BANK OF TANZANIA

DIRECTORS' REPORT
AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

BANK OF TANZANIA

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

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BANK OF TANZANIA

BANK INFORMATION
30 JUNE 2009

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
P.O.BOX 568
ZANZIBAR, TANZANIA

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

BANK AUDITORS:

THE CONTROLER AND AUDITOR GENERAL
NATIONAL AUDIT OFFICE
SAMORA AVENUE/ OHIO STREET,
P.O.BOX 9080
DAR ES SALAAM, TANZANIA

ERNST & YOUNG
CERTIFIED PUBLIC ACCOUNTANTS
UTALII HOUSE
36 LAIBON ROAD, OYSTERBAY
P. O. BOX 2475
DAR ES SALAAM, TANZANIA

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2009

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.

The main achievements for the current year included:

- Maintenance of price stability through controlling the inflation rate to 9.3 % in June 2009;

- Improvement of the effectiveness of market operations, including privatization;

- Strengthening the foreign exchange reserves of the Bank from USD 2,648.6 million at the beginning of the year to USD 2,918.6 million as at 30 June 2009;

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

- 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.

3. 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). 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 due to 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 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 is presently operating 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:

- Implementing 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;
- Establishing a 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 the International Financial Reporting Standards (IFRS) in the Bank.

The annual financial statements are 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.

4. FINANCIAL PERFORMANCE

4.1 Financial results

During the year, the Bank made a profit of TZS 203,339.4 million (2008: loss of TZS 96,484.0 million).Out of the above profit, an amount of TZS 67,594.4 million is related to normal activities of the Bank while TZS 135,745.1 million is attributed to reversal of an impairment loss provided in 2005/06 and 2006/07.Details have been provided under Note 39 of the accounts. As a result, dividend payable to the Governments during the year is TZS 1,669.9 million.

4.2 Financial position

The financial position of the Bank is as set out in the Balance sheet shown on page 13. During the year total assets of the Bank increased by TZS 1,001,080.8 million. This was mainly attributed to the increase of Available for sale Foreign currency marketable securities, Deferred currency cost and Government securities amounting to TZS 834,265.9 million, TZS 105,788.7 million and TZS 381,672.4 million respectively.

4. FINANCIAL PERFORMANCE (Continued)

4.2 Financial position (Continued)

On the other hand total equity and liabilities increased by TZS 1,001,080.8 million. This was mainly attributable to increase in Deposit banks of TZS 367,894.7 million, Poverty Reduction and Growth Facility Liabilities TZS 321,593.6 million, Reserves TZS 255,707.1 million and Notes and Coins in Circulation of TZS 231,071.0 million.

5. 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 2,509.8 million (2008: TZS 2,916.1 million) Note 37.

6. CORPORATE GOVERNANCE

The Bank through the Board of Directors and Management upholds and practices the principles of sound corporate governance. To this end, the Bank'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:

a. 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.

b. 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 and Finance and Investment 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;

6. CORPORATE GOVERNANCE (Continued)

(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.

c. 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 8).

Board of Directors is responsible for determination of the policy of the Bank, approval of the Bank's budget, and it is expected to discharge other functions as may specifically be conferred or imposed upon it by the Act or any other written law.

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

6. CORPORATE GOVERNANCE (Continued)

(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.

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

d. The Banking Supervision Committee is created 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;

6. CORPORATE GOVERNANCE (Continued)

(viii) Financial stability reports before publication.

e. The Finance and Investment Committee is created 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;
(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.

7. DIRECTORS

The Directors other than the Governor and Deputy Governors, are appointed by the Minister for Finance, 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 Ndulu	The Governor and Chairman of the Board
2	Dr. Enos Bukuku	Deputy Governor
3	Mr. Juma Hassan Reli	Deputy Governor (Also member of the Audit Committee)
4	Mr. Lila Mkila	Deputy Governor
5	Mr. Ramadhani Khijjah	Member *
6	Mr. Khamis Mussa Omar	Member **
7	Dr. Natu Mwamba	Member *** (Also member of the Audit Committee)
8	Prof. Haidari Amani	Member *** (Also member of the Audit Committee)
9	Mr. Ali Mufuruki	Member **** (Also member of the Audit Committee)
10	Mr. Athman Mtengeti	Secretary to the Board

*Permanent Secretary, the Treasury, Government of the United Republic of Tanzania.
**Principal Secretary, the Treasury, Revolutionary Government of Zanzibar.
***Non-Executive Directors.
**** Non-Executive Director and Chairman of the Audit Committee of the Board

Meetings attended by members of the Board from 1st July 2008 to 30th June 2009.

		Board	MPC	BSC	AC	FIC
	Number of meetings	19	12	4	9	9
	Names					
1	Prof. Benno Ndulu	16	10	3	N/A	8
2	Dr. Enos Bukuku	19	11	4	N/A	9
3	Mr. Juma Hassan Reli	17	11	4	8	9
4	Mr. Lila Mkila	14	9	4	N/A	9
5	Mr. Ramadhani Khijjah	8	11	3	N/A	N/A
6	Mr. Khamis Mussa Omar	12	10	2	N/A	N/A
7	Dr. Natu Mwamba	13	6	N/A	5	7
8	Prof. Haidari Amani	17	12	3	8	8
9	Mr. Ali Mufuruki	15	N/A	N/A	9	5
10	Mr. Athman Mtengeti	19	12	4	9	9

KEY
Board: Board of Directors

MPC: Monetary Policy Committee

BSC: Banking Supervision Committee

AC: Audit Committee

FIC: Finance and Investments Committee

8. DIRECTORS EMOLUMENTS

The directors' emoluments have been disclosed in Note 50.2 of this report.

9. 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 convinced that equal opportunities for all, irrespective of ethnicity, race, gender, disability or religion, should be pursued.

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.

10. CREDIT CRUNCH AND ITS IMPACT ON THE FINANCIAL STATEMENTS

The financial year 2008/09 was characterised by a substantial deterioration in global market conditions, including a severe shortage of liquidity and credit availability. These conditions have led to a reduction in the level of market activities for many assets.

In a bid to mitigate credit risk the Bank of Tanzania has been reducing exposure to commercial banks, which are prone to higher credit risk by redeeming all maturing deposits. For capital preservation purposes, the proceeds from redemption of maturing deposits are placed in sovereign institutions, which are currently earning near zero overnight interest rates. This may jeopardise higher return objective and hence affect Bank's income projections. Accordingly, the financial results of the Bank were also affected.

Owing to the impact of global crisis emanating from the credit crunch, particularly on the impact of the balance of payments, the Government of United Republic of Tanzania (URT) entered into an exogenous shocks facility (ESF) arrangement with the International Monetary Fund (IMF) for SDR 218.79 million, the equivalent to USD 336.0 million.

Further, the Government has taken unprecedented action to mitigate these circumstances including the provision of rescue package to borrowers from commercial banks affected by the crisis.

11. 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."

11. CAPITAL (Continued)

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

12. 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 2000), Sections. 26 -37 of the Public Finance Act No. 6 of 2001 (revised 2004) and section 20(6) of the Bank of Tanzania Act, 2006. Ernst & Young, Certified Public Accountants were appointed by the CAG to audit the financial statements of the Bank on behalf of the CAG, pursuant to section 37(5) of the Public Finance Act, 2001.

BY ORDER OF THE BOARD

BNdulu. 22-12-2009
....
Prof. Benno J. Ndulu
The Governor and Chairman of the Board

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE

Telegram: "Ukaguzi"
Telephone: 255 22 2115157/8
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In reply please quote
Ref. No. CAC.45/491/01

Office of the Controller and
Auditor General
National Audit Office
Samora Avenue/Ohio Street
P.O. Box 9080
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 YEAR ENDED 30TH JUNE 2009

I have audited the accompanying financial statements of the Bank of Tanzania ('the Bank'), set out on pages 12 to 99, which comprise the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement 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 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.

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

REPORT OF THE CONTROLLER AND AUDITOR-GENERAL (Continued)

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 2009, 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
22 December 2009

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

BANK OF TANZANIA

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	30.06.2009 TZS '000	30.06.2008 TZS '000
Operating Income			
Interest income	6	181,812,802	200,589,424
Interest expenses	7	(90,681,401)	(61,318,150)
Net interest income		**91,131,401**	**139,271,274**
Foreign exchange revaluation gains	31	119,945,949	-
Fees and commissions	32	19,275,082	18,030,333
Other income	33	39,621,848	14,497,079
		178,842,879	**32,527,412**
Net operating income		**269,974,280**	**171,798,686**
Operating Expenses			
Foreign exchange revaluation losses	31	-	98,590,770
Administrative expenses	34	34,669,544	29,605,751
Currency issue and related expenses	35	58,006,149	56,423,145
Personnel expenses	36	59,546,257	46,285,421
Depreciation	19	28,216,343	19,647,191
Amortization	20	2,392,055	2,171,924
Loss on impairment of assets	38	4,752,524	292,242
Amount Written Off	16	20,472	107,592
Loss on disposal of property and equipment	19	159,234	502,156
Share of loss of an associate Company	15	-	31,887
Other expenses and losses	37	14,617,330	14,625,104
		202,379,908	**268,282,699**
Operating profit/(loss) for the year		**67,594,372**	**(96,484,013)**
Exceptional item	39	135,745,071	-
Net Profit/(Loss) for the year		**203,339,443**	**(96,484,013)**

Notes on pages 17 to 99 form an integral part of these financial statements.
Independent auditors report on pages 10 to 11.

BANK OF TANZANIA

BALANCE SHEET
AS AT 30 JUNE 2009

	Note	30.06.2009	30.06.2008
		TZS '000	TZS '000
ASSETS			
Cash and cash equivalent	8	669,408,905	896,346,861
Accommodation to banks	9	3,165,875	9,194,606
Holdings of Special Drawing Rights	10	148,684	174,498
Financial Assets Held for Trading	11	324,732,333	270,079,776
Foreign currency marketable securities-Available for Sale	11	2,795,616,000	1,961,350,127
Equity investment - Available for Sale	12	1,559,262	1,417,080
Government securities Held-to-Maturity	13	908,479,399	526,807,045
Inventories	14	4,761,694	4,631,310
Investment in Associate Company	15	1	1
Quota in International Monetary Fund	10	400,673,986	381,949,400
Loans and Receivables	16	193,749,557	342,235,095
Deferred Currency Cost	17	114,320,855	8,532,190
Other assets	18	37,879,730	73,943,838
Property and equipment	19	795,108,728	774,706,335
Intangible assets	20	11,758,602	8,914,667
TOTAL ASSETS		**6,261,363,610**	**5,260,282,829**
LIABILITIES			
Deposits - banks and non-bank financial institutions	21	995,959,123	628,064,443
Deposits - Governments	22	251,709,847	414,199,089
Deposits - Others	23	207,610,161	132,370,245
Foreign currency financial liabilities	24	399,293,601	367,828,464
Poverty Reduction and Growth Facility	25	343,101,021	21,507,457
Repurchase agreements	26	131,171,714	104,732,152
BoT liquidity papers	27	1,034,960,844	1,167,705,919
Provisions	28	4,970,817	4,375,953
Other liabilities	29	27,040,186	55,782,127
IMF related liabilities	10	380,535,501	368,437,666
Allocation of Special Drawing Rights	10	63,197,307	60,243,925
Notes and coins in circulation	30	1,682,526,787	1,451,455,775
TOTAL LIABILITIES		**5,522,076,909**	**4,776,703,215**
EQUITY			
Authorised and Paid up Capital	42	100,000,000	100,000,000
Reserves	43	639,286,701	383,579,614
TOTAL EQUITY		**739,286,701**	**483,579,614**
TOTAL EQUITY AND LIABILITIES		**6,261,363,610**	**5,260,282,829**

These financial statements were approved by the Board of Directors for issue on 22-12-2009 and were signed on its behalf by:

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

Name: Ali A. Mufuruki Title: DIRECTOR Signature:

Notes on pages 17 to 99 form an integral part of these financial statements.
Independent auditors report on pages 10 to 11.

