Carrying amount at the end of the year	**4,722,778**	**5,692,539**

39 OTHER LIABILITIES

Accounts payable	40,024,545	24,656,601
Stale drafts payable	105,221	103,003
Employees tax payable	226,124	183,395
Others	2,039,127	301,571
	42,395,017	**25,244,570**

40 RETIREMENT BENEFIT OBLIGATION

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

Retirement benefits obligation	81,631,712	88,934,981
	81,631,712	88,934,981

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

41 AUTHORISED AND PAID-UP SHARE CAPITAL

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

42 CASH GENERATED FROM/(USED IN) OPERATIONS

	30.06.2014 TZS '000	30.06.2013 TZS '000
Profit /(loss) for the year	**194,842,975**	**(16,754,925)**
Adjustment for:		
Net revaluation gain on equity investments	1,099,237	4,968,233
Remeasurement of defined benefit obligation	-	534,024
Depreciation of property and equipment	28,583,943	32,704,439
Amortization of intangible assets	1,452,655	2,595,594
Increase in staff housing fund	1,252,024	1,121,381
(Net gain)/ loss on disposal of property and equipment	(21,855)	38,807
Unrealised foreign exchange revaluation (gains)/loss	(37,221,200)	41,892,007
Provision for impairment	184,332	-
Increase in fair value of equity investment	(1,431,824)	-
Bad debts written off	1,377,952	-
	190,118,239	**67,099,560**
Changes in working capital		
Decrease/(increase) in Escrow assets	35,376,885	(1,051,429)
Increase in loans and receivables	(126,189,102)	(4,107,756)
(Increase)/decrease in advances to the Government	(364,143,552)	207,547,839
Decrease in deferred currency cost	53,143,825	1,094,206
Increase in other assets	(101,068,492)	(3,188,862)
(Increase)/decrease in inventories	(175,030)	1,410,086
(Increase)/decrease in items in course of settlement	(5,543,488)	33,359,801
Increase in other liabilities and provisions	8,877,417	2,063,799
Net changes in working capital	**(499,721,537)**	**237,127,684**
Net cash (used in)/generated from operations	**(309,603,298)**	**304,227,244**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

43 RESERVES

	30.06.2014	30.06.2013
	TZS '000	TZS '000
General Reserve	273,047,290	257,285,113
Capital Reserve	99,262,908	99,262,908
Foreign Exchange Equalization Reserve	340,571,593	309,047,193
Reserve for Capital Projects	150,000,000	120,000,000
Staff Housing Fund	44,425,064	35,291,952
Assets Revaluation Reserve	119,776,163	119,776,163
Foreign Currency Revaluation Reserve	37,221,206	-
Securities Revaluation Reserve	28,843,184	27,743,947
Reserves for Dividend	72,454,104	40,126,119
Staff Benefits Reserve	7,562,690	7,562,690
	1,173,164,202	1,016,096,085

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 percent of the total assets of the Bank less its assets in gold and foreign currencies. Thereafter, the Bank is required to transfer not less than ten percent of profits to the General Reserve Fund. As at 30 June 2014 the reserve had a balance of TZS 273,047.3 million (2013: TZS 257,285.1 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 2014 the reserve had the same balance as it was on 30 June 2013 of TZS 99,262.9 million.

c. Foreign Exchange Equalisation Reserve

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

43. RESERVES (Continued)

c. Foreign Exchange Equalisation Reserve (Continued)

The justification for the establishment of the aforesaid reserve as part of the equity of the Bank centres on the requirement of the Bank, among other business entities requiring management to ensure preservation of capital, in terms of mitigating risks that can cause capital impairment or impairment of the entity's assets. As at 30 June 2014 the total amount standing at the credit of the Foreign Exchange Equalization Reserve amounted to TZS 340,571.6 million (2013: TZS 309,047.2 million).

d. Reserve for Capital Projects

This reserve was established by a resolution of the Bank's Board of Directors on 30 June 1992. The purpose of the reserve is to provide funds for financing major capital projects of the Bank. On an annual basis, the Board determines the amount to be appropriated from the distributable profit to the reserve. As at 30 June, 2014 the reserve had a balance of TZS 150,000.0 million (2013: TZS 120,000.0 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 provide housing loans to Bank's employees. On an annual basis, the Board determines the amount to be appropriated into the fund out of distributable profits. As at 30 June 2014, the fund had a balance of TZS 44,425.1 million (2013: TZS 35,291.9 million) that include interest on fund's investments.

f. Assets Revaluation Reserve

The Bank maintains Assets Revaluation Reserve to account for revaluation surpluses or deficits. To ensure compliance with requirement of International Accounting Standard (IAS 16), Property, Plant and Equipment if an asset-carrying amount increases as a result of revaluation, the increase is credited directly to other comprehensive income. However, this amount is not available for distribution. Accordingly, it is retained in the asset revaluation reserve. If an asset's carrying amount decreases on account of revaluation, the decrease is recognized in profit or loss to the extent that it exceeds credit balance existing in the asset revaluation reserve in respect of that asset. As at 30 June 2014, the reserve had a balance of TZS 119,776.2 million (2013: TZS 119,776.2 million).

g. Securities Revaluation Reserve

The Bank maintains a Securities Revaluation Reserve to account for unrealized gains and losses arising from changes in fair value of financial instruments measures at fair value through profit or loss. As at 30 June 2014 the reserve had a balance of TZS 28,843.2 million (2013: TZS 27,743.9 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

43. RESERVES (Continued)

h. Foreign Currency Revaluation Reserve

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

Both realized and unrealized gains and losses are therefore taken to **profit or loss** for purposes of computation of profit or loss for the year. Until such gains or losses are realized, they are not available for distribution; in the interim, the unrealized amounts are reflected in the Foreign Currency Revaluation Reserve. The separation of realized from unrealized exchange gains and losses is done by use of an "inventory accounting for foreign exchange net assets and liabilities". During the year the Bank operations generated foreign exchange revaluation gains of TZS 249,643.1 million (2013: TZS 82,945.0 million). Net unrealised gains amounted to TZS 37,221.2 million and have been transferred to foreign currency revaluation reserve. The balance of TZS 212,421.9 million related to realised gains forms part of the distributable profit for the year ending 30 June 2014. As at 30 June 2014 the reserve had a balance of TZS 37,221.2 million compared to the previous period where the reserve had no balance.

i. Reserve for Dividend

This reserve accommodates the amount declared as dividend payable to the Governments. As at 30 June 2014 the reserve had a balance of TZS 72,454.1 million (2013: TZS 40,126.1 million).

j. Defined Benefit Reserve

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.1 Introduction (Continued)

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

The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Bank. The Bank's overall risk management is focused at adopting a formal, structured, and consistent approach to risk management; ensuring ownership of risks and controls; creating accountability in protecting Bank image and improving organization performance through effective utilization of resources; creating awareness; instilling risk management culture in the Bank; states the requirement for formal risk communication process which disseminates relevant, reliable and timely information to all relevant parties in decision making.

Strategy in using financial instruments

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

The instruments related to assets' include; Foreign exchange deposits placed by the Bank and foreign exchange acquired by the Bank through the use of International Monetary Fund (IMF) resources. The Bank holds foreign exchange reserves for the purposes of servicing foreign debts and other Government obligations as a fiscal agent of the Government of the United Republic of Tanzania and for servicing its own foreign exchange obligations. The Bank also holds foreign exchange reserves for liquidity against external shocks, implementation of monetary and exchange rate policies, and providing confidence to the 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.1 Introduction (Continued)

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

Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on qualitative and quantitative factors. These factors are derived from nature of risks which are divided into financial and non-financial risks. The qualitative factors include business operations, staff, goals, media coverage and projects. 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.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the risk management committee, management, finance and investment committee and Board of Directors.

