

MKOMBOZI COMMERCIAL BANK PLC

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

MKOMBOZI COMMERCIAL BANK PLC

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TABLE OF CONTENTS

PAGE NUMBER

Report of the Directors	2 - 12
Statement of Directors' responsibilities	13
Declaration of the Head of Finance	14
Report of the independent auditor	15 - 16
<i>Financial statements:</i>	
Statement of profit or loss and other comprehensive income	16
Statement of financial position	17
Statement of change in equity	18
Statement of cash flows	19
Notes	20 - 78

MKOMBOZI COMMERCIAL BANK PLC

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

BANK INFORMATION

Registered Office:	Plot no.40 Mansfield Street PO Box 38448 Dar es Salaam
Main Bankers:	BHF BANK Frankfurt am Main German 60302 Bockenheimer Landstrabe10 Pax-BANK eG PO Box 50670 Von-Werth-Street Koln-German
Legal Counsel:	Peak Attorneys PO Box 110061 Haidery Plaza, Mezzanine Floor Kisutu/Upanga Street Dar es Salaam Maleta & Ndumbaro Advocates PO Box 79944, Tancot House, Ground Floor Dar es Salaam
Bank's Secretary:	Baltazar Baltazar Mbilinyi
Auditor:	Ernst & Young P.O Box 2475, Tanhouse Tower (4 th Floor) 34/1 Ursino South New Bagamoyo Road Dar es Salaam, Tanzania

MKOMBOZI COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

1 INTRODUCTION

The directors submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of Mkombozi Commercial Bank Plc ('the Bank').

2 INCORPORATION

The Bank was incorporated as Public Limited Liability Company in Tanzania in 2007 under the Companies Act, CAP 212 of 2002.

3 VISION

The Bank's vision is to be a leading Bank in addressing the growth needs of small and medium size enterprises through integrity and delivery of high quality and banking services to a wide micro customer base and corporate enterprises.

4 MISSION

To be a Bank that will provide high quality financial services to all sectors of the economy in a sustainable and socially responsible manner to meet stakeholders' expectations'.

5 PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking and related services stipulated by the banking and Financial Institutions Act, 2006. There has been no change in the principal activities of the Bank during the financial year ended 31 December 2016.

6 CAPITAL STRUCTURE

The Bank's capital structure for the year under review is shown below: -

Authorized

50,000,000 Ordinary shares of TZS 1,000 each

Called up and fully paid

20,615,272 Ordinary shares of TZS 1,000 each

MKOMBOZI COMMERCIAL BANK PLC

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

7 THE SHAREHOLDERS OF THE BANK

The total number of shares at year end was 20,615,272 (2015: 20,615,272 shares).

The shares of the Bank are held as follows:

Name	No of shares	Value of shares (TZS)	% of Holdings
Church dioceses and affiliated institutions	5,364,510	5,364,510,000	26%
Other institutions	2,017,141	2,017,141,000	10%
Tanzania Episcopal Conference (TEC)	4,176,720	4,176,720,000	20%
Individuals	9,056,901	9,056,901,000	44%
Total share capital	20,615,272	20,615,272,000	100%

The total number of shares at year end 2015 was 20,615,272 held as follows:

Name	No of shares	Value of shares (TZS)	% of Holdings
Church dioceses and affiliated institutions	5,364,510	5,364,510,000	26%
Other institutions	2,017,141	2,017,141,000	10%
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Individuals	9,056,901	9,056,901,000	44%
Total share capital	20,615,272	20,615,272,000	100%

MKOMBOZI COMMERCIAL BANK PLC

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

8 DIRECTORS

The directors of the Bank who have served in office since 1 January 2016, except where otherwise stated, are: -

Name	Position	Age	Qualification/ Discipline	Nationality	Date appointed/ Resigned
Mr. Method Anatoli Kashonda	Chairman	72 years	MBA Finance, FCCA, FCPA (Partner Globe Accountancy Services)	Tanzanian	Re appointed on 30 th May, 2015
Prof. Marcellina Mvula Chijoriga	Deputy Chairman	62 years	Associate Professor UDSM Business School. (B.Com.) in accounting, MBA in Finance, PhD in economics and Finance	Tanzanian	Appointed on 31 st August, 2013
Mrs. Edwina Agnellus Lupembe	Managing Director	70 years	MBA Finance, (Managing Director)	Tanzanian	Reappointed for the third term on 1 st March, 2015
Mr. Ayoub Mtafya	Director	46 years	LLB, LLM and An advocate of the High Court of Tanzania and tax consultant. A partner at Nex Law Advocates	Tanzanian	Appointed on 26 th October, 2015
Mr. Emmanuel Johannes	Director	39 years	BSc, MBA, FCCA, ACPA, CIA, CFE. A partner at Kepler Associates	Tanzanian	Appointed on 26 th October, 2015
Most Rev. Beatus Kinyaiya	Director	60 years	Bishop and holds MA in History, BA in Geography BA in Spiritual Theology (Arch Bishop –Dodoma Diocese)	Tanzanian	Reappointed on 30 th May, 2015.
Rev. Fr. Raymond Saba	Director	43 years	Priest and holds Bachelor degree in Theology, Master degree in Christian Letters and Classics (Secretary General TEC)	Tanzanian	Appointed on 27 August, 2015
Mr. Marcellino Xavier Kayombo	Director	70 years	Advanced Diploma in Certified Accountancy. Accountant and administrator (Ex. Banker)	Tanzanian	Reappointed on 30 th May, 2015

MKOMBOZI COMMERCIAL BANK PLC

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

8 DIRECTORS (CONTINUED)

Director's interest for the year 2016

Name of the Director	Number of shares held 2016
Mr. Method Anatoli Kashonda	4,500
Mrs. Edwina Agnellus Lupembe	13,080
Most Rev. Beatus Kinyaiya	13,574
Prof. Marcellina Mvula Chijoriga	17,000
Rev. Fr. Raymond Saba	-
Mr. Ayoub Mtafya	-
Mr. Emmanuel Johannes	-
Mr. Marcelino Xavier Kayombo	2,622
Total shares held by Directors	50,776

None of the directors own more than 0.3% of total issued share capital.

Director's interest for the year 2015

Name of the Director	Number of shares held 2015
Mr. Masha John Mshomba	15,000
Mr. Method Anatoli Kashonda	4,500
Mrs. Edwina Agnellus Lupembe	13,080
Dr. Eve Hawa Sinare	17,000
Most Rev. Beatus Kinyaiya	13,574
Prof. Marcellina Mvula Chijoriga	17,000
Rev. Fr. Raymond Saba	-
Mr. Ayoub Mtafya	-
Mr. Emmanuel Johannes	-
Mr. Marcelino Xavier Kayombo	2,622
Total shares held by Directors	82,776

None of the directors own more than 0.3% of total issued share capital.

9 COMPANY SECRETARY

The Bank's Secretary as at 31 December 2016 was Mr. Baltazar Mbilinyi

10 CORPORATE GOVERNANCE

The Board of Directors consists of eight directors including the Managing Director. Apart from the Managing Director no other director holds an executive position in the Bank. The Board has overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant

MKOMBOZI COMMERCIAL BANK PLC

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

financial matters, and reviewing the performance of management business plans and budgets.

10 CORPORATE GOVERNANCE (*Continued*)

The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and compliant with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Managing Director assisted by the Management team. The management team is invited to attend Board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

During the year the Board held four ordinary meetings and six extraordinary meetings due to special activities that needed the Board's deliberations which included preparation for opening of two financial service centres.

Details of Board and Board committee's meetings held during the year are as summarized below.

Board of Directors attendance:

No	Name	Position	Total meetings	No. of meetings attended	%
1	Mr. Method Anatoli Kashonda*	Chairman	10	6	60
2	Prof. Marcellina Mvula Chijoriga	Vice Chairman	10	9	90
3	Mrs. Edwina Agnellus Lupembe	Managing Director	10	8	80
5	Mr. Ayoub Mtafya	Director	10	9	90
6.	Mr. Emmanuel Johannes	Director	10	3	30
7	Most. Rev. Beatus Kinyaiya	Director	10	9	90
9	Rev. Fr. Raymond Saba	Director	10	8	80
10	Mr. Marcellino Xavier Kayombo.	Director	10	10	100

* This director had apology as he was nursing his wife in India for five months and therefore could not attend meetings.

The Board has two committees namely the Board Audit, Risk and Compliance Committee and the Credit Committee. Each Committee has a charter to govern its roles and responsibilities as well as the facilitating efficiency and effectiveness of the Board's performance.

The Bank is committed to the principles of effective corporate governance. More particularly, the Directors recognise the importance of integrity, transparency and accountability. The Board exercised close oversight over the Bank's operations and ensured high standards of corporate governance through its committees as shown below:

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

10 CORPORATE GOVERNANCE (CONTINUED)

Board Audit, Risk and Compliance Committee

No	Name	Position	Total Meetings	No. of meetings attended	%
1	Prof. Marcellina Mvula Chijoriga	Chairman	7	6	86
2	Rev. Bishop Beatus Kinyaiya	Director	7	6	86
3	Mr. Emmanuel Johannes	Director	7	3	43

Board Credit Committee

No	Name	Position	Total Meetings	No. of meetings attended	%
1	Mr. Marcellino Xavier Kayombo.	Chairman	17	17	100
4.	Rev. Fr. Raymond Saba	Director	17	13	76
5.	Mr. Ayoub Mtafya	Director	17	16	94

11 MANAGEMENT TEAM

During the year under review, the management of the Bank was under the Managing Director, assisted by the following: -

- Director of Finance & Administration;
- Director of Banking Operations;
- Director of Treasury;
- Director of Credit;
- Director of Internal Audit;
- Director of Information Communication and Technology; and
- Director of Legal services (*Company Secretary*)

12 PERFORMANCE FOR THE YEAR

The Bank posted a profit before tax of TZS 1,497 billion for the year ended 31 December 2016 (2015: Profit of TZS 1,415 billion). Profit after tax for the year was TZS 1.046 billion (2016: profit of TZS 953 million). In addition, the following achievements were recorded: -

- Loans and advances to customers stood at TZS 73.81 billion (2015: TZS 63.31 billion);
- Total deposits from customers stood at TZS 102.56 billion (2015: TZS 85.73 billion); and
- Total assets stood at TZS 128.17 billion (2015: TZS 111.32 billion).