BANK OF TANZANIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

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 43(a))		(Note 43(b))	(Note 43(c))	(Note 43(d))	(Note 43(e))	(Note 43(f))	(Note 43(g))	(Note 43(h))		
(Amounts in TZS'000)												
At 01 July 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
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 income 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)
Mark to market for available for Sale Securities	-	-	-	-	-	-	-	-	70,845,909	-	-	70,845,909
Recovery from 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**

Notes on pages 17 to 99 form an integral part of these financial statements.
Independent auditors report on pages 10 to 11.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

Details	Share Capital (Note 42)	General Reserve (Note 43(a))	Retained Earnings	Capital Reserve (Note 43(b))	Exchange Equalization Reserve (Note 43(c))	Reserve for Projects (Note 43(d))	Staff Housing Fund Reserve (Note 43(e))	Assets Revaluation Reserve (Note 43(f))	Securities Revaluation Reserve (Note 43(g))	Foreign Currency Revaluation Reserve (Note 43(h))	Reserve for Dividends	Total
(Amounts in TZS'000)												
At 01 July 2007	**100,000,000**	**8,368,163**	-	**69,329,752**	**200,488,136**	**30,000,000**	**15,838,776**	**73,889,901**	**(16,625,939)**	**5,314,612**	**55,949,763**	**542,553,164**
Loss for the year	-	-	(96,484,013)	-	-	-	-	-	-	-	-	(96,484,013)
Release of Impairment loss previously recognized in equity	-	63,153,366	-	-	-	-	-	-	-	-	-	63,153,366
Derecognition of revaluation reserve on disposed assets	-	-	-	-	-	-	-	(321)	-	-	-	(321)
Transfer of exchange Loss to exchange equalization reserve	-	-	98,590,770	-	(98,590,770)	-	-	-	-	-	-	-
Transfer of deferred exchange gain realized during the year to Exchange Equalization Reserve	-	-	-	-	5,314,612	-	-	-	-	(5,314,612)	-	-
Transfer of foreign exchange loss unrealized to Exchange Equalization Reserve	-	-	-	-	5,982,532	-	-	-	-	(5,982,532)	-	-
Impairment loss on buildings previously revalued charged to assets revaluation reserve	-	-	-	-	-	-	-	(116,548)	-	-	-	(116,548)
Dividend paid to the Government	-	-	-	-	-	-	-	-	-	-	(37,110,887)	(37,110,887)
Interest earned from investment of Staff Housing Fund	-	-	-	-	-	-	102,365	-	-	-	-	102,365
Amortisation of capital grant	-	-	-	(22,380)	-	-	-	-	-	-	-	(22,380)
Amount Spent on Capital Project	-	-	-	30,000,000	-	(30,000,000)	-	-	-	-	-	-
Mark to market for available for Sale Securities	-	-	-	-	-	-	-	-	11,597,766	-	-	11,597,766
Recovery from staff housing fund	-	-	-	-	-	-	(92,897)	-	-	-	-	(92,897)
Appropriation of 2007/8 Profit	-	2,106,757	(2,106,757)	-	-	-	-	-	-	-	-	-
At 30 June 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)**	**18,838,876**	**483,579,614**

Notes on pages 17 to 99 form an integral part of these financial statements.
Independent auditors report on pages 10 to 11.

BANK OF TANZANIA

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	30.06.2009	30.06.2008
		TZS '000	TZS '000
Cash flows from operating activities			
Cash generated from operating activities	41	**219,899,063**	**(223,549,203)**
Dividends paid to the Government		(18,838,877)	(37,110,887)
Net cash inflows/(outflows) from operating activities		**201,060,186**	**(260,660,090)**
Cash flows from investing activities			
Purchase of property and equipment		(48,807,323)	(85,897,536)
Disposal of property and equipment		91,860	96,948
Purchase of intangible assets		(5,241,498)	(2,925,142)
Acquisition of government securities		(245,927,283)	(1,851,936)
Increase in foreign currency marketable securities		(882,935,898)	(527,678,126)
(Increase)/ decrease in quota in IMF		(18,724,586)	68,402
Decrease in holdings of SDRs		25,814	158,651
Net cash outflows from investing activities		**(1,201,518,913)**	**(618,028,739)**
Cash flows from financing activities			
Increase in notes and coins issued		231,071,012	270,688,998
Increase in IMF related liabilities		12,097,835	202,535
Increase/(decrease) in foreign currency financial liabilities		353,058,701	(93,558,634)
Increase/(decrease) in allocation of SDRs		2,953,382	(10,788)
Increase in deposits		280,645,354	405,264,521
Increase in Repurchase Agreements (REPOs)		26,439,562	89,725,084
Increase/(Decrease) in BOT liquidity papers		(132,745,075)	80,448,124
Net cash inflows from financing activities		**773,520,771**	**752,759,840**
Net decrease in cash and cash equivalent		**(226,937,956)**	**(125,928,989)**
Cash and cash equivalent at the beginning of the year		896,346,861	1,022,275,849
Cash and cash equivalent at the end of the year	8	**669,408,905**	**896,346,861**

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

Basis of preparation

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

Statement of compliance

The financial statements of Bank of Tanzania have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations to those Standards in so far as they are practically applicable to the Bank.

Form of presentation

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

Legal framework

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

The Bank's principal responsibilities are to:

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

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

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

Legal framework (Continued)

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

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

Under Section 18(2) of the Act, the Bank shall transfer to the General Reserve Fund twenty five per cent (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 Income statement.

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

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

Legal framework (Continued)

Section 19(1) of the Act, provides that, where the Bank's balance sheet 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 used in the previous financial year.

The Bank has adopted the following new and amended International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation (IFRIC) as of 1 July 2008.

- IAS 39 and IFRS 7 Financial instruments: Disclosure –Reclassification of financial assets (Amendments)
- IFRIC 13, Customer Loyalty Programmes (effective from 1 July 2008)
- IAS 23 Borrowing Costs
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments
- IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Bank

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
The amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for trading for the purpose of being sold or purchased in the near term.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets (Continued)

- Financial assets that would be eligible for classification as loans and receivables (i.e. those assets which, apart from not being held with the intent to sale in the near term, have fixed or determinable payments, are not quoted in active market and contain no features which could cause the holder not to recover substantially all of its initial investment except through credit deterioration) may be transferred from Held-for-Trading to 'Loans and Receivables', if the entity has the intention and ability to hold them for the foreseeable future.
- Financial assets that are not eligible for classification as loans and receivables may be transferred from 'Held-for-Trading to Available-for-Sale or to 'Held-to-Maturity, only in rare circumstances.

The amendment requires detailed disclosures relating to such reclassifications. The effective date of the amendment is 1 July 2008 and reclassifications before that date are not permitted.

The Bank has a group of other assets category and has reclassified certain assets from other assets into the 'Loans and Receivables category, as of 1 July 2008. A full analysis of the financial impact of the reclassifications is provided in Note 16.

IAS 23 Borrowing Costs

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.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 2 Share-based Payments – Vesting Conditions and Cancellations (Continued)

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, hence early adoption of amendments to IFRS 2 do not have any impact on the financial performance or position of the Bank.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1st July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. IFRIC 13 is not relevant to the Bank's operations as the Bank currently does not operate royalty programmes.

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.

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 income statement. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(i) Impairment losses on loans and advances (Continued)

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 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.

(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 income statement.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

c. Held to maturity investments (Continued)

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

The useful lives of items of property and equipment have been estimated annually and are in line with the rate at which they are depreciated

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. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest and similar income and expenses (Continued)

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 income statement 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 and it has no other post retirement benefit scheme. The contributions are charged to the income statement 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 income statement. The estimated monetary liability for employees' accrued leave entitlement at the balance sheet date is recognized as an expense accrual.

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 income statement 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"). 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

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 the income statement.

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 balance sheet 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 income statement 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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

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 income statement 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 income statement.

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

Depreciation is charged to income statement 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 2008/09 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%

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

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 income statement. 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 amortisation from equity to income statement to offset items of expenses which they finance over their estimated useful life.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency printing and minting expenses (Continued)

Based on the currency issued into circulation, the respective proportional actual costs incurred are released to the income statement 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 income statement 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 income statement. 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 balance sheet date with gains and losses arising being recognized in the income statement.

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 income statement 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)

REPO is an arrangement involving the sale for cash, of security at a specified price with a commitment to repurchase the same or similar securities at a fixed price either at a specific future date or at maturity.

(i) The Bank treats REPOs as collateralized loans for accounting purposes. In this case, a REPO is recorded as a secured advance and is shown separately as REPO Agreement.

(ii) REPOs continue to be recognised in the balance sheet and are measured in accordance with policies for financial liabilities.

(iii) The difference between sales and repurchase price is treated as interest expenditure and is recognized in the income statement.

Foreign Exchange Equalization Reserve

The Bank has a policy whereby both net realized and unrealized exchange gains and losses are firstly recognized in the Income Statement 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. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserve for Dividend

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

Financial instruments – initial recognition and subsequent measurement

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
- 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 balance sheet at fair value. Changes in fair value are recorded in "net operating income"

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continues)

Financial instruments – initial recognition and subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)
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 income statement. The losses arising from impairment of such investments are recognised in the income statement. 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 income statement. The losses arising from impairment are recognised in the income statement.

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.

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 income statement in 'Other operating income' or 'Other operating expenses'.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continues)

Financial instruments – initial recognition and subsequent measurement (Continued)

Available for sale financial investments (Continued)
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 income statement 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 income statement and removed from the Securities Revaluation Reserve.

The Bank classified some foreign currency marketable securities as available-for-sale financial assets.

Foreign marketable money-market investments: The fair value of foreign marketable money-market investments is based on quoted bid rates, excluding transaction costs.

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

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.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial assets (Continued)

- 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 balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

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

Impairment of financial assets

The Bank assesses at each balance sheet 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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 the income statement. 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
For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

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. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest 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 income statement, the impairment loss is reversed through the income statement.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Due from banks, loans and advances (Continued)

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the balance sheet 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 and denominated foreign currency.

Inventories

The Bank owns all inventories stated in the Balance Sheet.

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 selling price in the ordinary course of business less estimated costs necessary to make the sale. Provision for impairment is made for slow moving and obsolete stocks.

Credit Guarantee Schemes

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

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

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN ISSUED AND NOT YET EFFECTIVE

A number of new standards, amendments and interpretations to existing standards have been published, including:

IFRS 2: Share-based Payment

Scope of IFRS 2 and revised IFRS 3 amendment to confirm that in addition to business combinations as defined by IFRS 3 (2008) the contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2 Share-based Payment. The amendment is effective for annual periods beginning on or after 1 July 2009. Since the Bank has no joint venture, this is not applicable to the Banks operations.

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.

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 2008/09 accounts. Non application of this standard does not have any financial impact on the financial statements

IFRS 8: Operating Segments

IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the USA standard SFAS 131,(Disclosures about segments of an enterprise and related information).The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The management is still assessing the expected impact should this standard have on the Bank's reporting framework.

IAS 36: Impairment of Assets - Unit of account for goodwill impairment test

IAS 36.80 states that goodwill arising from a business combination should be allocated to (groups of) cash-generating units for impairment testing. The level of this allocation should be the lowest level where management monitors goodwill. However, this unit may not be 'larger than an operating segment determined in accordance with IFRS 8'. This amendment does not have impact on the Bank financial reporting.

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN ISSUED AND NOT YET EFFECTIVE (Continued)

IAS 36: Unit of accounting for goodwill impairment test

The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 Operating Segments (i.e. before the aggregation of segments with similar economic characteristics permitted by IFRS 8.12).The amendment is effective for annual periods beginning on or after 1 January 2010 prospectively. Earlier adoption is permitted. The Bank does not fall within the scope of accounting for business combination and segmental reporting. Therefore, this requirement is neither relevant nor effective for the Banks operations.

IAS 17: Classification of leases of land and buildings

The amendment requires deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17. This amendment was originally proposed as part of the 2007/08 improvements project effective for annual periods beginning on or after 1 January 2010 with earlier application permitted. The amendment applies retrospectively to existing leases if the necessary information is available at the inception of the lease. Otherwise land leases should be reassessed on the date of adoption of the amendment.

IAS 7: Classification of expenditures on unrecognized assets

The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities for annual periods beginning on or after 1 January 2010. Earlier application is encouraged. Currently, this is not effective for the Banks operations.

IAS 38: Additional consequential amendments arising from IFRS 3(2008)

The amendments to paragraphs 36 and 37 of IAS 38 Intangible Assets requires to clarify the requirements under IFRS 3(2008) regarding accounting for intangible assets acquired in a business combination effective for annual periods beginning on or after 1 July 2009 prospectively. It is linked to application of IFRS 3 (2008) i.e. measuring the fair value of an intangible asset acquired in a business combination.

Further, amendments to paragraphs 40 and 41 of IAS 38 requires clarification for the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. The amendment is effective for annual periods beginning on or after 1 January 2010 to be applied prospectively. During the year ended 30 June 2009 the Bank did not acquire any entity's net assets that constitute a business or acquired interests of one or more entities and obtained control that qualify for accounting for business combination. Therefore, this amendment is neither effective nor relevant to the Bank's operations.

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN ISSUED AND NOT YET EFFECTIVE (Continued)

IAS 39: Financial Instruments Recognition and measurement

Loans relating loan prepayment penalties as closely related derivatives. The amendment requires clarification that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract. Such amendment will apply for annual periods beginning on or after 1 January 2010. Earlier application permitted.

Scope exemption for business combination contracts

IAS 39 paragraph 2(g) on Financial Instruments: Recognition and Measurement are amendments to the scope exemption to clarify that: -

- It only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquire at a future date;

- The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and

- The exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions. The amendment is effective for annual periods beginning on or after 1 January 2010 to be applied prospectively to all unexpired contracts. Earlier application is permitted.

IAS 1: Revised Presentation of Financial Statements

IAS 1 Revised (Presentation of Financial Statements) was issued in September 2007 and became effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The Statement of Changes in Equity will include only details of transactions with owners. All non-owner changes in equity are presented as a single line. In addition, the Standard introduces the Statement of Comprehensive Income. Such statement presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement, or in two linked statements. The Bank will adopt IAS 1 revised effective from 2009/10.

Cash flow hedge accounting

Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. This amendment is for annual periods beginning on or after 1 January 2010. To be applied prospectively to all unexpired contracts and earlier application permitted.