Risk mitigation

The Bank's mitigation strategies involve methods that minimize likelihood and impact and maximizing control effectiveness. Risk reduction comprise of selecting one or more options for modification of risk likelihood, impact, 'control design effectiveness' or 'control operating effectiveness'.

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

Consequently, interest rate risk arising from foreign investment is mitigated by targeting average duration of the foreign assets and investing in low risk assets such as short-term government debt. Strategic currency risk is mitigated by limiting foreign assets to major reserves currencies in such a way that the weight of individual currency matches expected Government and the Bank's foreign obligations in that currency. To lessen the impact of the credit risk, the Bank engages with counterparts of high credit quality which have been

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.1 Introduction (Continued)

rated by International Credit Rating Agencies. From time to time depending on the type of transaction, the Bank demands collateral of high market value to protect against credit risks. In the course of mitigating its financial risks, the Bank does not utilize derivative instruments. Derivative instruments may be used during monetary policy implementation.

Excessive risk concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

44.2 Risk Management Structure

The risk management structure is escalating from the individual employees up to the level of the board. The role of each stakeholder is summarised below

44.2.1 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, benchmarks, tolerance limits, risk appetite and key risk indicators. Providing sufficient resources to support risk management function.

44.2.2 Finance and Investment Committee of the Board

The Finance and Investment Committee of the Board is responsible for: Review and recommend approval of the Corporate Risk Profile, associated mitigation strategies and other reports on Risk Management. Assist the Board in reviewing implementation reports of risk management initiatives in the Bank. Advise the Board on all Risk Management undertakings in the Bank. Give directives to Management on issues related to Risk management.

44.2.3 Management

The Management is responsible for establishing, implement and maintain risk management system in accordance with this Policy Formulate the Framework, Policy and recommend the risk limits and tolerance. Report to the Finance and Investment Committee of the Board on implementation process of the Policy. Review CRM Policy and advise Finance and Investment committee of the Board on the adequacy and recommend them for approval to the Board. Approve CRM procedures and their subsequent amendments. Facilitate training and create risk awareness to all employees.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.2 Risk Management Structure (Continued)

44.2.4 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

44.2.5 Risk Management Function

Risk Management function is responsible for:

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

44.2.6 Internal Audit Function

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

44.3 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 his obligations arising from a financial transaction. Credit risk basically originates from the open market operations carried out in order to provide short term liquidity to banks within the framework of monetary policy implementation and from the investments made during foreign exchange reserve management.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

a. Credit Risk (Continued)

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

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

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

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

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

Total assets of the Bank exposed to credit risk as of 30 June 2014 and 30 June 2013 are presented in the table below according to the classification of assets (classification according to external credit rating is done based on credit ratings published by Standard and Poor's).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

a. Credit Risk (Continued)

Description	30.06.2014		30.06.2013	
	TZS '000	**TZS Share (%)**	**TZS '000**	**TZS Share (%)**
Central Banks:				
(AAA)	601,779,607	6.23%	1,142,130,526	13.53%
Foreign Commercial Banks:				
F1+	1,348,306,799	13.96%	626,078,987	7.42%
Escrow accounts				
Tegeta Escrow:				
A+	-		35,598,461	0.42%
Bank of Tanzania Escrow:				
AA	8,033,971	0.08%	7,812,395	0.09%
Loans and Receivables :				
NR	311,961,276	3.23%	187,208,501	2.22%
Investment Securities:			6,271,519,100	
Marketable Securities:	5,296,183,128	54.85%	4,784,406,413	56.69%
AAA	3,177,709,877		2,029,255,690	
AA+	1,588,854,938		2,577,727,952	
AA	529,618,313		114,125,771	
Government Securities:				
NR	1,481,231,785	15.34%	1,497,107,651	17.74%
Advance to the Government:				
NR	439,600,431	4.55%	75,456,879	0.89%
Others				
NR	169,019,358	1.76%	83,318,272	0.99%
Total	**9,656,116,355**	**100%**	**8,439,118,085**	**100%**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

a. Credit Risk (Continued)

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

Details	Foreign Country Treasury TZS '000	Supranational Institutions TZS '000	Domestic Financial Institutions TZS '000	Foreign Financial Institutions TZS '000	Government Guaranteed Agencies TZS '000	Tanzania Treasury TZS '000	Total TZS '000
2014							
Due from banks							
Central Banks	599,494,851	-	-	-	-	2,284,756	601,779,607
Commercial Banks	-	-	-	1,348,306,799	-	-	1,348,306,799
Escrow accounts	-	-	-	8,033,971	-	-	8,033,971
Items in course of settlement	-	-	6,999,625	-	-	-	6,999,625
Loans, Receivables and Advances	-	-	311,961,276	-	-	439,600,431	751,561,707
Investment in securities							
Foreign Currency Marketable securities	4,532,864,369	383,209,484	-	78,670,093	301,439,182	-	5,296,183,128
Equity investments	-	-	-	8,768,522	-	-	8,768,522
Government securities	-	-	-	-	-	1,481,231,785	1,481,231,785
Others							
Other assets (Excluding prepayments)	-	-	-	-	-	169,019,358	169,019,358
Holdings of Special Drawing Rights (SDRs)	-	386,216,122	-	-	-	-	386,216,122
Quota in International Monetary Fund (IMF)	-	507,635,007	-	-	-	-	507,635,007
Total	**5,132,359,220**	**1,277,060,613**	**318,960,901**	**1,443,779,385**	**301,439,182**	**2,092,136,330**	**10,565,735,631**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

a. Credit Risk (Continued)

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

Details	Foreign Country Treasury	Supranational Institutions	Domestic Financial Institutions	Foreign Financial Institutions	Government Guaranteed Agencies	Tanzania Treasury	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2013							
Due from banks							
Central Banks	1,134,929,012	4,834,649		-	-	2,366,865	1,142,130,526
Commercial Banks	-	-	-	626,078,987	-	-	626,078,987
Escrow accounts	-	-	-	43,410,856	-	-	43,410,856
Items in course of settlement	-	-	1,456,137	-	-	-	1,456,137
Loans and Receivables	-	-	187,208,501	-	-	75,456,879	262,665,380
Investment in securities							
Foreign Currency Marketable securities	4,279,712,530	342,869,987	-	84,057,692	77,766,204	-	4,784,406,413
Equity investments	-	-	-	7,336,698	-	-	7,336,698
Government securities	-	-	-	-	-	1,497,107,651	1,497,107,651
Others							
Other assets (Excluding prepayments)						76,121,941	76,121,941
Holdings of Special Drawing Rights (SDRs)	-	370,513,006	-	-	-	-	370,513,006
Quota in International Monetary Fund (IMF)	-	479,683,371	-	-	-	-	479,683,371
Total	**5,414,641,542**	**1,197,901,013**	**188,664,638**	**760,884,233**	**77,766,204**	**1,651,053,336**	**9,290,910,966**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

a. Credit Risk (Continued)

