TANZANIA MORTGAGE REFINANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS

Name	Representing	Position	Age	Nationality
Mr. Ammish Owusu-Amoah	CEO, Bank of Africa	*Chairman*	55	Ghanaian
Dr. Charles S. Kimei	CEO,CRDB Bank	*Member*	64	Tanzanian
Mr. Edmund Mkwawa	CEO, DCB	*Member*	69	Tanzanian
Mr. Peter Noni	MD, TIB	*Member (Resigned May 2016)*	61	Tanzanian
Mr. Charles G. Singili	MD, TIB	*Member (Appointed May 2016)*	59	Tanzanian
Mr. Dana Botha	MD, BancABC	*Member*	57	South African
Mr. David Lusala	Alt to MD, Exim Bank	*Member*	39	Tanzanian
Mr. James Mugerwa	MD, Shelter Afrique	*Member*	52	Ugandan
Mr. Edward Marks	MD, NBC Bank	*Member*	49	British
Mrs. Ineke Bussemaker	CEO, NMB	*Member*	58	Dutch
Mr. Andulile Mwakalyelye	CEO, Azania Bank	*Member - (Resigned April 2016)*	59	Tanzanian
Mr. Geofrey Dimoso	Ag. CEO, Azania Bank	*Member - (Appointed April 2016)*	39	Tanzanian
Mr. Nehemiah Mchechu	MD, NHC	*Member*	44	Tanzanian
Mr. Oscar Mgaya	CEO, TMRC	*Member*	49	Tanzanian
Ms. Martha J.J. Maeda	Legal Counsel, TIB	*Company Secretary*	60	Tanzanian

CHIEF OFFICERS

Mr. Oscar Mgaya *(Chief Executive Officer)*
Mr. Oswald Urassa *(Chief Finance Officer)*

REGISTERED OFFICE

15th Floor
Golden Jubilee Towers (PSPF)
Ohio Street
P.O.Box 7539
Dar es Salaam
Tanzania

INDEPENDENT AUDITORS

RSM Eastern Africa
16th Floor, Golden Jubilee Towers,
Ohio Street,
P.O. Box 79586
Dar es salaam
Tanzania

PRINCIPAL BANKERS

Exim Bank (Tanzania) Limited
Exim Tower Ghana Avenue
P.O.Box 1431
Dar es Salaam
Tanzania

REPORT OF THE DIRECTORS

The directors present this report and the audited financial statements for the financial year ended 31 December 2016 which disclose the state of affairs of the company.

INCORPORATION

The company was incorporated on 29 January 2010 under the Tanzanian Companies Act, 2002 and began its lending operations in November 2011.

COMPANY'S VISION

To become the preferred secondary market intermediary for mortgage financing in Tanzania.

COMPANY'S MISSION

TMRC's mission is to expand home ownership in Tanzania by providing long term financing to primary mortgage lenders.

PRINCIPAL ACTIVITIES

The principal activity of the company is to provide long term source of funds to banks for the purpose of mortgage lending.

DIRECTORS

The directors who held office during the year and at the date of this report are shown on page 1.

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

CORPORATE GOVERNANCE

The Board of TMRC consists of 12 Directors. Apart from the Chief Executive Officer, no other directors hold executive positions in the company. The Board takes overall responsibility for the company, including responsibility for identifying key risk areas, considering and monitoring significant investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance 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 business to the Chief Executive Officer assisted by senior management. Senior management is invited to attend board meetings and facilitates the effective control of all the company's operational activities, acting as a medium of communication and coordination between all the various business units.

The company is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability. During the year, the Board of TMRC had the following Board sub-committees to ensure a high standard of corporate governance throughout the company.

Board Audit and Risk Committee

Name	Detail	Position	Nationality
Dr. Charles S. Kimei	CEO, CRDB Bank	Chairman (Appointed May 2016)	Tanzanian
Mr. Peter Noni	MD TIB	Chairman (Resigned May 2016)	Tanzanian
Mr. Charles G. Singili	MD, TIB	Member	Tanzanian
Mr. Geofrey Dimoso	Ag. CEO, Azania Bank	Member	Tanzanian
Mr. David Lusala	Head of Risk, EXIM Bank	Member	Tanzanian
Mr. James B. Mugerwa	CEO, Shelter Afrique	Member	Ugandan

The Board Audit and Risk Committee reports to the Board of Directors.

The Board Audit and Risk Committee met five times during the year.

REPORT OF THE DIRECTORS (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Credit Committee

Name	Detail		Nationality
Mr. Dana Botha	MD, BancABC	Chairman	South African
Mr. Nehemiah Mchechu	DG, NHC	Member	Tanzanian
Ms. Ineke Bussemaker	MD, NMB Bank	Member	Dutch
Mr. Edward Marks	MD, NBC Bank	Member	British
Mr. Edmund Mkwawa	MD, DCB	Member	Tanzanian

The Board Credit Committee reports to the Board of Directors. The Board Credit Committee met four times during the year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the company. It is the task of management 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 company'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 company 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 carries risk and internal control assessment through the Board Audit and Risk Committee.

SHARE CAPITAL STRUCTURE

During the year, additional capital was received from National Housing Corporation in return for 100,000 shares at TZS 1,000 per share. As a result, total paid up capital increased from TZS 17,136,000,000 to TZS 17,236,000,000.

The company also received advance towards share capital of TZS 1 billion from M Mortgage Finance Company Limited towards the purchase of 616,523 shares.

The distribution of share capital is shown on Note 15 of the financial statements.

MANAGEMENT

The Management of the company is under the Chief Executive Officer and is organized in the following departments:

- Internal Audit Department
- Risk and Compliance Department
- Operations and Information Technology Department
- Finance and Treasury Department
- Legal & HR Department

STOCK EXCHANGE INFORMATION

The company is not listed on the stock exchange.

REPORT OF THE DIRECTORS (CONTINUED)

RESULTS FOR THE YEAR	2016 TZS '000	2015 TZS '000
Profit before tax	938,118	845,283
Tax charge	(282,850)	(297,747)
Profit for the year	**655,268**	**547,536**

DIVIDEND

The directors recommend the declaration of a dividend for the year 2016 of TZS 15 per share amounting to TZS 262,155,894 (2015: Nil).

