

**MWALIMU COMMERCIAL BANK PLC**  
**ANNUAL REPORT AND AUDITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

# MWALIMU COMMERCIAL BANK PLC

## ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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# **MWALIMU COMMERCIAL BANK PLC**

## **CORPORATE INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016**

### **REGISTERED OFFICE**

Mlimani Tower, Mezzanine Floor, Sam Nujoma Road  
Kinondoni Municipality  
P.O. Box 61002  
Dar es Salaam

### **BOARD OF DIRECTORS**

Mr. Herman Mark Kessy  
Prof. Tadeo Andrew Satta  
Mwl. Mohamed Mussa Utaly  
Dr. Fidea Luhwano Mgina  
Mr. Said Kambi Shaaban  
Mr. Ambrose Ntangeki Nshala

### **NATIONALITY**

Tanzanian  
Tanzanian  
Tanzanian  
Tanzanian  
Tanzanian  
Tanzanian

### **COMPANY SECRETARY**

FK Law Chambers  
FK House, 23 Barack Obama Drive  
Sea View, Upanga  
P.O. Box 20787  
Dar es Salaam

### **INDEPENDENT AUDITOR**

Ernst & Young  
Tanhouse Tower (4th Floor)  
34/1 Ursino South, New Bagamoyo Road  
P.O. Box 2475  
Dar es Salaam

### **LAWYERS**

FK Law Chambers  
FK House, 23 Barack Obama Drive  
Sea View, Upanga  
P.O. Box 20787  
Dar es Salaam

# MWALIMU COMMERCIAL BANK PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

### 1 INTRODUCTION

The directors present their report together with the audited annual financial statements for the year ended 31 December 2016, which disclose the state of affairs of Mwalimu Commercial Bank Plc (the "Bank"). The annual report and audited financial statements can be amended by the owners and regulatory bodies if they are found misleading after they have been issued to the public.

### 2 INCORPORATION

Mwalimu Commercial Bank Plc was incorporated on 26 March 2012 in Tanzania under the Companies Act Cap 212, Act No. 12 of 2002 as a limited liability company. It was initially incorporated as a private company bearing a name Mwalimu Commercial Bank Limited that was later changed to Mwalimu Commercial Bank PLC on 26 January 2015 when it was listed in Dar es Salaam Stock Exchange under the Enterprise Growth Market (EGM) segment.

### 3 MISSION AND VISION

#### Mission

To alleviate economic problems through providing cost effective, friendly and innovative financial solutions for teachers, Government employees and general public, so as to create economic emancipation.

#### Vision

To be the preferred financial solution provider in Tanzania.

### 4 PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking and related services. Mwalimu Commercial Bank Plc obtained a full banking license on 13 July 2016 to carry out banking business as a commercial bank.

### 5 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Bank at the date of this report, who held office since 1 January 2016, except where otherwise stated are:

<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Nationality</b>	<b>Qualifications</b>
Herman Mark Kessy	Chairman	67	Tanzanian	MA (Economics), BA Hons (Economics)
Ambrose Ntangeki Nshala	Vice Chairman	41	Tanzanian	CPA-T
Prof. Tadeo Andrew Satta	Director	55	Tanzanian	PhD (Development Finance), MBA (Financial Management)
Dr. Fidea Luhwano Mgina	Director	58	Tanzanian	PhD, MSc. (Agriculture)
Said Kambi Shaaban	Director	48	Tanzanian	MBA Finance, BA (Public Administration)
Mwl. Mohamed Mussa Utaly	Director	47	Tanzanian	MSc. (Accounting & Finance), ADA

# MWALIMU COMMERCIAL BANK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

### 5 COMPOSITION OF THE BOARD OF DIRECTORS (Continued)

The Company secretary as at the date of this report is FK Law Chambers.

### 6 DIRECTORS' INTEREST IN THE SHARES OF THE BANK

The Directors, Dr. Fidea Luhwano Mgina and Mwl. Mohamed Mussa Utaly own 1,000 and 10,000 shares respectively in the share capital of the Bank. Other Directors of the Bank have no interest in the issued share capital of the Bank.

### 7 CORPORATE GOVERNANCE

The Bank continues to advocate an integrated approach to corporate governance as evidenced by the governance framework. An effective and independent Board provides strategic direction and has ultimate responsibility for the establishment and functioning of the Bank.

The Board of Directors consist of six members. The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is in place and operative, and for compliance with sound corporate governance principles. During the year, the Board met several times as a best practice. The Bank is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability. Board delegated authorities are reviewed regularly and directors have full access to board documentation.

### 8 MANAGEMENT

The management of the Bank is under the Chief Executive Officer and is organized in the following departments:

- Business Development and Marketing
- Treasury
- Finance
- Risk Management and Compliance
- Human Resources and Administration
- ICT and Operations
- Internal Audit; and
- Credit Administration

### 9 CAPITAL STRUCTURE

The capital structure of the Bank for the year under review is as shown below:

#### **Authorized -**

The authorized share capital comprises 200,000,000 ordinary shares of per value of TZS 500 each.

#### **Issued and fully paid**

The Bank's issued and fully paid in capital is 61,824,920 ordinary shares of TZS 500 each.

# MWALIMU COMMERCIAL BANK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

### 10 SHAREHOLDERS OF THE BANK

The Bank has institutional as well as individual shareholders. The number of issued shares are held as follows:

Name of the Shareholder	<u>2016</u>	Percentage Share holding	<u>2015</u>	Percentage Share holding
	Number of Shares		Number of Shares	
Individual Teachers	21,813,000	35.28%	21,813,000	35.28%
National Health Insurance Fund	10,000,000	16.17%	10,000,000	16.17%
Public Service Pensions Fund	10,000,000	16.17%	10,000,000	16.17%
General Public	10,011,920	16.19%	10,011,920	16.19%
Tanzania Teachers' Union	8,000,000	12.94%	8,000,000	12.94%
Teachers' Development Company Ltd	2,000,000	3.23%	2,000,000	3.23%
	<u>61,824,920</u>	<u>100.0%</u>	<u>61,824,920</u>	<u>100.0%</u>

### 11 FUTURE DEVELOPMENT PLANS

The Bank plans to grow business through opening of new branches; disburse loans to teachers, government employees and general public; introduction of highly innovative and customer centric products especially the alternative channels space while managing associated costs and risks so as to increase shareholders' value.

### 12 RESULTS AND DIVIDEND

The Bank recorded after tax loss of TZS 730 million during the year (2015: after tax profit of TZS 83 million).

The Bank's financial results for the year are set out on page 19 of the annual financial statements.

The directors do not recommend payment of a dividend.

### 13 PERFORMANCE FOR THE YEAR

#### Statement of financial position

Total loans and advances to banks decreased by 167% (TZS 14.5 billion) from TZS 24.8 billion in 2015 to TZS 10.3 billion in 2016. This has been attributed by investment in TZS 8.9 billion investment in government securities, TZS 3.3 billion acquisition of property and equipment; and TZS 5.1 acquisition of intangible assets.

Total loans and advances to customers were TZS 606.62 million (2015: TZS NIL) financed by divestment in government securities.

# MWALIMU COMMERCIAL BANK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

### 14 PERFORMANCE FOR THE YEAR (*Continued*)

The Bank obtained a full banking license on 13 July 2016 and was able to mobilize deposits from customers of TZS 1.44 billion as at year end. Loan to deposit ratio (LDR) stood at 42.23% as at 31 December 2016 which is well within the regulatory limits.

Total assets increased by 4.0% from TZS 32.28 billion in 2015 to TZS 33.62 billion as at 31 December 2016.

#### **Statement of profit or loss and other comprehensive income**

Net Interest income expressed as a percentage of operating income was 99% (2015: 100%) due lower non-interest income generating activities.

Total non-interest income was TZS 29.6 Million in 2016 (2015: TZS Nil) as the Bank commenced to operate customer accounts from July 2016.

Total operating expenses increased by 59% from TZS 2,863 million in 2015 to TZS 4,563 million in 2016. The increase is mainly attributed to staff cost on account of more staff hired in operations. The cost to income ratio has increased to 119% in 2016 (2015: 96%).

### 15 ACCOUNTING POLICIES

The accounting policies of the Bank disclosed in Note 3 have been approved by the Board. The accounting policies for financial instruments form a significant part of the policies and are disclosed under Note 3(e). There have been no changes in accounting policies in the current year.

### 16 RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

## **MWALIMU COMMERCIAL BANK PLC**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **17 PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks that may significantly affect the Bank's strategies and development are mainly operational, fraud and financial risks. Below we provide a description of the operational, fraud and financial risks facing the Bank:

##### **Fraud risk**

There is a general increase in fraudulent transactions in the Banking industry in Tanzania. The bank has implemented a number of measures to contain the probability and impact of this risk.

##### **Operational risk**

This is a risk resulting from the Bank's activities not being conducted in accordance with formally recognised procedures including non-compliance with Know Your Customer (KYC) and account opening procedures. Management ensures that the Bank complies with KYC and other internal procedures.

##### **Financial risk**

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. More details of the financial risks facing the Bank are provided in Note 3 to the annual financial statements.