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

	Tanzania	USA	UK	Other European Countries	Other Countries	Total
2014	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Assets						
Cash and balances with central banks & other banks	2,284,756	287,336,770	14,701,204	111,354,756	186,102,121	601,779,607
Deposits with Commercial Banks	-	-	472,023,325	760,652,735	115,630,740	1,348,306,799
Escrow accounts	-	-	8,033,971	-	-	8,033,971
Items in course of settlement	6,999,625	-	-	-	-	6,999,625
Holdings of Special Drawing Rights (SDRs)	-	386,216,122	-	-	-	386,216,122
Quota in International Monetary Fund (IMF)	-	507,635,007	-	-	-	507,635,007
Foreign currency marketable securities	-	2,655,293,033	453,461,551	1,607,201,223	580,227,321	5,296,183,128
Equity investment	-	-	-	443,964	8,324,558	8,768,522
Government securities	1,481,231,785	-	-	-	-	1,481,231,785
Advances to the Government	439,600,431	-	-	-	-	439,600,431
Loans and receivables	311,961,276	-	-	-	-	311,961,276
Other assets (excluding prepayments)	169,019,358	-	-	-	-	169,019,358
Total Assets	**2,411,097,231**	**3,836,480,932**	**948,220,051**	**2,479,652,678**	**890,284,740**	**10,565,735,631**
Liabilities						
Currency in circulation	3,596,703,122	-	-	-	-	3,596,703,122
Deposits - banks and non-banks financial institutions	2,366,981,848	-	-	-	-	2,366,981,848
Deposits - others	426,661,779	-	-	-	-	426,661,779
Deposits - Government	10,198,233					10,198,233
Foreign currency financial liabilities	550,292,004	-	-	-	-	550,292,004
Poverty deduction and growth facility	-	759,512,829	-	-	-	759,512,829
Repurchase agreements	20,009,349	-	-	-	-	20,009,349
BoT liquidity papers	1,365,173,366	-	-	-	-	1,365,173,366
Other liabilities	42,395,017	-	-	-	-	42,395,017
IMF related liabilities	482,112,690	-	-	-	-	482,112,690
Allocation of Special Drawing Rights (SDRs)	-	486,225,552	-	-	-	486,225,552
Total liabilities	**8,860,527,408**	**1,245,738,381**	**-**	**-**	**-**	**10,106,265,789**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

a. Credit Risk (Continued)

Geographical analysisi of concetrations of assets and liability of the Bank as at 30 June 2013 is as follows:

2013	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
Assets						
Cash and balances with central banks & other banks	98,821,517	885,039,229	125,050,759	31,626,281	1,592,740	1,142,130,526
Deposits with Commercial Banks	-	-	315,084,253	310,994,734	-	626,078,987
Escrow accounts	-	-	7,812,395	35,598,461	-	43,410,856
Items in course of settlement	1,456,137	-	-	-	-	1,456,137
Holdings of Special Drawing Rights (SDRs)	-	370,513,006	-	-	-	370,513,006
Foreign currency marketable securities	2,291,581,779	730,208,598	1,247,550,533	515,065,503	-	4,784,406,413
Equity investment	-	-	-	279,964	7,056,734	7,336,698
Government securities	1,497,107,651	-	-	-	-	1,497,107,651
Advances to the Government	75,456,879	-	-	-	-	75,456,879
Loans and receivables	192,953,058	-	-	-	-	192,953,058
Quota in International Monetary Fund (IMF)	-	479,683,371	-	-	-	479,683,371
Other assets (excluding prepayments)	76,121,942	-	-	-	-	76,121,942
Total Assets	**4,233,498,963**	**2,465,444,204**	**1,695,497,940**	**893,564,943**	**8,649,474**	**9,296,655,524**
Liabilities						
Currency in circulation	3,030,121,057	-	-	-	-	3,030,121,057
Deposits - banks and non-banks financial institutions	2,224,876,088	-	-	-	-	2,224,876,088
Deposits - others	198,310,200	-	-	-	-	198,310,200
Foreign currency financial liabilities	507,689,146	-	-	-	-	507,689,146
Poverty deduction and growth facility	723,094,344	-	-	-	-	723,094,344
Repurchase agreements	48,026,827	-	-	-	-	48,026,827
BoT liquidity papers	1,356,137,509	-	-	-	-	1,356,137,509
Other liabilities	25,244,570	-	-	-	-	25,244,570
IMF related liabilities	455,318,872	-	-	-	-	455,318,872
Allocation of Special Drawing Rights (SDRs)	-	459,452,774	-	-	-	459,452,774
Total liabilities	**8,568,818,613**	**459,452,774**	**-**	**-**	**-**	**9,028,271,387**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 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.

30.06.2014

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalents	1,950,086,406	-	-	1,950,086,406
Foreign currency marketable securities	5,296,183,128	-	-	5,296,183,128
Escrow accounts	8,033,971	-	-	8,033,971
Equity investments	8,768,522	-	-	8,768,522
Loans and receivables	311,961,276	-	5,645,190	317,606,466
Advances to the Government	439,600,431	-	-	439,600,431
Other assets (excluding prepayments)	169,019,358	-	-	169,019,358
Total	8,183,653,092	-	5,645,190	8,189,298,282

As at 30 June 2014, aging analysis of loans and receivables is as follows:

30.06.2013

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalents	1,768,209,513	-	-	1,768,209,513
Marketable securities	4,784,406,413	-	-	4,784,406,413
Escrow accounts	43,410,856	-	-	43,410,856
Equity investment	7,336,698	-	-	7,336,698
Loans and Receivables	181,463,944	-	5,744,557	187,208,501
Other assets (excluding prepayments)	76,121,942	-	-	76,121,942
Total	6,860,949,366	-	5,744,557	6,866,693,923

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

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

Details	Total	Neither past due nor impaired	Less than 30 days	31 to 60 days	61-90 days	91-120 days	> 120 days
2014	317,606,466	311,961,276	-	-	-	-	5,645,190
2013	192,953,058	187,208,501	-	-	-	-	5,744,557

Details on provision for impairment losses on loans and receivables have been provided under **Note 23**.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

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

Details	30.06.2014 Gross Maximum Exposure TZS '000	30.06.2013 Gross Maximum Exposure TZS '000
Cash and cash equivalents	1,950,086,406	1,768,209,513
Escrow accounts	8,033,971	43,410,856
Items in the course of settlements	6,999,625	1,456,137
Marketable securities	5,296,183,128	4,784,406,413
Government securities	1,481,231,785	1,497,107,651
Advances to the Government	439,600,431	75,456,879
Loans and receivables	311,961,276	187,208,501
Other assets (Excluding prepayments)	169,019,358	76,121,942
Holding on Special Borrowing Rights	386,216,122	370,513,506
Quota in Internal Monetary Fund IMF	507,635,007	479,683,371

c. Liquidity Risk

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Liquidity Risk (Continued)

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.

