Annual Report 2016

INVESTMENT BANK

"CDHIB will continue to take a leading role in the mobilization of capital from both local and international capital markets for investment in Malawi's ground breaking projects"

Vision, mission statement & core values

Vision
CDH Investment Bank will be a leader in financial services in Malawi.

Mission
CDHIB will build a profitable and technology-driven financial services company through the introduction of new products and services that exceed its client's expectations delivered by its highly motivated staff.

CDHIB is committed, through good corporate governance and compliance, to meeting the requirements of its shareholders and the regulatory authorities.

Core values
The CDHIB team is quality and results driven and works to a set of values that underpin its mission to deliver the corporate vision,

These values are: Integrity Trust
Respect
Fairness
Innovation & creativity

CONTENTS

Our milestones

Britam Insurance

Capital restructuring through a Court Approved Scheme of Arrangement and delisting

Mandated arranger

May 2016

INVESTMENT BANK

Sunbird Hotels

USD 5 million

Medium term note

Lead arranger and fiscal agent

June 2015

INVESTMENT BANK

Umodzi Holdings

Hotel redevelopment project financing facility

Lead arranger and local agent bank

May 2015

INVESTMENT BANK

Stansfield

USD2.75 million

Corporate bond

Mandated arranger and fiscal agent

December 2014

INVESTMENT BANK

Press Agriculture Ltd.

USD 9 million

Commercial paper

Lead arranger

June 2014

INVESTMENT BANK

Blantyre Hotel Ltd.

USD 1.2 million

Medium term note

Lead arranger

May 2014

INVESTMENT BANK

Best Investment Bank in Malawi - 2015 & 2016

Global Banking & Finance Review

Upcoming 2017 transactions

Salima Sugar Co

USD 49.9 million

Project finance facility

Lead arranger and local agent bank

2017

CDH INVESTMENT BANK

NBS Bank

NBS Bank Your Caring Bank

USD 16.2 million

Rights Issue

Lead financial advisors

June 2017

CDH INVESTMENT BANK

CDH INVESTMENT BANK

Investment Banking Services

We provide specialised, well-researched financial advice to organisations confronted with complex financial challenges. Our market leadership in investment banking is defined by a combination of determination and commitment to creating value for our clients. We have strong research capabilities in the market capable of delivering unique solutions to our clients.

Joint statement by Chairman and Chief Executive Officer

Franklin Kennedy
Chairman

It is with great pleasure that we present the 2016 financial report for CDH Investment Bank (CDHIB) to our esteemed stakeholders. The year 2016 was our fourth full year of operations and despite a challenging operating environment, the Bank has delivered very good performance. During a year of ever more stringent regulation, reducing margins and cost pressures, our bank has remained dynamic in its product offering which led to tremendous brand growth.

Our main focus has remained serving our clients and ensuring the long-term financial performance of our business. CDHIB continues to build on its ability to adapt to change while focusing on our target market and remaining true to our core business which is remaining Malawi's leading investment bank that provides a diverse range of financial advisory services.

In December 2016, the bank opened a new banking centre in Lilongwe. It was our desire to provide our esteemed customers with a comfortable banking environment that demonstrates the bank's vision and values. We are pleased that we managed to deliver this promise to our clients and we would like to assure them that the future is more promising as the bank continues to grow.

Overall performance

CDH Investment Bank has delivered strong financial performance during the year. The Bank realised consolidated profit after tax of K983 million against prior year performance of K846 million representing an increase of 16%. Total operating income grew by 29% from K3,849 million to K4,973 million mainly on account of growth in fees and commission income and trading income by 179% and 52% respectively on last year owing to growth of fees from advisory services and increased trades in foreign exchange. The growth in operating expenses was partly due to inflationary pressures and impairment of loans and advances which grew by 269% in anticipation of high credit risk exposures following the economic slowdown. These results were after the bank's absorption of losses amounting to K40 million that were incurred by its subsidiary company CDH Forex Bureau Limited. The operations of CDH Forex Bureau were discontinued in July 2016 following a strategic review of the business. Total consolidated assets grew by 77% from K36,742 million to K64,987 million mainly due to increased money market trading activity during the period.

Human capital development

Human capital development is considered to be a cornerstone for CDHIB and one of the most important functions as it focuses on developing the skills of the bank's staff and managers. The board of directors believes that CDHIB has to realize distinction in terms of quality and diversity of service delivery.

In order to realize such distinction, CDHIB is aware that it has to be distinctive in having a well-qualified and trained team, given that the human element is considered as one of the Bank's most valuable resources. During the year, a number of our staff and managers attended important local and international training programs which delivered real value to the bank. A number of world class consultants also provided specific skills training in-house to a good number of our staff.

Corporate social investment

CDHIB takes corporate social investment (CSR) very seriously as being at the centre of its business strategy. Our CSR involves the bank's employees working together for betterment of the common good for mankind. We understand that the amount of talent and energy we have can make a real difference in helping to create the kind of society we all want to live in. The bank is actively involved in supporting and developing the local communities in Malawi to make a lasting positive impact.

In its 2016 budget, the bank allocated a total of K18 million towards enhancing its CSR activities. Amongst our initiatives, we participated in the improvement of education in Malawi by supporting two rural primary schools and technical education. A total of K6 million went towards improving the education sector.

Misheck Esau
CEO & MD

Compliance, governance and risk management
The bank's business practice underscores sustainability through competitiveness, the productive use of resources and good governance (including anti-fraud and anti-corruption measures). CDHIB is concerned about ensuring that its internal functions operate effectively to increase value for its stakeholders. This includes giving recognition to the rights, interests and responsibilities of shareholders and other stakeholders in order to achieve sustainable outcomes especially to save the natural environment. The bank remains strongly committed to an exemplary corporate governance regime and the propagation of a truly sustainable business model that nurtures and delivers value to all its stakeholders. During the year, the bank invested a lot of resources and time in the improvement of its compliance, risk management and governance systems.

Strategic direction
Backed by a dynamic and capable management team and with the support of the board, CDHIB is poised to play a leading role in supporting the national vision of Malawi in general and the emerging developments in the financial sector. The bank has put in place a very clear strategy covering the medium and the long term which are aligned with its vision, mission and values. This strategy spans across 2017 to 2021 and has been developed in consultation with management and the board of directors. In the plan, CDHIB will continue to take a leading role in the mobilization of capital from both local and international capital markets for investment in Malawi's ground-breaking projects that will make a difference to Malawi's economic development agenda. In the coming few years, the board of directors foresees CDHIB participating fully in Malawi's key priority sectors of energy, agriculture and agro-processing, tourism, construction, trade, among others.

Business prospects and outlook
The consensus is that the Malawi economy will start to improve in 2017 in view of declining inflation which will lead to declining interest rates. However, power supply will continue to be a challenge and will therefore slow down economic growth. Lower global commodity prices and uncompetitive and falling exports also add to the risks. High government debt levels may also keep interest rates high and crowd out private sector funding for growth. CDHIB will remain vigilant despite the challenging environment. We strongly believe that in times like these, it is crucial to adapt while remaining committed to our strategic objectives. We will continue to forge new client relationships and strategic partnerships while strengthening existing connections in our core markets. We will do this by providing the highest levels of service and offering the expertise that our clients need as they too navigate through a challenging period and look to the future with optimism.

Vote of thanks
CDHIB has experienced growth in its service offering and brand image over just a few years. Half a decade ago, we first laid claim to ambitions to becoming a leading Investment bank in Malawi which encompassed the provision of innovative banking solutions. Since then, our growth and success have won us numerous accolades affirming our strategic ambitions. We owe this success to our customers who have believed in us and trusted us to be their financial advisor of choice.

We enter 2017 with a clear strategy and with much of the bank's business model crafting completed. Our staff, went the extra mile consistently throughout 2016 to meet the demands placed on them by our customers, the board, regulators and the public. We want to place on the record the board's appreciation of that commitment and our gratitude for what they have achieved to make CDH Investment Bank fit for the future. We wish to express confidence in the future of CDH Investment Bank. We are hopeful that the cooperation and support of our stakeholders will continue for the betterment of the Malawi economy. We wish all our stakeholders a successful journey of business in the years to come.

Franklin Kennedy
Board Chairman

Misheck Esau
CEO/MD

Board of Directors

Franklin Kennedy
Chairman

Misheck Esau
Managing Director

Kofi Sekyere
Director

Robert Abbey
Director

Gibson Ngalamila
Director

Ted Sauti-Phiri
Director

John MacGrath
Director

Charles Asare
Director

Kingsley Zulu
Director

"In the coming few years the board of directors foresee CDHIB participating fully in Malawi's key priority sectors of energy, agriculture and agro processing, tourism, construction, trade, among others..."

