

MUCOBA BANK PUBLIC LIMITED COMPANY



AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2016



**TAC Associates
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Dar es Salaam, Tanzania**

MUCOBA BANK PUBLIC LIMITED COMPANY

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MUCOBA BANK PUBLIC LIMITED COMPANY**COMPANY INFORMATION**

- Directors**
- : Mr. Attilio Mohele
 - : Mr. Golden Sanga
 - : Ms. Marcelina Mkini
 - : Mr. Ernest Usangira
 - : Dr. Dominicus Kasilo
 - : Mr. Yessaya Mwakyalanda
- Chief Officers**
- : Mr. Ben Mahenge
 - : Mr. Job Malekela
 - : Mr. Yoely Sangana
 - : Mr. Philip Raymond
- Company Secretary**
- : Mr. Ben Mahenge
 - : P. O. Box 147
 - : Mafinga, Iringa
 - : Tanzania
- Independent Auditors**
- : TAC ASSOCIATES
 - : Certified Public Accountants
 - : P.O. Box 580
 - : Dar-es-Salaam
- Bankers**
- : NMB- Mafinga Branch
 - : NBC Iringa Branch
 - : CRDB Bank Mafinga Branch
 - : DCB Commercial Bank
 - : Mwanga Community Bank
 - : Akiba Commercial Bank
 - : TIB Development Bank
 - : Access Bank
- Registered Office**
- : Market Street
 - : Plot No: 345 Block A
 - : P.O. Box 147
 - : Mafinga, Iringa
 - : Tanzania
- Contact**
- : Telephone 026-2772165
 - : Fax 026-2772075
 - : mucoba@mucobatz.com

MUCOBA BANK PUBLIC LIMITED COMPANY**DIRECTORS' REPORT FOR THE YEAR ENDED
31ST DECEMBER, 2016****1.0 Preamble**

The Directors hereby present their report together with the audited financial statements for the year ended 31st December, 2016. The Bank was incorporated in December 1998 and commenced its operations in June, 1999. Due to expansion of its operational area the name was changed from Mufindi Community Bank to MUCOBA BANK PUBLIC LIMITED COMPANY. The name was changed with effect from 29th May, 2014 vide certificate of change of name no 35471. The Bank was listed in Dar es Salaam Stock Exchange Market (DSE) on 08th June, 2016

2.0 Activities

The Bank is registered to carry on the business of banking under the Banking and Financial Institutions Act, 2006. The Bank offers wide range of financial services from deposit taking, issuing different types of loans and agency services.

3.0 Results

The Bank recorded a 4.45% (from TZS 13.7 billion in 2015 to TZS 14.31 billion in 2016) growth in deposits, a 16.87% (from Tshs 458.9 million in 2015 to Tshs 381.48 million in 2016) decrease in profit before tax, 7.57% (from TZS 9.9 billion in 2015 to TZS 10.65 billion in 2016) increase in loan portfolio and a 16.37% (from TZS 3.36 billion in 2015 to TZS 3.91 billion in 2016) growth in capital during the year 2016.

Such positive results were attributed to increased outreach, increased loan portfolio and promotional activities in line with compliance in the government's Rural Financial Deepening policy.

The Bank made considerable achievements in 2016 such as opening of a new service centre at Ilula town. The Bank also adapted the contemporary quick money transfer technology by using M-pesa, SMS banking and Tigo-pesa for clients' convenience.

It was during this period that the Bank made a survey and realized actual financial needs of people in the rural areas and found the reason for

MUCOBA BANK PUBLIC LIMITED COMPANY

establishing more new customer service centres in various parts of the region in 2016, in order to serve a bigger number of the population.

The Bank has always been in the forefront in ensuring that capacity building for its workforce is given due consideration. Staff are continuously getting training opportunities which empower them to work efficiently in this competitive and challenging environment.

The Bank pays special tribute to TRIAS, a Belgian-based international non-governmental organization, to Marketing Infrastructure Value Addition & Rural Finance (MIVARF), International Solidarity for Development and Investment (SIDI) and to Financial Sector Deepening Trust (FSDT) for their tireless support in capacity building, working capital and provision of working facilities to the Bank.

4.0 Solvency

Management of a bank's capital is very crucial in safeguarding the bank's ability to continue as a going concern. The Bank monitors its capital adequacy employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania, for supervisory purposes. The required information is filed with Bank of Tanzania on monthly basis.