FUTURE DEVELOPMENT PLANS

Since commencing its operations in 2011, TMRC has been supporting its member banks by providing mortgage refinance and prefinance to the tune of TZS 59.60 billion by the end of year 2016 (2015: TZS 43.90 billion. Currently, TMRC has 13 borrowing member banks and 2 non borrowing members and envisage that number will continue to grow. TMRC is also in discussions with several other borrowing and non-borrowing potential investors to invest in the company. The presence of TMRC has brought confidence to the market where now mortgage loan tenors range from 15 – 20 years instead of 5 – 10 years just five years ago. TMRC support has made mortgage loans a viable product and has attracted 22 banks to this product compared to only 3 banks in 2010. The increase in number of mortgage lenders is creating competition which will continue to have a positive impact on mortgage

The pace at which mortgage lending in the market is growing is very impressive at 76% for both 2015 and 2016. TMRC plans to continue supporting its member banks by providing them with long term liquidity for mortgage lending. TMRC will continue to utilize funds borrowed from the World Bank to on-lend to its member banks. TMRC also plans to continue to attract new members to broaden the availability and accessibility of mortgage lenders. Plans for a TMRC corporate bond issuance are also in store in the future once the prevailing market interest rates are conducive to such endeavour. TMRC is expected to play a role in enhancing mortgage business among banks in Tanzania through the World Bank initiative of mortgage literacy programme as well as capacity building for the banks. To play its role as mortgage liquidity facility, TMRC expects to mobilise funds through the issuance of corporate bond when market conditions for the issue allows.

SOLVENCY

The Board of directors confirm 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 Tanzania Mortgage Refinance Company Limited has adequate resources to continue in operational existence for the foreseeable future.

EMPLOYEES' WELFARE

Management and Employees' Relationship

There were continued good relation between employees and management during the year ended 31 December 2016. There were no unresolved complaints received by Management from the employees during the year.

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

The company's employment terms are reviewed annually to ensure that they meet statutory and market conditions.

REPORT OF THE DIRECTORS (CONTINUED)

EMPLOYEES' WELFARE (CONTINEUD)

Training Facilities

When presenting its annual budget for the year 2016, the company kept aside a sum of TZS 179 million (2015: TZS 137 million) for staff training in order to improve employee's technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels and all employees have some form of annual training to upgrade skills and enhance development.

Medical Assistance

All members of staff with a maximum number of four beneficiaries (dependants) each were provided medical insurance approved by the Board. Currently these services are provided by The Jubilee Insurance Company of Tanzania Limited.

Health and Safety

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

Financial Assistance to Staff

Loans are available to all confirmed employees depending on the assessment of and the discretion of management as to the need and circumstances.

Persons with Disabilities

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

Employees Benefit Plan

The company pays contributions to a publicly administered pension plan on mandatory basis which qualifies to be a defined contribution plan.

The average number of employees during the year was 13 (2015: 13).

GENDER PARITY

The company had 13 employees, out of which 5 were female and 8 were male (2015: 5 female and 8 male).

RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 18 of these financial statements.

INDEPENDENT AUDITOR

The company's auditor, RSM Eastern Africa, has expressed its willingness to continue in office in accordance with the Tanzania Companies Act, 2002.

BY ORDER OF THE BOARD

Mr. Ammish Owusu-Amoah
Chairman

01st March 2017
Date

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required in terms of the Tanzanian Companies Act, 2002 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002, and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 December 2016 and, in the light of this review and the current financial position, they are satisfied that the company has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on pages 11 to 39, which have been prepared on the going concern basis, were authorised and approved by the Board on ...01st March... 2017 and signed on its behalf by:

Mr. Ammish Owusu-Amoah
Chairman

Dr. Charles Kimei
Director

DECLARATION OF TMRC CHIEF FINANCE OFFICER

The National Board of Accountants and Auditors (NBAA) in accordance with the powers conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995 of the laws of Tanzania, requires financial statements to be accompanied with the declaration by the Chief Finance Officer responsible for the preparation of the financial statements of the entity concerned.

It is the duty of Chief Finance Officer to assist the Board of Directors to discharge the responsibility of preparing TMRC financial statements showing true and fair view of TMRC financial position and performance in accordance with the International Financial Reporting Standards and the Tanzanian Companies Act, 2002. Full responsibility for the preparation of financial statements rests with TMRC Board of Directors as under Directors Responsibilities stated on page 6.

I, Oswald Martin Urassa, being the Chief Finance Officer of TMRC hereby acknowledge my responsibility of ensuring that TMRC financial statements for the year ended 31 December 2016 have been prepared in compliance with the International Financial Reporting Standards and the Tanzanian Companies Act, 2002. I thus confirm that TMRC financial statements give a true and fair view position as on that date and that they have been prepared based on properly maintained financial records.

Signed by: Oswald Martin Urassa

Position: Chief Finance Officer

NBAA Membership number: FCPA 936

Date: 30 January 2017

Opinion

We have audited the accompanying financial statements of Tanzania Mortgage Refinance Company set out on pages 11 to 39, which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and comprehensive income, of changes in equity and cash flows for the year then ended, significant accounting policies and notes.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Tanzanian Companies Act, 2002.

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 company 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 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.

Interest income recognition

We identified the inherent risk relating to the accuracy and completeness of revenue recorded as a significant risk.

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others:

- Testing of controls over, and performing substantive analytical procedures on, income recorded from mortgage refinance and prefinance loans, investment securities and government securities; and
- Confirming, on a sample basis, that the interest rate and computation is in line with the terms agreed.

Compliance *with the Banking and Financial Institutions (Tanzania Mortgage Refinance Company) Regulations,*

The company is required by its regulator, Bank of Tanzania, to comply with the requirements of the Banking and Financial Institutions Regulations. We determined that there was a significant risk that non-compliance with these regulations could have a material effect on the financial statements. Our audit procedures to address the risk included a detailed assessment through enquiry and review to identify any non-compliance with the Regulations. These procedures did not identify any instances of non-compliance that could have a material effect on the financial statements.

Other information

The directors are responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act, 2002, 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 company'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 company or to cease operations, or have no realistic alternative but to do so.

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 judgement 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 company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's 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 company'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 the auditor's report. However, future events or conditions may cause the company 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 those charged with governance 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.

From the matters communicated with those charged with governance, 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 consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with the Tanzanian Companies Act, 2002 and for no other purpose.

As required by the Tanzanian Companies Act, 2002 we report to you, based on our audit, that in our opinion:

i) 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;
ii) the report of the directors is consistent with the financial statements;
iii) proper accounting records have been kept by the company, so far as appears from our examination of those records;
iv) the company's statement of financial position and comprehensive income are in agreement with the accounting records; and
v) information specified by law regarding directors remuneration and transactions is appropriately disclosed.

