

MWALIMU COMMERCIAL BANK PLC
ANNUAL REPORT AND AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

MWALIMU COMMERCIAL BANK PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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MWALIMU COMMERCIAL BANK PLC

CORPORATE INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2017

REGISTERED OFFICE

Mlimani Tower, Mezzanine Floor, Sam Nujoma Road
Ubungo 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
Mr. Yahya Majid Ally
Mr. Bernard Hezron Konga

NATIONALITY

Tanzanian
Tanzanian
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 2017

1 INTRODUCTION

The directors present their report together with the audited annual financial statements for the year ended 31 December 2017, 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 on the 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. The Bank obtained full banking license on 13 July 2016 to carry out banking business as a commercial bank.

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

5 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Bank at the date of this report, who held office since 1 January 2017, except where otherwise stated are:

Name	Position	Age	Nationality	Qualifications
Herman Mark Kessy	Chairman	68	Tanzanian	MA (Economics), BA Hons (Economics), PGD in Economics
Ambrose Ntangeki Nshala	Vice Chairman	42	Tanzanian	CPA-T, MBA (Finance & Banking)
Prof. Tadeo Andrew Satta	Director	56	Tanzanian	PhD (Development Finance), MBA (Financial Management)
Dr. Fidea Luhwano Mgina	Director	59	Tanzanian	PhD, MSc. (Agriculture)
Said Kambi Shaaban	Director	49	Tanzanian	MBA Finance, BA (Public Administration)
Mwl. Mohamed Mussa Utaly	Director	48	Tanzanian	MSc. (Accounting & Finance), ADA
Yahya Majid Ally (since 1 July 2017)	Director	49	Tanzanian	CPA-T, CPSP, MBA Finance
Bernard Hezron Konga (since 1 July 2017)	Director	37	Tanzanian	Masters in Economics (Policy & Planning)

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, Mr. Herman Mark Kessy, Dr. Fidea Luhwano Mgina and Mwl. Mohamed Mussa Utaly own 1,390, 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 eight 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.

The Board is required to meet at least four (4) times a year as a best practice. During the year it met four times in ordinary meetings. The Bank is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

accountability. Board delegated authorities are reviewed regularly and directors have full access to board documentation.

Board Audit Committee

Name	Position
Mr. Ambrose Ntangeki Nshala	Chairperson
Prof. Tadeo Andrew Satta	Member
Mwl. Mohamed Mussa Utaly	Member

Board Risk & Compliance Committee

Name	Position
Mr. Yahya Majid Ally	Chairperson
Mr. Bernard Hezron Konga	Member
Mr. Said Kambi Shaaban	Member

Board Credit Committee

Name	Position
Mr. Said Kambi Shaaban	Chairperson
Mr. Yahya Majid Ally	Member
Dr. Fidea Luhwano Mgina	Member

Board Nomination & Remuneration Committee

Name	Position
Mr. Said Kambi Shaaban	Chairperson
Mr. Bernard Hezron Konga	Member
Dr. Fidea Luhwano Mgina	Member

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

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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>2017</u>	Percentage Share holding	<u>2016</u>	Percentage Share holding
	Number of Shares		Number of Shares	
Founder 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 4,271 million during the year (2016: after tax loss of TZS 730 million).

The Bank's financial results for the year are set out on page 20 of the annual financial statements.

The directors do not recommend payment of a dividend.

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

13 PERFORMANCE FOR THE YEAR

Statement of financial position

Total loans and advances to banks increased by 44% (TZS 4,498 million) from TZS 10,339 million in 2016 to TZS 14,837 million in 2017. Investment in government securities (Bills and Bonds) declined by 86% during the year. This resulted from increased investment in customer loans.

Total loans and advances to customers were TZS 11,195 million (2016: TZS 607 million).

Deposits from customers as at year end were TZS 5,478 million (2016: TZS 1,436 million) while deposits from banks were TZS 4,478 million (2016: NIL). Loan to deposit ratio (LDR) stood at 112.47% as at 31 December 2017 (2016: 42.23%).

Total assets increased by 12% from TZS 33,612 million in 2016 to TZS 37,796 million as at 31 December 2017.

Statement of profit or loss and other comprehensive income

Net Interest income expressed as a percentage of operating income was 93% (2016: 99%). There was an increase in non-interest income generating activities as compared to last year.

Total non-interest income from transactional accounts was TZS 265.7 million in 2017 (2016: TZS 29.6 million).

Total operating expenses increased by 69% from TZS 4,563 million in 2016 to TZS 7,690 million in 2017. The increase is mainly attributed to infrastructure expenses incurred during the year. The cost to income ratio has increased to 225% in 2017 (2016: 119%).

14 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.

15 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.

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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.

16 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 fraud, operational, 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 34 to the annual financial statements.

17 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.

18 CASH FLOWS

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

19 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.

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As at 31 December 2017, 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 clause 9 above.

The regulatory capital computation is disclosed on Note 34.4 to the annual financial statements.

20 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.

Performance indicator	Definition and calculation method	2017	2016
Return on equity	Net(loss) profit/Total equity	-15.00%	-2.26%
Return on assets	Net profit/Total assets	-10.76%	-2.10%
Cost to income ratio	Total costs/Net income	225%	119%
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)	11%	16%
Non - interest income to Gross income	Non - interest income/Total income	7.77%	0.77%
Gross loans to deposits	Total loans to customers/Total deposits	112%	42%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	0.1%	0.0%
Earning assets to total assets	Earning assets/Total assets	74%	70%

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Performance indicator	Definition and calculation method	2017	2016
Growth in total assets	Trend (2017 total assets – 2016 total assets/2016 total assets) %	12.43%	4.14%
Growth in loans and advances to customers	Trend (2017 loans and advances – 2016 loans and advances)/2016 loans and advances) %	1,745%	100%
Growth in customer deposits	Trend (2017 customer deposits – 2016 customer deposits)/ (2016 customer deposits) %	281%	100%
Capital adequacy			
Tier 1 Capital	Core capital /Risk weighted assets including Off balance sheet items	121%	379%
Tier 1+Tier 2 Capital	Total capital /Risk Weighted assets including off-balance sheet items	122%	379%

21 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 37 million as training expenses. There are plans for 2018 per bank's training needs assessment to take employees to different professional trainings to ensure they are adequately trained at all levels to upgrade skills and enhance productivity.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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 The Jubilee Insurance Company of 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 by providing adequate and proper personal protective equipment, training and supervision as necessary. In 2017, all staff of the Bank had undergone full medical examination and passed.