5.0 Directors

The directors of the Bank who held office during the year under review are as indicated below:

S/No.	Name	Position	Age/ Years	Qualification/Discipline	Nationality	Date of Appoint ment
1.	Mr. Atillio Mohele	Board Chairman	73	-Holder of BA and MA (Economics) -Former Director with CRDB Bank -Current Independent consultant	Tanzanian	August 2015
2.	Mr. Ernest Chanay Usangira	Board Member	70	-Holder of BSc (Ed) with Honours - Founder Board member of MUCOBA representing MET -Currently businessman	Tanzanian	August 2015
3.	Mr. Golden Sanga	Board Member	59	-Holder of Certificate in Teaching -Currently Head Teacher & Chairman of Mufindi Teachers SACCOS- Mafinga.	Tanzanian	August 2015
4.	Ms. Marcellina Mkini	Board Member	58	-Holder of Diploma in Agricultural Nutrition	Tanzanian	August 2015

MUCOBA BANK PUBLIC LIMITED COMPANY

				- Currently she is the Chairperson of FARAJA SACCOS - Mafinga		
5.	Dr.Dominicus Kasilo	Board Member	62	-Holder of PHD in Business Administration. -MBA (Industrialization and strategic management and Advanced Diploma in Accountancy -Currently Lecturer at Ruaha Catholic University - Iringa	Tanzanian	April 2016
6.	Mr. Yessaya Mwakyalanda	Board Member	53	-Holder of Advanced Diploma in Cooperative Business management and Ordinary Diploma in Cooperative Business Management. -Currently Independent Management Consultant	Tanzanian	May 2016

Supervisory Committees

The Bank has two managing supervisory committees namely Credit Board Committee and Finance and Audit Board committee.

Credit Board Committee

The Credit Board Committee has the main function of deliberating issues relating to Credit and Human Resources. This comprises of the following Board members;

S/No.	Name	Position
1.	Mr. Ernest Chanay Usangira	Chairman
2.	Ms. Marcellina Mkini	Member
3.	Mr. Golden Sanga	Member

In year 2016 the Committee had six meetings to deliberate various Credit and Human Resources issues.

Finance and Audit Board Committee

The Finance and Audit Board Committee has the main function of deliberating Finance department matters. It is comprised of the following Board members;

S/No.	Name	Position
1.	Mr. Dominicus Kasilo	Chairman
2.	Mr. Ernest Usangira	Member
3.	Mr. Yesaya Mwakyalanda	Member

MUCOBA BANK PUBLIC LIMITED COMPANY

In year 2016 the Committee had five sittings which deliberated various issues relating to Finance and Audit.

6.0 Employees Welfare

Management /Employees Relationship

Relationship between employees and the management is cordial. There were no unresolved complaints received by the management from the employees during the year.

Staff in various departments of the Bank i.e operations, credit and finance/ administration, played their role with adequate success. Marketing staff under the operations department advised the management on different new products to be introduced in the market and also new areas of investment which impact positively on the Bank's mission.

Training Facilities

The Bank continued to invest in its most valuable assets, the staff. During the year under review, many staff received training in various aspects of banking and other activities. Both internally and externally trainings were conducted and attended during the year. Most of the trainings attended were organized by Bank Of Tanzania (BOT) and Tanzania Institute of Bankers. During the year the Bank spent TZS 169.5 million on staff training in order to improve technical skills and performance of its employees

Challenges

The Bank continued to face several challenges during the year 2016 which affected its performance objectives in portfolio quality, deposit growth, share capital growth and outreach expansion. As majority of businessmen are small and medium size in nature, their success depends largely on the harvesting of timber. The year 2016 witnessed a squeeze in harvesting-permits which directly affected the borrowers' loan repayments, retail businesses and slowed deposit growth. Also low prices of agricultural crops affected loan performance and deposit growth.

The 2016 Bank Outlook

The strategic plan of the Bank for five years (2014-2018) focuses in increased outreach, use of technology as a means to reach the un-banked and to better serve customers. In 2016, the Bank introduced a new customer service centre in Ilula (Kilolo district).

MUCOBA BANK PUBLIC LIMITED COMPANY

The Bank also decided to employ more staff with a view to having them stationed in those centres in order to market services of the Bank, offer banking services, and provide confidence for rural deposits.

The introduction of a new customer service centre in Iringa Municipality will call for installation of an ATM to meet our customers' expectations. For other remote rural areas the Bank will serve customers using mobile Banking SMS banking, Point of sales (POS) devices, M-Pesa and Tigo-pesa .All these expected developments depend on adequacy in both capital and liquidity which the Bank management is working hard to ensure are achieved.

Medical Assistance

The Bank reimburses its employees, their spouse and up to four of their children. Medical expenses incurred are reimbursed upon submission of medical prescriptions and receipts on a non-discriminatory basis. Such medical expenses are included under staff costs.