Management

Misheck Esau
Chier Executive Officer/
Managing Director

Jean Rene Moukala
Deputy Chief Executive Officer

Thoko Mkavea
Chief Investment Banking Officer

Benison Jambo
Chief Business Development Officer

Lusekelo Mwamondwe
Chief Treasury Officer

Gillian Kachikondo
Chief Operations Officer

Beatrix Mosiwa
Chief Finance Officer

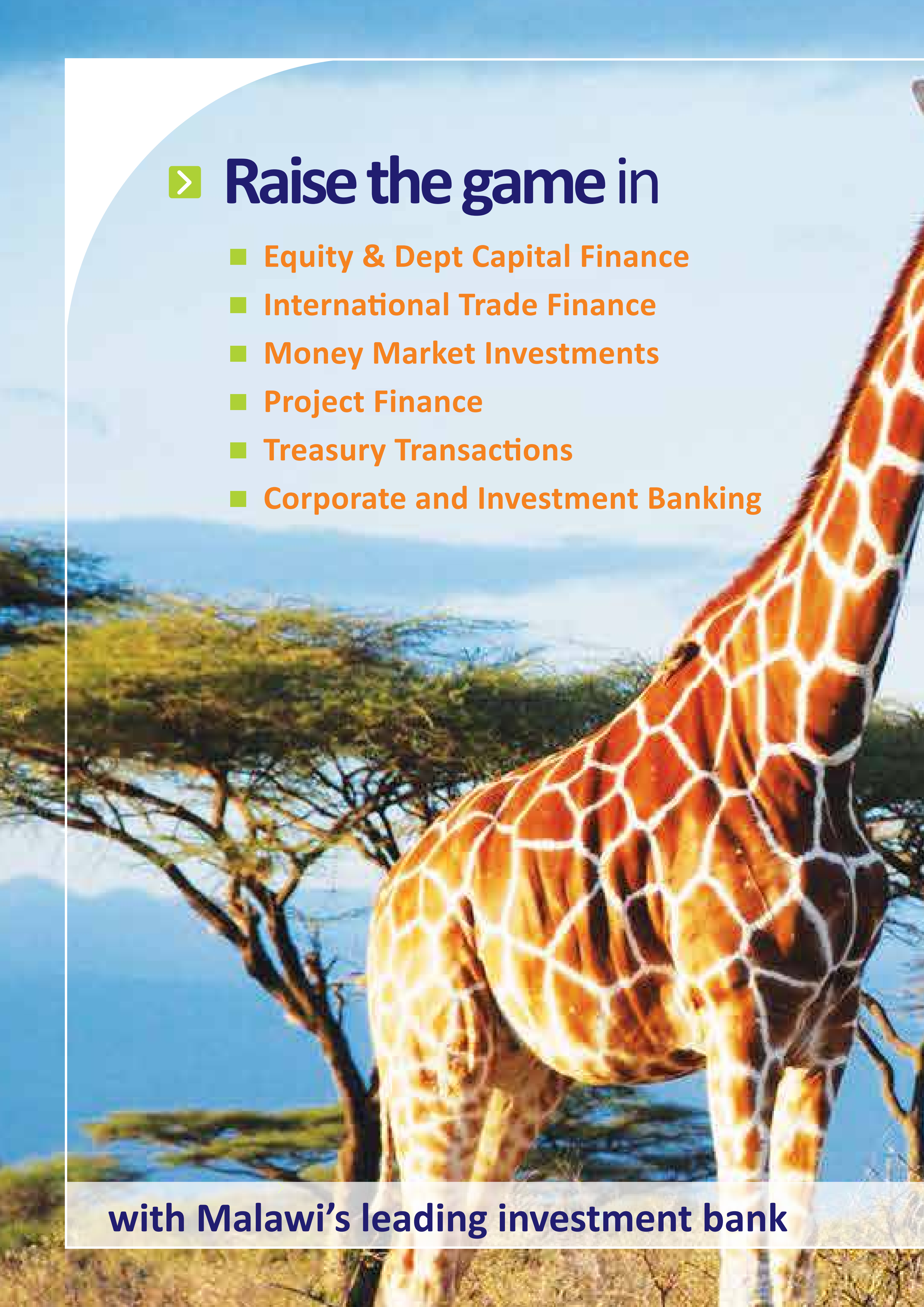
Christopher Ngwira
Chief Internal Auditor

Michael Ndaferankhande
Chief Human Capital Development Officer

Daniel Mwangwela
Chief Legal and Compliance Officer/
Company Secretary

Chris Chirwa
Chief Information Technology Officer

CDHIB Senior Management


Raise the game in
Equity & Dept Capital Finance
International Trade Finance
Money Market Investments
Project Finance
Treasury Transactions
Corporate and Investment Banking
with Malawi's leading investment bank

CDH

INVESTMENT BANK

Annual Economic Review 2016

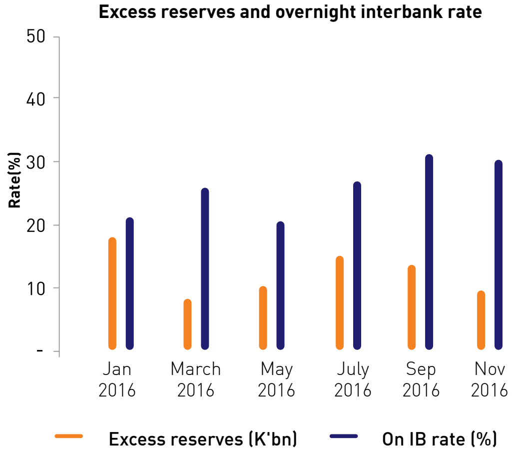
Banking innovations that help your business **Grow...**

1.0 INTERBANK MARKET AND INTEREST RATES

1.1 Liquidity conditions on the interbank market were erratic but generally tight in 2016. Excess reserves averaged K7.33 billion per day compared to K10.83 billion per day in 2015. Excess reserves were lowest at negative K0.82 billion in February and were the highest in April prior to the opening of the tobacco auction season. As a result of tight liquidity conditions that prevailed during the year, the overnight interbank rate remained high, averaging 24.46% from 15.31% in 2015.

1.2 Overnight interbank borrowing increased to a daily average of K5.12 billion from an average of K4.26 billion in 2014. Access on the Lombard Facility of the Reserve Bank of Malawi (RBM) (also known as the discount window facility of the Central Bank) also increased to a daily average of K6.94 billion per day and totaled K1.62 trillion, compared to a daily average of K3.39 billion and a total of K799.94 billion observed in 2015.

Excess reserves and overnight interbank rate



Source: RBM

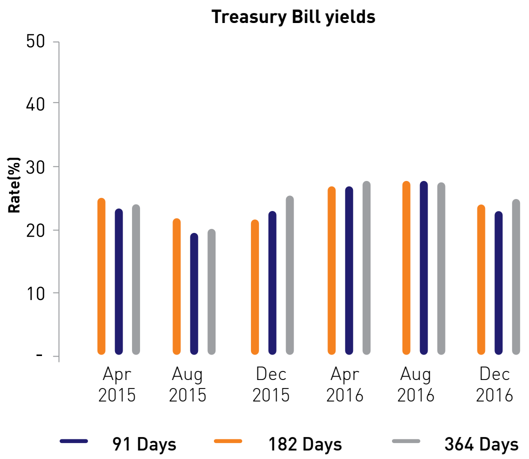
1.3 At the 4th Monetary Policy Committee (MPC) meeting for 2016 held from 23 and 24 November 2016, the committee resolved to reduce the Policy Rate from 27% to 24%. The decision was influenced by a positive outlook on inflation which was expected to decelerate to about 18.6% by June 2017.The MPC noted that consistent implementation of a tight monetary policy stance and the actions taken by government to reduce fiscal pressure including from the farm input subsidy programme (FISP) operations and from ADMARC's maize operations have combined to reduce inflationary expectations.

1.4 Following the reduction in the Policy Rate, the overnight interbank rate declined from about 28% to 25%, while the Lombard rate automatically declined to 26%. Commercial banks also revised their base lending rate and currently commercial banks' base lending rates range between 32.0% and 35.0% (2015:34.0% and 38.0%).

1.5 Looking ahead we expect the interbank rate to remain close to policy rate amid continued tight liquidity conditions as authorities intensify mop up operations to withdraw liquidity injected from expansionary government operations. It is a stated intention of the RBM to keep the interbank rate close to the policy rate.

2.0 TREASURY BILLS

2.1 During the year, authorities managed to raise K367 billion compared to K376 billion raised in 2015. Total applications stood at K429 billion, representing a 14% rejection rate (2015: 26%). Treasury bill yields were high in 2016, with the all type Treasury Bill yield averaging 27.87% from 23.96% in 2015. However, following the reduction in the Policy rate, Treasury Bill yields declined, and currently oscillate around the policy rate of 24%.



Source: RBM

2.2 Looking forward, Treasury Bill yields are expected to stabilize around the policy rate supported by government's high appetite for domestic borrowing and investors' need to earn positive returns in environment of high inflationary pressures.

3.0 EXCHANGE RATES

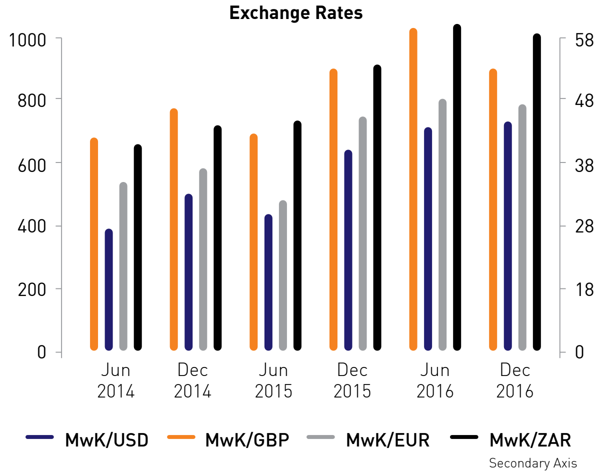
3.1 The Kwacha was relatively stable in 2016. The Kwacha depreciated by 9%, 5% and 25% against the USD, EUR and ZAR respectively but appreciated by 10% against the GBP in 2016. This is an improvement from 2015 when the local currency depreciated by 41%, 34%, 27% and 5% against the USD, GBP, EUR and ZAR respectively.

