

MWALIMU COMMERCIAL BANK PLC
ANNUAL REPORT
AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

MWALIMU COMMERCIAL BANK PLC

**ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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MWALIMU COMMERCIAL BANK PLC

**CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018**

REGISTERED OFFICE

Mezzanine Floor, Mlimani Tower
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
4th Floor, Tanhouse Tower
34/1 Ursino South
New Bagamoyo Road
P.O. Box 2475
Dar es Salaam

LAWYER

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 2018

1 INTRODUCTION

The directors present their report together with the audited annual financial statements for the year ended 31 December 2018, 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.

5 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Bank at the date of this report, who held office since 1 January 2018, except where otherwise stated are:

Name	Position	Age	Nationality	Qualifications
Herman Mark Kessy	Chairman	69	Tanzanian	MA (Economics), BA Hons (Economics), PGD in Economics
Ambrose Ntangeki Nshala	Vice Chairman	43	Tanzanian	CPA-T, MBA (Finance & Banking)
Prof. Tadeo Andrew Satta	Director	57	Tanzanian	PhD (Development Finance), MBA (Financial Management)
Dr. Fidea Luhwano Mgina	Director	60	Tanzanian	PhD, MSc. (Agriculture)
Said Kambi Shaaban	Director	50	Tanzanian	MBA Finance, BA (Public Administration)
Mwl. Mohamed Mussa Utaly	Director	49	Tanzanian	MSc. (Accounting & Finance), ADA
Yahya Majid Ally	Director	50	Tanzanian	CPA-T, CPSP, MBA Finance
Bernard Hezron Konga (Replaced on 30 Aug 2018)	Director	38	Tanzanian	Masters in Economics (Policy & Planning)
Celestine Leonard Muganga (since 30 August 2018)	Director	51	Tanzanian	MSc. Finance, BA (Economics)

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

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

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 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. Celestine Leonard Muganga	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. Celestine Leonard Muganga	Member
Dr. Fidea Luhwano Mgina	Member

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

8 MANAGEMENT

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

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

9 CAPITAL STRUCTURE

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

Authorized -

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

Issued and fully paid

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

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	2018		2017	
	Number of Shares	Percentage Share holding	Number of Shares	Percentage Share holding
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%
	61,824,920	100.0%	61,824,920	100.0%

11 FUTURE DEVELOPMENT PLANS

The Bank plans to grow business on retail loans to teachers, government employees and general public; introduction of highly innovative and customer centric products especially the alternative channels space (mobile and agency banking) while managing associated costs and risks so as to increase shareholders' value. To facilitate the foregoing the bank is expecting to raise more than 30 billion as long-term financing to beef up deposit mobilization strategies by 30th June 2019.

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

12 RESULTS AND DIVIDEND

The Bank recorded after tax loss of TZS 5,528 million during the year (2017: after tax loss of TZS 4,271 million).

The Bank's financial results for the year are set out on page 22 of the annual financial statements.

The directors do not recommend payment of a dividend.

13 PERFORMANCE FOR THE YEAR

Statement of financial position

Total loans and advances to banks decreased by 84% (TZS 12,491million) from TZS 14,837 million in 2017 to TZS 2,346 million in 2018. Investment in government securities (Bills and Bonds) declined by 37% during the year. This resulted from sale of T-Bills to beef up cashflow liquidity of the bank.

Total loans and advances to customers were TZS 17,886 million (2017: TZS 11,195 million).

Deposits from customers as at year end were TZS 7,948 million (2017: TZS 5,478 million) while deposits from banks were NIL (2017: 4,478 million). Loan to deposit ratio (LDR) stood at 225.00% as at 31 December 2018 (2017: 112.47%).

Total assets decreased by 19% from TZS 37,796 million in 2017 to TZS 30,695 million as at 31 December 2018.

Statement of profit or loss and other comprehensive income

Net Interest income expressed as a percentage of operating income was 92% (2017: 93%). Notably there was a decrease in non-interest income generating activities as compared to last year. This was mainly due to stop lending in last quarter.

Total non-interest income from transactional accounts was TZS 218.7 million in 2018 (2017: TZS 265.7 million).

Total operating expenses increased by 8% from TZS 7,690 million in 2017 to TZS 8,302 million in 2018. The increase is mainly attributed to infrastructure expenses incurred during the year. The cost to income ratio has increased to 295% in 2018 (2017: 225%).

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. The bank has adopted changes as per the new IFRS9 on financial instruments effective from 1 January 2018.

15 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:

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

15 PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

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.

16 RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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.

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

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.

As at 31 December 2018, 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 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	2018	2017
Return on equity	Net(loss) profit/Total equity	-25.96%	-15.00%
Return on assets	Net profit/Total assets	-18.01%	-10.76%
Cost to income ratio	Total costs/Net income	295%	225%
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)	13%	11%
Non - interest income to Gross income	Non - interest income/Total income	7.77%	7.77%
Gross loans to deposits	Total loans to customers/Total deposits	225%	112%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	2.0%	0.1%
Earning assets to total assets	Earning assets/Total assets	70%	74%

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

20 KEY PERFORMANCE INDICATORS FOR THE BANK (Continued)

Performance indicator	Definition and calculation method	2018	2017
Growth in total assets	Trend (2018 total assets – 2017 total assets/2017 total assets) %	-18.79%	12.43%
Growth in loans and advances to customers	Trend (2018 loans and advances – 2017 loans and advances)/2017 loans and advances) %	60%	1,745%
Growth in customer deposits	Trend (2018 customer deposits – 2017 customer deposits)/ (2017 customer deposits) %	45%	281%
Capital adequacy			
Tier 1 Capital	Core capital /Risk weighted assets including Off balance sheet items	64%	121%
Tier 1+Tier 2 Capital	Total capital /Risk Weighted assets including off-balance sheet items	65%	122%

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 23 million as training expenses. There are plans for 2019 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.

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.

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

21 EMPLOYEES' WELFARE (Continued)

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 2018, 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 62 out of which 25 were female and 37 were male (2017: total staff 54, 22 female and 32 male).

During the year, the government enacted new PSSSF Act and amendment of the NSSF Act, which requires:

- all Employers from the Public Sector including those in the Private Sector in which the Government has more than 30% shares must send their contributions to the Public Service Social Security Fund (PSSSF).
- all Employers in the Private Sector shall contribute to the National Social Security Fund (NSSF).
- all Employers in the Private Sector who were contributing to the abolished Funds, that is, PPF, PSPF, LAPF and GEPF should send to the NSSF the same contributions they were remitting to the defunct Funds.

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 2018.

MWALIMU COMMERCIAL BANK PLC

**DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 2018 on CSR amounted to TZS 1 million (2017: 5 million).

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 AUDITOR

The auditor, 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 2019 will be put to the Annual General Meeting.