Hedging using internal contracts
Amendment to clarify that an entity should no longer use hedge accounting for transactions between

5. STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN ISSUED AND NOT YET EFFECTIVE (Continued)

Cash flow hedge accounting (Continued)

segments in their separate financial statements, this amendment was originally made as part of the 2007/08 improvements project – but the Board has taken the opportunity to make further textual amendments in this regard in paragraph 80 of the Standard. The amendment is for annual periods beginning on or after 1 January 2009. Earlier application permitted.

However, during the year ended 30 June 2009 the Bank did not acquire any entity's net assets that constitute a business or acquired interests of one or more entities and obtained control. Further, it had no embedded derivatives or hedge accounting. Accordingly, these are not relevant to the Banks operations.

IFRIC 9: Scope of IFRIC 9 and revised IFRS 3
Amendment to confirm that, in addition to business combinations as defined by IFRS 3(2008), derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of IFRIC 9. These amendments (together with amendments to IFRIC 16) were exposed separately in January 2009 and are effective for annual periods beginning on or after 1 July 2009.The same are applied prospectively and linked to application of IFRS 3(2008).

IFRIC 16: Amendment to restrict hedging instruments.
Amendment aims to clarify that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged. These amendments (together with amendments to IFRIC 9) were exposed separately in January 2009. They are effective for annual periods beginning on or after 1 July 2009. Earlier application permitted. Since the bank has no hedge accounting, this amendment is not relevant to the Bank's operations.

IFRS 7: Measuring and disclosing fair value of financial instruments in markets that are no longer active.
The Bank has not disclosed a numerical analysis of fair values into three levels of fair value hierarchy, including comparatives information since this amendment was made on 1st March 2009.

Improvements to IFRS
In May 2008 the IASB issued its first annual set of non-urgent amendments to the standards, primarily with the view to removing inconsistencies and clarifying wording. The Bank has decided not to early adopt the amendments and does not expect that their application to have significant effect.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

6 INTEREST INCOME

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

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

	Received	Accrued	30.06.2009 Total	30.06.2008 Total
	TZS '000	TZS '000	TZS '000	TZS '000
From foreign operations				
Sterling Investments	12,523,767	6,388,377	18,912,144	23,621,223
USD Investments	46,548,389	12,998,203	59,546,592	88,718,677
EURO Investments	16,280,804	16,281,229	32,562,033	31,187,602
Other Foreign Interest Income	11,251	-	11,251	23,022
	75,364,211	**35,667,809**	**111,032,020**	**143,550,524**
From domestic operations				
Interest on Domestic Investments	49,693,397	14,975,776	64,669,173	56,871,530
Interest on loans and advances	6,035,337		6,035,337	-
Interest on Staff Loans	76,272	-	76,272	83,488
Interest on BoT Loans to Staff Housing Fund	-	-	-	15,086
Repurchase Agreements	-	-	-	68,796
	55,805,006	**14,975,776**	**70,780,782**	**57,038,900**
	131,169,217	**50,643,585**	**181,812,802**	**200,589,424**

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

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Income from available for sale financial instruments	90,499,129	115,281,318
Income from financial instruments Held to Maturity	64,669,173	56,871,530
Income from loans and receivables	17,309,649	20,006,092
	172,477,951	**192,158,940**
Income from assets held for trading	9,334,851	8,430,484
	181,812,802	**200,589,424**

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

	Incurred	Accrued	30.06.2009 Total	30.06.2008 Total
	TZS '000	TZS '000	TZS '000	TZS '000
BoT Liquidity Papers	41,536,188	45,522,902	87,059,090	54,399,816
Repurchase agreements	3,450,597	171,714	3,622,311	6,918,334
	44,986,785	**45,694,616**	**90,681,401**	**61,318,150**

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 there from is shared between the Bank and the Government in accordance with the Memorandum of understanding in force.

8 CASH AND CASH EQUIVALENT

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Cash Balances with Central Banks	651,562,416	103,275,201
Demand, Time Deposits with Commercial Banks and Foreign Currency Notes & Coins	17,792,912	789,043,881
Accrued interest on Deposits	53,577	4,027,779
TOTAL	**669,408,905**	**896,346,861**

Cash balances with Central Banks consist of Demand Deposits; two-day notes accounts and time deposits with maturities of less than six 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) which has zero balance and BIS OPEC funds amounting to USD 0.7 million (2008 USD 4.4 million) which are designated for specific purposes. This class is categorised as loans and receivables

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Demand and time deposits with commercial banks consist of:		
Demand Deposits	17,084,870	41,057,861
Foreign Currency Notes and Coins	708,042	706,294
Time Deposits	-	747,279,726
	17,792,912	**789,043,881**

9 ACCOMMODATION TO BANKS

	30.06.2009	30.06.2008
	TZS '000	TZS '000
BOT Clearing Account	3,165,875	9,194,606
	3,165,875	**9,194,606**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

10 INTERNATIONAL MONETARY FUND (IMF) RELATED BALANCES

	30.06.2009		30.06.2008	
	Equivalent SDR '000'	Equivalent TZS '000	Equivalent SDR '000'	Equivalent TZS '000
Assets				
Holding of SDRs	74	148,684	91	174,498
Quota in IMF	198,900	400,673,986	198,900	381,949,400
	198,974	**400,822,670**	**198,991**	**382,123,898**
Liabilities				
IMF Account No. 1	188,900	380,530,186	191,721	368,432,523
IMF Account No. 2	3	5,315	3	5,143
	188,903	**380,535,501**	**191,724**	**368,437,666**
Allocation of SDRs	31,372	63,197,307	31,372	60,243,925
	220,275	**443,732,808**	**223,096**	**428,681,591**

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 are repayable according to the repayment schedules of the agreement. The interest rate as at 30 June 2009 was 2.8 percent, the same rate as it was in the previous year. A total of SDR 198.9 million equivalent to TZS 400,673.9 million (2008: TZS 381,949.4 million) in the Tanzania's quota in the IMF represents 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 2009, the facility had a nil balance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

11 FOREIGN CURRENCY MARKETABLE SECURITIES

(a) Financial Assets Available for Sale

Financial assets available for sale 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.

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Financial Assets Available for sale	2,761,414,948	1,936,374,819
Accrued interest	34,201,052	24,975,308
	2,795,616,000	**1,961,350,127**

(b) Financial Assets Held for Trading

These are externally mnaged portfolio managed by the World Bank Treasury under a special program known as Reserve Advisory Management Program (RAMP).

	30.06.2009	30.06.2008
Financial Assets Held for Trading	323,292,461	269,168,518
Accrued interest	1,439,872	911,258
	324,732,333	**270,079,776**
Total (a+b)	**3,120,348,333**	**2,231,429,903**

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:

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Soverign Issues		
USD	911,481,427	1,060,335,383
GBP	334,471,215	69,859,295
EUR	655,952,069	371,138,200
	1,901,904,711	**1,501,332,878**
Supranational Securities		
USD	234,232,237	381,947,700
GBP	79,959,675	23,358,810
EUR	50,236,404	231,732,984
	364,428,316	**637,039,494**
Agency Securities		
USD	671,017,336	54,336,740
GBP	47,415,271	-
EUR	94,610,623	12,834,225
	813,043,230	**67,170,965**
Total investments		
USD	1,816,731,000	1,496,619,823
GBP	461,846,161	93,218,105
EUR	800,799,096	615,705,409
Accrued interest	40,972,076	25,886,566
	3,120,348,333	**2,231,429,903**

	30.06.2009	30.06.2008
	TZS '000	TZS '000
12 EQUITY INVESTMENT - AVAILABLE FOR SALE		
Equity Investment in Afreximbank	1,559,262	1,417,080
	1,559,262	**1,417,080**

The African Export-Import Bank (Afreximbank) is a supranational institution, established on 27 October 1993. The principal activity of the bank is to finance and facilitate trade among African countries and between Africa and the rest of the world. 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 2009 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.

	30.06.2009	30.06.2008
	TZS '000	TZS '000
13 GOVERNMENT SECURITIES-HELD TO MATURITY		
Treasury Special Bonds	602,570,539	362,893,234
LART Bonds	85,189,195	85,189,195
Treasury EPA Stock	205,743,889	69,998,818
	893,503,623	**518,081,247**
Accrued interest at 30 June 2009	14,975,776	8,725,798
	908,479,399	**526,807,045**

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.

Further,the Board of Directors at its 313th meeting approved issuance of 10 Year Special Government Bond 2009/2019 with a face value of TZS 323,000.0 million. The approval was made in accordance with section 34, 35 and 69 of the Bank of Tanzania Act, 2006. The bond carries an annual coupon of 8.0 percent payable semi annualy.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 bond was issued on 2nd June 2009 and the accrued interest up to 30th June 2009 forms part of the interest income. The value of Treasury Special Bonds as at 30th June 2009 was TZS 602,570.5 million (2008:TZS 362,893.2 million).

13 GOVERNMENT SECURITIES-HELD TO MATURITY (Continued)

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 2009 the total value of such bonds was TZS 85,189.2 million (2008:TZS 85,189.2 million).This was the same amount by the end of the previous year.

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 an EPA stock.

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 2009 the aggregate position of Special EPA stocks was TZS 205,743.8 million (2008:TZS 69,998.8 million).

14 INVENTORIES

	30.06.2009	30.06.2008
	TZS '000	TZS '000
The inventory balance consists of the following:		
Currency machine spare parts	2,241,037	2,506,178
Building, machinery and maintenance consumables	465,334	647,634
Stationery	423,803	313,925
Drugs and medicines	150,727	170,142
Copier parts and consumables	277,971	251,759
Cheque books	855,682	712,456
Inventory in - transit	-	372
ICT accessories and consumables	347,140	28,844
	4,761,694	**4,631,310**

15 INVESTMENT IN ASSOCIATE COMPANY

The Bank holds 3,000 unquoted ordinary shares of Mwananchi Gold Company Ltd (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 Ltd 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 brokers of refined metals.

	30.06.2009	30.06.2008
The investment in associate balance consists of the following:	TZS '000	TZS '000
Investment in Mwananchi Company	253,894	253,894
Share of Loss of Mwananchi Company Ltd	(253,893)	(253,893)
	1	**1**

Following unsatisfactory perfomance by the company, the operations ceased in 2007.

	30.06.2009	30.06.2008
	TZS '000	TZS '000
16 LOANS AND RECEIVABLES		
ECGS Accounts Receivable	5,062,890	5,062,890
Staff Loans and Advances	27,606,784	26,774,318
Accounts Receivable	99,895,711	282,200,700
Purchased Interest Receivable	-	3,304,108
Secured Loan to Mwananchi Gold Company Ltd	8,606,418	7,583,085
Cash Loss Recoverable from NBC Limited	5,144,000	5,144,000
Loans for Refinancing Facility	61,841,122	22,589,122
Intermediary Accounts Receivable	706,856	698,400
	208,863,781	**353,356,623**
Less: Provision for Impairment	(15,114,224)	(11,121,528)
	193,749,557	**342,235,095**
Analysis of impairment by line items		
ECGS Accounts Receivable	5,036,748	5,036,748
Staff Loans and Advances	308,346	-
Accounts receivable	231,634	940,780
Secured Loan to Mwananchi Gold Company Ltd	4,393,496	-
Cash Loss Recoverable from NBC Limited	5,144,000	5,144,000
Loans for Refinancing Facility	-	-
	15,114,224	11,121,528

16 LOANS AND RECEIVABLES (Continued)

Movement in provision for impairment

Provision for impairment of loans and receivables stood at TZS 15,114.2 million (2008: TZS 11,121.5 million).The movement of impairment is indicated below:

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Balance at the beginning of the year	11,121,528	11,121,528
Addition (Note 38)	4,702,262	107,592
Reversal	(689,094)	-
Write-offs	(20,472)	(107,592)
Balance at the end of the year	**15,114,224**	**11,121,528**

The reversal of impairment relates to accounts receivables

Accounts Receivable

Account receivable represent short term claims recoverable within twelve months. As at 30 June 2009, the account had a balance of TZS 99,895.7 million (2008: TZS 282,200.7 million). Major components under Account Receivable include the following: -

i) Input VAT Claims : TZS 22,271.1 million

During the financial year 2005/06 the Bank's tax exemption status was by mistake or otherwise 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 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 Gullioni office - Zanzibar projects. The agreement between 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. During the aforesaid financial year, M/s Group Five International was assessed for output Value Added Tax (VAT) amounting to TZS 17,816.1 million. Due to lack of exemption status, input VAT claims by M/s Group Five International amounting to TZS 22,271.1 million has not been refunded by Tanzania Revenue Authority (TRA).

The Government has vide letter TYC/B/60 of 2nd July 2009 undertaken to finalise procedural requirements with the Parliament of the United Republic of Tanzania to approve remission of the output VAT assessed . It is the commitment of the Government to have this matter resolved within 2009/10. Once the Government has resolved the issue, the input VAT amount of TZS 22,316.1 million would be refunded directly to the Bank .

(ii) Interest on Liquidity Management

Interest receivable on liquidity management amounted to TZS 35,491.3 million (2008: TZS 180,000.0 million). This represent the Bank's claim against the 2008/09 Government share of interest on mopping up costs.

16 LOANS AND RECEIVABLES (Continued)

(iii) Receivable for overdrawn Government accounts

Pursuant to Section 34 of the Bank of Tanzania Act, 2006, the Government net position was overdrawn in various periods. Such adverse positions attracted interest amounting to TZS 5,068.6 million which was charged and forms part of the interest income for the year. As at 30th June 2009 unpaid interest amounted to TZS 3,565.8 million.