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 benefit 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 54 out of which 22 were female and 32 were male (2016: total staff 44, 17 female and 27 male).

22 RELATED PARTIES

All related party transactions and balances are disclosed in Note 32 to these annual financial statements.

23 SERIOUS PREJUDICIAL MATTERS

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

24 DONATIONS TO POLITICAL PARTIES

No donations were made to any political institutions during the financial year ending 31 December 2017.

25 RELATIONSHIP WITH STAKEHOLDERS

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

26 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Donations made during the financial year ending 31 December 2017 on CSR amounted to TZS 5 million (2016: NIL).

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

27 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.

28 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 2018 will be put to the Annual General Meeting.

29 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 authorized for issue on 26 MARCH 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 2017

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 authorized for issue on 26 MAR 2018 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 2017

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 2017 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: 26 MAR 2018

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 20 to 71, which comprise the statement of financial position as at 31 December 2017, 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 2017, 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
Revenue recognition – accuracy of revenue recorded	
<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"> • Interest income is not recognised using the amortised cost method. • Non-interest income is not recognised on an accrual basis. 	<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"> • 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. • 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. • Testing that interest rates charged agreed to the contractual interest rates for a sample of loans to customers. • 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. • Assessing the adequacy of the Bank's disclosures in respect of the accounting policies on revenue recognition set out in Note 3(d).
Compliance with laws and regulations	
<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</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Assessing of key controls over the identification, evaluation and measurement of potential obligations arising from legal and regulatory matters. • Involving our tax specialists to analyze and evaluate the assumptions used to determine provisions for tax matters based on their knowledge and experience of local regulations and practices.

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>and financial position of the Bank.</p> <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>	<ul style="list-style-type: none">• 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 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.• 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.• 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.• Evaluating whether the capital adequacy ratios of the Bank disclosed in Note 34.4 were computed in accordance with the Bank of Tanzania regulations.• 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.• 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 31. <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 2017 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 skepticism 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

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

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

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If 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.

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Companies Act, 2002 of Tanzania and for no other purposes.

As required by the Companies Act, 2002 of Tanzania, we report to you, based on our audit, that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books;

INDEPENDENT AUDITOR'S REPORT *(Continued)*

To the shareholders of

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

- The Directors' Report is consistent with the annual financial statements;
- Information specified by law regarding directors' remuneration and transactions with the Bank is disclosed; and
- The Bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

As required by the Banking and Financial Institutions (External Auditors) Regulations, 2014 of Tanzania, we report to you, based on our audit, that;

- In our opinion, the capital adequacy ratios as presented in Note 34.4 to the annual financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is Neema Kiure Mssusa


Ernst & Young

Certified Public Accountants

Dar es Salaam

Signed by: Neema Kiure Mssusa (FCPA 1227)

Date: 29/03/ 2018

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 TZS '000	2016 TZS '000
Interest and similar income	6	3,583,333	3,819,017
Interest expense and similar charges	7	<u>(417,497)</u>	<u>(15,296)</u>
Net interest income		3,165,836	3,803,721
Loan impairment charges	19	<u>(12,328)</u>	<u>-</u>
Net interest income after impairment		3,153,507	3,803,721
Net fee and commission income	8	271,365	30,966
Net trading income	9	(7,699)	(1,328)
Other income	10	<u>2,049</u>	<u>-</u>
Total income		<u>3,419,222</u>	<u>3,833,359</u>
Staff costs	11	(3,133,143)	(2,066,882)
Infrastructure costs	12	(2,930,443)	(1,250,300)
Administration and general expenses	13	<u>(1,626,826)</u>	<u>(1,245,807)</u>
Operating expenses		<u>(7,690,411)</u>	<u>(4,562,988)</u>
Loss before tax		(4,271,189)	(729,629)
Income tax expense	14	<u>-</u>	<u>-</u>
Loss for the year		(4,271,189)	(729,629)
<i>Items that may be reclassified subsequently to profit/loss:</i>			
Gain on fair valuation of AFS financial assets	29	<u>204,051</u>	<u>-</u>
Total comprehensive loss for the year		<u>(4,067,138)</u>	<u>(729,629)</u>
Basic and diluted earnings per share (TZS)	15	(65.78)	(11.80)

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 TZS '000	2016 TZS '000
Assets			
Cash and balances with Bank of Tanzania	16	1,019,445	201,306
Treasury Bills and other eligible bills	17	624,901	12,739,969
Loans and advances to banks	18	14,837,040	10,339,341
Loans and advances to customers	19	11,194,713	606,622
Investment securities - Available For Sale	20	1,149,912	-
Income tax recoverable	14	458,614	458,614
Other assets	21	327,686	444,539
Property and equipment	22	2,366,432	2,974,403
Intangible assets	23	5,817,692	5,852,592
Total assets		<u>37,796,434</u>	<u>33,617,386</u>
Liabilities			
Deposits from banks	24	4,478,000	-
Deposits from customers	25	5,477,827	1,436,369
Other liabilities	26	730,432	1,003,704
Total liabilities		10,686,259	2,440,073
Shareholders' equity			
Share capital	27	30,912,460	30,912,460
Retained earnings	28	(4,120,723)	258,797
Regulatory credit risk reserve	28	114,387	6,057
Bond revaluation reserve	29	204,051	-
		27,110,175	31,177,314
Total shareholders' equity and liabilities		<u>37,796,434</u>	<u>33,617,386</u>

The annual financial statements were approved by the board of directors and authorized for issue on 26 MAR 2018 and signed on its behalf by:


Herman Mark Kessy

Board Chairman


Ronald Manongi

Chief Executive Officer

MWALIMU COMMERCIAL BANK PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital TZS '000	Retained earnings TZS '000	Regulatory general credit risk reserve TZS '000	Bond Revaluation reserve TZS '000	Total TZS '000
Year ended 31 December 2017					
At 1 January 2017	30,912,460	258,797	6,057	-	31,177,314
Total comprehensive loss					-
Loss for the year		(4,271,189)			(4,271,189)
Transfer to regulatory credit risk reserve		(108,330)	108,330		-
Gain on fair valuation of AFS Treasury Bonds				204,051	204,051
At end of year	<u>30,912,460</u>	<u>(4,120,723)</u>	<u>114,387</u>	<u>204,051</u>	<u>27,110,175</u>
Year ended 31 December 2016					
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>30,912,460</u>	<u>258,797</u>	<u>6,057</u>	<u>-</u>	<u>31,177,314</u>
Note	27	28	28	29	

MWALIMU COMMERCIAL BANK PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 TZS '000	2016 TZS '000
Cash flows from operating activities			
Profit before income tax		(4,271,189)	(729,629)
Adjusted for:			
Depreciation and amortization	22&23	1,857,491	674,941
Net foreign exchange differences		(8,509,185)	(1,328,012)
Net Interest income		(3,583,333)	(3,819,017)
		<u>(14,506,216)</u>	<u>(5,201,717)</u>
<i>Changes in operating assets and liabilities:</i>			
Statutory Minimum Reserve		(325,799)	(70,908)
Loans and advances to banks		(4,497,699)	14,122,624
Loans and advances to customers		(10,588,091)	(606,622)
Other assets		116,853	(202,553)
Deposits from banks		4,478,000	-
Deposits from customers		4,041,458	1,436,369
Other liabilities		(273,272)	630,367
Interest received		12,041,547	3,664,005
Taxes paid		-	(140,982)
Net cash inflow from operating activities		<u>(9,513,218)</u>	<u>13,701,490</u>
Cash flows from investing activities			
Purchase of treasury bills		12,127,504	(6,918,719)
Investment securities - Available For Sale		(945,861)	-
Acquisition of property and equipment	22	(196,620)	(3,347,966)
Acquisition of intangible assets	23	(1,018,000)	(4,035,547)
Net cash outflow from investing activities		<u>(9,967,024)</u>	<u>(14,302,232)</u>
Net increase/(decrease) in cash and cash equivalents		453,806	(600,742)
Movement in cash and cash equivalents			
At start of the year		189,819	861,469
Net increase/(decrease)		453,806	(600,742)
At end of the year	30	<u>643,624</u>	<u>189,819</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017. 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 36.

(b) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The statements have been prepared under the historical cost basis except for available for sale financial assets, which have been measured at fair value.

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

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 34.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

(e) Financial assets

Classification and measurement

The bank classifies its financial assets into the following IAS 39 categories; loans and receivables; and available for sale 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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Available for sale

Available for sale investments are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets which are recognised in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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 realize 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,

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 reorganization 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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred income tax (Continued)

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 utilized. 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 realized 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.

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).

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 licenses are capitalized 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).

(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

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Other assets

Other assets consist of 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.

(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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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.

(b) *Impairment losses on loans and advances*

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

More information on impairment losses including the carrying amounts of the balances affected is presented in Note 34.1.3

(c) *Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. More information on fair value measurement including the carrying amounts of the balances affected is presented in Note 34.3.3.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017**

	2017 TZS '000	2016 TZS '000
6 INTEREST AND SIMILAR INCOME		
Treasury bills	834,947	1,726,435
Investment securities - Available For Sale	140,398	-
Loans and advances to banks	1,778,239	2,057,792
Loans and advances to customers	829,748	34,790
	<u>3,583,333</u>	<u>3,819,017</u>
7 INTEREST EXPENSE AND SIMILAR CHARGES		
Deposits from banks	37,599	44
Deposits from customers	379,898	15,252
	<u>417,497</u>	<u>15,296</u>
8 FEES AND COMMISSION INCOME		
Loan fees	25,117	-
Service charge on customer accounts	163,979	26,558
MCB Mobile banking commissions	6,311	1,938
ATM Card fees and commissions	66,459	2,384
Other fees and commissions	9,499	87
	<u>271,365</u>	<u>30,966</u>
9 NET TRADING INCOME/(LOSS)		
Foreign currency translation gains	(8,509)	(1,328)
Trading activities gains	810	-
	<u>(7,699)</u>	<u>(1,328)</u>
10 OTHER INCOME		
Sundry income	2,049	-
	<u>2,049</u>	<u>-</u>
11 STAFF COST		
Wages and salaries	2,369,463	1,552,558
Social security costs (Defined contribution plan)	238,055	149,982
Other staff costs	525,625	364,342
	<u>3,133,143</u>	<u>2,066,882</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 TZS '000	2016 TZS '000
12 INFRASTRUCTURE COSTS		
ATM & printer hiring charges	70,020	16,346
Office repair and maintenance costs	156,959	71,920
Information Technology*	845,973	487,092
Depreciation of property and equipment (Note 22)	804,591	388,086
Amortisation of intangible assets (Note 23)	1,052,900	286,855
	<u>2,930,443</u>	<u>1,250,300</u>

*Information technology includes; core banking system implementation expenses, software licenses, data lines hire and all other ICT software maintenance expenses

13 ADMINISTRATIVE AND GENERAL EXPENSES		
Rent	536,890	600,020
Marketing costs	217,264	74,506
Subscriptions	31,810	61,545
Professional fees	25,143	59,796
Telephone, postage & Communication costs	37,556	50,596
Printing and stationery expenses	46,825	50,345
Insurance	89,825	48,408
Service charges & levies	5,292	47,530
Bank charges	10,958	27,204
Office security	47,119	29,685
ATM card expenses	274,531	24,238
Auditor's remuneration	61,175	21,800
Legal expenses	60,104	14,961
Directors fees	16,779	15,843
Directors sitting allowances	42,687	51,593
Other administrative expenses	122,867	67,739
	<u>1,626,826</u>	<u>1,245,807</u>