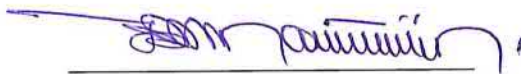
29 STATEMENT OF COMPLIANCE

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 01.04.2019 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 2018**


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 01.04.2019 and signed on its behalf by:


Herman Mark Kessy
Board Chairman


Ronald Manongi
Chief Executive Officer

MWALIMU COMMERCIAL BANK PLC

**DECLARATION BY 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 financial 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 2018 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: Selemani Kijori

Head of Finance

NBAA Membership No. ACPA 2484

Date: 01.04. 2019

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 22 to 82 which comprise the statement of financial position as at 31 December 2018, 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 2018, 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

Key Audit Matters (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
1.	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.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

Key Audit Matters (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
2.	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 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>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. • 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

Key Audit Matters (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
2.	Compliance with laws and regulations (Continued)	
	<p>We also considered there to be a risk that the income tax disclosures in Note 14, related contingencies in Note 31 and the capital adequacy disclosures in Note 34 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"> • Evaluating whether the capital adequacy ratios of the Bank disclosed in Note 34 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>
3.	Credit risk and impairment of loans and advances to customers	
	<p>IFRS 9: Financial Instruments was effective 1 January 2018. Bank has applied IFRS 9 using a modified retrospective approach, with an adjustment to retained earnings and other reserves on 1 January 2018. Comparative periods have not been restated.</p>	<p>Accounting policies: We have evaluated the IFRS 9 accounting policies and assessed the ECL methodologies applied, and compared these to the requirements of IFRS 9: Financial Instruments.</p> <p>Audit procedures We have performed our audit procedures to assess the amount of the 1 January 2018 adjustment to retained earnings and other reserves on the application of IFRS 9, the 31 December 2018 closing provision and the movement in ECL over the period.</p>

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

Key Audit Matters (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
3.	Credit risk and impairment of loans and advances to customers (Continued)	
	<p>The IFRS 9 Expected credit losses (ECL) approach is applicable to all financial assets at amortised cost and debt financial assets at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and financial guarantee contracts. This presents a change from the scope of the IAS 39 impairment model, which excluded loan commitments and financial guarantee contracts.</p> <p>ECL represents Management's best estimate of the losses expected to be incurred at reporting date. The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the value of the allowances.</p> <p>The models used to determine the ECL estimate are complex and include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in the model assessment, which can be highly subjective.</p>	<p>We have obtained an understanding of Management's process over credit origination, credit monitoring and credit remediation and tested the relevant key controls identified within these processes.</p> <p>Collective ECL recognition Where expected credit losses are calculated on a collective modelled basis we have performed the following audit procedures, amongst others, with the assistance of our credit risk quantitative specialists:</p> <ul style="list-style-type: none"> • Evaluated the control environment supporting the models as well as the governance processes over impairments as a whole. • We considered Internal Audit reports and the findings raised. • Assessed the design and implementation of the ECL models, including assessing the significant assumptions applied and the data used to derive model parameters with reference to the requirements of IFRS 9. • Evaluated the ECL modelling methodology applied by Management to determine the PD, LGD, and EAD used to compute portfolio ECL allowances against the requirements of IFRS 9 and the Bank's internal policies. • Assessed Management's ECL models for mathematical accuracy and alignment to internally approved modelling methodology by re-performing the ECL models.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

Key Audit Matters (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
3.	Credit risk and impairment of loans and advances to customers (Continued)	
	<p>Collective ECL recognition A significant portion of ECL is calculated on a collective basis, utilising statistical models. The development and execution of these models requires significant Management judgement, including the estimation of key inputs such as the probability of default (PD); exposure at default (EAD) and loss given default (LGD). Further judgement is required in incorporating forward looking information into the ECL models and in determining the ECL stage allocation.</p> <p>Individual ECL recognition A significant portion of loans and advances are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank, and Business Bank portfolios. Significant judgements, estimates and assumptions are applied by Management to:</p> <ul style="list-style-type: none"> • Determine if the financial asset is impaired; • Evaluate the valuation and recoverability of collateral; • Determine the expected future cash flows to be collected; • Estimate the timing of the future cash flows 	<ul style="list-style-type: none"> • We have considered the macro-economic forecasts used in the models including benchmarking these against external evidence and economic data. • Performed sensitivity analyses on the forecasts and the assessed impacts on ECL against Management's <p>ECL estimate.</p> <ul style="list-style-type: none"> • Assessed Managements' post-model adjustments by evaluating the reasonability of the assumptions and judgements applied when making their assessment of the qualitative and quantitative impact of economic, legal and operational events. • We have recalculated post model-adjustments. <p>Individual ECL recognition We have tested Management's processes and judgments used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments against Bank's internal policy and the requirements of IFRS 9.</p>

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

Other Information included in the Bank's 2018 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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.

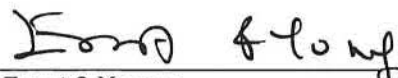
As required by the Companies Act, 2002 of Tanzania, we report to you, based on our audit, that:

- 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;
- 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 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 Deokari Mkenda


Ernst & Young
Certified Public Accountants
Dar es Salaam


Signed by: Deokari Mkenda
ACPA 3438

Date: 01. 04. 2019

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 TZS '000	2017 TZS '000
Effective interest income	6	3,252,797	3,583,332
Effective interest expense	7	(572,125)	(417,497)
Net interest income		2,680,672	3,165,835
Expected credit losses/Impairments	18 &19	(86,601)	(12,328)
Net interest income after credit losses/impairment		2,594,071	3,153,507
Net fee and commission income	8	212,983	271,365
Net trading income /(loss)	9	4,355	(7,699)
Other income	10	1,342	2,049
Net operating income		2,812,751	3,419,222
Staff costs	11	(3,522,952)	(3,133,143)
Infrastructure costs	12	(3,378,870)	(2,930,443)
Administration and general expenses	13	(1,399,775)	(1,626,825)
Operating expenses		(8,301,597)	(7,690,411)
Loss before tax		(5,488,846)	(4,271,189)
Income tax expense	14	(14,497)	-
Loss for the year		(5,503,343)	(4,271,189)
<i>Items that may be reclassified subsequently to profit/loss:</i>			
(Loss) / gain on fair valuation of AFS financial assets	20	(25,080)	204,051
Total comprehensive loss for the year		(5,528,423)	(4,067,138)
Basic and diluted earnings per share (TZS)	15	(89.42)	(65.78)

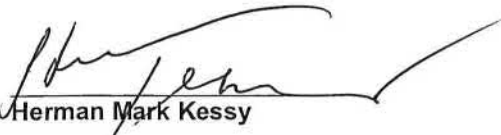
MWALIMU COMMERCIAL BANK PLC

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 TZS '000	2017 TZS '000
Assets			
Cash and balances with Bank of Tanzania	16	1,904,196	1,019,445
Treasury Bills and other eligible bills	17	0	624,901
Loans and advances to banks	18	2,346,182	14,837,040
Loans and advances to customers	19	17,885,548	11,194,713
Investment securities	20	1,124,831	1,149,912
Income tax recoverable	14	444,117	458,614
Other assets	21	207,148	327,685
Property and equipment	22	1,873,512	2,366,432
Intangible assets	23	4,908,967	5,817,692
Total assets		30,694,501	37,796,434
Liabilities			
Deposits from banks	24	-	4,478,000
Deposits from customers	25	7,948,974	5,477,827
Other liabilities	26	1,451,569	730,432
Total liabilities		9,400,543	10,686,259
Shareholders' equity			
Share capital	27	30,912,460	30,912,460
Accumulated losses	28	(9,976,734)	(4,120,723)
Regulatory credit risk reserve	28	-	114,387
Bond Revaluation Reserve	29	178,971	204,051
Provision General Reserve	28	179,260	-
		21,293,958	27,110,175
Total shareholders' equity and liabilities		30,694,501	37,796,434

The annual financial statements were approved by the board of directors and authorized for issue on