	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
2014						
Assets						
Cash and balances with central banks & other banks	1,074,108,885	875,977,521	-	-	-	1,950,086,406
Escrow accounts	-	-	-	-	8,033,971	8,033,971
Items in course of settlement	6,999,625	-	-	-	-	6,999,625
Holdings of Special Drawing Rights (SDRS)	-	-	-	-	386,216,122	386,216,122
Quota in International Monetary Fund	-	-	-	-	507,635,007	507,635,007
Foreign currency marketable securities	89,202,473	190,289,702	947,293,963	4,017,892,166	51,504,824	5,296,183,128
Equity investment	-	-	-	-	8,768,522	8,768,522
Government securities	-	-	5,233,178	51,333,308	1,424,665,299	1,481,231,785
Advance to the Government	-	-	439,600,431	-	-	439,600,431
Loans and receivables	104,582,170	4,137,511	80,794,900	5,144,000	117,302,694	311,961,276
Other assets (Excluding prepayments)	3,746,998	6,090,279	29,904,559	129,277,522	-	169,019,358
Total assets	**1,278,640,151**	**1,076,495,013**	**1,502,827,031**	**4,203,646,996**	**2,504,126,439**	**10,565,735,630**
Liabilities						
Currency in circulation	719,340,624	719,340,624	699,340,624	731,340,624	726,890,626	3,596,253,122
Deposit - banks and non banks financial institutions	579,620,219	1,073,462,267	713,899,362	-	-	2,366,981,848
Deposit others	83,798,405	125,697,607	83,798,405	133,367,362	-	426,661,779
Foreign currency financial liabilities	55,029,200	110,058,401	220,116,801	165,087,602	-	550,292,004
Poverty Reduction and Growth Facility	-	4,560,010	6,200,030	748,752,789	-	759,512,829
Repurchase Agreements	20,009,349	-	-	-	-	20,009,349
BOT liquidity papers	2,980,500	12,970,166	1,349,222,700	-	-	1,365,173,366
Other liabilities	30,677,924	9,591,799	-	2,125,294	-	42,395,017
Retirements benefit obligations	-	-	-	7,303,269	74,328,443	81,631,712
IMF Related Liabilities	-	-	-	482,112,690	-	482,112,690
Allocation of Special Drawing Rights (SDRs)	-	-	-	486,225,552	-	486,225,552
Total Liabilities	**1,491,456,221**	**2,055,680,874**	**3,072,577,922**	**2,756,315,182**	**801,219,069**	**10,177,249,268**
Net Liquidity gap	**(212,816,070)**	**(979,185,861)**	**(1,569,750,891)**	**1,447,331,814**	**1,702,907,370**	**388,486,362**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Liquidity Risk (Continued)

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.

	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
2013						
Assets						
Cash and balances withcentralbanks & other banks	1,520,385,788	247,823,725	-	-	-	1,768,209,513
Escrow accounts	43,410,856	-	-	-	-	43,410,856
Items in course of settlement	1,456,137	-	-	-	-	1,456,137
Holdings of Special Drawing Rights (SDRS)	370,513,006	-	-	-	-	370,513,006
Quota in International Monetary Fund	-	-	-	-	479,683,371	479,683,371
Foreign currency marketable securities	32,006,935	488,575,203	761,913,131	3,455,848,000	46,063,144	4,784,406,413
Equity investment	-	-	-	-	7,336,698	7,336,698
Government securities	-	-	37,997,026	-	1,459,110,625	1,497,107,651
Advance to the Government	-	-	75,456,879	-	-	75,456,879
Loans and receivables	-	8,430,797	139,346,094	16,354,018	23,077,592	187,208,501
Other assets (excluding prepayments)	5,241,292	-	70,880,650	-	-	76,121,942
Total assets	**1,973,014,014**	**744,829,725**	**1,085,593,780**	**3,472,202,018**	**2,015,271,430**	**9,290,910,967**
Liabilities						
Currency in circulation	1,212,048,423	909,036,317	909,036,317	-	-	3,030,121,057
Deposit - banks and non banks financial institutions	2,224,876,088	-	-	-	-	2,224,876,088
Deposit others	43,014,029	114,631	137,241,232	17,940,308	-	198,310,200
Foreign currency financial liabilities	-	-	6,072,613	501,187,413	429,120	507,689,146
Poverty Reduction and Growth Facility	418,459,212	101,527,007	76,199,366	126,908,759	-	723,094,344
Repurchase Agreements	48,026,827	-	-	-	-	48,026,827
BOT liquidity papers	5,965,454	76,849,985	1,273,322,070	-	-	1,356,137,509
Other liabilities	8,220,590	6,477,321	-	1,666,464	8,880,195	25,244,570
Retirement benefit obligation	-	-	-	14,606,538	74,328,443	88,934,981
IMF Related Liabilities	-	-	6,358	455,312,514	-	455,318,872
Allocation of Special Drawing Rights (SDRs)	-	-	45,945,277	91,890,555	321,616,942	459,452,774
Total Liabilities	**3,912,583,796**	**1,094,005,261**	**2,447,823,233**	**1,182,359,195**	**330,926,257**	**8,967,697,742**
Net Liquidity gap	**(1,939,569,782)**	**(349,175,536)**	**(1,362,229,453)**	**2,289,842,823**	**1,684,345,173**	**323,213,225**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Liquidity Risk (Continued)

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

2014	Less than 12 months TZS '000	Over 12 months TZS '000	Total TZS '000
Assets			
Cash and balances with central banks & other banks	1,950,086,406	-	1,950,086,406
Escrow accounts	-	8,033,971	8,033,971
Items in course of settlement	6,999,625	-	6,999,625
Holdings of Special Drawing Rights (SDRs)	-	386,216,122	386,216,122
Quota in International Monetary Fund	-	507,635,007	507,635,007
Foreign Currency Marketable securities	1,226,786,138	4,069,396,990	5,296,183,128
Equity investment	-	8,768,522	8,768,522
Government securities	5,233,178	1,475,998,607	1,481,231,785
Advance to the Government	439,600,431	-	439,600,431
Loans and receivables	189,514,582	122,446,694	311,961,276
Other assets (excluding prepayments)	24,516,139	144,503,219	169,019,358
Total assets	**3,842,736,499**	**6,722,999,132**	**10,565,735,631**
Liabilities and equity			
Currency in circulation	2,138,471,872	1,458,231,250	3,596,703,122
Deposit - banks and non banks financial institutions	2,366,981,848	-	2,366,981,848
Deposit - Others	293,294,417	133,367,362	426,661,779
Foreign currency financial liabilities	385,204,402	165,087,602	550,292,004
Poverty reduction and growth facility	10,760,040	748,752,789	759,512,829
Repurchase agreements	20,009,349	-	20,009,349
BOT liquidity papers	1,365,173,366	-	1,365,173,366
Other liabilities	40,269,723	2,125,294	42,395,017
IMF related liabilities	-	482,112,690	482,112,690
Allocation of Special Drawing Rights (SDRs)	-	486,225,552	486,225,552
Total liabilities	**6,620,165,017**	**3,475,902,539**	**10,096,067,556**
Net Liquidity gap	**(2,777,428,518)**	**3,247,096,593**	**469,668,075**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Liquidity Risk (Continued)

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

2013	Less than 12 months TZS '000	Over 12 months TZS '000	Total TZS '000
Assets			
Cash and balances with central banks & other banks	1,768,209,513	-	1,768,209,513
Escrow accounts	43,410,856	-	43,410,856
Items in course of settlement	1,456,137	-	1,456,137
Holdings of Special Drawing Rights (SDRs)	-	370,513,006	370,513,006
Quota in International Monetary Fund	-	479,683,371	479,683,371
Foreign Currency Marketable securities	1,282,495,269	3,501,911,144	4,784,406,413
Equity investment	-	7,336,698	7,336,698
Government securities	37,997,026	1,459,110,625	1,497,107,651
Advance to the Government	75,456,879	-	75,456,879
Loans and receivables	147,776,891	39,431,610	187,208,501
Other assets (excluding prepayments)	76,121,942	-	76,121,942
Total assets	**3,432,924,513**	**5,857,986,454**	**9,290,910,967**
Liabilities and equity			
Currency in circulation	3,030,121,057	-	3,030,121,057
Deposit - banks and non banks financial institutions	2,224,876,088	-	2,224,876,088
Deposit - Others	180,369,892	17,940,308	198,310,200
Foreign currency financial liabilities	6,072,613	501,616,533	507,689,146
Poverty reduction and growth facility	596,185,585	126,908,759	723,094,344
Repurchase agreements	48,026,827	-	48,026,827
BOT liquidity papers	1,356,137,509	-	1,356,137,509
Other liabilities	25,244,570	-	25,244,570
IMF related liabilities	-	455,318,872	455,318,872
Allocation of Special Drawing Rights (SDRs)	45,945,277	413,507,497	459,452,774
Total liabilities	**7,512,979,418**	**1,515,291,969**	**9,028,271,387**
Net Liquidity gap	**(4,080,054,905)**	**4,342,694,485**	**262,639,580**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Interest Rate Risk (Continued)

The interest rate risk is the exposure of the Bank to possible adverse movements in interest rates. The parallel changes in the level of interest rates account for about 90 percent of the total interest rate risk. The remainder resulted from the changes in the shape which is steepening or flattening and curvature of the interest rate curves. The interest rate risk is managed through duration targeting. Duration measures sensitivity of a portfolio value to movements in market yields. Duration of 1.5 indicates that the portfolio's value will change by approximately 1.5 percent if rates change by 1.0 percent.