Nihla Mazrui
For and on behalf of RSM Eastern Africa

RSM

1 March **2017**
Dar es Salaam

Ref: 005/2017

STATEMENT OF PROFT OR LOSS AND COMPREHENSIVE INCOME

	Notes	2016 TZS '000	2015 TZS '000
Interest income	1	8,374,870	6,700,042
Interest expense	2	(5,038,781)	(3,858,001)
Net interest income		**3,336,089**	**2,842,041**
Other income	3	622,042	334,139
Total income		3,958,131	3,176,180
Operating expenses	4	(3,020,013)	(2,330,897)
Profit before tax		**938,118**	**845,283**
Tax charge	5	(282,850)	(297,747)
Profit and comprehensive income for the year		**655,268**	**547,536**
Other comprehensive income			
Change in fair value of available-for-sale financial assets		8,371	(46,398)
Total comprehensive income for the year attributable to the owners of the company		**663,639**	**501,138**
Dividends:			
- Final dividends		**262,156**	-

The significant accounting policies on pages 15 to 22 and notes on pages 23 to 39 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	2016 TZS '000	2015 TZS '000
Cash and bank balances	6	182,593	512,071
Government securities	7(a)	16,814,479	16,209,920
Investment securities	7(b)	1,577,519	491,844
Mortgage refinance and pre-finance loans	8	60,367,560	44,318,764
Equipment	9	343,428	500,737
Intangible assets	10	724,259	1,178,847
Other receivables	11	682,722	267,349
Current tax recoverable		-	2,449
Total assets		**80,692,560**	**63,481,981**
LIABILITIES			
Deferred tax	12	86,781	102,809
Loans and borrowings	13	60,261,104	44,261,947
Trade and other payables	14	216,770	253,795
Capital grant	19	789,494	1,314,432
Current tax payable		25,774	-
Total liabilities		**61,379,923**	**45,932,983**
SHAREHOLDERS' EQUITY			
Share capital	15	17,236,000	17,136,000
Advance towards share capital	15	1,000,000	-
Fair value loss		(38,027)	(46,398)
Proposed dividends		262,156	-
Specific reserve	20	240,561	109,507
Retained earnings		611,947	349,889
Total equity		**19,312,637**	**17,548,998**
Total equity and liabilities		**80,692,560**	**63,481,981**

The financial statements on pages 11 to 39 were authorised and approved for issue by the Board of Directors on 01st March 2017 and were signed on its behalf by:

Mr. Ammish Owusu-Amoah
Chairman

Dr. Charles Kimei
Director

The significant accounting policies on pages 15 to 22 and notes on pages 23 to 39 form an integral part of these financial statements.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Impairment of non-financial assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each statement of financial position date.

k) Financial instruments

Financial assets

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Management determines all classifications of financial assets at initial recognition.

The company's financial assets which include mortgage refinance loans, government securities, investment securities and other receivables fall into the following categories:

- **Loans and receivables:** Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are classified as current assets where maturities are within 12 months of the statement of financial position date. All assets with maturities greater than 12 months after the statement of financial position date are classified as non-current assets. Such assets are carried at amortized cost using the effective interest rate method. Changes in the carrying amount are recognized in the statement of profit or loss and comprehensive income.
- **Held-to-maturity**: financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Such assets are carried at amortized cost using the effective interest rate method. Changes in the carrying amount are recognised in the statement of profit or loss and comprehensive income.
- **Available-for-sale financial assets,** which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of profit or loss and comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Impairment of financial assets is recognised in the income statement under administrative expenses when there is objective evidence that the company will not be able to collect all amounts due per the original terms of the contract. Significant financial difficulties of the issuer, probability that the issuer will enter bankruptcy or financial reorganisation, default in payments and a prolonged decline in fair value of the asset are considered indicators that the asset is impaired.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Financial instruments (continued)

Financial assets (continued)

Subsequent recoveries of amounts previously written off/impaired are credited to the statement of profit or loss and comprehensive income/statement of changes in equity in the year in which they occur.

Gains and losses on disposal of assets whose changes in fair value were initially recognised in the income statement are determined by reference to their carrying amount and are taken into account in determining operating profit/(loss). On disposal of assets whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

Changes in fair value for available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss), which are recognised in the statement of comprehensive income. In the year of sale, the cumulative gain or loss recognised in other comprehensive income is recognised in the statement of profit or loss and comprehensive income as a reclassification adjustment.

Management classifies financial assets as follows:

Government securities are classified as held to maturity as the company has the intention and ability to hold these to maturity. These are carried at amortised cost.

investment securities, other receivables and mortgage refinance loans are classified as loans and receivables and are carried at amortised cost.

Financial liabilities

The company's financial liabilities which include loans and borrowings and trade and other payables fall into the following category:

- **Financial liabilities measured at amortized cost:** These include trade and other payables, and loans and borrowings. These are initially measured at fair value and subsequently measured at amortized cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the statement of profit or loss and comprehensive income under finance costs using the effective interest rate method.

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the statement of profit or loss and comprehensive income under finance

Fees associated with the acquisition of borrowing facilities are recognised as transaction costs of the borrowing to the extent that it is probable that some or all of the facilities will be acquired. In this case the fees are deferred until the drawn down occurs. If it is not probable that some or all of the facilities will be acquired the fees are accounted for as prepayments under trade and other receivables and amortized over the period of the facility.

All financial liabilities are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Financial liabilities are derecognized when, and only when, the company's obligations are discharged, cancelled or expired.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Financial instruments (continued)

Offsetting financial instruments

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

l) Current and deferred income tax

The tax expense for the year comprises of current and deferred tax. Tax is recognized in statement of profit or loss and comprehensive income, except that it relates to items recognised in equity. In this case, the tax is also recognised in equity.

Current tax

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax is provided using the liability method for all temporary timing differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary timing differences can be utilized.

m) Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of profit or loss and comprehensive income on a straight-line basis over the period of the lease.

n) Retirement benefit obligations

The company and its employees contribute to the PPF Pension Fund (PPF), GEPF Retirement Benefit Fund (GEPF) and National Social Security Fund (NSSF), statutory defined contribution schemes registered under the Social Security Regulatory Authority Act (SSRA) of 2008. The company's contributions to this defined contribution scheme are charged to the statement of profit or loss and comprehensive income in the year to which they relate.

o) Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

p) Employee entitlements

Employee entitlements to gratuity and long term service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

The estimated monetary liability for employees' accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Donor and Government funds

Funds from the World Bank and Government Funds are reported as Government Grants and recognized when there is reasonable assurance that the company will comply with the conditions attached to them and the grants will be received in order to comply with the disclosure requirements of International Accounting Standard (IAS) 20.