Currency	30-Dec 2016	31-Dec 2015	30-Dec 2014		2016 change		2015 change
USD	725.0093	664.3650	471.6971	▼	9%	▼	41%
GBP	890.3839	984.3232	731.9324	▲	-10%	▼	34%
EUR	763.5798	726.3503	573.2063	▼	5%	▼	27%
ZAR	53.2829	42.6975	40.5848	▼	25%	▼	5%

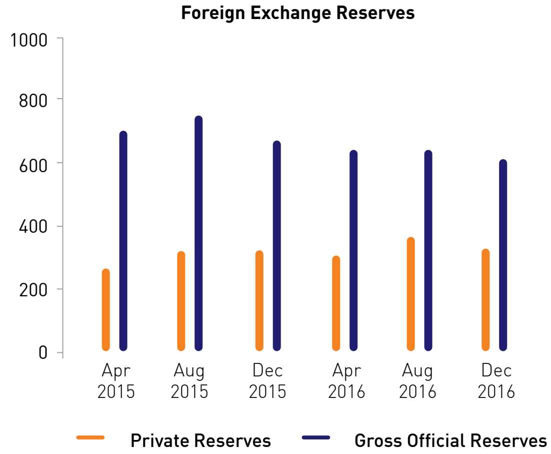
Source: RBM

3.2 The stability of the Kwacha in 2016 has been attributed to the monetary authority's consistent implementation of a tight monetary policy stance and actions taken by government to reduce fiscal pressures. Additionally, the country's official foreign exchange reserves remained at about 3 months of imports.

3.3 Looking ahead, we expect the Kwacha to slightly depreciate in the medium term. In the long term, the Kwacha is expected to depreciate further due to trade imbalances, current account deficits and increasing imports.



Source: RBM

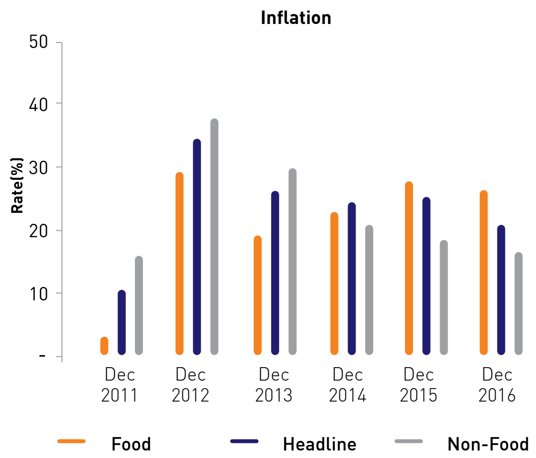


Source: RBM

3.4 Gross official reserves were observed at USD606.93mn (2.90 months of imports) on 30 December 2016, 8.9% lower than USD666.07 mn (3.19 months of imports) observed at the end of 2015. Private reserves were observed at USD336.61mn (1.61 months of imports) from USD334.42 mn (1.62 months of imports).

4.0 INFLATION

4.1 Headline inflation for 2016 decreased to 20.1% from 24.9% in 2015, kept up by rising prices of food items following poor performance of the agricultural sector in the 2014/2015 and 2015/2016 growing seasons. Food inflation for 2016 stood at 26.6% from 23.9% in 2015 while non-food inflation decreased to 17.1% from 20.0% in 2015. Headline inflation for December 2016 stood at 20.1% from 24.9% in December 2015.



Source: NSO

4.2 Looking ahead, inflationary pressures are expected to decelerate in 2017 contingent upon expected better food yield. Preliminary crop estimates indicate a better yield in 2017. Coupled by the availability of maize in ADMARC markets from the last harvest, food inflation is expected to significantly decline. Risks on inflation outlook however remain on non-food inflation which could potentially increase due to exchange rate depreciation as well as potential increases in oil prices.

5.0 STOCK MARKET

5.1 The local bourse has generally been bearish in 2016, with the Malawi All-Share Index (MASI) losing 8.5% year to date, driven by price losses in 6 counters which were enough to more than offset price gains registered in the other counters. Of particular interest are the two companies operating hotel businesses namely Blantyre Hotels Limited (BHL) and SUNBIRD who registered impressive HPR's of 109% and 154% respectively. On the other hand, all financial services companies with the exception of FMB suffered significant losses. ILLOVO also registered significant losses over a prolonged period of time while TNM and PCL were fairly stable.

Headline inflation for 2016 decreased **to 21.7% from 21.9%**

Trading Summary	30 Dec 2016	31 Dec 2015		Capital Gain
MASI	13,320.51	14,562.53	▼	-8.5%
DSI	10,456.92	11,462.87	▼	-8.8%
FSI	2,026.07	1,762.13	▲	15.0%
Gainers				
SUNBIRD	58.50	23.00	▲	154.3%
BHL	20.10	9.60	▲	109.4%
FMB	17.00	14.00	▲	21.4%
OLM	1,612.00	1,402.00	▲	15.0%
STANDARD	500.00	440.00	▲	13.6%
PCL	540.00	535.00	▲	0.9%
TNM	6.05	6.00	▲	0.8%
Losers				
NBS	6.00	23.00	▼	-73.9%
NICO	17.00	28.00	▼	-39.3%
NITL	34.00	55.00	▼	-38.2%
ILLOVO	160.00	230.00	▼	-30.4%
NBM	237.12	258.00	▼	-8.1%
MPICO	7.83	8.20	▼	-4.5%

Source: Malawi Stock Exchange

5.2 Several listed companies released trading statements for the year 2016. The following table presents a summary of their expected results.

BHL	Blantyre Hotels Limited advised that the profit after income tax for the year ending 30 September 2016 is likely to be 20% higher than the previous financial year.
FMB	First Merchant Bank Limited advised that its forecast profit attributable to shareholders for the financial year ending 31 December 2016 is expected to be at least 40% higher than achieved for the financial year ended 31 December 2015.
ILLOVO	The company advised that profit after tax for the year ended 30 March 2017 is expected to be at least 60% higher than the prior period.
MPICO	MPICO informed all shareholders and the general public that Group's profit for the year ended 31 December, 2016 is expected to increase by over 100% above the previous corresponding period.
NBM	National Bank of Malawi advised shareholders that profit after tax for the year ending 31 December 2016 is expected to be at least 25% higher than the previous financial year.
NBS	NBS Bank Limited advised that its forecast loss attributable to shareholders for the financial year ending 31 December 2016 is expected to be at least 20% higher than that for the financial year ended 31 December 2015.
NICO	NICO Holdings advised that profit after tax for the year ending 31 December 2016 is expected to be lower than the previous corresponding period by more than 20%.

NITL	NITL advised that the financial performance for the 12 months ending 31 December 2016 is expected to be more than 200% lower than the previous 15 months period ended 31 December 2015
PCL	Press Corporation Limited advised that profit after tax for the year ending 31 December 2016 is expected to be at least 20% higher than the previous corresponding period.
STANDARD	Standard Bank Limited advised that the forecast profit after tax for the financial year ending 31 December 2016 will likely be 30% above the previous corresponding period.
SUNBIRD	Sunbird Tourism Limited announced that its profit after tax for the period ending 31 December 2016 is expected to exceed the previous corresponding period by more than 25%.
TNM	Telekom Networks Malawi Limited advised that profit after tax for the period ending 31 December 2016 is expected to be at least 20% higher than the previous corresponding period.

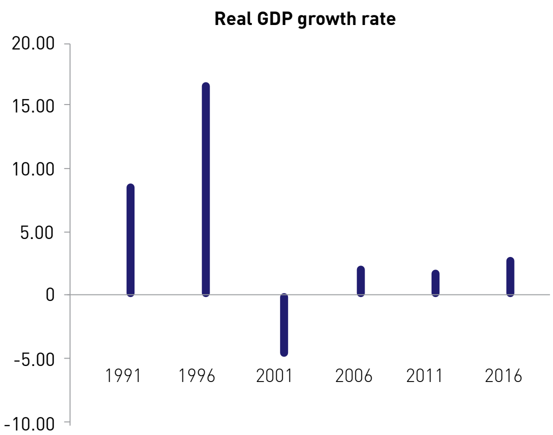
6.0 ECONOMIC GROWTH

6.1 Real GDP growth for 2016 is estimated at 2.60% by the World Bank and 2.90% by the Government of Malawi. The low growth is due to the low agricultural output during the 2015/16 season because of El Nino weather conditions.

Real Economic Growth Projections to 2018	2015	2016	2017	2018
EIU	2.90%	2.50%	3.80%	4.70%
IMF	2.95%	2.95%	4.00%	5.50%
World Bank	2.80%	2.60%	4.10%	5.40%
Malawi Government	3.30%	2.90%	5.60%	-

6.2 Risks to economic growth in 2017 are the high inflation rates, high lending interest rates and insufficient power supply which slow down economic growth as they reduce private sector activity. Lower global commodity prices and uncompetitive and falling exports also add to the risks. High government debt levels may also keep interest rates high and crowd out private sector funding for growth.