Branch network and outreach

The Bank had six branches as at 31 December 2016, three (3) branches located in Dar es Salaam, one in Mwanza Region (Mwanza branch), one in Kagera region (Bukoba Branch) and Killimanjaro Region (Moshi Branch) and two financial service centres one in Dar es

MKOMBOZI COMMERCIAL BANK PLC

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

10 CORPORATE GOVERNANCE (CONTINUED)

salaam (Tegeta) and another in Morogoro region. The Bank's total number of depositors and borrowers as at year end were as shown below:

12 PERFORMANCE FOR THE YEAR

Account type	<u>2016</u>	<u>2015</u>
Current accounts	1,779	1,177
Savings accounts	30,595	23,296
Time deposits	<u>613</u>	<u>630</u>
Total number of deposit accounts	<u>32,987</u>	<u>25,103</u>
Loan accounts	<u>12,875</u>	<u>7,379</u>

13 DIVIDEND

The Directors propose for payment of dividend for the year ended 31 December 2016 (2015: NIL) subject to approval from the Bank of Tanzania.

14 MAJOR DEVELOPMENTS FOR THE YEAR

The Bank managed to open two financial service centres in the year 2016. The first financial service centre was opened in June 2016 at Morogoro and the second one was opened in July 2016 at Tegeta in Dar es salaam. This makes total number of branches to be six and two financial service centres.

15 PLANNED DEVELOPMENT

The Bank will continue to focus on business opportunities arising in the economy especially in lending and other related activities. The Bank has the following plans for the year 2017:

- to increase mobilization of deposits to customers to reach TZS 132.38 billion, an increase of 29% from TZS 102.55 billion reached as at 31st December, 2016;
- to intensify lending portfolio to reach TZS 108.11 billion; being an increase of 41% from TZS 73.80 billion reached as at 31st December 2016; and
- to achieve a loan repayment rate of not less than 96% at all times;

16 HUMAN RESOURCES

The Bank has adequate employees with pre-requisite competency and experience in key positions to manage the banking operations as well as pursuing the business objectives.

17 PRINCIPAL RISKS AND UNCERTAINTIES

As the Bank continues to scale up its operations, it ensures that the resultant commercial and operational risks are mitigated through enforcement of appropriate policies and procedures. The Bank's activities expose it to a variety of financial risks including credit,

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

17 PRINCIPAL RISKS AND UNCERTAINTIES (*Continued*)

liquidity, market and strategic risks. The Bank's overall risk management policies are set out by the Board of Directors and implemented by the management.

These policies involve analysis, evaluation, acceptance and management of some degrees of risks or a combination of risks. More details of the financial risks facing the Bank are provided in Note 3 to these financial statements.

18 KEY PERFORMANCE INDICATORS

The following Table shows the Bank's achievements against key performance indicators (KPIs) of the delivery of Bank's strategy and managing the business.

Performance indicator	Definition and calculation method	2016	2015
Return on equity	Net income/Total equity	7%	6%
Return on assets	Net income/Total assets	1%	1%
Cost to income ratio	Operating costs/Net income	79%	67%
Interest margin on earning assets	Total interest income/(interest in government securities + balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft)	17%	17%
Non - interest income to Gross income	Non - interest income/Total income	9%	9%
Earnings per share	Basic earnings/ Number of ordinary shares in issue(TZS)	50.75	46.25
Gross loans to customers deposits	Total loans to customers/Total deposits	73%	74%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	7%	8%
Earning assets to total assets	Earning assets/Total assets	83%	84%
Growth on total assets	Trend (2016 total assets – 2015 total assets)/(2015 total assets)*%	15%	15%
Growth on loans and advances to customers	Trend (2016 loans and advances – 2015)/2015loans and advances) *%	17%	56%
Growth on total deposits	Trend (2016 deposits – 2015deposits)/(2015 deposits)*%	20%	19%
Capital adequacy			
Tier 1 Capital	Risk weighted assets including Off balance sheet statement of financial position items/Core Capital	22.04%	23.72%

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

19 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 the directors to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing 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's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2016 and is of the opinion that they met accepted criteria.

The Board monitors risk and internal control effectiveness through the Board Audit, and Credit Risk and Compliance Committees.

20 SERIOUS PREJUDICIAL MATTERS

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

21 SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that the 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 operational existence for the foreseeable future.

22 EMPLOYEES' WELFARE

Management and employees' relationship

The relationship between employees and management continued to be good. Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. There was good teamwork 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 one's ability to discharge duties.

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016****22 EMPLOYEES' WELFARE (CONTINUED)****Training**

During the year, the Bank spent TZS 156.85 million on training of its staff (2015: TZS 300.13 million). Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees received training to upgrade their skills and enhance their performance.

Staff loans and advances

The Bank provides staff loans to staff as well as salary advances to enable them overcome financial needs and promote their economic development. Staff loans and advances are based on specific terms and conditions approved by the Board of Directors. During the year, the Bank issued staff loans of TZS 18 257million (2015: TZS 10 333million and advances to staff TZS 110 million and (2015: TZS 90.5million as included in note 18).

Medical facilities

The Bank covers medical bills for all of its employees and their immediate family dependents as well as medical insurance coverage to all staff.

Retirement benefits

The Bank makes statutory contributions in respect of staff retirement benefits. The Bank's obligations in respect of these contributions are limited to 10% of the employees' gross salary.

23 GENDER PARITY

The Bank is an equal opportunity employer and maintains reasonable gender balance among its employees. As at 31 December 2016 the Bank had the following distribution of employees by gender.

	<u>2016</u>	<u>2015</u>
Gender		
Female	60	54
Male	76	74
Total	<u>136</u>	<u>128</u>

24 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 30 to these financial statements.

25 POLITICAL DONATIONS

The Bank did not make any political donations during the year.

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

26 RELATIONSHIP WITH STAKEHOLDERS

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

27 CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CHARITABLE DONATIONS

The Bank participates actively in community activities and development programs throughout the country. Charitable donations made during the year amounted to TZS 15.05 million (2015: TZS 11.4 million). The Bank donated to the Ocean Road Cancer Institute, Earth quick in Bukoba, Morogoro Municipal Council contribution for purchase of school Desk, Hope and Joy secondary school and Umoja wa wasioona Ukonga Mazinini.

28 AUDITORS

A resolution proposing the appointment of the external auditor of the Bank for the year ending 31 December 2017 will be subject to compliance with The Bank of Tanzania.

BY ORDER OF THE BOARD

Method A. Kashonda - Chairman

Date

Marcellino Xavier Kayombo- Director

Date

MKOMBOZI COMMERCIAL BANK PLC

STATEMENTS OF DIRECTORS RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2015

The Companies Act, CAP 212 No. 2 of 2002 requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit and other comprehensive income. The directors are also obliged to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

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

The external auditors are responsible for independently and reviewing and reporting the Banks financial statements. The financial statements have been reviewed by the external auditors and there is presented by page 14 and 15.

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.

Method A. Kashonda Chairman

Date

**Marcellino Xavier Kayombo -
Director**

Date

MKOMBOZI COMMERCIAL BANK PLC

DECLARATION OF THE HEAD OF FINANCE FOR THE YEAR ENDED 31 DECEMBER 2015

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

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing a true and fair view of the entity's position and performance in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as stated under the Statement of Directors' Responsibilities on the previous page.

I **Dennis Frank Kejo** being the Director of Finance and Administration of Mkombozi Commercial Bank Plc hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2016 have been prepared in compliance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002.

I thus confirm that the financial statements give a true and fair view of the financial position and results of Mkombozi Commercial Bank Plc as on that date and for the year then ended, and that the financial statements have been prepared based on properly maintained financial records.

Signed by: _____

Position: Director of Finance and Administration

NBAA Membership No: ACPA 2139

Date: _____

**REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)
TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC**

INDEPENDENT AUDITOR'S REPORT

*To the shareholders of
Mkombozi Commercial Bank Plc.*

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Mkombozi Commercial Bank Plc. (the Bank) set out on pages 22 to 78, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 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 financial statements

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)
TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC

No.	Key audit matter	How our audit addressed the key audit matter
1.	Credit risk and impairment of loans and advances to customers	
	Impairment is a subjective area due to the level of judgement applied by management in determining provisions. The Bank is required to calculate impairment of loans and advances to customers in accordance with both the Bank of Tanzania regulations and IFRSs. We focused on the identification of impairment events, which differs based upon the type of lending product and customer. Judgement is required to determine whether a loss has been incurred. We also focused on the measurement of impairment, including the assessment of whether historic experience is appropriate when assessing the likelihood of incurred losses in respect to loans. Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. For example, the assumption of customers that will default, the valuation of collateral for secured lending and the expected future cash flows of loans.	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed loans and advances. We compared the Bank's assumptions for impairment allowances to externally available industry, financial and economic data and our own assessments in relation to key inputs. As part of this, we assessed the Bank's estimates and assumptions used including the consistency of judgement applied in the determination of the amount and timing of expected future cash flows, and consideration of economic factors and historical default rates. We evaluated whether the Bank's assumptions on the expected future cash flows, including the value of realisable collateral was based on up to date valuations and available market information. We also assessed whether the financial statements disclosures in notes 18 and note 25 and 3.1 appropriately reflect the Bank's exposure to credit risk.

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)
TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC

2.	Revenue recognition – accuracy of revenue recorded
	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. We also considered there to be a risk that revenue is inappropriately reported to achieve desired financial result. We assessed that the opportunity to manipulate revenue creates a heightened risk in the following areas: The effective interest method requires the Bank to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities Our audit procedures over revenue included: • We considered revenue recognition as a high audit risk area and undertook procedures to respond to this risk. • Testing of controls over revenue recognition including set-up of accounts for loans to customers, pricing data, segregation of duties, and 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 in the core banking system agreed to the contractual interest rates for a sample of loans to customers. • For non-interest income, our audit involved, in addition to the testing of controls, agreement to source documents supporting the measurement and accuracy of the revenue recognised on sample basis. • Assessing the adequacy of the Bank's disclosures in respect of the accounting policies on revenue recognition set out in Note 2.

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)
TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC

3.	Compliance with laws and regulations
	Operating in banking sector presents increased operational, regulatory and financial risks due to the need to comply with multiple regulatory and legislative requirements, including legislation relating to banking and tax. 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. Inappropriate assumptions over provisioning for tax exposures was one of the judgemental areas our audit was focused on. Our audit procedures included: • Assessing of controls over the identification, evaluation and measurement of potential obligations arising from legal and regulatory matters. • Using our tax specialists where appropriate to analyse and challenge the assumptions used to determine provisions for tax matters based on their knowledge and experience of local regulations and practices. • Inspecting, where available, reports on open tax assessments done by the Bank's tax consultants and in-house legal counsel and where appropriate, the Bank's external legal advisers, and appropriate documentation considered necessary to understand the position and conclusions made by the Bank. 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 any significant regulatory and legal matters. • Inspecting, where available, correspondence with tax authorities and the central bank, central bank and tax authority audit / inspection reports and compliance logs to identify actual and potential noncompliance with laws and regulations that could materially affect the Bank's financial statements. • Evaluating whether the capital adequacy ratios of the Bank disclosed in Note 36 were computed

**REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)
TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC**

		• in accordance with the Bank of Tanzania regulations. Where significant matters were identified, we considered whether an obligation exists, the appropriateness of provisioning and/or disclosure based on the facts and circumstances available. Using our experience of local practices we assessed the judgements made by the Bank in arriving at any potential provisions and contingencies relating to compliance with tax and banking laws and regulations. Furthermore, we evaluated the adequacy of the Bank's disclosures on tax and compliance contingencies in Notes 4 and 32 to the financial statements.
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Other Information included in the Bank's 2016 Director's Report

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED) TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the 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 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

**REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)
TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC**

consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 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 [36] to the financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.