01-04-2019..... 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 2018**

	Share capital	Retained earnings	Regulatory general credit risk reserve	Bond Revaluation reserve	Provision General reserve	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Year ended 31 December 2018						
At 1 January 2018	30,912,460	(4,120,723)	114,387	204,051	-	27,110,175
Decrease resulting from adopting of IFRS9	-	(287,795)	-	-	-	(287,795)
Loss for the year	-	(5,503,342)	-	-	-	(5,503,342)
Other comprehensive loss for the year	-	-	-	(25,080)	-	(25,080)
Transfer to regulatory credit risk reserve	-	114,387	(114,387)	-	-	-
Transfer to provision general reserve	-	(179,260)	-	-	179,260	-
At end of year	30,912,460	(9,976,733)	-	178,971	179,260	21,293,958
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	30,912,460	(4,120,723)	114,387	204,051	-	27,110,175

MWALIMU COMMERCIAL BANK PLC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 TZS '000	2017 TZS '000
Cash flows from operating activities			
Profit before income tax		(5,488,856)	(4,271,189)
Adjusted for:			
IFRS 9 day 1 impact	4	(287,795)	-
Depreciation and amortization	22&23	2,192,031	1,857,491
Net foreign exchange differences		1,365,123	(8,509,185)
Net Interest income		(3,252,797)	(3,583,333)
		(5,472,294)	(14,506,216)
Changes in operating assets and liabilities:			
Statutory Minimum Reserve		24,862	(325,799)
Loans and advances to banks		12,490,857	(4,497,699)
Loans and advances to customers		(6,690,835)	(10,588,091)
Other assets		120,538	116,853
Deposits from banks		(4,478,000)	4,478,000
Deposits from customers		2,471,147	4,041,458
Other liabilities		721,149	(273,270)
Interest received		1,919,182	12,041,547
Taxes paid		-	-
Net cash inflow/(outflow) from operating activities		1,106,606	(9,513,217)
Cash flows from investing activities			
Purchase of treasury bills		624,901	12,127,504
Purchase of investment securities - Available for sale		-	(945,861)
Acquisition of property and equipment	22	(520,044)	(196,620)
Acquisition of intangible assets	23	(270,341)	(1,018,000)
Net cash (outflow)/ inflow from investing activities		(165,484)	9,967,024
Cash flows from financing activities			
		-	-
Net increase in cash and cash equivalents		941,122	453,806
Movement in cash and cash equivalents			
At the beginning of the year		643,624	189,819
Net increase in cash and cash equivalents		941,122	453,806
At the end of the year	30	1,584,746	643,624

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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:

Mezzanine Floor, Mlimani Tower,
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 2018. 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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' or 'interest expense' in the statement of profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on non-performing loans for which no impairment provision has been recorded is recognised using the effective interest method. Interest income is not recognised for non-performing loans for which an impairment provision has been recorded.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Revenue recognition (Continued)

Fees and commission income

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

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

(e) Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category (as defined by IFRS 9)		Class (as determined by the Bank)		Subclass
Financial Assets	Amortized cost	Loans and Advances to Banks		
		Loans and advances to customers	Loans to individuals	Personal Loans Mortgage Loans
			Loans to corporate entities	Corporate Loans
			Loans to SMEs	SME Loans
	Investment in Debt securities	Government securities	Treasury Bills and Bonds (SPPI)	
	Fair value through profit or loss (FVPL)	Equity Investment (Which are not under scope of IAS 28 and IFRS 10)		
	Fair value through other comprehensive income (FVOCI)	Equity investments designated at FVOCI		
Other treasury bonds held to collect contractual cash flows and sale				
Financial liabilities	Financial liabilities at amortised cost	Deposits from Banks		
		Borrowings, subordinated debts and other liabilities		
		Deposits from customers	Retail customers Corporate customers	

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets*

Accounting policies applicable in current period under IFRS 9

The Bank classifies its financial assets in the following categories: At amortized cost, Fair value through profit or loss (FVPL) and Fair value through other comprehensive income (FVOCI).

Classification and subsequent measurement of financial assets depends on;

- (a) The Bank's business model for managing the asset; and
- (b) The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories.

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPi'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Other income' in the period in which it arises.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Other Income'.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a Bank of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

(i) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Bank upon initial recognition designates as available for sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the balance sheet as loans and advances to other banks or customers, cash and balances with central Bank, some government securities or other assets. Interest on loans is included in the statement of profit or loss and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of profit or loss as 'loan impairment charges'.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

- (a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Bank designates as available for sale; and
- (c) those that meet the definition of loans and receivables.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of profit or loss and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of profit or loss as 'net gains/ (losses) on investment securities'.

(iii) Available for sale

Available-for-sale financial assets are financial assets 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, exchange rates or equity prices or that are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and accumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. Interest income is calculated using the effective interest method, and recognized in the profit and loss under interest and similar income.

Recognition of financial assets

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on market prices or dealer price quotations. This includes listed equity securities and debt instruments.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Bank, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the balance sheet date.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at FVOCI. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Impairment of financial assets

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVPL:

- Loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- credit cards;
- corporate bonds;
- loan commitments issued; and
- financial guarantee contracts issued.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Lifetime ECL, i.e. ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

For the purposes of determining ECL, all facilities whose contractual payments are more than 30 days due but less than or equal to 90 days due are grouped in stage 2 as they are taken to have experienced a significant increase in credit risk.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

Impairment of financial assets (continued)

As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as stage 3 for ECL calculations or whether stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Bank;
- The borrower having past due liabilities to public creditors or employees;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection; and
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

More details on the determination of a significant increase in credit risk are provided in Note 34.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

Impairment of financial assets (continued)

The ECL is determined by projecting the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

PD – the probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

EAD – the expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortized products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on an analysis of the Bank’s recent default data.

LGD – The loss that is expected to arise on default which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

Impairment of financial assets (continued)

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 4 for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on an annual basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.

Under IFRS 9, the Bank will consider a financial asset as 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

The Bank's write-off policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

Impairment of financial assets (continued)

The Bank writes off non-performing financial assets that have been past due for more than four (4) consecutive quarters. The Bank may write-off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The assessment is done to specific borrower.

(i) **Assets carried at amortised cost**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of impairment include:

Significant financial difficulty of the issuer or obligor;

- A breach of contract, such as a default or delinquency in interest or principal payment; 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.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Bank of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

Impairment of financial assets (continued)

(i) Assets carried at amortised cost (Continued)

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognised in profit or loss in impairment charge for credit losses.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

(ii) Assets classified as available-for-sale

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a Bank of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available- for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

Impairment of financial assets (continued)

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

An impairment assessment is performed in a similar manner for loans whose terms are renegotiated as a result of financial difficulty of the borrower in the year the terms were renegotiated even if the loan is classified as performing.

Impairment of non-financial assets

Assets 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). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. A loan will remain at its original stage until it meets the criteria of cure.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition. The Bank monitors the subsequent performance of modified assets until they are completely and ultimately derecognised. The Bank may determine that the credit risk has significantly improved after modification, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

Modification of financial assets (Continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

There was no financial assets which were modified during the period and hence no modification loss suffered by the Bank.

Cure of non-performing financial assets including restructured loans

An instrument is considered to no longer be SICR or in default (i.e. to have cured) when it has been established that the obligor is able to meet the requirements of the agreed terms and conditions.

IFRS 9 allows credit exposures to migrate from higher credit risk categories to lower credit risk categories, that is, from stage 3 to stage 2 and from stage 2 to stage 1.