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 TZS '000	2016 TZS '000
14 INCOME TAX		
Tax charge		
Current tax:		
Current tax on profits for the year	-	-
Total current tax expense	<u>-</u>	<u>-</u>
Deferred income tax:		
Decrease/(decrease) in deferred tax assets	<u>(1,067,797)</u>	<u>(182,407)</u>
Total deferred tax expense	<u>(1,067,797)</u>	<u>(182,407)</u>
Deferred tax movement not recognised	<u>1,067,797</u>	<u>182,407</u>
Income tax expense	<u>-</u>	<u>-</u>
 Reconciliation of income tax expense		
(Loss) before income tax	(4,271,189)	(729,629)
Tax calculated at 25%	(1,067,797)	(182,407)
Deferred tax movement not recognised	1,067,797	182,407
Income tax expense	<u>0</u>	<u>0</u>
 Reconciliation of tax recoverable		
Current tax asset per statement of financial position	<u>458,614</u>	<u>458,614</u>
<i>Movement of current tax asset</i>		
Balance at the beginning of the year	(458,614)	(317,631)
Income tax charge	-	-
Taxes paid	<u>-</u>	<u>(140,982)</u>
Balance at the end of year	<u>(458,614)</u>	<u>(458,614)</u>
 Non-current	<u>(458,614)</u>	<u>(458,614)</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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:

	2017 TZS '000	2016 TZS '000
Deferred income tax (asset)/liability		
Property, equipment and intangibles	175,232	390,040
Provision on loans	(3,082)	-
Tax losses	(1,239,947)	(572,802)
Net deferred income tax asset	<u>(1,067,797)</u>	<u>(182,762)</u>

Deferred tax asset amounting to TZS 1,067,797,000 (2016: TZS 182,762,000) 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 7,250,997,026 (2016: TZS 2,291,208,000). However, this situation will be re assessed at the end of next financial year.

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) attributable to the ordinary shareholders of the Bank

	2017	2016
Net (loss) attributable to shareholders (TZS)	(4,067,138,311)	(729,629,122)
Weighted average number of ordinary shares in issue (note 27)	61,824,920	61,824,920
Basic and diluted earnings per share (TZS)	(65.8)	(11.8)

16 CASH AND BALANCES WITH BANK OF TANZANIA

Cash in hand*	148,209	86,821
Clearing accounts with Central Bank	474,530	43,577
Statutory Minimum Reserves (SMR)	396,707	70,908
	<u>1,019,445</u>	<u>201,306</u>

*Cash in hand includes; vault cash, ATM cash balances and petty cash

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

17 TREASURY BILLS AND OTHER ELIGIBLE BILLS

	2017 TZS '000	2016 TZS '000
Maturing after 90 days from date of acquisition	<u>624,901</u>	<u>12,739,969</u>
	<u>624,901</u>	<u>12,739,969</u>

The movement in the treasury bills may be summarised as follows

At 1 January	12,739,969	4,768,146
Additions	612,465	17,245,388
Redemptions	(12,739,969)	(11,000,000)
Accrued interest	<u>12,436</u>	<u>1,726,435</u>
At 31 December	<u>624,901</u>	<u>12,739,969</u>
Current	<u>624,901</u>	<u>12,739,969</u>

18 LOANS AND ADVANCES TO BANKS

Current account balances with banks	20,886	59,421
Placements with other banks	<u>14,816,154</u>	<u>10,279,921</u>
	<u>14,837,040</u>	<u>10,339,341</u>
Current	<u>14,837,040</u>	<u>10,339,341</u>

19 LOANS AND ADVANCES TO CUSTOMERS

Mwalimu loans	10,015,203	-
Personal loans	199,662	-
Staff loans	<u>992,201</u>	<u>606,622</u>
Gross loans and advances	<u>11,207,066</u>	<u>606,622</u>
Less: allowance for impairment interest in suspense	(12,328) <u>(25)</u>	- <u>-</u>
	<u>11,194,713</u>	<u>606,622</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Movement in allowance for impairment losses on loans and advances is as follows;

	2017	2016
	TZS '000	TZS '000
At 1 January 2017	-	-
Net impairment charge for the year	12,328	-
At 31 December 2017	<u>12,328</u>	<u>-</u>

Analysis of provision account for losses on loans and advances by class is as follows;

	Retail	Total
	TZS '000	TZS '000
Year ended 31 December 2017		
At 1 January 2017	-	-
Net impairment charge for the year	12,328	12,328
At 31 December 2017	<u>12,328</u>	<u>12,328</u>

20 INVESTMENT SECURITIES - AVAILABLE FOR SALE

Treasury bonds maturing after 90 days	<u>1,149,912</u>	<u>-</u>
---------------------------------------	-------------------------	----------

The movement in the investment securities may be summarized as follows

At 1 January	-	-
Additions	945,861	-
Matured during the year	-	-
Gains/(losses) from changes in fair value	<u>204,051</u>	<u>-</u>
At 31 December	1,149,912	-
Current	<u>-</u>	<u>-</u>
Non-current	<u>1,149,912</u>	<u>-</u>

Treasury bonds are debt securities issued by the Government of the United Republic of Tanzania at an average yield of 17.92%. As at 31 December 2017 no Treasury bonds were pledged by the bank in order to secure borrowing lines with other banks (2016: NIL)

21 OTHER ASSETS

Prepayments	158,751	365,391
Sundry receivables	166,067	4,100
Other receivables	2,868	75,048
	<u>327,686</u>	<u>444,539</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

22 PROPERTY & EQUIPMENT

	Leasehold Improvements TZS '000	Computer Equipment TZS '000	Office Equipment TZS '000	Motor Vehicles TZS '000	Furniture & Fittings TZS '000	TOTAL TZS '000
Year ended 31 December 2017						
Cost						
At 1 January 2017	1,005,849	1,517,431	549,416	212,997	81,862	3,367,555
Additions	13,909	135,223	30,534	-	16,954	196,620
At 31 December 2017	<u>1,019,758</u>	<u>1,652,654</u>	<u>579,950</u>	<u>212,997</u>	<u>98,816</u>	<u>3,564,175</u>
Accumulated Depreciation						
At 1 January 2017	(29,645)	(273,803)	(47,832)	(30,916)	(10,956)	(393,152)
Charge for the year	(80,630)	(538,201)	(113,974)	(53,249)	(18,537)	(804,591)
At 31 December 2017	<u>(110,275)</u>	<u>(812,004)</u>	<u>(161,806)</u>	<u>(84,166)</u>	<u>(29,493)</u>	<u>(1,197,743)</u>
Net carrying value	<u>909,483</u>	<u>840,651</u>	<u>418,145</u>	<u>128,832</u>	<u>69,323</u>	<u>2,366,432</u>
Year ended 31 December 2016						
Cost						
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>
Accumulated Depreciation						
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>
Net carrying value	<u>976,204</u>	<u>1,243,628</u>	<u>501,584</u>	<u>182,081</u>	<u>70,906</u>	<u>2,974,403</u>

