AUDIT REPORT

THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE BANK OF TANZANIA FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2010

ERNST & YOUNG
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December, 2010

BANK OF TANZANIA

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

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BANK INFORMATION

PRINCIPAL PLACE OF BUSINESS:

10 MIRAMBO STREET
BoT HEAD OFFICE
P. O. BOX 2939
DAR ES SALAAM, TANZANIA

REGISTERED OFFICE:

10 MIRAMBO STREET
BoT HEAD OFFICE
P. O. BOX 2939
DAR ES SALAAM, TANZANIA

GOVERNOR:

PROF. BENNO J. NDULU
BoT HEAD OFFICE
P. O. BOX 2939
DAR ES SALAAM, TANZANIA

SECRETARY TO THE BANK:

MR. A. H. M. MTENGETI
BoT HEAD OFFICE
P. O. BOX 2939
DAR ES SALAAM, TANZANIA

BRANCHES:

ARUSHA
BANK OF TANZANIA BUILDING
MAKONGORO ROAD
P. O. BOX 3043
ARUSHA, TANZANIA

MBEYA
BANK OF TANZANIA BUILDING
KADEGE ROAD
P. O. BOX 1203
MBEYA, TANZANIA

MWANZA
BANK OF TANZANIA BUILDING
NYERERE ROAD
P. O. BOX 1362
MWANZA, TANZANIA

ZANZIBAR
BANK OF TANZANIA BUILDING
GULIONI AREA
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ZANZIBAR, TANZANIA

BANK OF TANZANIA TRAINING INSTITUTE
CAPRIPOINT AREA
P. O. BOX 131
MWANZA, TANZANIA

BANK AUDITORS:

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DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010

1. INTRODUCTION

In accordance with Section 21 (2) of the Bank of Tanzania Act, 2006, the Board of Directors of the Bank of Tanzania ("the Bank") is required to prepare financial statements showing the financial position of the Bank and the profit or loss for the year, statement of changes in equity, cash flow statement and related notes.

2. STATUTE AND PRINCIPAL ACTIVITIES

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

Its functions and objectives are summarised as follows:

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

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

- To regulate and supervise the clearing and settlement system;

- To act as a banker and fiscal agent of the Government of the United Republic and the Revolutionary Government of Zanzibar ('the Governments');

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

3. ACHIEVEMENTS

The main achievements for the current year included:

- Maintenance of price stability through controlling the annual headline inflation rate to 7.2% in June 2010;

- Improvement of the effectiveness of market operations;

- Strengthening of the gross foreign exchange reserves of the Bank from USD 2,929.8 million at the beginning of the year to USD 3,393.5 million as at 30 June 2010;

- The maintenance of a sound regulatory framework and National Payment System; and

3. ACHIEVEMENTS (Continued)

- The oversight of the stability of the country's financial system through maintaining a safe and sound financial system and ability to act swiftly and effectively in minimizing disruptions in the financial system in the event of financial distress or crisis affecting the banks.

4. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

- Continuing to implement recommendations of the International Monetary Fund (IMF) voluntary safe guard assessment which was conducted in June 2008;
- Continuing to cooperate with relevant law enforcing organs;
- Recruiting additional staff to strengthen the internal audit function and capacity building;
- Enhancing Procurement Management Unit (PMU) to ensure compliance with the requirement of the Public Procurement Act, 2004;
- Reviewing of the risk profile in the Bank's operations and implementation of a strategy to mitigate them; and
- Capacity building in International Financial Reporting Standards (IFRS) in the Bank.

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

5. FINANCIAL PERFORMANCE

5.1 Financial results

The performance of the Bank is measured on the basis of the achievements in implementing its core functions as detailed in the Bank of Tanzania Act, 2006. During the period, the Bank made various achievements as explained under Para 3.0 of this report. Further in the course of its operations, the Bank made a total comprehensive income of TZS 26,728.5 million (2009: TZS 274,185.4 million). The reported comprehensive income is after taking into account 2009/10 net loss of TZS 6,490.1 million (2009: net profit of TZS 67,594.4 million). The decline in income from foreign investments as a result of global financial crisis and increase in operational expenses such as depreciation, personnel and other expenses were the main factors. Further income arising from foreign exchange revaluation gains decreased to TZS 16,837.2 million (2009: TZS 119,945.9 million).This was attributable to intensified sovereign risk in Europe leading to depreciation of the EUR and GBP against major currencies resulting into appreciation of TZS against the two major currencies hence eroding the Bank's investments value and return in Tanzania Shillings.

5.2 Financial position

The financial position of the Bank is as set out in the statement of financial position shown on page 14. During the year total assets of the Bank increased by TZS 1,252,434.9 million. This was mainly attributed to the increase of available for sale foreign currency marketable securities, cash and cash equivalents, holding of special drawing rights and Government securities amounting to TZS 104,833.4 million, TZS 538,823.4 million, TZS 322,682.2 million and TZS 93,723.7 million respectively.

On the other hand total equity and liabilities increased by TZS 1,252,434.9 million. This was mainly attributable to increase in deposits of banks of TZS 342,094.1 million; BoT liquidity papers TZS 207,622.0 million, allocation of SDR TZS 324,450.4 million and currency in circulation of TZS 349,013.1 million.

6. DONATIONS, SUBSCRIPTIONS AND CONTRIBUTIONS

The Bank made various donations, subscriptions and contributions during the year. Key among these were to the African Rural and Agricultural Credit Association (AFRACA); the 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); Second Generation Financial Sector Reforms; Tanzanian Institute of Bankers (TIB); Other Professional Associations; and Charities. Such payments amounted to TZS 2,815.9 million (2009: TZS 2,509.8 million) as per Note 14.

7. CORPORATE GOVERNANCE

Bank of Tanzania aspires to the highest standards of corporate governance. The events of the past two 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.

7. CORPORATE GOVERNANCE (Continued)

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

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

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

(a) Monetary Policy Committee

The Monetary Policy Committee is established under the provision of Section 12(1) of the Bank of Tanzania Act, 2006. Its membership comprise; the Governor who is the Chairman, the Deputy Governors, and two Non-executive Directors. In an endeavour to assist the management in their day-to-day functions, and to get the Board involved more closely in the affairs of the Bank. The following functions of the Board have been delegated to the Monetary Policy Committee:

(i) Review of monetary policy targets;
(ii) Review of research papers before they are submitted to the relevant authorities;
(iii) Review of recommendations of major economic and monetary policy changes before they are adopted by the Board;
(iv) Review of the Governments' revenue and expenditure patterns and borrowing by commercial banks and formulate appropriate recommendations to the Board for adoption;
(v) Monitoring of Management of external reserves, gold and foreign exchange and formulate appropriate recommendations to the Board for adoption;
(vi) Review of external and domestic debt management operations and formulate appropriate recommendations to the Board for adoption;
(vii) Review of the statutory reports of the Bank related to implementation of monetary and financial policies and formulates appropriate recommendations to the Board for adoption, and;
(viii) Undertake such other tasks as the Board may direct from time to time.

(b) The Audit Committee

The Audit Committee is established under the provision of Section 12(1) of the Bank of Tanzania Act, 2006. The Chairman of the Committee is a Non-Executive Director and other members are Deputy Governor-Administration and Internal Controls, and two other Non-Executive Directors (see item number 8 on page 7).

7. CORPORATE GOVERNANCE (Continued)

(b) The Audit Committee (Continued)

The detailed Terms of Reference for the Audit Committee are as follows: -

Internal Control

(i) Evaluate whether management is setting an appropriate control culture;
(ii) Ensure the adequacy of the internal control systems implemented by management for the approval and recording of financial data;
(iii) Ensure that the control processes implemented by management to prepare the financial statements derive from the underlying financial systems and comply with International Financial Reporting Standards [IFRS];
(iv) Review the effectiveness of the system for monitoring compliance with laws and regulations and follow-up on non-compliance; and
(v) Evaluate the overall effectiveness of the internal control and risk management frameworks that safeguard the Bank's assets and consider whether recommendations made by the internal and external auditors have been implemented by management.

Financial Reporting

(i) Review significant accounting and reporting issues and their impact on the financial reports. And ensure current financial risk areas are being managed appropriately;
(ii) Ensure the adequacy of the financial reporting process implemented by management. Meet with management and the external auditors to review the financial statements and compliance with IFRS;
(iii) Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies are discussed with the external auditor; and
(iv) Review the annual accounts before approval by the Board and release.

External Audit

(i) Review the external auditors' proposed audit scope and approach, the audit conduct, and audit deliverables;
(ii) Obtain satisfactory assurances that the audit is conducted in accordance with International Standards on Auditing;
(iii) Ensure that significant findings and recommendations made by the external auditors are appropriately acted on; and
(iv) Review draft accounts before the same are submitted to the External Auditors for audit.

Internal Audit

(i) Review the activities and resources of the internal audit function;
(ii) Review the effectiveness of the internal audit function and ensure that it has an appropriate standing and independence within the Bank;
(iii) Ensure the internal audit plan addresses key areas of risk; and
(iv) Ensure that significant findings and recommendations made by the internal auditors are appropriately acted on.

7. CORPORATE GOVERNANCE (Continued)

(b) The Audit Committee (Continued)

The Committee also undertakes such other related tasks as may be directed by the Board from time to time.

(c) Banking Supervision Committee

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

The Banking Supervision Committee is responsible for review of:

(i) Internal control and systems in banks and financial institutions and recommend improvements deemed necessary;
(ii) The activities and recommendations of the Banking Supervision function and advise the Board on appropriate policy, legislative and regulatory measures;
(iii) Proposals by the Banking Supervision function on changes in banking policies and practices in the light of banking developments and formulate recommendations to the Board;
(iv) Adequacy of provisions of prevailing legal and regulatory framework and propose amendments should this be deemed necessary;
(v) Adherence to banking ethics and standards and make recommendations on improving compliance;
(vi) Operating performance of banks, financial institutions and bureaux de change with a view to ensuring safety and soundness in the banking system;
(vii) Emerging supervisory issues and, where appropriate, direct development of policies that promote a safe and sound banking system and high supervisory standards and practices; and;
(viii) Financial stability reports before publication.

(d) The Finance and Investment Committee

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

The Finance and Investment Committee is responsible for review of:

(i) Proposed budgets and supplementary budget requests and recommend to the Board for approval;
(ii) Quarterly budget performance reports and recommend to the Board for adoption;
(iii) Requests for reallocation of funds involving the capital sub-votes and recommend to the Board for approval;
(iv) Financial Regulations and Staff by- Laws with a view to recommending to the Board for approval any changes that may be necessary;

7. CORPORATE GOVERNANCE (Continued)

(d) The Finance and Investment Committee (Continued)

(v) Submission for disposal of immovable assets and recommend to the Board for approval;
(vi) Annual Bank's Corporate Plan and recommend to the Board for approval;
(vii) Requests for write off / back of receivables and debts (except Governments debts) with value exceeding USD 10,000 or TZS equivalent and recommend to the Board for approval;
(viii) Financial policies and changes thereto and recommend to the Board for approval;
(ix) The appropriateness of the investment policy with regards to investment goals and objectives and formulates recommendation to the Board;
(x) Appropriateness of assets allocation strategy and make recommendation to the Board;
(xi) Quarterly, semi annual and annual reports and compare investment performance against an appropriate index, peer group and investment policy objectives and make recommendations to the Board;
(xii) Periodically qualitative and/or organisational changes of investment decision makers and make recommendations to the Board;
(xiii) Risk Management Framework for the Bank's operations and recommend to the Board for approval;
(xiv) Project Management framework and recommend to the Board; and
(xv) All administrative matters requiring Board's approval before the same are submitted to the Board.

8. DIRECTORS

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

1	Prof. Benno J. Ndulu	The Governor and Chairman of the Board
2	Dr. Enos S. Bukuku	Deputy Governor
3	Mr. Juma H. Reli	Deputy Governor (Member of the Audit Committee)
4	Mr. Lila H. Mkila	Deputy Governor
5	Mr. Ramadhani M. Khijjah	Member [1]
6	Mr. Khamis M. Omar	Member [2]
7	Dr. Natu E. Mwamba	Member [3] (Member of the Audit Committee)
8	Prof. Haidari K. Amani	Member [3] (Member of the Audit Committee)
9	Mr. Ali A. Mufuruki	Member [4] (Chairman of the Audit Committee)
10	Mr. Athman H. Mtengeti	Secretary to the Board

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

8. DIRECTORS (Continued)

KEY

[1] Permanent Secretary, the Treasury, Government of the United Republic of Tanzania.
[2] Principal Secretary, the Treasury, Revolutionary Government of Zanzibar.
[3] Non-Executive Director and member of the Audit Committee of the Board
[4] Non-Executive Director and Chairman of the Audit Committee of the Board

9. MEETINGS

Responding to the challenges faced by the Bank, the Board held 12 meetings during 2009/10. In addition there were various meetings of the Board committees. All members of the Board showed themselves to be willing and able to devote their time required for the Board meetings. Below is a summary indicating the number of meetings attended by members of the Board from 1st July 2009 to 30th June 2010.

		Board	MPC	BSC	AC	FIC
	Names	**Number of meetings**				
1	Prof. Benno J. Ndulu	12	10	7	N/A	10
2	Dr. Enos S. Bukuku	12	8	7	N/A	10
3	Mr. Juma H. Reli	11	10	6	11	8
4	Mr. Lila H. Mkila	10	11	7	N/A	9
5	Mr. Ramadhani M. Khijjah	6	4	4	N/A	1
6	Mr. Khamis M. Omar	12	10	7	N/A	1
7	Dr. Natu E. Mwamba	12	11	N/A	12	10
8	Prof. Haidari K. Amani	11	11	7	12	10
9	Mr. Ali A. Mufuruki	11	N/A	3	12	8
10	Mr. Athman H. Mtengeti	12	11	7	12	9

KEY

Board: Board of Directors

MPC: Monetary Policy Committee

BSC: Banking Supervision Committee

AC: Audit Committee

FIC: Finance and Investments Committee

10. INDEPENDENCE

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

11. DIRECTORS EMOLUMENTS

The directors' emoluments have been disclosed in Note 51.2 of this report.

12. SECRETARY TO THE BOARD

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

13. HUMAN RESOURCES AND STAFF WELFARE

The Bank believes that its employees should find working for the Bank a stimulating and personally enriching experience, and consequently accepts co-responsibility for the development of each employee to his/her full potential. Career progress is based on the contribution made by the individual towards the fulfilment of the responsibilities of the Bank and initiative; innovative thinking and professional expertise are therefore systematically developed and rewarded.

The Bank is committed to providing employment practices and policies, which recognize the diversity of our workforce and ensure equality for employees regardless of sex, race, disability, age, sexual orientation or religious belief.

The Bank accepts that only through the loyalty and dedication of its employees will be able to achieve its goal and fulfil its aims.

The Bank provides various benefits to staff such as insurance cover, long time service awards for staff serving for 25 years, loans and advances to cover various staff needs, training to develop staff career and medical cover to staff, one spouse and children not exceeding four.

14. CREDIT CRUNCH AND ITS IMPACT ON THE FINANCIAL STATEMENTS

In 2009/10, financial markets marked some improvements though credit risk concerns remains due to the Greece debt crisis and possible contagion in Europe. This had resultant negative impact on the Bank's investments. The Bank's risk appetite declined in a response to the sovereign debt crisis, which resulted into a considerable increase in credit risk on the Bank's counterparts. As the sovereign risk intensified in Europe leading to depreciation of the EUR and GBP against other major currencies, Tanzanian Shilling appreciated against the two currencies hence eroding the investments value and return in Tanzanian Shillings.

Consistent with Bank's policy objectives of capital preservation, provision of liquidity and realization of reasonable returns, the Bank continued to limit risk exposures by; desisting from placing money markets deposits with commercial banks and reducing exposures to agencies. The Bank made deposits in central banks which are currently earning near zero interest rate; this together with sovereign debt crisis jeopardised higher return objective and hence affected the Bank's income. Accordingly, the financial results of the Bank were also affected.

14. CREDIT CRUNCH AND ITS IMPACT ON THE FINANCIAL STATEMENTS (Continued)

At a macro level, the crisis has reversed Tanzania's Gross Domestic Product (GDP) growth projection from 8 percent to 5 percent in 2009/10. This had a negative impact on investment, employment and income for various sectors in the economy. Further the banking sector started worrying that trade in finance was becoming increasingly more risky as export commodity prices continued to lose value in the world markets, export orders and tourism revenues declined.

The Government took action to mitigate adverse impacts of the crisis to the economy in order to ensure stability of the financial system. In particular, the Government set up a rescue package to support economic activities affected by the crisis.

15. CAPITAL

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

The capital of the Bank shall be subscribed and held only by the Government of the United Republic of Tanzania.

16. AUDITORS

The Controller and Auditor-General (CAG) is the statutory auditor for the Bank of Tanzania pursuant to the provisions of Article 143 of the Constitution of the United Republic of Tanzania of 1977 (revised 2005), Sections. 30 – 33 of the Public Audit Act No. 11 of 2008 and section 20(6) of the Bank of Tanzania Act, 2006. Ernst & Young, Certified Public Accountants were appointed by the CAG to audit jointly with National Audit Office the financial statements of the Bank for the year ended 30 June 2010.

BY ORDER OF THE BOARD

BNdulu

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

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE

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DAR ES SALAAM

TO THE MEMBERS OF THE BOARD OF BANK OF TANZANIA

REPORT OF THE CONTROLLER AND AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE BANK OF TANZANIA FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2010

I have audited the accompanying financial statements of the Bank of Tanzania ('the Bank'), set out on pages 13 to 106, which comprise the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Directors' responsibility for the financial statements

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

Controller and auditor generals' responsibility

My responsibility as an auditor is to express an independent opinion on these financial statements based on the audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

REPORT OF THE CONTROLLER AND AUDITOR-GENERAL (Continued) ON THE FINANCIAL STATEMENTS OF THE BANK OF TANZANIA FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2010

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

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

Unqualified Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Bank of Tanzania Act, 2006.