Under migration from stage 3 to stage 2, the Bank shall consider criteria for upgrade of credit accommodations as follows:

- (a) in the case of overdraft facilities, the account has satisfactorily performed for a minimum period of two consecutive quarters; and
- (b) in the case of term loans, the obligor has timely paid four consecutive installments.

These periods have been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

On the other hand, credit exposures may migrate from stage 2 to stage 1 when there is a significant improvement of the credit exposure. In determining whether an exposure should shift backward from stage 2 to stage 1, The Bank shall consider the following;

- (a) All outstanding payments on the credit facility are made on time and there are no payments in arrears.
- (b) There is improvement of the quantitative and qualitative factors that caused significant increase of the credit risk.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Financial assets (Continued)*

Accounting policies applicable in current period under IFRS 9 (continued)

Cure of non-performing financial assets including restructured loans (Continued)

Upgrade from stage 2 to stage 1 shall be subject to a monitoring period of 90 days for conventional loans and 30 days for Microfinance loans to confirm if the risk of default has decreased sufficiently before upgrading such exposure.

For credit exposures that have cured i.e shifted from stage 2 to stage 1, interest income is calculated on carrying amount of the asset at the beginning of the period before allowance for ECLs using effective interest rate. The carrying amount of the exposure shall be the amortised cost at the end of the period less allowance for ECL computed.

For credit exposures that have shifted from stage 3 to stage 2, objective evidence of impairment still exists and accordingly interest income is computed on carrying amount of the asset at the beginning of the period after allowance for ECLs using effective interest rate. The carrying amount of the exposure shall be the amortised cost at the end of the period less allowance for ECL computed.

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when extinguished. Such financial liabilities include deposits from banks or customers, other liabilities, subordinate debts and borrowings.

Derecognition of financial assets and liabilities

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control. The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (a) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (b) is prohibited from selling or pledging the assets; and
- (c) has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Offsetting financial instruments

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

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income Tax

Income tax charge

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

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

Deferred income tax

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

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

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

(h) 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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property and equipment (Continued)

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

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

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

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

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

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

(i) 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).

(j) 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. SEP

Any special conditions that apply should also be disclosed.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

(r) 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.

4 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9

IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. The revised approach prescribes the rules for measuring impairment allowances for financial assets, the classification and measurement of financial assets, and hedge accounting. The expected credit loss approach requires an allowance to be established upon initial recognition of an asset reflecting the level of losses anticipated after having regard to amongst other things, expected future economic conditions. Subsequently the amount of the allowance is affected by changes in the expectations of loss driven by changes in associated credit risk.

The Bank retrospectively adopted IFRS 9 on 1 January 2018 with the cumulative adjustment to the Bank's opening 1 January 2018 reserves and, as permitted by IFRS 9, did not restate its comparative financial results.

The adoption of IFRS 9 has resulted in the following financial impacts in the Bank at the date of initial application.

- Common equity tier 1 (CET 1) ratio of the Bank reduced by 1% to 120% (2017: 121%)
- Shareholders' equity has been reduced by 1%, driven by the effects of additional impairment provisions following the implementation of the expected credit loss methodology.

The most significant IFRS 9 transition impact for the Bank is the introduction of, IFRS 9 new ECL requirements which results in the early recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below. This impact was solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the Bank's loan exposures.

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (Continued)

12-month ECL for performing loans (stage 1)	IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a significant increase in credit risk (SICR), whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment.
Significant increase in credit risk (SICR) (stage 2)	A lifetime ECL is recognised for all exposures for which there has been a SICR, being a significant increase in the probability of default, since origination.
	In terms of determining ECL for stage 1 and 2 exposures where there is a probability of default, the potential loss from a lifetime perspective is considered, which would include the probability of recovery post default and subsequent re-default.
Lifetime model (stage 3)	For stage 3 exposures, being exposures that are either in default or where default is imminent, this would include consideration of cures and subsequent re-default.
Off-balance sheet exposure	IFRS 9's scope includes off-balance sheet exposures, such as unutilized loan commitments, financial guarantees and letters of credit.
Forward looking information	IFRS 9 requires consideration of forward looking economic expectations in the determination of SICR and in the measurement of the ECL

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (Continued)

Reconciliation between the carrying amount under IAS 39 to the balances reported under IFRS 9 as at January 2018 is, as follows:

	IAS 39 measurement		Reclassification	Remeasurement ECL	IFRS 9	
	Category	Amount			Amount	Category
Financial assets						
Cash and balances with central Banks	L&R	1,019,445	-	-	1,019,445	AC
Loans and advances to banks	L&R	14,837,040	-	(77,485)	14,759,555	AC
Loans and advances to customers	L&R	11,194,713	-	(210,249)	10,984,464	AC
Other assets		168,935	-	-	168,935	
<hr/>						
Debt instruments at amortised cost						
From Financial investments - L&R	L&R					
From Financial investments - HTM	HTM	624,901	-	(61)	624,840	
	L&R	27,845,034	-	(287,795)	27,557,238	AC
<hr/>						
Financial investments – AFS						
To: Debt instruments		1,149,912	-	(109)	1,149,803	
To: Equity instruments		-	-	-	-	
	AFS	1,149,912	-	(109)	1,149,803	
<hr/>						
Financial investments – HTM		N/A	-	-	-	
To: Debt instruments at amortised cost			-		-	
	HTM	N/A	-	-	-	
<hr/>						
Debt instruments at fair value through OCI		N/A	-		-	FVOCI
From: Financial Investments – AFS			-		-	
		N/A	-		-	FVOCI
<hr/>						
Off balance sheet financial assets		-	-	-		
Deferred tax asset				71,976		
Total financial assets		28,994,945	-	(215,928)	28,779,017	

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (Continued)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

Retained earnings	TZS '000
Closing balance under IAS 39 (31 December 2017)	(4,120,723)
Adjustments in relation to adopting IFRS 9	
Loans and advances to banks	(77,485)
Loans and advances to customers	(210,249)
Other assets	-
From Financial investments - AFS	-
From Financial investments - HTM	(61)
Total change in equity due to adopting IFRS 9 (1 January 2018)	4,408,518
Deferred tax asset (not recognised)	71,976
	(4,336,542)

Total change in equity due to adopting IFRS 9

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9. Further details are disclosed in Note 19.

	01-Jan-18	Remeasurement	1 January 2018
	TZS '000	TZS '000	(restated)
			TZS '000
Loans and advances to customers	11,194,713	(210,249)	10,984,464
Loans and advances to banks	14,837,040	(77,485)	14,759,555
Government securities at amortised costs	624,901	(61)	624,840
Government securities at FVOCI	1,149,912	-	1,149,912
Other assets	168,935	-	168,935
	27,975,501	(287,795)	27,687,706

Key elements of Classification and measurement

The classification and measurement of financial assets has been changed under IFRS 9 to more closely follow the product characteristics and business intent rather than being primarily influenced by asset class:

- Amortised cost has been used only where products are relatively straight-forward (in this sense meaning the cash-flows represent principal and interest, being the time value of money) and where the business intends to hold the asset to collect those cash-flows.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

4 TRANSITION DISCLOSURES FROM IAS 39 TO IFRS 9 (Continued)

Key elements of Classification and measurement (Continued)

- For those assets which the Bank intends to sell such assets from time to time (hold to collect and sell) they are measured at fair value through other comprehensive income (similar to available-for-sale under IAS 39).
- For financial assets that are more complex or where the Bank intends to trade them then they are fair valued with movements going to profit and loss.