(iv) Economic empowerment

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.

(v) Staff Loans and Advances

Employees of the Bank are entitled to loans and advances as approved by the Board of Directors. Staff loans are granted to employees to assist them in acquisition of residential houses, motor vehicles, computers and furniture. Staff advances are financial accommodations granted to employees to meet short term financial obligations. 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 2009 the balance of staff loans and advances was TZS 27,606.8 million (2008: TZS 26,774.3 million)

The advances are granted at preferential rates of interest determined by the Bank presently at 5% fixed over the period of the loan (Note 50.1).

Loans for Refinancing Facility

The Government has taken measures to support development of financing infrastructure in the economy that improve credit environment in order to support exporters with viable export businesses but lacking adequate collateral to secure bank financing. As at 30 June 2009 such facility had a balance of TZS 61,841.1 million (2008: TZS 22,589.1 million)

17 DEFERRED CURRENCY COST

This represents deferred notes printing and coins minting costs related to costs of printed notes and minting coins that have not yet been released in circulation. During 2008/09 , the movement on deferred notes printing cost balance was as follows:

	30.06.2009	30.06.2008
	TZS '000	TZS '000
At 01 July 2008	8,532,190	33,752,411
Add: Cost of notes and coins received during the year	159,632,089	27,683,812
Less: Cost of notes and coins issued in circulation (Note 35)	(53,843,424)	(52,904,033)
At 30 June 2009	**114,320,855**	**8,532,190**

18 OTHER ASSETS

Prepayments	3,354,609	39,247,553
Export Credit Guarantee Fund Investments Account	32,411,356	29,055,301
SME CGS Contribution Investment Account	619,649	609,324
Claims on Government EPA - NBC	-	135,745,071
Accrued Interest on ECGS Investment	950,484	688,386
Development Finance Guarantee Investments Account	-	2,730,566
Staff Imprest	447,762	1,507,896
Petty Cash Balances	55,500	37,500
Others	85,125	67,312
	37,924,485	**209,688,909**
Less: Provision for Impairment (Note 38)	(44,755)	(135,745,071)
	37,879,730	73,943,838

Analysis of impairment by line items

Prepayments	-	135,745,071
Claims on Government EPA - NBC	44,755	-
	44,755	**135,745,071**

Movement in provision for impairment

During the year provision for impairment of other assets was TZS 44.8 million (2008: TZS 135,755.1 million).The movement of impairment is indicated below:

	30.06.2009	**30.06.2008**
	TZS '000	**TZS '000**
Balance at the beginning of the year	135,745,071	135,745,071
Addition (Note 38)	44,755	-
Reversal (Note 39)	(135,745,071)	-
Balance at the end of the year	**44,755**	**135,745,071**

Export Credit Guarantee Investment Account: TZS 32,411.3

The balance represent funds invested in Treasury Bills for the purpose of enhancing the Fund. As at 30th June 2009 the investment account had a balance of TZS 32,411.3 million (2008:TZS 29,055.3 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

19 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 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 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 (TZS 14,514.8 million) and furniture and fittings (TZS 897.3 million.)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

19 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 2007	182,103,853	86,916,598	6,196,927	1,099,822	7,679,678	461,527,843	745,524,721
Additions	37,189,647	20,810,555	1,193,623	830,396	1,355,690	24,517,625	85,897,536
Transfers**	296,069,795	65,029,382	-	3,012,016	20,386	(364,131,579)	-
Disposals	(674,296)	(1,140,933)	(272,256)	(66,325)	(580,628)	-	(2,734,438)
Reclassification***	(846,946)	-	-	-	-	(598,373)	(1,445,319)
At 30 June 2008	**513,842,053**	**171,615,602**	**7,118,294**	**4,875,909**	**8,475,126**	**121,315,516**	**827,242,500**
Accumulated depreciation and impairment							
At 01 July 2007	864,007	23,760,481	4,322,616	839,735	4,711,567	-	34,498,406
Charges for the Year	3,749,725	14,085,213	282,507	494,254	1,035,492	-	19,647,191
Impairment	130,594	8,192	9,361	-	-	-	148,147
Disposals	(60,125)	(859,806)	(266,072)	(54,815)	(516,761)	-	(1,757,579)
At 30 June 2008	**4,684,201**	**36,994,080**	**4,348,412**	**1,279,174**	**5,230,298**	-	**52,536,165**
Net book value							
At 30 June 2008	**509,157,852**	**134,621,522**	**2,769,882**	**3,596,735**	**3,244,828**	**121,315,516**	**774,706,335**

** A total of TZS 364,131.6 million comprise transfers made from construction work in progress to land and buildings which relate to capital work completed at 10 Mirambo and Gulioni Office Buildings (TZS 296,069.8 million), machinery and equipment TZS (65,029.4 million) and furniture and fittings (TZS 3,012.0 million).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

19 PROPERTY AND EQUIPMENT (Continued)

*** A total of TZS 1,445.3 million included in reclassification relates to expenses related to renovation of rented Saza road godown rents and 10 Mirambo office project implementation of non capital expenditure which were reclassified and charged in 2007/08 to Income Statement.

****1. Machinery and equipment include currency machines and security monitoring system which are depreciated at the rate of 10 percent and 12.5 percent respectively.

*****2. Computer servers and printers includes network equipment,computers,printers and servers which are depreciated at the rate of 20 percent,25 percent and 25 percent respectively.

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	**30.06.2009**	**30.06.2008**
	TZS '000	**TZS '000**
Cost	614,506,692	490,931,586
Accumulated	8,986,720	3,857,936
Carrying amount	**605,519,972**	**487,073,650**

Effective from 2007/8 revaluation of the Bank's immovable property is conducted after five years. The revaluation date was carried as follows:

Revaluation date	Registered/Professional Valuer
30-Jun-02	M/S Real Estate Surveyors and Associate Limited
30-Jun-06	M/S Real Estate Surveyors and Associate Limited

19 PROPERTY, PLANT AND EQUIPMENT (Continued)

Work- in - progress relates to capital expenditure incurred in the extension of the head office building. 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 2009.

Reconciliation of items disposed during the period by class of assets

Loss on Disposal of Property and Equipment

				2008/09	2008/09	2007/08
	COST	ACCUMMULATED DEPRECIATIO		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	215,000		5,160	-	(209,840)	(194,171)
Machinery & equipment	131,235		107,253	33,662	9,680	(292,425)
Motor vehicles	28,833		28,821	10,388	10,376	55,833
Fixtures & fittings	73,988		65,731	8,945	688	(10,507)
printers	143,542		134,539	38,865	29,862	(60,886)
	592,598		**341,504**	**91,860**	**(159,234)**	**(502,156)**

20 INTANGIBLE ASSETS

	Computer software	Computer software - WIP	Total
	TZS '000	TZS '000	TZS '000
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)	-
Disposal	-	-	-
At 30 June 2009	**16,921,397**	**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
Disposal	-	-	-
At 30 June 2009	9,218,816	28,199	9,247,015
Net book value			
At 30 June 2009	**7,702,581**	**4,056,020**	**11,758,602**
2008			
Cost/valuation			
At 01 July 2007	7,604,020	5,280,661	12,884,681
Additions	987,725	1,937,417	2,925,142
Transfers	5,270,871	(5,270,871)	-
Disposal	(45,704)	-	(45,704)
At 30 June 2008	**13,816,912**	**1,947,207**	**15,764,119**
Accumulated amortisation and impairment			
At 01 July 2007	4,690,111	-	4,690,111
Charges for the Year	2,171,924	-	2,171,924
Impairment	-	22,691	22,691
Disposal	(35,274)	-	(35,274)
At 30 June 2008	**6,826,761**	**22,691**	**6,849,452**
Net book value			
At 30 June 2008	**6,990,151**	**1,924,516**	**8,914,667**

21 DEPOSITS - BANKS AND NON - BANK FINANCIAL INSTITUTIONS

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Deposit - Commercial Bank Deposits	983,401,180	627,980,759
Deposits - Non Bank Financial Institutions	12,557,943	83,684
	995,959,123	**628,064,443**

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

22 DEPOSITS - GOVERNMENTS

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Deposits - Revolutionary Government of Zanzibar	9,849,933	4,863,229
Deposits - Government of the United Republic of Tanzania	241,859,914	409,335,860
	251,709,847	**414,199,089**

These are non-interest earning Government deposits.

23 DEPOSITS - OTHERS

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Export Credit Guarantee Fund	33,150,025	29,701,683
Small and Medium Enterprises Guarantee Fund	662,137	616,808
Redemption of Government Stock/Bonds	33,688	1,635,019
Tegeta ESCROW TZS Sub Account	78,680,222	48,327,007
Development Finance Guarantee Fund	22,421,951	22,138,872
Debt Service Cash Cover	19,094,553	9,973,938
TIB Structured Financing Facility	36,500,000	1,648,000
Deposit Staff	3,842,731	3,505,110
Debt Conversion Scheme	2,098,960	2,098,960
Bank Drafts Issued	76,947	397,558
Interest on refinancing facility	3,213,365	2,878,313
Deposit Insurance Fund	103,199	3,096
Economic Empowerment Programme	4,565,284	6,476,936
Miscellaneous Deposits	878,681	680,527
	205,321,743	**130,081,827**
External Payment Arrears – NBC	2,288,418	2,288,418
	207,610,161	**132,370,245**

Export Credit Guarantee Fund

This is a Fund established by the government under the Export Credit Guarantee Scheme, in a bid to promote exports. The Fund provides guarantees to commercial banks to cover risk of default in repaying the loans by their borrowers. As at 30 June 2009 the balance of TZS 33,150.0 million (2008 TZS 29,701.7 million) comprised of Government contribution, BOT contribution and investment in treasury bills amounting to TZS 18,000.0 million and TZS 1,500.0 million and TZS 13,650.0 million respectively which form part of the capital of the Fund. As at 30th June 2009 interest earned on treasury bills investments and guarantee fees amounted to TZS 3,448.3 million (2008:TZS 4,090.6 million).

23 DEPOSITS - OTHERS (Continued)

Development Finance Guarantee Fund

Development Finance Guarantee Fund is a fund, which was formed by the government of Tanzania with the purpose of financing development projects that manufacture products for export purposes. The guarantee issued will be for long-term period ranging from five years to twenty years. As at 30th June 2009 the fund had a balance of TZS 22,421.9 million(2008: TZS 22,138.8 million)

Debt Service Cash Cover

This is cash cover received by the Bank from the Government for the purpose of settlement of debts and other services in foreign currency.

TIB Structured Financing Facility

This relates to part of the credit facility to be availed to flower and vegetable export companies following request for government support by horticultural companies. The Bank of Tanzania and Tanzania Investment Bank are executing agencies.

Tegeta ESCROW TZS Sub Account

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 78,680.2 million as at 30th June 2009 (2008: TZS 48,327.0 million). TANESCO and IPTL are currently engaged in a dispute over the bills. As at 30th June 2009 arbitration proceedings between TANESCO and IPTL were yet to be settled and therefore no payment has been made to IPTL from the ESCROW account.

Debt Conversion Scheme

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.

	30.06.2009	30.06.2008
	TZS '000	TZS '000
24 FOREIGN CURRENCY FINANCIAL LIABILITIES		
IMF Multilateral Debt Relief Initiative Fund	108,673,511	162,435,716
Special Projects	230,408,251	171,537,243
Domestic Banks Foreign Currency Deposits	53,982,247	26,951,981
TIB Structured Financing Facility	-	126,974
Multilateral Agencies	3,515,623	4,380,629
Foreign Banks	59,856	59,855
Domestic Non Banks Foreign Currency Deposits	71,149	12,029
Other Foreign Currency Deposits	2,582,964	2,324,037
	399,293,601	**367,828,464**

24 FOREIGN CURRENCY FINANCIAL LIABILITIES (Continued)

Special Projects Funds

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

Other Foreign Currency Liabilities

Other Foreign Currency Liabilities include USD 22.1 million equivalent to TZS 28,729.2 million deposits from Tanzania National Electric Supply Company (TANESCO). The Bank is a signatory to an ESCROW arrangement between TANESCO Ltd and IPTL for power purchase payments in favor of IPTL. TANESCO and IPTL are currently engaged in a dispute over the bills. As at 30th June 2009 arbitration proceedings between TANESCO and IPTL were yet to be settled and therefore no payment has been made to IPTL from the ESCROW account.

Poverty Reduction and Budget Support

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

TIB Structured Financing Facility

This relates to part of the credit facility to be availed to flower and vegetable export companies converted into USD at the request of the involved parties because of the increasing trend of TZS depreciation against the USD. Bank of Tanzania and Tanzania Investment Bank are executing agencies.

Foreign Banks

Foreign Banks liabilities are non-interest bearing demand deposit accounts of foreign banks in the Bank's books of account (VOSTRO Accounts).

Local Banks Foreign Deposits

Local banks liabilities are non-interest bearing current account denominated in USD, maintained by the Bank for USD cheques clearing purposes.