#### **18 SOLVENCY AND GOING CONCERN**

The Board of directors confirm that applicable accounting standards have been followed and that the annual financial statements have been prepared on a going concern basis. The Board of directors has reasonable expectation that the Bank has adequate resources to continue in existence for the foreseeable future.

#### **19 CASH FLOWS**

The Bank continued to implement different strategies to mobilise deposits as cash inflow while investing in securities, loans and receivables as cash outflow.

#### **20 CAPITAL MANAGEMENT**

Capital Adequacy is monitored on a monthly basis by comparing the minimum required capital as per the Bank of Tanzania Regulations, 2014 and the Banking and Financial Institutions Act, 2006 to the available capital to ensure there is sufficient capital to meet regulatory and future growth requirements.

As at 31 December 2016, the capital position of the Bank is adequate to meet both Tier 1 and 2 regulatory and internal minimum capital requirements. The share capital structure of the Bank is disclosed in Note 9 above.

The regulatory capital computation is disclosed on Note 31.4 to the annual financial statements.

## MWALIMU COMMERCIAL BANK PLC

### DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

#### 21 KEY PERFORMANCE INDICATORS FOR THE BANK

The following Key Performance Indicators (KPIs) are effective in measuring the delivery of the Bank's strategy and managing the business.

<b>Performance indicator</b>	<b>Definition and calculation method</b>	<b>2016</b>	<b>2015</b>
Return on equity	Net(loss) profit/Total equity	-2.26%	0.25%
Return on assets	Net profit/Total assets	-2.10%	0.25%
Cost to income ratio	Total costs/Net income	119%	96%
Interest margin on earning assets	Net interest income(interest in government securities +balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft less cost of funds) /Interest earning assets (government securities +balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft)	16%	10%
Non - interest income to Gross income	Non - interest income/Total income	0.77%	0.03%

# MWALIMU COMMERCIAL BANK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

### 21 KEY PERFORMANCE INDICATORS FOR THE BANK (Continued)

<b>Performance indicator</b>	<b>Definition and calculation method</b>	<b>2016</b>	<b>2015</b>
Gross loans to customer deposits	Total loans to customers/Total deposits from customers	42%	N/A
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	0%	N/A
Earning assets to total assets	Earning assets/Total assets	70%	91.7%
Growth in total assets	Trend (2016 total assets – 2015 total assets/2015 total assets)%	4.14%	1.30%
Growth in loans and advances to customers	Trend (2016 loans and advances – 2015 loans and advances )/2015 loans and advances)%	100%	N/A
Growth in customer deposits	Trend (2016customer deposits – 2015 customer deposits)/ (2015 customer deposits)%	100%	N/A
Capital adequacy			
Tier 1 Capital	Core capital /Risk weighted assets including Off balance sheet items	19%	15%
Tier 1+Tier 2 Capital	Total capital /Risk Weighted assets including off-balance sheet items	321%	412%

# MWALIMU COMMERCIAL BANK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

### 22 EMPLOYEES' WELFARE

#### **Management and employees' relationship**

There were no unresolved complaints received from employees during the year. A healthy relationship continues to exist between management and staff.

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

#### **Training**

During the year, the Bank incurred TZS 66 million as training expenses. Plans are underway in 2017 to take employees to different professional trainings to ensure employees are adequately trained at all levels to upgrade skills and enhance productivity.

#### **Medical Assistance**

All members of staff with their spouses and a maximum number of four beneficiaries for each employee were availed medical insurance. Currently these services are provided by AAR Insurance Tanzania Limited.

#### **Health and Safety**

The Bank has a strong health and safety team which ensures that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees and contractors by providing adequate and proper personal protective equipment, training and supervision as necessary.

#### **Persons with Disabilities**

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Bank continues and appropriate training is arranged. It is the policy of the Bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### **Employees' benefit plan**

The Bank pays contributions to four publicly administered defined contribution plans namely; National Social Security Fund-NSSF, PPF Pensions Fund, Public Service Pensions Fund-PSPF and LAPF Pensions Fund on a mandatory basis. The total number of contractual employees as at the year-end was 44 out of which 17 were female and 27 were male (2015: total staff 3, 1 female and 2 male).

### 23 RELATED PARTIES

All related party transactions and balances are disclosed in Note 29 to these annual financial statements.

**MWALIMU COMMERCIAL BANK PLC**

**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**24 SERIOUS PREJUDICIAL MATTERS**

In the opinion of the directors, there are no serious unfavourable matters that can affect the Bank.

**25 DONATIONS TO POLITICAL PARTIES**

No donations were made to any political institutions during the financial year ending 31 December 2016.

**26 RELATIONSHIP WITH STAKEHOLDERS**

The Bank continued to maintain a good relationship with all stakeholders including the regulators.

**27 CORPORATE SOCIAL RESPONSIBILITY (CSR)**

No donations CSR contributions were made institutions during the financial year ending 31 December 2016. However, the Bank plans to participate in CSR activities as the business grows.

**28 RESOURCES**

Employees with appropriate skills and experience in running the business are a key resource available to the Bank and they assist in pursuing the Bank's business objectives.

**29 INDEPENDENT AUDITORS**

The auditors, Ernst & Young (EY) have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of EY as auditors of the Bank for the year ending 31 December 2017 will be put to the Annual General Meeting.

**30 STATEMENT OF COMPLIANCE**

The director's report has been prepared in full compliance with Tanzania Financial Reporting Standard No. 1 (Directors Report) and constitutes an integral part of the financial statements.

Approved by the board of directors and authorised for issue on 6/4/2017 and signed on its behalf by:

  
Herman Mark Kessy

Board Chairman

  
Ronald Manongi

Chief Executive Officer

**MWALIMU COMMERCIAL BANK PLC**

**STATEMENT OF DIRECTORS RESPONSIBILITIES  
FOR THE YEAR ENDED 31 DECEMBER 2016**

The Companies Act, Cap 212 Act No.12 of 2002 requires the directors to prepare annual financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, CAP 212 Act No.12 of 2002. The directors are of the opinion that the annual financial statements give a true and fair view of the state of the financial affairs of the Bank and of its loss in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of annual financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement whether due to fraud or error.

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

Approved by the board of directors and authorised for issue on .....6/4/2017.....and signed on its behalf by:



Herman Mark Kessy

Board Chairman



Ronald Manongi

Chief Executive Officer

**MWALIMU COMMERCIAL BANK PLC**

**DECLARATION OF THE HEAD OF FINANCE  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing annual financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of annual financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I **Selemani Kijori** being the Head of Finance of Mwalimu Commercial Bank PLC hereby acknowledge my responsibility of ensuring that annual financial statements for the year ended 31 December 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

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

Signed by: .....  .....

Position: Head of Finance

NBAA Membership No. ACPA 2484

Date: ..... 6/4/2017 .....

## **INDEPENDENT AUDITOR'S REPORT**

*To the shareholders of*

### **MWALIMU COMMERCIAL BANK PLC**

#### **REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS**

##### **Opinion**

We have audited the annual financial statements of Mwalimu Commercial Bank Plc (the Bank) set out on pages 19 to 65, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of Mwalimu Commercial Bank Plc as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

##### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the annual financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provided the basis for our audit opinion on the accompanying annual financial statements.

## INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

### MWALIMU COMMERCIAL BANK PLC REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<b>Revenue recognition – accuracy of revenue recorded</b>	
<p>There is an inherent risk around the accuracy of revenue recorded given the high volume of transactions and complexity of the Bank's systems and processes used to record revenue.</p> <p>We also considered there to be a risk that revenue is inappropriately reported to achieve desired financial results. We assessed that the opportunity to manipulate revenue creates a heightened risk in the following areas:</p> <ul style="list-style-type: none"> <li>• Interest income is not recognised using the amortised cost method.</li> <li>• Non-interest income is not recognised on an accrual basis.</li> </ul>	<p>We considered revenue recognition as a high audit risk area and undertook procedures to respond to this risk.</p> <p>Our audit procedures over revenue included:</p> <ul style="list-style-type: none"> <li>• Testing of key controls over revenue recognition including set-up of accounts for loans to customers, pricing data, segregation of duties, and controls over calculation of revenue.</li> <li>• Performing an analysis of revenue and deferred revenue based on our knowledge of the Bank, forming an expectation of revenue based on key performance indicators, taking into account changes in rates and interest earning assets.</li> <li>• Testing that interest rates charged agreed to the contractual interest rates for a sample of loans to customers.</li> <li>• For non-interest income, our audit procedures involved, in addition to the testing of controls, agreement to source documents supporting the measurement and accuracy of the revenue recognised on a sample basis.</li> <li>• Assessing the adequacy of the Bank's disclosures in respect of the accounting policies on revenue recognition set out in Note 3(d).</li> </ul>
<b>Compliance with laws and regulations</b>	
<p>Operating in the banking sector presents increased regulatory risks due to the need to comply with multiple regulatory and legislative requirements, including legislation relating to banking and tax.</p> <p>We focused on compliance with tax and banking laws and regulations because breaches of compliance could have a significant effect on the results and financial position of the Bank.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing of key controls over the identification, evaluation and measurement of potential obligations arising from legal and regulatory matters.</li> <li>• Involving our tax specialists to analyse and evaluate the assumptions used to determine provisions for tax matters based on their knowledge and experience of local regulations and practices.</li> <li>• Inspecting reports on open tax assessments done by the Bank's tax consultants, in-house legal counsel and the Bank's external legal advisers. We also reviewed</li> </ul>