Report on compliance with procurement legislation

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

Ludovick S.L. Utouh
Controller and Auditor General
13th December 2010

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

BANK OF TANZANIA

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	30.06.2010	30.06.2009
		TZS '000	TZS '000
Operating Income			
Interest income	6	191,028,253	181,812,802
Interest expenses	7	(65,993,803)	(91,750,746)
Net interest income		**125,034,450**	**90,062,056**
Foreign exchange revaluation gains	8	16,837,197	119,945,949
Fees and commissions	9	24,913,594	19,275,082
Other income	10	42,985,488	39,621,848
		84,736,279	**178,842,879**
Net operating income		**209,770,729**	**268,904,935**
Operating Expenses			
Administrative expenses	11	33,829,543	34,669,544
Currency issue and related expenses	12	55,174,945	58,006,149
Personnel expenses	13	76,374,578	59,546,257
Depreciation of property and equipment	30	31,871,514	28,216,343
Amortization of intangible assets	31	2,430,804	2,392,055
Amount written off	25	9,144	20,472
Loss on disposal of property and equipment	30	2,785	159,234
Other expenses	14	16,396,549	13,547,985
Impairment losses	15	170,947	4,752,524
		216,260,809	**201,310,563**
Operating (loss)/profit for the year		**(6,490,080)**	**67,594,372**
Exceptional item	16	-	135,745,071
(Loss)/profit for the year		**(6,490,080)**	**203,339,443**
Other Comprehensive Income			
Net gain on Available-for-Sale financial assets	17	33,218,539	70,845,909
Total comprehensive income		**26,728,459**	**274,185,352**

BANK OF TANZANIA

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	30.06.2010	30.06.2009
		TZS '000	TZS '000
ASSETS			
Cash and cash equivalent	18	1,208,232,281	669,408,905
Items in course of settlement	19	1,372,943	3,165,875
Holdings of Special Drawing Rights (SDRs)	20	322,830,929	148,684
Held - for - Trading financial assets	21	355,308,446	324,732,333
Available - for - Sale financial assets	21	2,900,449,397	2,795,616,000
Available - for - Sale equity investment	22	1,655,252	1,559,262
Held-to-Maturity Government Securities	23	1,004,203,068	908,479,399
Advances to the Government	24	175,645,539	-
Loans and Receivables	25	118,405,924	131,882,293
Inventories	26	4,531,846	4,761,694
Investment in Associate Company	27	1	1
Quota in International Monetary Fund (IMF)	20	404,716,549	400,673,986
Deferred Currency Cost	28	62,414,861	114,320,855
Other assets	29	94,883,478	37,879,730
Property and equipment	30	787,748,121	795,108,728
Intangible assets	31	9,532,699	11,758,602
TOTAL ASSETS		**7,451,931,334**	**6,199,496,346**
LIABILITIES			
Currency in circulation	32	2,031,539,904	1,682,526,787
Deposits - banks and non-bank financial institutions	33	1,338,053,232	995,959,123
Deposits - Governments	34	20,508,307	251,709,847
Deposits - Others	35	276,530,795	145,742,897
Foreign currency financial liabilities	36	395,315,922	399,293,601
Poverty Reduction and Growth Facility	37	467,977,672	343,101,021
Repurchase agreements	38	117,015,662	131,171,714
BoT liquidity papers	39	1,242,582,848	1,034,960,844
Provisions	40	6,946,561	4,970,817
Other liabilities	41	17,221,220	27,040,186
IMF related liabilities	20	384,375,218	380,535,501
Allocation of Special Drawing Rights (SDRs)	20	387,647,670	63,197,307
TOTAL LIABILITIES		**6,685,715,011**	**5,460,209,645**
EQUITY			
Authorised and Paid up Capital	42	100,000,000	100,000,000
Reserves	44	666,216,323	639,286,701
TOTAL EQUITY		**766,216,323**	**739,286,701**
TOTAL EQUITY AND LIABILITIES		**7,451,931,334**	**6,199,496,346**

These financial statements were approved by the Board of Directors for issue on 10th DECEMBER ;2010 and were signed on its behalf by:

Name: Benno J. Ndulu Title: Chairman of the Board Signature: [signature]

Name: Ali A. Mufuruki Title: DIRECTOR Signature: [signature]

BANK OF TANZANIA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

Details	Share Capital	General Reserve	Retained Earnings	Capital Reserve	Exchange Equalization Reserve	Reserve for Projects	Staff Housing Fund Reserve	Assets Revaluation Reserve	Securities Revaluation Reserve	Currency Revaluation Reserve	Reserve for Dividends	Total
	(Note 42)	(Note 44(a))		(Note 44(b))	(Note 44(c))	(Note 44(d))	(Note 44(e))	(Note 44(f))	(Note 44(g))	(Note 44(h))		
(Amounts in TZS'000)												
At 01 July 2009	**100,000,000**	**216,132,794**	-	**99,284,748**	**140,716,879**	**20,000,000**	**19,611,198**	**73,773,032**	**65,817,736**	**2,280,414**	**1,669,901**	**739,286,701**
Loss for the year 2009/10	-	-	(6,490,080)	-	-	-	-	-	-	-	-	(6,490,080)
Other comprehensive income	-	-	-	-	-	-	-	-	33,218,539	-	-	33,218,539
	100,000,000	**216,132,794**	**(6,490,080)**	**99,284,748**	**140,716,879**	**20,000,000**	**19,611,198**	**73,773,032**	**99,036,275**	**2,280,414**	**1,669,901**	**766,015,161**
Realised foreign exchange gain from the previous year	-	-	-	-	2,280,414	-	-	-	-	(2,280,414)	-	-
Transfer of unrealised foreign exchange revaluation gains to Foreign Currency Revaluation Reserve	-	-	(904,315)	-	-	-	-	-	-	904,315	-	-
Capital grant transferred to deferred grant income	-	-	-	(21,840)	-	-	-	-	-	-	-	(21,840)
Recoveries for staff housing fund	-	-	-	-	-	-	223,002	-	-	-	-	223,002
Transfer of loss for the year	-	(7,394,395)	7,394,395	-	-	-	-	-	-	-	-	-
At 30 June 2010	**100,000,000**	**208,738,399**	-	**99,262,908**	**142,997,293**	**20,000,000**	**19,834,200**	**73,773,032**	**99,036,275**	**904,315**	**1,669,901**	**766,216,323**

BANK OF TANZANIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

Details	Share Capital	General Reserve	Retained Earnings	Capital Reserve	Exchange Equalization Reserve	Reserve for Projects	Staff Housing Fund Reserve	Assets Revaluation Reserve	Securities Revaluation Reserve	Foreign Currency Revaluation Reserve	Reserve for Dividends	Total
	(Note 42)	(Note 44(a))		(Note 44(b))	(Note 44(c))	(Note 44(d))	(Note 44(e))	(Note 44(f))	(Note 44(g))	(Note 44(h))		
(Amounts in TZS'000)												
At 01 July 2008	**100,000,000**	**73,628,286**	-	**99,307,372**	**113,194,510**	-	**15,848,244**	**73,773,032**	**(5,028,173)**	**(5,982,532)**	**18,838,877**	**483,579,615**
Profit for the year	-	-	203,339,443	-	-	-	-	-	-	-	-	203,339,443
Other comprehensive income	-	-	-	-	-	-	-	-	70,845,909	-	-	70,845,909
	100,000,000	**73,628,286**	**203,339,443**	**99,307,372**	**113,194,510**	-	**15,848,244**	**73,773,032**	**65,817,736**	**(5,982,532)**	**18,838,877**	**757,764,967**
Transfer of exceptional item to General Reserve	-	135,745,071	(135,745,071)	-	-	-	-	-	-	-	-	-
Realised foreign exchange gain from the previous year	-	-	-	-	(5,982,532)	-	-	-	-	5,982,532	-	-
Transfer of unrealised foreign exchange revaluation gains to Foreign Currency Revaluation Reserve	-	-	(2,280,414)	-	-	-	-	-	-	2,280,414	-	-
Amortisation of capital grant	-	-	-	(22,624)	-	-	-	-	-	-	-	(22,624)
Dividend paid to the Government	-	-	-	-	-	-	-	-	-	-	(18,838,877)	(18,838,877)
Recoveries for staff housing fund	-	-	-	-	-	-	383,235	-	-	-	-	383,235
Appropriation of 2008/9 Profit	-	6,759,437	(65,313,958)	-	33,504,901	20,000,000	3,379,719	-	-	-	1,669,901	-
At 30 June 2009	**100,000,000**	**216,132,794**	-	**99,284,748**	**140,716,879**	**20,000,000**	**19,611,198**	**73,773,032**	**65,817,736**	**2,280,414**	**1,669,901**	**739,286,701**

BANK OF TANZANIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	30.06.2010 TZS '000	30.06.2009 TZS '000
Cash flows from operating activities			
Cash generated from operating activities	43	**(111,948,551)**	**219,899,061**
Dividends paid to the Government		-	(18,838,877)
Net cash inflows/(outflows) from operating activities		**(111,948,551)**	**201,060,184**
Cash flows from investing activities			
Purchase of property and equipment		(24,515,739)	(48,807,323)
Disposal of property and equipment		1,966	91,860
Purchase of intangible assets		(204,901)	(5,241,498)
Acquisition of government securities		(95,723,669)	(245,927,283)
Increase in foreign currency marketable securities		(135,409,511)	(882,935,898)
Decrease in quota in International Monetary Fund (IMF)		(4,042,563)	(18,724,586)
(Increase)/decrease in holdings of SDRs		(322,682,245)	25,814
Net cash outflows from investing activities		**(582,576,662)**	**(1,201,518,914)**
Cash flows from financing activities			
Increase in notes and coins issued		349,013,117	231,071,012
Increase in IMF related liabilities		3,839,717	12,097,835
Increase in foreign currency financial liabilities		120,898,972	353,058,701
Increase in allocation of SDRs		324,450,363	2,953,382
Increase in deposits		241,680,467	280,645,354
(Decrease)/increase in Repurchase Agreements (REPOs)		(14,156,052)	26,439,562
Increase/(decrease) in BOT liquidity papers		207,622,004	(132,745,075)
Net cash inflows from financing activities		**1,233,348,588**	**773,520,771**
Net decrease in cash and cash equivalent		**538,823,376**	**(226,937,959)**
Cash and cash equivalent at the beginning of the year		669,408,905	896,346,861
Cash and cash equivalent at the end of the year	18	**1,208,232,281**	**669,408,905**

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

Basis of preparation

The financial statements have been prepared on a historical cost basis except for assets and liabilities which are stated at fair values 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. The financial statements are presented in thousands of Tanzania Shillings (TZS '000) except where explicitly stated.

Statement of compliance

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

Legal framework

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

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

The Bank's principal responsibilities are to:

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

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

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

Legal framework (Continued)

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

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

Under Section 18(2) of the Act, the Bank shall transfer to the General Reserve Fund twenty five per cent (25%) of the net profits until such time that the total capital of the Bank reach a sum equivalent to at least ten per cent (10%) 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 (10%) 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 (5%) 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

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

Legal framework (Continued)

Republic and the Revolutionary Government of Zanzibar in accordance with the formula agreed upon by the Governments.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

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

The Bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 July 2009:

- IAS 1: Revised Presentation of Financial Statements
- IFRS 7: Determination of fair value and fair value hierarchy
- *IAS 23 Borrowing Costs (Revised)*
- *Amendments to IAS 32 and IAS 1 Puttable Financial Instruments*
- *IFRS 2 Share-based Payments – Vesting Conditions and Cancellations*
- *IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations*
- *IFRS 8: Operating Segments*
- *Improvements in International Financial Reporting Standards (Issued 2009)*

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Bank, its impact is described below:

2. CHANGES IN ACCOUNTING POLICIES (Continued)

IAS 1: Revised Presentation of Financial Statements

The standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005.The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning or after 1 January 2009 with earlier adoption permitted.

The standard replaces owner and non-owner changes in equity. The Statement of Changes in Equity includes only details of transactions with owners, with all non-owners changes in equity presented as as a single line. In addition, the standard introduces the Statement of Comprehensive Income, which presents income, and expenses items recognized in profit or loss, together with all other items of recognized income and expenses, either in one single statement, or in two linked statements.

The changes introduced by the revision are presentational in nature. The Bank adopted presentation using one Statement of Comprehensive Income.

IFRS 7: Determination of fair value and fair value hierarchy

The fair value for financial instruments traded in active markets at the Statement of Financial Position date is based on their quoted market price or dealer price quotations without deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value was determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist. Options pricing models, credit models and other relevant valuation models

Certain financial instruments are recorded at fair value using the valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using the valuation model that has been tested against prices or inputs to actual market transactions and using the Banks best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counter party credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognized only when the input become observable or on de-recognition of the instrument.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted prices in active markets for the same instruments (i.e. without modification or repackaging).

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data

Level 3: Valuation techniques for which any significant input is not based on observable market data.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

IAS 23 Borrowing Costs (Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The changes have no impact on the Bank's financial statements since no qualifying asset has been acquired through borrowing.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

The Bank does not hold puttable financial instruments hence these amendments do not have any impact on the financial performance or position of the Bank.

IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

This amendment to IFRS 2 Share-based payments was published in January 2008 and became effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted.

In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Bank has not entered into share-based payment schemes with non-vesting conditions attached and, these amendments do not have any impact on the financial performance or position of the Bank.

IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations

The IFRS 5 has been amended to clarify the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Consequently, disclosures in other IFRSs will not apply to such assets (or disposal groups) unless:

- Those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
- The disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of IFRS 5's measurement requirements and the information is not disclosed elsewhere in the financial statements.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations (Continued)

The amendment to IFRS 5 is effective for the periods beginning on or after 1 January 2010. The standard may be applied prospectively. Earlier application is permitted. However, the Bank has not adopted early the application of the amendment to this standard in the 2009/10 accounts. The adoption of this standard does not have any impact on the financial performance or position of the Bank.

IFRS 8: Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 amendments have no impact to the Bank as it operates as one segment.

Improvements to IFRSs

In April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Bank has early adopted the amendments; the adoption of the improvements to IFRSs and amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Bank.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The most significant use of judgement and estimates are as follows:

a. Going concern

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

b. Impairment of assets

(i) Impairment losses on loans and advances

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

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

(ii) Impairment of non-financial assets

The Bank adopted an incurred loss approach to impairment. Impairment losses are incurred only if there is objective evidence of impairment as a result of occurrence of one or more past events since initial recognition. Impairment exists when the carrying amount exceeds its recoverable amount and the asset is written down to the recoverable amount.

Future cash flows on a group of non 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 Bank. 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 group 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.

(iii) Impairment of available for sale financial assets

The Bank classifies certain assets as available for sale and recognises movements in their fair value in Securities Revaluation Reserve. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the profit or loss in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

c. Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity.

This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

d. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on 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.

e. Useful lives of property, equipment and intangible assets

Pursuant to the requirements of IAS 16 and IAS 38 (Property, Plant and Equipment and Intangible Assets) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the Bank has made accounting estimation of the useful lives of assets based on the expected pattern of consumption of the future economic benefits and reviewed its depreciation rates.

Changes in these assumptions would affect the carrying value of these assets and charge to profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest and similar income and expenses (Continued)
The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

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

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

Fees and commission income

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

Dividend income

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

Other income

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

Dividend payable

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

Employees' benefits including post employment benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognized in the Statement of Comprehensive Income when they fall due.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Provision

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Taxes

No provision for income tax is made in the Financial Statements as Section 10 Second Schedule of the Income Tax Act, 2004 (as amended under Finance Act, 2006) exempts the Bank from any taxation imposed by law in respect of income or profits. This exemption includes stamp duty in respect of instruments executed by or on behalf of the Bank.

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

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").

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

The financial statements are presented in Tanzanian Shillings, which is the Bank's functional and presentation currency and all values are rounded to the nearest thousand (TZS'000) except where otherwise indicated.

(ii) Transactions and balances
Foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (bid price) and liabilities (offer price) denominated in foreign currencies are recognized in profit or loss.

Foreign exchange revaluation reserve under the legal framework

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

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

Investment in associate company

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

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

Subsequent expenditures are capitalized only when they increase the current economic benefits and meet the recognition criteria. Expenditure incurred to replace a component of item of property and equipment is accounted for separately and capitalized while the major replaced component is derecognised. All other expenditure items, which do not meet recognition criteria, are recognised in the profit or loss as expenses as they are incurred.

Bank's immovable property (buildings) is subsequently shown at their Fair value (market values), based on valuation by external independent valuers. Increases in the carrying amounts arising on subsequent valuation are credited to an Assets Revaluation Reserve. Decreases that offset previous increases of the same asset are charged against Assets Revaluation Reserve while other decreases are charged to the profit or loss.

Revaluation of the Bank's immovable property is conducted after every five years. M/S Real Estate Surveyors and Associate Limited, professional and Independent valuers, did the last revaluation on 30 June 2006.

Depreciation is charged to Statement of Comprehensive Income 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.

The review of residual values took into account of the market requirements where 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 early). Annual depreciation rates applied in 2009/10 financial year were as follows:

Asset classification	Annual depreciation Rate
Office Premises	1%
Staff Club Premises	1%
Residential Premises	1.5%
Computer Servers	25%
Computer Printers	25%
Personal Computers	25%
Network Equipment	20%
Motor Vehicles	20%
Currency Processing Machines	12.5%
Machinery and Equipment	10%
Security Monitoring, Fire Detection and Fire Fighting Systems	20%
Office Furniture	15%

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

No depreciation charge is made to Capital Work-in-Progress.

Property and equipment acquired during the year are depreciated from the date when they are available for use and cease to be depreciated at earlier of the date that the asset is classified as held for sale and the date that the assets are derecognised.

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

Intangible assets

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

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The annual rate of amortisation, which has been consistently applied, is 20% - 33.33%. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the Statement of Comprehensive Income. 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

The Bank recognises Government grants using capital approach method. Government grants such as that related to depreciable assets are recognized based on date of receipt at their fair value and accounted for as part of property and equipment and in the equity. The same amount proportional to depreciation charges is amortised from equity to Statement of Comprehensive Income to offset items of expenses which they finance over their estimated useful life.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency printing and minting expenses

Notes printing and coins minting expenses which include ordering, printing, minting, freight, carriage insurance and handling costs are first deferred. Based on the currency issued into circulation, the respective proportional actual costs incurred are released to the Statement of Comprehensive Income from the deferred currency costs 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 assets

The Bank assesses at each reporting date whether there is an indication that an 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. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the Statement of Comprehensive Income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income. 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.

Foreign currency swaps through profit or loss

Foreign currency SWAPS are contracts with commercial banks in which a spot sale/purchase of currencies and a simultaneous commitment to a forward purchase/sale of the same currencies is entered into with the Bank. Currency SWAPS are accounted for at their fair value as at the Statement of Financial Position date with gains and losses arising being recognized in the Statement of Comprehensive Income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

However, presently the Bank has no lease arrangement in place instead it had rental arrangements with landlords for Properties that it occupies but not owned by the Bank. In which case no upfront significant payments are made rather periodical rental payments are paid based on space (square meters) occupied by the Bank. The rental agreements are renewable periodically normally yearly or periods not exceeding three years each. As for the Land owned by the Bank, the Bank obtained these on long term Leasehold (mainly 99 years) from the Government.
No significant payments are made in advance to the Government other than Government fees/rates normally paid on lease application and renewal based on fixed Government rates that are published from time to time and which are insignificant and not related to the value of Land or period of occupation.