	30.06.2009	30.06.2008
	TZS '000	TZS '000
25 POVERTY REDUCTION AND GROWTH FACILITY (PRGF)		
PRGF (IMF Drawings)	343,101,021	21,507,457
	343,101,021	21,507,457

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

This relates to funds disbursed by 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 fund attracts charges, which are repaid quarterly as charges on IMF drawings, which are borne by the Bank. The Government of United Republic of Tanzania (URT) has entered into an Exogenous Shocks Facility -(ESF) arrangement with the IMF for SDR 218.79 million, equivalent to USD 336.0 million. Such an arrangement was approved on 29th May 2009. Following approval the Bank had on 12 June 2009 received a total of SDR 159,200,000 (USD 245,767,568.01) equivalent to TZS 318,195.1 million being the first tranche. 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 30th June 2009 the balance of PRGF account was TZS 343,101.0 million (2008:TZS 21,507.5 million).

	30.06.2009 TZS '000	30.06.2008 TZS '000
26 REPURCHASE AGREEMENTS (REPOs)		
Repurchase Agreements	131,000,000	104,700,000
Accrued interest as at 30 June 2009	171,714	32,152
	131,171,714	**104,732,152**
27 BOT LIQUIDITY PAPERS		
BOT liquidity papers	989,437,942	1,117,116,936
Accrued interest as at 30 June 2009	45,522,902	50,588,983
	1,034,960,844	**1,167,705,919**

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, 2009 the maturities profile as follows:

	30.06.2009 TZS '000	30.06.2008 TZS '000
35-Day Treasury Bills	43,500,000	49,306,322
91-Day Treasury Bills	171,775,010	184,168,062
182-Day Treasury Bills	298,937,970	265,956,335
364-Day Treasury Bills	475,224,962	617,686,217
	989,437,942	**1,117,116,936**

28 PROVISIONS

Provision for leave pay	2,741,962	2,034,888
Provision for retirement benefits	2,131,855	2,341,065
Provision for legal expenses	97,000	-
	4,970,817	**4,375,953**

	30.06.2009	30.06.2008
	TZS '000	TZS '000

28 PROVISIONS (Continued)

Movements in provision

	30.06.2009 TZS '000	30.06.2008 TZS '000
Leave pay		
Carrying amount at the beginning of the period	2,034,888	2,741,118
Addition provision made during the period	707,074	-
Amount used during the period	-	(706,230)
Amount reversed during the period	-	-
Carrying amount at the end of the period	**2,741,962**	**2,034,888**
Retirement benefits		
Carrying amount at the beginning of the period	2,341,065	2,184,068
Addition provision made during the period	2,058,688	2,701,614
Amount used during the period	(2,267,898)	(2,544,617)
Amount reversed during the period	-	-
Carrying amount at the end of the period	**2,131,855**	**2,341,065**

29 OTHER LIABILITIES

	30.06.2009 TZS '000	30.06.2008 TZS '000
Accounts Payable	24,436,237	42,858,973
Accruals	1,267,144	1,523,334
Intermediary Account Payable	954,662	10,876,874
Stale Drafts Payable	92,680	25,878
Employees Tax Payable	212,995	202,359
Others	76,468	294,709
	27,040,186	**55,782,127**

30 NOTES AND COINS IN CIRCULATION

	30.06.2009 TZS '000	30.06.2008 TZS '000
Notes		
Notes Issued	6,362,199,881	2,819,299,312
Less: Notes in Custody	(4,714,153,386)	(1,400,524,073)
Notes in Circulation (A)	**1,648,046,495**	**1,418,775,239**
Coins		
Coins Issued	51,544,607	36,846,607
Less: Coins in Custody	(17,064,315)	(4,166,071)
Coins in Circulation (B)	**34,480,292**	**32,680,536**
	1,682,526,787	**1,451,455,775**

30 NOTES AND COINS IN CIRCULATION (Continued)

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 1,682,532.8 million is the face value of TZS 99,540.1 million representing bank notes that were phased out in 2003.These notes represent the liability of the Bank of Tanzania and exchangeable at the Bank counters.

31 GAIN/(LOSS)

During the year the realised and unrealised net foreign exchange revaluation gains amounted to TZS 119,945.9 million. This amount has been included in the income statement in determining the Bank's profit for the year in order to comply with the requirements of Accounting for the effects of changes in Foreign Exchange rates (IAS 21).

The foreign exchange revaluation gain of TZS 33,504.9 million has been transferred to Foreign Exchange Equalization Reserve in accordance with the Bank's policy and Section 18(4) of the Bank of Tanzania Act, 2006. The unrealised foreign exchange revaluation gain as at 30 June 2009 has been transferred to Foreign Currency Revaluation Reserve TZS 2,280.4

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Reconciliation of realized and unrealized foreign exchange		
Net Realized Foreign Exchange Revaluation (loss)/gain during the year	111,683,003	(87,293,626)
Add: Unrealized Foreign Exchange Revaluation (loss)/gain during the year	2,280,414	(5,982,532)
	113,963,417	**(93,276,158)**
Less: Opening balance	(5,982,532)	5,314,612
Net foreign exchange revaluation (loss)/gain during the year	**119,945,949**	**(98,590,770)**

32 FEES AND COMMISSION

Commission on Buying and Selling Foreign Currency	18,659,852	17,616,187
Bureau de Change Application Fees	170,800	47,500
Bureau de Change Registration Fees	49,150	15,600
Banks and Financial Institutions Applications/Licensing Fees	6,700	5,729
Bureau de Change Penalty Fees	62,784	14,926
Inter- bank Charges and Fees (TISS)	320,317	311,241
Tender Application Fees	5,479	19,150
	19,275,082	**18,030,333**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

	30.06.2009	30.06.2008
	TZS '000	TZS '000
33 OTHER INCOME		
Foreign Operations		
Realized Gains on De-recognition of Available for Sale	30,502,383	11,887,281
Income from Equity Investment	78,335	55,973
Miscellaneous Income	5,516,167	1,545,608
	36,096,885	**13,488,862**
Domestic Operations		
Income – Domestic Operations	366,582	500,117
Income from sale of Government Securities	1,972,110	
Rental Income Staff Quarters	446,273	176243
Income on Hostel Accommodation	40,276	43,078
Income on Cafeteria Operations	23,826	19,294
Miscellaneous Income	675,896	269,485
	3,524,963	**1,008,217**
	39,621,848	**14,497,079**

	30.06.2009	30.06.2008
	TZS '000	TZS '000
34 ADMINISTRATIVE EXPENSES		
Board Expenses	791,101	648,821
Transport and Traveling Expenses	5,402,835	3,717,560
Maintenance - Computer, Software and Related Expenses	4,539,692	3,724,117
Maintenance - Furniture, Machinery and Equipment	627,400	812,455
Maintenance - Bank Premises	4,276,444	2,419,438
Legal and Investigation expenses	561,102	1,753,338
Audit Fees 2008/09	671,943	-
Audit Fees 2007/08	563,536	651,810
Special Audit and Related Expenses	333,880	873,523
Fees, Rates and Security Expenses	2,393,578	2,102,762
Water and Electricity	3,877,970	2,071,063
Telecommunication and Postage	1,896,197	1,268,523
Printing, Stationery and Office Supplies	1,303,353	1,538,190
Meetings, Conferences and Seminars	3,808,328	2,869,820
Reclassification of capitalized items***	-	546,587
Hospitality	251,985	149,677
Budget and Annual Accounts Preparation Expenses	369,530	298,937
Insurance expenses	1,064,021	1,974,341
Other Administrative Expenses	1,936,649	2,184,789
	34,669,544	**29,605,751**

*** A total of TZS 1,445.3 million under Note 19 includes TZS 546.5 million reclassification relates to administration expenses

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

	30.06.2009	30.06.2008
	TZS '000	TZS '000
35 CURRENCY ISSUE AND RELATED EXPENSES		
Notes Printing and Related Expenses (see Note 17)	49,887,804	51,883,141
Coins Minting and Related Expenses (see Note 17)	3,955,620	1,020,892
Cost of notes and coins issued in circulation	53,843,424	52,904,033
Currency Transport, Storage and Handling	206,517	156,130
Maintenance of Currency Machines	3,427,213	2,936,783
Other Currency Expenses	528,995	426,199
	58,006,149	**56,423,145**

The amount of TZS 49,887.8 million and TZS 3,955.6 million in respect of notes printing and related expenses 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 206.5 million and TZS 528.9 million are in respect of inland currency distribution expenses that include; transportation, handling, storage, and other related expenses incurred and recognized in the income statement during the current financial year.

A total of TZS 3,427.2 million (2008: TZS 2,936.8 million)was incurred during the year in respect of currency machines maintenance expenses.

	30.06.2009	30.06.2008
	TZS '000	TZS '000
36 PERSONNEL EXPENSES		
Staff Salaries and Allowances	38,794,558	29,545,348
Contribution to PPF Scheme	4,370,831	3,620,221
Contribution to NSSF Scheme	624,416	571,020
Staff Medical Expenses	2,478,216	2,851,056
Staff Training Expenses	2,878,560	2,012,310
Staff Uniforms Expenses	86,247	106,256
TUICO and Worker's Council Expenses	886,764	619,855
Course Functions & Field trips Expenses	18,496	19,784
Travel on Leave Expenses	3,120,294	1,321,921
Retirement Expenses	2,346,074	2,544,617
Condolence, Survivors' Benefits and Related Expenses	276,917	242,909
Motor Vehicles Expenses	1,007,227	639,435
Long Term Service Awards	54,000	21,000
Management Car Maintenance Expenses	1,566,403	1,276,690
Furniture Grant Expenses	441,519	408,562
HR Planning Policies Expenses	200,983	248,909
Cafeteria Expenses	394,752	235,528
	59,546,257	**46,285,421**

37 OTHER EXPENSES

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Foreign operations		
Charges on IMF Drawings	1,069,345	2,131,911
Foreign Currency Management Expenses	1,382,871	1,459,639
Financial Markets Development Expenses	19,600	55,604
Commission and Fees on Foreign Operations	82,444	43,346
Realized Losses on De-recognition of Available for Sale financial investment	8,403,162	5,232,248
Cross Rates Losses	-	744,030
Amortized Premium	966,209	1,383,201
Miscellaneous Expenses	7,634	7,567
	11,931,265	**11,057,546**
Domestic operations		
Contributions and Subscriptions		
- Contribution to Professional Associations, Charities	937,214	1,743,058
- Contribution to National Development Programs/Projects	1,531,389	1,134,626
- Subscriptions	41,148	38,433
	2,509,751	**2,916,117**
Cheques Printing	176,314	145,748
Contractors All Risks and Professional Indemnity Insurance	-	505,693
	176,314	**651,441**
	14,617,330	**14,625,104**

Analysis of Contributions and Subscriptions (Note 37)	30.06.2009	30.06.2008
	TZS '000	TZS '000
African Association of Central Banks and African Rural and Agriculture Credit Association	13,957	19,249
National Board of Accountants and Auditors and National Board of Materials Management	38,428	34,332
Tanzania Institute of Bankers	360,200	352,200
Deposit Insurance Board	191,355	253,182
Dar es Salaam Commercial Court	200,000	-
Second Generation of Financial Sector Reforms	490,947	641,495
Monetary and Economic Financial Management Institute	338,034	292,158
Capital Markets and Securities Authority	400,000	350,000
Associations and Charities	461,761	461,335
National Economic Empowernment Program	-	493,130
Others	15,069	19,036
	2,509,751	**2,916,117**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

	30.06.2009	30.06.2008
	TZS '000	TZS '000
38 IMPAIRMENT LOSSES		
Property and Equipment (Note 19)	-	31,590
Intangible Assets (Note 20)	5,508	22,691
Loans and Receivables (Note 16)	4,702,261	
Other assets (Note 18)	44,755	237,961
	4,752,524	**292,242**

39 EXCEPTIONAL ITEM

Release of EPA impairment losses	135,745,071	-

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 perfoming, the Government has effective 1st August 2008 reissued the two EPA Special Stocks, reviewed their tenures and attached annual coupons. Accordingly, the impairment loss aggregating to TZS 135,745.0 million has been reversed in 2008/09.

	30.06.2008	30.06.2007
	TZS '000	TZS '000
40 PRIOR YEAR ADJUSTMENT		
Contractors All Risks Insurance and Professional Indemnity Insurance	-	1,868,301
	-	1,868,301

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

	30.06.2009	30.06.2008
	TZS '000	TZS '000
41 CASH (USED BY)/ GENERATED FROM OPERATIONS		
Net Profit/(Loss) for the Year	**203,339,443**	**(96,484,013)**
Depreciation of property and equipment, transfers and impairment	28,216,343	19,795,338
Amortisation of intangible assets and impairment	2,392,055	2,194,615
Adjustment for non cash exceptional item	(135,745,071)	-
Mark to market for available for sale securities recognized in equity	70,845,909	11,597,766
Release of Impairment loss previously recognized in equity	-	63,153,366
Amortisation of capital grant	(22,624)	(22,380)
Recovery against staff housing fund	383,235	(92,897)
Net loss on Disposal of property and equipment	159,234	502,156
Unrealized Foreign Exchange Gains	(5,982,532)	5,982,532
Reclassification of capitalized items (Note 19)	-	1,445,319
Provision for Impairment	4,752,524	292,242
(Increase)/Decrease in fair value of equity investment	(142,182)	104,892
Share of Loss of Associate Company	-	31,887
Bad debts written off	20,472	107,592
Net Cash Generated from Operating Activities	**168,216,807**	**8,608,414**
Changes in Working Capital		
Increase/(Decrease) in Loans and receivables, other assets and deferred currency cost	74,090,220	(116,863,088)
Increase in Inventories	(130,384)	(120,488)
Decrease/(Increase) in Accommodation to Banks	6,028,731	(6,868,599)
Decrease in Other Liabilities	(28,306,311)	(108,305,442)
Net Changes in Working Capital	**51,682,256**	**(232,157,617)**
Cash generated from/(used by) operations	**219,899,063**	**(223,549,203)**

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.