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

Ernst & Young
Certified Public Accountants
Dar es Salaam

Signed by: Neema Kiure Mssusa (Partner) _____

Date: _____ 2017

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<u>Notes</u>	<u>2016</u> TZS '000	<u>2015</u> TZS '000
Interest income	5	18,503,207	15,592,288
Interest expense	6	(5,728,267)	(4,034,437)
Net interest income		12,774,940	11,557,851
Loans impairment charge	7	(1,612,066)	(2,983,973)
Net interest income after loans impairment		11,162,874	8,573,878
Fees and commissions income	8	1,476,736	1,212,086
Foreign exchange income	9	211,481	225,221
Other operating income			28,562
Total non-interest income		1,688,217	1,465,869
Operating expenses			
Personnel expenses	10	(5,636,648)	(3,965,490)
Depreciation and amortization	11	(945,273)	(643,503)
General and administration expenses	12	(4,772,372)	(4,015,978)
Total operating expenses		(11,354,292)	(8,624,971)
Profit before income tax		1,496,799	1,414,776
Income tax charge	13	(450,577)	(461,311)
Profit for the year		1,046,222	953,465
Other comprehensive income		-	-
Total comprehensive income for the year		1,046,222	953,465
Earnings per share (TZS)	29	50.75	46.25
Diluted earnings per share (TZS)		50.75	46.25

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

STATEMENT OF FINANCIAL POSITION

	<u>Notes</u>	<u>2016</u> TZS'000	<u>2015</u> TZS'000
Assets			
Cash and balances with The Bank of Tanzania	15	14,870,936	13,411,053
Loans and advances to Banks	16	20,460,205	17,680,394
Held to Maturity Government securities	17	12,725,599	12,363,530
Loans and advances to customers	18	73,807,067	63,308,414
Equity investment	19	20,000	20,000
Other assets	23	1,177,159	948,820
Current Income tax recoverable	13	731,325	217,518
Property and equipment	20	3,035,175	2,713,532
Intangible assets	21	669,807	74,080
Deferred income tax	22	668,927	578,061
Total assets		128,166,200	111,315,402
Liabilities			
Deposits from Banks	24.1	431,368	1,549,015
Deposits from customers	24.2	102,556,404	85,733,148
Other liabilities	26	2,189,187	1,999,278
Provisions	25	221,886	312,827
Total liabilities		105,398,845	89,594,268
Equity			
Share capital	28	20,615,272	20,615,272
Regulatory reserve		928,989	1,350,465
General risk reserve		654,500	566,270
Accumulated profit		568,594	(810,873)
Total equity		22,767,355	21,721,134
Total liabilities and equity		128,166,200	111,315,402

These financial statements were authorised for issue by the Board of Directors on _____ 2017, and were signed on behalf of the Board of Directors by:

Method A. Kashonda – Chairman

Date

Marcellino Xavier Kayombo- Director

Date

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

STATEMENT OF CHANGES IN EQUITY

	<u>Share capital</u> TZS'000'	<u>Advance towards share capital</u> TZS'000'	<u>Accumulated profit/(losses)</u> TZS'000'	<u>*General risk Reserve</u> TZS'000'	<u>** Regulatory reserve</u> TZS'000'	<u>Total</u> TZS
Year ended 31 December 2016						
At 1 January 2016	20,615,272	-	(810,873)	566,270	1,350,465	21,721,134
Total comprehensive income for the year	-	-	1,046,222	-	-	1,046,222
Transfer to regulatory reserve**	-	-	421,476	-	(421,476)	-
Transfer to general risk reserve*	-	-	(88,230)	88,230	-	-
Transactions with owners:						
Refund of advance share capital	-	-	-	-	-	-
At 31 December 2016	20,615,272	-	568,594	654,500	928,989	22,767,355
Year ended 31 December 2015						
At 1 January 2015	20,615,272	4,000	(346,036)	-	498,433	20,771,669
Total comprehensive income for the year	-	-	953,465	-	-	953,465
Transfer to regulatory reserve	-	-	(852,032)	-	852,032	-
Transactions with owners:	-	-	(566,270)	566,270	-	-
Issue of shares	-	-	-	-	-	-
Transfer to share capital	-	(4,000)	-	-	-	(4,000)
At 31 December 2015	20,615,272	-	(810,873)	566,270	1,350,465	21,721,134

*General risk reserve represents 1% provision charged on all performing loans in line with regulatory requirement of the central Bank.

**Regulatory reserve represent the surplus of loan provision computed as per The Bank of Tanzania regulation over the impairment of Loans and Advances to customers as per International Financial Reporting Standard (IFRS).

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF CASH FLOWS

	<u>Notes</u>	<u>2016</u> TZS'000'	<u>2015</u> TZS'000'
Profit before income tax		1,496,799	1,414,776
<i>Adjustments for:</i>			
Depreciation and amortisation of property and equipment	20	800,975	583,608
Amortization of intangible assets	21	144,297	59,895
Net change in provisions		(90,941)	98,125
Impairment and credit losses on loans and advances	7	1,612,066	2,983,973
Cash flow generated from operating profits before working capital changes		3,963,196	4,188,843
Net change in statutory minimum reserve	15	(954,648)	(1,135,000)
Net change in loans and advances to customers		(10,498,653)	(22,693,606)
Net change in other assets		(228,338)	(218,879)
Net change in deposits from banks		(1,117,647)	(617,647)
Net change in deposits from customers		16,823,256	13,651,872
Net change in other liabilities		189,905	636,378
Net change in loans and advances to banks with maturity over three months		(1,319,319)	813,709
Cash (used in)/generated from operations		6,857,752	(13,163,604)
Income tax paid	13	(1,055,250)	(1,050,714)
Net cash flows (used in)/generated from operating activities		5,802,502	(14,214,318)
Cash flows from investing activities			
Purchases of property and equipment	20	(1,431,865)	(1,903,134)
Purchase of intangible assets	21	(740,025)	(78,864)
Proceeds from sale of asset		11,968	
Proceeds from government security (Purchased)		(362,069)	3,199,545
Net cash generated from /(used in) investing activities		(2,521,991)	1,217,547
Cash flows from financing activities			
Issue of shares during the year		-	-
Refund of advance share capital		-	(4,000)
Transfer to share capital		-	-
Net cash flows(used in)/generated from financing activities			(4,000)
(Decrease)/Increase in cash and cash equivalents		3,280,515	(13,000,771)
Cash and cash equivalents at the beginning of the year		22,917,947	35,918,718
Effects of exchange rate changes on cash and cash equivalents		4,532	15,212
Cash and cash equivalents at the end of the year	28	26,202,994	22,917,947

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES

1 GENERAL INFORMATION

The Bank is a Public Limited liability Company incorporated and domiciled in the United Republic of Tanzania. The Bank is listed at the Dar es Salaam Stock Exchange (DSE). The address of its registered office is as follows:

Mkombozi Commercial Bank Plc.
Plot No. 40 Mansfield Street
Behind St. Joseph Cathedral
PO Box 38448
Dar es Salaam

The financial statements for the year ended 31 December 2016 have been approved for issue by the Board of Directors on 27 March 2017. Neither the entity's owners nor others have the power to amend the financial statements after issue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the Tanzania Companies Act 2002 is included where appropriate.

The financial statements comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of change in equity, statement of cash flows and the notes. The measurement basis applied in the preparation of these financial statements is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings (TZS) and the amounts are rounded to the nearest thousand except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgment 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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 (a).

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

(i) 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 on or after 1 January 2016:

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 9, 'Financial instruments'

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The bank has engaged consultant to make assessment of the impact of IFRS 9..

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

(iii) New Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)

IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Bank is assessing the impact of IFRS 15.

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

IFRIC22 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. This will be effective 1 January 2018

IFRS 16 Leases - A new accounting standard that eliminates the classification of leases as either operating leases or finance leases for lessees and, instead, introduces a single accounting model, which recognises all leases on the statement of financial position. The effective date will be 1 January 2019

IFRS 16 Leases - A new accounting standard that eliminates the classification of leases as either operating leases or finance leases for lessees and, instead, introduces a single accounting model, which recognises all leases on the statement of financial position. This is effective 1 January 2017

IAS 12 Income Taxes - Amendments regarding the recognition of deferred tax assets for unrealised losses, IAS 12 is effective 1 January 2017

From the preliminary assessment of the bank, all of the above standards will impact the bank and management is getting prepared to adopt the standards above as part of the bank's policies

(b) Interest income and expense

For all interest-bearing instruments measured at amortized cost, interest income and expenses are recognized in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized 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

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) Fee and commission income

Fees and commission are generally recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan. Commissions and fees arising from various services offered by the Bank are recognized upon completion of underlying transaction.

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Transactions in foreign currencies during the year are converted into the Tanzania Shillings using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred.

Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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 recognized in the profit or loss account.

(e) Financial assets

The Bank classifies its financial assets into the following categories: loans and receivables available-for-sale financial assets and held-to-maturity investments. The directors determine 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:

- 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;
- those that the Bank upon initial recognition designates as available-for-sale; or
- 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 amortized cost using the effective interest method.

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial assets (continued)

(i) Available-for-sale financial assets

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 and, held-to-maturity investments.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the profit or loss account. The Bank's available for sale financial assets include investment in the ordinary shares of Umoja Company for Umoja switch operations.

(ii) Available for sale Investment with Umoja Switch

The cost is paid once at the time of joining the Umoja Switch. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

The fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably because they are not listed/quoted nor can be observed from the market or compared with any other similar assets in the market

The irrevocable rights for use of ATM services ceases when the Bank terminate membership to Umoja Switch and such circumstance will lead to impairment of the rights, as no refund are provided for the impairment charges are recognised in the statement of comprehensive income through profit or loss in the expense category in the year of derecognition of the irrevocable rights of use of the Umoja Switch shared ATM services.

Gains or losses arising from de-recognition of these shares are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

(iii) Government securities

The carrying amount of a financial instrument carried at amortised cost is calculated as the amount to be paid/repaid at maturity (usually the principal amount or par/face value), plus or minus any unamortised original premium or discount, net of any origination fees and transaction costs and less principal repayments. The amortisation is calculated using the effective interest method. This method calculates the rate of interest that is necessary to discount the estimated stream of principal and interest cash flows (excluding any impact of credit losses) through the expected life of the financial instrument or, when appropriate, a shorter period to equal the amount at initial recognition. That rate is then applied to the carrying amount at each reporting date to determine the interest income

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

(assets) In this way, interest income is recognised on a level yield to maturity basis. In the determination of the effective interest rate, the estimation of the cash flows does not take into consideration any future credit losses anticipated on that instrument.