**INDEPENDENT AUDITOR’S REPORT (Continued)**

To the shareholders of

**MWALIMU COMMERCIAL BANK PLC  
REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**

Key audit matter	How our audit addressed the key audit matter
<p>Tax focus areas included compliance with changes in tax laws effective during the year and the financial reporting implication of open tax assessments.</p> <p>Bank of Tanzania regulations require external auditors of banks to specifically report on the Bank’s capital adequacy and therefore, compliance with banking laws and regulations was a key focus area.</p> <p>Assessing the likely outcome and quantification of tax exposures was also one of the judgemental areas that our audit was focused on.</p> <p>We also considered there to be a risk that the income tax disclosures in Note 14, related contingencies in Note 28 and the capital adequacy disclosures in Note 31.4 which are significant to the understanding of the Bank’s income tax position and capital management, are not complete.</p>	<p>documentation considered necessary to understand the position and conclusions made by the Bank regarding the open tax assessments. We also obtained external confirmations from legal counsel on significant litigation.</p> <ul style="list-style-type: none"> <li>• Considering the exposure to breaches of legislation by making appropriate enquiry of the Bank’s management in relation to compliance with laws and regulations and the existence and status of significant regulatory and legal matters.</li> <li>• Inspecting correspondence with tax authorities and the central bank, audit and inspection reports from these regulators and compliance logs to identify actual and potential noncompliance with laws and regulations that could materially affect the Bank’s financial statements.</li> <li>• Evaluating whether the capital adequacy ratios of the Bank disclosed in Note 31.4 were computed in accordance with the Bank of Tanzania regulations.</li> <li>• Where significant matters were identified, we considered whether an obligation exists and evaluated the appropriateness of provisioning and disclosures based on the facts and circumstances available.</li> <li>• Using our experience of local practices we assessed the judgements made by the Bank in arriving at potential provisions and contingencies relating to compliance with tax and banking laws and regulations included under note 28.</li> </ul> <p>Furthermore, we assessed the adequacy of the Bank’s disclosures in respect of income tax.</p>

## **INDEPENDENT AUDITOR'S REPORT (Continued)**

*To the shareholders of*

### **MWALIMU COMMERCIAL BANK PLC**

#### **REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**

##### **Other Information included in the Bank's 2016 Director's Report**

Other information consists of the information included in the Directors' Report, Statement of Directors' Responsibilities and the Declaration of the Head of Finance's Responsibilities, other than the annual financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the annual financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

##### **Responsibilities of the Directors for the Financial Statements**

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania, and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Bank's financial reporting process.

##### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## **INDEPENDENT AUDITOR'S REPORT (Continued)**

*To the shareholders of*

### **MWALIMU COMMERCIAL BANK PLC**

#### **REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## MWALIMU COMMERCIAL BANK PLC

### STATEMENT OF DIRECTORS RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2016

The Companies Act, Cap 212 Act No.12 of 2002 requires the directors to prepare annual financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, CAP 212 Act No.12 of 2002. The directors are of the opinion that the annual financial statements give a true and fair view of the state of the financial affairs of the Bank and of its loss in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of annual financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement whether due to fraud or error.

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

Approved by the board of directors and authorised for issue on .....6/4/2017.....and signed on its behalf by:

  
Herman Mark Kessy

Board Chairman



Ronald Manongi

Chief Executive Officer

## MWALIMU COMMERCIAL BANK PLC

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 TZS '000	2015 TZS '000
Interest and similar income	6	3,819,017	2,974,113
Interest expense and similar charges	7	(15,296)	-
<b>Net interest income</b>		<b>3,803,721</b>	<b>2,974,113</b>
Net fee and commission income	8	30,966	-
Net trading income	9	(1,328)	-
Other income	10	-	857
<b>Total income</b>		<b>3,833,359</b>	<b>2,974,970</b>
Staff costs	11	2,066,882	376,241
Infrastructure costs	12	1,250,299	15,402
Administration and general expenses	13	1,245,807	2,471,686
<b>Operating expenses</b>		<b>(4,562,988)</b>	<b>(2,863,329)</b>
<b>(Loss) /Profit before tax</b>		<b>(729,629)</b>	<b>111,641</b>
Income tax expense	14	-	(28,243)
<b>(Loss) /Profit for the year</b>		<b>(729,629)</b>	<b>83,398</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(729,629)</b>	<b>83,398</b>
Basic and diluted earnings per share (TZS)	15	(11.80)	1.35

**MWALIMU COMMERCIAL BANK PLC**

**STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 TZS '000	2015 TZS '000
<b>Assets</b>			
Cash and balances with Bank of Tanzania	16	201,306	-
Investment in government securities -Treasury Bills	17	12,739,969	4,768,146
Loans and advances to banks	18	10,339,341	24,834,092
Loans and advances to customers	14	606,622	-
Income tax recoverable	19	458,614	317,631
Other assets	20	444,539	2,345,887
Property and equipment	21	2,974,403	14,523
Intangible assets	22	5,852,593	-
<b>Total assets</b>		<b>33,617,387</b>	<b>32,280,279</b>
<b>Liabilities</b>			
Deposits from customers	23	1,436,369	-
Other liabilities	24	1,003,704	373,336
<b>Total liabilities</b>		<b>2,440,073</b>	<b>373,336</b>
<b>Shareholders' equity</b>			
Share capital	25	30,912,460	30,912,460
Retained earnings	26	258,797	994,483
Regulatory credit risk reserve	26	6,057	-
		<b>31,177,314</b>	<b>31,906,943</b>
<b>Total shareholders' equity and liabilities</b>		<b>33,617,387</b>	<b>32,280,279</b>

The annual financial statements were approved by the board of directors and authorised for issue on 6/4/2017 and signed on its behalf by:

  
Herman Mark Kessy

Board Chairman

  
Ronald Manongi

Chief Executive Officer

## MWALIMU COMMERCIAL BANK PLC

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital TZS '000	Retained earnings TZS '000	Regulatory general credit risk reserve TZS '000	Total TZS '000
<b>Year ended 31 December 2016</b>				
At 1 January 2016	30,912,460	994,483	-	31,906,943
Total comprehensive loss/ Loss for the year	-	(729,629)	-	(729,629)
Transfer to regulatory credit risk reserve	-	(6,057)	6,057	-
At end of year	<u><u>30,912,460</u></u>	<u><u>258,797</u></u>	<u><u>6,057</u></u>	<u><u>31,177,314</u></u>
<b>Year ended 31 December 2015</b>				
At 1 January 2015	30,912,460	911,085	-	31,823,545
Total comprehensive income/ Profit for the year	-	83,398	-	83,398
At end of year	<u><u>30,912,460</u></u>	<u><u>994,483</u></u>	<u><u>-</u></u>	<u><u>31,906,943</u></u>
<b>Note</b>	<b>25</b>	<b>26</b>	<b>26</b>	

# MWALIMU COMMERCIAL BANK PLC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 TZS '000	2015 TZS '000
<b>Cash flows from operating activities</b>			
Profit before income tax		(729,629)	111,641
Adjusted for:			
Depreciation and amortization	21&22	674,941	3,279
Net Interest income		(3,819,017)	(2,974,113)
		<u>(3,873,705)</u>	<u>(2,859,193)</u>
<i>Changes in operating assets and liabilities:</i>			
Increase in Statutory Minimum Reserve		(70,908)	-
Decrease /(Increase) in loans and advances to banks maturing in more than 90 days		14,122,624	(6,000,537)
Increase in government securities		(6,918,719)	(4,665,100)
Increase in loans and advances to customers		(606,622)	-
(Increase) /Decrease in other assets		(202,553)	11,666,206
Increase in deposits from customers		1,436,369	-
Other liabilities		630,367	344,202
Interest received		2,335,993	2,346,547
Income tax paid		(140,982)	(234,655)
<b>Net cash inflow from operating activities</b>		<u>6,711,864</u>	<u>597,470</u>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	21	(3,347,966)	(4,500)
Acquisition of intangible assets	22	(4,035,547)	-
<b>Net cash outflow from investing activities</b>		<u>(7,383,514)</u>	<u>(4,500)</u>
<b>Net (decrease) /increase in cash and cash equivalents</b>		(671,649)	592,970
<b>Movement in cash and cash equivalents</b>			
At start of the year		861,469	268,499
Net increase/(decrease)		(671,649)	592,970
At end of the year	27	<u>189,820</u>	<u>861,469</u>

# MWALIMU COMMERCIAL BANK PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

### 1 CORPORATE INFORMATION

Mwalimu Commercial Bank PLC is a Public Limited Company incorporated under the Companies Act Cap 212, Act No. 12 of 2002 and is domiciled in the United Republic of Tanzania. The Bank obtained a full banking license on 13 July 2016 to operate as a commercial bank under the Banking and Financial Institutions Act, 2006. The address of its registered office is:

Mlimani Tower, Mezzanine Floor, Sam Nujoma Road, Ubungo Municipality  
P O Box 61002  
Dar es Salaam

### 2 STATEMENT OF COMPLIANCE

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The annual financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and the requirements of the Companies Act, CAP 212 Act No. 12 of 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **(a) Adoption of new and revised accounting standards**

During the current Year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2016. The adoption of these new and revised standards and interpretations has not resulted in material changes to the Bank's accounting policies. For details of the new and revised accounting policies refer to Note 33.