6.3 Economic growth is forecast to average 4.75% in the period 2017-2018. This will be possible if the economy recovers as a result of Government exercising tight control over public expenditure, implementation of tight monetary policy stance and reforms in fiscal management.



Source: World Bank

7.0 COMMODITIES

7.1 Tobacco

7.1.1 The 2016 tobacco market underperformed in terms of turnover by about 17% in when compared to 2015, despite registering slightly higher volumes of tobacco sold. The tobacco market was extended to 38 weeks in an effort to clear volumes of unsold tobacco left by the 24th week, which is the convectional closing week. The tobacco market registered turnover of USD276.39 million (2015: USD331.92 million) from 195,124,994 kilograms of tobacco sold (2015: 184,521,055kg) at an average price of USD1.42 (2015: USD1.76).

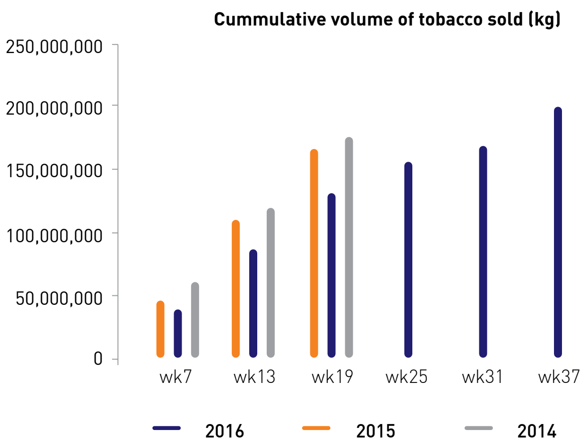
	2016	2015	2014	2016/2015 change
Volume (kg)	195,124,994	184,521,055	188,897,790	5.7%
Turnover (USD)	276,389,957	331,924,169	359,276,180	-16.7%
Average price (US cents/kg)	141.65	176.36	188.49	-19.7%

Source: Tobacco Control Commission (TCC)

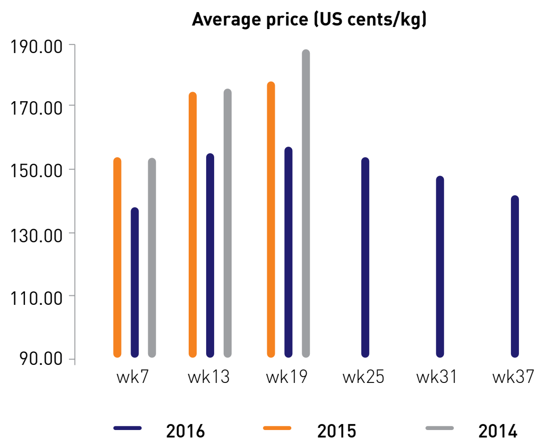
7.1.2 The 2016 tobacco market was marred by poor prices and high rejection rates. This forced the authorities to extend the auction indefinitely while also abolishing the minimum price in an attempt to ensure that the tobacco sells.

7.1.3 The underperformance of tobacco has significant effects on the economy since tobacco accounts for a significant portion of Malawi's export proceeds (about 50%).

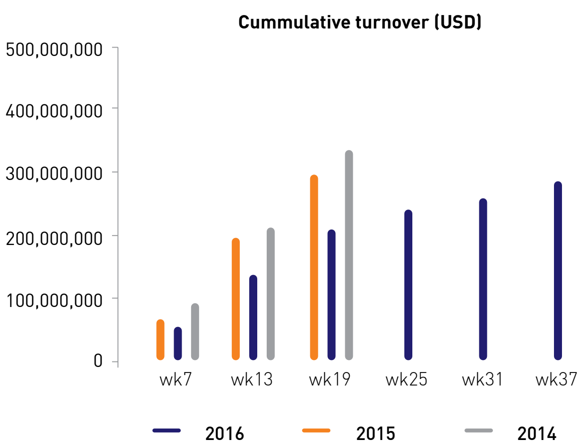
7.1.4 We present below charts showing week on week movement of tobacco volumes, prices and revenues to week 38 for the year 2016, and to week 24 for 2014 and 2015.



Source: TCC



Source: TCC



Source: TCC

7.2 Cotton

Cotton output in 2016 has fallen by about 33% to 15,000 metric tons relative to last year's production largely due to the dry spell.

7.3 Fuel-Capital A for Authority – MERA

7.3.1 The Malawi Energy Regulatory authority(MERA) adjusted fuel prices three times in 2016, all of which were upward adjustments.

7.3.2 The most recent adjustment was in November 2016. Following developments in the international price of oil as well as local exchange rate developments, MERA observed that landed cost of petrol, diesel and paraffin increased by 11.02%, 18.66% and 16.37% respectively. According to the Automatic Fuel Pricing Mechanism (APM), these qualified for an upward price revision since the landed cost was beyond the ±5% trigger limit.

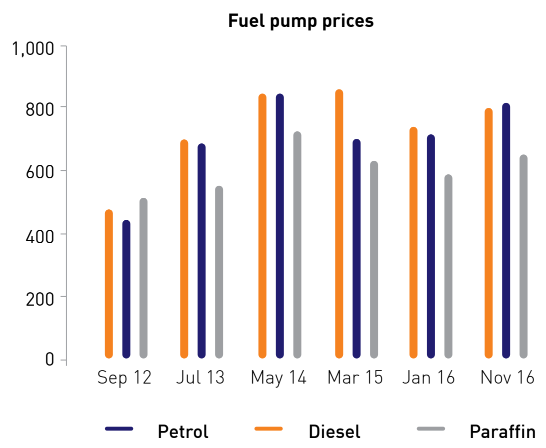
7.3.3 Consequently, MERA resolved to pass on only 50% of increases in the landed costs on the pump price to consumers effective 4 November 2016, while the remaining 50% will be absorbed through the Price Stabilization Fund (PSF) to cushion consumers.

7.3.4 We present below a table showing the changes in petroleum prices.

Kwacha/liter	Nov 16	Jun 16	Mar 16	Dec 15
Petrol	824.7	788.3	743.3	711.9
Diesel	815.8	766.9	722.8	734.7
Paraffin	648.7	609.8	580.4	573.1

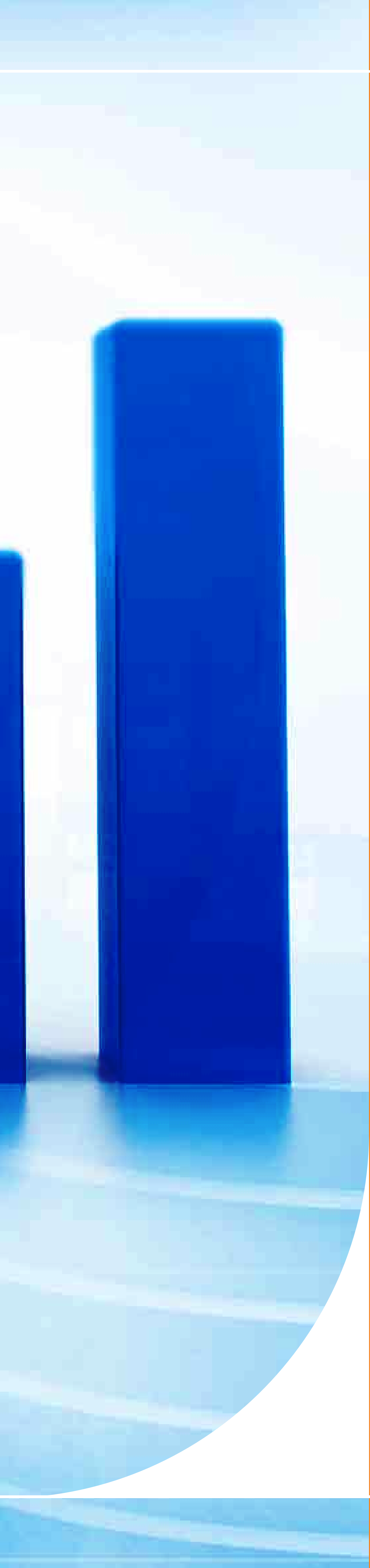
Source: MERA

7.3.5 We present below a chart showing historical fuel pump prices since September 2006.



Source: MERA


12.5
12.5
12.5
3543.68
254.879744
25314
3543.68



INVESTMENT BANK

Consolidated & Separate Financial Statements

Banking innovations that
help your business **Grow...**

Contents

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements of CDH Investment Bank Limited for the year ended 31 December 2016.

NATURE OF BUSINESS, INCORPORATION AND REGISTERED OFFICE

CDH Investment Bank Limited is a private limited liability company incorporated in Malawi under the Companies Act, 2013 of Malawi. It is registered as a bank under the Banking Act, 2010. Its business is to provide private, corporate and investment banking services. It has one wholly owned subsidiary incorporated in Malawi, CDH Forex Bureau Limited, licensed to trade in foreign exchange under the Exchange Control (Foreign Exchange Bureau Fixing Sessions) Regulations Act, 1994. CDH Holdings Limited owns 74.45% of the shares of CDH Investment Bank Limited. During the year, the operations of the subsidiary, CDH Forex Bureau Limited ceased and the subsidiary became dormant from 28 June 2016.

The physical address of its registered office is:
CDH House,
5 Independence Drive
P. O. Box 1444,
Blantyre, Malawi.