(i) Operating grant

Operating grants are recognised in the statement of profit or loss and comprehensive income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

(ii) Capital grants

Government grants related to assets, including non-monetary grants (such as land or other resources) are recorded at fair value. The grant is recognized in the statement of profit or loss and comprehensive income over the useful life of a depreciable asset.

r) Specific reserve

This relates to a specific reserve to cover the company from various risks and unforeseen losses by transferring 20% of the company's annual profit after tax.

s) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting.

t) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS

	2016 TZS '000	2015 TZS '000
1. Interest income		
Interest income on mortgage refinance loans (Note 18 {iii})	5,778,638	4,420,360
Interest income on government securities (Note 7)	2,497,681	2,177,470
Interest income on investment securities (Note 18 {iii})	79,068	88,656
Interest income on staff loans	19,483	13,556
	8,374,870	**6,700,042**
2. Interest expense		
Interest expense on loan from Bank of Tanzania	**5,038,781**	**3,858,001**
3. Other income		
Loan facilitation fees	1,616	-
Gain from assets disposal	5,050	-
Capital grants amortization (Note 19)	524,938	288,916
Revenue grants amortization	90,438	45,223
	622,042	**334,139**
4. (a) Operating expenses		
Staff costs (Note 4(b))	1,594,307	1,320,013
Travel expenses	59,256	43,510
Legal costs	35,674	34,200
Audit fees	26,853	20,957
Bank charges and commissions	2,527	3,508
Brokerage commission	963	976
Foreign exchange loss	4,805	2,345
Depreciation on equipment (Note 9)	166,405	179,690
Amortisation of intangible assets (Note 10)	455,670	192,851
Office rent	267,877	238,764
Telephone and fax	30,844	28,430
Insurance	28,242	15,623
Marketing and communication	20,544	17,941
Consultancy fees	54,084	51,675
IT license fees	151,710	33,914
Membership fees	25,828	15,287
Other operating expenses	94,423	131,212
	3,020,013	**2,330,897**
(b) Staff costs		
Salaries and wages	1,172,821	941,166
Social Security Costs (defined contributions)	100,563	81,840
Provision for gratuity	119,435	81,820
Skills and Development Levy	66,265	54,640
Workers Compensation Contributions	13,716	5,534
Leave expense	49,911	78,411
Training expenses	30,933	42,190
Medical expenses	40,663	34,412
	1,594,307	**1,320,013**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Tax

	2016 TZS '000	2015 TZS '000
Current tax		
- Current year	298,394	173,609
- Prior period	484	-
Deferred tax charge (Note 12)	(16,028)	124,138
	282,850	**297,747**

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

	2016 TZS '000	2015 TZS '000
Profit before tax	938,118	845,283
Tax calculated at a tax rate of 30% (2015: 30%)	281,435	253,586
Tax effect of:		
- Restriction on motor vehicle purchase	-	64,970
- Permanently disallowed expenditure	931	447
Underprovision of deferred tax in prior years	-	(21,256)
Underprovision of current tax in prior years	484	-
Tax charge/(credit)	**282,850**	**297,747**

The normal procedure for agreeing final income tax liability in Tanzania involves the company filing its final income tax returns with the Tanzania Revenue Authority (TRA) followed by TRA performing their own review of the company's submissions and issuing their notice of income tax assessments to the company. The final income tax liability as determined by TRA after their review may differ from the liability determined by the company and procedures are in place for the company to object and appeal against such assessments. It is common that a timeframe from the company's own submission of its final tax returns and for TRA performing their review and issuing of notice of final tax assessment may take several months or years.

6. Cash and bank balances

	2016 TZS '000	2015 TZS '000
Cash in hand	353	989
Cash at bank	182,240	511,082
	182,593	**512,071**

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise the following;

	2016 TZS '000	2015 TZS '000
Cash and bank balances	182,593	512,071
Financial assets with maturity of less than 91 days (Note 7)	1,230,000	107,950
	1,412,593	**620,021**

The company is minimally exposed to credit risk on cash and bank balances as these are held with sound financial institutions.

The carrying amounts of the company's cash and cash equivalents are denominated in Tanzania Shillings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Held to maturity investments

a) Government securities

	2016 TZS '000	2015 TZS '000
Maturing within a year	421,389	4,102,532
Maturing within 2-3 years	2,369,830	2,096,701
Maturing within 3-5 years	8,424,507	4,269,021
Maturing within 5-10 years	2,616,260	5,578,460
Maturing after 10 years	2,982,493	163,206
	16,814,479	**16,209,920**

Investment in Government securities is made up of Treasury bonds existing as at year end and accrued interest as at 31 December 2016 computed using effective interest rate. These investments are denominated in Tanzanian Shillings and attracted a weighted average on yield interest rate of 14.9% per annum (2015: 13.4%) during the year.

Movement in government securities during the year	2016 TZS '000	2015 TZS '000
Government securities		
At start of year	16,209,920	12,879,318
Additions	511,254	3,743,270
Interest earned (Note 1)	2,497,681	2,177,470
Interest received	(2,404,376)	(2,590,138)
At end of year	**16,814,479**	**16,209,920**

b) Investment securities

Deposits with financial institutions (at cost)	1,539,311	465,921
Accrued interest	38,208	25,923
	1,577,519	**491,844**

Investment securities are made up of investments in fixed deposits made with banks during the year. Accrued interest comprises of interest earned but not received as at the year end. The fixed deposit investments denominated in Tanzania Shillings attracted a weighted average interest rate of 14.88% per annum (2015: 13.50%) and United States Dollar (USD) denominated attracted a weighted average interest rate of 3.50% per annum (2015: 3.50%) during the year.

Movement in investment securities during the year	2016 TZS '000	2015 TZS '000
At start of year	491,844	633,625
Additions	5,789,114	2,796,448
Redemptions	(4,703,439)	(2,938,229)
At end of year (Note 18 {ii})	**1,577,519**	**491,844**

As at year end the investment securities are denominated in the following currencies:

Tanzania Shilling	1,466,360	275,189
US Dollar	111,159	216,655
	1,577,519	**491,844**

There were no gains or losses arising from the disposal financial assets during the year ended 31 December 2016 as all these were disposed off at their redemption dates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Held to maturity investments (continued)

In the opinion of the directors, the carrying amounts of held-to-maturity investments approximate to their fair value.

Held-to-maturity investments can be analysed as follows:	2016 TZS '000	2015 TZS '000
Maturity within 91 days	1,230,000	107,950
Maturity after 91 days	17,161,998	16,593,814
Total	**18,391,998**	**16,701,764**

None of the financial assets is either past due or impaired.

Movement in held-to-maturity investments with maturities after 91 days

At the start of the year	16,593,814	13,182,256
Net of additions and redemptions during the year	568,184	3,411,558
At the end of the year	**17,161,998**	**16,593,814**

Credit risk primarily arises from changes in the market value and financial stability of respective banks. The directors are of the opinion that the company's exposure is limited because the debt is held with sound financial institutions and it is widely held.