The policy target duration is 2 years with deviation allowance of ± 1.5 months. As of 30 June 2014 portfolio duration stood at 2.2 years while that of 30 June 2013 was 2.3 years.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)
44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Interest Rate Risk (Continued)

The table below shows various risk measured parameters.

Portfolio Characteristics				
USD				
	30.06.2014		30.06.2013	
Positions of securities	96		88	
Base currency	USD	TZS ‘000	USD	TZS ‘000
Market value of Marketable Securities	1,758,373,215	2,900,735,542	1,664,069,411	2,666,937,482
Money Markets placements	1,228,070,552	1,211,809,190	807,504,602	1,294,155,325
Duration	2.12 years		2.23 years	

EUR				
	30.06.2014		30.06.2013	
Positions of securities	51		44	
Base currency	USD	TZS ‘000	USD	TZS ‘000
Market value of Marketable Securities	600,401,012	990,463,537	565,962,567	907,045,568
Money Markets placements	-	-	-	-
Duration	2.08 years		2.58 years	

GBP				
	30.06.2014		30.06.2013	
Positions of securities	20		18	
Base currency	USD	TZS ‘000	USD	TZS ‘000
Market value of Marketable Securities	307,192,230	506,765,806	221,222,027	354,543,694
Money Markets placements	91,076,228	150,364,120	94,66,092	151,707,943
Duration	2.30 years		2.54 years	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Interest Rate Risk (Continued)

AUD				
	30.06.2014		**30.06.2013**	
Positions of securities	14		14	
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	186,367,900	307,445,534	175,553,444	281,352,483
Money Markets placements	77,440,256	127,851,540	44,843,459	71,868,818
Duration	2.66 years		2.56 years	

CNH				
	30.06.2014		**30.06.2013**	
Positions of securities	14		10	
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	98,758,172	162,918,394	71,172,926	114,066,002
Money Markets placements	24,823,432	40,982,741	25,234,350	40,442,083
Duration	1.94 years		2.00 years	

RAMP				
	30.06.2014		**30.06.2013**	
Positions of securities	66		53	
Base currency	USD	TZS '000	USD	TZS '000
Market value of Marketable Securities	259,395,908	427,917,648	264,183,123	423,357,239
Duration	2.14		2.20 years	

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

c. Interest Rate Risk (Continued)

- The model uses historical data from 1 July 2013 to 30 June 2014 as a basis for determining the possible ranges of outcomes and may not always cover all possible scenarios, especially those of an exceptional nature.

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

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

Price value of 1 BPS in USD

Details	30.06.2014		30.06.2013	
	USD	TZS '000	USD	TZS '000
USD	382,170.05	630,454.47	367,931.86	589,669.67
EUR	126,696.67	209,007.70	143,728.87	230,348.51
GBP	69,234.36	114,213.85	55,215.64	88,491.90
AUD	50,058.31	82,579.69	44,345.82	71,071.27
CNH	18,274.71	30,147.24	15,825.06	25,362.19
RAMP	58,527.66	96,551.32	56,729.27	90,917.73

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

d. Interest Rate Risk (Continued)

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

	30.06.2014			30.06.2013		
	USD		TZS '000	USD		TZS '000
USD	82,989.76		136,905.72	86,942.26		139,338.88
EUR	126,442.54		208,588.46	142,998.15		229,177.42
GBP	68,770.11		113,447.99	54,878.75		87,951.98
AUD	49,902.87		82,323.27	44,190.93		70,823.04
CNH	18,232.93		30,078.32	15,808.45		25,335.57
RAMP	15,166.33		25,019.44	10,200.40		16,347.77

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.

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,744,238)	(1,195,372)	(133,790)	(5,073,400)	(8,376,015)
20	(7,488,476)	(2,099,456)	(267,581)	(9,855,513)	(16,271,123)
30	(11,232,714)	(2,571,162)	(361,234)	(14,165,110)	(23,386,122)

30.06.2013 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(933,287.00)	(362,745.00)	(77,153.00)	(1,373,185.00)	(2,204,552.00)
20	(1,866,574.00)	(725,419.00)	(154,306.00)	(2,746,299.00)	(4,408,991.00)
30	(2,799,862.00)	(1,087,043.00)	(208,313.00)	(4,095,218.00)	(6 ,574,586)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

d. Interest Rate Risk (Continued)

Yield decrease in 1 BPS
30.06.2014 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	3,744,238	1,195,372	133,790	5,073,400	(8,376,031)
20	7,488,476	2,099,456	267,581	5,073,513	(8,376,218)
30	11,232,714	2,571,162	361,234	14,165,010	(23,386,006)

30.06.2013 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	933,287	362,745	77,153	1,373,185	2,204,552
20	1,866,574	725,419	154,306	2,749,299	4,408,991
30	2,799,862	1,087,043	208,313	4,095,218	6,574,586

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.

30.06.2014 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	18,016,625	1,784,441	667,397	(20,468,463)	(32,803,987)
Curve Steepening by 50	1,493,280	535,471	59,888	(2,088,639)	(3,347,378)
Curve Flattening by 50	1,493,280	535,471	59,888	(2,088,639)	(3,347,378)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

d. Interest Rate Risk (Continued)

30.06.2013 (Amounts in USD equivalent)

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

Cash flow and fair value interest rate risk

Interest sensitivity of assets and liabilities

For accounting purposes, cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, both in the United Republic of Tanzania and abroad. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The exposures to both kinds of interest rate risk arise in the course of the Bank's activities. Based on the sensitivity of the ten per cent deviation of the exchange rate against major currencies the impact on the Banks profit and equity was TZS 446,845.5 million. The deviation for 2013 was 4% and the impact in both equity and profit was TZS 11,945.6 million.

e. Currency risk

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

The Bank is exposed to this risk in the context of its holding of foreign exchange reserves, intervention in the local inter-bank foreign exchange market (IFEM) and foreign exchange transactions in the international foreign exchange market. Often, currency exposures are not out rightly hedged, but the currency risk is controlled through a target currency composition whose criteria are specified in the Foreign Exchange Reserves Policy and stated in the Investment Guidelines. The currency positions of the Bank as of 30 June 2014 and 2013 which provides the Bank's assets, liabilities and equity at carrying amounts, categorized by currency is summarized below.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)
44. RISK MANAGEMENT (CONTINUED)
44.3 Financial Risks (Continued)
e. Currency Risk (Continued)