FINANCIAL PERFORMANCE

The results and state of affairs of the group and the company are set out in the accompanying consolidated and separate statements of financial position, statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows and associated accounting policies and notes.

DIVIDENDS

An interim dividend of **MK 305.65 million** was declared for the year ended 31 December 2016 (2015: MK248.92 million).

DIRECTORATE AND SECRETARY

In accordance with the Company's Articles of Association all directors retire at the forthcoming Annual General Meeting, but being eligible for re-appointment, offer themselves for re-election.

The following directors and secretary served during the year:

Mr Franklin Kennedy	Chairman
Mr Robert Abbey	Director
Mr Kofi Sekyere	Director
Mr Ted Sauti-Phiri	Director
Mr Charles Asare	Director
Mr John McGrath	Director
Mr Gibson Ngalamila	Director
Mr Kingsley Zulu	Director (with effect from November 2016)
Mr Misheck Esau	Managing Director
Mr Fred Chipembere	Company Secretary (up to September 2016)
Mr Daniel Mwangwela	Company Secretary (with effect from December 2016)

SHAREHOLDING ANALYSIS		
Name	**2016**	**2015**
	%	%
Continental Holdings Limited	**74.45**	74.45
Investments Alliance Limited	**12.65**	12.65
Kesaart Capital Limited	**7.61**	7.61
Unity Investments Limited	**2.81**	2.81
Savannah Investments Limited	**2.48**	2.48
	100.00	100.00

INDEPENDENT AUDITORS

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs KPMG, Chartered Accountants and Business Advisors (Malawi) as auditors in respect of the Group's 31 December 2017 financial statements.

FRANKLIN KENNEDY
CHAIRMAN

MISHECK ESAU
MANAGING DIRECTOR

23 MARCH 2017

CORPORATE GOVERNANCE REPORT

THE BOARD

The Group has a unitary Board of Directors comprising a chairman, seven non-executive directors and one executive director. The Board has adopted without modification, the major principles of modern corporate governance as contained in the reports of Cadbury and King II, and the Basel Committee on Banking Supervision.

The Board meets four times a year. There are adequate and efficient communication and monitoring systems in place to ensure that the Directors receive all relevant, accurate information to guide them in making necessary strategic decisions, and providing effective leadership, control and strategic direction over the Group's operations, and in ensuring that the Group fully complies with relevant legal, ethical and regulatory requirements.

BOARD MEETINGS - MEETING ATTENDANCE					
Members		Date	Date	Date	Date
		16 March 2016	28 June 2016	30 September 2016	13 December 2016
Mr Franklin Kennedy	Chairman	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr John McGrath	Director	✓	A	✓	✓
Mr Charles Asare	Director	✓	✓	✓	A
Mr Kofi Sekyere	Director	✓	✓	✓	A
Mr Ted Sauti-Phiri	Director	✓	✓	✓	✓
Mr Gibson Ngalamila	Director	✓	✓	✓	✓
Mr Kingsley Zulu	Director	N/A	N/A	N/A	✓
Mr Misheck Esau	Managing Director	✓	✓	✓	✓
Mr Fred Chipembere	Company Secretary	✓	✓	✓	N/A
Mr Dan Mwangwela	Company Secretary	N/A	N/A	N/A	✓

Key: ✓ = Attendance, A = Apology, N/A = Not applicable

BOARD COMMITTEES

Board Audit Committee

The Committee assists the Board in discharging its duties in relation to financial reporting, asset management, risk management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions. The Group's external auditors and internal auditors report to the committee in their independent, private meetings to discuss risk exposure areas. Where the committee's monitoring and review activities reveal causes for concern or scope for improvement, it makes recommendations to the Board on required remedial actions.

The Board Audit Committee comprises three non-executive directors, one of whom acts as Chairman. The committee meets four times in a year. The members of the Committee and their meeting attendance during the year were as follows:

MEETING ATTENDANCE					
Members		Date	Date	Date	Date
		15 March 2016	27 June 2016	29 September 2016	12 December 2016
Mr Gibson Ngalamila	Chairman **	✓	✓	✓	✓
Mr Charles Asare	Director	✓	✓	✓	✓
Mr Robert Abbey	Director *	✓	✓	✓	N/A
Mr Kingsley Zulu	Director	N/A	N/A	N/A	✓
Mr Fred Chipembere	Company Secretary	✓	✓	✓	N/A
Mr Dan Mwangwela	Company Secretary	N/A	N/A	N/A	✓

* Director Abbey resigned in December 2016
** Director Ngalamila was appointed as chairman of the Board from September 2016 taking over from Director Abbey.

Key: ✓ = Attendance, A = Apology
N/A = Not applicable. Director Zulu had been appointed into the board with effect from November 2016.

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in discharging its duties in relation to the Group's risk management and compliance. The Committee has the following responsibilities:

1. To ensure the on-going appropriateness of the risk management, internal control systems and management reporting framework, as a result of which the Board makes decisions affecting the activities of the Group;
2. To oversee and evaluate the quality of performance of the Risk Management and Compliance functions;
3. To ensure that systems are in place, that the affairs of the Group are being conducted by management in conformity with policy, regulatory and legal requirements and that the reputation of the Group is protected at all times from adverse risk management events.

The Committee comprises three non-executive directors, one of whom acts as Chairman. The committee meets four times in a year. The members of the Committee and their meeting attendance during the year were as follows:

MEETING ATTENDANCE					
Members		Date	Date	Date	Date
		15 March 2016	27 June 2016	29 September 2016	12 December 2016
Mr Ted Sauti-Phiri	Chairman	✓	✓	✓	✓
Mr Kofi Sekyere	Director	✓	✓	✓	A
Mr John McGrath	Director	✓	A	✓	✓
Mr Fred Chipembere	Company Secretary	✓	✓	✓	N/A
Mr Dan Mwangwela	Company Secretary	N/A	N/A	N/A	✓

Key: ✓ = Attendance, A = Apology, N/A = Not applicable

Finance, Business and Information Technology Committee

The Committee comprises four directors with a good knowledge of the Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the CDH Investment Bank Group's credit portfolio (including advances, guarantees and other facilities). Specific responsibilities include:

1. Assessing the annual review plan, budgets and strategy and schedule of activities of the Bank;
2. Review of management reports on business operations and making recommendations to the Board;
3. Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers;
4. Approval of all credit facilities above the discretionary limits set for management save for those facilities requiring full board approval in accordance with Reserve Bank of Malawi directives; and
5. Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required.

The committee meets quarterly and on ad hoc basis when necessary.

The members of the Committee and their meeting attendance during the year were as follows:

Members		Date	Date	Date	Date
		15 March 2016	27 June 2016	29 September 2016	12 December 2016
Mr Kofi Sekyere	Chairman	✓	✓	✓	✓
Mr Robert Abbey	(Meeting Chair)	N/A	N/A	N/A	✓
Mr Ted Sauti-Phiri	Director	✓	✓	✓	✓
Mr John McGrath	Director	✓	A	✓	✓
Mr Kingsley Zulu	Director	N/A	N/A	N/A	✓
Mr Misheck Esau	Managing Director	✓	✓	✓	✓
Mr Fred Chipembere	Company Secretary	✓	✓	✓	N/A
Mr Dan Mwangwela	Company Secretary	N/A	N/A	N/A	✓

Key: ✓ = Attendance, A = Apology,
N/A = Not applicable - The composition of board members in the committee was reconstituted.

Human Resources and Remuneration Committee

Human Resources and Remuneration Committee nominates persons to be appointed as directors (subject to shareholders' approval) and recommends to the board, executive and non-executive directors and senior management remuneration.

The Committee also approves overall human resource and remuneration policies and strategies. The Human Resources and Remuneration Committee meets quarterly and on ad hoc basis when necessary.

The members of the Committee and their meeting attendance during the year were as follows:

Members		Date	Date	Date	Date
		15 March 2016	21 June 2016	29 September 2016	12 December 2016
Mr John McGrath	Chairman	✓	✓	✓	✓
Mr Ted Sauti-Phiri	Director	✓	✓	✓	✓
Mr Kofi Sekyere	Director	✓	✓	✓	A
Mr Misheck Esau	Managing Director	✓	✓	✓	✓
Mr Fred Chipembere	Company Secretary	✓	✓	✓	N/A
Mr Dan Mwangwela	Company Secretary	N/A	N/A	N/A	✓

Key: ✓ = Attendance, A = Apology, N/A = Not applicable

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements of CDH Investment Bank Limited, comprising the statements of financial position as at 31 December 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the directors are responsible for preparing the director's report.

The Act also requires the directors to ensure that the Group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and ensure the financial statements comply with the Companies Act, 2013 of Malawi.

In preparing the financial statements, the directors accept responsibility for the following:

1. Maintenance of proper accounting records;
2. Selection of suitable accounting policies and applying them consistently;
3. Making judgements and estimates that are reasonable and prudent;
4. Compliance with applicable accounting standards, when preparing consolidated and separate financial statements, subject to any material departures being disclosed and explained in the financial statements; and
5. Preparation of financial statements on a going concern basis unless it is inappropriate to presume the Group will continue in business.

The directors are also responsible 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 and for maintaining adequate accounting records and an effective system of risk management.