43 RESERVES

General Reserve	216,132,794	73,628,286
Capital Reserve	99,284,748	99,307,372
Foreign Exchange Equalization Reserve	140,716,879	113,194,510
Reserve for Capital Projects	20,000,000	-
Staff Housing Fund	19,611,198	15,848,244
Assets Revaluation Reserve	73,773,032	73,773,032
Securities Revaluation Reserve	65,817,736	(5,028,173)
Foreign Currency Revaluation Reserve	2,280,414	(5,982,532)
Reserve for Dividends	1,669,901	18,838,877
	639,286,701	**383,579,616**

43. 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 2009 the reserve had a balance of TZS 216,132.8 million (2008: TZS 73,628.3 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 2009 the reserve had a balance of TZS 99,284.7 million (2008: TZS 99,307.3 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 2009 the total amount standing at the credit of the Foreign Exchange Equalization Reserve amounted to TZS 140,716.9 million (2008:TZS 113,194.5 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, 2009 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. During the year, the amount appropriated was 5% of the distributable profit. As at 30 June 2009, the fund had a balance of TZS 19,611.2 million (2008: TZS 15,848.2 million) that include loans from the Bank and interest on fund's investments.

43. RESERVES (Continued)

f. Assets Revaluation Reserve

The Bank maintains Assets Revaluation Reserve to account for revaluation surpluses or deficits. To ensure compliance with requirement of International Accounting Standards (IAS 16), if an asset carrying amount increases as a result of revaluation, the increase is credited directly to Asset Revaluation Reserve. However, the increase is recognized in income statement to the extent that it reverses a revaluation decrease of the same asset previously recognized in income statement. If an asset's carrying amount decreases as a result of revaluation, the decrease is recognized in income statement. However, the decrease is debited directly to Assets Revaluation Account to the extent of any credit balance existing in the revaluation surplus in respect of that asset. As at 30 June 2009, 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 directly to equity. When these financial assets are sold, collected or otherwise disposed of, the cumulative gains or losses recognized in equity are transferred to the income statement. As at 30 June 2009 the reserve had a credit balance of TZS 65,817.7 million (2008: TZS 5,028.2 million debit balance).

h. Foreign Currency Revaluation Reserve

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

Both realized and unrealized gains and losses are therefore taken to income statement for purposes of computation of profit 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 2009 the reserve had TZS 2,280.4 million (2008: TZS 5,928.5 million debit balance).

44. RISK MANAGEMENT

44.1 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.

44. RISK MANAGEMENT (Continued)

44.1 Introduction (Continued)

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. 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

44. RISK MANAGEMENT (Continued)

Strategy in using financial instruments (Continued)

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.

44.2 Risk Management Structure

44.2.1 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.

44.2.2 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.

44.2.3 Strategic Planning and Performance Review Function

The Strategic Planning and Performance Review Function are 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.

44.2.4 Financial Markets Function

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

44.2.5 Internal Audit Function

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

44.3. 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.

44. RISK MANAGEMENT (Continued)

44.3 Risk measurement and reporting systems (Continued)

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, Foreign Exchange market, interbank cash market, reserve money, daily liquidity forecast, government revenue and expenditure, utilization of market limits and any other risk developments.

44.4 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.

44.5 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

44. RISK MANAGEMENT (Continued)

44.6 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.

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.

44 RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

a) Credit Risk (Continued)

Total assets of the Bank exposed to credit risk as of 30 June 2009 and 30 June 2008 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).

	30.06.2009		30.06.2008	
	TZS '000	**TZS Share (%)**	**TZS '000**	**TZS Share (%)**
Due from banks				
Deposits				
Central Banks(AAA)	648,802,333	12.8%	103,275,201	2%
Foreign Commercial Banks	20,606,572	0.4%	793,071,661	18%
F1+	20,606,572		749,052,819	
F1			11,843,960	
NR			32,174,882	
Loans and Receivables	193,749,557	3.8%	459,093,391	10%
Investment securities	402,882,7731		2,758,236,949	
Available for sale	2,795,616,000	55.4%	1,961,350,127	44%
AAA	2,543,208,315		1,877,609,299	
AA+	111,301,422		40,071,215	
AA	102,480,452			
A+	38,625,811		43,669,613	
N/R				
Trading-AAA	324,732,332	6.4%	270,079,776	6%
Held to maturity	908,479,399	18.0%	526,807,045	12%
Others	168,288,092	3.2%	316,640,041	9%
Total	**5,039,667,713**	**100%**	**4,079,294,934**	**100%**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

44. RISK MANAGEMENT (Continued)

44.6 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	-	-	101,784,720	-	-	648,802,333
Commercial Banks	-	-	-	20,606,572	-	-	20,606,572
Loans and Receivables	-	-	193,749,557	-	-	-	193,749,557
Investment in securities							
Financial Assets Held for Trading	-	-	324,732,333	-	-	-	324,732,333
Foreign Currency Marketable securities-Available for Sale	1,778,816,150	394,136,567	-	251,911,340	370,751,943	-	2,795,616,000
Government Securities - Held to Maturity	-	-	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**	**759,037,545**	**776,684,564**	**370,751,943**	**823,290,204**	**5,449,734,586**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

44. RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

a) Credit Risk (Continued)

The sectoral classification of the Bank`s credit exposure as of 30 June 2008 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
2008							
Due from banks							
Central Banks	-	-	-	103,275,201	-	-	103,275,201
Commercial Banks	-	-	-	793,062,418	-	-	793,062,418
Loans and Receivables	-	-	459,093,391	-	-	-	459,093,391
Investment in Securities							
Financial Assets -Held for Trading	-	-	-	270,079,776	-	-	270,079,776
Foreign Currency Marketable Securities-Available for Sale	1,257,139,668	637,039,497	-	40,413,629	26,757,333	-	1,961,350,127
Government Securities - Held to Maturity	-	-		-	-	526,807,045	526,807,045
Others	-	-	91,670,634	383,540,978	-	-	475,211,612
Total	**1,257,139,668**	**637,039,497**	**550,764,025**	**1,590,372,002**	**26,757,333**	**526,807,045**	**4,588,879,570**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

44 RISK MANAGEMENT (Continued)

44.6 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	USA	UK	Other European Countries	Other Countries	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets						
Cash Balances with Central Banks	-	417,382,025	45,503,574	184,696,769	1,219,964	648,802,332
Demand & Time Deposits with Commercial Banks and Notes and Coins	1,042,752	4,871,632	12,290,811	2,144,507	256,871	20,606,573
Accommodation to banks	3,165,875	-	-	-	-	3,165,875
Holdings of Special Drawing Rights (SDRs)	-	148,684	-	-	-	148,684
Financial Assets Held for Trading	-	324,732,333	-	-	-	324,732,333
Foreign Currency Marketable Securities-Available for Sale	-	1,283,785,886	1,399,731,061	68,347,550	43,751,502	2,795,616,000
Equity investments Available for Sale	-	-	-	-	1,559,262	1,559,262
Government securities - Held to Maturity	908,479,399	-	-	-	-	908,479,399
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
Loans and Receivables	193,749,557	-	-	-	-	193,749,557
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	**2,070,267,192**	**2,431,594,546**	**1,457,525,446**	**255,188,826**	**46,787,599**	**6,261,363,610**
Liabilities						
Deposits - banks and non-banks financial institutions	995,959,123	-	-	-	-	995,959,123
Deposits - Governments	251,709,847	-	-	-	-	251,709,847
Deposits - others	207,610,161	-	-	-	-	207,610,161
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
Notes and coins in circulation	1,682,526,787	-	-	-	-	1,682,526,787
Shareholders equity	739,286,701	-	-	-	-	739,286,701
Total liabilities and equity	**5,817,630,802**	**443,732,808**	-	-	-	**6,261,363,610**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

44 RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

a) Credit Risk (Continued)

Geographical analysis of concentrations of assets and liability of the Bank as of 30 June 2008 is as follows:

2008	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	-	66,704,732	7,320,223	29,147,597	102,648	103,275,200
Demand, Foreign Currency Notes & Coins & Time Deposits with Commercial Banks	597,713	99,209,049	295,858,243	387,272,217	10,134,439	793,071,661
Accommodation to banks	9,194,606	-	-	-	-	9,194,606
Holdings of Special Drawing Rights (SDRs)	-	174,498	-	-	-	174,498
Financial Assets Held for Trading	-	270,079,776	-	-	-	270,079,776
Foreign Currency Marketable Securities-Available for Sale	-	744,737,070	1,071,988,317	132,532,642	12,092,098	1,961,350,127
Equity investments Available for Sale	-	-	-	-	1,417,080	1,417,080
Government securities - Held to Maturity	526,807,045	-	-	-	-	526,807,045
Inventories	4,631,310	-	-	-	-	4,631,310
Quota in International Monetary Fund (IMF)	-	381,949,400	-	-	-	381,949,400
Loans and Receivables	342,235,095	-	-	-	-	342,235,095
Deferred Currency Cost	8,532,190	-	-	-	-	8,532,190
Other assets	73,943,838	-	-	-	-	73,943,838
Property, plant and equipment	774,706,335	-	-	-	-	774,706,335
Intangible assets	8,914,667	-	-	-	-	8,914,667
Total Assets	**1,749,562,799**	**1,562,854,525**	**1,375,166,783**	**548,952,456**	**23,746,265**	**5,260,282,828**
Liabilities						
Deposits - banks and non-banks financial institutions	628,064,443	-	-	-	-	628,064,443
Deposits - Governments	414,199,089	-	-	-	-	414,199,089
Deposits - others	132,370,244	-	-	-	-	132,370,244
Foreign currency financial liabilities	367,828,464	-	-	-	-	367,828,464
Poverty Reduction and Growth Facility	21,507,457	-	-	-	-	21,507,457
Repurchase agreements	104,732,152	-	-	-	-	104,732,152
BoT liquidity papers	1,167,705,919	-	-	-	-	1,167,705,919
Other liabilities	55,782,127	-	-	-	-	55,782,127
Provisions	4,375,953	-	-	-	-	4,375,953
IMF related liabilities	-	368,437,666	-	-	-	368,437,666
Allocation of Special Drawing Rights (SDRs)	-	60,243,925	-	-	-	60,243,925
Notes and coins in circulation	1,451,455,775		-	-	-	1,451,455,775
Shareholders equity	483,579,614		-	-	-	483,579,614
Total liabilities and equity	**4,831,601,237**	**428,681,591**	-	-	-	**5,260,282,828**

44. RISK MANAGEMENT (Continued)

44.6 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.

30.06.2009

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
Foreign currency marketable securities –Available for Sale	2,795,616,000	-	-	2,795,616,000
Financial assets Held for Trading	324,732,333	-	-	324,732,333
Government Securities Held to Maturity	908,479,399	-	-	908,479,399
Investment in Associate Company	-	-	253,893	253,893
Equity Investment	1,559,262	-	-	1,559,262
Loans and Receivables	208,863,781	96,744	4,702,261	213,662,786
Other assets	37,834,975	-	44,755	37,879,730
Total	**4,946,494,655**	**96,744**	**5,000,909**	**4,951,592,308**

30.06.2008

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	896,346,861	-	-	896,346,861
Foreign currency marketable securities –Available for Sale	1,961,350,127	-	-	1,961,350,127
Financial assets Held for Trading	270,079,776	-	-	270,079,776
Government Securities Held to Maturity	526,807,046	-	-	526,807,046
Investment in Associate Company	-	-	253,893	253,893
Equity Investment	1,417,080	-	-	1,417,080
Loans and Receivables	342,032,824	202,271	11,121,528	353,356,623
Other assets	73,943,838	-	135,745,071	209,688,909
Total	**4,071,977,552**	**202,271**	**147,120,492**	**4,219,300,315**

44 RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

a) Credit Risk (Continued)

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)

Details	Gross Maximum Exposure 30.06.2009	Gross Maximum Exposure 30.06.2008
	TZS '000	TZS '000
Cash and cash equivalent	669,408,905	896,346,861
Foreign currency marketable securities – Available for Sale	2,795,616,000	1,961,350,127
Financial assets Held for Trading	324,732,333	270,079,776
Government Securities Held to Maturity	908,479,399	526,807,046
Investment in Associate Company	253,894	253,894
Equity Investment	1,559,262	1,417,080
Loans and Receivables	193,749,557	342,235,095
Other Assets	37,879,730	73,943,838

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 balance sheet. As a result, assets-liabilities management may not be effective. Thus to manage this risk, the Bank divides its foreign exchange reserves into Liquidity, Investment and Stable trenches. The liquidity tranche is intended to meet both anticipated and unanticipated monthly cash outflows requirements thus matching both on and off balance sheet 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 balance sheet date to contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

44 RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

b) Liquidity risk (Continued)