#### **(b) Basis of preparation**

These financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

The financial statements are presented in Tanzanian Shillings (TZS thousands), the presentation currency of the Bank.

#### **(c) Functional and presentation currency**

Items included in the annual financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The annual financial statements are presented in Tanzania shillings (TZS), which is the Bank's functional and presentation currency, rounded to the nearest thousand.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***(c) Functional and presentation currency (Continued)***

Transactions in foreign currencies during the year are converted into the Tanzania Shillings using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss account.

***(d) Revenue recognition***

*Interest and similar income and expenses*

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

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income is divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time: Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.
- Fee income from providing transaction services: Fees arising from negotiating or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2016

#### 3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

##### *(e) Financial assets*

###### **Classification and measurement**

The bank classifies its financial assets into the following IAS 39 categories; loans and receivables; and held to maturity financial assets. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

###### *(i) Loans and receivables*

Loans and receivables 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 'Financial assets held for trading', designated as 'Financial investment. The Bank's placements and customer loans are classified as loans and receivables

After initial measurement, loans and receivables 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 and similar income" in the income statement. The losses arising from impairment are recognised in the income statement in Credit loss expense.

###### *(ii) Held to maturity*

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 and similar income in the income statement. The losses arising from impairment of such investments are recognised in the income statement line-Impairment losses on financial investments. The Bank's treasury bills are classified as held to maturity.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**De-recognition of financial assets**

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

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

**Offsetting of financial instruments**

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

**Impairment of financial assets**

The Bank assesses at each statement of financial position 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 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 shall 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.

**(f) Income Tax**

*Income tax charge*

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax asset and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary and all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit shall be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit shall be available to allow all or part of the deferred income tax asset to be utilised. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit shall allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Deferred income tax (Continued)*

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**(g) Property and equipment**

Property and equipment are initially recorded at historical cost and subsequently stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life as follows:

Leasehold improvements	10 years (10%)
Computer equipment	3 years (33%)
Furniture and fittings	5 years (20%)
Office equipment	5 years (20%)
Motor vehicles	4 years (25%)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised within 'other (losses)/gains - net' in profit or loss account.

**(h) Intangible assets**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (seven years for core banking software and five years for other softwares).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Accounting for leases**

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits. Under an operational lease, the lessee should treat the rental payments as an expense in the income statement and separately disclose the amount charged in the notes to the Accounts. All obligations under the operational lease contract should also be specified in the notes to the Accounts as a future commitment. The total amount of the future minimum lease payments under non- cancellable operating leases should be disclosed separately for each of the following periods:

- Not later than 1 year
- Later than one year and not later than five years;
- Later than five years.

Any special conditions that apply should also be disclosed.

**(j) Employee benefits**

*Retirement benefit obligations*

All Bank employees are members of PPF Pensions Fund, National Social Security Fund-NSSF, Public Service Pensions Fund-PSPF and LAPF Pensions Fund which are defined pension contribution plans. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank and employees each contribute 10% of the employees' gross salaries to the defined contribution plans. The Bank's contributions are recognised as employee benefits expense when they are due.

**(k) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including cash and balances with Bank of Tanzania, loans and advances to banks, net of deposits from banks

**(l) Other assets**

Other assets consist of unpaid share capital receivables arising from the difference between issued and paid up shares, prepayments, sundry debtors and other receivables. Other assets are initially recognised at fair value and subsequently measured at amortised cost. Prepayments are recognised at the fair value of the amount paid and amortised over the coverage period.

**(m) Other liabilities**

Other liabilities consist of payables to third parties. Other liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Other liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2016

#### 3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

##### *(n) Share capital*

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

##### *(o) Provisions*

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Such provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount and the movement is recognised in profit or loss within finance costs.

##### *(p) Comparatives*

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year.

##### *(q) Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as operating board that makes strategic decisions.

**NOTES TO THE FINANCIAL STATEMENTS (*Continued*)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*(a) Taxes*

Significant judgment is required in determining the Bank's overall income tax provision or estimated future recovery of income tax losses. There are many transactions and calculations, for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the outcome of tax matters is different from the amounts that were initially recorded, such differences will have an impact on the current and any deferred income tax provisions in the periods in which the determination is made.

**5 BUSINESS SEGMENT INFORMATION**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as operating board that makes strategic decisions. As at the date of these annual financial statements, there were no separate financial results maintained and reviewed by the chief operating decision maker. The bank is seen as one segment and the information that chief operating decision maker is reviewing is the same as what is presented in the annual financial statements.

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

<b>6 INTEREST AND SIMILAR INCOME</b>	<u><b>2016</b></u> <b>TZS '000</b>	<u><b>2015</b></u> <b>TZS '000</b>
Treasury bills	1,726,435	103,046
Loans and advances to banks	2,057,792	2,871,067
Loans and advances to customers	34,790	-
	<u><b>3,819,017</b></u>	<u><b>2,974,113</b></u>
 <b>7 INTEREST EXPENSE AND SIMILAR CHARGES</b>		
Deposits from banks	44	-
Deposits from customers	15,252	-
	<u><b>15,296</b></u>	<u><b>-</b></u>
 <b>8 FEES AND COMMISSION INCOME</b>		
Service charge on customer accounts	26,558	-
MCB Mobile banking commissions	1,938	-
ATM Card fees and commissions	2,384	-
Other fees and commissions	86	-
	<u><b>30,966</b></u>	<u><b>-</b></u>
 <b>9 NET TRADING INCOME / (LOSS)</b>		
Foreign currency translation gains	(1,328)	-
Trading activities gains	-	-
	<u><b>(1,328)</b></u>	<u><b>-</b></u>
 <b>10 OTHER INCOME</b>		
Sundry income	-	857
	<u><b>-</b></u>	<u><b>857</b></u>
 <b>11 STAFF COST</b>		
Wages and salaries	1,552,558	323,250
Social security costs (Defined contribution plan)	149,982	27,386
Other	364,342	25,605
	<u><b>2,066,882</b></u>	<u><b>376,241</b></u>

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

<b>12 INFRASTRUCTURE COSTS</b>	<u><b>2016</b></u>	<u><b>2015</b></u>
	<b>TZS '000</b>	<b>TZS '000</b>
ATM and printer hiring charges	<b>16,346</b>	-
Office repair and maintenance costs	<b>71,920</b>	9,900
Information Technology	<b>487,092</b>	2,223
Depreciation of property, plant and equipment	<b>388,086</b>	3,279
Amortisation of intangible assets	<b>286,855</b>	-
	<u><b>1,250,299</b></u>	<u><b>15,402</b></u>
<b>13 ADMINISTRATIVE AND GENERAL EXPENSES</b>		
Rent	<b>600,020</b>	360,299
Marketing costs	<b>74,506</b>	100,676
Subscriptions	<b>61,545</b>	-
Professional fees	<b>59,796</b>	204,106
Directors sitting allowances	<b>51,593</b>	50,588
Telephone, postage and Communication costs	<b>50,596</b>	2,072
Printing and stationery expenses	<b>50,345</b>	-
Insurance	<b>48,408</b>	-
Service charges & levies	<b>47,530</b>	34,226
Bank charges	<b>27,204</b>	28,037
Office security	<b>29,685</b>	-
ATM card expenses	<b>24,238</b>	-
Auditor's remuneration	<b>21,800</b>	15,541
Directors fees	<b>15,843</b>	15,059
Legal expenses	<b>14,961</b>	23,877
Share register expenses	-	1,579,623
Other administrative expenses	<b>67,739</b>	57,582
	<u><b>1,245,809</b></u>	<u><b>2,471,686</b></u>
<b>14 INCOME TAX</b>		
<b>Tax charge</b>		
<i>Current tax:</i>		
Current tax on profits for the year	-	28,243
<b>Total current tax expense</b>	-	28,243
<i>Deferred income tax:</i>		
Decrease/(decrease) in deferred tax assets	<b>(182,407)</b>	<b>(332)</b>
<b>Total deferred tax expense</b>	<b>(182,407)</b>	<b>(332)</b>
Deferred tax movement not recognised	<b>182,407</b>	332

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

<b>14 INCOME TAX</b>	<b><u>2016</u></b> <b>TZS '000</b>	<b><u>2015</u></b> <b>TZS '000</b>
<b>Reconciliation of income tax expense</b>		
( Loss) / Profit before income tax	<b>(729,629)</b>	111,641
Tax calculated at 25 %	<b>(182,407)</b>	27,910
Deferred tax movement not recognised	<b>182,407</b>	332
<b>Income tax expense</b>	<b><u>-</u></b>	<b><u>28,243</u></b>
<b>Reconciliation of tax recoverable</b>		
Current tax asset per statement of financial position	<b><u>458,614</u></b>	<u>317,631</u>
<i>Movement of current tax asset</i>		
Balance at the beginning of the year	<b>(317,631)</b>	(111,219)
Income tax charge	-	28,243
Taxes paid	<b><u>(140,982)</u></b>	<u>(234,655)</u>
Balance at the end of year	<b><u>(458,614)</u></b>	<u>(317,631)</u>
<b>Non-current</b>	<b><u>(458,614)</u></b>	<u>(317,631)</u>