2014	GBP TZS '000	USD TZS '000	EUR TZS '000	SDR TZS '000	TZS TZS '000	Others TZS '000	Total TZS '000
Assets							
Cash and balances with central banks & other banks	188,412,291	1,584,244,737	7,094,566	4,632	-	171,341,180	1,951,097,406
Escrow accounts	-	8,033,971	-	-	-	-	8,033,971
Items in course of settlement	-	10,486,794	-	-	(3,487,169)	-	6,999,625
Holdings of Special Drawing Rights (SDRs)	-	-	-	386,216,122	-	-	386,216,122
Quota in International Monetary Fund (IMF)	-	-	-	507,635,007	-	-	507,635,007
Foreign Currency Marketable securities	505,874,249	3,329,950,249	989,102,105	-	-	471,256,525	5,296,183,128
Equity Investment	-	8,324,558	443,964	-	-	-	8,768,522
Government securities	-	-	-	-	1,481,231,785	-	1,481,231,785
Advances to the Government	-	-	-	-	439,600,431	-	439,600,431
Loans and receivables	-	-	-	-	311,961,276	-	311,961,276
Other assets	-	-	-	-	169,019,358	-	169,019,358
Total assets	**694,286,540**	**4,941,040,309**	**996,640,635**	**893,855,761**	**2,398,325,681**	**642,597,705**	**10,566,746,631**
Liabilities							
Currency in circulation	-	-	-	-	3,596,703,122	-	3,596,703,122
Deposit - banks and non banks financial institutions	-	315,827,069	-	-	2,051,154,779	-	2,366,981,848
Deposit - Governments	-	-	-	-	10,198,233	-	10,198,233
Deposit - others	356,180	-	-	-	426,305,599	-	426,661,779
Foreign currency financial liabilities	550,292,004	-	-	-	-	-	550,292,004
Poverty Reduction and Growth Facility	-	-	-	759,512,829	-	-	759,512,829
Repurchase Agreements	-	-	-	-	20,009,349	-	20,009,349
BOT liquidity papers	-	-	-	-	1,365,173,366	-	1,365,173,366
Other liabilities	3,111,969	-	-	-	35,316,654	3,966,394	42,395,017
IMF related liabilities	-	-	-	-	482,112,690	-	482,112,690
Allocation of Special Drawing Rights (SDRs)	-	-	-	486,225,552	-	-	486,225,552
Total liabilities	**553,760,153**	**315,827,069**	**-**	**1,245,738,381**	**7,986,973,792**	**3,966,394**	**10,106,265,789**
Net balance sheet position	140,526,387	4,625,213,240	996,640,635	(351,882,620)	N/A	638,631,311	6,049,128,953
Scenario of 10% appreciation	14,052,639	462,521,324	99,664,063	(35,188,262)	N/A	63,863,131	604,912,895

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)
44. RISK MANAGEMENT (CONTINUED)

44.3 Financial Risks (Continued)

e. Currency Risk (Continued)

	GBP	USD	EUR	SDR	TZS	Others	Total
2013	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Assets							
Cash and balances with central banks & other banks	265,559,243	1,365,107,408	20,277,128	-	-	117,265,734	1,768,209,513
Escrow accounts		43,410,856	-	-	-	-	43,410,856
Items in course of settlement	-	13,545	(27,322)	-	1,469,914	-	1,456,137
Holdings of Special Drawing Rights (SDRs)	-	-	-	370,513,006	-	-	370,513,006
Foreign Currency Marketable securities	357,505,706	3,512,843,208	914,057,499	-	-	-	4,784,406,413
Equity Investment	-	7,056,734	279,964	-	-	-	7,336,698
Government securities	-	-	-	-	1,497,107,651	-	1,497,107,651
Advances to the Government	-	-	-	-	75,456,879	-	75,456,879
Loans and receivables	-	-	-	-	187,208,501	-	187,208,501
Quota in International Monetary Fund (IMF)	-	-	-	479,683,371	-	-	479,683,371
Other assets	-	-	-	-	76,121,942	-	83,176,564
Total assets	**623,064,949**	**4,928,431,751**	**934,587,269**	**850,196,377**	**1,837,364,887**	**117,265,734**	**9,297,965,589**
Liabilities							
Currency in circulation	-	-	-	-	3,030,121,057	-	3,030,121,057
Deposit - banks and non banks financial institutions	-	-	-	-	525,702,220	-	525,702,220
Deposit - Governments	-	-	-	-	-	-	-
Deposit - others	-	-	-	-	198,310,200	-	198,310,200
Foreign currency financial liabilities	-	507,689,146	-	-	-	-	507,689,146
Poverty Reduction and Growth Facility	-	-	-	723,094,344	-	-	723,094,344
Repurchase Agreements	-	-	-	-	48,026,827	-	48,026,827
BOT liquidity papers	-	-	-	-	1,356,137,509	-	1,356,137,509
Other liabilities	-	-	-	-	25,244,570	-	25,244,570
IMF related liabilities	-	-	-	-	455,318,872	-	455,318,872
Allocation of Special Drawing Rights (SDRs)	-	-	-	459,452,774	-	-	459,452,774
Total liabilities	**-**	**507,689,146**	**-**	**1,182,547,118**	**5,638,861,255**	**-**	**7,329,097,519**
Net balance sheet position	623,064,949	4,420,742,605	934,587,269	(332,350,741)	N/A	117,265,734	5,763,309,816
Scenario of 10% appreciation/depreciation	62,306,495	442,074,261	93,458,727	(33,235,074)	N/A	11,726,573	576,330,982

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.4 Non Financial Risks

44.4.1 Operational Risk

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

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

44.4.2 Human Resource Risk

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

44.4.3 Legal Risk

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

44. RISK MANAGEMENT (CONTINUED)

44.4 Non Financial Risks (Continued)

44.4.4 Reputational Risk

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

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

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.

45. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY

Financial instruments recorded at fair value

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

Foreign currency marketable securities

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

Unquoted equities securities.

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

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

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

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to cash and cash equivalent, escrow accounts, Items in course of settlements, deposits, repurchase agreements and BoT liquidity papers and other 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.

Fair value of financial assets and liabilities

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

- **Level 1 fair value measurements**: are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments on exchanges for example Foreign Currency Marketable securities.
- **Level 2 fair value measurements**: are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from Bloomberg and the Dare salaam Securities Exchange.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

Fair value of financial assets and liabilities

- **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 fair value hierarchy the Bank are measured at fair value as at:

30 June 2014:

Description	Level 1 (TZS '000')	Level 2 (TZS '000')	Level 3 (TZS '000')
Foreign currency marketable securities	5,296,183,128	-	-
Equity investments	-	8,768,522	-
Total	**5,296,183,128**	**8,768,522**	-

30 June 2013:

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

There were no transfers between levels 1, 2 and 3 in the period.
The following table gives information about how the fair value of these financial assets and liabilities are determined

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

Type	Fair value at		Hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable input to fair value
	2014 (TZS '000)	2013 (TZS '000)				
Foreign currency marketable securities	5,296,183,128	4,784,406,413	I	Prices of listed securities	N/A	N/A
Equity investments	8,768,522	7,336,698	II	Net assets of the investee	N/A	N/A

If above unobservable inputs to valuation model were 10 per cent higher or lower while other variables were held constant, carrying amount of TZS 5,295,180.7 million and TZS 8,768.5 million Foreign Currency Marketable Securities and Equity Investments would have been higher or lower by TZS 52,951.8 million and TZS 8,768.5 million respectively.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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