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 resale the same securities at a future date at a fixed price.

It is Banks 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. Bank also monitors its exposure with respect to securities sold under repurchase agreements and, in accordance with the terms of the agreements, requests the return of excess securities held by the counter party when fair value increases.

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

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

The difference between sales and repurchase price is treated as interest expenditure and is recognized in the Statement of Comprehensive Income.

Foreign Exchange Equalization Reserve

The Bank has a policy whereby both net realized and unrealized exchange gains and losses are firstly recognized in the Statement of Comprehensive Income in accordance with the requirements of IAS 21 (The Effects of Changes in Foreign Exchange Rates). The net realized foreign exchange gains or losses for the year arising from daily revaluation of foreign assets and liabilities are transferred to the Foreign Exchange Equalisation Reserve to form part of the Bank's equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Exchange Equalization Reserve (Continued)

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 of the net realized foreign exchange gains for the year to be transferred to the Foreign Exchange Equalization Reserve and the balance is available for appropriation as part of the distributable profit.

Reserve for Dividend

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

Financial instruments – initial recognition and subsequent measurement

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 settlement date, that is the date that the Bank commits to purchase or sell the asset. Derivatives are recognised on settlement date.

Initial recognition of financial instruments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Derivatives recorded at fair value through profit or loss
Derivatives include interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Net Operating income'.

Financial assets at fair value through profit or loss
Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments – initial recognition and subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in "net operating income" Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in other operating income when the right to the payment has been established.

Included in this classification are loans and advances to customers which are economically hedged by credit derivatives which do not qualify for hedge accounting as well as structured notes which are managed on a fair value basis.

Held to maturity financial investments

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the Statement of Comprehensive Income. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income. The Bank classifies Government Securities it holds as held-to-maturity.

Due from banks and loans and advances

'Due from banks' and 'Loans and advances' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, they are not entered into with the intention of immediate or short-term resale and are not classified as, designated as 'Financial investment - available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income.

The Bank has classified the following financial assets as loans and receivables. Loans and advances; amounts due from the Governments; accommodation to banks; accounts receivable; IMF Related Assets; prepayments and cash and cash equivalents.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments – initial recognition and subsequent measurement (Continued)

Available for sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include money market and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Securities Revaluation Reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income in 'Other operating income' or 'Other operating expenses'.

Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available – for – sale financial investments are recognised in the Statement of Comprehensive Income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income and removed from the Securities Revaluation Reserve. The Bank classified some foreign currency marketable securities as available-for-sale financial assets. Foreign currency money-market investments: The fair value of foreign currency money-market investments is based on quoted bid rates, excluding transaction costs.

Foreign marketable securities: The fair values of marketable securities are the quoted fair values as obtained from Bloomberg. The dealers utilise quoted market prices for quoted financial instruments and accepted valuation techniques for unquoted financial instruments in their determination of fair value.

Other financial liabilities

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under 'Other financial liabilities', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, debt issued and other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

The Bank has classified the following financial liabilities as "other financial liabilities": notes and coins issued; foreign currency financial liabilities; IMF Related Liabilities; and other liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

De-recognition of financial assets and financial liabilities

Financial assets

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

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Determination of fair value

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Bank assesses at each Statement of Financial Position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Held-to-maturity financial investments
For held-to-maturity investments the Bank assesses individually whether 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.

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit and 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'.

Available for sale financial investments
Equity investments accounted for at cost less impairment and available for sale are assessed for impairment annually. When impairment is identified, it is generally deemed to be other than temporary, and the equity investment is written down to the impaired value, which becomes the new cost basis in the equity investment.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Due from banks, loans and advances

For amounts due from banks, loans and advances carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment 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 costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Offsetting of financial assets and liabilities

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

Other liabilities

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

Other assets

Other assets are stated at fair value and subsequently at amortised cost using effective interest rate method less allowance for impairment. Due to their short term nature, the nominal value or cost are considered to approximate their fair value and as such stated at cost less any impairment loss.

Cash and Cash equivalent

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

Inventories

The Bank owns all inventories stated in the statement of financial position.

Inventories are valued at the lower of cost and net realizable value. Cost is determined using weighted average cost method. Net realizable value is the estimated market price in the ordinary course of business less estimated costs necessary to make the realisation. Provision for impairment is made for slow moving and obsolete stocks.

Credit Guarantee Schemes

The schemes are operated in accordance with the rules governing the schemes and administered by the Bank of Tanzania on behalf of the Government as stipulated in their respective agency agreements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Guarantee Schemes (Continued)

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, contigent liabilities exist in respect of possible default.

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

A number of new standards, amendments and interpretations to existing standards have been published, but not effective up to the date of issuance of the Bank's financial statements are listed below:

IFRS 1: First time Adoption of International Financial Reporting Standards

Amendments made in July 2009 providing additional exemptions for first time adopters are effective 1st January 2010 with earlier adoption permitted.

IFRS 1: First time Adoption of International Financial Reporting Standards

Amendments made in Jan 2010 providing limited exemptions from comparative IFRS 7 disclosure are effective 1st July 2010 with earlier application permitted. The Bank has decided to adopt this amendment with effect from 1 July 2010.

IFRS 2: Group Cash settled share based payments

Amendments made in June 2009 providing the additional guidance on accounting for share-based payment transactions among the group entities are effective 1st January 2010 with earlier adoption permitted.

IAS 32: Financial Instruments: Presentation - Classification of Rights Issues (Amendments)

Amendments made in October 2009 dealing with classification of certain instruments (offered pro rata to all existing owners of the same class of non derivative equity instruments) giving a right to acquire a fixed number of an entities own equity instrument for fixed amount in any currency are effective 1st February 2010 with earlier application permitted.

IFRS 9: Financial instruments

IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting. By the end of 2010, then, IFRS 9 will be a complete replacement for IAS 39.

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

IAS 24 Related Party Disclosures (Amendment)

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

IFRIC 19: Extinguishing financial liabilities with equity instruments

- If a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39.41. Accordingly, the debtor should derecognise the financial liability fully or partly.
- The debtor should measure the equity instruments issued to the creditor at fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished.
- If only part of a liability is extinguished, the debtor must determine whether any part of the consideration paid relates to modification of the terms of the remaining liability. If it does, the debtor must allocate the fair value of the consideration paid between the liability extinguished and the liability retained.
- The debtor recognises in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued.
- When only part of the liability is extinguished, the debtor must determine whether the terms of the remaining debt have been substantially modified (taking into account any portion of the consideration paid that was allocated to the remaining debt). If there has been a substantial modification, the debtor should account for an extinguishment of the old remaining liability and the recognition of a new liability (see IAS 39.40).

IFRIC 19 must be applied in annual periods beginning on or after 1 July 2010. Earlier application is permitted. It must be applied retrospectively from the beginning of the earliest comparative period presented.

IFRIC 14: Prepayment of a Minimum Funding Requirement (Amendment)

On 26 November 2009, the IASB issued Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Without the amendments, in some circumstances entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011, with earlier application permitted. The amendments must be applied retrospectively to the earliest comparative period presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

6 INTEREST INCOME

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

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

	30.06.2010			30.06.2009		
	Received	**Accrued**	**Total**	**Received**	**Accrued**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
From foreign operations						
GBP investments	9,886,456	3,919,161	13,805,617	12,523,767	6,388,377	18,912,144
USD investments	48,230,294	6,741,499	54,971,793	46,548,389	12,998,203	59,546,592
EURO investments	16,469,118	11,845,816	28,314,934	16,280,804	16,281,229	32,562,033
Other foreign interest income	690,310	-	690,310	11,251	-	11,251
	75,276,178	**22,506,476**	**97,782,654**	**75,364,211**	**35,667,809**	**111,032,020**
From domestic operations						
Interest on domestic investments	70,421,764	19,333,176	89,754,940	49,693,397	14975776	64,669,173
Interest on loans and advances	3,400,844	-	3,400,844	6,035,337	-	6,035,337
Interest on staff loans	89,815	-	89,815	76,272	-	76,272
	73,912,423	**19,333,176**	**93,245,599**	**55,805,006**	**14,975,776**	**70,780,782**
	149,188,601	**41,839,652**	**191,028,253**	**131,169,217**	**50,643,585**	**181,812,802**

Interest income from foreign operations declined by 11.9% due to decrease in interest rates offered by foreign banks on investments from 1.2% to an average of 0.6% mainly on account of low interest rates as a result of global financial crisis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

6 INTEREST INCOME (Continued)

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

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Income from available for sale financial instruments	91,800,755	90,499,129
Income from financial instruments held to maturity	89,754,941	75,867,213
Income from loans and receivables	3,490,659	6,111,609
	185,046,355	**172,477,951**
Income from assets held for trading	5,981,898	9,334,851
	191,028,253	**181,812,802**

The subtotals have been included to show interest income on financial assets that are not recorded at fair value through profit or loss as required by IFRS 7.20 (b)

7 INTEREST EXPENSES

	30.06.2010			30.06.2009		
	Paid	Accrued	Total	Paid	Accrued	Total
	TZS '000	TZS '000	TZS '000	TZS '000		
Interest on BoT liquidity papers	28,935,762	33,635,700	62,571,462	41,536,188	45,522,902	87,059,090
Interest on Repurchase agreements	1,596,167	15,662	1,611,829	3,450,597	171,714	3,622,311
Charges on IMF Drawings	1,810,512	-	1,810,512	1,069,345	-	1,069,345
	32,342,441	**33,651,362**	**65,993,803**	**46,056,130**	**45,694,616**	**91,750,746**

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

8 FOREIGN EXCHANGE REVALUATION GAIN

During the year the realised and unrealised net foreign exchange revaluation gains amounted to TZS 16,837.1 million. This amount has been included in the profit or loss in the statement of comprehensive income in determining the Bank's profit for the year in order to comply with the requirements of accounting for the Effects of Changes in Foreign Exchange Rates (IAS 21). The unrealised foreign exchange revaluation gains amounting to TZS 932.6 million as at 30 June 2010 has been transferred to Foreign Currency Revaluation Reserve.

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Reconciliation of realized and unrealized foreign exchange revaluation		
Net realized foreign exchange revaluation gain during the year	18,213,297	111,683,003
Add: Unrealized foreign exchange revaluation gains during the	904,315	2,280,414
	19,117,612	**113,963,417**
Less: Opening balance	(2,280,415)	(5,982,532)
Net foreign exchange revaluation gains during the year	**16,837,197**	**119,945,949**

9 FEES AND COMMISSION

Commission on buying and selling foreign currency	24,248,111	18,659,852
Bureau de change application fees	162,750	170,800
Bureau de change registration fees	44,000	49,150
Banks and financial institutions applications/licensing Fees	6,000	6,700
Bureau de change penalty fees	31,975	62,784
TISS fees and charges	378,508	320,317
Tender application fees	42,250	5,479
	24,913,594	**19,275,082**

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

10 OTHER INCOME

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Foreign operations		
Realized gains on de-recognition of available for sale investments-Financial instruments	28,323,738	30,502,383
Income from equity investment	75,743	78,335
Gains on IFEM operations	11,559,519	4,319,770
Miscellaneous income	1,403,736	1,196,397
	41,362,736	**36,096,885**

	30.06.2010	30.06.2009
	TZS '000	TZS '000
10 OTHER INCOME (Continued)		
Domestic operations		
Income – domestic operations	41,329	366,582
Income from sale of government securities	-	1,972,110
Rental income staff quarters	602,279	446,273
Income on hostel accommodation	42,106	40,276
Income on cafeteria operations	37,330	23,826
Miscellaneous income	899,708	675,896
	1,622,752	**3,524,963**
Total other income	**42,985,488**	**39,621,848**

11 ADMINISTRATIVE EXPENSES

	30.06.2010	30.06.2009
Board expenses	958,393	791,101
Transport and traveling expenses	6,002,053	5,402,835
Maintenance - computer, software and related expenses	4,734,251	4,539,692
Maintenance - furniture, machinery and equipment	577,266	627,400
Maintenance - bank premises	5,324,378	4,276,444
Legal and investigation expenses	231,182	561,102
Audit fees	691,190	671,943
Audit fees 2007/08	-	563,536
Special audit and related expenses	-	333,880
Fees, rates and security expenses	2,277,220	2,393,578
Water and electricity	3,748,142	3,877,970
Telecommunication and postage	2,118,789	1,896,197
Printing, stationery and office supplies	933,660	1,303,353
Meetings, conferences and seminars	3,966,661	3,808,328
Hospitality	253,025	251,985
Budget and annual accounts preparation expenses	336,517	369,530
Insurance expenses	813,822	1,064,021
Other administrative expenses	862,994	1,936,649
	33,829,543	**34,669,544**

12 CURRENCY ISSUE AND RELATED EXPENSES

	30.06.2010	30.06.2009
Notes printing and related expenses (see Note 28)	50,652,642	49,887,804
Coins minting and related expenses (see Note 28)	1,417,777	3,955,620
Cost of currency issued in circulation	**52,070,419**	**53,843,424**
Currency transport, storage and handling	193,034	206,517
Maintenance of currency machines	1,937,419	3,427,213
Other currency expenses	974,073	528,995
	55,174,945	**58,006,149**

12 CURRENCY ISSUE AND RELATED EXPENSES (Continued)

The amount of TZS 50,562.6 million (2009: TZS 1,417.8 million) in respect of notes printing and coins minting and related expenses respectively, refers to the proportionately amortized portion of deferred notes printing and coins minting cost for the currency notes and coins that were issued into circulation during the year. The amount of TZS 193.0 million (2009:TZS 206.5 million) are in respect of inland currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred and recognized in the profit or loss in the statement of comprehensive income during the current financial year.

A total of TZS 1,937.4 million (2009: TZS 3,427.2 million) was incurred during the year in respect of currency machines maintenance expenses.

	30.06.2010	30.06.2009
	TZS '000	TZS '000
13 PERSONNEL EXPENSES		
Staff salaries and allowances	47,980,168	38,794,558
Contribution to PPF scheme	5,376,627	4,370,831
Contribution to NSSF scheme	1,003,212	624,416
Staff medical expenses	2,903,371	2,478,216
Staff training expenses	3,395,038	2,878,560
Staff uniforms expenses	77,195	86,247
TUICO and worker's council expenses	1,033,379	886,764
Course functions & field trips expenses	17,237	18,496
Travel on leave expenses	3,331,429	3,120,294
Retirement expenses	5,195,294	2,346,074
Condolence, survivors' benefits and related expenses	306,910	276,917
Motor vehicles expenses	1,362,203	1,007,227
Long term service awards	50,000	54,000
Management car maintenance expenses	2,378,208	1,566,403
Furniture grant expenses	1,087,501	441,519
HR planning policies expenses	323,374	200,983
Cafeteria expenses	553,432	394,752
	76,374,578	**59,546,257**

Personnel expenses refer mostly to staff welfare expenses. In 2009/10 such expenses amounted to TZS 76,374.6 million (2009: TZS 59,546.3 million). The noted increase was mainly on account of increase in staff salaries by, on average, 15 percent, recruitment of new employees and 2008/9 staff performance awards. Consequently expenses on other salaries related sub votes increased substantially. Further a total of 20 employees are expected to retire in 2010/11 compared with 13 employees of 2009/10 and provision for retirement benefits has been provided to ensure compliance with IAS 19 (Employees Benefits).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

	30.06.2010	30.06.2009
	TZS '000	TZS '000
14 OTHER EXPENSES		
Foreign operations		
Foreign currency management expenses	1,515,759	1,382,871
Financial markets development expenses	12,063	19,600
Commission and fees on foreign operations	62,188	82,444
Realized losses on de-recognition of available for sale investment	9,791,881	8,403,162
Amortized premium	2,052,114	966,209
Miscellaneous expenses	7,656	7,634
	13,441,661	**10,861,920**
Domestic operations		
Contribution to professional associations, charities	362,360	937,214
Contribution to national development programs/projects	1,617,701	1,286,624
Contributions to various institutions	790,084	244,765
Subscriptions	45,712	41,148
	2,815,857	**2,509,751**
Cheques issued expenses	139,031	176,314
	16,396,549	**13,547,985**

Analysis of contributions and subscriptions

	30.06.2010	30.06.2009
African Association of Central Banks and African Rural and Agriculture Credit Association	13,513	13,957
Contribution to the National Board of Accountants and Auditors & the National Board of Materials Management	38,000	38,428
Tanzania Institute of Bankers	403,424	360,200
Deposit Insurance Board	229,564	191,355
Dar es Salaam Commercial Court	-	200,000
Second Generation of Financial Sector Reforms	622,454	490,947
Monetary and Economic Financial Management Institute	373,147	338,034
Capital Markets and Securities Authority	448,000	400,000
Associations and Charities	623,281	461,761
Others	64,474	15,069
	2,815,857	**2,509,751**

15 IMPAIRMENT LOSSES

	30.06.2010	30.06.2009
Intangible assets (Note 31)		5,508
Loans and receivables (Note 25)	170,947	4,702,261
Other assets (Note 29)	-	44,755
	170,947	**4,752,524**

16 EXCEPTIONAL ITEM

	30.06.2010	30.06.2009
Release of EPA impairment losses	-	135,745,071

16 EXCEPTIONAL ITEM (Continued)

In 2005/06 the Government had authorised issuance of two non redeemable Treasury EPA Bonds with total value of TZS 140,000.0 million. The total amount utilised was TZS 135,745.0 million. Since the bonds did not bear interest and were non redeemable an impairment loss of TZS 135,745.0 million was provided in the financial statements to ensure compliance with the requirements of International Accounting Standards, IAS 39.

In order to ensure that the bonds are performing, the Government has effective 1st August 2008 reissued the two EPA Special Stocks, reviewed their tenures and attached annual coupons.

	30.06.2010	30.06.2009
	TZS '000	TZS '000
17 COMPONENTS OF OTHER COMPREHENSIVE INCOME		
Change in fair value of Available - for - Sale financial assets	54,515,910	94,365,051
Disposal of Available - for - Sale financial assets	(21,297,371)	(23,519,142)
	33,218,539	**70,845,909**
18 CASH AND CASH EQUIVALENT		
Cash balances with Central Banks	130,482,843	651,562,416
Demand, time deposits with commercial banks and foreign currency notes and coins	1,077,598,957	17,792,912
Accrued interest on deposits	150,481	53,577
	1,208,232,281	**669,408,905**

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

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Demand and time deposits with commercial banks and foreign currency notes and coins consist of:		
Demand deposits	1,076,567,670	17,084,870
Foreign currency notes and coins	1,031,287	708,042
	1,077,598,957	**17,792,912**

19 ITEMS IN COURSE OF SETTLEMENT

BOT Clearing Account	1,372,943	3,165,875
	1,372,943	**3,165,875**

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.