**Deferred income tax**

Deferred income tax is calculated in full on all temporary differences, under the liability method using a principal tax rate of 25%. The movement on the deferred tax account is as follows:

	<b>2016</b> <b>TZS '000</b>	2015 TZS '000
<b>Deferred income tax (asset) /liability</b>		
Property and equipment and intangibles	<b>390,040</b>	(355)
Tax losses	<b><u>(572,802)</u></b>	<u>-</u>
<b>Net deferred income tax asset</b>	<b><u>(182,762)</u></b>	<u>(355)</u>

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

#### 14 INCOME TAX (Continued)

##### Deferred income tax (Continued)

Deferred tax asset amounting to TZS 182,762,000 (2015: TZS 355,000) was not recognised during the year due to uncertainty as to whether the Bank will generate taxable profits in the foreseeable future against which tax credits including tax losses will reverse. The tax losses as at year end amounted to TZS 2,291,208,000 (2015: TZS Nil). The bank has started full operations in the second half of the year and is not in a position to determine when these tax losses will be utilised. The losses can be carried forward indefinitely.

#### 15 EARNINGS PER SHARE

Basic Earnings per Share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares during the period. The Bank does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the (loss)/profit attributable to the ordinary shareholders of the Bank.

	<u>2016</u>	<u>2015</u>
Net (loss) /profit attributable to shareholders (TZS)	<b>(729,629,122)</b>	83,397,999
Weighted average number of ordinary shares in issue (note 25)	<b>61,824,920</b>	61,824,920
<b>Basic and diluted earnings per share (TZS)</b>	<b>(11.8)</b>	1.35

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>2016</u> TZS '000	<u>2015</u> TZS '000
<b>16 CASH AND BALANCES WITH BANK OF TANZANIA</b>		
Cash in hand	86,821	-
Clearing accounts with Central Bank	43,577	-
Statutory Minimum Reserves (SMR)	70,908	-
	<u>201,306</u>	<u>-</u>
<b>17 INVESTMENT IN GOVERNMENT SECURITIES-TREASURY BILLS</b>		
Maturing after 90 days from date of acquisition	<u>12,739,969</u>	<u>4,768,146</u>
The movement in the treasury bills may be summarized as follows		
At 1 January 2016	4,768,146	-
Additions	17,245,388	4,665,100
Redemptions	(11,000,000)	-
Accrued interest	1,726,435	103,046
	<u>12,739,969</u>	<u>4,768,146</u>
<b>Current</b>	<u>12,739,969</u>	<u>4,768,146</u>
<b>18 LOANS AND ADVANCES TO BANKS</b>		
Current account balances with banks	59,421	861,469
Placements with other banks	10,279,921	23,972,623
	<u>10,339,341</u>	<u>24,834,092</u>
<b>Current</b>	<u>10,339,341</u>	<u>24,834,092</u>
<b>19 LOANS AND ADVANCES TO CUSTOMERS</b>		
Staff loans	606,622	-
	<u>606,622</u>	<u>-</u>
<b>20 OTHER ASSETS</b>		
Prepayments	365,391	2,337,532
Sundry receivables	4,100	8,355
Other receivables	75,048	-
	<u>444,539</u>	<u>2,345,887</u>

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

21 PROPERTY & EQUIPMENT	Leasehold Improvements	Computer Equipment	Office Equipment	Motor Vehicles	Furniture & Fittings	TOTAL
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
<b><u>Year ended 31 December 2016</u></b>						
<b>Cost</b>						
At 1 January 2016	7,700	1,549	3,605	-	6,735	19,589
Additions	998,149	1,515,882	545,811	212,997	75,127	3,347,966
At 31 December 2016	<u>1,005,849</u>	<u>1,517,431</u>	<u>549,416</u>	<u>212,997</u>	<u>81,862</u>	<u>3,367,555</u>
<b>Accumulated depreciation</b>						
At 1 January 2016	(1,412)	(946)	(1,170)	-	(1,538)	(5,065)
Charge for the year	(28,233)	(272,857)	(46,662)	(30,916)	(9,418)	(388,086)
At 31 December 2016	<u>(29,645)</u>	<u>(273,803)</u>	<u>(47,832)</u>	<u>(30,916)</u>	<u>(10,956)</u>	<u>(393,152)</u>
<b>Net carrying value</b>	<u><u>976,204</u></u>	<u><u>1,243,628</u></u>	<u><u>501,584</u></u>	<u><u>182,081</u></u>	<u><u>70,906</u></u>	<u><u>2,974,403</u></u>
<b><u>Year ended 31 December 2015</u></b>						
<b>Cost</b>						
At 1 January 2015	7,700	1,549	3,605	-	2,235	15,089
Additions	-	-	-	-	4,500	4,500
At 31 December 2015	<u>7,700</u>	<u>1,549</u>	<u>3,605</u>	<u>-</u>	<u>6,735</u>	<u>19,589</u>
<b>Accumulated depreciation</b>						
At 1 January 2015	(642)	(430)	(449)	-	(266)	(1,786)
Charge for the year	(770)	(516)	(721)	-	(1,272)	(3,279)
At 31 December 2015	<u>(1,412)</u>	<u>(946)</u>	<u>(1,170)</u>	<u>-</u>	<u>(1,538)</u>	<u>(5,065)</u>
<b>Net carrying value</b>	<u><u>6,288</u></u>	<u><u>602</u></u>	<u><u>2,435</u></u>	<u><u>-</u></u>	<u><u>5,197</u></u>	<u><u>14,523</u></u>

\*No property and equipment has been pledged as collateral. All property and equipment items are non- current.

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>2016</u> TZS '000	<u>2015</u> TZS '000
<b>22 INTANGIBLE ASSETS</b>		
At 1 January	-	-
Transferred from other assets (prepayments)	2,103,900	
Paid during the year	4,035,547	
Amortisation charge for the year	<u>(286,855)</u>	-
At 31 December	<u>5,852,592</u>	<u>-</u>
At 31 December		
Cost	6,139,448	-
Accumulated amortisation	<u>(286,855)</u>	-
<b>Net carrying value</b>	<u>5,852,593</u>	<u>-</u>
<b>23 DEPOSITS FROM CUSTOMERS</b>		
Savings Account	241,142	-
Current Account	110,556	-
Term Deposits	<u>1,084,671</u>	-
	<u>1,436,369</u>	-
<b>Current</b>	<u>1,436,369</u>	-
<b>Maturity Analysis</b>		
Repayable on demand	245,172	-
Maturing within 3 months	<u>1,084,671</u>	-
	<u>1,329,843</u>	-
<b>24 OTHER LIABILITIES</b>		
Accrued taxes payable	173,430	293,895
Accrued expenses	761,342	-
Sundry creditors	62,725	79,441
Other payables	<u>6,206</u>	-
	<u>1,003,704</u>	<u>373,336</u>

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Number of ordinary shares	Total TZS '000
<b>25 SHARE CAPITAL</b>		
At 1 January 2015	30,912,460	30,912,460
Split of existing shares	30,912,460	-
At 31 December 2015	<u>61,824,920</u>	<u>30,912,460</u>
At 1 January 2016	<u>61,824,920</u>	<u>30,912,460</u>
<b>At 31 December 2016</b>	<u><u>61,824,920</u></u>	<u><u>30,912,460</u></u>
<b>26. RESERVES</b>		Regulatory general credit risk reserve(*)
	Retained earnings	TZS '000
	TZS '000	TZS '000
Balance at 1 January 2016	994,483	-
Loss for the year	(729,629)	-
Transfer to/(from) retained earnings	(6,057)	6,057
<b>Balance at 31 December 2016</b>	<u>258,797</u>	<u>6,057</u>
Balance at 1 January 2015	911,085	-
Profit for the year	83,398	-
Balance at 31 December 2015	<u>994,483</u>	<u>-</u>

(\*) General regulatory reserve represents 1% additional provision on performing (current) loans and advances to customers in order to comply with requirement of Bank of Tanzania prudential guidelines. This reserve is not available for distribution.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
FOR THE YEAR ENDED 31 DECEMBER 2016

**27 ANALYSIS OF CASH & CASH EQUIVALENTS AS SHOWN IN THE STATEMENT OF CASH FLOWS**

	<u>2016</u>	<u>2015</u>
	TZS '000	TZS '000
Cash in hand (Note 16)	86,821	-
Balances with Central Bank (Note 16)	43,577	-
Loans and advances to banks (Note 17)	59,421	861,469
	<u>189,819</u>	<u>861,469</u>

**28 CONTINGENT LIABILITIES AND COMMITMENTS**

*(a) Tax assessments*

The normal procedure for agreeing final income tax liability in Tanzania involves the Bank filing its final income tax returns with the Tanzania Revenue Authority (TRA) followed by TRA performing their own review of the Bank's submissions and issuing their notice of final income tax assessments to the Bank.