The directors' have made an assessment of the ability of the Bank and its subsidiary to continue as going concerns and they have since decided to discontinue the operations of CDH Forex Bureau. The directors have no reason to believe that the operations of CDH Investment Bank Limited will not continue as going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of consolidated and separate financial statements

The consolidated and separate financial statements of CDH Investment Bank Limited, as identified in the first paragraph, were approved by the board of directors on **23 March 2017** and signed on its behalf by:

FRANKLIN KENNEDY
CHAIRMAN

MISHECK ESAU
MANAGING DIRECTOR

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CDH INVESTMENT BANK LIMITED

Opinion

We have audited the consolidated and separate financial statements of CDH Investment Bank Limited (the Group and Company) set out on pages 10 to 78, which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of CDH Investment Bank Limited as at 31 December 2016, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2013 of Malawi.

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 consolidated and separate financial statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standard Board for Accountants' Code for Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe 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 judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers	
See notes 5(b)(vii), 5(f), 6.1.1, 11 and 22.3 to the consolidated and separate financial statements A significant proportion of the Group's and Company's business involves making loans and advances to customers. When considering whether these loans and advances may be impaired, the Bank does so both on a specific asset basis and on a collective basis, as described in note 5(b)(vii). The impairment assessments of loans and advances to customers was a key audit matter due to the following: • The significance of loans and advance to customers in the statements of financial position at year end. • The subjective nature of the impairment calculations, including the high level of judgement and complexity involved in determining the amounts to be reported in the consolidated and separate financial statements. • The complexity of the models used to assess the impairment of the loans and advances to customers; • The existence of regulatory directives for banks in Malawi, which results in a calculation of impairment that is different from IFRS; and	As part of our audit, we inspected the Bank's credit policy that sets out the provisioning processes that are followed by the Bank and we assessed these processes by considering whether the impairment process is in compliance with IAS 39 *Financial Instruments: Recognition and Measurements,* as well as with the provisions prescribed by the Reserve Bank of Malawi, the regulator. We tested the controls in place regarding credit risk management, particularly the key controls relating to the granting of the loans, monitoring, and recovery of the loans. In respect of specific allowances for impairment: • We challenged management's assumptions in grading of loans into performing and non-performing loans by selecting a sample of loans and assessing whether the loans were graded in line with our expectations. • We assessed a selected sample of loans categorised according to industries which have been affected by the current economic situation, such as the agribusiness and transport sector, to determine the adequacy of loans impairment allowance.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CDH INVESTMENT BANK LIMITED

Key audit matter	How our audit addressed the key audit matter
• The risk of recoverability for these balances, which is high due to the economic environment in Malawi. As a result, the impairment of loans and advances to customers was a matter of the most significance to our audit of the consolidated and separate financial statements.	• Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment. This was performed by selecting loan exposures on a sample basis and testing the appropriateness of the specific loan loss provision as at the year end, including challenging assumptions around future cash flow projections and the valuation of collateral held. • We examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement, based on our knowledge of the client and experience of the industry in which it operates, as to whether that was appropriate including using external evidence in respect of the relevant counterparties. For the collective allowances for impairment, we recalculated the collective impairment allowance taking into consideration the different industries that clients operate in, which have different risks relating to recoverability of the loans. Loan loss ratios were computed for each sector/industry taking into account the time it takes to identify an objective evidence of impairment, based on our knowledge of the client. We assessed the adequacy of management's transfer from retained earnings to the loan loss reserve by recalculating the regulatory reserve requirements based on the Reserve Bank of Malawi's directive and comparing this recalculated amount to the impairment required in terms of IFRS.
Valuation of treasury bills *See Notes 5(b)(vi), 5(d), and 9 the consolidated and separate financial statements.* The Group and Company hold treasury bills for trading as part of their business. These investments are measured at fair value. Because the fair value of these investments is not readily available in the economy as there is a less than active market for these instruments in Malawi, these instruments held were classified as Level 2 instruments in accordance with IFRS 13, Fair Value Measurement. We considered the valuation of these investments to be a key audit matter in our audit of the consolidated and separate financial statements due to: • The significance of the fair values of these investments recognised in the consolidated and separate financial statements; and • The complexity involved in determining their fair values due to lack of an active market for these instruments.	We tested the fair value of the treasury bills by considering whether the assumptions and calculation method used are appropriate and consistent with market conditions. We recalculated the fair values of treasury bills, which included performing the following procedures: • We obtained confirmations from the Reserve Bank of Malawi for all treasury bills held by the Group and Company and matched the maturity dates, the original yield rates and nominal values of the treasury bills to those confirmations. • We challenged management's assumptions used in determining the valuation of these bills by comparing the yield rates used by management in their fair value calculation to the latest Reserve Bank of Malawi auction results for similar treasury bills.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CDH INVESTMENT BANK LIMITED

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, Corporate Governance report and the Directors' responsibility statement, but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance or conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013 of Malawi, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and 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 Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CDH INVESTMENT BANK LIMITED

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and 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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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.

KPMG

KPMG

Lamion Gama
Chartered Accountant (Malawi)
Partner

Blantyre, Malawi
31 March 2017

STATEMENTS OF FINANCIAL POSITION

In thousands of Malawi Kwacha

		CONSOLIDATED		SEPARATE	
	NOTE	2016	2015	2016	2015
ASSETS					
Cash and cash equivalents	8	**3,028,854**	5,608,210	**3,028,854**	5,599,738
Money market investments	9	**47,134,552**	16,334,469	**47,134,552**	16,334,469
Loans and advances to related party	10/33	**2,697,695**	1,313,612	**2,697,695**	1,313,612
Loans and advances to customers	11	**10,631,438**	12,091,076	**10,631,438**	12,091,076
Income tax recoverable	21.1	**85,449**	-	**81,051**	-
Amounts due from related parties	33	**148,820**	438,143	**148,820**	441,385
Other assets	12	**368,247**	311,573	**368,233**	307,070
Assets held for sale	14(b)	**57,261**	150,729	**57,261**	150,729
Other investments	13	**15,000**	15,000	**15,000**	15,000
Investment in subsidiary	13	**-**	-	**-**	49,430
Property and equipment	14(a)	**561,901**	240,721	**561,901**	207,229
Intangible assets	15	**248,832**	238,849	**248,832**	238,849
Deferred tax asset	21.2	**8,795**	-	**8,795**	-
Total assets		**64,986,844**	36,742,382	**64,982,432**	36,748,587
LIABILITIES					
Balances due to other banks	19	**5,950,000**	2,600,000	**5,950,000**	2,600,000
Customers deposits	16	**20,362,691**	15,805,550	**20,362,691**	15,806,992
Short-term deposits	17	**33,769,619**	13,565,793	**33,769,619**	13,565,793
Amounts due to related parties	33	**-**	304	**-**	304
Other liabilities and accruals	20	**461,918**	649,847	**461,918**	646,883
Income tax payable	21.1	**-**	262,142	**-**	265,329
Deferred tax liabilities	21.2	**-**	150,466	**-**	150,481
Subordinated liability	18	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Total liabilities		**61,544,228**	34,034,102	**61,544,228**	34,035,782
EQUITY					
Issued capital	22.1	**172,458**	172,458	**172,458**	172,458
Share premium	22.2	**746,744**	746,744	**746,744**	746,744
Loan loss reserve	22.3	**9,386**	114,345	**9,386**	114,345
Retained earnings		**2,514,028**	1,674,733	**2,509,616**	1,679,258
Total equity		**3,442,616**	2,708,280	**3,438,204**	2,712,805
Total equity and liabilities		**64,986,844**	36,742,382	**64,982,432**	36,748,587

The consolidated and separate financial statements were approved for issue by the Board of Directors on **23 March 2017** and were signed on its behalf by:

FRANKLIN KENNEDY
CHAIRMAN

MISHECK ESAU
MANAGING DIRECTOR

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 35 to 98. The independent auditor's report is on page 26.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of Malawi Kwacha

		CONSOLIDATED		SEPARATE	
	NOTE	2016	2015	2016	2015
Interest income	23	12,878,065	8,733,027	12,878,065	8,733,027
Interest expense	23	(10,283,994)	(6,072,892)	(10,284,060)	(6,073,365)
Net interest income		2,594,071	2,660,135	2,594,005	2,659,662
Fees and commissions income	24	1,246,737	446,699	1,240,881	446,699
Trading income	25	1,116,850	736,537	1,102,402	717,057
Other operating income	26.1	15,729	6,069	15,729	5,792
Total operating income		4,973,387	3,849,440	4,953,017	3,829,210
Other income	26.2	36,740	46,324	36,740	46,324
Net impairment losses on loans and advances to customers	11	(410,444)	(111,222)	(410,444)	(111,222)
Income after impairment losses on loans and advances		4,599,683	3,784,542	4,579,313	3,764,312
Personnel expenses	27	(1,306,004)	(1,033,269)	(1,295,984)	(1,020,358)
Depreciation and amortisation expense	14-15	(210,321)	(226,411)	(204,710)	(226,239)
Administration expenses	28	(2,259,364)	(1,517,991)	(2,263,577)	(1,530,088)
Total operating expenses		(3,775,689)	(2,777,671)	(3,764,271)	(2,776,685)
Profit before income tax		823,994	1,006,871	815,042	987,627
Income tax credit/(expense)	31	159,261	(161,224)	159,276	(153,582)
Profit and other comprehensive income for the year		983,255	845,647	974,318	834,045
Profit (loss) from discontinued operation, net of tax (Included in consolidated profit)	13(b)	(40,478)	(28,556)	-	-
Profit attributable to:					
Equity holders of the Bank		732,033	629,584	725,380	620,946
Non-controlling interest		251,222	216,063	248,938	213,099
		983,255	845,647	974,318	834,045
Earnings per share					
Basic and diluted (MK per share)	32	5.70	4.90	5.65	4.84
Profit from continuing operations before income tax				815,042	
Income taxes				159,276	
Profit from continuing operations				974,318	
Profit from discontinued operations				8,937	
Income tax on discontinued operations				-	
Profit and other comprehensive income for the year				983,255	

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 35 to 98. The independent auditor's report is on page 26.