2009	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000	Over 5 Years TZS '000	Total TZS '000
Assets						
Cash and cash equivalent	651,562,416	17,846,489	-	-	-	669,408,905
Accommodation to Banks	3,165,875	-	-	-	-	3,165,875
Holdings of Special Drawing Rights (SDRS)	-	-	148,684	-	-	148,684
Financial Assets Held for trading	6,633,318	-	23,388,260	289,197,307	5,513,447	324,732,332
Foreign currency marketable securities-Available for Sale	13,294,657	8,630,018	308,534,126	1,891,227,054	573,930,145	2,795,616,000
Equity Investment Available for Sale	-	-	-	-	1,559,262	1,559,262
Government securities - Held to Maturity	-	-	-	328,398,702	580,080,697	908,479,399
Inventories	-	-	4,761,694	-	-	4,761,694
Investment in associate Company	-	-	-	-	1	1
Quota in International Monetary Fund	-	-	-	-	400,673,986	400,673,986
Loans and Receivables	706,856	-	120,491,603	72,551,098	-	193,749,557
Deferred Currency Cost	-	-	114,320,855		-	114,320,855
Other Assets	503,261	-	33,838,898	3,537,571	-	37,879,730
Property and Equipment	-	-	29,609,304	79,218,608	686,280,816	795,108,728
Intangible Assets	-	-	-	-	11,758,602	11,758,602
Total assets	**675,866,383**	**26,476,507**	**635,093,424**	**2,664,130,340**	**2,259,796,956**	**6,261,363,610**
Liabilities						
Deposit Banks and Non Banks Financial Institutions	663,972,749	-	331,986,374	-	-	995,959,123
Deposit Governments	82,839,818	103,549,772	43,015,106	22,305,151	-	251,709,847
Deposit Others	3,982,639	76,947	-	200,386,497	3,164,078	207,610,161
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
Other Liabilities	6,255,893	12,744,830	5,132,829	2,863,224	43,410	27,040,186
Provisions	-	-	4,970,817	-	-	4,970,817
IMF Related Liabilities	-	-	-	-	380,535,501	380,535,501
Allocation of SDRs	-	63,197,307	-	-	-	63,197,307
Notes and Coins Issued	-	-	-	-	1,682,526,787	1,682,526,787
Authorized and Paid up Capital	-	-	-	-	100,000,000	100,000,000
Reserves	-	-	-	-	639,286,701	639,286,701
Total Equity and Liabilities	**987,217,689**	**351,421,075**	**1,548,526,413**	**568,641,955**	**2,805,556,478**	**6,261,363,610**
Net Liquidity gap	**398,314,352**	**(653,342,598)**	**(1,070,196,421)**	**2,138,766,804**	**193,543,032**	**-**
Cumulative gap	**398,314,352**	**(255,028,246)**	**(1,325,224,667)**	**813,542,138**	**1,007,085,170**	**-**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

44 RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

b) Liquidity risk (Continued)

2008	Up to 1 Month TZS '000	From 1 to 3 Months TZS '000	From 3 to 12 Months TZS '000	From 1 to 5 Years TZS '000	Over 5 Years TZS '000	Total TZS '000
Assets						
Cash and cash equivalent	896,346,861	-	-	-	-	896,346,861
Accommodation to Banks	9,194,606	-	-	-	-	9,194,606
Holdings of Special Drawing Rights (SDRs)	-	-	174,498	-	-	174,498
Foreign currency marketable securities-Available for Sale	-	-	5,093,309	873,704,988	1,082,551,830	1,961,350,127
Financial Assets Held for trading		3,588,521	5,955,250	260,536,005		270,079,776
Government securities - Held to Maturity	-	-	-	258,696,660	268,110,385	526,807,045
Inventories	-	-	4,631,310	-	-	4,631,310
Equity Investments	-	-	-	-	1,417,080	1,417,080
Quota in International Monetary Fund	-	-	-	-	381,949,400	381,949,400
Loans and Receivables	698,400		135,334,101	202,898,486	3,304,108	342,235,095
Deferred Currency Cost			8,532,190			8,532,190
Other Assets	1,545,396	-	35,415,901	36,982,541	-	73,943,838
Property and Equipment	-	-	29,609,304	79,218,608	665,878,423	774,706,335
Intangible Assets	-	-	-	-	8,914,667	8,914,667
Total assets	**907,785,263**	**3,588,521**	**224,745,863**	**1,712,037,288**	**2,412,125,893**	**5,260,282,828**
Liabilities						
Deposit Banks and Non Banks Financial Institutions	-	-	628,064,443	-	-	628,064,443
Deposit Governments	82,839,818	103,549,772	124,259,727	103,549,772	-	414,199,089
Deposit Others	-	89,779,155	-	42,591,090	-	132,370,245
Foreign Currency Financial Liabilities	29,518,423	176,572,386		161,737,655	-	367,828,464
Poverty Reduction and Growth Facility			21,507,457			21,507,457
Repurchase Agreements	104,732,152	-	-	-	-	104,732,152
BOT Liquidity Papers	49,306,322	184,168,062	934,231,535	-	-	1,167,705,919
Other Liabilities	11,079,233	42,642,124	2,034,889	25,879	-	55,782,125
Provisions		4,375,953				4,375,953
IMF Related Liabilities	-	-	-	-	368,437,666	368,437,666
Allocation of SDRs	-	60,243,925	-	-	-	60,243,925
Notes and Coins Issued	-	-	-	-	1,451,455,775	1,451,455,775
Authorized and Paid up Capital	-	-	-	-	100,000,000	100,000,000
Reserves	-	-	-	-	383,579,615	383,579,615
Total Equity and Liabilities	**277,475,948**	**682,773,837**	**1,688,093,014**	**308,401,975**	**2,304,236,097**	5,260,282,828
Net Liquidity gap	**633,613,423**	**(682,773,837)**	**(1,648,584,593)**	**1,591,550,019**	**105,496,946**	-
Cumulative gap	**633,613,423**	**(49,160,414)**	**(1,697,745,007)**	**(106,194,988)**	**(698,042)**	-

44. RISK MANAGEMENT (Continued)

44.6 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 2009 portfolio duration stood at 2.6 years while that of 30 June 2008 was 1.28 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	**30.06.2009**		**30.06.2008**	
Positions of securities	175	175	167	167
Base currency	**USD**	**TZS '000**	**USD**	**TZS '000**
Market value of Available for Sale financial instruments	2,151,491,833	2,795,616,000	1,884,946,779	1,961,350,127
Financial assets held for trading	249,912,349	324,732,333	228,706,728	270,079,776
Money Markets placements	340,063,540	441,873,429	636,755,468	751,944,532
Duration	2.6 years	2.6 years	1.68 years	613 days
Spread Duration	0.73years	0.73 years	0.80 years	291 days

44. RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

c) Interest Rate Risk (Continued)

The tracking errors and VaR was as per breakdown below

Details	30.06.2009		30.06.2008	
	USD	TZS '000	USD	TZS '000
Monthly Tracking Error	17,536,737	22,786971	13,163,963	15,545,324
95% Monthly VaR	(28,467,564)	(36,990,323)	(21,652,793)	(25,569,783)

Price value of 1 BPS in USD

Details	30.06.2009		30.06.2008	
	USD	TZS '000	USD	TZS '000
USD	273,674	355,608	274,866.00	324,589
EUR	177,983	326,525	127,213.17	150,226
GBP	92,388	199,616	20,467.98	24,171
Total	**544,046**	**881,476**	**422,547.15**	**498,986**

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	30.06.2009		30.06.2008	
	USD	TZS '000	USD	TZS '000
USD	102,294	132,919	154,054.00	181,922
EUR	24,695	45,266	37,394.46	44,159
GBP	21,101	45,591	11,116.23	13,127
Total	**148,090**	**223,776**	**202,564.69**	**239,208**

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.

30.06.2009 (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)	(9,272,154.71)
20	(6,316,652)	(4,996,704)	(2,920,588)	(14,233,944)	(18,495,371.52)
30	(9,456,229)	(7,471,131)	(4,367,331)	(21,294,692)	(27,670,001.17)

44. RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

c) Interest Rate Risk (Continued)

30.06.2008 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	(3,846,653.61)	(1,275,086.97)	(204,411.45)	(5,326,152.03)	(6,289,653)
20	(7,676,857.04)	(2,544,538.83)	(408,005.64)	(10,629,401.51)	(12,552,260)
30	(11,490,704.33)	(3,808,389.11)	(610,786.77)	(15,909,880.21)	(18,787,978)

Yield decrease in 1 BPS

30.06.2009 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	3,177,208.19	2,522,542.25	1,473,987.27	7,173,737.71	9,321,446.45
20	6,367,094.80	5,061,390.48	2,957,199.57	14,385,684.85	18,692,541.68
30	9,569,728.03	7,616,680.72	4,449,709.92	21,636,118.67	28,113,645.90

30.06.2008 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	Total TZS '000
10	3,863,198.52	1,280,755.85	205,232.92	5,349,187.29	6,316,855
20	7,743,037.35	2,567,214.60	411,291.54	10,721,543.49	12,661,071
30	11,639,612.54	3,859,410.52	618,180.15	16,117,203.21	20,441,610

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.

30.06.2009 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(5,898,800.85)	(1,330,282.96)	(1,660,379.04)	(8,889,462.84)	(11,550,833.79)
Curve Steepening by 50	(607,472.04)	(4,172,941.84)	(2,598,893.85)	(7,379,307.73)	(9,588,561.04)
Curve Flattening by 50	652,920.20	4,263,918.13	2,650,000.44	7,566,838.76	9,832,236.03

30.06.2008 (Amounts in USD equivalent)

BPS	USD	EUR	GBP	Total USD	TZS '000
Spread widening by 50	(9,514,725.00)	(1,270,524.08)	(551,180.70)	(11,336,429.78)	(13,387,190)
Curve Steepening by 50	(1,416,641.00)	(108,453.00)	64,718.00	(1,460,376.00)	(1,724,558)
Curve Flattening by 50	1,460,397.00	115,408.00	(64,335.00)	1,511,470.00	1,784,895

44. RISK MANAGEMENT (Continued)

44.6 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 2009 and 2008 which provides the Bank's assets, liabilities and equity at carrying amounts, categorized by currency is summarized below.

44. RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

d) Currency risk (Continued)

2009	GBP	USD	EUR	SDR	TZS	OTHERS	Total
	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
Accommodation to banks	-	-	-	-	3,165,875	-	3,165,875
Holdings of Special Drawing Rights (SDRs)	-	-	-	148,684	-	-	148,684
Financial Assets - Held for Trading	-	324,732,332	-	-	-	-	324,732,332
Foreign currency marketable securities-Available for Sale	462,140,644	1,495,460,769	838,014,587	-	-	-	2,795,616,000
Equity Investments Available for Sale	-	1,559,262	-	-	-	-	1,559,262
Government securities - Held to Maturity	-	-	-	-	908,479,399	-	908,479,399
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
Loans and Receivables	-	-	-	-	193,749,557	-	193,749,557
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**	**2,069,224,440**	**1,586,322**	**6,261,363,610**
Liabilities							
Deposit banks and non-banks financial institutions	-	-	-	-	995,959,123	-	995,959,123
Deposit - Governments	-	-	-	-	251,709,847	-	251,709,847
Deposit - others	-	-	-	-	207,610,161	-	207,610,161
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
Notes and Coins in circulation	-	-	-	-	1,682,526,787	-	1,682,526,787
Total liabilities	**-**	**380,535,501**	**-**	**406,298,328**	**4,733,133,497**	**2,109,583**	**5,522,076,909**
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	-	722,745,381	11,556,055	60,243,925	4,442,963,357	23,472,153	6,261,363,610
Net balance sheet position	**512,783,801**	**1,532,762,651**	**1,009,882,290**	**340,578,745**	**(2,373,738,916)**	**(21,885,831)**	-
Scenario of 10.06% appreciation	**51,586,050**	**154,195,923**	**101,594,158**	**34,262,222**	**(238,798,135)**	**(2,201,715)**	

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

44. RISK MANAGEMENT (Continued)

44.6 Financial Risks (Continued)

d) Currency risk (Continued)