20 INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES

	30.06.2010		30.06.2009	
	Equivalent SDR '000'	Equivalent TZS '000	Equivalent SDR '000'	Equivalent TZS '000
Assets				
Holding of SDRs	158,660	322,830,929	74	148,684
Quota in IMF	198,900	404,716,549	198,900	400,673,986
	357,560	**727,547,478**	**198,974**	**400,822,670**
Liabilities				
IMF Account No. 1	188,900	384,369,850	188,900	380,530,186
IMF Account No. 2	3	5,368	3	5,315
	188,903	**384,375,218**	**188,903**	**380,535,501**
Allocation of SDRs	190,510	387,647,670	31,372	63,197,307
	379,413	**772,022,888**	**220,275**	**443,732,808**

Relationship

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

Currency of Transactions with the IMF

Borrowings from and repayments to the IMF are denominated in Special Drawing Rights (SDRs). The SDR balances in IMF accounts are translated into TZS and any unrealized gains or losses are accounted for in accordance with accounting policy on Foreign Currencies.

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 2010 was 2.8 percent, the same rate as it was in the previous year. During the year the Bank received allocation of SDR159 million from IMF. A total of SDR 198.9 million equivalent to TZS 404,716.5 million (2009: TZS 400,673.9 million) is the Tanzania's quota in the IMF representing the reserve tranche held with the IMF. On a quarterly basis, the IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position at a 1.9 percent to 2.33 percent annual floating rate.

Participation in the HIPC Initiative

The United Republic of Tanzania enjoys a debt relief program under the Highly Indebted Poor Countries (HIPC) initiative. Accordingly, the IMF administers a donor-contributed Fund in the form of a PRGF-HIPC Trust Umbrella Account for Tanzania. The facility is used to settle part of Tanzania's PRGF Loans as and when they fall due. As at 30 June 2010, the facility had a nil balance.

21 FOREIGN CURRENCY MARKETABLE SECURITIES

(a) Available - for - Sale financial assets

Available - for - Sale financial assets consists of foreign currency marketable securities that are internally managed. Majority of such securities are sovereign issues with a minimum credit rating of AA, bearing fixed interest and specified maturities.

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Available - for - Sale financial assets	2,870,891,214	2,761,414,948
Accrued interest	29,558,183	34,201,052
	2,900,449,397	**2,795,616,000**

(b) Held - for - Trading financial assets

These are portfolio externally managed by the World Bank Treasury under a special program known as Reserve Advisory Management Program (RAMP). The balance of this reserve was as follows.

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Held - for - Trading financial assets	354,292,336	323,292,461
Accrued interest	1,016,110	1,439,872
	355,308,446	**324,732,333**
Total (a+b)	**3,255,757,843**	**3,120,348,333**

Analysis of foreign currency marketable securities available for sale and financial assets held for trading by concentration into sovereign issues, supranational securities and agency securities:

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Sovereign Issues		
USD	386,232,384	911,481,427
GBP	34,397,018	334,471,215
EUR	46,332,309	655,952,069
	466,961,711	**1,901,904,711**
Supranational Securities		
USD	287,555,814	234,232,237
GBP	-	79,959,675
EUR	48,456,752	55,567,556
	336,012,566	**369,759,468**
Agency Securities		
USD	1,555,763,785	671,017,336
GBP	296,376,504	47,415,271
EUR	570,068,984	94,610,623
	2,422,209,273	**813,043,230**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

	30.06.2010	30.06.2009
	TZS '000	TZS '000
21 FOREIGN CURRENCY MARKETABLE SECURITIES		
Total investments		
USD	2,229,551,983	1,816,731,000
GBP	330,773,522	461,846,161
EUR	664,858,045	806,130,248
Accrued interest	30,574,293	35,640,924
	3,255,757,843	**3,120,348,333**
22 AVAILABLE - FOR - SALE EQUITY INVESTMENT		
Equity Investment in Afreximbank	1,655,252	1,559,262
	1,655,252	**1,559,262**

The African Export-Import Bank (Afreximbank) is a supranational institution, established on 27 October 1993. The Bank of Tanzania holds an investment in the equity of Afreximbank. Afreximbank is a grouping of regional central banks and financial institutions designed to facilitate intra and extra African trade. Bank of Tanzania's authorized equity interest in Afreximbank is 300 ordinary shares of par value of USD 10,000 each, with five calls. As at 30th June 2010 two calls had been made and the Bank paid a total of USD 1,200,000. The proportion of Bank of Tanzania's equity interest to the total holding in this bank is 0.4 percent. The shares are classified as available for sale financial instruments. They are currently reflected at cost as they are not traded in any stock exchange and cost approximates to its fair value.

	30.06.2010	30.06.2009
	TZS '000	TZS '000
23 HELD - TO - MATURITY GOVERNMENT SECURITIES		
Treasury Special Bonds	693,936,808	602,570,539
LART Bonds	85,189,195	85,189,195
Treasury EPA Stock	205,743,889	205,743,889
	984,869,892	**893,503,623**
Accrued interest at 30 June 2010	19,333,176	14,975,776
	1,004,203,068	**908,479,399**

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

Treasury Special Bonds

Treasury Special Bonds are long-term coupon instruments issued at fixed coupon of between 7.82% to 11.44% for Government financing. The bonds are held to maturity and the semi annual interest arising thereof forms part of the Bank's interest income. Advances granted to the Government which were to be repaid at the end of financial year 1994 were converted into five years 25% Special Stock 1993/98 of TZS 42,243.0 million. Thereafter in 1999 the stock plus the earned interest were restructured into two stocks namely 15% Special Stock 2018/19 and 14% Special Stock 2008/09 each with face value of TZS 51,333.3 million with semi annual coupon payments.

23 HELD - TO - MATURITY GOVERNMENT SECURITIES (Continued)

Treasury Special Bonds (Continued)

The Government on 1 July 2009 approved issuance of 10 Year Special Government Bond 2009/2019 with a face value of TZS 150,000.0 million. The approval was made in accordance with Section 34, 35 and 69 of the Bank of Tanzania Act, 2006. The bond was issued on 2nd June 2009 and carries an annual coupon of 8.0 percent payable semi annually. The purpose of the bond was to bridge Government revenue shortfall mainly attributed to the impact of the global financial crisis to the economy. The value of Treasury Special Bonds as at 30th June 2010 was TZS 693,936.8 million (2009:TZS 602,570.5 million).

LART Bonds

Following the decision by the Government to take over the debts in 1991, the Government issued two Loans and Advances Realization Trust (LART) bonds of 20 years maturity period in settlement of loans advanced to defunct parastatal organizations and co-operative unions by National Bank of Commerce (NBC) and CRDB Bank. These bonds have face values of TZS 11,658.5 million and TZS 73,530.7 million, mature on 25 November, 2011 and carry annual interests of 11 percent and 5 percent respectively payable semi-annually. As at 30th June 2010 the total value of such bonds was TZS 85,189.2 million (2009:TZS 85,189.2 million).

Treasury EPA Stock

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

The Government has effective from 1st August 2008 reissued two EPA Special Stocks namely EPA Special Stock 2002/2052 and EPA Special Stock 2005/2055 with values of TZS 4,352.8 million and TZS 65,646.1 million and replaced them with EPA Special Stock 2008/18 and EPA Special Stock 2008/23 respectively. Their tenures were reviewed from 50 years and 55 years to 10 years and 15 years with annual coupons of 7.5 percent and 8.0 percent payable semi-annually respectively. Furthermore, on 1st August 2008 the Government issued EPA Special Stock with face value of TZS 135,745.1 million to accommodate external payment arrears exchange losses incurred up to 31st December 2007.The stock has a maturity of 20 years with annual coupon of 8.5 percent payable semi annually. As at 30th June 2010 the aggregate position of Special EPA stocks was TZS 205,743.8 million (2009:TZS 205,743.9 million).

	30.06.2010	30.06.2009
	TZS '000	TZS '000

24 ADVANCES TO THE GOVERNMENT

Advances to the Government (URT) Note 34	175,645,539	-
	175,645,539	-

As at 30 June 2010, the overall United Republic of Tanzania (URT) Government position ended with a net deficit balance of TZS 175,645.5 million as summarised under Note 34. This position was attributable to overdrawn URT Government voted accounts. Such advance was made in accordance with the requirements of Section 34 of the Bank of Tanzania Act, 2006 and were solely for the purpose of providing temporary financial accommodation to the URT Government. Such advances bear interest rates as determined by the Bank in accordance with the Bank of Tanzania Act, 2006 and are repayable within one hundred and eighty days.

	30.06.2010	30.06.2009
	TZS '000	TZS '000

25 LOANS AND RECEIVABLES

Staff loans and advances	32,331,297	27,606,784
Accounts receivable	73,077,004	99,895,711
Secured loan to Mwananchi Gold Company Limited	9,205,283	8,606,418
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
Intermediary accounts receivable	9,411,523	706,856
	129,169,107	**141,959,769**
Less: Provision for impairment	(10,763,183)	(10,077,476)
	118,405,924	**131,882,293**

Analysis of impairment by line items

Staff loans and advances	224,241	308,346
Accounts receivable	402,581	231,634
Secured loan to Mwananchi Gold Company Limited	4,992,361	4,393,496
Cash loss recoverable from NBC Limited	5,144,000	5,144,000
	10,763,183	10,077,476

Movement in provision for impairment

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Balance at the beginning of the year	10,077,476	6,084,780
Additional impairment on accounts receivable	170,947	4,702,262
Limited	598,865	-
Reversal during the year	(74,961)	(689,094)
Write-offs	(9,144)	(20,472)
Balance at the end of the year	**10,763,183**	**10,077,476**

The reversal of impairment relates to ex staff loans and advances recovered during the year.

25 LOANS AND RECEIVABLES (Continued)

(a) Accounts Receivable: TZS 73,077.0 million.

Account receivable represent short term claims and which are recoverable within a period not exceeding twelve months. As at 30 June 2010, the account had a debit balance of TZS 73,077.0 million (2009: TZS 99,895.7 million). Major components under Account Receivable include the following: -

i) Input VAT Claims : TZS 23,094.6 million

During the financial year 2005/06 the Bank's tax exemption status was by mistake rescinded by the Income Tax Act No 11 of 2004 and Finance Act No. 13 of 2005. Accordingly, TRA did not recognise the exemption status of the Bank of Tanzania in accordance with Section 25 of the Bank of Tanzania Act, 1995. This development had an adverse impact on the implementation of the 10 Mirambo Office Extension and Gulioni office - Zanzibar projects. The agreement between the Bank of Tanzania (BoT) and M/s Group Five International, the main contractor for 10 Mirambo Office Extension and Zanzibar Gulioni Projects, is a tax free contract based on the exemption status that the Bank enjoyed prior to 2005/06. In 2005/06, M/s Group Five International was assessed for Output Value Added Tax (VAT) and interest amounting to TZS 17,816.1 million and TZS 1,697.6 million respectively. Due to lack of exemption status, input VAT claims by M/s Group Five International amounting to TZS 23,746.2 million were not refunded by Tanzania Revenue Authority (TRA).

The Bank took necessary measures leading to the abandonment of the output VAT claims of TZS 17,816.1 million and remission of interest of TZS 1,697.6 million. Measures were taken leading to recovery of TZS 651.6 million by 30 June 2010 leaving a balance of TZS 23,094.6 million.

Out of the outstanding amount of TZS 23,094.6 million, a total of TZS 19,766.8 million is receivable from the URT Government and the balance of TZS 3,327.8 million from the Tanzania Revenue Authority (TRA) and Group Five International.

The Bank is continuing to liaise with the URT Government to ensure that the amount of TZS 19,766.8 million is recovered. It is the commitment of the URT Government to have this matter resolved within 2011/2012.

With regard to TZS 3,327.8 million receivable from TRA and Group Five International, a total of TZS 3,211.8 million was recovered from TRA and Group Five International during the first and second quarter of 2010/2011. The balance of TZS 116.0 million will be recovered from Group Five International Ltd before the end of December 2010.

(ii) Liquidity Management Expenses: TZS 26,851.5 million.

The amount of TZS 26,851.5 million (2009: TZS 35,491.3 million) is in respect of liquidity management costs receivable from the Government of the United Republic of Tanzania (URT) . The above amount relating to 2009/2010 URT Government share of liquidity management expenses was settled on 11 November 2010 .

25 LOANS AND RECEIVABLES (Continued)

(iii) Interest Receivable on overdrawn Government accounts: TZS 266.8 million.

Pursuant to Section 34 of the Bank of Tanzania Act, 2006, the Government net position was overdrawn in various periods. A total amount of TZS 3,456.6 million was charged to the Government in 2009/10. Out of TZS 3,456.6 million earned in 2009/2010 a total of TZS 3,189.8 million was settled leaving an outstanding balance as at 30 June 2010 of TZS 266.8 million (2009: TZS 3,565.8 million).

(iv) Economic empowerment: TZS 21,630.0 million.

A total of TZS 21,630.0 million is receivable from the Government in respect of funds advanced by the Bank of Tanzania to facilitate implementation of the economic empowerment programs. Out of the above amount of TZS 21,630.0 million, a total of TZS 10,500.0 million is related to the first phase of this Scheme of which TZS 6,168.9 million was recovered in 2009/2010.

(b) Staff Loans and Advances: TZS 32,331.3 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 2010 the balance of staff loans and advances was TZS 32,331.3 million (2009: TZS 27,606.8 million)

26 INVENTORIES

	30.06.2010 TZS '000	30.06.2009 TZS '000
The inventory balance consists of the following:		
Currency machine spare parts	1,928,601	2,241,037
Building, machinery and maintenance consumables	610,942	465,334
Stationery	381,920	423,803
Drugs and medicines	220,980	150,727
Copier parts and consumables	276,056	277,971
Cheque books	736,773	855,682
ICT accessories and consumables	376,574	347,140
	4,531,846	**4,761,694**

27 INVESTMENT IN ASSOCIATE COMPANY

The Bank holds 3,000 unquoted ordinary shares of Mwananchi Gold Company Limited (MGC Ltd) each with a par value of USD 40. Such holding is equivalent to 35 percent of the total MGC Ltd shares which have been reported at fair value after considering operating loss for the year ended 31 March 2007.

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

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

	30.06.2010	30.06.2009
	TZS '000	TZS '000
The investment in associate balance consists of the following:		
Investment in Mwananchi Company Limited	253,894	253,894
Share of Loss of Mwananchi Company Limited	(253,893)	(253,893)
	1	**1**

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

28 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 2009/10, the movement on deferred currency cost balance was as follows:

	30.06.2010	30.06.2009
	TZS '000	TZS '000
At 01 July 2009	114,320,855	8,532,190
Add: Cost of currency received during the year	164,425	159,632,089
Less: Cost of currency issued in circulation (Note 12)	(52,070,419)	(53,843,424)
At 30 June 2010	**62,414,861**	**114,320,855**

29 OTHER ASSETS

Prepayments	46,773,326	3,354,609
Export credit guarantee fund investments account	37,824,278	32,411,356
SME contribution investment account	5,697,419	619,649
Accrued Interest on ECGS investment	1,165,616	950,484
Development finance guarantee investments account	651,201	-
Staff imprest	793,711	447,762
Petty cash balances	56,500	55,500
Others	1,959,584	85,125
	94,921,635	**37,924,485**
Less: Provision for impairment	(38,157)	(44,755)
	94,883,478	**37,879,730**

	30.06.2010	30.06.2009
	TZS '000	TZS '000

29 OTHER ASSETS (Continued)

Analysis of impairment by line items		
Prepayments	38,157	44,755
	38,157	**44,755**

Movement in provision for impairment

During the year a provision for impairment of other assets was TZS 38.1 million (2009: TZS 44.8 million). The movement of impairment is indicated below:

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Balance at the beginning of the year	44,755	135,745,071
Additional impairment	-	44,755
Reversal	(6,598)	(135,745,071)
Balance at the end of the year	**38,157**	**44,755**

(i) Prepayment: TZS 46,773.3 million

The balance under prepayment covers TZS 11,124.9 million and TZS 33,578.7 million paid to M/S De La Rue Currency of United Kingdom and M/S CRANE AB of Sweden as 25% and 20% advance payments for supply of currency notes respectively in accordance with the contract in force.

(ii) Export Credit Guarantee Investment Account: TZS 37,824.3 million

The balance represent funds invested in Treasury Bills for the purpose of enhancing the Fund. As at 30 June 2010 the account had a balance of TZS 37,824.3 million (2009:TZS 32,411.3 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

30 PROPERTY AND EQUIPMENT

	Land and buildings	Machinery & equipment	Motor vehicles	Fixtures & fittings	Computers, servers & printers	Capital work in progress	Total
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Cost/valuation							
At 01 July 2009	638,315,892	188,847,034	7,156,938	5,869,329	11,124,802	24,143,230	875,457,225
Additions	4,002,504	2,020,452	1,884,151	581,904	564,444	15,462,284	24,515,739
Transfers*	3,734,523	15,274,018	-	-	-	(19,008,541)	-
Disposals	-	(13,422)	-	(4,243)	(11,456)	-	(29,121)
At 30 June 2010	**646,052,919**	**206,128,082**	**9,041,089**	**6,446,990**	**11,677,790**	**20,596,973**	**899,943,843**
Accumulated depreciation and impairment							
At 01 July 2009	9,106,592	58,500,208	4,719,064	1,823,981	6,198,652	-	80,348,497
Charges for the Year	5,160,277	24,077,472	500,064	691,552	1,442,149	-	31,871,514
Disposals	-	(9,516)	-	(3,835)	(10,938)	-	(24,289)
At 30 June 2010	**14,266,869**	**82,568,164**	**5,219,128**	**2,511,698**	**7,629,863**	**-**	**112,195,722**
Net Book Value							
At 30 June 2010	**631,786,050**	**123,559,918**	**3,821,961**	**3,935,292**	**4,047,927**	**20,596,973**	**787,748,121**

* A total of TZS 19,008.5 million comprise of transfers made from construction work in progress to office buildings (TZS 1,693.9 million), residential buildings (TZS 2,040.7 million) and machinery and equipment mainly currency notes processing machines (TZS 15,274.0 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

30 PROPERTY AND EQUIPMENT (Continued)

	Land and buildings	Machinery & equipment	Motor vehicles	Fixtures & fittings	Computers, servers & printers	Capital work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost/valuation							
At 01 July 2008	513,842,053	171,615,602	7,118,294	4,875,909	8,475,126	121,315,516	827,242,500
Additions	23,819,952	2,847,810	67,477	170,089	2,793,218	19,108,777	48,807,323
Transfers**	100,868,887	14,514,857	-	897,319	-	(116,281,063)	-
Disposals	(215,000)	(131,235)	(28,833)	(73,988)	(143,542)	-	(592,598)
At 30 June 2009	**638,315,892**	**188,847,034**	**7,156,938**	**5,869,329**	**11,124,802**	**24,143,230**	**875,457,225**
Accumulated depreciation and impairment							
At 01 July 2008	4,684,201	36,994,080	4,348,412	1,279,174	5,230,298	-	52,536,165
Charges for the Year	4,490,058	21,613,381	399,473	610,538	1,102,893	-	28,216,343
Impairment	(62,507)	-	-	-	-	-	(62,507)
Disposals	(5,160)	(107,253)	(28,821)	(65,731)	(134,539)	-	(341,504)
At 30 June 2009	**9,106,592**	**58,500,208**	**4,719,064**	**1,823,981**	**6,198,652**	**-**	**80,348,497**
Net book value							
At 30 June 2009	**629,209,300**	**130,346,826**	**2,437,874**	**4,045,348**	**4,926,150**	**24,143,230**	**795,108,728**

** A total of TZS 116,281.1 million comprise of transfers made from construction work in progress to land and buildings which is related to capital work completed at 10 Mirambo office buildings mainly in respect of conference centre (TZS 100,868.9 million), machinery and equipment mainly notes processing machines (TZS 14,514.8 million) and furniture and fittings (TZS 897.3 million.)