7.0 Shareholders

The Shareholders of the Bank are as follows;

	No. of shares	Nominal Value TZS.	Percentage
Individuals (TZS 500,000/= and above)	3,079,601	769,900,250	37.75%
Individuals (below TZS 500,000/=)	1,057,723	264,430,750	12.97%
Companies and Institutions	1,353,222	338,305,500	16.59%
Groups	<u>2,666,424</u>	<u>666,606,000</u>	<u>32.69%</u>
	<u>8,156,970</u>	<u>2,039,242,500</u>	<u>100.00%</u>

8.0 Corporate Social Responsibility

MUCOBA Bank PLC values giving back to the communities by ensuring sustainable social, economical and environmental impact to the community. During the year the Bank participated in number of endeavors that included support for both government and non-government institutions with a special focus on education, health and other social services. During the year the Bank donated Tsh 13.0 million.

MUCOBA BANK PUBLIC LIMITED COMPANY**9.0 Going Concern**

During the year, the Bank made a profit of TZS 381.48 million before tax. The Directors also expect additional financial assistance from donors and further capital contribution to increase the capital base of the Bank.

10.0 Dividend

The Directors recommend the payment of dividends of TZS 40 per share from 2015 after tax profit. Total amount of dividends recommended equals to TZS 66,243,040/= which is 20.6% of net profit after tax.

11.0 Related Parties Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The volumes of related party transactions for the year and the corresponding outstanding amounts at the year-end are as stated under note number 21 to the financial statements.

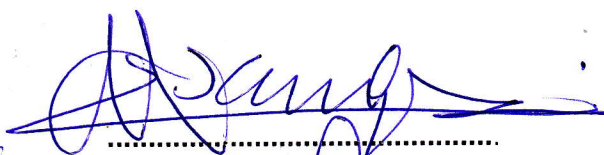
12.0 Annual General Meeting

The Bank conducts annual general meeting as per Bank's articles of association and as per requirement by regulatory bodies. During the year the Bank conducted its 17th Annual general meeting on 27th August, 2016. The Bank encourages shareholders to attend annual general meetings or to appoint their representatives in case they fail to attend.

13.0 Independent Auditors

TAC Associates were appointed as the independent auditors of the Bank's financial statements for the year ended 31st December, 2016. TAC Associates have expressed their willingness to continue in office.

BY ORDER OF THE BOARD


.....
CHAIRMAN
for


.....
DIRECTOR

DATE 31/03/2017
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MUCOBA BANK PUBLIC LIMITED COMPANY

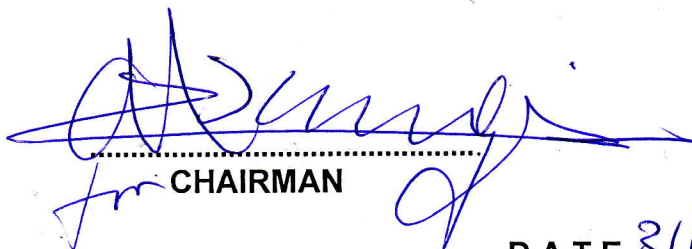
STATEMENT OF DIRECTORS' RESPONSIBILITY

The directors are required by the Companies Act, 2002 to prepare the financial statements of each financial year that give a true and fair view of the state of affairs of the company (hereinafter referred to as the "bank" in this report and the financial statements) as at the end of the financial year and of the profit or loss of the Bank for that year.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgment and estimates have been made in the preparation of the financial statements for the year ended 31st December, 2016. The Directors also confirm that International Financial Reporting Standards (IFRS) have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act, 2002. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

Consequently, the financial statements on pages 13 to 27 were approved by the Directors at a Board meeting and signed on its behalf by:


.....
for CHAIRMAN


.....
DIRECTOR

DATE 31/03/2017

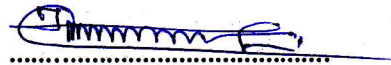
MUCOBA BANK PUBLIC LIMITED COMPANY

DECLARATION OF THE HEAD OF FINANCE

JOB MALEKELA the Manager of Finance and Administration of MUCOBA Bank Public Limited Company hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31st December, 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements give a true and fair view in all material respect, the financial position, financial performance and cash flows of the MUCOBA Bank Public Limited Company as at 31st December, 2016, in accordance with the International Financial Reporting Standards (IFRS) and that they have been prepared based on properly maintained financial records.

FINANCE MANAGER



POSITION:

SIGNATURE

NBAA Membership No.:

DATE: 31 / 03 / 2017

MUCOBA BANK PUBLIC LIMITED COMPANY**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

We have audited the accompanying financial statements of the MUCOBA Bank Public Limited Company, which comprise the statement of financial position as at 31st December, 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

UNQUALIFIED OPINION

In our opinion, the financial statements give a true and fair view of the financial position of MUCOBA Bank Public Limited Company as of 31st December, 2016, and of its performance, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Banking and Financial Institutions Act, 2006.

BOARD OF DIRECTORS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of fair presentation of the financial statements that are free from material misstatement, whether due to fraud or errors; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable on the circumstances.