Forward-looking information: - Forward-looking information has been incorporated into the Bank impairment methodology calculations which typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.

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.

	2018 TZS '000	2017 TZS '000
6 EFFECTIVE INTEREST INCOME		
Treasury bills and bonds	203,675	834,947
Investment securities	140,399	140,398
Loans and advances to banks	446,424	1,778,239
Loans and advances to customers	2,462,299	829,748
	<u>3,252,797</u>	<u>3,583,332</u>
7 EFFECTIVE INTEREST EXPENSE		
Deposits from banks	101,599	37,599
Deposits from customers	470,526	379,898
	<u>572,125</u>	<u>417,497</u>
8 FEES AND COMMISSION INCOME		
Loan fees	89,313	25,117
Service charge on customer accounts	50,564	163,979
MCB Mobile banking commissions	23,635	6,311
ATM Card fees and commissions	15,324	66,459
Other fees and commissions	34,147	9,499
	<u>212,983</u>	<u>271,365</u>

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 TZS '000	2017 TZS '000
9 NET TRADING INCOME/(LOSS)		
Foreign currency translation gains	1,365	(8,509)
Trading activities gains	2,990	810
	<u>4,355</u>	<u>(7,699)</u>
10 OTHER INCOME		
Sundry income	1,342	2,049
	<u>1,342</u>	<u>2,049</u>
11 STAFF COST		
Wages and salaries	2,462,418	2,369,463
Social security costs (Defined contribution plan)	248,326	238,055
Other staff costs	812,208	525,625
	<u>3,522,952</u>	<u>3,133,143</u>
12 INFRASTRUCTURE COSTS		
ATM & printer hiring charges	98,677	70,020
Office repair and maintenance costs	190,976	156,959
Information Technology*	1,015,377	845,973
Depreciation of property and equipment (Note 22)	1,012,964	804,591
Amortisation of intangible assets	1,060,876	1,052,900
	<u>3,378,870</u>	<u>2,930,443</u>
<p>*Information technology includes; core banking system implementation expenses, software licenses, data lines hire and all other ICT software maintenance expenses</p>		
13 ADMINISTRATIVE AND GENERAL EXPENSES		
Rent	411,192	536,890
Marketing costs	270,852	217,264
Subscriptions	42,156	31,810
Professional fees	21,138	25,143
Telephone, postage & Communication costs	50,074	37,556
Printing and stationery expenses	36,340	46,825
Insurance	71,714	89,825
Service charges & levies	4,330	5,292
Bank charges	14,188	10,958
Office security	66,956	47,118
ATM card expenses	-	274,531
Auditor's remuneration	71,390	61,175
Legal expenses	101,177	60,104
Directors fees	19,750	16,779
Directors sitting allowances	49,058	42,687
Other administrative expenses	169,460	122,867
	<u>1,399,775</u>	<u>1,626,825</u>

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 TZS '000	2017 TZS '000
14 INCOME TAX		
Tax charge		
Alternative Minimum Tax	14,497	-
Total current tax expense	<u>14,497</u>	-
Reconciliation of income tax expense		
(Loss) before income tax	(5,488,843)	(4,271,189)
Tax calculated at 25%	(1,372,211)	(1,067,797)
Alternative Minimum Tax	14,497	
Deferred tax movement not recognised	1,372,211	1,067,797
Income tax expense	<u>14,497</u>	-
Reconciliation of tax recoverable		
Current tax asset per statement of financial position	444,117	458,614
<i>Movement of current tax asset</i>		
Balance at the beginning of the year	(458,614)	(458,614)
Alternative Minimum Tax	14,497	-
Taxes paid	-	-
Balance at the end of year	<u>(444,117)</u>	<u>(458,614)</u>
Deferred income tax asset		
The movement of unrecognized deferred tax assets is as follows:		
Deferred income tax asset		
Property, equipment and intangibles	101,163	175,232
Provision on loans	(92,031)	(3,082)
Tax losses	(1,381,343)	(1,239,947)
Net deferred income tax asset	<u>(1,472,211)</u>	<u>(1,067,797)</u>

Deferred income tax asset amounting to TZS 1,372,211,000 (2017: TZS 1,067,797,000) 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 12,776,370,000 (2017: TZS 7,250,997,026). However, this situation will be re assessed at the end of next financial year.

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

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.

	2018 TZS '000	2017 TZS '000
Net (loss) attributable to shareholders (TZS)	(5,528,423,000)	(4,067,138,311)
Weighted average number of ordinary shares in issue (Note 27)	61,824,920	61,824,920
Basic and diluted earnings per share (TZS)	(89.4)	(65.8)

16 CASH AND BALANCES WITH BANK OF TANZANIA

Cash in hand*	213,491	148,209
Clearing accounts with Central Bank	1,318,861	474,530
Statutory Minimum Reserves (SMR)	371,844	396,706
	<u>1,904,196</u>	<u>1,019,445</u>

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

17 TREASURY BILLS AND OTHER ELIGIBLE BILLS

Maturing after 90 days from date of acquisition	-	624,901
	<u>-</u>	<u>624,901</u>

The movement in the treasury bills may be summarised as follows;

At 1 January	624,901	12,739,969
Additions	2,818,301	612,465
Redemptions	(3,641,483)	(12,739,969)
Accrued interest	198,281	12,436
At 31 December	<u>-</u>	<u>624,901</u>

18 LOANS AND ADVANCES TO BANKS

Current account balances with banks	52,394	20,886
Placements with other banks	2,300,000	14,816,154
Expected credit losses	(6,212)	-
	<u>2,346,182</u>	<u>14,837,040</u>

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 TZS '000	2017 TZS '000
18 LOANS AND ADVANCES TO BANKS		
Movement in allowance for impairment losses on loans and advances is as follows:		
At 1 January	-	-
Increase resulting from adopting of IFRS9	77,485	-
Net impairment release to loss for the year	<u>(71,273)</u>	<u>-</u>
At 31 December	<u>6,212</u>	<u>-</u>

19 LOANS AND ADVANCES TO CUSTOMERS

Mwalimu loans	16,178,354	10,015,203
Personal loans	838,741	199,662
Business loans	41,605	-
Staff loans	<u>1,207,033</u>	<u>992,201</u>
Gross loans and advances	18,265,733	11,207,066
Less: allowance for impairment	(368,123)	(12,328)
interest in suspense	<u>(12,062)</u>	<u>(25)</u>
	<u>17,885,548</u>	<u>11,194,713</u>

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

At 1 January	12,328	-
Increase/(decrease) resulting from adopting of IFRS9	197,920	-
Net impairment charge to loss for the year	<u>157,875</u>	<u>12,328</u>
At 31 December	<u>368,123</u>	<u>12,328</u>

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

Year ended 31 December 2018	Retail	Total
At 1 January 2018	12,328	12,328
Increase/(decrease) resulting from adopting of IFRS9	197,920	-
Net impairment charge to loss for the year	<u>157,875</u>	<u>355,795</u>
At 31 December 2018	<u>368,123</u>	<u>368,123</u>
Year ended 31 December 2017	Retail	Total
At 1 January 2017	-	-
Net impairment charge for the year	<u>12,328</u>	<u>12,328</u>
At 31 December 2017	<u>12,328</u>	<u>12,328</u>