30 PROPERTY AND EQUIPMENT (Continued)

These are indicated in Note 4 on the summary of significant accounting policies.

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

Details	**30.06.2010**	**30.06.2009**
	TZS '000	**TZS '000**
Cost	614,506,692	614,506,692
Accumulated depreciation and impairment	10,784,064	8,986,720
Carrying amount	**603,722,628**	**605,519,972**

Effective 2007/8 valuation of the Bank's immovable property is conducted after five years. The previous revaluation was carried by M/s Real Estate Surveyors and Associates Ltd on 30 June 2002 and 30 June 2006.The next revaluation date is 30 June 2011.

Work- in - progress relates to capital expenditure incurred in the extension of the Arusha office building 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 project will be completed during financial year ending 30 June 2011.

30 PROPERTY AND EQUIPMENT (Continued)

Reconciliation of items disposed during the period by class of assets

Loss on Disposal of Property and Equipment

	30.06.2010				30.06.2010	30.06.2009
	Cost	Accumulated Depreciation	Cost of disposal	Cash proceeds	Net gain/loss	Net gain/loss
CLASS OF ASSET	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Land and buildings	-	-	-	-	-	(209,840)
Machinery & equipment	13,422	9,516	27	649	3,230	9,680
Motor vehicles	-	-	-	-	-	10,376
Fixtures & fittings	4,243	3,835	48	1,174	(814)	688
Computers, servers & printers	11,456	10,938	6	143	369	29,862
	29,121	**24,289**	**81**	**1,966**	**2,785**	**(159,234)**

31 INTANGIBLE ASSETS

	Computer software	Computer software - WIP	Total
	TZS '000	TZS '000	TZS '000
2010			
Cost/valuation			
At 01 July 2009	16,921,398	4,084,219	21,005,617
Additions	93,408	111,493	204,901
Disposal	(139,255)	-	(139,255)
At 30 June 2010	**16,875,551**	**4,195,712**	**21,071,263**
Accumulated amortisation and impairment			
At 01 July 2009	9,224,324	22,691	9,247,015
Charges for the Year	2,430,804	-	2,430,804
Disposal	(139,255)	-	(139,255)
At 30 June 2010	11,515,873	22,691	11,538,564
Net book value			
At 30 June 2010	**5,359,678**	**4,173,021**	**9,532,699**
2009			
Cost/valuation			
At 01 July 2008	13,816,912	1,947,207	15,764,119
Additions	1,179,970	4,061,528	5,241,498
Transfers	1,924,516	(1,924,516)	-
At 30 June 2009	**16,921,398**	**4,084,219**	**21,005,617**
Accumulated amortisation and impairment			
At 01 July 2008	6,826,761	22,691	6,849,452
Charges for the Year	2,392,055	-	2,392,055
Impairment	5,508	-	5,508
At 30 June 2009	**9,224,324**	**22,691**	**9,247,015**
Net book value			
At 30 June 2009	**7,697,074**	**4,061,528**	**11,758,602**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

32 CURRENCY IN CIRCULATION

	30.06.2010 TZS '000	30.06.2009 TZS '000
Notes		
Notes Issued	2,273,989,189	6,362,199,881
Less: Notes in Custody	(279,846,778)	(4,714,153,386)
Notes in Circulation (A)	**1,994,142,411**	**1,648,046,495**
Coins		
Coins Issued	50,642,037	51,544,607
Less: Coins in Custody	(13,244,544)	(17,064,315)
Coins in Circulation (B)	**37,397,493**	**34,480,292**
	2,031,539,904	**1,682,526,787**

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

Furthermore, included under notes and coins in circulation figure of TZS 2,031,539.9 million is the face value of TZS 99,386.9 million representing banknotes that were phased out in 2003.These notes represent the liability of the Bank of Tanzania and are exchangeable at the Bank counters.

33 DEPOSITS - BANKS AND NON - BANK FINANCIAL INSTITUTIONS

	30.06.2010 TZS '000	30.06.2009 TZS '000
Deposit - Commercial bank deposits	1,330,698,896	983,401,180
Deposits - Non bank financial institutions	7,354,336	12,557,943
	1,338,053,232	**995,959,123**

These are non-interest earning deposits which include demand deposits and statutory minimum reserve

34 DEPOSITS - GOVERNMENTS

	30.06.2010 TZS '000	30.06.2009 TZS '000
Deposits - Voted		
URT Government	(429,466,112)	(115,478,668)
SMZ Government	7,487,167	7,291,701
Sub Total	**(421,978,945)**	**(108,186,967)**
Deposits - Un-voted		
URT Government	253,820,573	357,697,709
SMZ Government	13,021,140	2,199,105
Sub Total	**266,841,713**	**359,896,814**
Total URT Government	**(175,645,539)**	**242,219,041**
Total SMZ Government	**20,508,307**	**9,490,806**

34 DEPOSITS - GOVERNMENTS (Continued)

During 2009/10 the position of the Government of the United Republic of Tanzania (URT) voted accounts were overdrawn in various periods. As at 30 June 2010 the overdrawn position of URT Government voted accounts reached TZS 429,466.1 million. Pursuant to the provision of section 34 of the Bank's Act, a total of TZS 3,335.1 million was charged in 2009/10 as interest on overdrawn URT Government position in various periods at the interest rate equal to average monthly rates charged on treasury bills. Government deposit balances are non-interest earning Government deposits.

35 DEPOSITS - OTHERS

	30.06.2010 TZS '000	30.06.2009 TZS '000
Export credit guarantee fund	31,783,488	33,123,884
Small and medium enterprises guarantee fund	5,913,939	662,137
Redemption of Government Stock/Bonds	6,915,208	33,688
Tegeta Escrow	102,469,256	78,680,222
Development finance guarantee fund	7,881,159	294,193
Debt Service Cash Cover	6,170,228	19,094,553
Deposit Staff	6,746,010	3,842,731
Debt Conversion Scheme	2,098,960	2,098,960
Bank Drafts Issued	237,933	76,947
Deposit Insurance Fund	1,349,849	103,199
Economic Empowerment Programme	1,254,248	4,565,284
Tanzania Investment Bank	50,000,000	-
Tanzania Agriculture Development Bank	50,000,000	-
Mwalimu Nyerere Scholarship Fund	140,850	-
Miscellaneous Deposits	1,281,249	878,681
	274,242,377	**143,454,479**
External Payment Arrears – NBC	2,288,418	2,288,418
	276,530,795	**145,742,897**

Tegeta Escrow TZS Sub Account: TZS 102,469.3 million.

The Bank is a party to an ESCROW arrangement between Tanzania National Electric Supply Company (TANESCO) and Independent Power Tanzania Limited (IPTL) for power purchase payments in favor of IPTL. The Bank receives deposits from TANESCO for such monthly power bills claimed by IPTL. Such deposits accumulated to TZS 102,469.3 million as at 30 June 2010 (2009: TZS 78,680.2 million). TANESCO and IPTL are currently engaged in a dispute over the bills. As at 30th June 2010 arbitration proceedings between TANESCO and IPTL were yet to be finalised and therefore no payment has been made to IPTL from the Escrow account.

	30.06.2010	30.06.2009
	TZS '000	TZS '000

35 DEPOSITS - OTHERS (Continued)

Development finance guarantee fund: TZS 7,881.2 million.

Development finance guarantee fund consists of the following:

	30.06.2010 TZS '000	30.06.2009 TZS '000
Capital contribution by the Government in 2003/2004 and 2005/2006	56,500,000	56,500,000
Interest on refinancing loans	10,595,835	3,213,364
Interest earned on treasury bills	2,453,496	2,421,951
Sub Total	**69,549,331**	**62,135,315**
Less: Loans issued for refinancing facility	(61,668,171)	(61,841,122)
Net balance	**7,881,160**	**294,193**

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 2010 such facility had a balance of TZS 61,668.2 million (2009: TZS 61,841.1 million). Accordingly, the fund has been issuing credit facilities to flower and vegetable export companies. The fund issue long term guarantee ranging from five years to twenty years. The Bank of Tanzania and Tanzania Investment Bank are the executing agency.

As at 30 June 2010, Government Capital contribution to the fund amounted to TZS 56,500.0 million made in 2003/04 and 2005/06. Interest received and accrued on refinancing loans aggregated to TZS 10,595.8 million while a total of TZS 2,453.5 million was earned from the funds investment in treasury bills. A total of TZS 61,668.2 million was issued as loans for refinancing facility. As a result as at 30 June 2010 the Fund had a balance of TZS 7,881.2 million (2009: TZS debit 294.2 million)

Tanzania Investment Bank: TZS 50,000.0 million

The amount of TZS 50,000.0 million relates to funds allocated by the Government of the United Republic of Tanzania (URT) from 2009/10 budget to facilitate re-capitalisation of the Tanzania Investment Bank.

Tanzania Agriculture Development Bank: TZS 50,000.0 million

The amount of TZS 50,000.0 million relates to funds allocated by the URT Government from 2009/10 budget to facilitate establishment of Tanzania Agriculture Development Bank.

	30.06.2010	30.06.2009
	TZS '000	TZS '000

35 DEPOSITS - OTHERS (Continued)

Export Credit Guarantee Fund: TZS 31,783.5 million.

The balance under this fund consists of the following

Export credit guarantee fund	44,050,178	38,186,774
Less: ECGS Receivable	(12,266,690)	(5,062,890)
Total	**31,783,488**	**33,123,884**

This is a Fund 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. During 2009/10 the Government made an additional capital contribution of TZS 3,000.0 million. As at 30 June 2010 the Fund had a balance of TZS 31,783.5 million (2009: TZS 33,123.9 million) comprising of Government and BOT contributions and income from investment in treasury bills and guarantee fees.

Debt Service Cash Cover: TZS 6,170.2 million

The balance represents an amount received by the Bank from the Government of the United Republic of Tanzania (URT) for the purpose of settlement of URT Government obligations and other services payable in foreign currency.

Debt Conversion Scheme: TZS 2,098.9 million.

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

Mwalimu Nyerere Scholarship Fund: TZS 140.9 million

Included in Deposit Others is a balance of cash in respect of the late Mwalimu Nyerere Memorial Scholarship Fund. The Fund was established by the Bank of Tanzania on 12 October,2009 in honor of the life of the Father of the Nation Mwalimu Julius Kambarage Nyerere. The objective of the Fund is to sponsor the best performing female students pursuing mathematics degree at university level.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

	30.06.2010	30.06.2009
	TZS '000	TZS '000
36 FOREIGN CURRENCY FINANCIAL LIABILITIES		
Multilateral Debt Relief Initiative Fund	85,716,634	108,673,511
TEGETA Escrow	30,497,855	28,729,242
Special Projects	222,133,058	201,679,009
Domestic Banks Foreign Currency Deposits	50,744,393	53,982,247
Multilateral Agencies	3,034,328	3,515,623
Central Banks Deposits	57,744	59,856
Domestic Non Banks Foreign Currency Deposits	390,103	71,149
Other Foreign Currency Deposits	2,741,807	2,582,964
	395,315,922	**399,293,601**

Special Projects Funds: TZS 222,133.1 million

These are Government funds received from donors for financing various Government projects.

Multilateral Debt Relief Initiative Funds: TZS 85,716.6 million

Poverty Reduction and Budget Support Fund relate to donor funds granted to the government by donors as a support to the budget in implementation of various poverty alleviation projects.

Domestic Banks Foreign Currency Deposits: TZS 50,744.4 million.

These are domestic banks deposits denominated in USD, which are non-interest bearing current accounts balances maintained by the Bank for USD cheques clearing purposes.

TEGETA Escrow: TZS 30,497.9 million

The Bank is a party to an ESCROW arrangement between TANESCO Limited and Independent Power Tanzania Limited (IPTL) for power purchase payments in favor of IPTL. The Bank receives deposits from TANESCO for such monthly power bills claim by IPTL. Such deposits accumulated to TZS 30,479.9 million (2009:TZS 28,729.2 million). TANESCO and IPTL are currently engaged in a dispute over the bills. As at 30 June 2010 arbitration proceedings between TANESCO and IPTL were yet to be settled and therefore no payment has been made to IPTL from the escrow account.

	30.06.2010	30.06.2009
	TZS '000	TZS '000
37 POVERTY REDUCTION AND GROWTH FACILITY (PRGF)		
PRGF (IMF Drawings)	467,977,672	343,101,021
	467,977,672	**343,101,021**

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

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

The Government of United Republic of Tanzania (URT) has entered into an Exogenous Shocks Facility · (ESF) arrangement with the IMF for SDR 218.79 million, equivalent to USD 318.17 million on 29th May 2009. Following approval, the Bank had on 12 June 2009 received a total of SDR 159,120,000 (USD 245,767,568.01) equivalent to TZS 318,195.1 million being the first tranche. The Bank further received SDR 39,780,000 equivalent to USD 63,377,454.32 and SDR 19,890,000 equivalent to USD 29,027,300.84 on 10th December 2009 and 14th June 2010 respectively. The first tranche is repayable in ten years, including five and half years grace period, payable semi annually in ten equal installments on 14 December and 14 June beginning 14th December 2014. The loan carry an interest of 0.5 percent per annum payable semi annually beginning 14th December 2009.
As at 30 June 2010 the balance of PRGF account was TZS 467,977.7 million (2009:TZS 343,101.0 million).

	30.06.2010	30.06.2009
	TZS '000	TZS '000
38 REPURCHASE AGREEMENTS (REPOs)		
Repurchase Agreements	117,000,000	131,000,000
Accrued interest	15,662	171,714
	117,015,662	**131,171,714**
39 BOT LIQUIDITY PAPERS		
BOT liquidity papers	1,208,947,148	989,437,942
Accrued interest	33,635,700	45,522,902
	1,242,582,848	**1,034,960,844**

These are financial instruments issued by the Bank under the open market operations to mop up excess liquidity in the economy. They are issued in 35-day, 91-day, 182-day and 364-day maturities. Interest incurred on these instruments is accrued and recognized in the income statement as an expense. As at 30 June, 2010 the maturities profile were follows:

	30.06.2010	30.06.2009
	TZS '000	TZS '000
35-Day Treasury Bills	45,669,142	43,500,000
91-Day Treasury Bills	221,018,214	171,775,010
182-Day Treasury Bills	295,354,805	298,937,970
364-Day Treasury Bills	646,904,987	475,224,962
	1,208,947,148	**989,437,942**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

	30.06.2010	30.06.2009
	TZS '000	TZS '000
40 PROVISIONS		
Provision for leave pay	3,184,128	2,741,962
Provision for retirement benefits	3,665,433	2,131,855
Provision for legal expenses	97,000	97,000
	6,946,561	**4,970,817**
Movements in provisions		
Leave pay		
Carrying amount at the beginning of the period	2,741,962	2,034,888
Additional provision made during the period	442,166	707,074
Carrying amount at the end of the period	**3,184,128**	**2,741,962**
Retirement benefits		
Carrying amount at the beginning of the period	2,131,855	2,341,065
Additional provision made during the period	3,665,433	2,058,688
Amount used during the period	(2,014,904)	(2,267,898)
Amount reversed during the period	(116,951)	-
Carrying amount at the end of the period	**3,665,433**	**2,131,855**

41 OTHER LIABILITIES

Accounts payable	15,910,990	24,436,237
Accruals	677,302	1,267,144
Intermediary account payable	-	954,662
Stale drafts payable	103,129	92,680
Employees tax payable	275,332	212,995
Others	254,467	76,468
	17,221,220	**27,040,186**

42 AUTHORISED AND PAID-UP SHARE CAPITAL

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

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

	30.06.2010 TZS '000	30.06.2009 TZS '000
43 CASH (USED BY)/ GENERATED FROM OPERATIONS		
(Loss)/profit for the Year	**(6,490,080)**	**203,339,443**
Other comprehensive income	33,218,539	70,845,909
Depreciation of property and equipment	31,871,514	28,216,343
Amortisation of intangible assets	2,430,804	2,392,055
Adjustment for non cash exceptional item	-	(135,745,071)
Capital grant transferred	(21,840)	(22,624)
Recovery against staff housing fund	223,002	383,235
Net loss on disposal of property and equipment	2,785	159,234
Unrealized foreign exchange gains	(904,315)	(5,982,532)
Provision for impairment	170,947	4,752,524
(Increase)/decrease in fair value of equity investment	(95,990)	(142,183)
Bad debts written off	9,144	20,472
Cash generated from operating activities	**60,414,510**	**168,216,806**
Changes in working capital		
(Increase)/decrease in loans and receivables, other assets and deferred currency cost	(166,542,619)	74,090,220
(Increase)/decrease in inventories	229,848	(130,384)
Increase in items in course of settlement	1,792,932	6,028,731
Decrease in other liabilities and provisions	(7,843,222)	(28,306,311)
Changes in working capital	**(172,363,061)**	**51,682,256**
Cash (used in)/ generated from operations	**(111,948,551)**	**219,899,062**

44 RESERVES

	30.06.2010 TZS '000	30.06.2009 TZS '000
General Reserve	208,738,399	216,132,794
Capital Reserve	99,262,908	99,284,748
Foreign Exchange Equalization Reserve	142,997,293	140,716,879
Reserve for Capital Projects	20,000,000	20,000,000
Staff Housing Fund	19,834,200	19,611,198
Assets Revaluation Reserve	73,773,032	73,773,032
Securities Revaluation Reserve	99,036,275	65,817,736
Foreign Currency Revaluation Reserve	904,315	2,280,414
Reserve for Dividends	1,669,901	1,669,901
	666,216,323	**639,286,701**

44. RESERVES (Continued)

a. General Reserve

In accordance with Section 18(1) of the Bank of Tanzania Act, 2006, the Bank is required to maintain a General Reserve Fund. The amount maintained in this account relates to annual appropriation of distributable profits determined by virtue of Section 18(2) of the aforesaid Act. "The Bank shall transfer to the General Reserve Fund twenty five percent of the net profits until such time that the total capital of the Bank reach a sum equivalent to at least ten per centum of the total assets of the Bank less its assets in gold and foreign currencies. Thereafter, the Bank shall transfer not less than five percent of its net profits to the General Reserve Fund. As at 30 June 2010 the reserve had a balance of TZS 208,738.4 million (2009: TZS 216,132.8 million).

b. Capital Reserve

The Capital Reserve was established in 2001/02. On an annual basis the amount spent to finance capital projects from the Reserve for Projects account is transferred to this reserve. The reserve is permanent in nature and can only be available for enhancement of share capital when need arises. As at 30 June 2010 the reserve had a balance of TZS 99,262.9 million (2009: TZS 99,284.7 million).

c. Foreign Exchange Equalization Reserve

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

The justification for the establishment of the aforesaid reserve as part of the equity of the Bank centres on the requirement of the Bank, among other business entities, to ensure conformance with International Financial Reporting Standards (IFRS), 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 2010 the total amount standing at the credit of the Foreign Exchange Equalization Reserve amounted to TZS 142,997.3 million (2009:TZS 140,716.9 million).

d. Reserve for Capital Projects

This reserve was established by a resolution of the Bank's Board of Directors in 1991/92. The purpose of the reserve is to provide funds for financing capital projects of the Bank. On an annual basis, the Board determines the amount to be appropriated from the distributable profit to the reserve. As at 30 June, 2010 the reserve had a balance of TZS 20,000.0 million.

e. Staff Housing Fund

The Staff Housing Fund was established by a resolution of the Board of Directors in 1989/90. The purpose of this fund is to provide housing loans to Bank's employees. On an annual basis, the Board determines the amount to be appropriated into the fund out of distributable profits.