(f) Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from Banks and customers and other liabilities. Such financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

(g) 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 quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments.

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 group, 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, Foreign exchange rates, volatilities and counterparty spreads) existing at the statement of financial position date.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Determination of fair value (continued)

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.

(h) De-recognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

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

(i)

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Reclassification of financial assets (continued)

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 is as seen here in below:

Financial assets

Cash and balances with The Bank of Tanzania
Loans and advances to Banks
Loans and advances to customer
Government securities
Equity investment
Other assets (excluding prepayment and stationery stock and interest income amortisation adjustment)

Class

Loans and receivables
Loans and receivables
Loans and receivables
Loans and receivables
Available for sale
Loans and receivables

Financial liabilities

Deposits from Banks
Deposits from customers
Other liabilities (excluding statutory deductions and deferred loan processing fees)

Financial liabilities at amortized cost
Financial liabilities at amortized cost
Financial liabilities at amortized cost

(j) Offsetting financial instruments

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

(k) Impairment of financial assets

(i) Assets carried at amortized cost

The Bank assesses at each statement of financial position 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 an impairment loss include:

- Significant financial difficult 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; and
- Deterioration in the value of collateral.

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (continued)

(i) Assets carried at amortized cost (continued)

The estimated period between a loss occurring and its identification is determined by the directors 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 group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognized 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 recognized in the profit or loss.

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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss in impairment charge for credit losses.

(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 group 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 recognized in profit or loss – is removed from equity and recognized in the profit or loss. Impairment losses recognized in the profit or loss on equity instruments are not reversed through the 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

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

MKOMBOZI COMMERCIAL BANK PLC

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of financial assets (continued)

(l) 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 recognized 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 cost of disposal 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.

(m) Income tax

Income tax expense is the aggregate of the charge to the profit or loss in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

MKOMBOZI COMMERCIAL BANK PLC

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Taxation

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

(n) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(o) Property and equipment

MKOMBOZI COMMERCIAL BANK PLC

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

Property and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Depreciation is calculated on the straight-line basis at

(o) Property and equipment (Continued)

annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives. The annual rates in use are:

Machinery and equipment	12.5%
Furniture, fixtures and fittings	12.5%
Computer and IT equipments	33.3%
Intangibles	20%
Motor vehicles	25.0%
Leasehold improvements	20.0%

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end

(p) (i) Leases

Leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

Leasehold improvements on buildings are depreciated over the lease term.

When an operating lease is terminated before expiry of the lease period, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(ii) Leasehold Work in progress

Arises when the bank has ongoing project relating to property and equipment, capital work in progress relates to leasehold improvements and fittings for the new corporate offices Capitalization of the work in progress is done when the projects are completed and respective assets become ready for use.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Intangible assets

Intangible assets comprise computer software licenses and other intangible assets. Intangible assets are initially recognised at cost and subsequently at cost less accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed to be finite. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 4 - 10 years. At each reporting date, the Bank assesses whether there is any indication that its intangible assets are impaired.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(r) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, placements with other banks and investments in money market instruments with maturity periods of three months.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and all cash equivalent items maturing within 90 days from the date of acquisition including non-restricted balances with The Bank of Tanzania, treasury bills, loans and advances to Banks, amounts due from other Banks and short term investment securities. Cash and cash equivalents excludes the cash reserve requirement held with The Bank of Tanzania

(s) Employees' benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognized in profit or loss when they fall due.

(i) Post retirement benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 10% , respectively of the employees' monthly salaries to the state owned and managed (statutory) Funds. Apart from these monthly contributions, the Bank has no further commitments or obligations to the Funds and it has no other post retirement benefit scheme. The contributions are charged to the profit or loss in the year to which they relate.

(ii) Other employee benefits

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

(ii) Gratuity

Directors are entitled to gratuity payment at the completion of the contract. Provision is made for gratuity in line with the contracts. The gratuity is not a defined benefit arrangement.

(t) Share capital

The Bank has only one class of ordinary shares. Any premium received over and above the par value of the shares is classified as 'share premium' in equity

MKOMBOZI COMMERCIAL BANK PLC

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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(u) Segment reporting

The Bank has the following operating segments: Retail Banking, Treasury and other. Following the management approach to IFRS 8, operating segments are reported in a manner consistent with the internal reporting to the Bank's Management Team (The Chief Operating Decision-Maker), which is responsible for allocating resources to the reportable segments and assessing their performances. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8. The agreed allocation basis between segments was not changed during the year.

The following business segments represent the Bank's organization structure as reflected in the internal management reporting system;

i) Treasury

Includes treasury services, investment management services and asset management activities related to dealing, managing and custody of securities.

ii) Retail banking

Includes services and products to individuals and small and medium enterprises, including deposits and lending.

(v) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3 FINANCIAL RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign-exchange

Risk, interest-rate risk, credit risk, and liquidity risk. Risk management is carried out by the Risk and Compliance Department under policies approved by the Board of Directors. The

MKOMBOZI COMMERCIAL BANK PLC

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

risk and compliance department evaluates financial risk in close co-operation with the operating units.

MKOMBOZI COMMERCIAL BANK PLC

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

3.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans and advances to customers and other Banks and investments government securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

3.1.1 Credit Risk Measurement

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable loss in the expected future payments in an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

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

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between clients based on past performance.

The Bank has developed models/ratings to support the quantification of the credit risk and applied to two major categories of identified and unidentified clients besides identified group with collaterals. The models/ ratings are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

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

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.1 Credit Risk Measurement (continued)

3.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified. 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 Banks of borrowers.

The Board has delegated responsibility for the management of credit risk to the Board Credit and Risk Compliance Committee responsible for overseeing of the Bank's credit risk including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure of the approval and renewal of the credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by board of directors.
- Reviewing and assessing credit risk. Credit department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process.
- Reviewing compliance of business units with agreed exposure limits. Regular reports are provided to Board through Board Credit and Compliance Committee in respect of the quality of loan portfolio; and
- Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

Regular audits of credit department processes are undertaken by internal audit department.

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets regularly and monitoring is on weekly basis for solidarity group lending product, while for the remaining portfolio which is largely made up of salaried loans is on monthly basis. The provision on non-performing loans is made based on the guidelines of The Bank of Tanzania. Impairment provision are recognized for financial reporting purposes only for those losses that have been incurred at the statement of financial position date based on objective evidence of impairment.

MKOMBOZI COMMERCIAL BANK PLC

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

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

Write-off policy

The Bank writes off loans as and when the Board of directors approves after accepting the recommendations by the management that the loans are irrecoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure and has remained in loss category for four consecutive quarters.

Collateral on loans and advances

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated when the loan is up for renewal or when the loan is individually assessed as impaired.

Loans and advances to customers

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For solidarity group lending the security is group guarantee, cash cover as well as movable assets.
- For micro and small medium enterprises (SME); mortgages over residential properties.
- For salaried loans; employers' guarantees.

The Bank disposes repossessed properties, the proceeds are used to reduce or repay the outstanding loan. In general, the Bank does not occupy repossessed properties for business use.

3.1.3 Impairment and provisioning policies

The impairment provision shown in the statement of financial position at period-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grades. Details showing the percentage of the Bank's on-statement of financial position items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories are shown below.

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.2 Risk limit control and mitigation policies (continued)

Bank's rating	31-Dec <u>2016</u> Credit risk exposure	31-Dec <u>2016</u> Impairment provision	31-Dec <u>2015</u> Credit risk exposure	31-Dec <u>2015</u> Impairment provision
1. Current	87	00	82	00
2. Especially mentioned	6	50	2	5
3. Substandard	1	1	6	21
4. Doubtful	3	14	3	51
5. Loss	3	35	7	44
	<u>100</u>		<u>100</u>	

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

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 3.1.

The carrying amounts of financial assets approximate the maximum exposure to credit risk as at the reporting date. 68.7% of the total maximum exposure is derived from loans and advances to Banks and customers (2015: 76%); 7% represents investments in debt securities (2015: 9%). As at 31 December 2016, 64% (2015: 65%) of the loans and advances were mortgages and loans to corporate entities for which the Bank holds collateral in the form of security over property and other business assets that fully cover the loan amounts

88.11% of the total maximum exposure is derived from loans and advances to Banks and customers (2015: 83.5%); 11.89% represents investments in government securities (2015: 16.50%).

The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 93% of the loans and advances to customer's portfolio is categorised in the top two grades of the internal rating system (2015: 91%);
- 87% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 89%);
- More than 12.0% of the investments are Government Treasury Bills and Treasury Bonds (2015; 16.5%.)

3.1.5 Concentration of risks of financial assets with credit risk exposure

Industry distribution

The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorized by the industry sectors of the Bank's counterparties

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

	<u>Financial institution</u>	<u>Real estate</u>	<u>Wholesale and retail trade</u>	<u>Church Institutions</u>	<u>Other</u>	<u>Total</u>
2016 (TZS thousand)						
Balances with Bank of Tanzania	10,650,894	-	-	-	-	10,650,894
Loans and advances to Banks	20,460,205	-	-	-	-	20,460,205
Government securities	-	-	-	-	12,725,599	12,725,599
Loans and advances to customers	717,964	18,485,428	42,445,575	12,015,421	43,679	73,807,067
Equity investments	-	-	-	-	20,000	20,000
Other assets**	-	-	-	-	703,076	703,076
Total	31,829,063	18,485,428	42,445,575	12,015,421	13,492,354	118,867,841
2015 (TZS thousand)						
Balances with Bank of Tanzania	9,154,449	-	-	-	-	9,154,449
Loans and advances to Banks	17,680,394	-	-	-	-	17,680,394
Government securities	-	-	-	-	12,363,530	12,363,530
Loans and advances to customers	950,219	6,000,000	29,773,862	16,132,933	10,451,400	63,308,414
Equity investments	-	-	-	-	20,000	20,000
Other assets**	-	-	-	-	335,535	335,535
Total	27,785,062	6,000,000	29,773,862	16,132,933	23,170,465	107,118,926

** All other assets balances in note 3 excludes prepayments and stationery stock as they do not qualify being financial assets

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.6 Loans and advances analysis

	2016 (TZS thousand)		2015 (TZS thousand)	
	Loans and advances to customers	Loans and advances to Banks	Loans and advances to customers	Loans and advances to Banks
Neither past due nor impaired	65,450,023	20,460,205	58,925,270	17,680,394
Past due but not impaired	4,281,166	-	1,608,017	-
Impaired	5,166,162	-	5,888,743	-
Gross	74,897,351	20,460,205	42,143,359	17,680,394
Less provision for impairment (Note 18)	(4,600,210)	-	(3,113,616)	-
Net	70,297,141	20,460,205	63,308,414	17,680,394