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

MUCOBA BANK PUBLIC LIMITED COMPANY

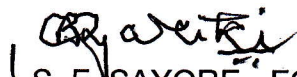
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Other Legal and Regulatory Requirements

We are reporting, as required by the Tanzania Companies Act, 2002, that in our opinion:

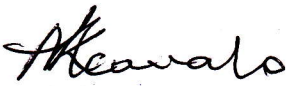
- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- Proper books of account have been kept by the Bank as seen from our examination of those books;
- The Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

TAC ASSOCIATES (Certified Public Accountants)


S. F. SAYORE - FCCA
MANAGING PARTNER

DAR ES SALAAM

DATE:..... 31 MAR 2017

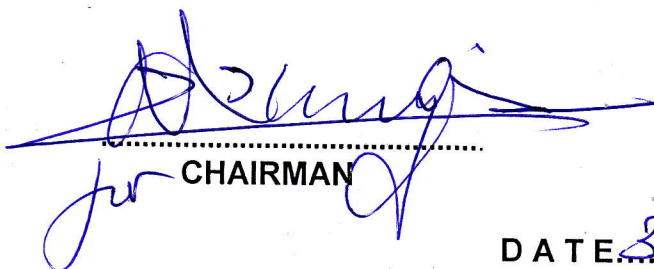

M. KAVALO - ACPA
ENGAGEMENT PARTNER

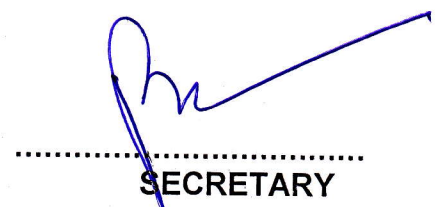
MUCOBA BANK PUBLIC LIMITED COMPANY

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	NOTE	2016 TZS '000'	2015 TZS '000'
INTEREST INCOME	3	2,889,835	2,758,352
INTEREST EXPENSE	4	<u>(677,733)</u>	<u>(582,174)</u>
NET INTEREST INCOME		2,212,102	2,176,178
OTHER INCOME	5	<u>1,175,888</u>	<u>1,148,141</u>
TOTAL OPERATING INCOME		3,387,990	3,324,319
OPERATING EXPENSES			
STAFF COSTS	6	(1,483,964)	(1,291,666)
OTHER GENERAL AND ADMINISTRATIVE EXPENSES	7	(1,221,370)	(1,289,595)
DEPRECIATION AND AMORTIZATION		<u>(196,371)</u>	<u>(159,217)</u>
TOTAL OPERATING EXPENSES		<u>(2,901,705)</u>	<u>(2,740,478)</u>
OPERATING PROFIT		486,285	583,841
PROVISION FOR BAD AND DOUBTFUL DEBTS		<u>(104,805)</u>	<u>(124,918)</u>
PROFIT BEFORE TAX		381,480	458,923
TAXATION	8(a)	<u>(114,444)</u>	<u>(137,677)</u>
		267,036	321,246
ADD:			
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>267,036</u>	<u>321,246</u>

Auditors Report is on pages 11 and 12. The Financial Statements on pages 13 to 27 were approved by the Board of Directors on 31/3/17 and were signed on its behalf by:


.....
CHAIRMAN


.....
SECRETARY

DATE 31/03/2017

MUCOBA BANK PUBLIC LIMITED COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2016

	NOTE	31.12.2016 TZS'000	31.12.2015 TZS'000
ASSETS			
Cash in Hand		852,494	343,659
Cash Balance with Other Banks	9	1,371,658	2,917,640
Loans and Advances to Customers	10(a)	10,654,256	9,913,136
Other Assets	11	6,141,884	4,323,030
Property, Plant and Equipment	12	687,158	665,456
Tax Recoverable	8(b)	(16,758)	4,946
TOTAL ASSETS		<u>19,690,692</u>	<u>18,167,867</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Issued Share Capital	13	2,039,243	828,038
Advance Towards Share Capital		0	753,427
Preference Shares - FSDT	14	622,500	622,500
Capital Grants	15	89,819	199,151
Regulatory Reserve	16	480,774	16,182
General Reserve	17	96,254	-
Retained Earnings/(Loss)		579,638	939,691
Total Capital and Reserves		<u>3,908,228</u>	<u>3,358,989</u>
Current Liabilities			
Deposits	18	14,312,361	13,664,223
Other Liabilities	19	1,470,103	1,144,655
Total Current Liabilities		<u>15,782,464</u>	<u>14,808,878</u>
TOTAL EQUITY AND LIABILITIES		<u>19,690,692</u>	<u>18,167,867</u>

Auditors Report is on pages 11 and 12. The Financial Statements on pages 13 to 27 were approved by the Board of Directors on 31/3/17 and were signed on its behalf by:


.....
CHAIRMAN


.....
SECRETARY

DATE 31/03/17.....