44. RESERVES (Continued)

e. Staff Housing Fund (Continued)

During the year, there were no appropriations transferred to staff housing fund as the Bank recorded a loss. Net recoveries from staff for staff housing fund were TZS 223 million (2009: TZS 383.2 million) which has been included in the reserve fund. As at 30 June 2010, the fund had a balance of TZS 19,834.2 million (2009: TZS 19,611.2 million) that include loans from the Bank and interest on fund's investments.

f. Assets Revaluation Reserve

The Bank maintains Assets Revaluation Reserve to account for revaluation surpluses of non financial assets. To ensure compliance with requirement of International Accounting Standards (IAS 1), if an asset-carrying amount increases as a result of revaluation, the increase is credited directly to other comprehensive income. However, this amount is not available for distribution. Accordingly, it is appropriated in the asset revaluation. If an asset's carrying amount decreases as a result of revaluation, the decrease is recognized in Statement of Comprehensive Income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. As at 30 June 2010, the reserve had remained with a credit balance of TZS 73,773.0 million.

g. Securities Revaluation Reserve

The Bank maintains a Securities Revaluation Reserve to account for unrealized gains and losses arising from fair value valuation (mark to market) of financial instruments classified as available for sale. Gains and losses arising from change in fair value of Available-For-Sale (AFS) financial assets are recognized in other comprehensive income. However, this amount is not available for distribution. Accordingly, it is appropriated in the Securities revaluation reserve. When these financial assets are sold, collected or otherwise disposed of, the cumulative gains or losses recognized in other comprehensive income are transferred to the other income. As at 30 June 2010 the reserve had a credit balance of TZS 99,036.2 million (2009: TZS 65,817.7 million.

h. Foreign Currency Revaluation Reserve

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

Both realized and unrealized gains and losses are therefore taken to Statement of Comprehensive Income for purposes of computation of profit 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". As at 30 June 2010 the reserve had TZS 904.3 million (2009: TZS 2,280.4 million).

45. RISK MANAGEMENT

45.1 Introduction

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

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

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

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

Strategy in using financial instruments

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

Foreign exchange deposits placed with the Bank and foreign exchange acquired by the Bank through the use of International Monetary Fund (IMF) resources, Inter bank Foreign Exchange Market and through the Government of the United Republic of Tanzania constitute the sources of foreign exchange reserves of the Bank. The Bank holds foreign exchange reserves for the purposes of servicing foreign debts and other Government obligations as a fiscal agent of the Government of the United Republic of Tanzania and for servicing its own foreign exchange obligations, The Bank also holds foreign exchange reserves for liquidity against external shocks, implementation of monetary and exchange rate policies, and providing confidence to the markets. In view of the Bank's priorities of safe investment, liquidity and return, as stipulated by the Bank of Tanzania Act, 2006, the Bank with a prudent approach, subjects its foreign exchange reserves to investments in international markets. In this framework, most of the financial risks to which the Bank is exposed arise while fulfilling its legal obligations, such as implementing monetary and exchange rate policies, managing foreign exchange reserves and rendering certain banking services to the banking sector and the Government of the United Republic of Tanzania.

45. RISK MANAGEMENT (Continued)

45.1 Introduction (Continued)

The Bank is exposed to credit, market and liquidity risks due to the aforementioned operations. In the process of implementing monetary and exchange rate policies the Bank is exposed to financial risks arising from the change in cross currency exchange rates. Financial risks that arise in the management of foreign exchange reserves result from market behaviour. The Bank endeavours to minimize such risks by managing them in accordance with the Strategic Asset Allocation framework. Foreign exchange reserves are managed by observing the investment criteria defined in the Investment Policies approved by the Board and in compliance with the targets and limits stipulated in the Investment Guidelines, which are reviewed by the Investment Committee once a year or whenever need arise.

45.2 Risk Management Structure

45.2.1 The Board of Directors

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

45.2.2 Management

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

45.2.2.1 Risk Management Function

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

45.2.2.2 Financial Markets Function

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

45.2.2.3 Internal Audit Function

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

45. RISK MANAGEMENT (Continued)

45.3 Risk measurement and reporting systems

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

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

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

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

45.4 Risk mitigation

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

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

45. RISK MANAGEMENT (Continued)

45.5 Excessive risk concentration

Concentrations arise when a number of counter parties are engaged in similar business activities, or in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by the changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of the credit risks are controlled and managed accordingly.

45.6 Financial risks

a) Credit risk

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

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

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

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

Securities issued by the US, UK, German and France governments can constitute 100% of the Bank's foreign reserves. Investments in other selected OECD countries are limited to 10% 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.

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

a) Credit risk (Continued)

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 2010 and 30 June 2009 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).

	30.06.2010		30.06.2009	
Description	**TZS '000**	**TZS Share (%)**	**TZS '000**	**TZS Share (%)**
Due from banks				
Deposits				
Central Banks (AAA)	130,482,843	2.20%	651,562,416	13.03%
Foreign Commercial Banks	1,077,749,438	18.20%	17,846,489	0.36%
F1+	1,077,749,438		17,846,489	
F1				
NR				
Loans and Receivables	118,405,924	2.01%	131,882,293	2.64%
Investment Securities	**4,259,960,911**		**4,028,827,731**	
Available for sale	2,900,449,397	48.99%	2,795,616,000	55.93%
AAA	2,809,890,999		2,543,208,315	
AA+			111,301,422	
AA	90,558,398		102,480,452	
A+			38,625,811	
N/R				
Trading-AAA	355,308,446	6.00%	324,732,332	6.49%
Held to maturity	1,004,203,068	16.96%	908,479,399	18.18%
Advances to the Government	175,645,539	2.97%	-	-
Others	157,298,339	2.67%	168,288,092	3.37%
Total	**5,919,542,994**	**100.00%**	**4,998,407,021**	**100.00%**

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

a) Credit Risk (Continued)

The sectoral classification of the Bank's credit exposure as of 30 June 2010 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
2010							
Due from banks							
Central Banks	109,876,271	-		20,606,572	-	-	130,482,843
Commercial Banks	-	-	-	1,077,749,438	-	-	1,077,749,438
Loans and Receivables	-	-	118,405,924	-	-	-	118,405,924
Investment in securities							
Held - for - Trading financial assets	-	-	355,308,446	-	-	-	355,308,446
Available - for - Sale financial assets	2,272,709,343	342,102,135	-	88,169,501	197,468,418	-	2,900,449,397
Held-to-Maturity Government Securities	-	-	85,189,195	-	-	919,013,874	1,004,203,068
Others	-	-	158,671,282	729,202,730	-	-	887,874,012
Total	**2,272,709,343**	**342,102,135**	**717,574,846**	**1,915,728,241**	**197,468,418**	**919,013,874**	**6,474,473,128**

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

a) Credit Risk (Continued)

The sectoral classification of the Bank's credit exposure as of 30 June 2009 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
2009							
Due from banks							
Central Banks	547,017,613	-	-	104,544,803	-	-	651,562,416
Commercial Banks	-	-	-	17,846,489	-	-	17,846,489
Loans and Receivables	-	-	131,882,293	-	-	-	131,882,293
Investment in Securities							
Held - for - Trading financial assets	-	-	324,732,333	-	-	-	324,732,333
Available - for - Sale financial assets	1,778,816,150	394,136,567	-	251,911,340	370,751,943	-	2,795,616,000
Held-to-Maturity Government Securities	-	-	85,189,195	-	-	823,290,204	908,479,399
Others	-	-	155,366,460	402,381,932	-	-	557,748,392
Total	**2,325,833,763**	**394,136,567**	**697,170,281**	**776,684,564**	**370,751,943**	**823,290,204**	**5,387,867,322**

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

a) Credit Risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as of 30 June 2010 is as follows:

2010	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
Assets						
Cash Balances with Central Banks	1,605,579	72,389,828	9,686,241	46,417,491	383,704	130,482,843
Demand, Foreign Currency Notes & Coins & Time Deposits with Commercial Banks		540,059,242	88,592,274	448,553,461	544,461	1,077,749,438
Items in course of settlement	1,372,943	-	-	-	-	1,372,943
Holdings of Special Drawing Rights (SDRs)	-	322,830,929	-	-	-	322,830,929
Held - for - Trading financial assets	-	355,308,446	-	-	-	355,308,446
Available - for -Sale financial assets	-	1,297,367,759	1,575,064,716	28,016,922	-	2,900,449,397
Available - for -Sale equity investment	-	-	-	-	1,655,252	1,655,252
Held - to - Maturity Government securities	1,004,203,068	-	-	-	-	1,004,203,068
Advances to the Government	175,645,539	-	-	-	-	175,645,539
Loans and Receivables	118,405,924	-	-	-	-	118,405,924
Inventories	4,531,846	-	-	-	-	4,531,846
Investment in associate company	1	-	-	-	-	1
Quota in International Monetary Fund (IMF)	-	404,716,549	-	-	-	404,716,549
Deferred Currency Cost	62,414,861	-	-	-	-	62,414,861
Other assets	94,883,478	-	-	-	-	94,883,478
Property and equipment	787,748,121	-	-	-	-	787,748,121
Intangible assets	9,532,699	-	-	-	-	9,532,699
Total Assets	**2,260,344,059**	**2,992,672,753**	**1,673,343,231**	**522,987,874**	**2,583,417**	**7,451,931,334**
Liabilities						
Currency in circulation	2,031,539,904	-	-	-	-	2,031,539,904
Deposits - banks and non-banks financial institutions	1,338,053,232	-	-	-	-	1,338,053,232
Deposits - Governments	20,508,307	-	-	-	-	20,508,307
Deposits - others	276,530,795	-	-	-	-	276,530,795
Foreign currency financial liabilities	395,315,922	-				395,315,922
Poverty Reduction and Growth Facility	467,977,672	-	-	-	-	467,977,672
Repurchase agreements	117,015,662	-	-	-	-	117,015,662
BoT liquidity papers	1,242,582,848	-	-	-	-	1,242,582,848
Provisions	6,946,561	-	-	-	-	6,946,561
Other liabilities	17,221,220	-	-	-	-	17,221,220
IMF related liabilities	-	384,375,218	-	-	-	384,375,218
Allocation of Special Drawing Rights (SDRs)	-	387,647,670	-	-	-	387,647,670
Shareholders equity	766,216,323	-	-	-	-	766,216,323
Total liabilities and equity	**6,679,908,446**	**772,022,888**	**-**	**-**	**-**	**7,451,931,334**

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

a) Credit Risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as of 30 June 2009 is as follows:

2009	Tanzania TZS '000	USA TZS '000	UK TZS '000	Other European Countries TZS '000	Other Countries TZS '000	Total TZS '000
Assets						
Cash Balances with Central Banks	-	417,382,025	48,263,658	184,696,769	1,219,964	651,562,416
Demand, Foreign Currency Notes & Coins & Time Deposits with Commercial Banks	1,042,752	4,871,633	9,530,727	2,144,507	256,871	17,846,490
Items in course of settlement	3,165,875	-	-	-	-	3,165,875
Holdings of Special Drawing Rights (SDRs)	-	148,684	-	-	-	148,684
Held - for - Trading financial assets	-	324,732,333	-	-	-	324,732,333
Available - for - Sale financial assets	-	1,283,785,886	1,399,731,061	68,347,550	43,751,502	2,795,615,999
Available - for - Sale equity investment	-	-	-	-	1,559,262	1,559,262
Held - to - Maturity Government securities	908,479,399	-	-	-	-	908,479,399
Loans and Receivables	131,882,293	-	-	-	-	131,882,293
Inventories	4,761,694	-	-	-	-	4,761,694
Investment in associate Company	1	-	-	-	-	1
Quota in International Monetary Fund (IMF)	-	400,673,986	-	-	-	400,673,986
Deferred Currency Cost	114,320,855	-	-	-	-	114,320,855
Other assets	37,879,730	-	-	-	-	37,879,730
Property and equipment	795,108,728	-	-	-	-	795,108,728
Intangible assets	11,758,602	-	-	-	-	11,758,602
Total Assets	**2,008,399,929**	**2,431,594,546**	**1,457,525,446**	**255,188,826**	**46,787,599**	**6,199,496,346**
Liabilities						
Currency circulation	1,682,526,787	-	-	-	-	1,682,526,787
Deposits - banks and non-banks financial institutions	995,959,123	-	-	-	-	995,959,123
Deposits - Governments	251,709,847	-	-	-	-	251,709,847
Deposits - others	145,742,897	-	-	-	-	145,742,897
Foreign currency financial liabilities	399,293,601	-	-	-	-	399,293,601
Poverty Reduction and Growth Facility	343,101,021	-	-	-	-	343,101,021
Repurchase agreements	131,171,714	-	-	-	-	131,171,714
BoT liquidity papers	1,034,960,844	-	-	-	-	1,034,960,844
Other liabilities	27,040,186	-	-	-	-	27,040,186
Provisions	4,970,817	-	-	-	-	4,970,817
IMF related liabilities		380,535,501	-	-	-	380,535,501
Allocation of Special Drawing Rights (SDRs)		63,197,307	-	-	-	63,197,307
Shareholders equity	739,286,701		-	-	-	739,286,701
Total liabilities and equity	**5,755,763,538**	**443,732,808**	**-**	**-**	**-**	**6,199,496,346**

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

a) Credit risk (Continued)

Credit quality per class of financial assets

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

30.06.2010

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalent	1,208,232,241	-	-	1,208,232,241
Available – for – Sale financial assets	2,900,449,397	-	-	2,900,449,397
Held - for -Trading financial assets	355,308,446	-	-	355,308,446
Held - to – Maturity financial assets	1,004,203,068	-	-	1,004,203,068
Loans and receivables	9,212,922	104,781,480	4,212,922	118,207,324
Other assets	34,569,876	3,309,854	-	37,879,730
Total	**5,511,975,990**	**108,091,334**	**4,212,922**	**5,624,280,246**

30.06.2009

Details	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and cash equivalent	669,408,905	-	-	669,408,905
Available - for – Sale financial assets	2,795,616,000	-	-	2,795,616,000
Held - for – Trading financial assets	324,732,333	-	-	324,732,333
Held – to – Maturity Government securities	908,479,399	-	-	908,479,399
Loans and receivables	706,856	126,962,515	4,212,922	131,882,293
Other assets	48,148,309	46,735,169	-	94,883,478
Total	**4,747,091,802**	**173,697,684**	**4,212,922**	**4,925,002,402**

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

a) Credit risk (Continued)

As at 31 December, the aging analysis of loans and receivables is as follows:

	Total	Neither past due nor impaired	< 30 days	31 to 60 days	61 -90 days	91 – 120 days	>120 days
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2010	118,405,924	9,411,523	490,682	489,788	1,384,592	494,963	106,134,375
2009	131,882,293	706,856	13,247,800	457,914	445,058	440,496	116,584,168

See note 25 for more detailed information with respect to allowance for impairment losses on loans and receivables and other assets.

The fair value of collateral that the Bank holds relating to loans determined to be individually impaired as at 30 June 2010 amounts to TZS 4,238.4 million (2009:TZS 4,238.4 million). The collateral consists of security on property.