*No property or 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 2017

	2017	2016
	TZS '000	TZS '000
23 INTANGIBLE ASSETS		
At 1 January	5,852,592	-
Transferred from other assets (prepayments)	-	2,103,900
Paid during the year	899,809	4,035,548
Work in progress*	118,190	-
Amortisation charge for the year	(1,052,900)	(286,855)
At 31 December	<u>5,817,692</u>	<u>5,852,592</u>
At 31 December		
Cost	7,157,447	6,139,448
Accumulated amortisation	<u>(1,339,755)</u>	<u>(286,855)</u>
Net Book Value	<u>5,817,692</u>	<u>5,852,592</u>

*Work in progress relates to payment to core banking system vendor for system integration on agency banking, Tanzania Revenue Authority electronic Revenue Collection System (TRA-eRCS) and TPB Bank host-to-host service.

Intangible assets include core banking system and other softwares in use by the Bank. Since the Bank has one and a half year since start of operations the remaining amortization period is four and a half years. No intangible asset has been pledged as security against liabilities.

24 DEPOSITS FROM BANKS

Money market deposits	<u>4,478,000</u>	-
Maturing within 90 days	4,478,000	-
Maturing after 90 days from date of acquisition	-	-
	<u>4,478,000</u>	-

25 DEPOSITS FROM CUSTOMERS

Retail banking:		
Savings Account	938,599	241,142
Current Account	63,129	110,556
Term Deposits	<u>4,476,099</u>	<u>1,084,671</u>
	<u>5,477,827</u>	<u>1,436,369</u>
Current	<u>5,477,827</u>	<u>1,436,369</u>
Maturity Analysis		
Repayable on demand	1,001,728	245,172
Maturing within 3 months	<u>3,064,000</u>	<u>1,084,671</u>
	<u>4,065,728</u>	<u>1,329,843</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Deposits due to customers only include financial instruments classified as liabilities at amortised costs. All deposits are at fixed interest rates except current accounts that are non-interest bearing. The effective interest rate for the year was 9.49%.

	2017 TZS '000	2016 TZS '000
26 OTHER LIABILITIES		
Accrued taxes payable	68,653	173,430
Accrued expenses	410,590	761,342
Sundry creditors	8,811	62,725
Other payables	242,378	6,206
	<u>730,432</u>	<u>1,003,704</u>

Other liabilities are expected to be settled within no more than 12 months after end of reporting period

	Number of ordinary shares	Total TZS '000
27 SHARE CAPITAL		
At 1 January 2017	61,824,920	30,912,460
At 31 December 2017	<u>61,824,920</u>	<u>30,912,460</u>
At 1 January 2016	61,824,920	30,912,460
At 31 December 2016	<u>61,824,920</u>	<u>30,912,460</u>
		Regulatory general credit risk reserve (*)
28 RESERVES	Retained earnings TZS '000	TZS '000
Balance at 1 January 2017	258,797	6,057
Loss for the year	(4,271,189)	-
Transfer to/(from) retained earnings	(108,330)	108,330
Balance at 31 December 2017	<u>(4,120,723)</u>	<u>114,387</u>
Balance at 1 January 2016	994,483	-
Loss for the year	(729,629)	-
Transfer to/(from) retained earnings	(6,057)	6,057
Balance at 31 December 2016	<u>258,797</u>	<u>6,057</u>

(*) Regulatory general credit risk 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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

29 REVALUATION RESERVE

The revaluation reserve represents the fair value gains net of losses, on Treasury Bonds classified as available for sale. These gains are only recognized in profit or loss when the asset has been sold or impaired.

30 ANALYSIS OF CASH & CASH EQUIVALENTS AS SHOWN IN THE STATEMENT OF CASH FLOWS

	2017	2016
	TZS '000	TZS '000
Cash in hand (Note 16)	148,209	86,821
Clearing accounts with Central Bank (Note 16)	474,530	43,577
Loans and advances to banks (Note 18)	20,886	59,421
	<u>643,625</u>	<u>189,819</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity: cash and balances with Bank of Tanzania, Government securities and loans and advances to banks. Cash and cash equivalents exclude Statutory Minimum Reserve requirement held with the Central Bank.

Banks are required to maintain a prescribed minimum cash balance with the Bank of Tanzania that is not available to finance the bank's day-to-day activities. The amount is determined as 8% for public deposits and 40% for Government deposits of the average outstanding customer deposits over a cash reserve cycle period of two weeks.

31 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 loss of TZS 7,250,997,026 as at year end (2016: TZS 2,291,208,000).

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

(b) *Legal proceedings*

There were no legal proceedings outstanding against the Bank as at 31 December 2017 hence no provision made on the same (2016: nil provision)

(c) *Capital commitments*

There were no capital commitments at the year-end (2016: nil).

(d) *Operating lease commitments*

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

	<u>2017</u> TZS '000	<u>2016</u> TZS '000
Not later than one year	581,246	619,857
Later than one year and not later than five years	783,602	602,223
Later than five years	-	-
	<u>1,364,848</u>	<u>1,222,080</u>

32 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 2017 include loans and fixed deposits. All related party transactions were interred into at an arm's length.