Management monitors the credit quality of financial assets by:

- discussions at management and Board meetings;
- reference to external historical information available; and
- discussions with the company`s investment advisors.

The maximum exposure to credit risk as at the reporting date is the carrying value of the financial assets as disclosed above.

BOT TMRC Regulation 16(1) requires TMRC to not invest more than 40% of its financial resources in Treasury bonds and fixed deposits. As at year end, the total investment in treasury bonds and fixed deposits was 22% (2015: 22%).

8. Mortgage refinance and pre-finance loans

Tanzania Mortgage Refinance Company Limited (TMRC) offers two products, namely refinance and pre-finance loans to banks which are Primary Mortgage Lenders (PML).

i) Refinancing loans are secured against first ranked fixed charge debentures and a first ranked floating charge specific debenture in favour of TMRC over specified bank`s mortgage loan portfolios to cover for no less than 125% of value of the refinance loans.

ii) Pre-financing loans are secured on a portfolio of Treasury Bonds with coverage ratio of 105.3% and minimum remaining tenor longer than the maturity of the respective Treasury Bonds years from disbursement date. PML are required to effect legal transfer of the Treasury Bonds pledged to TMRC as collateral to TMRC CDS account. The transfer must be effected prior to disbursement of funds. PML must maintain an on-going coverage ratio of 105.3%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Mortgage refinance and pre-finance loans (continued)

The company has issued mortgage refinance and pre-finance loans to the following banks during the year:

	2016 TZS '000	2015 TZS '000
Azania Bank Limited - refinance	6,700,000	6,700,000
Azania Bank Limited - pre-finance	5,300,000	5,300,000
Bank of Africa (Tanzania) Limited - refinance	2,750,000	2,750,000
Bank of Africa (Tanzania) Limited - pre-finance	8,000,000	3,000,000
Exim Bank (Tanzania) Limited - pre-finance	3,000,000	3,000,000
DCB Commercial Bank Plc - pre-finance	2,000,000	-
DCB Commercial Bank Plc - refinance	1,500,000	1,500,000
BancABC Limited - refinance	1,400,000	1,400,000
CRDB Bank Plc - pre-finance	17,000,000	17,000,000
I&M Bank (T) Limited - pre-finance	3,250,000	3,250,000
NBC Bank (T) Limited -refinance	2,000,000	-
NMB Bank Plc - refinance	1,700,000	-
Barclays Bank (T) Limited refinance	5,000,000	-
Accrued interest	767,560	418,764
Total	**60,367,560**	**44,318,764**

The mortgage refinance loans in 2016 were made up of the following:

Name of Bank	Year disbursed	Principal Amount TZS '000	Maturity period from date of	Interest rate % p.a
Azania Bank Limited	2016	2,500,000	5 years	11.5
Azania Bank Limited	2015	1,700,000	3 years	11.5
Azania Bank Limited	2016	2,500,000	3 years	11.73
BancABC Limited	2014	1,400,000	3 years	11.5
DCB Commercial Bank Plc	2015	1,500,000	1.5 years	11.5
Bank of Africa (Tanzania) Limited	2016	2,750,000	3 years	11.73
NMB Bank Plc	2016	1,700,000	4 years	11.5
Barclays Bank (T) Limited	2016	5,000,000	5 years	12.5
Total accrued interest	2016	265,482		
Sub total		**19,315,482**		

The mortgage refinance loans in 2015 were made up of the following:

Name of Bank	Year disbursed	Principal Amount TZS '000	Maturity period from date of disbursement	Interest rate % p.a
Azania Bank Limited	2011	2,500,000	5 years	8.84
Azania Bank Limited	2015	1,700,000	3 years	11.5
BancABC Limited	2014	1,400,000	3 years	11.5
DCB Commercial Bank Plc	2015	1,500,000	1.5 years	11.5
Total accrued interest		113,659		
Sub total		**7,213,659**		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Mortgage refinance and pre-finance loans (continued)

The mortgage pre-finance loans in 2016 were made up of the following:

Name of Bank	Year disbursed	Principal Amount TZS '000	Maturity period from date of	Interest rate % p.a
Azania Bank Limited	2016	2,500,000	3 years	11.73
Azania Bank Limited	2015	2,800,000	3 years	11.50
Bank of Africa (Tanzania) Limited	2016	5,000,000	3 years	11.67
Exim Bank (Tanzania) Limited	2013	3,000,000	3 years	11.51
CRDB Bank Plc	2014	5,000,000	3 years	11.5
CRDB Bank Plc	2014	5,000,000	3 years	11.5
CRDB Bank Plc	2015	7,000,000	3 years	11.5
Bank of Africa (Tanzania) Limited	2014	3,000,000	2.5 years	11.5
I&M Bank (T) Limited	2014	3,250,000	3 years	11.5
DCB Commercial Bank Plc	2016	2,000,000	3 years	11.5
NBC Bank (T) Ltd	2016	2,000,000	3 years	14.57
Total accrued interest		502,078		
Sub total		**41,052,078**		

The mortgage pre-finance loans in 2015 were made up of the following:

Name of Bank	Year disbursed	Principal Amount TZS '000	Maturity period from date of disbursement	Interest rate % p.a
Azania Bank Limited	2013	2,500,000	3 years	11.55
Azania Bank Limited	2013	2,500,000	3 years	11.5
Azania Bank Limited	2015	2,800,000	3 years	11.50
Bank of Africa (Tanzania) Limited	2013	2,750,000	3 years	11.50
Exim Bank (Tanzania) Limited	2013	3,000,000	3 years	11.51
CRDB Bank Plc	2014	5,000,000	3 years	11.5
CRDB Bank Plc	2014	5,000,000	3 years	11.5
CRDB Bank Plc	2015	7,000,000	3 years	11.5
Bank of Africa (Tanzania) Limited	2014	3,000,000	2.5 years	11.5
I&M Bank (T) Limited	2014	3,250,000	3 years	11.5
Total accrued interest		305,106		
Sub total		**37,105,106**		