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

20 INVESTMENT SECURITIES

	2018	2017
	TZS'000	TZS'000
Treasury bonds maturing after 90 days	<u>1,124,831</u>	<u>1,149,912</u>
The movement in the investment securities may be summarized as follows;		
At 1 January	1,149,912	-
Additions	-	945,861
Gains/(losses) from changes in fair value	<u>(25,081)</u>	<u>204,051</u>
At 31 December	1,124,831	1,149,912
Current	<u>-</u>	<u>-</u>
Non-current	<u>1,124,831</u>	<u>1,149,912</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 2018, no Treasury bonds were pledged by the bank to secure borrowing lines with other banks (2017: TZS Nil)

	2018	2017
	TZS '000	TZS '000
21 OTHER ASSETS		
Prepayments	194,058	158,751
Sundry receivables	13,090	166,067
Other receivables	<u>-</u>	<u>2,868</u>
	<u>207,148</u>	<u>327,686</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

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
<u>Year ended 31 December 2018</u>							
Cost							
	At 1 January 2018	1,019,758	1,652,654	579,950	212,997	98,816	3,564,175
	Additions	388,736	22,292	87,263	-	21,753	520,044
	At 31 December 2018	<u>1,408,494</u>	<u>1,674,946</u>	<u>667,213</u>	<u>212,997</u>	<u>120,569</u>	<u>4,084,219</u>
Accumulated Depreciation							
	At 1 January 2018	(110,275)	(812,004)	(161,806)	(84,166)	(29,493)	(1,197,743)
	Charge for the year	(92,086)	(720,186)	(125,515)	(53,249)	(21,927)	(1,012,963)
	At 31 December 2018	<u>(202,361)</u>	<u>(1,532,190)</u>	<u>(287,321)</u>	<u>(137,415)</u>	<u>(51,420)</u>	<u>(2,210,707)</u>
	Net carrying value	<u>1,206,133</u>	<u>142,756</u>	<u>379,892</u>	<u>75,582</u>	<u>69,149</u>	<u>1,873,512</u>
<u>Year ended 31 December 2017</u>							
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>

*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 2018**

	2018	2017
	TZS '000	TZS '000
23 INTANGIBLE ASSETS		
As at 1 January	5,817,692	5,852,592
Paid during the year	247,421	899,810
Work in progress	22,920	118,190
Amortisation charge for the year	<u>(1,179,066)</u>	<u>(1,052,900)</u>
As at 31 December	<u>4,908,967</u>	<u>5,817,692</u>
 As at 31 December		
Cost	7,309,598	7,157,447
Accumulated amortisation	<u>(2,400,631)</u>	<u>(1,339,755)</u>
Net Book Value	<u>4,908,967</u>	<u>5,817,692</u>

*Work in progress relates to payment to core banking system vendor for implementation of salary advance product.

Intangible assets include core banking system and other softwares in use by the Bank. The remaining amortization period is three and a half years. No intangible asset has been pledged as security against liabilities.

24 DEPOSITS FROM BANKS		
Money market deposits	<u>-</u>	<u>4,478,000</u>
Maturing within 90 days	-	4,478,000
Maturing after 90 days from date of acquisition	<u>-</u>	<u>-</u>
	<u>-</u>	<u>4,478,000</u>
 25 DEPOSITS FROM CUSTOMERS		
Retail banking:		
Savings Account	741,909	938,599
Current Account	1,936,056	63,129
Term Deposits	<u>5,271,009</u>	<u>4,476,099</u>
	<u>7,948,974</u>	<u>5,477,827</u>
 Maturity Analysis- not more than 3 months		
Repayable on demand	2,677,965	1,001,728
Maturing within 3 months	<u>229,300</u>	<u>3,064,000</u>
	<u>2,907,265</u>	<u>4,065,728</u>

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 6.34%.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 TZS '000	2017 TZS '000
26 OTHER LIABILITIES		
Accrued taxes payable	7,925	68,653
Accrued expenses	721,070	410,590
Sundry creditors	16,678	8,811
Other payables	705,896	242,378
	<u>1,451,569</u>	<u>730,432</u>

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

27 SHARE CAPITAL

Authorised share capital 200,000,000 @ TZS 500	<u>100,000,000</u>	<u>100,000,000</u>
Ordinary shares issued and fully paid 61,824,920 @ TZS 500 each	<u>30,912,460</u>	<u>30,912,460</u>

	Retained earnings TZS '000	Regulatory general credit risk reserve TZS '000	Provision general reserve (*) TZS '000
28 RESERVES			
Balance at 1 January 2018	(4,120,723)	114,387	-
Decrease resulting from adopting of IFRS9	(287,795)		
Loss for the year	(5,503,342)	-	-
Transfer to/(from) retained earnings	(64,873)	(114,387)	179,260
Balance at 31 December 2018	<u>(9,976,733)</u>	<u>-</u>	<u>179,260</u>
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>	<u>-</u>

(*) Provision general 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 2018

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.

	2018 TZS '000	2017 TZS '000
At 1 January	204,051	-
Bond revaluation reserve - (loss)/gain	<u>(25,080)</u>	<u>204,051</u>
At 31 December	<u>178,971</u>	<u>204,051</u>

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

Cash in hand (Note 16)	213,491	148,209
Clearing accounts with Central Bank (Note 16)	1,318,861	474,530
Loans and advances to banks (Note 18)	<u>52,394</u>	<u>20,886</u>
	<u>1,584,746</u>	<u>643,625</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 12,979,826,740 as at year end (2017: TZS 7,250,997,026).

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

31 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(b) *Legal proceedings*

There were no legal proceedings outstanding against the Bank as at 31 December 2018 hence no provision made on the same (2017: Nil provision)

(c) *Capital commitments*

There were no capital commitments at the year-end (2017: nil).

(d) *Operating lease commitments*

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

	2018 TZS '000	2017 TZS '000
Less than one year	408,262	581,246
Between one and five years	1,205,330	783,602
More than five years	-	-
	<u>1,613,592</u>	<u>1,364,848</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. After the merger of pension funds in Tanzania shares of PSPF are now under PSSSF (Public Sector Social Security Fund).

Transactions entered into with the shareholders in the normal course of business during the year to 31 December 2018 include loans and fixed deposits. All related party transactions were entered 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*

At start of year	378,252	352,451
Loans issued during the year	54,000	124,223
Loan repayment during the year	<u>(144,716)</u>	<u>(98,422)</u>
At end of year	<u>287,536</u>	<u>378,252</u>
Interest income earned	<u>29,300</u>	<u>30,865</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

32 RELATED PARTY TRANSACTIONS (Continued)

(b) *Deposits from related parties*

At start of year	38,448	1,050,000
Deposits during the year	1,746,012	-
Deposits matured during the year	-	(1,011,552)
At end of year	<u>1,784,460</u>	<u>38,448</u>
Interest expense incurred	<u>-</u>	<u>-</u>

(c) *Key management compensation*

Salaries and other short-term employment benefits	<u>1,314,147</u>	<u>1,368,933</u>
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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 68.8 million (2017: 59.5 million). Details of payment to individual directors will be tabled at the annual general meeting.