Individually assessed allowances

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

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

	30.06.2010	30.06.2009
Details	**Gross Maximum Exposure**	**Gross Maximum Exposure**
	TZS '000	**TZS '000**
Cash and cash equivalent	1,208,232,281	669,408,905
Available – for – Sale financial investment	2,900,449,397	2,795,616,000
Held – for – Trading financial investments	355,308,446	324,732,333
Held - to – Maturity Government securities	1,004,203,068	908,479,399
Advance to the Government	175,645,539	-
Loans and receivables	118,405,924	131,882,293
Other Assets	94,883,478	37,879,730

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

b) 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 tranches. The liquidity tranche is intended to meet both anticipated and unanticipated monthly cash outflows requirements thus matching both on and off Statement of Financial Position foreign assets and liabilities. The tranche is monitored on a daily basis. It is comprised of highly liquid short term financial instruments.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

b) Liquidity risk (Continued)

- by Contractual maturity analysis of financial instruments

	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2010						
Assets						
Cash and cash equivalent	130,482,843	1,077,749,438	-	-	-	1,208,232,281
Items in course of settlement	1,372,943	-	-	-	-	1,372,943
Holdings of Special Drawing Rights (SDRS)	-	-	322,830,929	-	-	322,830,929
Held - for - trading financial assets	-	4,638,366	30,748,424	319,196,771	724,885	355,308,446
Available - for - Sale financial assets	-	129,238,324	374,402,634	1,971,327,335	425,481,104	2,900,449,397
Available - for - Sale equity investment	-	-	-	-	1,655,252	1,655,252
Held - to - Maturity Government securities	-	-	499,696,999	88,840,867	415,665,202	1,004,203,068
Advance to the Government	-	-	175,645,539	-	-	175,645,539
Loans and receivables	9,411,523	-	36,341,810	72,652,591	-	118,405,924
Quota in International Monetary Fund	-	-	-	-	404,716,549	404,716,549
Deferred Currency Cost	-	-	62,414,861	-	-	62,414,861
Other assets	850,211	433,813	7,159,797	39,666,331	-	48,110,152
Total assets	**142,117,520**	**1,212,059,941**	**1,509,240,993**	**2,491,683,895**	**1,248,242,992**	**6,603,345,341**
Liabilities						
Currency in Circulation	-	-	-	-	2,031,539,904	2,031,539,904
Deposit - banks and non banks financial institutions	187,327,452	347,893,840	388,035,437	414,796,503	-	1,338,053,232
Deposit Governments	3,076,246	7,177,908	10,254,153	-	-	20,508,307
Deposit Others	6,983,943	33,735,920	6,747,184	60,724,656	168,339,092	276,530,795
Foreign currency financial liabilities	79,114,074	31,645,630	47,468,444	237,087,774	-	395,315,922
Poverty Reduction and Growth Facility	4,557,893	323,026,477	140,393,302	-	-	467,977,672
Repurchase Agreements	117,015,662	-	-	-	-	117,015,662
BOT Liquidity Papers	45,669,142	221,018,214	975,895,492	-	-	1,242,582,848
Provisions	-	-	6,946,560	-	-	6,946,560
Other Liabilities	274,771	263,628	6,874,451	9,808,371	-	17,221,221
IMF Related Liabilities	-	-	-	-	384,375,218	384,375,218
Allocation of Special Drawing Rights (SDRs)	-	387,647,670	-	-	-	387,647,670
Total Equity and Liabilities	**444,019,183**	**1,352,409,287**	**1,582,615,023**	**722,417,304**	**2,584,254,214**	**6,685,715,011**
Net Liquidity gap	**(301,901,663)**	**(140,349,346)**	**(73,374,030)**	**1,769,266,591**	**(1,336,011,222)**	**(82,369,670)**
Cumulative gap	**(301,901,663)**	**(442,251,009)**	**(515,625,039)**	**1,253,641,552**	**(82,369,670)**	**-**

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

b) Liquidity risk (Continued)

- by Contractual maturity analysis of financial instruments

	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2009						
Assets						
Cash and cash equivalent	651,562,416	17,846,489	-	-	-	669,408,905
Items in course of settlement	3,165,875	-	-	-	-	3,165,875
Holdings of Special Drawing Rights (SDRs)	-	-	148,684	-	-	148,684
Held - for - trading financial assets	6,633,318	-	23,388,260	289,197,307	5,513,448	324,732,333
Available - for -Sale financial assets	13,294,657	8,630,018	308,534,126	1,891,227,054	573,930,145	2,795,616,000
Available - for - Sale equity investment	-	-	-	-	1,559,262	1,559,262
Held - to - Maturity Government Securities	-	-	-	328,398,702	580,080,697	908,479,399
Loans and receivables	706,856	-	58,624,339	72,551,098	-	131,882,293
Quota in International Monetary Fund	-	-	-	-	400,673,986	400,673,986
Deferred Currency Cost			114,320,855	-	-	114,320,855
Other Assets	503,261	-	33,838,898	182,962	-	34,525,121
Total assets	**675,866,383**	**26,476,507**	**538,855,162**	**2,581,557,123**	**1,561,757,538**	**5,384,512,713**
Liabilities						
Currency in circulation	-	-	-	-	1,682,526,787	1,682,526,787
Deposit - banks and non banks financial institutions	663,972,749	-	331,986,374	-	-	995,959,123
Deposit - Governments	82,839,818	103,549,772	65,320,257	-	-	251,709,847
Deposit - Others	3,982,639	76,947	-	138,519,233	3,164,078	145,742,897
Foreign Currency Financial Liabilities	55,494,876	77,209	634,432	343,087,084	-	399,293,601
Poverty Reduction and Growth Facility	-	-	343,101,021	-	-	343,101,021
Repurchase Agreements	131,171,714	-	-	-	-	131,171,714
BOT Liquidity Papers	43,500,000	171,775,010	819,685,834	-	-	1,034,960,844
Provisions	-	-	4,970,817	-	-	4,970,817
Other Liabilities	6,255,893	12,744,830	5,132,829	2,863,224	43,411	27,040,186
IMF Related Liabilities	-	-	-	-	380,535,501	380,535,501
Allocation of Special Drawing Rights (SDRs)	-	63,197,307	-	-	-	63,197,307
Total Equity and Liabilities	**987,217,689**	**351,421,075**	**1,570,831,564**	**484,469,541**	**2,066,269,777**	**5,460,209,645**
Net Liquidity gap	**(311,351,306)**	**(324,944,568)**	**(1,031,976,402)**	**2,097,087,582**	**(504,512,239)**	**(75,696,932)**
Cumulative gap	**(311,351,306)**	**(636,295,874)**	**(1,668,272,276)**	**428,815,307**	**(75,696,932)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

b) Liquidity risk (Continued)

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

	Less than 12 months	Over 12 months	Total
2010	**TZS '000**	**TZS '000**	**TZS '000**
Assets			
Cash and cash equivalent	1,208,232,281	-	1,208,232,281
Items in course of settlement	1,372,943	-	1,372,943
Holdings of Special Drawing Rights	-	322,830,929	322,830,929
Held - for - trading financial assets	355,308,446	-	355,308,446
Available - for - Sale financial assets	503,640,959	2,396,808,438	2,900,449,397
Available - for - Sale equity investment	-	1,655,252	1,655,252
Held - to - Maturity Government securities	501,859,918	502,343,151	1,004,203,069
Advance to the Government	175,645,539	-	175,645,539
Loans and receivables	44,742,558	73,663,366	118,405,924
Inventories	4,531,846	-	4,531,846
Investment in Associate Company	-	1	1
Quota in International Monetary Fund	-	404,716,549	404,716,549
Deferred Currency Cost	31,207,430	31,207,431	62,414,861
Other assets	8,043,617	86,839,861	94,883,478
Property and equipment	15,944,637	771,803,484	787,748,121
Intangible Assets	2,430,804	7,101,895	9,532,699
Total assets	**2,852,960,978**	**4,598,970,357**	**7,451,931,334**
Liabilities			
Currency in circulation	-	2,031,539,904	2,031,539,904
Deposit - banks and non banks financial institutions	923,256,730	414,796,502	1,338,053,232
Deposit - Governments	14,355,815	6,152,492	20,508,307
Deposit - Others	47,467,047	229,063,748	276,530,795
Foreign Currency Financial Liabilities	158,228,148	237,087,774	395,315,922
Poverty Reduction and Growth Facility	467,977,672	-	467,977,672
Repurchase Agreements	117,015,662	-	117,015,662
BOT Liquidity Papers	1,242,582,848	-	1,242,582,848
Provisions	6,946,561	-	6,946,561
Other liabilities	7,826,638	9,394,582	17,221,220
IMF Related liabilities	-	384,375,218	384,375,218
Allocation of Special Drawing Rights (SDRs)		387,647,670	387,647,670
Authorized and Paid up Capital	-	100,000,000	100,000,000
Reserves	-	666,216,323	666,216,323
Total Equity and Liabilities	**2,985,657,121**	**4,466,274,213**	**7,451,931,334**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2010

45 RISK MANAGEMENT (Continued)

45.6 Financial Risks (Continued)

b) Liquidity risk (Continued)

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

	Less than 12 months	Over 12 months	Total
2009	**TZS '000**	**TZS '000**	**TZS '000**
Assets			
Cash and cash equivalent	669,408,905	-	669,408,905
Items in course of settlement	3,165,875	-	3,165,875
Holdings of Special Drawing Rights (SDRs	-	148,684	148,684
Held - for - trading financial assets	30,021,578	294,710,755	324,732,333
Available - for - Sale financial assets	330,458,801	2,465,157,199	2,795,616,000
Available - for - Sale equity investment	-	1,559,262	1,559,262
Held - to - Maturity Government securities	-	908,479,399	908,479,399
Loans and receivables	59,331,195	72,551,098	131,882,293
Inventories	4,761,694	-	4,761,694
Investment in Associate Company	-	1	1
Quota in International Monetary Fund	-	400,673,986	400,673,986
Deferred Currency Cost	57,160,428	57,160,427	114,320,855
Other Assets	34,342,159	3,537,571	37,879,730
Property and equipment	28,216,343	766,892,385	795,108,728
Intangible Assets	2,225,903	9,532,699	11,758,602
Total assets	**1,219,092,881**	**4,980,403,466**	**6,199,496,346**
Liabilities			
Currency in circulation	-	1,682,526,787	1,682,526,787
Deposit - banks and non banks financial institutions	995,959,123	-	995,959,123
Deposit - Governments	229,404,696	22,305,151	251,709,847
Deposit - Others	4,059,586	141,683,311	145,742,897
Foreign currency financial liabilities	56,206,517	343,087,084	399,293,601
Poverty Reduction and Growth Facility	343,101,021	-	343,101,021
Repurchase Agreements	131,171,714	-	131,171,714
BOT Liquidity Papers	1,034,960,844	-	1,034,960,844
Provisions	4,970,817	-	4,970,817
Other Liabilities	24,133,552	2,906,634	27,040,186
IMF Related Liabilities	-	380,535,501	380,535,501
Allocation of Special Drawing Rights (SDR	63,197,307	-	63,197,307
Authorized and Paid up Capital	-	100,000,000	100,000,000
Reserves	-	639,286,701	639,286,701
Total Equity and Liabilities	**2,887,165,177**	**3,312,331,169**	**6,199,496,346**

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

c) Interest rate risk

The interest rate risk is the exposure of the Bank to possible adverse movements in interest rates. The parallel changes in the level of interest rates account for about 90% 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% if rates change by 1%.

The policy target duration is 2 years with deviation allowance of ± 1.5 months. As of 30 June 2010 portfolio duration stood at 2.61 years while that of 30 June 2009 was 2.6 years. The increased duration reflects increase in the long dated maturity instruments as the Bank investing in money market deposits due to deterioration of the credit markets following a collapse of the Lehman Brothers in September 2008.

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

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

The huge leap in reported VaR numbers resulted from the increase in the level of Available for Sale and financial assets at fair value through profit or loss securities and the recent credit crisis which increased correlation among asset classes. VaR is highly sensitive to correlation among asset classes.

The table below shows various risk measured parameters

Portfolio Characteristics	**30.06.2010**		**30.06.2009**	
Positions of securities	193	193	175	175
Base currency	**USD**	**TZS '000**	**USD**	**TZS '000**
Available – for - Sale financial assets	2,102,719,625	2,900,449,397	2,151,491,833	2,795,616,000
Held - for - Trading financial assets	257,585,615	355,308,446	249,912,349	324,732,333
Money Markets placements	751,454,936	1,036,541,910	340,063,540	441,873,429
Duration	2.61 years	2.61 years	2.6 years	2.6 years
Spread Duration	0.59 years	0.59 years	0.73years	0.73 years

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

c) Interest rate risk (Continued)

The tracking errors and VaR was as per breakdown below

Details	30.06.2010		30.06.2009	
	USD	TZS '000	USD	TZS '000
Monthly Tracking Error	13,951,990	19,245,096	17,536,737	22,786971
95% Monthly VaR	(22,948,981)	(31,655,365)	(28,467,564)	(36,990,323)

Price value of 1 BPS in USD

Details	30.06.2010		30.06.2009	
	USD	TZS '000	USD	TZS '000
USD	324,940	448,216	273,674	355,608
EUR	183.966	253,759	177,983	326,525
GBP	106,712	147,196	92,388	199,616
Total	**615,618**	**849,171**	**544,046**	**881,476**

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

Details	30.06.2010		30.06.2009	
	USD	TZS '000	USD	TZS '000
USD	98,631	136,050	102,294	132,919
EUR	27,148	37,447	24,695	45,266
GBP	14,000	19,311	21,101	45,591
Total	**139,779**	**192,808**	**148,090**	**223,776**

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

30.06.2010 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(4,235,709)	(2,111,146)	(1,207,116)	(7,553,971)	(10,419,797)
20	(8,471,419)	(4,222,291)	(2,414,232)	(15,107,942)	(20,839,593)
30	(11,571,417)	(6,333,437)	(3,621,348)	(21,526,202)	(29,692,813)

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

c) Interest rate risk (Continued)

30.06.2009 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,164,598)	(2,506,371)	(1,464,835)	(7,135,803)	(9,272,154)
20	(6,316,652)	(4,996,704)	(2,920,588)	(14,233,944)	(18,495,371)
30	(9,456,229)	(7,471,131)	(4,367,331)	(21,294,692)	(27,670,001)

Yield decrease in 1 BPS

30.06.2010 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	4,235,709	2,111,146	1,207,116	7,553,971	10,419,797
20	8,471,419	4,222,291	2,414,232	15,107,942	20,839,593
30	11,571,417	6,333,437	3,621,348	21,526,202	29,692,813

30.06.2009 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	3,177,208	2,522,542	1,473,987	7,173,737	9,321,446
20	6,367,095	5,061,390	2,957,199	14,385,684	18,692,541
30	9,569,728	7,616,681	4,449,709	21,636,118	28,113,645

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.

30.06.2010 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(4,931,559)	(1,357,408)	(699,994)	(6,988,961)	(9,640,433)
Curve Steepening by 50	(3,757,612)	(1,137,020)	(655,245)	(5,549,876)	(7,655,388)
Curve Flattening by 50	3,517,153	1,137,020	664,084	5,318,256	7,335,896

30.06.2009 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(9,514,725)	(1,270,524)	(551,181)	(11,336,430)	(13,387,190)
Curve Steepening by 50	(1,416,641)	(108,453)	64,718	(1,460,376)	(1,724,558)
Curve Flattening by 50	1,460,397	115,408	(64,335)	1,511,470	1,784,895

45. RISK MANAGEMENT (Continued)

45.6 Financial risks (Continued)

c) Interest rate risk (Continued)

Cash flow and fair value interest rate risk

Interest sensitivity of assets and liabilities

For accounting purposes, cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates, both in the United Republic of Tanzania and abroad. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The exposures to both kinds of interest rate risk arise in the course of the Bank's activities.

d) Currency risk

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

The Bank is exposed to this risk in the context of its holding of foreign exchange reserves, intervention in the local inter-bank foreign exchange market (IFEM) and foreign exchange transactions in the international foreign exchange market. Often, currency exposures are not out rightly hedged, but the currency risk is controlled through a target currency composition whose criteria are specified in the approved Foreign Exchange Reserves Policy and stated in the Guidelines. The currency positions of the Bank as of 30 June 2010 and 2009 which provides the Bank's assets, liabilities and equity at carrying amounts, categorized by currency is summarized on page 93.

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45.6 **Financial Risks (Continued)**

d) **Currency risk (Continued)**

	GBP	USD	EUR	SDR	TZS	OTHERS	Total
2010	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets							
Cash and cash equivalent	96,111,356	620,108,984	490,988,314	-	-	1,023,627	1,208,232,281
Items in course of settlement	-	-	-	-	1,372,943	-	1,372,943
Holdings of Special Drawing Rights (SDRs)	-	-	-	322,830,929	-	-	322,830,929
Held - for - Trading financial assets	-	355,308,446	-	-	-	-	355,308,446
Available - for - Sale financial assets	335,434,563	1,887,233,417	677,781,417	-	-	-	2,900,449,397
Available - for - Sale equity investment	-	1,655,252	-	-	-	-	1,655,252
Held - to - Maturity Government securities	-	-	-	-	1,004,203,068	-	1,004,203,068
Advances to the Government	-	-	-	-	175,645,539	-	175,645,539
Loans and receivables	-	-	-	-	118,405,924	-	118,405,924
Inventories	-	-	-	-	4,531,846	-	4,531,846
Investment in Associate Company	-	-	-	-	1	-	1
Quota in International Monetary Fund (IMF)	-	-	-	404,716,549	-	-	404,716,549
Deferred Currency Cost	-	-	-	-	62,414,861	-	62,414,861
Other Assets	-	-	-	-	94,883,478	-	94,883,478
Property and equipment	-	-	-	-	787,748,121	-	787,748,121
Intangible assets	-	-	-	-	9,532,699	-	9,532,699
Total assets	**431,545,919**	**2,864,306,099**	**1,168,769,731**	**727,547,478**	**2,258,738,480**	**1,023,627**	**7,451,931,334**
Liabilities							
Currency in circulation	-	-	-	-	2,031,539,904	-	2,031,539,904
Deposit - banks and non banks financial institutions	-	-	-	-	1,338,053,232	-	1,338,053,232
Deposit - Governments	-	-	-	-	20,508,307	-	20,508,307
Deposit - others	-	-	-	-	276,530,795	-	276,530,795
Foreign currency financial liabilities	-	393,206,339	-	-	-	2,109,583	395,315,922
Poverty Reduction and Growth Facility	-	-	-	467,977,672	-	-	467,977,672
Repurchase Agreements	-	-	-	-	117,015,662	-	117,015,662
BOT Liquidity Papers	-	-	-	-	1,242,582,848	-	1,242,582,848
Provisions	-	-	-	-	6,946,561	-	6,946,561
Other Liabilities	-	-	-	-	17,221,220	-	17,221,220
IMF Related Liabilities	-	384,375,218	-	-	-	-	384,375,218
Allocation of Special Drawing Rights (SDRs)	-	-	-	387,647,670	-	-	387,647,670
Total liabilities	-	**777,581,557**	-	**855,625,342**	**5,050,398,529**	**2,109,583**	**6,685,715,011**
Equity	-	-	-	-	100,000,000	-	100,000,000
Reserves	-	-	-	-	666,216,323	-	666,216,323
Total equity	-	-	-	-	**766,216,323**	-	**766,216,323**
Total equity and liabilities	-	**777,581,557**	-	**855,625,342**	**5,816,614,852**	**2,109,583**	**7,451,931,334**
Net balance sheet position	**431,545,919**	**2,086,724,542**	**1,168,769,731**	**(128,077,864)**	**(3,557,876,372)**	**(1,085,956)**	-
Scenario of 10.06% appreciation	**43,413,519**	**209,924,489**	**117,578,235**	**(12,884,633)**	**(357,922,363)**	**(109,247)**	-