The interest is receivable quarterly effective from the date of disbursement of the loan.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Equipment	Leasehold improvements TZS '000	Computers & equipment TZS '000	Office equipment TZS '000	Office furniture TZS '000	Motor vehicle TZS '000	Total TZS '000
Year ended 31 December 2016						
Opening carrying amount	124,139	55,439	97,521	21,017	202,621	500,737
Additions	-	2,663	2,636	3,797	-	9,096
Depreciation charge	(17,952)	(35,132)	(42,993)	(12,436)	(57,892)	(166,405)
Closing carrying amount	106,187	22,970	57,164	12,378	144,729	343,428
At 31 December 2016						
Cost or valuation	179,517	209,203	217,148	64,015	231,567	901,450
Accumulated depreciation	(73,330)	(186,233)	(159,984)	(51,637)	(86,838)	(558,022)
Net carrying amount	**106,187**	**22,970**	**57,164**	**12,378**	**144,729**	**343,428**
At 1 January 2015						
Cost	179,517	167,830	210,459	60,217	91,579	709,602
Accumulated depreciation	(37,426)	(91,050)	(74,494)	(27,157)	(73,378)	(303,505)
Net carrying amount	142,091	76,780	135,965	33,060	18,201	406,097
Year ended 31 December 2015						
Opening carrying amount	142,091	76,780	135,965	33,060	18,201	406,097
Additions	-	38,710	4,053	-	231,567	274,330
Depreciation charge	(17,952)	(60,051)	(42,497)	(12,043)	(47,147)	(179,690)
Closing carrying amount	124,139	55,439	97,521	21,017	202,621	500,737
At 31 December 2015						
Cost or valuation	179,517	206,540	214,512	60,218	323,146	983,933
Accumulated depreciation	(55,378)	(151,101)	(116,991)	(39,201)	(120,525)	(483,196)
Net carrying amount	**124,139**	**55,439**	**97,521**	**21,017**	**202,621**	**500,737**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016	2015
10. Intangible assets	**TZS '000**	**TZS '000**
Cost		
At start of year	1,444,454	142,680
Additions	1,082	-
Capital grant (Note 19)	-	1,301,774
At end of year	**1,445,536**	**1,444,454**
Amortisation		
At start of year	265,607	72,756
Charge for the year	455,670	192,851
At end of year	**721,277**	**265,607**
Net book value	**724,259**	**1,178,847**

The capital grant relates to an accounting software (ACCPAC), Mortgage Refinance Information System (MRIS) and other intangible assets which were received from the World Bank through the Bank of Tanzania.

In the opinion of directors there is no impairment in the remaining value of intangible assets.

	2016	2015
11. Other receivables	**TZS '000**	**TZS '000**
Prepaid expenses	157,736	141,984
Staff receivables	524,986	125,365
	682,722	**267,349**

In the opinion of the directors, the carrying amounts of other receivables approximate to their fair value.

12. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2015: 30%). The movement on the deferred tax account is as follows:

	2016	2015
	TZS '000	**TZS '000**
At start of year	102,809	(21,329)
Charge to statement of comprehensive income (Note 5)	(16,028)	124,138
At end of year	**86,781**	**102,809**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Deferred tax (continued)

Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the statement of profit or loss and comprehensive income are attributable to the following items:

	At start of the year TZS '000	Charge/ (credit) to profit or loss TZS '000	At end of the year TZS '000
Year end 31 December 2016			
Deferred income tax liability			
Excess capital allowance over depreciation	126,646	(24,774)	101,872
Deferred income tax asset			
Provision for staff leave and gratuity	(23,837)	8,746	(15,091)
	(23,837)	8,746	(15,091)
Net deferred tax liability	**102,809**	**(16,028)**	**86,781**
Year end 31 December 2015			
Deferred income tax liability			
Excess capital allowance over depreciation	6,815	119,831	126,646
Deferred income tax asset			
Provision for staff leave and gratuity	-	(23,837)	(23,837)
Tax losses carried forward	(28,144)	28,144	-
	(28,144)	4,307	(23,837)
Net deferred tax (asset)/liability	**(21,329)**	**124,138**	**102,809**

13. Loans and borrowings

The loans and borrowings are made up as follows:	2016 TZS '000	2015 TZS '000
Current		
Loan from Bank of Tanzania	15,700,000	13,250,000
Accrued interest	402,092	167,093
	16,102,092	13,417,093
Non- current		
Loan from Bank of Tanzania	43,900,000	30,650,000
Accrued interest	259,012	194,854
	44,159,012	30,844,854
Grand total	**60,261,104**	**44,261,947**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Loans and borrowings (continued)

The exposure of the company's borrowings to interest rate changes and the contractual repricing dates at the statement of financial position date are as mentioned below.

The Bank of Tanzania loans comprise the following:

2016:

Date received	Principal amount TZS '000	Interest to maturity TZS '000	Total TZS '000	Maturity	Remaining years to mature	Interest rate % p.a
31 March 2014	5,000,000	2,620	5,002,620	3 years	3 months	10.00%
15 July 2014	1,400,000	30,734	1,430,734	3 years	7 months	10.00%
14 August 2014	3,250,000	44,906	3,294,906	3 years	8 months	10.00%
8 September 2014	3,000,000	20,226	3,020,226	2.5 years	2 months	10.00%
26 September 2014	5,000,000	11,969	5,011,969	3 years	9 months	10.00%
28 February 2015	1,500,000	13,812	1,513,812	2 years	2 months	10.00%
1 May 2015	1,700,000	34,543	1,734,543	5 years	40 months	10.00%
4 June 2015	7,000,000	59,780	7,059,780	3 years	17 months	10.00%
8 October 2015	2,800,000	70,339	2,870,339	3 years	22 months	10.00%
17 March 2016	2,000,000	17,340	2,017,340	3 years	27 months	13.07%
27 June 2016	2,500,000	9,897	2,509,897	3 years	30 months	10.23%
27 June 2016	2,750,000	13,700	2,763,700	4 years	42 months	10.23%
5 July 2016	5,000,000	135,734	5,135,734	3 years	31 months	10.17%
15 July 2016	2,000,000	49,008	2,049,008	3 years	31 months	10.23%
30 July 2016	2,500,000	42,674	2,542,674	6 months	1 month	10.00%
28 August 2016	3,000,000	33,907	3,033,907	1 years	5 months	10.01%
2 November 2016	1,700,000	36,304	1,736,304	5 years	59 months	10.00%
2 November 2016	5,000,000	101,775	5,101,775	4 years	47 months	10.00%
14 November 2016	2,500,000	45,168	2,545,168	5 years	59 months	10.00%
	59,600,000	**774,437**	**60,374,437**			

2015:

Date received	Principal amount TZS '000	Interest to maturity TZS '000	Total TZS '000	Maturity	Remaining years to mature	Interest rate % p.a
15 November 2011	2,500,000	211,801	2,711,801	5 years	11 months	8.09
28 June 2013	2,500,000	127,778	2,627,778	3 years	6 months	10.00
28 June 2013	2,750,000	140,556	2,890,556	3 years	6 months	10.00
31 July 2013	2,500,000	189,833	2,689,833	3 years	7 months	10.05
30 August 2013	3,000,000	227,728	3,227,728	3 years	8 months	10.01
31 March 2014	5,000,000	626,389	5,626,389	3 years	15 months	10.00
15 July 2014	1,400,000	252,000	1,652,000	3 years	19 months	10.00
14 August 2014	3,250,000	585,000	3,835,000	3 years	20 months	10.00
8 September 2014	3,000,000	370,000	3,370,000	3 years	14 months	10.00
26 September 2014	5,000,000	883,333	5,883,333	3 years	21 months	10.00
28 February 2015	1,500,000	189,167	1,689,167	2 years	14 months	10.00
1 May 2015	1,700,000	765,472	2,465,472	3 years	52 months	10.00
4 June 2015	7,000,000	1,744,167	8,744,167	3 years	29 months	10.00
8 October 2015	2,800,000	858,667	3,658,667	3 years	34 months	10.00
	43,900,000	**7,171,889**	**51,071,889**			

The interest is payable quarterly effective from the date of disbursement of the loan.