The total impairment for loans and advances is TZS 4,600 million (2015: TZS 3,114 million) of which TZS 4,150 million (2015: TZS 2,801) represents specific impairment assessed on individually significant loans while the remaining represents impairment assessed on a portfolio basis

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

2016 (TZS thousand)

	<u>Salaried loans</u>	<u>Commercial loans</u>	<u>Solidarity group</u>	<u>Overdraft</u>	<u>Total</u>
Current	13,890,876	45,640,760	3,253,833	2,664,554	65,450,023

2015 (TZS thousand)

Current	13,890,876	45,640,760	3,253,833	2,664,554	58,925,270
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(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 180 and 60 days past due for salaried loans and group lending respectively are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.6 Loans and advances age analysis (continued)

(b) Loans and advances past due but not impaired (continued)

2016 (TZS thousand)	<u>Salaried loans</u>	<u>Commercial loans</u>	<u>Solidarity group lending</u>	<u>Total</u>
Past due 15 - 30 days	-	-	-	-
Past due 31 - 90 days	3,530,068	674,067	77,032	4,281,166
Past due 91+ days	-	-	-	-
Total	3,530,068	674,067	77,032	4,281,166

2015 (TZS thousand)

Past due 15 - 30 days	-	-	103,787	103,787
Past due 31 - 90 days	266,646	1,175,076	62,509	1,504,231
Past due 91+ days	-	-	-	-
Total	266,646	1,175,076	166,296	1,608,017

(c) Loans and advances individually impaired

2016 (TZS thousand)	<u>Salaried loans</u>	<u>Commercial loans</u>	<u>Solidarity group lending</u>	<u>Total</u>
Individually impaired	2,334,746	3,372,551	612,984	6,320,282
2015 (TZS thousand)				
Individually impaired	2,334,746	3,372,551	612,984	6,320,282

(d) Loans and Advances to Banks

The total gross amount of individually impaired amounts due from Banks as at 31 December 2016 was Nil (2015: Nil). No collateral is held by the Bank, and no impairment provision has been made against the gross amount.

(e) Other assets

As at 31 December 2016 other assets impairment (Nil) (2015: Nil).

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.7 Debt Securities

The only debt securities held by the Bank are Bonds issued by The Bank of Tanzania. At the statement of financial position date, these investments were not impaired. There are no credit ratings for these investments.

3.1.8 Repossessed Collateral

During the year there were no repossessed collaterals (2015 Nil) as the Bank's loan portfolio is largely secured.

3.2 Market Risk

The Bank takes on exposure to market risk, 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 rate and currency, 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. The Bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and heads of department.

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The principal measurement technique used to measure and control market risk is the stress tests as outlined below.

Stress Tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank covers: interest rate, credit, foreign exchange and liquidity risks, where stress movements are applied to each risk category to assess the overall impact and the Bank's capital resilience to different market risk factor shocks. The results of the stress tests are reviewed by the Asset and Liability Management Committee (ALCO) and reported to the Board of Directors. Below are the results of stress test in relation to interest rate as at 31 December 2016.

MKOMBOZI COMMERCIAL BANK PLC

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

Year	Risk category	Impact on statement of profit or loss and other comprehensive income	Impact on core capital
2016	Interest rate risk: stress reduce interest on loans to 14% (Salaried loans from 20% to 14% and commercial loans from 17% to 14%)	Reduce profit by TZS 3.72 billion. (From profit of TZS 1.19 billion to loss of TZS 2.52 million) – before tax.	Reduce equity by TZS 2.52 billion.
2015	Interest rate risk: stress reduce interest on loans to 14% (Salaried loans from 20% to 14% and commercial loans from 17% to 14%)	Reduce profit by TZS 2.84 billion. (From profit of TZS 2.18 billion to loss of TZS 669.9 million)	Reduce equity by TZS 669.9 million.

3.2.1 Foreign Exchange Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency which is monitored daily.

The Bank's net foreign currency exposure as at 31 December 2016 was TZS 187.2 million (2015: TZS 29 million). The Bank is exposed mainly to USD currency for which as at 31 December 2016 the exposure to the Bank is summarized in the table below (All amounts expressed in equivalent Tanzanian Shillings).

Assets:2016	<u>USD</u>	<u>EURO</u>	<u>GBP</u>	<u>Total</u>
Cash and balances with The Bank of Tanzania	2,440,094	309,400	47,088	2,796,583
Loans and advances to Banks	9,328,300	1,497,744	-	10,745,322
Total assets	11,768,394	1,807,144	47,088	13,541,905
Liabilities:				
Deposits from customers	9,848,320	3,423,337	11,378	13,283,075
Other liabilities **	58,599	15	12,979	71,593
Total liabilities	9,906,660	3,423,393	24,357	13,354,668
Net balance sheet position	1,861,474	(1,696,969)	22,731	187,237

** All other liabilities balances excluded statutory deductions and deferred processing fees as they are not financial liabilities

MKOMBOZI COMMERCIAL BANK PLC

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

Assets: 2015	<u>USD</u>	<u>EURO</u>	<u>GBP</u>	<u>Total</u>
Cash and balances with The Bank of Tanzania	1,337,607	353,301	45,092	1,736,000
Loans and advances to Banks	8,263,454	2,177,529	-	10,440,983
Total assets	9,601,061	2,530,830	45,092	12,176,983
Liabilities:				
Deposits from customers	9,580,368	2,432,078	16,100	12,028,546
Other liabilities **	177,688	-	-	177,688
Total liabilities	9,601,061	2,530,830	16,100	12,206,234
Net balance sheet position	(156,995)	98,752	28,992	(29,250)

3.2.2 Interest Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effects on profit or loss would not be significant given the re-pricing frequency.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market rates on its financial position and cash flows. The table below summarizes the exposure to interest rates risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorized by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off statement of financial position items.

The table presented here in below summarises the exposure to interest rate risks.

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.2 Interest rate risk (continued)	Up to 1 month TZS'000'	1 – 3 Months TZS'000'	3-12 Months TZS'000'	Over 1 year TZS'000'	Non-interest bearing TZS'000'	Total TZS'000'
<u>As at 31 December 2016</u>						
Assets						
Cash and Bank balances with The Bank of Tanzania	-	-	-	-	14,870,936	14,870,936
Loans and balance to Banks	8,450,000	4,899,145	3,500,000		3,611,060	20,460,205
Government securities	-	-	-	12,662,227	-	12,662,227
Loans and balance with customers	3,911,478	3,415,614	11,041,162	54,348,881	1,089,932	73,807,067
Equity investment	-	-	-	-	20,000	20,000
Other assets	-	-	-	-	1,177,159	445,856
Total assets	12,361,478	8,314,759	14,541,162	67,011,108	20,769,087	122,997,594
Liabilities						
Deposits from Banks		-	-	431,368	-	431,368
Deposit from customers	33,606,643	888,559	43,174,385	2,337,585	22,549,232	102,556,404
Other liabilities	-	-	-	-	2,411,073	2,411,073
Total liabilities	33,921,109	641,102	43,174,385	2,768,953	24,960,305	105,398,845
Interest sensitivity gap	(21,559,631)	7,673,657	(28,633,223)	64,242,155	(4,922,521)	16,867,446

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.2 Interest rate risk (continued)	Up to <u>1 month</u> TZS'000'	1 – 3 <u>Months</u> TZS'000'	3-12 <u>Months</u> TZS'000'	Over <u>1 year</u> TZS'000'	Non-interest <u>bearing</u> TZS'000'	<u>Total</u> TZS'000'
<u>As at 31 December 2015</u>						
Assets						
Cash and Bank balances with The Bank of Tanzania	-	-	-	-	13,411,053	13,411,053
Loans and balance to Banks	5,800,000	3,225,000	2,200,000	3,000,000	3,455,394	17,680,394
Government securities	-	-	-	12,363,530	-	12,363,530
Loans and balance with customers	3,212,360	2,429,848	6,988,099	50,587,574	90,533	63,308,414
Equity investment	-	-	-	-	20,000	20,000
Other assets	-	-	-	-	335,535	335,535
Total assets	9,012,360	5,654,848	9,188,099	65,951,104	17,312,515	107,118,926
Liabilities						
Deposits from Banks	1,000,000	-	-	549,015	-	1,549,015
Deposit from customers	23,408,737	1,393,484	36,541,573	715,653	23,673,701	85,733,148
Other liabilities	-	-	-	-	856,317	856,317
Total liabilities	24,408,737	1,393,484	36,541,573	1,264,668	24,486,694	88,138,480
Interest sensitivity gap	(15,396,377)	4,261,364	(27,353,474)	64,686,436		

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 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. Analysis of the Bank's assets and liabilities into relevant maturity groupings is set out in note 3.3.3.

3.3.1 Liquidity Risk Management

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institution's reputation.

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid Government securities, deposits from institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review by Assets and Liabilities Committee and approval by the Board.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, directors ensure that the mismatch is controlled in line with allowable risk levels and includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- 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 gap analysis, maturity ladder as well as 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.

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, provider, product and term.

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual discounted cash flow.

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

At 31 December 2016

	Up to <u>1 month</u> TZS'000'	1-3 <u>months</u> TZS'000'	3-12 <u>Months</u> TZS'000'	Over <u>1 year</u> TZS'000'	<u>Total</u> TZS'000'
Liabilities					
Deposits from Banks	431,368	-	-	-	431,368
Deposits from customers	61,771,463	995,187	38,856,946	2,337,585	103,961,181
Other liabilities (excluding statutory deductions and deferred revenue)	2,179,886	-	-	-	2,179,886
Total liabilities	64,382,717	995,187	38,856,946	2,337,585	106,572,435

At 31 December 2015

Liabilities					
Deposits from Banks	1,002,301	-	-	550,845	1,553,146
Deposits from customers	47,933,439	1,422,642	38,651,234	861,257	88,868,572
Other liabilities (excluding statutory deductions and deferred fees)	856,317	-	-	-	856,317
Total liabilities	49,792,057	1,422,642	38,651,234	1,412,102	91,278,035

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with The Bank of Tanzania (excluding SMR);
- Government securities;
- 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 investment securities and accessing additional funding sources such as asset-backed markets.

3.3.5 Off-balance sheet items

(a) Operating lease commitments

There are no non-cancellable operating leases.

(b) Capital commitments

Capital commitments for the acquisition of leasehold improvements on buildings and equipment for new branches are summarized in the table below.