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>2017</u> TZS '000	<u>2016</u> TZS '000
At start of year	352,451	-
Loans issued during the year	124,223	384,406
Loan repayment during the year	<u>(98,422)</u>	<u>(31,956)</u>
At end of year	<u>378,252</u>	<u>352,451</u>
Interest income earned	<u>30,865</u>	<u>17,709</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

32 RELATED PARTY TRANSACTIONS (Continued)

(b) Deposits from related parties

	2017	2016
	TZS '000	TZS '000
At start of year	1,050,000	-
Deposits during the year	-	1,052,000
Deposits matured during the year	(1,011,552)	(2,000)
At end of year	38,448	1,050,000
Interest expense incurred	-	14,268

(c) Key management compensation

	2017	2016
	TZS '000	TZS '000
Salaries and other short-term employment benefits	1,368,933	908,590

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 59.5 million (2016: 67.4 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 2017**

33 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Held to maturity	Available for sale	Total
At 31 December 2017	TZS '000	TZS '000	TZS '000	TZS '000
Financial assets				
Cash and balances with Bank of Tanzania	1,019,445	-	-	1,019,445
Investment in government securities - Treasury Bills	-	624,901	-	624,901
Loans and advances to banks	14,837,040	-	-	14,837,040
Loans and advances to customers	11,194,713	-	-	11,194,713
Investment securities - Available For Sale	-	-	1,149,912	1,149,912
Other assets	168,935	-	-	168,935
	27,220,133	624,901	1,149,912	28,994,945

At 31 December 2017	other liabilities at amortised cost	Total
Financial liabilities	TZS '000	TZS '000
Deposits from banks	4,478,000	4,478,000
Deposits from customers	5,477,827	5,477,827
Other liabilities	661,779	661,779
	10,617,606	10,617,606

At 31 December 2016	Loans and receivables	Held to maturity	Total
	TZS '000	TZS '000	TZS '000
Financial assets			
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
	11,226,417	12,739,969	23,966,386

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

33 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

34 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.

34.1 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 has 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.

34.1.1 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 assesses the financial condition by looking at the trend of key ratios as well as conducting site visits to gauge feasibility of the prospective businesses.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

34 FINANCIAL RISK MANAGEMENT (Continued)

34.1 Credit risk (Continued)

34.1.1 Credit risk measurement (Continued)

Impairment allowances are computed as required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model').

Aging analysis is used to give ex-post information on the extent of exposure assumed by the Bank. The Bank's rating scale shown below, is used in ranking the level of exposure.

Bank's internal ratings scale

Bank's rating	Description of the grade	Ageing	% used for Regulatory Provisioning
1	Current	0 – 30 days	1%
2	Especially Mentioned	31 – 90 days	3%
3	Sub-standard	91 – 180 days	20%
4	Doubtful	181 – 360 days	50%
5	Loss	361 days and above	100%

34.1.2 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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

34 FINANCIAL RISK MANAGEMENT (Continued)

34.1 Credit risk (Continued)

34.1.2 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.

34.1.3 Impairment and provisioning policies

The internal rating system described in Note 34.1.1 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.

The impairment allowance shown on the statement of financial position at year-end is derived from current grades. 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-17				31-Dec-16			
	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 '000		TZS '000		TZS '000		TZS '000	
1. Current	11,194,738	99.9	-	-	606,622	100	-	-
2. Doubtful	12,328	0.1	12,328	100	-	-	-	-
	<u>11,207,066</u>	<u>100.0</u>	<u>-</u>	<u>100</u>	<u>606,622</u>	<u>100</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 2017

34 FINANCIAL RISK MANAGEMENT (Continued)

34.1 Credit risk (Continued)

34.1.3 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.

34.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

The Bank's maximum exposure to credit risk at 31 December 2017 and 31 December 2016 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:

	2017	2016
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	1,019,445	201,306
Treasury Bills and other eligible bills	624,901	12,739,969
Loans and advances to banks	14,837,040	10,339,341
Loans and advances to customers	11,194,713	606,622
Investment securities - Available For Sale	1,149,912	
Other assets*	327,686	79,148
Total	29,153,696	23,966,386

*Other assets exclude 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 57% (2016: 94%) and 43% (2016: 6%) 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. 99.9% of the loans and advances portfolio is considered to be current (2016: 100%).

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

34 FINANCIAL RISK MANAGEMENT (Continued)

34.1 Credit risk (Continued)

34.1.5 Loans and advances

Loans and advances are summarised as follows:

	31-Dec-17		31-Dec-16	
	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	11,194,738	14,837,040	606,622	10,339,341
Past due but not impaired	-	-	-	-
Impaired	12,328	-	-	-
Gross loans and advances	11,207,066	14,837,040	606,622	10,339,341
Less: Allowances for impairment	(12,328)	-	-	-
Net loans and advances	11,194,738	14,837,040	606,622	10,339,341

(ii) Loans and advances to customers

Impairment provision for loans and advances was TZS 12 million (2016: 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 2017 (2016: nil). The Bank is holding TZS 1.75 billion as pledged security from Bank M but no impairment provision has been provided against the gross amount.

34.1.6 Investment securities

Investment securities held by the Bank are treasury bills and bonds issued by the Government of Tanzania 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 2017

34 FINANCIAL RISK MANAGEMENT (Continued)

34.1 Credit risk (Continued)

34.1.7 Other assets

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.

34.1.8 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 2017. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

Year ended 31 December 2017	Tanzania	Total
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	1,019,445	1,019,445
Treasury Bills and other eligible bills	624,901	624,901
Loans and advances to banks	14,837,040	14,837,040
Loans and advances to customers	11,194,713	11,194,713
Investment securities - Available For Sale	1,149,912	1,149,912
Other assets	168,935	168,935
Total	28,994,945	28,994,945

Year ended 31 December 2016	Tanzania	Total
	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
Total	23,966,386	23,966,386

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

34 FINANCIAL RISK MANAGEMENT (Continued)

34.1 Credit risk (Continued)

34.1.8 Concentration of risks of financial assets with credit risk exposure

(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 2017	Financial Institutions	Individuals	Others	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	1,019,445	-	-	1,019,445
Investment in government securities - Treasury Bills	624,901	-	-	624,901
Loans and advances to banks	14,837,040	-	-	14,837,040
Loans and advances to customers	-	11,194,713	-	11,194,713
Investment securities - Available For Sale	1,149,912	-	-	1,149,912
Other assets	-	-	168,935	168,935
Total	17,631,298	11,194,713	168,935	28,994,945

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
Total	23,280,617	606,622	79,148	23,966,386

34.2 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 2017**

34 FINANCIAL RISK MANAGEMENT (Continued)

34.2 Liquidity risk (Continued)

34.2.1 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.

34.2.2 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, provider, product and term.

34.2.3 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 2017.