The loans from Bank of Tanzania are secured against a debenture issued by TMRC to cover the loans. This debenture ranks equally with all bonds to be issued by TMRC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Loans and borrowings (continued)

In the opinion of the directors, it is impracticable to assign fair values to the company's long term loans and borrowings due to inability to forecast interest rate changes.

Loans and borrowings are denominated in Tanzanian Shillings.

Undrawn facilities as at the statement of financial position date were as follows:

	2016 TZS '000	2015 TZS '000
Opening balance with Bank of Tanzania	92,065,431	15,497,031
Additional facility received during the year	-	86,368,400
Drawn amount during the year	(15,700,000)	(9,800,000)
Total undrawn amount at year end	**76,365,431**	**92,065,431**

14. Trade and other payables

Other payables	77,076	64,593
Accrued expenses	16,015	7,504
Gratuity payable	26,893	31,186
Deferred grant	47,698	90,438
Withholding tax payable	930	140
VAT payable	9,000	-
Provision for audit fees	15,746	11,665
Provision for staff leave	23,412	48,269
	216,770	**253,795**

In the opinion of the directors, the carrying amounts of the trade and other payables approximate to their fair value.

The carrying amounts of the company's trade and other payables are denominated in Tanzania Shillings.

	2016 TZS '000	2015 TZS '000
The maturity analysis based on ageing of the trade and other payables as follows:		
within three months	118,767	83,902
three to twelve months	98,003	169,893
	216,770	**253,795**

The company's liabilities as above will be settled by delivering cash.

Movement in provision for staff leave

At start of year	48,269	44,042
Additions	49,910	78,411
Redemptions	(74,767)	(74,184)
At end of year	**23,412**	**48,269**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Trade and other payables (continued)

Movement in gratuity payable

	2016 TZS '000	2015 TZS '000
At start of year	31,186	26,811
Additions	119,435	81,820
Redemptions	(123,728)	(77,445)
At end of year	**26,893**	**31,186**

15. Share capital

	No. of ordinary shares	Issued and fully paid up capital TZS '000	Advance towards share capital TZS '000
At 1 January 2015	14,500,000	14,270,000	-
Issue for cash	2,866,000	2,866,000	-
At 31 December 2015	**17,366,000**	**17,136,000**	-
At 1 January 2016	17,366,000	17,136,000	-
Issue for cash	100,000	100,000	1,000,000
At 31 December 2016	**17,466,000**	**17,236,000**	**1,000,000**

The total number of authorised ordinary shares is 30,000,000 (2015: 30,000,000) with a par value of TZS 1,000 each.

Issued and fully paid:

15,166,000 (2015: 15,066,000) ordinary shares of TZS 1,000 each and 2,300,000 ordinary shares at a rights issue of TZS 900 each

Advance towards share capital relates to amount received from M Mortgage Company Limited towards the purchase of shares in the company.

2016

On 28 October 2016, the issued and paid up capital was increased from TZS 17,136,000,000 to TZS 17,236,000,000 by an issue for cash of 100,000 ordinary shares at a price of TZS 1,000 per share.

2015

The issued and paid up ordinary share capital of the company was increased during the year from TZS 14,270,000,000 to TZS 17,136,000,000 by the issuance of 2,866,000 ordinary shares of TZS 1,000 each.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Share capital (continued)

The distribution of share capital of the company is as follows:

	Number of shares held	2016 % holding	TZS '000	Number of shares held	2015 % holding	TZS '000
		2016	2016		2015	2015
CRDB Bank Plc	2,400,000	14%	2,280,000	2,400,000	14%	2,280,000
Azania Bank Limited	2,000,000	11%	2,000,000	2,000,000	12%	2,000,000
National Microfinance Bank Plc	1,800,000	10%	1,740,000	1,800,000	10%	1,740,000
TIB Development Bank Limited (formerly Tanzania Investment Bank Limited)	1,500,000	9%	1,450,000	1,500,000	9%	1,450,000
Exim Bank (Tanzania) Limited	1,200,000	7%	1,200,000	1,200,000	7%	1,200,000
DCB Commercial Bank Plc	1,100,000	6%	1,100,000	1,100,000	6%	1,100,000
BancABC Tanzania Limited	1,000,000	6%	1,000,000	1,000,000	6%	1,000,000
Bank of Africa (Tanzania) Limited	1,000,000	6%	1,000,000	1,000,000	6%	1,000,000
National Bank of Commerce Limited	1,000,000	6%	1,000,000	1,000,000	6%	1,000,000
NIC Bank (Tanzania) Limited	500,000	3%	500,000	500,000	3%	500,000
Peoples Bank of Zanzibar Limited	500,000	3%	500,000	500,000	3%	500,000
I&M Bank (T) Limited	500,000	3%	500,000	500,000	3%	500,000
Shelter Afrique	1,866,000	11%	1,866,000	1,866,000	11%	1,866,000
National Housing Corporation	1,100,000	6%	1,100,000	1,000,000	6%	1,000,000
	17,466,000	**100%**	**17,236,000**	**17,366,000**	**100%**	**17,136,000**

16. Dividends

At the forthcoming annual general meeting, a final dividend in respect of the year ended 31 December 2016 of TZS 15.01 per share amounting to TZS 262,155,895 (2015: Nil) is to be proposed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Cash used in operations

	2016 TZS '000	2015 TZS '000
Reconciliation of profit before tax to cash used in operations:		
Profit before tax	938,118	845,283
Adjustments for:		
Depreciation on equipment (Note 9)	166,405	179,690
Amortisation of intangible assets (Note 10)	455,670	192,851
Amortisation of capital grants (Note 19)	(524,938)	(288,916)
Gain from assets disposal	(5,050)	
Fair value gain/(loss)	8,371	(46,398)
Changes in working capital:		
- Mortgage refinance loans	(16,048,796)	(9,926,530)
- Other assets	(415,373)	(80,357)
- Trade and other payables	(37,025)	99,253
Cash used in operations	**(15,462,618)**	**(9,025,124)**

18. Related party transactions and balances

The company is owned by commercial banks in Tanzania. The percentage shareholding of each member bank is shown in Note 15.