	GBP	USD	EUR	SDR	TZS	OTHERS	Total
2008	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets							
Cash and cash equivalent	319,728,954	335,279,186	230,333,012	-		11,005,709	896,346,861
Accommodation to banks	-	-	-	-	9,194,606	-	9,194,606
Holdings of Special Drawing Rights (SDRs)	-	-	-	174,498		-	174,498
Financial Assets - Held for Trading		270,079,776					270,079,776
Foreign currency marketable securities-Available for Sale	93,218,105	1,252,426,607	615,705,415	-		-	1,961,350,127
Equity Investments Available for Sale	-	1,417,080	-			-	1,417,080
Government securities - Held to Maturity	-	-	-	-	526,807,045	-	526,807,045
Inventories	-	-	-	-	4,631,310	-	4,631,310
Investment in associate Company	-	-	-	-	1	-	1
Quota in International Monetary Fund (IMF)	-	-	-	381,949,400		-	381,949,400
Loans and Receivables		10,887,193			331,347,902		342,235,095
Deferred Currency Cost					8,532,190		8,532,190
Other Assets	-		-	-	73,943,838	-	73,943,838
Property and Equipment	-	-	-	-	774,706,335	-	774,706,335
Intangible Assets	-	-	-	-	8,914,667	-	8,914,667
Total assets	**412,947,059**	**1,870,089,842**	**846,038,427**	**382,123,898**	**1,738,077,894**	**11,005,709**	**5,260,282,829**
Liabilities							
Deposit banks and non-banks financial institutions	-	-	-	-	628,064,443	-	628,064,443
Deposit - Governments	-	-	-	-	414,199,089	-	414,199,089
Deposit - others	-	-	-	-	132,370,245	-	132,370,245
Foreign currency financial liabilities	-	332,800,258	11,556,055	-	-	23,472,151	367,828,464
Poverty Reduction and Growth Facility	-	21,507,457	-	-	-	-	21,507,457
Repurchase Agreements	-	-	-	-	104,732,152	-	104,732,152
BOT Liquidity Papers	-	-	-	-	1,167,705,919	-	1,167,705,919
Provisions			-	-	4,375,953		4,375,953
Other Liabilities	-	-	-	-	55,782,126	-	55,782,126
IMF Related Liabilities	-	368,437,666	-	-	-	-	368,437,666
Allocation of Special Drawing Rights (SDRs)	-	-	-	60,243,925	-	-	60,243,925
Notes and Coins in circulation	-	-	-	-	1,451,455,775	-	1,451,455,775
Total liabilities	-	**722,745,381**	**11,556,055**	**60,243,925**	**3,958,685,702**	**23,472,151**	**4,776,703,214**
Equity	-	-	-	-	100,000,000	-	100,000,000
Reserves	-	-	-	-	383,579,614	-	383,579,615
Total equity	-	-	-	-	**483,579,615**	-	**483,579,615**
Total equity and liabilities	-	**722,745,381**	**11,556,055**	**60,243,925**	**4,442,963,357**	**23,472,153**	**5,260,282,829**
Net balance sheet position	**412,947,059**	**1,146,794,271**	**834,482,372**	**321,879,973**	**(2,704,335,272)**	**(12,466,444)**	-
Scenario of 8.5% appreciation	**35,100,500**	**97,477,513**	**70,931,002**	**27,359,798**	**(229,868,498)**	**(1,059,648)**	

44. RISK MANAGEMENT (Continued)

44.7 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.

44. RISK MANAGEMENT (Continued)

44.7 Non Financial Risks (Continued)

(d) Reputational Risk

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

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

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.

45 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	Profit or loss/Held for trading	Available for sale	Other Financial Liabilities	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
2009							
Financial assets							
Cash and cash equivalent	669,408,905	-	-	-	-	669,408,905	669,408,905
Accommodation to banks	3,165,875					3,165,875	3,165,875
Holdings of Special Drawing Rights (SDRs)	-	-	-	148,684	-	148,684	148,684
Financial Assets Held for Trading	-	-	324,732,333	-	-	324,732,333	324,732,333
Foreign Currency Marketable Securities available for sale	-	-	-	2,795,616,000	-	2,795,616,000	2,795,616,000
Equity investments available for sale	-	-	-	1,559,262	-	1,559,262	1,559,262
Government securities- held to maturity	-	908,479,399	-	-	-	908,479,399	908,479,399
Quota in International Monetary Fund (IMF)	-	-	-	400,673,986	-	400,673,986	400,673,986
Loans and Receivables	193,749,557	-	-	-	-	193,749,557	193,749,557
Other assets	-	-	-	37,879,730	-	37,879,730	37,879,730
Financial Liabilities							
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
Notes and coins in circulation	-	-	-	-	1,682,526,787	1,682,526,787	1,682,526,787

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

45 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Continued)

2008	Loans and Receivables	Held to maturity	Profit or loss/Held for trading	Available for sale	Other Financial Liabilities	Total	Fair values
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	
Financial assets							
Cash and cash equivalent	896,346,861	-	-	-	-	896,346,861	896,346,861
Accomodation to banks	9,194,606					9,194,606	9,194,606
Holdings of Special Drawing Rights (SDRs)	-	-	-	20,606,572		20,606,572	20,606,572
Financial Assets Held for Trading			270,079,776			270,079,776	270,079,776
Foreign Currency Marketable Securities available for sale	-		-	1,961,350,127	-	1,961,350,127	1,961,350,127
Equity investments available for sale	-	-	-	1,417,080	-	1,417,080	1,417,080
Government securities- held to maturity	-	526,807,045	-	-	-	526,807,045	526,807,045
Quota in International Monetary Fund (IMF)	-	-	-	381,949,400	-	381,949,400	381,949,400
Loans and Receivables	342,235,095	-	-	-	-	342,235,095	342,235,095
Other assets				73,943,838		73,943,838	73,943,838
Financial Liabilities							
Foreign currency financial liabilities	-	-	367,828,464	-	-	367,828,464	367,828,464
Poverty Reduction and Growth Facility	-	-	21,507,457	-	-	21,507,457	21,507,457
Repurchase agreements	-	-	-	-	104,732,152	104,732,152	104,732,152
BoT liquidity papers	-	-	-	-	1,167,705,919	1,167,705,919	1,167,705,919
Other liabilities	-	-	-	-	55,782,127	55,782,127	55,782,127
IMF related liabilities	-	-	380,535,501	-	-	380,535,501	380,535,501
Allocation of Special Drawing Rights (SDRs)	-	-	-	-	60,243,925	60,243,925	60,243,925
Notes and coins in circulation	-	-	-	-	-	1,682,526,787	1,682,526,787

46. 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 12

Details	**30.06.2009**	**30.06.2008**
	TZS (Millions)	**TZS (Millions)**
Capital	**100,000**	100,000
Reserves	639,287	383,579
Total	**739,287**	**483,579**

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.

47. CONTINGENT LIABILITIES

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

47.1. Outstanding Legal Matters

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. Valambia in which the Bank of Tanzania was involved in its capacity as a Banker to the Government of the United Republic of Tanzania. A Garnishee Order was issued by the High Court of Tanzania on 4th June 2001 ordering the Bank of Tanzania to pay a decree holder US$ 55,099,117.66 from funds of the Government of the United Republic of Tanzania in the custody of the Bank of Tanzania.

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

47. CONTINGENT LIABILITIES (Continued)

47.1. Outstanding Legal Matters

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.

47.2. External Payment Arrears Deposit Account

During the 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. At 30th June 2009 the balance in this liability account was TZS 2,288.4 million (2008 TZS 2,288.4 million). This balance represents funds in original values that await externalisation 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 and not the Bank.

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 and measures are underway to review it to pave way for the next phase of the engagement.

47.3. 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 shorts and long term finance to exporters as long as the capital funds in the ECGS accounts are not leveraged more than 1:5 . As a result there is a contingent liability under this scheme in respect of guarantees, limited to five times the balance of the Fund in accordance with the agency agreement in force. As at 30th June 2009 outstanding guarantees aggregated to TZS 123,005.4 million (2008: TZS 129,770.4 million) while the balance of the Fund as at 30th June 2009 was TZS 33,172.1 million (2008: TZS 29,710.9 million).The movement of the Fund during the year is as summarized below.

47. CONTINGENT LIABILITIES (Continued)

47.3 Export Credit Guarantee Scheme (ECGS) (Continued)

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Balance of funds		
Capital	14,463,252	14,463,452
Surplus	18,708,863	15,237,630
Total	**33,172,115**	**29,710,882**

47.4 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 30th June 2009 outstanding guarantees had a value aggregating to TZS 2,273.4 million (2008: TZS 2,778.4 million) while the balance of the fund as at 30th June 2009 was TZS 662.1 million (2008: TZS 616.8 million).

48. OUTSTANDING COMMITMENTS

48.1 Uncalled and unpaid Capital to Afriximbank

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 2009, 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.

48.2 Capital commitments

As at 30 June 2009, the Bank's capital commitments in respect of Intangible Assets, Property and Equipment and major capital projects aggregated to TZS 42,900.9 million. The Percentage share of the major capital expenditure commitments items is as reflected herewith below: -

48. OUTSTANDING COMMITMENTS

48.2 Capital commitments (Continued)

Item	Percentage
Office buildings	24.28
Residential buildings	4.42
Machinery and Equipment	50.70
Information, Communication and Technology equipment (ICT)	2.39
Motor vehicles	14.79
Furniture and Fittings	0.92
Intangible Assets	2.49
Total	**100**

The above commitments have been included and approved for payment in accordance with the Approved 2009/10 Budget Estimates.

48.3 Currency issuance and related commitments

The Bank has a contract with Royal Mint London of United Kingdom for supply of coins with denominations of 50 and 100 at a total contract price of GBP 2,600,500.00. As at 30th June 2009 outstanding commitments in respect of coins supply contract relating to undelivered currency was GBP 50,523.20 (2008: GBP 1,266,176.2).

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 in Dar es Salaam and at branches in Arusha, Mwanza, Mbeya and Zanzibar at a total cost of EUR 59,260,875. As at 30th June 2009, outstanding commitments in respect of this contract aggregated to EUR 8,313,960.5

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.

48.4 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 6.5 million involving nine retired staff with their spouses who retired in 2008/09.

49. EVENTS AFTER THE BALANCE SHEET DATE (IAS 10)

a) Remission of output VAT assessed to M/S Group Five International Pty Ltd TZS 7,862.4 million

On 31st July 2009, the Parliament of the United Republic of Tanzania approved a Government request to abandon revenue. The request included a remission of output value added tax amounting to TZS 7,862.4 million assessed to M/s Group Five International (Pty) Ltd.

Following this development the Bank has initiated measures aiming at requesting repayment of input VAT amounting to TZS 22,316.1 million from the Treasury and Tanzania Revenue Authority in line with the agreed Government procedure.

b) Supply of Bank notes

On 24th July 2009, the Bank entered into contracts with M/S Crane Currency AB of Sweden and M/S De la Rue of UK with value of GBP 88.2 million and EURO 20.9 million respectively for the supply of currency notes. 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. DISCLOSURES ON RELATED PARTY TRANSACTIONS

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. The related party transactions during the year are:

50.1 Loans

The Bank extends loan facilities to its members of staff, the Governor and the Deputy Governors. Loans and advances (Note 16) include advances to employees that as at 30 June 2009 amounted to TZS 27,606.8 million (2008: TZS 26,774.3 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.

		30.06.2009	30.06.2008
		TZS '000	TZS '000
i	**Loans to Senior Management (i.e. Governor, Deputy Governors, Directors (Excluding Deputy Directors)**		
	At start of the year	952,901	758,062
	Loans granted during the year	442,611	514,242
	Loans repaid during the year	(780,461)	(319,403)
	Balance	615,051	952,901
ii	**Senior Management emoluments:**		
	Salaries, allowances and benefits	2,565,335	2,113,855
	Other long term benefits		
	Total	**2,565,335**	**2,113,855**

50. DISCLOSURES ON RELATED PARTY TRANSACTIONS (Continued)

For the purpose of this note, senior Management of the Bank is defined to include the Governor, Deputy Governors, Directors (excluding Deputy Directors) and Secretary to the Bank. As at 30 June 2009, the total number of key management personnel was 27 (2008: 27).

In accordance with Section 15 of the Bank of Tanzania Act, 2006, remuneration of the Governor and Deputy Governors are determined by the President of the United Republic of Tanzania. Remuneration of other executive directors including Secretary to the Bank is determined by the Board.

50.2 Emoluments to the Members of the Board of Directors

In 2008/09, emoluments paid to the members of the Board amounted to TZS 243.3 million (2008: TZS 494.3 million). As of 30 June 2009 and 30 June 2008 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.

50.3 Government of the United Republic of Tanzania

Transactions entered into with the Government include:

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

As at the close of business on 30 June 2009, the following balances, which are included in various balance sheet categories, were outstanding:

	30.06.2009	30.06.2008
	TZS '000	TZS '000
Due from Government of Tanzania (Note 16)	73,937,603	208,873,108
IMF funds on-lent to the Government (Note 10)	380,535,501	368,437,666
Governments of URT and RGZ deposits (Note 22)	251,709,847	414,199,088
Investments in Government Securities (Note 12)	908,479,399	526,807,046
Development Finance Guarantee Fund (Note 16)	61,841,122	32,310,069
Export Credit Guarantee Fund (Note 18)	32,411,356	29,055,301
Small and Medium Enterprises Guarantee Fund (Note 18)	619,649	609,324

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2009

50. DISCLOSURES ON RELATED PARTY TRANSACTIONS (Continued)

50.3 Government of the United Republic of Tanzania (Continued)

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.

50.4 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 103.2 million (2008: TZS 3.1 million).

50.5 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.

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

The MGCL started operations on 1st January 2006. Currently the Bank has a 35% equity stake in MGCL. During 2008/09 the Bank did not grant any additional loan to MGCL. As at 30 June 2009 outstanding loans stood at USD 6,062,220.57. The loans are secured against MGCL industrial property located at Vingunguti Industrial Area. Such loans attract interest at Libor + 0.50 four basis points.

Following unsatisfactory performance, the company has continued to generate operating losses posing a high risk of a significant erosion of its net worth. The Bank as a major shareholder and lender to the company has 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, equivalent to TZS 5,000.0 million as at 15th February 2007. The proceeds arising from disposal will be credited in the income under other income.

51. COMPARATIVE FIGURES

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