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.2.3 Non-derivative cash flows (continued)

Amounts are in TZS '000

As at 31 December 2017	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
Liabilities						
Deposits from banks	4,478,000	-	-	-	-	4,478,000
Deposits from customers	1,029,021	3,054,000	1,394,807	-	-	5,477,827
Other liabilities *	661,779	-	-	-	-	661,779
Total liabilities (contractual maturity dates)	6,168,800	3,054,000	1,394,807	-	-	10,617,606
Assets						
Cash and balances with Bank of Tanzania	1,019,445	-	-	-	-	1,019,445
Investment in government securities - Treasury Bills	-	-	624,901	-	-	624,901
Loans and advances to banks	5,137,040	3,300,000	6,400,000	-	-	14,837,040
Loans and advances to customers	94,687	370	22,755	8,897,377	12,857,827	21,873,016
Investment securities - Available For Sale	-	-	-	3,504,537	-	3,504,537
Other assets	-	-	168,935	-	-	168,935
Total assets (expected maturity dates)	6,251,173	3,300,370	7,216,591	12,401,914	12,857,827	42,027,873

* Other liabilities exclude statutory obligations

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.2.3 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
Liabilities						
Deposits from customers	816,369	620,000	-	-	-	1,436,369
Other liabilities *	830,273	-	-	-	-	830,273
Total liabilities (contractual maturity dates)	<u>1,646,643</u>	<u>620,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,266,643</u>
Assets						
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	4,581,600	6,146,494	10,729,857
Other assets	-	-	79,148	-	-	79,148
Total assets (expected maturity dates)	<u>1,478,971</u>	<u>1,500,000</u>	<u>20,669,950</u>	<u>4,481,600</u>	<u>6,146,494</u>	<u>34,089,621</u>

* Other liabilities exclude statutory obligations

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.2.4 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.

34.3 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.

34.3.1 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, liabilities and equity, would lead to foreign currency exposure to the Bank of a lower or higher loss after tax of TZS 0.843 million as at 31 December 2017 (2016: TZS 2.597 million).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (amounts are in TZS '000).

As at 31 December 2017	USD	Total
Assets		
Cash and balances with the Bank of Tanzania	17,146	17,146
Total financial assets	<u>17,146</u>	<u>17,146</u>
Liabilities		
Deposits	286	286
Total financial liabilities	<u>286</u>	<u>286</u>
Net on-balance sheet financial position	<u>16,859</u>	<u>16,859</u>
Credit commitments	<u>-</u>	<u>-</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3.1 Foreign Exchange Risk (continued)

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

34.3.2 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 summaries 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 2017

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3.2 Interest rate risk (continued)

As at 31 December 2017	1 to 5 years	Total
Assets		
Investment securities - Available For Sale	<u>1,149,912</u>	<u>1,149,912</u>
Total financial assets	<u>1,149,912</u>	<u>1,149,912</u>
Liabilities		
Total financial liabilities	<u>-</u>	<u>-</u>
Total interest rate repricing gap	<u>1,149,912</u>	<u>1,149,912</u>

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3.2 Interest rate risk (continued)

Interest rate sensitivity

As at 31 December 2017, 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;

	2017		2016	
	Increase by 2%	Decrease by 2%	Increase by 2%	Decrease by 2%
Change in interest rate on				
Investment securities -				
Available For Sale	1,931	(1,931)	-	-

34.3.2 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 2017	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	1,019,445	1,019,445
Investment in government securities -Treasury Bills	624,901	624,901
Loans and advances to banks	14,837,040	14,837,040
Loans and advances to customers	11,194,713	11,194,713
Investment securities - Available For Sale	945,861	1,149,912
Other assets	168,935	168,935
Total financial assets	28,790,894	28,994,945
Deposits from banks	4,478,000	4,478,000
Deposits from customers	5,477,827	5,477,827
Other liabilities	661,779	661,779
Total financial liabilities	10,617,606	10,617,606

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3.3 Fair value of financial assets and liabilities (continued)

	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
Total financial assets	23,966,386	23,966,386
Deposits from customers	1,436,369	1,436,369
Other liabilities	830,273	830,273
Total financial liabilities	2,266,643	2,266,643

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

Year ended 31 December 2017

	Level 2	Total
Financial assets		
Cash and balances with Bank of Tanzania	1,019,306	1,019,306
Investment in government securities -Treasury Bills	624,901	624,901
Loans and advances to banks	14,837,040	14,837,040
Loans and advances to customers	11,194,713	11,194,713
Investment securities - Available For Sale	1,149,912	1,149,912
Other assets	168,935	168,935
Total financial assets	28,994,945	28,994,945
Financial liabilities		
Deposits from banks	4,478,000	4,478,000
Deposits from customers	5,477,827	5,477,827
Other liabilities	661,779	661,779
Total financial liabilities	10,617,606	10,617,606

MWALIMU COMMERCIAL BANK PLC**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017****Year ended 31 December 2016**

	Level 2	Total
Financial assets		
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	8,355	8,355
Total financial assets	<u>23,966,679</u>	<u>23,966,679</u>
Financial liabilities		
Deposits from customers	1,436,369	1,436,369
Other liabilities	830,273	830,273
Total financial liabilities	<u>2,266,643</u>	<u>2,266,643</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3.4 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 Bank of Tanzania prices. The carrying amount of the assets held at amortised cost is a reasonable approximation of fair value.

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.

b) *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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3.4 Fair valuation methods and assumptions

b) 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.

34.4 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:

- i. hold the minimum level of Core Capital of TZS 15 billion;
- ii. 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%;
- iii. 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 2017

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.4 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 2017 and year ended 31 December 2016. During the year, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2017	2016
	TZS '000	TZS '000
Tier 1 capital		
Paid Share capital	30,912,460	30,912,460
Retained earnings	(4,120,723)	258,797
Prepaid expenses	(158,751)	(365,391)
Intangible assets	<u>(5,817,692)</u>	<u>(5,852,592)</u>
Total qualifying tier 1 capital	20,815,294	24,953,273
Tier 2 capital (1% general provision)	<u>114,387</u>	<u>6,057</u>
Total regulatory capital	<u><u>20,929,681</u></u>	<u><u>24,959,330</u></u>
Risk weighted assets		
On-balance sheet	17,197,461	6,530,591
Capital charge for market risk	<u>16,859</u>	<u>51,945</u>
Total risk weighted assets	<u><u>17,214,320</u></u>	<u><u>6,582,536</u></u>
	Required	
	ratio	Bank's ratio
	%	%
Tier 1 capital	10	121
Tier 1 + Tier 2 capital	<u>12</u>	<u>122</u>

35 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 2017

36 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 2017. 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 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. |
| IAS 12 | <i>Income Taxes</i> - Amendments regarding the recognition of deferred tax assets for unrealized losses. |

New and revised International Financial Reporting Standards issued not yet effective

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

Standard	Annual periods beginning on or after
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

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31 DECEMBER 2017

36 NEW ACCOUNTING PRONOUNCEMENTS (*continued*)

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. The adoption of IFRS 15 is not expected to have a significant impact on the Bank.	1 January 2018
IAS 40	<i>Investment Properties</i> - Amendments regarding when an entity should transfer property into, or out of, investment property.	1 January 2018
IFRIC2 2	<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

Apart from the instances detailed above 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.