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

Description	**Level I (TZS '000)**	**Level II (TZS '000)**	**Level III (TZS '000)**	**Total (TZS '000)**
Cash and balances with central banks and other banks	1,950,086,406	-	-	1,950,086,406
Escrow account	8,033,971	-	-	8,033,971
Items in course of settlements	6,999,625	-	-	6,999,625
Holdings of SDR	-	386,216,122	-	386,216,122
Quota in IMF	-	507,635,007	-	507,635,007
Government securities	-	1,481,231,785	-	1,481,231,785
Advances to the Government	-	439,600,431	-	439,600,431
Loans and Receivables	-	311,961,276	-	311,961,276
Other Assets	-	184,245,056	-	184,245,056
Total	**1,965,120,002**	**3,310,889,677**		**5,276,009,679**
Liabilities				
Currency in circulation	-	3,596,703,122	-	3,596,703,122
Deposits - Governments	-	10,198,233	-	10,198,233
Deposits - Others	-	426,661,779	-	426,661,779
Foreign currency financial liabilities	-	548,036,676	-	548,036,676
Poverty deduction and growth facility	-	759,512,829	-	759,512,829
Repurchase agreements	-	20,009,349	-	20,009,349
BoT liquidity papers	-	1,365,173,366	-	1,365,173,366
Other liabilities	-	42,395,017	-	42,395,017
IMF related liabilities	-	482,112,690	-	482,112,690
Allocation of Special Drawing Rights (SDRs)		486,225,552	-	486,225,552
Total	**-**	**7,737,028,613**	**-**	**7,737,028,613**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

46. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. A summary of significant accounting policies in Not how classes of financial instruments are measured and how income and expenses, including fair value gains are recognised. The following table analyses the carryi the financial assets and liabilities by category:

	Amortised Cost	FVTPL	FVOCI	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2014					
Financial assets					
Cash and balances with central banks & other banks	1,950,086,406	-	-	1,950,086,406	1,950,086,406
Escrow Accounts	8,033,971	-	-	8,033,971	8,033,971
Items in course of settlement	6,999,625	-	-	6,999,625	6,999,625
Holdings of Special Drawing Rights (SDRs)	386,216,122	-	-	386,216,122	386,216,122
Quota in International Monetary Fund (IMF)	507,635,007	-	-	507,635,007	507,635,007
Foreign Currency Marketable securities	-	5,296,183,128	-	5,296,183,128	5,296,183,128
Equity instruments	-	-	8,768,522	8,768,522	8,768,522
Government securities	1,481,231,785	-	-	1,481,231,785	1,481,231,785
Advance to the Government	439,600,431	-	-	439,600,431	439,600,431
Loans and receivables	311,961,276	-	-	311,961,276	311,961,276
Other assets (Excluding prepayments)	169,019,358	-	-	169,019,358	169,019,358
Financial liabilities					
Currency in circulation	3,596,703,122	-	-	3,596,703,122	3,596,703,122
Foreign currency financial liabilities	550,292,004	-	-	550,292,004	550,292,004
Deposit - Governments	10,198,233	-	-	10,198,233	10,198,233
Deposit - others	426,661,779	-	-	426,661,779	426,661,779
Poverty deduction and growth facility	759,512,829	-	-	759,512,829	759,512,829
Repurchase agreements	20,009,349	-	-	20,009,349	20,009,349
BoT liquidity papers	1,365,173,366	-	-	1,365,173,366	1,365,173,366
Other liabilities	42,395,017	-	-	42,395,017	42,395,017
IMF related liabilities	482,112,690	-	-	482,112,690	482,112,690
Allocation of Special Drawing Rights (SDRs)	486,225,552	-	-	486,225,552	486,225,552

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

46. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES 9CONTINUED)

	Amortised Cost	FVTPL	OCI	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2013					
Financial assets					
Cash and balances with central banks & other banks	1,768,209,513	-	-	1,768,209,513	1,768,209,513
Escrow Accounts	43,410,856	-	-	43,410,856	43,410,856
Items in course of settlement	1,456,137	-	-	1,456,137	1,456,137
Holdings of Special Drawing Rights (SDRs)	370,513,006	-	-	370,513,006	370,513,006
Quota in International Monetary Fund (IMF)	479,683,371	-	-	479,683,371	479,683,371
Foreign Currency Marketable securities	-	4,784,406,413		4,784,406,413	4,784,406,413
Equity instruments	-	-	7,336,698	7,336,698	7,336,698
Advance to the Government	75,456,879	-	-	75,456,879	75,456,879
Government securities	1,497,107,651		-	1,497,107,651	1,497,107,651
Loans and receivables	187,208,501	-	-	187,208,501	187,208,501
Other assets (Excluding prepayments)	76,121,942	-	-	76,121,942	76,121,942
Financial liabilities					
Currency in circulation	3,030,121,057	-	-	3,030,121,057	3,030,121,057
Deposits - banks and non-bank financial institutions	2,224,876,088	-	-	2,224,876,088	2,224,876,088
Deposits - Others	198,310,200	-	-	198,310,200	198,310,200
Foreign currency financial liabilities	507,689,146	-	-	507,689,146	507,689,146
Poverty Reduction and Growth Facility	723,094,344	-	-	723,094,344	723,094,344
Repurchase agreements	48,026,827	-	-	48,026,827	48,026,827
BoT liquidity papers	1,356,137,509	-	-	1,356,137,509	1,356,137,509
Other liabilities	25,244,570	-	-	25,244,570	25,244,570
IMF related liabilities	455,318,872	-	-	455,318,872	455,318,872
Allocations of Special Drawing Rights (SDRs)	459,452,774	-	-	459,452,774	459,452,774

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

47. RETIREMENT BENEFIT PLAN

Defined Benefit Plan

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

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

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

The principle assumptions used for the purposes of the actuarial valuation were as follows.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

47. RETIREMENT BENEFIT PLAN (CONTINUED)

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

	30.06.2013
	TZS '000
Current service cost	2,585,666
Net interest cost	12,248,994
Components of defined benefits cost re-cognised in profit or loss	**14,834,660**
Re-measurement on defined benefit liability:	
Actuarial gain arising from changes in financial assumptions	(534,024)
Components of defined benefit cost recognised in other comprehensive income	(534,024)
Total	**14,300,636**

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

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

	30.06.2014 **TZS '000**	**30.06.2013** **TZS '000**
Present value of funded/unfunded obligations	81,631,712	88,934,981
Defined Benefit Obligation recognised in the Statement of Financial Position	81,631,712	88,934,981

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

47. RETIREMENT BENEFIT PLAN (CONTINUED)

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

	30.06.2014	30.06.2013
	TZS '000	TZS '000
Opening benefit obligation	88,934,981	83,950,965
Current service cost	-	2,585,666
Interest cost	-	12,248,994
Actuarial (gain)/loss in experience	-	(103,859)
Actuarial (gain)/loss in assumptions	-	(430,165)
Benefits paid	8,155,403	(9,316,620)
Closing benefits obligation	**81,631,712**	**88,934,981**

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 84,318,345 million (2013: TZS 93,418.8 million).

Since the bulk of benefits payable under the arrangement are salary related, the sensitivity of a liability to a change in the salary escalation assumption is not expected to be materially different. However, the impact of a change in salary escalation is expected to be less than the impact of a change in the discount rate as a portion of the liability. In this case long service awards would not be affected by a change in the salary escalation rate

Effect on Bank's cash flow

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

Duration

The weighted average duration of the liability as at 30 June 2014 is 4.5 years (2013: 5.1 years).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

48. CAPIITAL

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

The capital of the Bank is subscribed and held only by the Government of the United Republic of Tanzania. The equity of the Bank includes share capital and reserves. During the year, movement of equity is as shown below and further details are provided in the statement of changes in owners' equity on page 32

Details	**30.06.2014 TZS '000**	**30.06.2013 TZS '000**
Capital	100,000,000	100,000,000
Reserves	1,173,164,202	1,016,096,085
Total	**1,273,164,202**	**1,116,096,085**

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

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

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

49. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

49. CONTINGENT LIABILITIES (CONTINUED)

49.1 Outstanding Legal Matters

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

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

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

The court proceedings have not been concluded.