MUCOBA BANK PUBLIC LIMITED COMPANY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	Share Capital	Preference Shares	Advance Towards Share Capital	Retained Profit/ (Loss)	Capital Grants	General Provisions	Regulatory Reserve	Total
	TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'
As at 1/01/2015	828,038	0	0	746,854	262,921	0	15,973	1,853,786
Issued during the year	0	622,500	0	0	0	0	0	622,500
Profit/Loss for the Year	0	0	0	321,246	0	0	0	321,246
Prior Year Adjustment	0	0	0	25,909	0	0	0	25,909
Received during the year	0	0	753,427	0	40,500	0	0	793,927
Amortization of Grant	0	0	0	0	(104,270)	0	0	(104,270)
Prior year taxes	0	0	0	(87,866)	0	0	0	(87,866)
Dividend declared	0	0	0	(66,243)	0	0	0	(66,243)
Regulatory reserve	0	0	0	(209)	0	0	209	0
As at 31/12/2015	828,038	622,500	753,427	939,691	199,151	0	16,182	3,358,989
As at 1/01/2016	828,038	622,500	753,427	939,691	199,151	0	16,182	3,358,989
Issued during the year	1,211,205	0	(753,427)	0	0	0	0	457,778
Profit/Loss for the Year	0	0	0	267,036	0	0	0	267,036
General provisions	0	0	0	(96,254)	0	96,254	0	0
Amortization of Grant	0	0	0	0	(109,332)	0	0	(109,332)
Prior Year Adjustment	0	0	0	0	0	0	0	0
Prior year taxes	0	0	0	0	0	0	0	0
Dividend declared	0	0	0	(66,243)	0	0	0	(66,243)
Regulatory reserve	0	0	0	(464,592)	0	0	464,592	0
As at 31/12/2016	2,039,243	622,500	0	579,638	89,819	96,254	480,774	3,908,228

Auditors Report is on pages 11 and 12. The Financial Statements on pages 13 to 27 were approved by the Board of Directors on 31/12/17 and were signed on its behalf by:


CHAIRMAN


SECRETARY

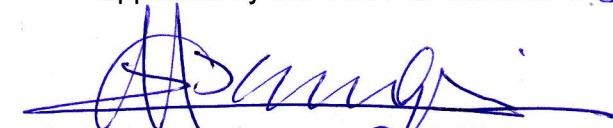
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MUCOBA BANK PUBLIC LIMITED COMPANY

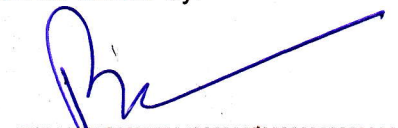
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER, 2016

	NOTE	2016 TZS '000'	2015 TZS '000'
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Profit before tax		381,480	458,924
Adjustment for items not involving movement of cash:-			
Depreciation		196,371	159,217
Adjustments		0	(8,000)
Prior year adjustment		0	25,909
Net cash inflows from/(used in) operating activities before changes in working capital items		577,851	636,050
CHANGES IN WORKING CAPITAL ITEMS			
Loans and advances		(741,120)	(2,511,322)
Other assets		(1,818,854)	(909,257)
Deposits		648,138	2,290,613
Other liabilities		325,448	(194,788)
		(1,586,388)	(1,324,754)
Cash inflows from/(used in) operating activities		(1,008,537)	(688,703)
Tax paid		(92,740)	(226,600)
Net cash inflows from/(used in) operating activities		(1,101,277)	(915,304)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES:			
Purchase of Property, Plant and Equipment		(218,073)	(206,790)
Dividends issued		(66,243)	(66,243)
Disposal of Property, Plant and Equipment		0	8,000
Net cash inflows from/(used in) investing activities		(284,316)	(265,033)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES:			
Issue of shares		457,778	1,375,927
Grant received		0	40,500
Grant amortised		(109,332)	(104,270)
Net cash inflows from/(used in) investing activities		348,446	1,312,158
NET CASH INFLOWS/(OUTFLOWS) FOR THE YEAR		(1,037,147)	131,822
CASH AND CASH EQUIVALENTS AS AT BEGINNING OF THE YEAR		3,261,299	3,129,477
BALANCE AS AT 31ST DECEMBER		2,224,152	3,261,299

Auditors Report is on pages 11 and 12. The Financial Statements on pages 13 to 27 were approved by the Board of Directors on 31/3/17 and were signed on its behalf by:


 CHAIRMAN

DATE 31/03/2017


 SECRETARY

MUCOBA BANK PUBLIC LIMITED COMPANY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1.0 BASIS OF ACCOUNTING

The financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS). The Standards also encompass the International Accounting Standards (IAS), International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretation Committee (SIC).

All existing and currently applicable IFRSs as of 31st December, 2016 were observed. The financial statements are presented in Tanzania shillings (TZS) and the amounts are rounded to the nearest thousands, except where otherwise indicated.