IFRS 9 - Financial instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* with effect from 1 January 2018. IFRS 9 includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. 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 detailed transitional disclosures in accordance with the amended requirements of IFRS 7 *Financial Instruments: Disclosures*. Any change in carrying amounts from the initial application of IFRS 9 will be recognised in equity.

The Mwalimu Commercial Bank Tanzania Limited has a jointly accountable risk and finance implementation and governance programme with representation from all impacted departments. The programme is responsible for the robustness of models,

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

36 NEW ACCOUNTING PRONOUNCEMENTS (continued)

data accuracy, regulatory capital and other process and system impacts as a result of IFRS 9. The parallel run of IFRS 9 and IAS 39 impairment models for the Mwalimu Commercial Bank Tanzania Limited as a whole commenced in February 2017, which included model, process and output validation, testing, calibration and analysis. The revised impairment requirements are expected to have a significant impact on the impairment provisioning of Bank.

The bank is still in the processing of establishing impairment model which will be will comply with the requirement of IFRS 9

The Bank will exercise the accounting policy choice to continue to apply the rules under IAS 39 hedge accounting until the project on accounting for macro hedging is completed, if not earlier. The Bank will however implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 *Financial Instruments: Disclosures*, if applicable, in the 2018 reporting period.

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognize expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss was already incurred and measures the loss based on the most probable outcome. The IFRS 9 impairment model 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. This presents a change from the scope of the IAS 39 impairment model which excludes loan commitments and financial guarantee contracts (these were covered by IAS 37: Provisions, Contingent Liabilities and Contingent Assets).

The measurement of expected loss will involve increased complexity and judgment including estimation of probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

Exposures would be divided into 3 stages as follows:

- Stage 1: Exposures for which a significant increase in credit risk has not occurred since origination. For these exposures a 12 month expected credit loss will be recognized.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31 DECEMBER 2017

36 NEW ACCOUNTING PRONOUNCEMENTS (*continued*)

- Stage 2: Exposures for which a significant increase in credit risk has occurred since origination. The Company will assess whether a significant increase in credit risk has occurred based on qualitative and quantitative drivers; as well as exposures that are more than 30 days past due contractual payment date. Lifetime expected credit losses will be recognized for these assets.

- ***Impairment (Continued)***

Stage 3: Exposures which meet the definition of default. The Company has aligned its definition of default with Regulatory Capital CRR Article 178, which considers exposures that are more than 90 days past due, forbearance, as well as indicators that an exposure is unlikely to pay. Lifetime expected credit losses will be recognized for these assets.

Per IFRS 9 principles, the gross carrying amount of an exposure is the contractual amount owing from the counterparty; whereas the amortised cost reflects the expected cash flows discounted using the original effective interest rate. Hence the expected credit loss provision, which is the difference between the gross carrying amount and amortised cost, would reflect the expected cash shortfalls discounted by the original effective interest rate.

Consequently, the expected credit loss provision per IFRS 9 includes contractual interest in respect of stage 3 assets; where previously such interest was excluded from the gross carrying amount presented.

The revised impairment model is expected to have a material financial impact on the existing impairment provisions previously recognised in terms of the requirements of IAS 39, as well as increase volatility in the recognition of impairment losses going forward. Impairment provisions are expected to increase from IAS 39 provisioning as a result of:

- The removal of the emergence period that was necessitated by the incurred loss model of IAS 39. All stage 1 assets will carry a 12 month expected credit loss provision. This differs from IAS 39 where unidentified impairments were typically measured with an emergence period of between three to twelve months.
- The provisioning for lifetime expected credit losses on stage 2 assets; where some of these assets would not have attracted a lifetime expected credit loss measurement per IAS 39.

**NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
FOR THE YEAR ENDED 31 DECEMBER 2017**

36 NEW ACCOUNTING PRONOUNCEMENTS (*continued*)

- The inclusion of forecasted macroeconomic scenarios into the expectation of credit losses;
- The inclusion of expected credit losses on items that typically would not have been impaired under IAS 39, such as loan commitments.

IFRS 9 has been considered in the Mwalimu Commercial Bank Tanzania Limited capital planning.

Classification and measurement

IFRS 9 will require financial assets to be classified on the basis of two criteria:

- 1) The business model within which financial assets are managed, and
- 2) Their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest).

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are required to be measured at fair value through profit and loss if they are held for the purposes of trading, if their contractual cash flows do not meet the 'solely payments of principal and interest' criterion, or if they are managed on a fair value basis and the Bank maximizes cash flows through sale. IFRS 9 allows an entity to irrevocably designate a financial asset as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (that is, an accounting mismatch).

An entity is permitted to make an irrevocable election for non-traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in profit or loss.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit and loss. Gains and losses on such financial

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

36 NEW ACCOUNTING PRONOUNCEMENTS (continued)

liabilities arising from changes in the Bank's own credit risk are presented in other comprehensive income rather than in profit and loss.

An assessment of potential changes to financial assets has been conducted, including an assessment of business models across various portfolios, and a review of contractual cash flow features for complex financial assets.

An explanation of these reclassifications is provided:

- Certain debt securities are held by the Bank in a separate portfolio to meet everyday liquidity needs. These were classified as available for sale under IAS 39. The Bank seeks to minimise the cost of managing those liquidity needs and therefore Treasury actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. This investment strategy may result in sales activity. The Bank considers that under IFRS 9 these securities are held within a business model in which the objective is achieved by both collecting contractual cash flows and selling financial assets. These instruments have therefore been classified as measured at FVOCI under IFRS 9.