The final income tax assessment may be determined by TRA after their review and possible site visit may differ from the assessments determined by the Bank and procedures are in place for the Bank to object and appeal against the TRA assessments. It is common that a timeframe from the Bank's own submission of its final tax returns and for TRA performing their reviews and issuing of notice of final tax assessment may take several months or years.

The Bank has not received from TRA final assessments since incorporation. The directors envisage no material tax contingencies as the Bank is in cumulative tax position of TZS 2,291,208,000 as at year end (2015: TZS Nil).

*(b) Legal proceedings*

There were no legal proceedings outstanding against the Bank as at 31 December 2016 hence no provision made on the same (2015: nil provision)

*(c) Capital commitments*

There were no capital commitments at the year-end (2015: nil).

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2016

#### 28 CONTINGENT LIABILITIES AND COMMITMENTS *(Continued)*

*(d) Operating lease commitments*

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	<u>2016</u> TZS '000	<u>2015</u> TZS '000
Not later than one year	619,857	431,265
Later than one year and not later than five years	602,223	731,778
Later than five years	-	-
	<u>1,222,080</u>	<u>1,163,043</u>

#### 29 RELATED PARTY TRANSACTIONS

The Bank is owned and controlled by TTU (Tanzania Teachers' Union), TDCL (Teachers' Development Company Limited), PSPF (Public Service Pensions Fund), NHIF (National Health Insurance Fund), Individual Teachers and General Public through shareholding.

Transactions entered into with the shareholders in the normal course of business during the year to 31 December 2016 include loans and fixed deposits.

The volumes of related party transactions, outstanding balances at the year-end and related income and expenses for the year are as follows:

*(a) Loans and advances to related parties*

	<u>2016</u> TZS '000	<u>2015</u> TZS '000
At start of year	-	-
Loans buy backs during the year	384,406	-
Loan repayment during the year	(31,956)	-
At end of year	<u>352,451</u>	<u>-</u>
Interest income earned	<u>17,709</u>	<u>-</u>

**MWALIMU COMMERCIAL BANK PLC****NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016****29 RELATED PARTY TRANSACTIONS (Continued)***(b) Deposits from related parties*

	<b>2016</b>	2015
	<b>TZS '000</b>	TZS '000
At start of year	-	-
Deposits during the year	<b>1,052,000</b>	-
Deposits matured during the year	<b>(2,000)</b>	-
At end of year	<b>1,050,000</b>	-
Interest expense incurred	<b>14,268</b>	-

*(c) Key management compensation*

	<b>2016</b>	2015
	<b>TZS '000</b>	TZS '000
Salaries and other short-term employment benefits	<b>908,590</b>	376,241

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

*(d) Directors remuneration*

Fees and other emoluments paid to directors of the Bank during the year amounted to TZS 67.4 million (2015: 65.6 million). Details of payment to individual directors will be tabled at the annual general meeting.

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**30 FINANCIAL INSTRUMENTS BY CATEGORY**

	<b>Loans and receivables</b>	<b>Held to maturity</b>	<b>Total</b>
<b>At 31 December 2016</b>	<b>TZS '000</b>	<b>TZS '000</b>	<b>TZS '000</b>
<b>Financial assets</b>			
Cash and balances with Bank of Tanzania	201,306	-	201,306
Investment in government securities -Treasury Bills	-	12,739,969	12,739,969
Loans and advances to banks	10,339,341	-	10,339,341
Loans and advances to customers	606,622	-	606,622
Other assets (excluding prepayments)	79,148	-	79,148
	<u><b>11,226,417</b></u>	<u><b>12,739,969</b></u>	<u><b>23,966,386</b></u>

	<b>other liabilities at amortised cost</b>	<b>Total</b>
<b>At 31 December 2016</b>	<b>TZS '000</b>	<b>TZS '000</b>
<b>Financial liabilities</b>		
Deposits from customers	1,436,369	1,436,369
Other liabilities	830,273	830,273
	<u><b>2,266,643</b></u>	<u><b>2,266,643</b></u>

	<b>Loans and receivables</b>	<b>Held to maturity</b>	<b>Total</b>
<b>At 31 December 2015</b>	<b>TZS '000</b>	<b>TZS '000</b>	<b>TZS '000</b>
<b>Financial assets</b>			
Investment in government securities - Treasury Bills	-	4,768,146	4,768,146
Loans and advances to banks	24,834,092	-	24,834,092
Other assets	8,355	-	8,355
	<u><b>24,842,447</b></u>	<u><b>4,768,146</b></u>	<u><b>29,610,593</b></u>

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2016

#### 30 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

<b>At 31 December 2016</b>	<b>other liabilities at amortised cost</b>	<b>Total</b>
<b>Financial liabilities</b>	<b>TZS '000</b>	<b>TZS '000</b>
Other liabilities	79,441	79,441
	<b>79,441</b>	<b>79,441</b>

#### 31 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business and the financial risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The most important types of financial risks are credit risk, liquidity risk and market risk.

##### 31.1 Credit risk

Credit risk is the risk that the Bank shall incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank shall establish a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

##### 31.1.1 Credit risk measurement

###### *Loans and advances*

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects two components (i) the 'probability of default' by the client or counterparty on its contractual obligations and (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'.

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses.

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2016

#### 31 FINANCIAL RISK MANAGEMENT *(Continued)*

##### 31.2 Credit risk *(Continued)*

##### 31.1.1 Credit risk measurement *(Continued)*

###### *(ii) Probability of default*

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty in line with the Bank of Tanzania (BOT) guidelines. Clients of the Bank are segmented into five rating classes.

The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

##### **Bank's internal ratings scale**

<b>Bank's rating</b>	<b>Description of the grade</b>
1	Current
2	Especially Mentioned
3	Sub-standard
4	Doubtful
5	Loss

###### *(iii) Exposure at default*

Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

##### 31.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT *(Continued)*

31.1 Credit risk *(Continued)*

31.1.2 Risk limit control and mitigation policies *(Continued)*

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

31.1.3 Impairment and provisioning policies

The internal rating system described in Note 3.1.1 focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the annual financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

During the year there was no impairment allowance shown on the statement of financial position at year-end as derived from current grade. The table below shows the percentage of the Bank's on balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating	31-Dec-16				31-Dec-15			
	Loans and advances		Impairment provision		Loans and advances		Impairment provision	
	<u>Amount</u>	<u>(%)</u>	<u>Amount</u>	<u>(%)</u>	<u>Amount</u>	<u>(%)</u>	<u>Amount</u>	<u>(%)</u>
	TZS		TZS		TZS		TZS	
	'000		'000		'000		'000	
1. Current	606,622	100	-	-	-	-	-	-
	<u>606,622</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

#### 31 FINANCIAL RISK MANAGEMENT (Continued)

##### 31.1 Credit risk (Continued)

##### 31.1.4 Impairment and provisioning policies (Continued)

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

##### 31.1.5 Maximum exposure to credit risk before collateral held or other credit enhancements

The Bank's maximum exposure to credit risk at 31 December 2016 and 31 December 2015 respectively is represented by the carrying amounts of the financial assets in the Statement of Financial Position. There was no collateral held in respect of the financial assets exposed to credit risk. See below:

	<b>2016</b>	<b>2015</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Cash and balances with Bank of Tanzania	201,306	0
Investment in government securities -Treasury Bills	12,739,969	4,768,146
Loans and advances to banks	10,339,341	24,834,092
Loans and advances to customers	606,622	0
Other assets*	79,148	8,355
	<hr/>	<hr/>
<b>Total</b>	<b>23,966,386</b>	<b>29,610,593</b>

##### \*Other assets excludes prepayments as they are not financial assets

The total maximum exposure for the Bank is derived from loans and advances to banks and loans and advances to customers at 94% (2015: 100%) and 6% (2015: 0%) respectively.

The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities. 100% of the loans and advances portfolio is considered to be current (2015: Nil loans and advances hence zero exposure).

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**31 FINANCIAL RISK MANAGEMENT (Continued)**

**31.1 Credit risk (Continued)**

**31.1.6 Loans and advances**

Loans and advances are summarised as follows:

	31-Dec-16		31-Dec-15	
	Loans and advances to customers	Amounts due from banks	Loans and advances to customers	Amounts due from banks
	TZS '000	TZS '000	TZS '000	TZS '000
Neither past due nor impaired	606,622	10,339,341	-	24,834,092
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
<b>Gross loans and advances</b>	<u>606,622</u>	<u>10,339,341</u>	<u>-</u>	<u>24,834,092</u>
Less: Allowances for impairment	-	-	-	-
<b>Net loans and advances</b>	<u><u>606,622</u></u>	<u><u>10,339,341</u></u>	<u><u>-</u></u>	<u><u>24,834,092</u></u>

*(ii) Loans and advances to customers*

There was zero impairment provision for loans and advances (2015: nil). This represent results of loans assessed individually for impairment and also on a portfolio basis.

*(iii) Loans and advances to banks*

There was no amount of individually impaired loans and advances to banks as at 31 December 2016 (2015: nil). No collateral is held by the Bank and no impairment provision has been provided against the gross amount.