The following balances and transactions arose from transactions carried out with related parties:

	2016 TZS '000	2015 TZS '000
(i) Loans to related parties		
Loans to shareholders (Note 8)	**55,264,820**	**44,318,764**
Loans to key management	**275,025**	**35,008**
(ii) Investment securities with member banks (Note 7)		
Fixed deposits with Banc ABC (Tanzania) Limited	1,347,519	448,591
Fixed deposits with DCB Commercial Bank Limited	230,000	43,253
	1,577,519	**491,844**
(iii) Interest income from related parties		
Interest income derived from member banks (Note 1)		
- Interest income from mortgage refinance loans	5,675,898	4,420,360
- Interest income from fixed deposits	79,068	88,656
	5,754,966	**4,509,016**
Interest income from loans to key management	**9,631**	**6,386**
(iv) Key management compensation		
Salaries and other short term benefits	611,826	515,040
Pension costs: defined contribution scheme	67,248	41,760
	679,074	**556,800**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Capital grants

Capital grant	2016 TZS '000	2015 TZS '000
At start of year	1,314,432	262,864
Equipment	-	38,710
Intangible asset (Note 10)	-	1,301,774
Amortisation of capital grants (Note 3)	(524,938)	(288,916)
At end of year	**789,494**	**1,314,432**

Capital grants comprise of IT equipment and software (intangible asset) by using grant from the World Bank.

20. Specific reserve

The movement in the specific reserve during the year is as follows:	2016 TZS '000	2015 TZS '000
Opening balance	109,507	-
Transfer to specific reserve	131,054	109,507
Closing balance	**240,561**	**109,507**

21. Commitments

Operating lease commitments

	2016 TZS '000	2015 TZS '000
Not later than 1 year	-	274,640
Later than 1 year but less than 5 years	-	-
	-	**274,640**

22. Risk management objectives and policies

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance.

Risk management is carried out by the management under policies approved by the Board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with various departmental heads. 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 investment of excess liquidity.

(i) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

Management assesses the credit quality of the customer, taking into account their financial position, past experience, loan securities and other factors.

None of the financial assets that are fully performing has been renegotiated in the year.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Risk management objectives and policies (continued)

(ii) Market risk

Interest rate risk

The company is not exposed to interest rate risk as the financial instruments are at fixed interest rate.

Foreign currency risk

The company is exposed to foreign currency risk on its investment in United States Dollar fixed deposits only. The net impact on the movement in exchange rates would not be significant to the company.

(iii) Liquidity risk

Cash flow forecasting is performed by the finance department of the company by monitoring the company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed facilities at all times so that the company does not breach the borrowing limits or covenants on any of its borrowing facilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the company's management maintains flexibility in funding by maintaining availability under committed credit lines.

Notes 13 and 14 disclose the maturity analysis of loans and borrowings and trade and other payables respectively.

23. Capital management

Internally imposed capital requirements

The company's objectives when managing capital are:

- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk;
- to comply with the capital requirements set out by the company's bankers;
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business; and
- to maintain an optimal capital structure to reduce the cost of capital.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital and retained earnings).

The gearing ratios as at 31 December 2016 and 2015 were as follows:

	2016 TZS '000	2015 TZS '000
Total borrowings (Note 13)	60,261,104	44,261,947
Less: cash and cash equivalents (Note 6)	1,412,593	620,021
Net debt	58,848,511	43,641,926
Total equity	19,312,637	17,234,891
Gearing ratio	**305%**	**253%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Capital management (continued)

The company's borrowings is composed of interest bearing loans from Bank of Tanzania. Total equity is made of member banks' contributions to capital adjusted by profit for the year.

The increase in gearing ratio in 2016 resulted primarily due to the additional TZS 15.70 billion (2015: TZS 9.80 billion) long term loan received from Bank of Tanzania.

Externally imposed capital requirements

(i) BOT TMRC Regulations 2011 requires the company to maintain at all times a minimum core capital of not less than TZS 6 billion or such higher amount as BOT may determine. As at year end, the core capital of the company was TZS 18,526,662,413 (2015: TZS 17,584,563,360).

(ii) The Regulations further require TMRC to maintain at all times a minimum core capital to the value of its risk-weighted assets and off balance sheet exposures of not less than 10% and a minimum ratio of total capital to the value of its risk-weighted assets and off balance sheet exposures of not less than 12%. The respective ratios at the statement of financial position date were 174% and 174% (2015: 240% and 240%)

24. Country of incorporation

Tanzania Mortgage Refinance Company Limited (TMRC) was incorporated in Tanzania under the Tanzanian Companies Act, 2002 as a private limited liability company and is domiciled in Tanzania.

Schedule of operating expenses

	2016 TZS '000	2015 TZS '000
1 Administrative expenses		
Staff costs (Note 4(b))	1,594,307	1,320,013
Travel expenses	59,256	43,510
Legal costs	35,674	34,200
Audit fees	26,853	20,957
Depreciation on equipment (Note 9)	166,405	179,690
Amortisation on intangible assets (Note 10)	455,670	192,851
Total administrative expenses	**2,338,165**	**1,791,221**

	2016 TZS '000	2015 TZS '000
2 Other operating expenses		
Courier and postages	179	1,509
Email and website development	-	1,625
Repair and maintenance of motor vehicles	555	11,736
Repair and maintenance of office equipment	1,398	729
Condolences and burial expenses	600	1,000
Stationeries and consumables	11,282	15,009
Vehicle running expenses	360	630
Electricity expenses	8,915	9,372
Fuel expenses	5,712	18,727
Office cleaning expenses	272	239
Newspaper and publications	2,267	3,867
Office security services	2,437	2,329
Repair and maintenance of office furniture	1,108	85
Office sundry and snacks	13,301	12,245
Business license fees and returns	600	2,217
Board meeting	4,601	4,821
Other Board meeting expenses	559	2,454
Recruitment costs	5,465	5,458
Transport expenses	2,680	1,243
Internet expenses	8,617	8,052
Hospitality expenses	-	45
Gifts and donations	2,090	491
Subscriptions Fees	-	460
Statutory levy and fees	7,963	6,885
Accounting Software License Fees	8,464	19,986
Excise duty on money transfer	5,000	-
	94,424	131,213