NOTE: 2 ACCOUNTING POLICIES

(a) Interest Income and Expense

Interest income and expense are recognized in the statement of comprehensive income on the accrual basis. Interest on loans and advances is accrued to income unless reasonable doubt exists with regard to its recoverability.

(b) Fees and Commission Income

Fees and commission income is recognized in the statement of comprehensive income on the accrual basis.

(c) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation on property, plant and equipment is calculated on a straight line method based on the cost of the assets at the following rates:

	<u>%</u>
Motor vehicles	25
Motor cycles	25
Office Equipment	25
Office Furniture & Fittings	10
Application Software	10

MUCOBA BANK PUBLIC LIMITED COMPANY

Assets purchased during the year are depreciated from the date the assets were put into use up to the end of the financial year under reference.

Property, plant and equipment are periodically reviewed for impairment. If the carrying value of an asset is estimated to be greater than its recoverable amount, it is written down to its estimated recoverable amount.

Costs incurred on computer software are initially accounted for at costs as intangible assets and subsequently at cost less any accumulated amortization and accumulated impairment losses.

(d) Provision for Bad and Doubtful Debts

Provision for bad and doubtful debts is made in accordance with International Financial Reporting Standards (IFRS). Provisions for loan impairment are established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

In case IFRS provision is less than Bank of Tanzania (BOT) provision a special reserve account is created through an appropriation of distributable reserves to eliminate the shortfall. This reserve is not part of the Bank's core capital.

However, the Provision for Bad and Doubtful debts governed by section 15(a) of the Banking and Financial Institutions Act, 2006 differs with the International Financial Reporting Standards. In order to facilitate compliance with the Bank of Tanzania guidelines, regulatory non-distributable reserve have been created in the accounts amounting to TZS 480,774,000.

(e) Retirement Benefits

The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate. The Bank makes contributions to various Social Security Pension Funds, which are statutory defined contribution pension schemes. The Bank's obligations under the schemes are limited to specific contributions legislated from time to time.

MUCOBA BANK PUBLIC LIMITED COMPANY**(f) Dividends Distribution**

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until approved at the Annual General Meeting. Payment of dividends is subjected to withholding tax at the enacted rate of 10%.

(g) Capital Adequacy

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT). These ratios measures capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, off balance sheet commitments and market and other risk positions at a weighted amount to reflect their relative risks. The Central bank requires MUCOBA BANK PLC to:

- Maintain at all time a minimum of core capital of not less than two billion shillings
- Maintain Core capital ratio of not less than twelve and one half per cent of its total risk-weighted assets and off balance sheet exposure; and
- Maintain total capital ratio of not less than fourteen and one half per cent of its total risk weighted assets and off balance sheet exposure

The Bank's capital is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Intangible assets and prepaid expenses are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, revaluation reserve and loan portfolio general provision.

During the year as per note 15, the Bank complied with minimum capital requirements as stipulated in the Banking and financial Institutions Act, 2006.

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(h) Grants

Grants are recognized when there is reasonable assurance that the conditions attached to the grants are complied with and the grants will be received. Grants awarded for the purchase or the production of PPE (grants related to assets) are generally off set against the acquisition or production costs of the respective assets and reduce future depreciations accordingly. Grants awarded for other than non-current assets (grants related to income) are reported in the Consolidated Statements of Income under the same functional area as the corresponding expenses. They are recognized as income over the periods necessary to match them on a systematic basis to the costs that are intended to be compensated. Grants for future expenses are recorded as deferred income.

(i) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprises cash and amounts due from other banks.

NOTE: 3 INTEREST INCOME

	2016 TZS '000'	2015 TZS '000'
Loans	2,721,239	2,535,988
Fixed Deposits	168,596	222,364
TOTAL	<u>2,889,835</u>	<u>2,758,352</u>

NOTE: 4 INTEREST EXPENSE

Savings Deposits	258,557	234,533
Fixed Deposits	275,752	267,410
Borrowings	143,424	80,231
TOTAL	<u>677,733</u>	<u>582,174</u>

NOTE: 5 OTHER INCOME

Saving Administration Income	16,487	17,431
Loan Administration Income	198,841	188,821
Loan Application Fee	16,402	15,533
Fines Income	197,702	146,141
Revenue Grant	383,805	468,714
Other Income	362,651	311,501
TOTAL	<u>1,175,888</u>	<u>1,148,141</u>

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NOTE: 6 STAFF COSTS

	2016	2015
	TZS '000'	TZS '000'
Salaries and Benefits	1,181,912	1,086,307
Social Security Contributions	132,540	120,337
Training and Seminars	169,512	85,022
TOTAL	<u>1,483,964</u>	<u>1,291,666</u>