	No later than 1 year TZS 000	1-5 years TZS 000	Total TZS 000
At 31 December 2016			
Capital commitments	1,066,789	-	1, 066,789

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (continued)

3.3.5 Off-balance sheet items (continued)

(c) Commitments to extend credit and other facilities

As at 31 December 2016, commitments to extend credit to customers and other facilities were TZS 475.84 million (2015: 816million)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The fair value of financial assets and liabilities not measured at fair value approximates carrying amounts for the Bank.

(i) Loans and advances to Banks

Loans and advances to Banks include inter-Bank placements and items in the course of collection. 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.

(ii) 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.

(iii) Government securities

The fair value for loans and receivables assets is based on market prices for securities with similar credit, maturity and yield characteristics. The carrying amount is a reasonable approximation of fair value.

(iv) Deposits from Banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount is a reasonable approximation of fair value.

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (continued)

3.4 Fair value of financial assets and liabilities (continued)

The Bank does not have financial instruments that are measured at fair value. Therefore, the carrying amounts of those financial assets and liabilities presented the statement of financial position represents their fair values

At 31 December 2016 (Amounts in TZS thousands)

	Loans and <u>receivables</u>	Available for <u>sale</u>	Other Amortized <u>cost</u>	Total carrying <u>amount</u>	<u>Fair value</u>
Financial assets					
Cash and balance with The Bank of Tanzania	14,870,936	-	-	14,870,936	14,870,936
Loans and advances to Banks	20,460,205	-	-	20,460,205	20,460,205
Government securities	12,725,599	-	-	12,725,599	12,725,599
Equity investments	-	20,000	-	-	-
Loans and advances to customers	73,807,067	-	-	73,807,067	73,807,067
Other assets	1,177,158	-	-	1,177,158	1,177,158
Total	123,040,965	20,000	-	123,040,965	123,040,965
Deposits from Banks	-	-	431,368	431,368	431,368
Deposits from customers	-	-	102,556,404	102,308,947	102,308,947
Other liabilities	-	-	-	2,189,187	2,189,187
	-	-	102,987,772	104,929,502	104,929,502

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (continued)

3.4 Fair value of financial assets and liabilities (continued)

At 31 December 2015 (Amounts in TZS thousands)

Financial assets	Loans and <u>receivables</u>	Available <u>for sale</u>	Other Amortized <u>cost</u>	Carrying <u>amount</u>	<u>Fair value</u>
Cash and balance with The Bank of Tanzania	13,411,053	-	-	13,411,053	13,411,053
Loans and advances to Banks	17,680,394	-	-	17,680,394	17,680,394
Government securities	12,363,530	-	-	12,363,530	12,363,530
Unquoted equity investments	-	20,000	-	20,000	20,000
Loans and advances to customers	63,308,414	-	-	63,308,414	63,308,414
Other assets	335,535	-	-	335,535	335,535
Total	107,098,926	20,000	-	107,118,926	107,118,926
Deposits from Banks	-	-	1,549,015	1,549,015	1,549,015
Deposits from customers	-	-	85,689,823	85,689,823	85,689,823
Other liabilities	-	-	-	856,317	856,317
	-	-	87,238,838	88,095,155	88,095,155

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (continued)

3.4 Fair value of financial assets and liabilities (continued)

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

There were no transfers between levels 1 and 2 during the year

The following table represents the Bank's financial assets that are measured at fair value at 31 December 2015

31 December 2015	TZS Thousands			Total
	Level 1	Level 2	Level 3	
Equity Investment	-	-	20,000	20,000

MKOMBOZI COMMERCIAL BANK PLC

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Capital management

The primary objectives of the Bank's capital management which is a broader concept than the 'equity' on the face of statement of financial positions are:

- To comply with the capital requirements set by The Bank of Tanzania (BoT);
- 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.
- To ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and
- To maximize shareholders value.

Regulatory capital

The Bank of Tanzania sets and monitors capital requirements for the Banking industry as a whole. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a Bank's capital.

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

In implementing current capital requirements, The Bank of Tanzania requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analyzed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capitals, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

Tier 1 capital (Core capital) are also subjected to various limits like limitation in risk weighted assets by 10% and investments in movable and immovable assets not to exceed 70% of core capital.

FINANCIAL STATEMENTS NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016
3 FINANCIAL RISK MANAGEMENT (CONTINUED)
3.5 Capital Management (continued)

The primary objectives of the Bank's capital management which is a broader concept than the 'equity' on the face of statement of financial positions are:

- To comply with the capital requirements set by The Bank of Tanzania (BoT);
- 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.
- To ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and
- To maximize shareholders value.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2016 and year ended 31 December 2015 During those two periods, the Bank complied with all regulatory requirements set by The Bank of Tanzania.

REGULATORY CAPITAL	<u>2016</u>	<u>2015</u>
	TZS'000'	TZS'000'
Tier 1 Capital		
Share capital	20,615,272	20,615,272
Accumulated profit/(losses)	568,594	(810,873)
Less: Intangible assets	669,807	74,080
Less: Prepaid expenses	1,035,223	441,756
Less: Lease hold improvement	751,404	462,030
Less: Deferred tax assets	668,926	578,061
Total qualifying Tier 1 Capital	18,058,506	18,248,472
Tier 2 capital		
General risk reserve	654,500	566,270
Total qualifying Tier 2 capital	18,713,007	18,814,742
Total regulatory capital	18,713,007	18,814,742
Risk - weighted assets		
On balance sheet	81,474,818	76,123,081
Off balance sheet	475,844	816,006
Total risk - weighted Assets and Off balance sheet	81,950,662	76,939,087
Bank Ratios		
Tier 1 (BoT Minimum 10%)	22.04%	23.72%
Tier 1 + Tier 2 (BoT Minimum 12.5%)	22.83%	24.45%

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If the historical loss experiences used to estimate the collective impairment allowances for the groups of loans and advances with similar credit characteristics is varied by 2%, the collective impairment allowance would increase by TZS 9 million. For loans and advances individually assessed for impairment, if the recovery period is increased by 1 year, the specific allowance for impairment would increase by TZS 838 million.

b) Impairment of available for sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As at 31 December 2016 there was no indication that the fair value declined below its cost.

MKOMBOZI COMMERCIAL BANK PLC

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

c) Deferred tax assets

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax asset recognized on the Bank's.

The deferred tax asset recognized on the Bank's statement of financial position in year 2016 amounted to TZS 668 million (2015: TZS 578 million).

The judgments take into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income, and future reversals of existing taxable temporary differences

4.1 SEGMENT REPORTING

31 December 2016	Retail Banking	Treasury	Other	Total
Statement of profit or loss and other comprehensive income	TZS'000	TZS'000	TZS'000	TZS'000
Net interest income-external customers	10,308,000	2,466,940	-	12,774,940
Fees, commission and other income	1,476,736	-	-	1,476,736
Foreign exchange income	-	211,481	-	211,481
Other operating income	-	-	-	-
Total operating income	11,784,736	2,678,420	-	14,463,157
Loan impairment charges	(1,612,066)	-	-	(1,612,066)
Net operating income	10,172,671	2,678,420	-	12,851,091
Personnel expenses	(3,381,989)	(563,665)	(1,690,994)	(5,636,648)
Depreciation and amortization	(378,109)	(94,527)	(472,636)	(945,273)
General and administration expenses	(3,102,042)	(286,341)	(1,383,988)	(4,772,372)
Profit before income tax	3,310,531	1,733,887	(3,547,619)	1,496,799
Income tax expense	(295,703)	(154,874)	-	(450,577)
Profit for the year	3,014,828	1,579,013	(3,547,619)	1,046,222
Assets				
PPE Additions	429,559	71,593	930,713	1,431,865

MKOMBOZI COMMERCIAL BANK PLC
**FINANCIAL STATEMENTS NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**
4.1 SEGMENT REPORTING (Continued)

31 December 2015	<u>TZS'000</u>	<u>Treasury</u> <u>TZS'000</u>	<u>Other</u> <u>TZS'000</u>	<u>Total</u> <u>TZS'000</u>
Statement of profit or loss and other comprehensive income				
Net interest income-external customers	7,506,141	4,051,710	-	11,557,851
Fees, commission and other income	701,179	-	510,906	1,212,086
Foreign exchange income	-	225,221	-	225,221
Other operating income	-	-	28,562	28,562
Total operating income	8,207,320	4,276,931	539,468	13,023,720
Loan impairment charges	(2,983,973)	-	-	(2,983,973)
Net operating income	5,223,347	4,276,931	539,468	10,039,747
Personnel expenses	(1,387,921)	(594,823)	(1,982,745)	(3,965,490)
Depreciation and amortization	(418,277)	(32,175)	(193,051)	(643,503)
Administrative and other expenses	(222,870)	(114,927)	(3,678,181)	(4,015,978)
Profit before income tax	3,194,279	3,535,006	(5,314,509)	1,414,776
Income tax expense	(263,932)	(137,538)	(59,841)	(461,311)
Profit for the year	2,930,347	3,397,468	(5,374,350)	953,465
Assets				
PP&E Additions	570,940	95,157	1,237,037	1,903,134

**Statement of financial position as at
31 December 2016**
Assets

	<u>Retail</u> <u>Banking</u>	<u>Treasury</u>	<u>Other</u>	<u>Total</u>
Cash and balances with Bank of Tanzania	14,870,936	-	-	14,870,936
Loans and balances to Banks	-	20,460,205	-	20,460,205
Government securities	-	12,725,599	-	12,725,599
Equity investment	-	-	20,000	20,000
Loans and advances to customers	73,807,067	-	-	73,807,067
Plant and equipment	910,552	151,759	1,972,864	3,035,175
Intangible assets	-	-	669,808	669,808
Current income tax asset	-	-	731,325	731,325
Deferred income tax asset	-	-	668,926	668,926
Other assets	-	-	1,177,159	1,177,159
Total assets	89,588,555	33,337,563	5,240,082	128,166,200

Equity and liabilities
Equity

Share capital	-	20,615,272	-	20,615,272
Regulatory reserve	-	-	928,989	928,989
General risk reserve	-	-	654,500	654,500
Accumulated profit	-	-	568,594	568,594
Total equity	-	20,615,272	2,152,083	22,767,355

MKOMBOZI COMMERCIAL BANK PLC
**FINANCIAL STATEMENTS NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**
4.1 SEGMENT REPORTING (Continued)

Liabilities	<u>Retail Banking</u>	<u>Treasury</u>	<u>Other</u>	<u>Total</u>
Deposit from Banks	-	431,368	-	431,368
Deposits from customers	102,556,404	-	-	102,556,404
Income tax payable	-	-	-	-
Provisions	83,207	27,735	110,943	221,886
Other liabilities	2,189,187	-	-	2,189,187
Total liabilities	104,828,798	459,103	110,943	105,398,845
Total liabilities and equity	104,828,798	21,074,375	2,2630,026	128,166,200