**31.1.7 Treasury bills**

The only investment securities held by the Bank are treasury bills issued by the Government which were considered to be neither past due nor impaired. These investment securities are held with the Government with no history of default.

# MWALIMU COMMERCIAL BANK PLC

## NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

### 31 FINANCIAL RISK MANAGEMENT (Continued)

#### 31.1 Credit risk (Continued)

##### 31.1.8 Other assets

Other assets component exposed to credit risk are the receivables in respect of unpaid share capital (arising from the difference between issued and paid up share capital) and other receivables. Prepayments are not financial assets and therefore excluded accordingly. There is no history of default on other assets amount and management does not deem other assets balance to be impaired.

##### 31.1.9 Concentration of risks of financial assets with credit risk exposure

###### (a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2016. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

Year ended 31 December 2016	<b>Tanzania</b>	<b>Total</b>
	<b>TZS '000</b>	<b>TZS '000</b>
Cash and balances with Bank of Tanzania	201,306	201,306
Investment in government securities -Treasury Bills	12,739,969	12,739,969
Loans and advances to banks	10,339,341	10,339,341
Loans and advances to customers	606,622	606,622
Other assets	79,148	79,148
<b>Total</b>	<b>23,966,386</b>	<b>23,966,386</b>

###### Year ended 31 December 2015

Cash and balances with Bank of Tanzania	-	-
Investment in government securities -Treasury Bills	4,768,146	4,768,146
Loans and advances to banks	24,834,092	24,834,092
Loans and advances to customers	-	-
Other assets	8,355	8,355
<b>Total</b>	<b>29,610,593</b>	<b>29,610,593</b>

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

#### 31 FINANCIAL RISK MANAGEMENT (Continued)

##### 31.2 Credit risk (Continued)

###### (b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties

Year ended 31 December 2016	Financial Institutions	Individuals	Others	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	201,306	-	-	201,306
Investment in government securities - Treasury Bills	12,739,969	-	-	12,739,969
Loans and advances to banks	10,339,341	-	-	10,339,341
Loans and advances to customers	-	606,622	-	606,622
Other assets	-	-	79,148	79,148
<b>Total</b>	<b>23,280,617</b>	<b>606,622</b>	<b>79,148</b>	<b>23,966,386</b>

  

Year ended 31 December 2015				
Investment in government securities - Treasury Bills	4,768,146	-	-	4,768,146
Loans and advances to banks	24,834,092	-	-	24,834,092
Other assets	-	-	8,355	8,355
<b>Total</b>	<b>29,602,239</b>	<b>-</b>	<b>8,355</b>	<b>29,610,593</b>

##### 31.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**31 FINANCIAL RISK MANAGEMENT (Continued)**

**31.2 Liquidity risk (Continued)**

**31.2.1 Liquidity risk management process**

The Bank's liquidity management process, as carried out within the Bank and monitored by the Asset and Liability Committee (ALCO) of the Bank includes:

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management

The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

**31.2.2 Funding approach**

Sources of liquidity are regularly reviewed by the Bank's Asset and Liability Committee (ALCO) of the Bank to maintain a wide diversification by currency, geography, provider, product and term.

**31.2.3 Non-derivative cash flows**

The table below analyses financial assets and financial liabilities into relevant maturity groupings based on their contractual undiscounted amounts as at 31 December 2016.

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**31 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**31.2.4 Non-derivative cash flows (continued)**

Amounts are in TZS '000

As at 31 December 2016	Up to1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
<b>Liabilities</b>						
Deposits from customers	816,369	620,000	-	-	-	1,436,369
Other liabilities *	830,273	-	-	-	-	830,273
<b>Total liabilities (contractual maturity dates)</b>	<b>1,646,643</b>	<b>620,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,266,643</b>
<b>Assets</b>						
Cash and balances with Bank of Tanzania	201,306	-	-	-	-	201,306
Investment in government securities - Treasury Bills	-	-	12,739,969	-	-	12,739,969
Loans and advances to banks	989,341	1,500,000	7,850,000	-	-	10,339,341
Loans and advances to customers	929	-	833	458,600	146,259	606,622
Other assets	-	-	79,148	-	-	79,148
<b>Total assets (expected maturity dates)</b>	<b>1,478,971</b>	<b>1,500,000</b>	<b>20,669,950</b>	<b>458,600</b>	<b>146,259</b>	<b>23,966,386</b>

\* Other liabilities exclude statutory obligations

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2.4 Non-derivative cash flows (continued)

Amounts are in TZS '000

As at 31 December 2015	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
<b>Liabilities</b>						
Other liabilities *	79,441	-	-	-	-	79,441
<b>Total liabilities (contractual maturity dates)</b>	<b>79,441</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,441</b>
<b>Assets</b>						
Investment in government securities - Treasury Bills	-	-	4,768,146	-	-	4,768,146
Loans and advances to banks	861,469	18,849,644	5,122,979	-	-	24,834,092
Other assets	-	-	8,355	-	-	8,355
<b>Total assets (expected maturity dates)</b>	<b>861,469</b>	<b>18,849,644</b>	<b>9,899,480</b>	<b>-</b>	<b>-</b>	<b>29,610,593</b>

\* Other liabilities exclude statutory obligations

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*  
FOR THE YEAR ENDED 31 DECEMBER 2016

**31 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**31.2.4 Non-derivative cash flows (continued)**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with central bank, treasury bills; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

**31.3 Market risk**

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates and foreign currencies, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates.

**31.3.1 Foreign exchange risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. With all other variables held constant, a shift in foreign exchange rate by 5% on all foreign denominated assets and liabilities, would lead to foreign currency exposure to the Bank of a lower or higher loss after tax of TZS 2.597 million as at 31 December 2016 (2015: TZS nil).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (amounts are in TZS '000).

<b>As at 31 December 2016</b>	<b>USD</b>	<b>Total</b>
<b>Assets</b>		
Cash and balances with the Bank of Tanzania	51,945	51,945
<b>Total financial assets</b>	<u>51,945</u>	<u>51,945</u>
<b>Liabilities</b>		
<b>Total financial liabilities</b>	<u>-</u>	<u>-</u>
<b>Net on-balance sheet financial position</b>	<u>51,945</u>	<u>51,945</u>
<b>Credit commitments</b>	<u>-</u>	<u>-</u>

## **MWALIMU COMMERCIAL BANK PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (*Continued*) FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **31 FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **31.3.1 Foreign exchange risk (continued)**

In the financial year 2015 the Bank was not exposed to the effects of fluctuations in the prevailing foreign currency exchange rates as the financial assets were denominated in Tanzania shillings, which is the functional and presentation currency.

##### **31.3.2 Interest rate risk**

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. 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 Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Bank. The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. All Interest bearing financial assets have a fixed interest rate. (Amounts are in TZS '000).

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 1 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**31.3.2 Interest rate risk (continued)**

<b>As at 31 December 2016</b>	<b>1 to 3 months</b>	<b>4 to 12 months</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with Bank of Tanzania	-	-	-	-	201,306	201,306
Investment in government securities - Treasury Bills	-	12,739,969	-	-	-	12,739,969
Loans and advances to banks	2,429,921	7,850,000	-	-	59,421	10,339,341
Loans and advances to customers	929	833	458,600	146,259	-	606,622
Other assets	-	-	-	-	79,148	79,148
<b>Total financial assets</b>	<b>2,430,850</b>	<b>20,590,802</b>	<b>458,600</b>	<b>146,259</b>	<b>339,875</b>	<b>23,966,386</b>
<b>Liabilities</b>						
Deposits from customers	1,436,369	-	-	-	-	1,436,369
Other liabilities	-	-	-	-	830,273	830,273
<b>Total financial liabilities</b>	<b>1,436,369</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,266,643</b>
<b>Total interest rate repricing gap</b>	<b>994,481</b>	<b>20,590,802</b>	<b>458,600</b>	<b>146,259</b>	<b>597,141</b>	<b>22,787,283</b>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

31.3.2 Interest rate risk (continued)

As at 31 December 2015	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Non interest bearing	Total
<b>Assets</b>						
Investment in government securities						
-Treasury Bills	-	4,768,146	-	-	-	4,768,146
Loans and advances to banks	18,849,644	5,122,979	-	-	861,469	24,834,092
Other assets	-	-	-	-	8,355	8,355
<b>Total financial assets</b>	<b>18,849,644</b>	<b>9,891,126</b>	<b>-</b>	<b>-</b>	<b>869,824</b>	<b>29,610,593</b>
<b>Liabilities</b>						
Other liabilities	-	-	-	-	79,441	79,441
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,441</b>	<b>79,441</b>
<b>Total interest rate repricing gap</b>	<b>18,849,644</b>	<b>9,891,126</b>	<b>-</b>	<b>-</b>	<b>790,383</b>	<b>29,531,152</b>

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**31. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**31.3.2 Interest rate risk (continued)**

**Interest rate sensitivity**

As at 31 December 2016, if interest rates on interest bearing financial assets held at amortized cost had increased or decreased by 200 basis points with all other variables held constant, the impact on profit or loss before income tax would have been as set out in the table below;