NOTE: 7 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Audit Fees	13,030	9,000
Casual Labours	3,608	5,343
Rent	23,180	18,120
Board Expenses	44,673	37,392
Other Professional /Consultancy Fees	64,411	55,750
Deposit Insurance Fund	19,103	14,517
Motor Cycle/ Running Car Expenses	65,877	72,349
Stationery	50,342	68,975
Insurance	17,687	11,849
Maintenance Cost	115,596	155,789
Marketing and Advertisement	155,819	173,658
Postage, Telephone and Internet	103,168	85,834
Transport and Travelling	193,280	228,999
Bank Charges	14,398	10,911
Utilities	17,689	16,128
Security	91,628	68,728
Subscription	6,847	5,759
Other Expenses	221,034	250,494
TOTAL	<u>1,221,370</u>	<u>1,289,595</u>

MUCOBA BANK PUBLIC LIMITED COMPANY

NOTE: 8 TAXATION

(a)		2016	2015
		TZS '000'	TZS '000'
	Tax Charge for the Year	<u>114,444</u>	<u>(137,677)</u>
	TOTAL	<u>114,444</u>	<u>(137,677)</u>
(b)	Tax payable/recoverable is made up as follows;		
	Balance as at 1 st January	4,946	3,889
	Tax charge for the year	(114,444)	(137,677)
	Tax charge for prior years	0	(87,866)
	Tax paid for prior year	0	87,866
	Tax paid during the year	<u>92,740</u>	<u>138,734</u>
	Balance as at 31 st December	<u>(16,758)</u>	<u>4,946</u>

NOTE: 9 CASH BALANCES WITH OTHER BANKS

	31.12.2016	31.12.2015
	TZS '000'	TZS '000'
Fixed Deposits (FDR)	670,000	1,609,875
Saving Accounts	<u>701,658</u>	<u>1,307,765</u>
TOTAL	<u>1,371,658</u>	<u>2,917,640</u>

NOTE: 10(a) LOANS AND ADVANCES

Term Loan	11,177,568	10,216,991
Allowance for Probable Losses (10b)	(354,895)	(250,090)
Interest in Suspense	<u>(168,417)</u>	<u>(53,765)</u>
TOTAL	<u>10,654,256</u>	<u>9,913,136</u>

10(b) MOVEMENT OF PROVISION FOR IMPAIRMENT

As at 1 st January	250,090	351,844
Additional provision during the year	104,805	124,918
Loan write off during the year	0	(226,672)
As at 31 st December	<u>354,895</u>	<u>250,090</u>

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NOTE: 11 OTHER ASSETS

	31.12.2016 TZS '000'	31.12.2015 TZS '000'
Stationery Stocks	12,690	10,543
Prepayments	342,297	219,563
Staff Advances	107,483	333,244
Accrued Interest	2,873,138	1,872,068
Cash Shortage	160,628	154,358
Accounts Receivable	2,648,310	1,773,916
Allowance for Probable Losses	(2,662)	(40,662)
TOTAL	6,141,884	4,323,030

NOTE: 12 PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles TZS'000	Motor Cycles TZS'000	Office Equipment TZS'000	Furniture and Fittings TZS'000	Application Software TZS'000	Building WIP TZS'000	TOTAL TZS'000
Cost							
As at 1 st January, 2016	72,678	93,650	474,261	75,614	279,207	203,348	1,198,758
Additions	0	19,950	146,363	18,747	28,259	4,754	218,073
As at 31st December, 2016	72,678	113,600	620,624	94,361	307,466	208,102	1,416,831
Depreciation							
As at 1 st January, 2016	39,367	58,522	301,626	18,721	115,066	0	533,302
Charge for the year	18,169	25,282	95,698	7,141	50,080	0	196,371
As at 31st December, 2016	57,536	83,804	397,324	25,862	165,146	0	729,673
Net Book Amount							
As at 31 st December, 2016	15,141	29,796	223,300	68,499	142,320	208,102	687,158
As at 31 st December, 2015	33,311	35,128	172,635	56,893	164,141	203,348	665,456

NOTE: 13 SHARE CAPITAL

Authorized Shares:	No. of Shares	2016 TZS'000	2015 TZS'000
As at 1 st January 200,000,000 ordinary shares of TZS 250 each	<u>200,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>
As at 31 st December	<u>200,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>
Issued and Fully Paid up Shares:			
As at 1 st January			
3,312,152 ordinary shares of TZS 250 each	3,312,152	828,038	828,038
Ordinary shares issued during the year	4,844,818	1,211,205	0
As at 31 st December	<u>8,156,970</u>	<u>2,039,243</u>	<u>828,038</u>

MUCOBA BANK PUBLIC LIMITED COMPANY

NOTE: 14 PREFERENCE SHARES

The Bank signed a Memorandum of Understanding (MOU) with M/S Financial Sector Deepening Trust (FSDT) in 2015, whereby, the former issued preference shares worth TZS 622.5 million to FSDT in the same year, redeemable in three years from 2017. In line with BOT regulations, a portion of it qualifies for computation of Total Capital, including the ratio of Total Capital to Total Risk Weighted Assets of the bank.