**Statement of financial position as at
31 December 2015**
Assets

Cash and balances with Bank of Tanzania	4,256,604	9,154,449	-	13,411,053
Loans and balances to Banks	-	17,680,394	-	17,680,394
Government securities	-	12,363,530	-	12,363,530
Equity investment	-	-	20,000	20,000
Loans and advances to customers	63,308,414	-	-	63,308,414
Plant and equipment	814,059	135,677	1,763,796	2,713,532
Intangible assets	22,224	3,704	48,152	74,080
Current income tax asset	65,255	10,876	141,387	217,518
Deferred income tax asset	-	-	578,061	578,061
Other assets	284,647	47,441	616,732	948,820
Total assets	68,751,203	39,396,071	3,168,128	111,315,402

Equity and liabilities
Equity

Share capital	-	20,615,272	-	20,615,272
Regulatory reserve	-	-	1,350,465	1,350,465
General risk reserve	-	-	566,270	566,270
Accumulated profit	-	-	(810,873)	(810,873)

Total equity	-	20,615,272	1,105,862	21,721,134
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Liabilities

Deposit from Banks	-	1,549,015	-	1,549,015
Deposits from customers	85,733,148	-	-	85,733,148
Income tax payable	-	-	-	-
Provisions	22,500	22,500	267,827	312,827
Other liabilities	1,999,278	-	-	1,999,278

Total liabilities	87,754,926	1,571,515	267,827	89,594,268
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Total liabilities and equity	87,754,926	22,186,787	1,373,688	111,315,402
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MKOMBOZI COMMERCIAL BANK PLC
**FINANCIAL STATEMENTS NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

5 INTEREST INCOME	<u>2016</u> TZS'000	<u>2015</u> TZS'000
Loans and advances	14,173,026	9,867,769
Government securities	1,857,525	1,900,078
Placements	1,297,413	2,227,935
Unrealised interest on loans and advances (customers)	1,175,243	1,596,506
	<u>18,503,207</u>	<u>15,592,288</u>
6 INTEREST EXPENSE		
Time deposits	4,572,495	3,558,391
Savings deposits	467,774	399,743
Bank borrowing	687,998	76,303
	<u>5,728,267</u>	<u>4,034,437</u>
7 IMPAIRMENT CHARGE		
Increase in impairment (Note 18)	1,622,019	2,983,973
Income received on loans previously written off	(9,950)	-
	<u>1,612,066</u>	<u>2,983,973</u>
8 FEES AND COMMISSION INCOME		
Loan commitment fee	759,413	701,179
Account maintenance fees Ledger fees	17,158	31,049
Service charges	205,761	68,060
Withdrawal fees	150,614	124,724
Commission on Western Union Transfers	12,613	3,281
Commission charged on transfers	35,373	23,970
Commission on ATM withdrawal charges	34,809	20,713
Other fees and commissions	260,996	239,110
	<u>1,476,736</u>	<u>1,212,086</u>
9 FOREIGN EXCHANGE INCOME		
Foreign exchange dealings	<u>211,481</u>	<u>225,221</u>
10 PERSONNEL EXPENSES		
Wages and salaries	3,875,524	2,722,611
Pension and retirement benefits	394,047	270,460
Other staff costs	1,367,077	972,419
	<u>5,636,648</u>	<u>3,965,490</u>

MKOMBOZI COMMERCIAL BANK PLC

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

11 DEPRECIATION AND AMORTIZATION

	<u>2016</u>	<u>2015</u>
	TZS'000	TZS'000
Depreciation of leasehold improvement	292,216	277,988
Depreciation of motor vehicles and equipment	508,759	305,620
Amortization of intangible assets	144,297	59,895
	<u>945,273</u>	<u>643,503</u>

12 GENERAL AND ADMINISTRATIVE EXPENSES

Audit fees	85,000	114,044
Professional fees	73,907	67,212
Directors' emoluments	11,096	9,900
Communication costs	498,648	305,675
Travelling and accommodations expenses	158,491	260,525
Local authority service charges	64,547	43,964
Maintenance cost - software	53,104	135,231
ATM rental and management fees	293,059	258,233
Occupancy costs	975,950	583,747
Maintenance cost - motor vehicle	21,648	16,920
Insurance cost	177,617	165,957
Marketing and advertising cost	516,767	582,649
Training costs	156,846	300,130
Security costs	225,447	139,242
Financial charges	24,515	31,903
Printing and stationeries	259,601	158,908
Repair and maintenance of office equipment	217,696	121,277
Share issue cost	0	38,746
Financial centres expenses	105,112	
Excise duty on fees and commissions	110,795	
Other operating costs	742,524	681,715
	<u>4,772,372</u>	<u>4,015,978</u>

Other operating costs includes, office expenses publications, donations, and miscellaneous expenses

13 INCOME TAX EXPENSE

a)The tax charge for the year is arrived at as follows:

Current income tax – current period	541,443	450,057
– prior period	-	42,493
Deferred income tax – current period (note 22)	(90,866)	(22,252)
– prior period (note 22)	-	(8,987)
	<u>450,577</u>	<u>461,311</u>

MKOMBOZI COMMERCIAL BANK PLC

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

13 INCOME TAX EXPENSE

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	<u>2016</u>	<u>2015</u>
	<u>TZS'000</u>	<u>TZS'000</u>
Profit/(loss) before income tax	<u>1,496,801</u>	<u>1,414,776</u>
Tax calculated at a tax rate of 30% (2015:30%)	<u>449,040</u>	<u>424,433</u>
Tax effect of:		
Expenditure permanently disallowed	-	<u>16,757</u>
Other adjustments	<u>1,537</u>	<u>(8,783)</u>
Deductible expenditure not charged to profit or loss	-	<u>(4,602)</u>
Current tax – prior years	-	<u>42,493</u>
Deferred income tax – prior years	-	<u>(8,987)</u>
	<u>450,577</u>	<u>461,311</u>

(c) Current income tax (recoverable)/ payable

At 1 January	(217,518)	340,646
Payments made during the year	(1,055,250)	(1,050,714)
Charge to profit or loss	541,443	492,550
	(731,325)	(217,518)

14 FINANCIAL INSTRUMENTS BY CATEGORY

At 31 December 2016 (Amounts in TZS thousands)

Financial assets	<u>Loans and receivables</u>	<u>Available for sale</u>	Held to Maturity Government securities	<u>Total</u>
Cash and balance with The Bank of Tanzania	14,870,936	-		14,870,936
Loans and advances to Banks	20,460,205	-		20,460,205
Held to Maturity Government securities	-	-	12,725,599	12,725,599
Equity investments	-	20,000		20,000
Loans and advances to customers	73,807,067			73,807,067
Other assets (excluding prepayments and stationery stock)	703,076	-		703,076
Total	122,556,823	20,000	12,725,599	122,556,823

	<u>Financial liabilities at amortized cost</u>
Financial liabilities	
Deposits from Banks	431,368
Deposits from customers	102,556,404
Other liabilities (excluding statutory liabilities and deferred fees)	<u>2,179,886</u>
Total	<u>105,167,658</u>

MKOMBOZI COMMERCIAL BANK PLC

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

14 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

At 31 December 2015 (Amounts in TZS thousands)

Financial assets	<u>Loans and receivables</u>	<u>Available for sale</u>	Held to Maturity Government securities	<u>Total</u>
Cash and balance with The Bank of Tanzania	13,373,383	-		13,373,383
Loans and advances to Banks	17,680,394	-		17,680,394
Government securities held to maturity	-	-	12,363,530	12,363,530
Equity investments	-	20,000		20,000
Loans and advances to customers	63,308,414			63,308,414
Other assets (excluding prepayments and stationery stock)				
	335,535	-		335,535
Total	63,643,949	20,000	12 363 530	107,081,256

	Financial liabilities at amortized cost
Financial liabilities	
Deposits from Banks	1,549,015
Deposits from customers	85,733,148
Other liabilities (excluding statutory liabilities and deferred fees)	
	856,317
Total	88,138,480

15 CASH AND BALANCES WITH THE BANK OF TANZANIA

	2016 TZS'000'	2015 TZS'000'
Cash in hand	4,220,042	4,256,604
Balance with The Bank of Tanzania	1,522,747	980,949
Statutory minimum reserve (SMR)	9,128,140	8,173,500
	14,870,936	13,411,053

The SMR deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the statement of cash flows (see Note 30). Cash in hand and balances with The Bank of Tanzania and SMR are non-interest bearing.

16 LOANS AND ADVANCES TO BANKS

	2016 TZS'000'	2015 TZS'000'
Balances with other Banks	3,611,060	3,002,669
Cheques in the course of collection with other banks	71,751	194,527
Money market placements	16,777,394	14,483,198
	20,460,205	17,680,394
Current	20,460,205	17,680,394

MKOMBOZI COMMERCIAL BANK PLC

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

14 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

17 GOVERNMENT SECURITIES HELD TO MATURITY	2016 TZS'000'	2015 TZS'000'
Treasury bills and bonds maturing after 3 months	12,725,599	12,363,530
Treasury bills and bonds maturing within three months	-	-
	12,725,599	12,363,530
Current	-	-
Non-current	12,725,599	12,363,530
Total	12,725,599	12,363,530

18 LOANS AND ADVANCES TO CUSTOMERS

Analysis of loans to individuals

Commercial	50,614,884	47,263,684
Personal / individuals	6,025,365	6,138,438
Salaried loans	18,257,102	10,332,983
Advances to staff	110,354	90,533
Interest receivable	3,399,354	2,596,392

Gross loans and advances to customers

Less:

Provision for impairment	(4,600,210)	(3,113,616)
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73,807,067 **63,308,414**

Maturity analysis

With maturity of 3 months or less	7,327,092	6,841,795
With maturity of between 3 months and 1 year	13,895,774	7,481,582
With maturity of more than 1 year	53,674,485	52,098,653

74,897,351 **66,422,030**

The movement in allowance for impairment of loans and advances by class is as follows;

	2016 TZS'000'			2015 TZS'000'		
	Specific	Portfolio	Total	Specific	Portfolio	Total
At 1 January	(2,800,633)	(312,983)	(3,113,616)	(1,308,352)	(220,196)	(1,528,548)
Impairment charge	(1,484,927)	(137,088)	(1,622,016)	(2,891,186)	(92,787)	(2,983,973)
Write offs	135,422	-	135,422	1,398,905	-	1,398,905
At 31 December	(4,150,138)	(450,071)	(4,600,210)	(2,800,633)	(312,983)	(3,113,616)

MKOMBOZI COMMERCIAL BANK PLC

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

19 EQUITY INVESTMENTS	<u>2016</u> TZS'000'	<u>2015</u> TZS'000'
Securities available-for-sale		
Equity securities – a		
– Umoja Switch Co. Ltd (unlisted)	<u>20,000</u>	<u>20,000</u>
Total securities a available-for-sale	<u>20,000</u>	<u>20,000</u>

In 2014 the Bank acquired ordinary shares in Umoja Switch Co. Ltd being founder member of the Switch. The directors are of the view that the carrying value of the investment as at the statement of financial position date materially represents its fair value.