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45.6 **Financial Risks (Continued)**

d) **Currency risk (Continued)**

	GBP	USD	EUR	SDR	TZS	OTHERS	Total
2009	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets							
Cash and cash equivalent	50,643,157	433,755,669	183,423,757	-	-	1,586,322	669,408,905
Items in course of settlement	-	-	-	-	3,165,875	-	3,165,875
Holdings of Special Drawing Rights (SDRs)	-	-	-	148,684	-	-	148,684
Held - for - Trading financial assets	-	324,732,332	-	-	-	-	324,732,332
Available - for - Sale financial assets	462,140,644	1,495,460,769	838,014,587	-	-	-	2,795,616,000
Available - for - Sale equity investment	-	1,559,262	-	-	-	-	1,559,262
Held - to - Maturity Government securities	-	-	-	-	908,479,399	-	908,479,399
Loans and receivables	-	-	-	-	131,882,293	-	131,882,293
Inventories	-	-	-	-	4,761,694	-	4,761,694
Investment in Associate Company	-	-	-	-	1	-	1
Quota in International Monetary Fund (IMF)	-	-	-	400,673,986	-	-	400,673,986
Deferred Currency Cost	-	-	-	-	114,320,855	-	114,320,855
Other Assets	-	-	-	-	37,879,730	-	37,879,730
Property and Equipment	-	-	-	-	795,108,728	-	795,108,728
Intangible Assets	-	-	-	-	11,758,602	-	11,758,602
Total assets	**512,783,801**	**2,255,508,032**	**1,021,438,344**	**400,822,670**	**2,007,357,177**	**1,586,322**	**6,199,496,346**
Liabilities							
Currency in circulation	-	-	-	-	1,682,526,787	-	1,682,526,787
Deposit banks and non-banks financial institutions	-	-	-	-	995,959,123	-	995,959,123
Deposit - Governments	-	-	-	-	251,709,847	-	251,709,847
Deposit - others	-	-	-	-	145,742,897	-	145,742,897
Foreign currency financial liabilities	-	397,184,018	-	-	-	2,109,583	399,293,601
Poverty Reduction and Growth Facility	-	-	-	343,101,021	-	-	343,101,021
Repurchase Agreements	-	-	-	-	131,171,714	-	131,171,714
BOT Liquidity Papers	-	-	-	-	1,034,960,844	-	1,034,960,844
Provisions	-	-	-	-	4,970,817	-	4,970,817
Other Liabilities	-	-	-	-	27,040,186	-	27,040,186
IMF Related Liabilities	-	380,535,501	-	-	-	-	380,535,501
Allocation of Special Drawing Rights (SDRs)	-	-	-	63,197,307	-	-	63,197,307
Total liabilities	-	**777,719,519**	-	**406,298,328**	**4,274,082,215**	**2,109,583**	**5,460,209,645**
Equity	-	-	-	-	100,000,000	-	100,000,000
Reserves	-	-	-	-	639,286,701	-	639,286,701
Total equity	-	-	-	-	**739,286,701**	-	**739,286,701**
Total equity and liabilities	-	**777,719,519**	-	**406,298,328**	**5,013,368,916**	**2,109,583**	**6,199,496,346**
Net balance sheet position	**512,783,801**	**1,477,788,513**	**1,021,438,344**	**(5,475,658)**	**(3,006,011,740)**	**(523,261)**	-
Scenario of 8.5% appreciation	**43,586,623**	**125,612,024**	**86,822,259**	**(465,431)**	**(255,510,998)**	**(44,477)**	-

45. RISK MANAGEMENT (Continued)

45.7 Non Financial Risks

a) Operational Risk

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

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

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

b) Human Resource Risk

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

c) Legal Risk

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

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

d) Reputational Risk

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the provision of Section 5(1) of the Bank of Tanzania Act, 2006, Public Procurement Act, No. 21 of 2004 and Public Procurement Regulations, 2005. In view of the above, the Bank's management ensures that to the best of its ability fulfils its fiduciary responsibilities.

45. RISK MANAGEMENT (Continued)

45.7 Non Financial Risks (Continued)

d) Reputational Risk (Continued)

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 (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.

46. DETERMINATIONS OF FAIR VALUE AND FAIR VALUE HIERARCHY

The following table shows analysis of financial instruments recorded at fair value by the level of fair value hierarchy as at 30 June 2010:

	Level 1	Level 2	Level 3
	TZS'000'	TZS'000'	TZS'000'
Held - for – trading financial assets	355,308,446	-	-
Available – for – Sale financial assets	2,900,449,397	-	-
Available – for – Sale equity investment	1,655,252	-	-
	3,257,413,095	-	-

During the year ended 30 June 2010 all the financial instruments were determined basing on the unadjusted quoted prices for identical instruments in active markets, that is, the quoted prices were readily and regularly available from the pricing service. Such prices represented actual and regularly occurring market transactions on an arm's length basis.

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

47 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

	Loans and receivables	Held to maturity	Held for trading	Available for sale	Other financial assets and liabilities	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2010							
Financial assets							
Cash and cash equivalent	1,208,232,281	-	-	-	-	1,208,232,281	1,208,232,281
Items in course of settlement	1,372,943					1,372,943	1,372,943
Holdings of Special Drawing Rights (SDRs)	-	-	-	-	322,830,929	322,830,929	322,830,929
Held - for - Trading financial assets	-	-	355,308,446	-	-	355,308,446	355,308,446
Available - for - Sale financial assets	-	-	-	2,900,449,397	-	2,900,449,397	2,900,449,397
Available - for - Sale equity instruments	-	-	-	1,655,252	-	1,655,252	1,655,252
Advance to the Government	175,645,539	-	-	-	-	175,645,539	175,645,539
Held - to - Maturity Government securities	-	1,004,203,068	-	-	-	1,004,203,068	1,004,203,068
Loans and receivables	118,405,924	-	-	-	-	118,405,924	118,405,924
Quota in International Monetary Fund (IMF)	-	-	-	-	404,716,549	404,716,549	404,716,549
Other assets	-	-	-	94,883,478	-	94,883,478	94,883,478
Financial Liabilities							
Currency in circulation	-	-	-	-	2,031,539,904	2,031,539,904	2,031,539,904
Foreign currency financial liabilities	-	-	395,315,922	-	-	395,315,922	395,315,922
Poverty Reduction and Growth Facility	-	-	-	-	467,977,672	467,977,672	467,977,672
Repurchase agreements	-	-	-	-	117,015,662	117,015,662	117,015,662
BoT liquidity papers	-	-	-	-	1,242,582,848	1,242,582,848	1,242,582,848
Other liabilities	-	-	-	-	17,221,220	17,221,220	17,221,220
IMF related liabilities	-	-	-	-	384,375,218	384,375,218	384,375,218
Allocation of Special Drawing Rights (SDRs)	-	-	-	-	387,647,670	387,647,670	387,647,670

47 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Continued)

	Loans and receivables	Held to maturity	Held for trading	Available for sale	Other financial assets and liabilities	Total	Fair values
2009	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	
Financial assets							
Cash and cash equivalent	669,408,905	-	-	-	-	669,408,905	669,408,905
Items in course of settlement	3,165,875	-	-	-	-	3,165,875	3,165,875
Holdings of Special Drawing Rights (SDRs)	-	-	-	-	148,684	148,684	148,684
Held - for - Trading financial assets	-	-	324,732,333	-	-	324,732,333	324,732,333
Available - for - Sale financial assets	-	-	-	2,795,616,000	-	2,795,616,000	2,795,616,000
Available - for - Sale equity investment	-	-	-	1,559,262	-	1,559,262	1,559,262
Held - to - Maturity Government securities	-	908,479,399	-	-	-	908,479,399	908,479,399
Loans and receivables	131,882,293	-	-	-	-	131,882,293	131,882,293
Quota in International Monetary Fund (IMF)	-	-	-	400,673,986	-	400,673,986	400,673,986
Other assets	-	-	-	37,879,730	-	37,879,730	37,879,730
Financial Liabilities							
Currency in circulation	-	-	-	-	1,682,526,787	1,682,526,787	1,682,526,787
Foreign currency financial liabilities	-	-	399,293,601	-	-	399,293,601	399,293,601
Poverty Reduction and Growth Facility	-	-	-	-	343,101,021	343,101,021	343,101,021
Repurchase agreements	-	-	-	-	131,171,714	131,171,714	131,171,714
BoT liquidity papers	-	-	-	-	1,034,960,844	1,034,960,844	1,034,960,844
Other liabilities	-	-	-	-	27,040,186	27,040,186	27,040,186
IMF related liabilities	-	-	-	-	380,535,501	380,535,501	380,535,501
Allocation of Special Drawing Rights (SDRs)	-	-	-	-	63,197,307	63,197,307	63,197,307

48. CAPITAL

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

The capital of the Bank is subscribed and held only by the Government of the United Republic of Tanzania.

The equity of the Bank includes share capital and reserves. During the year, movement of equity was as shown below and further detailed in the statement of owners' equity on page 15

Details	30.06.2010	30.06.2009
	TZS (Millions)	TZS (Millions)
Capital	100,000	100,000
Reserves	666,216	639,287
Total	**766,216**	**739,287**

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

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

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

49. CONTINGENT LIABILITIES

Contingent liabilities arise in the normal course of the Bank's business activities.

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 reporting 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.

49. CONTINGENT LIABILITIES (Continued)

49.1 Outstanding Legal Matters (Continued)

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

Pursuant to the Order, the Government instituted court proceeding against the decree holder and the Bank on the same matter.

The assets/properties of the Bank and the Government under the custody of the Bank are granted immunity against execution and attachment, subject to the provisions of the Act.

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

49.2 External Payment Arrears Deposit Account

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

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

In 1985, the Government of the United Republic of Tanzania formally assumed the responsibility of handling EPA liabilities from NBC. The Bank of Tanzania (BOT) was given the responsibility to manage EPA liabilities on behalf of the Government. As at 30 June 2010 the balance in this liability account was TZS 2,288.4 million (2009: TZS 2,288.4 million). This balance represents funds in original values that await externalization to the various overseas suppliers. Differences between exchange rate prevailing on date of actual payments and the exchange rate used in recording the original EPA liabilities are usually met by the Government.

In the mean time, the Bank has suspended all transactions relating to EPA. Further, a consultant firm was engaged in April 2009 to carry out a review of the status of EPA account and relevant procedures in order to address weaknesses identified in the Special Audit report. The Consultant had already submitted an inception report in August 2009. The Bank of Tanzania examined the report and forwarded comments to the consultants M/S Lazard Freres and Clearly Gottlieb. The consultants are expected to include the Comments from the Bank and re-submit the inception report.

49. CONTINGENT LIABILITIES (Continued)

49.2 External Payment Arrears Deposit Account (Continued)

The final report is expected to address the following issues:

(i) To ascertain how the remaining debt as at 2004 was handled.
(ii) To compile and establish the current stock of remaining EPA debts.
(iii) To develop jointly with MOFEA, a strategy and action plan to handle unsettled claims.
(iv) To implement the strategy.

The Bank of Tanzania has included the EPA account and government debt management in general, in its program for shading-off non-core activities.

49.3 Export Credit Guarantee Scheme (ECGS)

The Bank is an agent of the Government on the operationalisation of the Export Credit Guarantee Scheme. The scheme is charged with the responsibility of considering guarantee applications from financial institutions, and on behalf of the Principal, issue guarantees to financial institutions covering short and long term finance to exporters as long as the capital funds in the ECGS accounts are not leveraged more than 1:5. As a result there is a contingent liability under this scheme in respect of guarantees, limited to five times the balance of the Fund in accordance with the agency agreement in force. As at 30 June 2010 outstanding guarantees aggregated to TZS 197,833.2 million (2009: TZS 123,005.4 million) while the balance of the Fund as at 30th June 2010 was TZS 31,783.5 million (2009: TZS 33,172.1 million). The movement of the Fund during the year is as summarized below.

	30.06.2010	**30.06.2009**
	TZS '000	**TZS '000**
Balance of funds		
Capital	17,463,252	14,463,252
Surplus	21,549,375	18,708,863
Total	**39,012,627**	**33,172,115**

49.4 Small & Medium Enterprises –Credit Guarantee Scheme

The Bank operationalise 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 2010 outstanding guarantees had a value aggregating to TZS 1,657.4 million (2009: TZS 2,273.4 million) while the balance of the fund as at 30 June 2010 was TZS 5,913.9 million (2009: TZS 662.1 million).

50. OUTSTANDING COMMITMENTS

50.1 Uncalled and unpaid Capital to Afreximbank

The Afreximbank was established on 27th October 1993. The major function of the bank is to finance and facilitate trade among African countries and between Africa and the rest of the world. The Bank of Tanzania's authorized equity interest in Afreximbank is 300 ordinary shares of par value USD 10,000 each payable in five equal instalments. Two instalments with value of USD 1.2 million have been called and paid up.

As at 30 June 2010, 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 Afreximbank. The Bank of Tanzania proportion of equity total holding in the Afreximbank is 0.4 percent.

50.2 Capital commitments

As at 30 June 2010, the Bank's capital commitments in respect of, Property and Equipment, Intangible Assets and major capital projects aggregated to TZS 23,317.9 million. The Percentage share of the major capital expenditure commitments items is as reflected herewith below: -

Item	Amount (TZS '000,000)
Office buildings	2,410.9
Residential buildings	713.0
Machinery and Equipment	10,674.3
Information, Communication and Technology (ICT)	2,530.8
Motor vehicles	4,245.0
Furniture and fittings	664.0
Intangible assets	1,088.1
Work in progress	991.9

The above commitments have been included and approved for payment in accordance with the Approved 2010/11 Budget Estimates.

50.3 Currency issuance and related commitments

The Bank has entered into contracts with M/S De La Rue Currency of United Kingdom and M/S CRANE AB of Sweden for printing and supply of bank notes. M/S De La Rue Currency of United Kingdom will print and supply TZS 1,000 denomination banknotes at a total cost of GBP 20,992,500.With regard to M/S CRANE AB of Sweden, the company will print and supply TZS 500,TZS 2000,TZS 5,000 and TZS 10,000 banknotes denominations at a total cost of EUR 88,184,220. As at 30 June 2010 outstanding commitments were GBP 15,744,449.3 and EUR 70,547,360 representing 75 percent and 80 percent respectively.

Further, the Bank has a contract with M/S Giesecke and Devrient of Germany for manufacturing, delivery, installation and commissioning of currency processing machines and currency management system under the "currency processing system expansion programme" at head office

50. OUTSTANDING COMMITMENTS

50.3 Currency issuance and related commitments (Continued)

in Dar es Salaam and at branches in Arusha, Mwanza, Mbeya and Zanzibar at a total cost of EUR 59,260,875. As at 30 June 2010, outstanding commitments in respect of this contract aggregated to EUR 1,920,474.34 equivalent to TZS 3,526.9 million.

The Bank's management is confident that net income and other funding arrangements will be sufficient to meet these commitments when they fall due for settlement.

50.4 Post employment benefits

Effective from 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 8.8 million involving eleven retired staff with their spouses who retired in 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, and The Deposit Insurance Fund and key management personnel.

The related party transactions during the year are:

51.1 Loans to key management personnel

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

The Bank extends loan facilities to its members of staff, the Governor and the Deputy Governors. Loans and advances (Note 25) include advances to employees that as at 30 June 2010 amounted to TZS 32,331.3 million (2009: TZS 27,606.8 million). The advances are granted at preferential rates of interest determined by the Bank presently at 5% fixed over the period of the loan. The following is the break down of loans and emoluments granted to key management personnel.

		30.06.2010	30.06.2009
		TZS '000	**TZS '000**
i	**Loans to Senior Management (i.e. Governor, Deputy Governors and Directors)**		
	At start of the year	615,051	952,901
	Loans granted during the year	615,533	442,611
	Loans repaid during the year	(722,645)	(780,461)
	Balance	**507,939**	**615,051**

51. RELATED PARTY DISCLOSURES (Continued)

51.1 Loans to key management personnel (Continued)

		30.06.2010	30.06.2009
		TZS '000	TZS '000
ii	**Key Management emoluments**		
	Salaries, allowances and benefits	3,136,105	2,565,335

As at 30 June 2010, the number of key management personnel were 27 (2009: 27).

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.

51.2 Emoluments to the Members of the Board of Directors

In 2009/10, emoluments paid to the members of the Board amounted to TZS 239.4 million (2009: TZS 243.3 million). As of 30 June 2010 and 30 June 2009 there were no loans advanced by the Bank to Non-Executive Directors of the Board.

Further, there were no other related party transactions with non-executive members of the Board. Transactions with director-related entities, which occurred in the normal course of the Bank operations, were conducted on terms that were no more favourable than similar transactions with other employees or customers.

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 costs arising from issue and redemption of liquidity papers and Repurchase Agreements in accordance with the memorandum of understanding in force;
(c) Settlement of foreign currency denominated debt and other remittances at a fee;
(d) Financial accommodation on temporary short falls in Government positions; and
(e) Other duties including agency of the Government as provided under the Bank of Tanzania Act, 2006

51. RELATED PARTY DISCLOSURES (Continued)

51.3 Government of the United Republic of Tanzania (Continued)

As at the close of business on 30 June 2010, the following balances, which are included in various Statement of Financial Position categories, were outstanding:

	30.06.2010	30.06.2009
	TZS '000	TZS '000
Due from Government of Tanzania (Note 24)	175,645,539	-
IMF funds on-lent to the Government (Note 20)	384,375.218	380,535,501
Deposits-RGZ (Note 34)	20,508,307	251,709,847
Investments in Government Securities (Note 23)	1,004,203,068	908,479,399
Structured Financing Facility (Note 35)	61,668,171	61,841,122
Export Credit Guarantee Fund (Note 35)	31,783,488	33,123,884
Small and Medium Enterprises Guarantee Fund (Note 35)	5,913,939	662,137

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.

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) and provides it with staff and office accommodation.

The balance outstanding from the Fund and included in deposit others as at year end was TZS million 1,395.3 million (2009: TZS 103.2 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.

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

The Company started operations on 1st January 2006. Due to unsatisfactory performance its operations ceased in March 2007. The Bank has a 35 percent equity stake in MGCL which has been impaired due cessation of MGCL operations as disclosed in Note 27. As at 30 June 2010 outstanding loans stood at USD 6,062,220.57.These have been impaired to the extent to reflect the recoverable amount as disclosed in Note 25 and ensure compliance with the requirements of the IFRS.

51. RELATED PARTY DISCLOSURES (Continued)

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

The loans are secured against MGCL industrial property located at Vingunguti Industrial Area. Such loans attract interest at Libor + 0.50 four basis points. The fair value of collateral, based on the valuation report of 2007 was USD 3.9 million.

Following unsatisfactory performance, the company continued to incur operating losses resulting into significant erosion of its net worth. The Bank as a major shareholder and lender to the company initiated insolvency proceedings in order to realize its investment in the company. There are all indications that the Bank will recover significant value of the loans granted on disposal of industrial property located at Vingunguti industrial area with total market value of USD 3.9 million as at 15 February 2007.

52. COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted or excluded to conform to changes in presentation in the current year.