NOTE: 15 CAPITAL GRANTS

The Bank has been working towards provision of financial services to the society on its own as well as with the support of various donors including government support projects. As at 31st December, 2016 the Bank was under support of two Government projects namely Marketing Infrastructure Value Addition and Rural Finance (MIVARF) and Financial Sector Deepening Trust (FSDT). Both had been engaged to support the Bank's mission on training, MIS upgrading and System Development, Product Development and Outreach and Staff Mobility.

The amounts involved as at 31st December, 2016 is as follows:-

DONOR	AMOUNT TZS
1 MIVARF	25,476,423
2 FSDT	<u>64,442,576</u>
TOTAL	<u>89,918,999</u>

NOTE: 16 REGULATORY RESERVE

A special non distributable reserve of TZS 480.7 million has been created with regard to provision for bad and doubtful debts computed according to IFRS, which is lower than corresponding amount computed in line with Banking and Financial Institution Act.

Section 26 (2) of Banking and Financial Institutions Regulations (Management of Risk Assets) directs that where provisions computed according to IFRS are less than those required by the regulations, a special non-distributable reserve shall be created through an appropriation of distributable reserves to eliminate the shortfall.

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NOTE: 17 GENERAL RESERVE

General reserve of TZS 96.2 million represents provision of 1% on unclassified loans disclosed in line with the Banking and Financial Institution Act.

NOTE: 18 DEPOSITS

Interest Bearing

	31.12.2016	31.12.2015
	TZS '000'	TZS '000'
Savings Deposits	11,060,168	10,766,171
Time Deposits	3,117,435	2,763,294
Special Deposits	134,758	134,758
TOTAL	<u>14,312,361</u>	<u>13,664,223</u>

NOTE: 19 OTHER LIABILITIES

	31.12.2016	31.12.2015
	TZS '000'	TZS '000'
Borrowing from Other Institutions	750,000	600,000
Accrued Expenses	345,307	227,555
Subordinated Debts	300,000	300,000
Accounts Payable	74,796	17,100
TOTAL	<u>1,470,103</u>	<u>1,144,655</u>

NOTE: 20 CORE CAPITAL COMPUTATIONS

(i) CORE CAPITAL

As per the requirement of BOT the bank shall commence operations with a core capital of not less than two billion shillings or such higher amount as the Bank may determine

	31.12.2016	31.12.2015
	TZS '000'	TZS '000'
Issued and Fully Paid up Capital	2,039,243	828,038
Retained Earnings	579,639	939,691
Capital Grants	89,819	199,151
Prepaid Expenses	(342,299)	(219,563)
Application Software	(142,319)	(164,141)
Preference Shares	0	622,500
TOTAL	<u>2,224,083</u>	<u>2,205,676</u>

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(ii) TOTAL CAPITAL

Core Capital	2,224,083	2,205,677
Preference Share - FSDT	622,500	0
Subordinated Debt	300,000	300,000
Loan Portfolio General Provisions	96,254	0
TOTAL	<u>3,242,837</u>	<u>2,505,677</u>

(iii) CAPITAL RATIOS

	Required Ratio	Bank's Ratio 2016	Bank's Ratio 2015
Total Risk Weighted Assets and off Balance Sheet Exposures		16,356,341	13,390,317
Tier 1 Capital	12.50%	13.60%	16.47%
Tier 2 Capital	14.50%	19.83%	18.71%

NOTE: 21 RELATED PARTIES TRANSACTIONS

Related party transactions for the year and the corresponding outstanding amounts at the year-end are as follows;

Related Party Transactions	31.12.2016 TZS 000	31.12.2015 TZS 000
Loans to:		
Management Board	15,625	43,625
Management personnel	9,533	0
Directors:		
Fees	5,000	5,000
Allowances	7,388	32,342
Key Management Personnel:		
Salaries	270,000	270,000
Other Benefits	<u>45,000</u>	<u>45,000</u>
TOTAL	<u>352,546</u>	<u>395,967</u>

MUCOBA BANK PUBLIC LIMITED COMPANY**NOTE: 22 OFF – SHORE BALANCE SHEET ITEMS**

There were no off – shore balance sheet items as at the reporting date.

NOTE: 23 CONTINGENT LIABILITIES

There were not contingent liabilities as at the year end.

NOTE: 24 CAPITAL COMMITMENT

There were no capital commitments neither approved but not contracted for, or contracted for but not provided for in these financial statements.

NOTE: 25 INCORPORATION

The Bank is incorporated as a limited liability company under Companies Act, 2002.