STATEMENTS OF CHANGES IN EQUITY

In thousands of Malawi Kwacha

CONSOLIDATED	Share capital	Share premium	Loan loss reserve	Retained earnings	Total equity
Balance at 1 January 2016	**172,458**	**746,744**	**114,345**	**1,674,733**	**2,708,280**
Profit for the year	–	–	–	983,255	983,255
Total comprehensive income for the year	**–**	**–**	**–**	**983,255**	**983,255**
Transfers within reserves					
Reversal of prior year loan loss reserve	-	-	(114,345)	114,345	-
Transfer to loan loss reserve	-	-	9,386	(9,386)	-
Total transfers within reserves	**-**	**-**	**(104,959)**	**104,959**	**-**
Transactions with owners of the company recognised directly in equity					
Dividend paid	-	-	-	(248,919)	(248,919)
Total comprehensive income and transfers within reserves	**-**	**-**	**(104,959)**	**839,295**	**734,336**
Balance as 31 December 2016	**172,458**	**746,744**	**9,386**	**2,514,028**	**3,442,616**

CONSOLIDATED	Share capital	Share premium	Property revaluation reserve	Loan loss reserve	Retained earnings	Total equity
Balance at 1 January 2015	**172,458**	**746,744**	**35,290**	**21,855**	**879,967**	**1,856,314**
Profit for the year	–	–	–	–	845,647	845,647
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**845,647**	**845,647**
Transfers within reserves						
Deferred tax on revaluation surplus on disposal of motor vehicles	-	-	-	-	6,319	6,319
Transfer of depreciation charge on asset revaluation gains net of tax	-	-	(6,966)	-	6,966	-
Transfer of revaluation surplus on disposal of motor vehicles	-	-	(28,324)	-	28,324	-
Reversal of prior year loan loss reserve	-	-	-	(21,855)	21,855	-
Transfer to loan loss reserve	-	-	-	114,345	(114,345)	-
Total transfers within reserves	**-**	**-**	**(35,290)**	**92,490**	**(50,881)**	**6,319**
Total comprehensive income and transfers within reserves	**-**	**-**	**(35,290)**	**92,490**	**794,766**	**851,966**
Balance as 31 December 2015	**172,458**	**746,744**	**-**	**114,345**	**1,674,733**	**2,708,280**

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 35 to 98.
The independent auditor's report is on page 26.

STATEMENTS OF CHANGES IN EQUITY

In thousands of Malawi Kwacha

SEPARATE	Share capital	Share premium	Loan loss reserve	Retained earnings	Total equity
Balance at 1 January 2016	172,458	746,744	114,345	1,679,258	2,712,805
Profit for the year	–	–	–	974,318	974,318
Total comprehensive income for the year	–	–	–	974,318	974,318
Transfers within reserves					
Reversal of prior year loan loss reserve	-	-	(114,345)	114,345	-
Transfer to loan loss reserve	-	-	9,386	(9,386)	-
Total transfers within reserves	-	-	(104,959)	104,959	-
Transactions with owners of the company recognised directly in equity					
Dividend paid	-	-	-	(248,919)	(248,919)
Total comprehensive income and transfers within reserves	-	-	(104,959)	830,358	725,399
Balance as 31 December 2016	172,458	746,744	9,386	2,509,616	3,438,204

SEPARATE	Share capital	Share premium	Property revaluation reserve	Loan loss reserve	Retained earnings	Total equity
Balance at 1 January 2015	172,458	746,744	35,290	21,855	896,130	1,872,477
Profit for the year	–	–	–	–	834,045	834,045
Total comprehensive income for the year	–	–	–	–	834,045	834,045
Transfers within reserves						
Deferred tax on revaluation surplus on disposal of motor vehicles	-	-	-	-	6,283	6,283
Transfer of depreciation charge on asset revaluation gains net of tax	-	-	(6,966)	-	6,966	-
Transfer of revaluation surplus on disposal of motor vehicles	-	-	(28,324)	-	28,324	-
Reversal of prior year loan loss reserve	-	-	-	(21,855)	21,855	-
Transfer to loan loss reserve	-	-	-	114,345	(114,345)	-
Total transfers within reserves	-	-	(35,290)	92,490	(50,917)	6,283
Total comprehensive income and transfers within reserves	-	-	(35,290)	92,490	783,128	840,328
Balance as 31 December 2015	172,458	746,744	-	114,345	1,679,258	2,712,805

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 35 to 98.
The independent auditor's report is on page 26.

STATEMENTS OF CASH FLOWS

In thousands of Malawi Kwacha

		CONSOLIDATED		SEPARATE	
	NOTE	2016	2015	2016	2015
Cash flows from operating activities					
Profit for the year		**983,255**	845,647	**974,318**	834,045
Adjusted for:					
▪ Depreciation and amortisation	14-15	**210,321**	226,411	**204,710**	226,239
▪ Profit on disposal assets	26.2	**(36,740)**	(46,324)	**(36,740)**	(46,324)
▪ Impairment of assets held for sale	14(b)	**43,650**	-	**43,650**	-
▪ Net impairment on loans and advances	11	**410,444**	111,222	**410,444**	111,222
▪ Effects of exchange rate fluctuations on cash		**(124,127)**	(314,426)	**(124,127)**	(314,246)
▪ Fair value adjustment on treasury bills	23	**28,538**	(257,707)	**28,538**	(257,707)
▪ Impairment on subsidiary	13(a)	**-**	-	**49,430**	40,155
▪ Net interest income	23	**(2,622,609)**	(2,402,248)	**(2,622,543)**	(2,401,955)
▪ Tax expense	31	**(159,261)**	161,224	**(159,276)**	153,582
		(1,266,529)	(1,676,201)	**(1,231,596)**	(1,654,989)
Changes in:					
Money market investments		**(30,828,621)**	(3,325,211)	**(30,828,621)**	(3,325,211)
Loans and advances to related party		**(1,384,083)**	(1,313,612)	**(1,384,083)**	(1,313,612)
Loans and advances to customers		**1,049,194**	(3,576,133)	**1,049,194**	(3,576,133)
Amounts due from related parties		**289,323**	(285,729)	**292,565**	(319,626)
Other assets		**(56,674)**	165,088	**(61,163)**	167,041
Trading liabilities		**20,203,826**	4,408,695	**20,203,826**	4,408,659
Deposits from banks		**3,350,000**	2,600,000	**3,350,000**	2,600,000
Deposits from customers		**4,557,141**	344,932	**4,555,699**	334,733
Amounts due to related parties		**(304)**	126	**(304)**	126
Other liabilities and provisions		**(187,929)**	142,156	**(184,965)**	142,083
		(4,274,656)	(2,515,889)	**(4,239,448)**	(2,536,929)
Interest received	23	**12,906,603**	8,475,320	**12,906,603**	8,475,320
Interest paid	23	**(10,283,994)**	(6,072,892)	**(10,284,060)**	(6,073,365)
Income taxes paid	21	**(347,591)**	(54,829)	**(346,380)**	(54,829)
Net cash used in operating activities		**(1,999,638)**	(168,290)	**(1,963,285)**	(189,803)
Cash flows from/(to) investing activities					
Proceeds from the sale of equipment and motor vehicles		**100,708**	321,190	**72,827**	321,190
Acquisition of property and equipment and intangible assets	14-15	**(555,634)**	(413,469)	**(555,634)**	(379,805)
Net cash from/ (used in) investing activities		**(454,926)**	(92,279)	**(482,807)**	(58,615)
Cash flows from/(to) investing activities					
Dividend paid		**(248,919)**	-	**(248,919)**	-
Net cash used in financing activities		**(248,919)**	-	**(248,919)**	-
Net decrease in cash and cash equivalents		**(2,703,483)**	(260,569)	**(2,695,011)**	(248,418)
Cash and cash equivalents at the beginning of the year		**5,608,210**	5,554,533	**5,599,738**	5,533,910
Effect of exchange rate fluctuations on cash and cash equivalents held		**124,127**	314,246	**124,127**	314,246
Cash and cash equivalents at the end of the year	8	**3,028,854**	5,608,210	**3,028,854**	5,599,738

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 35 to 98.
The independent auditor's report is on page 26.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

1. REPORTING ENTITY

CDH Investment Bank Limited is a private limited liability company incorporated in Malawi. The company is involved in banking with emphasis on corporate and investment banking. The consolidated and separate financial statements comprise the Bank and its subsidiary, CDH Forex Bureau Limited, (collectively known as the Group). When reference is made to the Group in the accounting policies, it should be interpreted as referring to the Group where the context requires, and unless otherwise noted. During the year the Bureau's operations were discontinued and then it became dormant.

2. BASIS OF PREPARATION

(i) Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies Act, 2013 of Malawi.