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

49.2 External Payment Arrears Deposit Account

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

49. CONTINGENT LIABILITIES (CONTINUED)

49.2 External Payment Arrears Deposit Account (Continued)

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

In 1985, the Government of the United Republic of Tanzania formally assumed the responsibility of handling liabilities arising from External Payment Arrears deposit account (EPA) from the then NBC. The Bank was given the responsibility to manage EPA liabilities on behalf of the Government of the United Republic of Tanzania. As at 30 June 2013 the balance in this liability account has remained at the same level as it was in the previous year of TZS 2,288.4 million since the Bank has suspended all transactions relating to EPA pending reconciliation and resolution of the remaining external payment arrears. In order to undertake reconciliation and resolution of the remaining balance, on 14 April 2009 the Bank engaged a consultant, M/S Lazard Freres's & CIE to assist in the process.

The objectives of the exercise were:

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

49. CONTINGENT LIABILITIES (CONTINUED)

49.2 External Payment Arrears Deposit Account (Continued)

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

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

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

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

49.3 Export Credit Guarantee Scheme (ECGS)

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

As at 30 June 2014 outstanding guarantees aggregated to TZS 444,334.4 million (2013: TZS 233,151.0 9 million) while the balance of the Fund as at 30 June 2014 was TZS 71,076.3 million (2013: TZS 56,738.4 million). The movement of the Fund during the year is as summarized below:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

49. CONTINGENT LIABILITIES (CONTINUED)

49.3 Export Credit Guarantee Scheme (ECGS) (Continued)

	30.06.2014 TZS '000	30.06.2013 TZS '000
Balance of funds		
Capital	24,580,514	19,155,186
Surplus	46,495,693	37,583,193
Total	**71,076,257**	**56,738,379**

49.4 Small & Medium Enterprises - Credit Guarantee Scheme

The Bank operates this scheme by issuing guarantees on behalf of the Government to financial institutions covering medium and long-term finance to SMEs on a pilot as long as the capital funds in the CGS-SME accounts are not leveraged more that 1:3. There is a contingent liability under this scheme in respect of guarantees, limited to three times the balance of the Fund in accordance with the Agency agreement in force. As at 30 June 2014 outstanding guarantees had a value aggregating to TZS million (2013: TZS 574.9 million) while the balance of the fund as at 30 June 2014 was TZS 7,594.6 million (2013: TZS 7,594.6 million).

50. OUTSTANDING COMMITMENTS

50.1 Uncalled and unpaid Capital to Afrexim Bank

The Afrexim bank was established on 27 October 1993. The major function of the bank is to finance and facilitate trade among African countries and between Africa and the rest of the world. The Bank's authorized equity interest in Afrexim bank is 306 ordinary shares of par value USD 10,000 each payable in five equal instalments. Two instalments with value of USD 1.2 million have been called and paid up.

As at 30 June 2014, the Bank had a commitment of USD 1.8 million in respect of three instalments of uncalled and unpaid capital attached to its shareholding in the Afrexim bank. The Bank proportion of equity total holding in the Afrexim bank is 0.4 percent.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

50. OUTSTANDING COMMITMENTS (Continued)

50.2 Capital commitments

As at 30 June 2014, the Bank's capital commitments in respect of, Property and Equipment, Intangible Assets and major capital projects aggregated to TZS 61,573.8 million (2013: 65,513.1 million). The major capital expenditure commitments item is as reflected herewith below:

Particulars	30.06.2014 TZS '000	30.06.2013 TZS '000
Office buildings	8,921,800	7,735,000
Residential buildings	10,836,965	8,302,465
Machinery and equipment	11,297,900	11,097,900
Information, communication and technology (ICT)	2,199,629	2,499,444
Motor vehicles	4,634,000	4,634,000
Furniture and fittings	1,076,345	464,345
Intangible assets	4,341,987	3,857,387
Work in progress	18,265,200	26,922,600
Total	**61,573,826**	**65,513,141**

The above commitments have been included and approved for payment in accordance with the 2014/2015 Approved Budget Estimates.

50.3 Post- employment benefits

Effective July 2008, the Bank has a medical insurance arrangement, which covers retired employees and their spouses. At the reporting date the Bank had insurance commitment amounting to TZS 137.7 million (2013: TZS 56.8 million) involving retired staff with their spouses who retired since financial year 2009/10.

51. 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:

51.1 Loans and emoluments to key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

51. RELATED PARTY DISCLOSURES (Continued)

51.1 Loans and emoluments to key management personnel

The Bank extends loan facilities to the Governor, the Deputy Governors and its members of staff. Loans and advances (Note 23) include advances to employees that as at 30 June 2014 amounted to TZS 41,375.1 million (2013: TZS 41,029.9 million). The advances are granted at preferential rates of interest determined by the Bank presently at 5 percent fixed over the period of the loan. The following is the breakdown of loans and emoluments granted to key management personnel.

		30.06.2014 TZS '000	30.06.2013 TZS '000
i	**Loans to Senior Management** (i.e. Governor, Deputy Governors and Directors)		
	At start of the year	391,486	430,588
	Loans granted during the year	495,605	925,772
	Loans repaid during the year	(708,505)	(964,874)
	Balance end of the year	**178,586**	**391,486**
ii	**Emoluments to Senior Management Personnel (Governor, Deputy Governors and Directors)**		
	Salaries, allowances and benefits	3,788,442	3,608,040
	Post-employment benefits	1,281,000	1,220,000
	Total	**5,069,442**	**4,828,040**

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 2014, the number of key management personnel was 29 (2013: 29).

51.2 Directors' remunerations

During the year ending 30 June 2014, emoluments paid to the members of the Board amounted to TZS 1,220.3 million (2013: TZS 950.2 million). These emoluments include salaries and benefits of Non - Executive directors. As of 30 June 2014 and 30 June 2013 there were no loans advanced to the Non-Executive Directors of the Board. Further, there were no related party transactions with Non-Executive Directors of the Board.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

51. RELATED PARTY DISCLOSURES (Continued)

51.2 Directors' remunerations

51.3 Government of the United Republic of Tanzania

Transactions entered into with the Government include:

a. No interest and no Bank charges on Government deposits accounts;

b. Cost sharing of liquidity management cost arising from issue and redemption of liquidity papers and Repurchase Agreements in accordance with the memorandum of understanding in force.

a. Settlement of foreign currency denominated obligations;

b. Financial accommodation on temporary short falls in Government revenue;

c. 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 2014, the following balances, which are included in the statement of financial position in various categories, were outstanding:

	30.06.2014 TZS '000	30.06.2013 TZS '000
Due from Governments of Tanzania (Note 22 and 32)	439,600,431	75,456,879
IMF funds on-lent to the Government (Note 18)	507,635,007	479,683,371
Deposits-RGZ (Note 32)	10,198,233	-
Investments in Government Securities (Note 21)	1,481,231,785	1,497,107,651
Structured Financing Facility (Note 33)	73,594,055	73,065,368
Export Credit Guarantee Fund (Note 33)	71,072,095	56,712,431
Small and Medium Enterprises Guarantee Fund (Note 33)	10,515,754	7,594,640

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

51. RELATED PARTY DISCLOSURES (Continued)

51.4 Deposit Insurance Fund Board

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

During the year the Bank made contributions to the Board amounting to TZS 257.0 million (2013: TZS 214.7 million). The balance outstanding from the Fund and included under Deposit Others as at 30 June 2014 was TZS 519.9 million (2013: TZS 11,913.1 million).

51.5 Bank of Tanzania Training Institute - Mwanza

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

52. EVENTS AFTER THE REPORTING DATE

There were no events after reporting period that had material impact to the financial statements.