MKOMBOZI COMMERCIAL BANK PLC

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

20 PROPERTY AND EQUIPMENT

Year ended 31 December 2016	<u>Machinery and equipment</u>	<u>Furniture, fixtures and fitting</u>	<u>Computer and IT equipment</u>	<u>Motor vehicle</u>	<u>Leasehold improvement</u>	<u>Leasehold working in progress</u>	<u>Total</u>
Cost							
As at 1 January 2016	602,688	1,032,443	1,176,923	191,346	1,1714,176	304,266	5,022,042
Adjustment/Disposal	722	(6,567)	770	(48,207)			(53,282)
Additions	411,376	175,818	263,082	-	581,589	(304 266)	1,127,599
At 31 December 2016	1,014,986	1,201,694	1,440,775	143,139	2,298,861	1,208,266	5,208,200,005
Depreciation							
As at 1 January 2016	174,012	211,408	607,828	63,117	1,252,145	-	2,308,510
Adjustment/Disposal	(95)			(48,207)			(48,302)
Charge for the year	100,184	139,894	232,896	35,785	292,216	-	800,975
At 31 December 2016	274,101	351,302	840,724	50,695	1,544,361	-	3,061,183
Net book value at 31 December 2016	740,885	850,392	600,051	92,444	751,404		3,035,175

MKOMBOZI COMMERCIAL BANK PLC

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

20 PROPERTY AND EQUIPMENT (CONTINUED)

Year ended 31 December 2015	<u>Machinery and equipment</u>	<u>Furniture, fixture and fitting</u>	<u>Computer and IT equipment</u>	<u>Motor vehicle</u>	<u>Leasehold improvement</u>	<u>Leasehold working in progress</u>	<u>Total</u>
Cost							
As at 1 January 2015	351,702	413,611	659,192	48,207	1,646,196	-	3,118,908
Additions	251,186	618,832	517,731	143,140	67,979	304,266	1,903,134
At 31 December 2015	602,888	1,032,443	1,176,923	191,347	1,714,175	304,266	5,022,042
Depreciation							
As at 1 January 2015	118,289	152,302	431,947	48,207	974,157	-	1,724,902
Charge for the year	55,723	59,106	175,881	14,910	277,988	-	583,608
At 31 December 2015	174,012	211,408	607,828	63,117	1,252,145	-	2,308,510
Net book value at 31 December 2015	428,876	821,035	569,095	128,230	462,030	304,266	2,713,532

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

21 INTANGIBLE ASSETS	2016 TZS'000'	2015 TZS'000'
Cost		
At 1 January	381,344	302,480
Addition	740,025	-
Disposal (Write off)	(84,005)	78,864
At 31 December	<u>1,037,364</u>	<u>381,344</u>
Accumulated amortization		
At 1 January	307,264	247,369
Disposal (Write off)	(84,005)	-
Charge for the year	<u>144,297</u>	<u>59,895</u>
At 31 December	<u>367,556</u>	<u>307,264</u>
Net book value	<u><u>669,807</u></u>	<u><u>74,080</u></u>
22 DEFERRED INCOME TAX		
At beginning of the year	578,061	546,822
Profit and loss current year (Note 13)	90,886	22,252
Profit and loss prior year (Note 13)	<u>0</u>	<u>8,987</u>
At end of the year	<u><u>668,927</u></u>	<u><u>578,061</u></u>

Deferred income tax asset and deferred income tax (charge)/credit to the profit or loss are attributed to the following items:

	1 January	Credited/ (Charged) to profit and loss	31 December
Deferred income tax asset 2016			
Property and equipment	16,577	24,742	41,319
Impairment provisions	<u>561,484</u>	<u>66,123</u>	<u>627,607</u>
Net deferred income tax asset	<u><u>578,061</u></u>	<u><u>90,866</u></u>	<u><u>668,927</u></u>
Deferred income tax (liability)/asset 2015			
Property and equipment	19,551	(2,974)	16,577
Impairment provisions	<u>527,271</u>	<u>34,213</u>	<u>561,484</u>
Net deferred income tax asset	<u><u>546,822</u></u>	<u><u>31,239</u></u>	<u><u>578,061</u></u>

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

23 OTHER ASSETS	<u>2016</u> <u>TZS'000'</u>	<u>2015</u> <u>TZS'000'</u>
Sundry debtors	710,259	221,906
Prepaid expenses	303,898	441,756
Selcom Mkombozi mobile Bank	17,485	111,031
Inter-branch transactions	(27,083)	
Imprest account	2,416	2,598
Stock of stationaries	170,184	171,529
	<u>1,177,159</u>	<u>948,820</u>
Less: Allowances for losses on sundry debtors	-	-
Current	<u>1,177,159</u>	<u>948,820</u>
24 DEPOSITS		
24.1 DEPOSITS FROM BANKS		
Time deposits	-	1,000,000
Call Deposits	<u>431,369</u>	<u>549,015</u>
	<u>431,368</u>	<u>1,549,015</u>
Current	<u>431,368</u>	<u>1,000,000</u>
Non-current	<u>-</u>	<u>549,015</u>
	<u>431,368</u>	<u>1,549,015</u>
24.2 DEPOSITS FROM CUSTOMERS		
Current accounts	22,823,439	21,964,239
Savings deposits	31,076,204	23,361,435
Time deposits	<u>48,656,762</u>	<u>40,407,474</u>
	<u>102,556,404</u>	<u>85,733,148</u>
Current	<u>102,308,302</u>	<u>85,017,495</u>
Non-current	<u>248,102</u>	<u>715,653</u>
	<u>102,556,404</u>	<u>85,733,148</u>

Deposits amounting to TZS 48.7 billion (2015: TZS 40.4 billion) are at fixed interest rates and the remaining deposits are at variable rates.

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

25	PROVISION	<u>2016</u> TZS'000'	<u>2015</u> TZS'000'
	Gratuity		
	At 1 January	312,827	214,702
	Arising during the year	227,250	174,375
	Utilized	<u>(318,191)</u>	<u>(76,250)</u>
	At 31 December	<u>221,886</u>	<u>312,827</u>
26	OTHER LIABILITIES		
	Accruals	1,876,896	344,175
	Accounts payable	555,600	(14,280)
	Deferred fees	9,055	1,142,961
	Sundry credit	<u>(252,610)</u>	<u>526,422</u>
		<u>2,189,187</u>	<u>1,999,278</u>
	Current	2,159,187	1,999,278
	Non-current	<u>-</u>	<u>-</u>
27	SHARE CAPITAL	<u>2016</u> TZS'000'	<u>2015</u> TZS'000'
	Authorised		
	50,000,000 ordinary shares of TZS 1,000/= each	<u>50,000,000</u>	<u>50,000,000</u>
	Issued and fully paid ordinary shares		
	20,615,272 shares of TZS 1000/= each. (2015: 20,615,272)	<u>20,615,272</u>	<u>20,615,272</u>
28	CASH AND CASH EQUIVALENTS		
	Cash and balances with The Bank of Tanzania (excluding SMR) (Note 15)	5,742,788	5,237,553
	Loans and advances to Banks	20,460,205	17,680,394
	Government securities maturing within 3 months of acquisition (Note 17)	<u>-</u>	<u>-</u>
		<u>26,202,994</u>	<u>22,917,947</u>

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES (CONTINUED)

29 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year. The calculation is based on:

	<u>2016</u> TZS'000	<u>2015</u> TZS'000
Profit attributable to ordinary shareholders	<u>1,046,222</u>	<u>953,465</u>
Weighted average number of ordinary shares	<u>20,615,272</u>	20,615,272
Basic earnings per share – TZS	<u>50.75</u>	<u>46.25</u>

Diluted earnings per share

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	<u>2016</u> TZS'000	<u>2015</u> TZS'000
Attributable profit to ordinary shareholders	<u>1,046,222</u>	<u>953,465</u>
Weighted average number of ordinary shares	<u>20,615,272</u>	Number 20,615,272
Diluted earnings per share – TZS	<u>50.75</u>	<u>46.25</u>

30 RELATED PARTY DISCLOSURE

The Bank is owned by Individuals (general public) (44%), Tanzania Episcopal Conference (TEC) (20%), and Church Institutions (Dioceses & other institutions) (36%).

A number of banking transactions are entered into with related parties in the normal course of business. These include loans to key management, Deposits from directors, key management personnel and director's remuneration. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

MKOMBOZI COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

NOTES (CONTINUED)

	<u>2016</u> TZS'000'	<u>2015</u> TZS'000'
<i>Loans to key management personnel:</i>		
Loans outstanding at the beginning of the year	377,329	262,283
Loan additions during the year	144,204	469,500
Loan repayments during the year	<u>(205,243)</u>	<u>(354,454)</u>
Loans outstanding at the end of the year	<u>403,552</u>	<u>377,329</u>
Interest income earned from loans to key management personsell	<u>87,261</u>	<u>36,584</u>
<i>Deposits from directors and key management personnel:</i>		
Deposits at the beginning of the year	31,363	52,879
Deposits received during the year	1,790,501	1,058,182
Deposits repaid during the year	<u>(1,914,796)</u>	<u>(1,079,698)</u>
	<u>74,770</u>	<u>31,363</u>
Key management compensation		
Salaries and other short-term benefits	768,600	723,000
Post-employment benefits – Social security costs	<u>76,860</u>	<u>72,300</u>
	<u>845,460</u>	<u>795,300</u>

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 including heads of department.

	<u>2016</u> TZS'000'	<u>2015</u> TZS'000'
Directors' remuneration	<u>11,950</u>	<u>9,900</u>

Details will be tabled at Annual General Meeting

31 CONTINGENT LIABILITIES AND COMMITMENTS

	<u>2016</u> TZS'000'	<u>2015</u> TZS'000'
Capital commitments		
Capital expenditure that has been approved by the Board but not contracted for	<u>1,667,206</u>	<u>1,066,789</u>

MKOMBOZI COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****NOTES (CONTINUED)****Commitments to extend credit and guarantees**

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards.

	Due within 1 year TZS'000	Due within two to five years TZS'000	Total TZS'000
31.1 OPERATING LEASES			
30.1. Leases as lessee			
1			
2016			
Land and buildings	85,667	1,301,321	1,386,988
	85,667	1,301,321	1,386,988
2015			
Land and buildings	100,847	1,475,950	1,576,797
	100,847	1,475,950	1,576,797

The Bank has entered into commercial leases for premises. These leases have an average life of between three and five years with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

32 EVENTS AFTER THE REPORTING DATE

There were no conditions after the statement of financial position date that had material impact to the financial statements