33 FINANCIAL INSTRUMENTS BY CATEGORY

At 31 December 2018	Loans and receivables TZS '000	Available for sale TZS '000	Total TZS '000
Financial assets			
Cash and balances with Bank of Tanzania	1,904,196	-	1,904,196
Loans and advances to banks	2,346,183	-	2,346,183
Loans and advances to customers	17,885,548	-	17,885,548
Investment securities - Available for sale	-	1,124,831	1,124,831
Other assets	13,090	-	13,090
	<u>22,149,017</u>	<u>1,124,831</u>	<u>23,273,848</u>

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

33 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

At 31 December 2018	other liabilities at amortised cost	Total
	TZS '000	TZS '000
Financial liabilities		
Deposits from customers	7,948,974	7,948,974
Other liabilities	1,443,645	1,443,645
	<u>9,392,619</u>	<u>9,392,619</u>

At 31 December 2017	Loans and receivables	Held to maturity	Available for sale	Total
	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
	<u>27,220,133</u>	<u>624,901</u>	<u>1,149,912</u>	<u>28,994,946</u>

At 31 December 2017	other liabilities at amortised cost	Total
	TZS '000	TZS '000
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
	<u>10,617,606</u>	<u>10,617,606</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

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.

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.

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.

Impairment allowances are computed as required under IFRS 9, which are based on expected losses as at the balance sheet date (the 'expected credit 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 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%

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

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.

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.

Impairment and provisioning policies

The internal bank rating system 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-18				31-Dec-17			
	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	17,563,479	98.20	126,195	34	11,194,738	99.9	-	-
2. Especially mentioned	200,352	1.12	120,211	33	-	-	-	-
3. Substandard	101,186	0.57	101,186	28	-	-	-	-
4. Doubtful	8,590	0.05	8,590	2	12,328	0.1	12,328	100
5. Loss	11,941	0.07	11,941	3	-	-	-	-
	17,885,548	100.00	368,123	100	11,207,066	100.0	12,328	100

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

34 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Impairment and provisioning policies (Continued)

The internal rating tool assists management to determine whether objective evidence of impairment exists under IFRS 9, 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.

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 expected 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.

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

The Bank's maximum exposure to credit risk at 31 December 2018 and 31 December 2017 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:

	2018	2017
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	1,904,196	1,019,445
Treasury Bills and other eligible bills	-	624,901
Loans and advances to banks	2,346,183	14,837,040
Loans and advances to customers	17,885,548	11,194,713
Investment securities - Available for sale	1,124,831	1,149,912
Other assets	13,090	327,686
Total	23,273,848	29,153,696

*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 0.3% (2017: 57%) and 99.7% (2017: 43%) 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. 98.2% of the loans and advances portfolio is considered to be current (2017: 99.9%).

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances

Loans and advances are summarised as follows:

2018	TZS'000
Loans and advances	18,253,671
Gross loans and advances to customers	18,253,671
Less: Expected losses	
Stage 3	(717)
Stage 2	(8,085)
Stage 1	(359,321)
Allowance for impairment	(368,123)
Net loans and advances to customers	17,885,548

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

34 FINANCIAL RISK MANAGEMENT (Continued)

	31-Dec-17	
	Loans and advances to customers TZS '000	Amounts due from banks TZS '000
Neither past due nor impaired	11,194,738	14,837,040
Past due but not impaired	-	-
Impaired	12,328	-
Gross loans and advances	11,207,066	14,837,040
Less: Allowances for impairment	(12,328)	-
Net loans and advances	11,194,738	14,837,040

Loans and advances to customers

Impairment provision for loans and advances was TZS 124 million (2017: TZS 12 million). This represent results of loans assessed individually for impairment and also on a portfolio basis.

Loans and advances to banks

There was no amount of individually impaired loans and advances to banks as at 31 December 2018 (2017: nil).

Investment securities

Investment securities held by the Bank are treasury 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.

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.

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

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 2018. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Tanzania	Total
	TZS '000	TZS '000
Year ended 31 December 2018		
Cash and balances with Bank of Tanzania	1,904,196	1,904,196
Loans and advances to banks	2,346,183	2,346,183
Loans and advances to customers	17,885,548	17,885,548
Investment securities - Available for sale	1,124,831	1,124,831
Other assets	13,090	13,090
Total	23,273,848	23,273,848
Year ended 31 December 2017		
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	28,994,946	28,994,946

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

	Financial Institutions	Individuals	Others	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Year ended 31 December 2018				
Cash and balances with Bank of Tanzania	1,904,196	-	-	1,904,196
Loans and advances to banks	2,346,183	-	-	2,346,183
Loans and advances to customers	-	17,885,548	-	17,885,548
Investment securities - Available for Sale	1,124,831	-	-	1,124,831
Other assets	-	-	13,090	13,090
Total	5,375,211	17,885,548	13,090	23,273,848

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

34 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure (Continued)

	Financial Institutions	Individuals	Others	Total
Year ended 31 December 2017	TZS '000	TZS '000	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	17,631,298	11,194,713	168,935	28,994,946

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.

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.

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.

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 2018.

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
As at 31 December 2018	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Liabilities						
Deposits from customers	2,934,588	70,000	4,692,386	252,000	-	7,948,974
Other liabilities *	1,443,645	-	-	-	-	1,443,645
Total liabilities (contractual maturity dates)	4,378,233	70,000	4,692,386	252,000	-	9,392,619
Assets						
Cash and balances with Bank of Tanzania	1,904,196	-	-	-	-	1,904,196
Loans and advances to banks	52,394	-	2,293,789	-	-	2,346,183
Loans and advances to customers	94,687	370	22,755	8,897,377	12,857,827	21,873,016
Investment securities - Available for Sale	-	-	-	-	-	-
Other assets	-	-	13,090	-	-	13,090
Total assets (expected maturity dates)	2,051,277	370	2,329,634	8,897,377	12,857,827	12,136,485

*Other liabilities exclude statutory obligations

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

34 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

As at 31 December 2017	Up to 1 month TZS '000	1 to 3 months TZS '000	4 to 12 months TZS '000	1 to 5 years TZS '000	over 5 years TZS '000	Total TZS '000
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 2018

34 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

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.

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.

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 0.797 million as at 31 December 2018 (2017: TZS 0.843 million).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (amounts are in USD).

As at 31 December 2018	USD	Total
Assets		
Cash and balances with Bank of Tanzania	42,909	42,909
Balances with other banks	4,393	4,393
Total financial assets	47,302	47,302
Liabilities		
Deposits	63,234	63,234
Total financial liabilities	63,234	63,234
Net on-balance sheet financial position	(15,932)	(15,932)
Credit commitments	-	-

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk (Continued)

As at 31 December 2017	USD	Total
Assets		
Cash and balances with 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>

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).