	2016		2015	
	Increase by 2%	Decrease by 2%	Increase by 2%	Decrease by 2%
<b>Change in interest rate on</b> Treasury Bills	62,773	(62,773)	14,315	(14,315)
<b>Change in interest rate on</b> Loans and advances to banks	250,325	(250,325)	284,899	(284,899)
<b>Change in interest rate on</b> Loans and advances to customers	594	(594)	-	-

**31.3.3 Fair value of financial assets and liabilities**

The table below summarises the carrying amounts and fair values of the financial assets and liabilities presented on the Bank's statement of financial position:

	Carrying value	Fair value
Year ended 31 December 2016	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	201,306	201,306
Investment in government securities -Treasury Bills	12,739,969	12,739,969
Loans and advances to banks	10,339,341	10,339,341
Loans and advances to customers	606,622	606,622
Other assets	79,148	79,148
<b>Total financial assets</b>	<b>23,966,386</b>	<b>23,966,386</b>
Deposits from customers	1,436,369	1,436,369
Other liabilities	830,273	830,273
<b>Total financial liabilities</b>	<b>2,266,643</b>	<b>2,266,643</b>

**MWALIMU COMMERCIAL BANK PLC**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**31. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**31.3.2 Interest rate risk (continued)**

**Interest rate sensitivity**

	<b>Carrying value</b>	<b>Fair value</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<b>Year ended 31 December 2015</b>		
Investment in government securities -Treasury Bills	4,768,146	4,768,146
Loans and advances to banks	24,834,092	24,834,092
Other assets	8,355	8,355
<b>Total financial assets</b>	<b>29,610,593</b>	<b>29,610,593</b>
<b>Financial liabilities</b>		
<b>Other liabilities</b>	<b>79,441</b>	<b>79,441</b>

The table below presents the fair value hierarchy of the financial instruments presented above.

**Year ended 31 December 2016**

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Financial assets</b>			
Cash and balances with Bank of Tanzania	201,306	-	201,306
Investment in government securities -Treasury Bills	-	12,739,969	12,739,969
Loans and advances to banks	59,421	10,279,921	10,339,341
Loans and advances to customers	-	606,622	606,622
Other assets	-	8,355	8,355
<b>Total financial assets</b>	<b>260,727</b>	<b>23,705,953</b>	<b>23,966,679</b>
<b>Financial liabilities</b>			
Deposits from customers	-	1,436,369	1,436,369
Other liabilities	-	830,273	830,273
<b>Total financial liabilities</b>	<b>-</b>	<b>2,266,643</b>	<b>2,266,643</b>

**Year ended 31 December 2015**

	<b>Level1</b>	<b>Level2</b>	<b>Total</b>
<b>Financial assets</b>			
Investment in government securities -Treasury Bills	-	4,768,146	4,768,146
Loans and advances to banks	861,469	23,972,623	24,834,092
Other assets	-	8,355	8,355
<b>Total financial assets</b>	<b>861,469</b>	<b>28,749,124</b>	<b>29,610,593</b>
<b>Financial liabilities</b>			
<b>Other liabilities</b>	<b>-</b>	<b>79,441</b>	<b>79,441</b>

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)  
FOR THE YEAR ENDED 31 DECEMBER 2016

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.3.2 Fair valuation methods and assumptions

a) **Financial instruments not measured at fair value**

The fair values of the Bank's financial assets such as loans and advances to customers, loans and advances to banks, other assets, deposits from customers and other liabilities approximate their respective carrying amounts due to the generally short periods to maturity dates.

i) **Cash and bank balances**

Cash and bank balances comprises cash at bank. The carrying amount of cash and balances with banks is a reasonable approximation of fair value.

ii) **Government securities – treasury bills**

The fair values of treasury bills are determined with reference to quoted prices, valued using market prices of individual securities at the reporting date. The positions were marked-to-market at 31 December 2016

iii) *Loans and advances to banks*

Loans and advances to banks include inter-bank placements. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

iv) *Loans and advances to customers*

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

v) *Other liabilities*

Other liabilities contain accruals and other payables, which are non-interest bearing and therefore carrying value, approximated to the fair value.

31.3.3 Basis for the fair value hierarchy

The fair value hierarchy of the financial instruments presented above is based on the following:

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Cash and balances with Bank of Tanzania is classified as level 1 as this is the amount in current account.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**31. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**31.2 .3 Basis for the fair value hierarchy (Continued)**

- (ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Specific valuation techniques used to value financial instruments include quoted market prices or dealer quotes for similar instruments and other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

**31.4 Capital management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

To comply with the capital requirements set by the Bank of Tanzania;

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania, for supervisory purposes. The required information is filed with the Bank of Tanzania on monthly basis.

The Bank of Tanzania requires each bank or banking group to:

- (a) hold the minimum level of Core Capital of TZS 15 billion;
- (b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%;
- (c) and maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's regulatory capital as managed by its Treasury department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Intangible assets, leasehold improvements and prepaid expenses are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

## MWALIMU COMMERCIAL BANK PLC

### NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

#### 31. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 31.4 Capital management (Continued)

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of - and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2016 and year ended 31 December 2015. During the year, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	<b>2016</b>	<b>2015</b>
	<b>TZS '000</b>	<b>TZS '000</b>
<b>Tier 1 capital</b>		
Paid Share capital	30,912,460	30,912,460
Retained earnings	258,797	994,483
Prepaid expenses	(365,391)	(2,337,531)
Intangible assets	<u>(5,296,822)</u>	<u>-</u>
<b>Total qualifying tier 1 capital</b>	25,509,043	29,569,412
Tier 2 capital (1% general provision)	<u>6,057</u>	<u>-</u>
<b>Total regulatory capital</b>	<u><u>25,515,100</u></u>	<u><u>29,569,412</u></u>
	<b>2016</b>	<b>2015</b>
	<b>TZS'000'</b>	<b>TZS'000'</b>
<b>Risk weighted assets</b>		
On-balance sheet	7,905,525	7,172,967
Capital charge for market risk	<u>51,945</u>	<u>-</u>
<b>Total risk weighted assets</b>	<u><b>7,957,470</b></u>	<u><b>7,172,967</b></u>
	<b>Required</b>	<b>Bank's ratio</b>
	<b>ratio</b>	<b>Bank's ratio</b>
	<b>%</b>	<b>%</b>
Tier 1 capital	10	321
Tier 1 + Tier 2 capital	<u>12</u>	<u>412</u>

#### 32 EVENTS SUBSEQUENT TO YEAR END

At the date of signing the annual financial statements, the Directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in these annual financial statements, which significantly affected the financial position of the Bank and results of its operations.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**33 NEW ACCOUNTING PRONOUNCEMENTS**

**Adoption of new and revised Standards**

During the current Year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2016. The adoption of these new and revised standards and interpretations has not resulted in material changes to the Bank's accounting policies.

The Bank adopted the following standards, interpretations and amended standards during the year:

IAS 1            *Presentation of Financial Statements* - Amendments are designed to encourage entities to apply professional judgement in determining what information to disclose, as well as where and in what order information is presented in the financial disclosures provided in the financial statements.

IAS 16           *Property, Plant and Equipment* - Amendments regarding the clarification of acceptable methods of depreciation and amortization, and amendment to include bearer plants in the scope of IAS 16.

IAS 38           *Intangible Assets* - Amendments regarding the clarification of acceptable methods of depreciation and amortisation.

Annual improvements (2012- 2014 cycle)

Non-urgent but necessary clarifications and amendments to the following standards of IFRS:

IFRS 7           Financial Instruments: Disclosure

IAS 19           Employee Benefits

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)  
FOR THE YEAR ENDED 31 DECEMBER 2016

33 NEW ACCOUNTING PRONOUNCEMENTS (*Continued*)

**New and revised International Financial Reporting Standards issued not yet effective**

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

Standard	Annual periods beginning on or after
IAS 7 <i>Statement of Cash Flows</i> - Amendments as result of the Disclosure Initiative. Additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017
IAS 12 <i>Income Taxes</i> - Amendments regarding the recognition of deferred tax assets for unrealised losses.	1 January 2017
IFRS 9 <i>Financial Instruments</i> - IFRS 9 will lead to significant changes in the accounting for financial instruments. Detail regarding the changes, as well as the expected impact thereof, have been included below.	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i> - A new accounting standard that provides a single, principle based, five-step model to be applied to all contracts with customers. New disclosures about revenue are also introduced.	1 January 2018
IFRIC22 <i>Foreign Currency Transactions and Advance Consideration</i> - Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.	1 January 2018
IFRS 16 <i>Leases</i> - A new accounting standard that eliminates the classification of leases as either operating leases or finance leases for lessees and, instead, introduces a single accounting model, which recognises all leases on the statement of financial position.	1 January 2019

The Bank is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**33 NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

***IFRS 9 Financial Instruments***

IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement is effective for periods beginning on or after 1 January 2018. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments. The Bank will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide transitional disclosures in accordance with the amended requirements of IFRS 9 Financial Instruments: Disclosures. Any change in carrying amounts from the initial application of IFRS 9 will be recognised in equity.

IFRS 9 introduces requires entities to recognise expected credit losses based on forward-looking information, replacing the existing incurred loss model which only recognised impairment if there was objective evidence that a loss was already incurred. The IFRS 9 impairment will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The Company plans to adopt the new standard on the required effective date. During 2016, the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.