As at 31 December 2018	1 to 5 years	Total
Assets		
Investment securities - Available for Sale	1,124,831	1,124,831
Total financial assets	<u>1,124,831</u>	<u>1,124,831</u>
Liabilities		
Total financial liabilities	<u>-</u>	<u>-</u>
Total interest rate repricing gap	<u>1,124,831</u>	<u>1,124,831</u>

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

34 FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk (Continued)

As at 31 December 2017	1 to 5 years	Total
Assets		
Investment securities - Available for sale	1,149,912	1,149,912
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>

Interest rate sensitivity

As at 31 December 2018, 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;

	2018	
	Increase by 2%	Decrease by 2%
	TZS '000	TZS '000
Change in interest rate on		
Investment securities - Available for Sale	4,123	(4,123)
	2017	
	Increase by 2%	Decrease by 2%
	TZS '000	TZS '000
Change in interest rate on		
Investment securities - Available for Sale	1,931	(1,931)

MWALIMU COMMERCIAL BANK PLC

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

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:

Year ended 31 December 2018	Carrying value TZS '000	Fair value Total
Cash and balances with Bank of Tanzania	1,904,196	1,904,196
Loans and advances to banks	2,346,183	2,346,183
Loans and advances to customers	17,885,548	17,885,548
Investment securities - Available for sale	1,124,831	1,124,831
Other assets	13,090	13,090
Total financial assets	23,273,848	23,273,848
Deposits from customers	7,948,874	7,948,874
Other liabilities	1,443,645	1,443,645
Total financial liabilities	9,392,519	9,392,519
Year ended 31 December 2017	Carrying value TZS '000	Fair value Total
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	28,790,895	28,994,946
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 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities (Continued)

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

Year ended 31 December 2018

	Level 2	Total
Financial assets		
Cash and balances with Bank of Tanzania	1,904,196	1,904,196
Loans and advances to banks	2,346,183	2,346,183
Loans and advances to customers	17,885,548	17,885,548
Investment securities - Available for sale	1,124,831	1,124,831
Other assets	13,090	13,090
Total financial assets	23,273,848	23,273,848
Financial liabilities		
Deposits from customers	7,948,974	7,948,974
Other liabilities	1,443,645	1,443,645
Total financial liabilities	9,392,619	9,392,619

Year ended 31 December 2017

	Level 2	Total
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
Total financial assets	28,994,946	28,994,946
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 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

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) *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.

(iii) *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.

(iv) *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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

34 FINANCIAL RISK MANAGEMENT (Continued)

Fair valuation methods and assumptions (Continued)

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.

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 2018**

34 FINANCIAL RISK MANAGEMENT (Continued)

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 2018 and year ended 31 December 2017. During the year, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2018	2017
	TZS '000	TZS '000
Tier 1 capital		
Share capital	30,912,460	30,912,460
Accumulated losses	(9,976,733)	(4,120,723)
Prepaid expenses	(194,058)	(158,751)
Intangible assets	<u>(4,908,967)</u>	<u>(5,817,692)</u>
Total qualifying tier 1 capital	15,832,702	20,815,294
Tier 2 capital (1% general provision)	<u>179,260</u>	<u>114,387</u>
Total regulatory capital	<u><u>16,011,962</u></u>	<u><u>20,929,681</u></u>
 Risk weighted assets		
On-balance sheet	22,603,802	17,197,461
Capital charge for market risk	165,804	16,859
Capital charge for operational risk	<u>1,959,079</u>	<u>-</u>
Total risk weighted assets	<u><u>24,728,685</u></u>	<u><u>17,214,320</u></u>
	Bank's ratio	Bank's ratio
	%	%
Tier 1 capital	64	121
Tier 1 + Tier 2 capital	65	122

35 EVENTS AFTER REPORTING PERIOD

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.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

36 NEW AND AMENDED STANDARDS ADOPTED BY THE BANK

The following standards have been adopted by the Bank for the first time for the financial year beginning in 1 January 2018:

IFRS 9, 'Financial instruments'

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures on the basis that it is not possible to do so without the use of hindsight. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

The impact of the adoption of IFRS 9 on the Bank is disclosed under note 4. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail under note 3.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15 is effective and has been implemented by the Bank on 1 January 2018. The standard replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognise the revenue as each performance obligation is satisfied.

The new standard provides a more detailed principles-based approach for income recognition compared to IAS 18 Revenue, with revenue being recognised as or when promised services are transferred to customers. The new standard applies to 'fees and commission income' but not to financial instruments or lease contracts.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

36 NEW AND AMENDED STANDARDS ADOPTED BY THE BANK (Continued)

IFRS 15, 'Revenue from contracts with customers' (Continued)

The Bank's main source of revenue is out of scope of IFRS 15. The Bank has identified and reviewed the contracts with customers that are within the scope of this standard. The outcome of the reviews has not resulted in the identification of additional performance obligations for certain products and as a result thereof a deferral of revenue relating to those products. In nearly all cases the Bank's the pattern of revenue recognition under previous accounting policies is consistent with the requirements of IFRS 15, however, while certain income streams from LCs and guarantees differ in pattern of recognition, the differences were not material. IFRS 15 did not have a material impact on the Bank's financial statements and therefore no adjustment to retained earnings in respect of adoption was done.

Transfers of Investment Property-Amendments to IAS 40

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle.

The Board provided two options for transition:

- prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or
- retrospectively - only permitted without the use of hindsight.

The amendment did not have an impact on the Bank since the Bank has no investment properties.

IFRS 4 - Insurance contracts.

Amendments to IFRS 9 Financial instruments allow an entity that issues insurance contracts the opportunity to utilize two options - where IFRS 9 is applied prior to the forthcoming insurance contracts standard. These are;

- Overlay approach - which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI, and
- Deferral approach - temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts.

The Bank does not issue any insurance contracts and therefore the amendment did not have any impact to the Bank.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The amendment did not have significant impact to the Bank.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

36 NEW AND AMENDED STANDARDS ADOPTED BY THE BANK (Continued)

Annual improvements 2014-2016 cycle

The following improvements were finalised in December 2016:

- IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10, which are no longer relevant.
- IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

The improvements did not have significant impact to the Bank.

37 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE BANK

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Bank.

IFRS 16, 'Leases'

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The Bank has set up a project team which has reviewed all of the Bank's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Bank's operating leases.

Impact assessment:

As at the reporting date, the Bank had non-cancellable operating lease commitments of TZS 1,614 million, see note 31. Of these commitments TZS 408 million relates to short term leases which will be recognized on a straight-line basis as expense to profit or loss.

For the remaining lease commitments, the Bank expects to recognize right-of-use (ROU) assets of approximately TZS 1,205 million on 1 January 2019, lease liabilities of TZS 1,001 million (after adjustments for prepayments and accrued lease payments recognized as at 31 December 2018). The Bank expects that net profit before tax for 2019 will decrease by approximately TZS 408 million as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately TZS 204 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Bank has no activities as a lessor and hence the Bank does not expect any impact on the financial statements.

MWALIMU COMMERCIAL BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2018

37 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE BANK (Continued)

IFRS 16, 'Leases' (Continued)

The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

IFRS 17 - Insurance Contracts

This is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 - Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The amendments are effective for annual period beginning on or after 1 January 2021. The Bank does not issue any insurance contracts and therefore the amendment on UFRS 17 is expected not to have any impact to the Bank.

Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a Bank, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Upon adoption of the new standard the Bank will be required to provide information about judgements and estimates made in determination of liabilities arising from uncertain tax positions. The Bank expects to adopt the standard beginning 1 January 2019.

37 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED BY THE BANK (Continued)

Annual improvements to IFRS standards 2015-2017 cycle

The following improvements were finalised in December 2017:

- IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

The amendments are effective for annual period beginning on or after 1 January 2019. The Bank expects to adopt the standard beginning 1st January 2019. The Bank is still assessing the impact of amendments.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

The narrow-scope amendments made to IFRS 9 Financial Instruments in December 2017 enable entities to measure certain repayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

The amendments are effective for annual period beginning on or after 1 January 2019. The Bank expects to adopt the standard beginning 1 January 2019. The Bank is still assessing the impact of amendments.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures. The amendments are effective for annual period beginning on or after 1 January 2019. The Bank expects to adopt the standard beginning 1 January 2019. The Bank is still assessing the impact of amendments.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.