(ii) Basis of measurement

The consolidated and separate financial statements are prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value;
- Motor vehicles are measured at revalued amount less depreciation.

(iii) Functional and presentation currency

These consolidated and separate financial statements are presented in Malawi Kwacha, which is the Company's functional and presentation currency. Except as indicated, financial information presented in Malawi Kwacha, has been rounded to the nearest thousand.

(iv) Use of estimates and judgements

The preparation of consolidated and separate financial statements in conformity with IFRSs require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes.

- Note 5b(vii) - Loans and advances to customers – impairment. The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

2. BASIS OF PREPARATION (CONTINUED)

(iv) Use of estimates and judgements (Continued)

- Note 5(z) - Fair value measurement. A number of Group's accounting policies and disclosures require the measurement of fair values, both of financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes the Finance Manager who gets inputs from the Chief Treasury Officer who oversees all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.
- Note 29 - Operating leases. At inception of an arrangement, determines whether the arrangement is or, the Group contains a lease. At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values.

(v) Going concern basis of accounting

An evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) is made. Management's evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued when applicable). When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, management reviews the business plans that are intended to mitigate those relevant conditions or events to alleviate the substantial doubt. Appropriate disclosures on the going concern status of the business are made.

3. BASIS OF CONSOLIDATION

(i) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

(a) Changes in accounting policies

The Group has not adopted new standards and amendments to standards, including any consequential amendments to other standards during the year 2016.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

(b) New standards and interpretations not yet adopted

New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated and separate financial statements.

- *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019.

It replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal form of a Lease.

The Standard establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

Because the Group's existing lease arrangements are operating leases, this new standard will most likely not have a significant impact on the Group. The Group will assess the impact of the standard before the effective date.

Effective for the financial year commencing on or after 1 January 2018

- *IFRS 9 Financial Instruments*

This standard will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI.All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised within OCI.

The standard has introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. This new model will apply to financial assets measured at either amortised cost or fair value through OCI, as well as loan commitments when there is present commitment to extend credit (unless these are measured at fair value through profit or loss).With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition as well as for certain contract assets or trade receivables. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.

The revised general hedge accounting requirements arc better aligned with an entity's risk management activities; provide additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

4. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

(b) New standards and interpretations not yet adopted (continued)

The standard will be applied retrospectively only if it is possible without the use of hindsight. The impact on the financial statements has not yet been fully determined.

IFRS 9 is effective for annual reporting periods beginning on or after l January 2018, with early adoption permitted.

- *IFRS 15 Revenue from Contracts with Customers*
  This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

  The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

  This new standard will most likely have a significant impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group will assess the impact of the standard before the effective date.

  The Standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted. The impact on the financial statements has not yet been fully determined. All standards and interpretations will be adopted at their effective dates.

  - Disclosure Initiative (Amendments to IAS 7): The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

  - Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12): The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. SIGNIFICANT ACCOUNTING POLICIES

Except for changes in note 4 (a), the accounting policies have been consistently applied by the Group during the year.

(a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies during the year are translated into Malawi Kwacha at rates ruling at spot exchange rates at the date of the transactions. Monetary assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Malawi Kwacha at rates ruling at that date. The resulting differences from translation are recognised in the profit or loss in the year in which they arise.

Non-monetary assets and liabilities are measured at historical cost and re-translated into Malawi Kwacha using the exchange rate ruling at the reporting date.

(b) Financial assets and liabilities

(i) Recognition and measurement

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, loans and advances, deposits, debt securities issued and subordinated liabilities are measured at amortised cost using the effective interest method. Investment securities are subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(ii) Classification

Financial assets

The Group classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity; and
- at fair value through profit or loss, and within this category as:
  - ☐ held for trading; or
  - ☐ designated at fair value through profit or loss.
    (Refer to note 7 for the designation criteria for financial assets at fair value through profit or loss)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or at fair value through profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and liabilities (continued)

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

In the statements of financial position on derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the consideration received including any new accounts obtained less any new liability assumed) is recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group currently has a legally enforceable right to set off amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method applied to the difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models.

The value produced by a model or other valuation technique is adjusted to take into account a number of factors as appropriate because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to take into account model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments measured at fair value on the statement of financial position.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the financial asset and that the loss event has an impact on the future cash flows from the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific financial asset and collective level for financial assets carried at amortised cost. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are then collectively assessed for impairment by Grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted using the financial assets' original effective interest rate. The excess of the carrying amount over this present value is recognised in profit or loss and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised out of other comprehensive income to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale security is recognised directly in other comprehensive income. Any changes in impairment provisions attributable to time value are reflected as a component of interest income.

Impairment losses on investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and liabilities (continued)

(viii) Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with Central Bank and placements with foreign and local banks.

Cash and cash equivalents are measured at amortised cost in the statements of financial position.

(d) Money market investments and short-term deposits

Money market investments and short-term deposits are those assets and liabilities that the Group holds as part of a portfolio that is managed together for short-term profit or position taking.

Money market investments and short-term deposits with the exception of treasury bills are recognised initially at fair value (plus any directly attributable transaction costs) and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Treasury bills are classified as held-for-trading and as such are measured at fair value on initial recognition. Subsequent to initial recognition they are measured at fair value and changes therein, including any interest income, are recognised in profit or loss.

(e) Other financial assets

Other financial assets are measured at amortised cost using the effective interest method less impairment losses.

Other assets comprise inter-branch accounts, interest receivables, prepayments and staff advances.

(f) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan to the other party, and the underlying asset is not recognised in the Group's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(g) Investments

Investment securities are initially measured at fair value plus incremental direct transaction costs, for investments not at fair value through profit and loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

Subsequent to initial recognition investment securities are accounted for depending on their classification as either held-to-maturity or fair value through profit or loss.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are measured at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a re-classification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have significant effect on the financial asset's fair values;
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- Sales and reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated

(ii) Fair value through profit or loss

The Group recognises some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (5b).

(h) Other investments

(i) Investment in subsidiary

Investments in subsidiary are recognised at cost in the Company financial statements less any impairment losses.

(ii) Other investments

Initially, this is recognised at cost and subsequently includes the Group's share of profit or loss and other comprehensive income of the other investment.

(i) Property and equipment

(i) Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Motor vehicles are measured at latest valuation less accumulated depreciation and impairment losses. The valuation is determined by specialist motor dealers at each balance sheet.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within other operating income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property and equipment (continued)

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied within the part will flow to the entity and its costs can be measured reliably. All other expenditure is recognised in the profit and loss as an expense as incurred.

(iii) Depreciation

Property and equipment are depreciated on a straight-line basis at rates that would reduce carrying amounts to their estimated residual values, over the estimated useful lives of the assets. The Group reassesses the useful lives, the depreciation method and the residual values of the assets at each reporting date and adjusted if appropriate. Any changes in the useful lives, depreciation method or estimated residual values are accounted for prospectively as a change in accounting estimate in accordance with IAS 8: Accounting policies changes in accounting estimates and errors.

Depreciation is recognised in profit or loss.

The estimated useful lives for the current year and prior year are as follows:

- motor vehicles — 4 years
- equipment, fixtures and fittings and computers — 5 years

(iv) Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sale. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held-for-sale, plant and equipment are no longer amortised or depreciated.

(j) Capital work in progress

Capital work in progress represent gross amount spent to date in carrying out work of a capital nature. It is measured at cost recognised to date.

Capital work in progress is presented as part of property and equipment in the statements of financial position. If the project is completed the expenditure is capitalised to the relevant items of plant and equipment. Capital work in progress is not depreciated.

(k) Intangible assets

Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative years is three to eight years.

Upon derecognition of software, the Group recognises the resultant profit or loss in the statements of profit or loss and other comprehensive income.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and Group's of assets. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised in profit or loss unless it concerns property carried at revalued amount in which case it is treated as a revaluation decrease. If the impairment loss exceeds the revaluation reserve in respect of the impaired asset, the excess is recognised in profit or loss.

A reversal of an impairment loss is recognised in profit or loss, unless it relates to property carried at revalued amounts, in which case the excess of the reversal over the amount recognised in profit or loss is treated as a revaluation increase.

(m) Liabilities to customers and other banks

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements. Securities under repurchase agreements that cannot be derecognised are reclassified separately from other assets in the Group's statement of financial position.

Deposits are initially measured at fair value plus directly attributable transaction costs. Subsequently deposits measured at their amortised cost using the effective interest method, except where the Group chooses to account for the financial liabilities at fair value through profit or loss.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Other payables and subordinated liabilities

Other payables are initially measured at fair value less any directly attributable transaction costs, and are subsequently measured at amortised cost, using the effective interest method.

Subordinated liabilities

Subordinated liabilities are the Group's sources of debt funding. These liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss. *See (5)(b) v and viii.*

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) Operating leases - The group as a lessee

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(q) Share capital

Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(s) Net interest income

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the

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expected life of the financial asset or financial liability (or, where appropriate, a shorter year) to the carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Interest income and expense presented in the profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost on an effective interest basis
- interest on available-for-sale investment securities on an effective interest basis.

Interest income is accrued and included in impairment losses when collection of the loans becomes doubtful.

(t) Fees and commissions

Fees and commissions income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income, account service fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

(u) Income from investments

Income from investments includes dividend income and is included as part of interest income.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for available for sale securities.

(v) Other operating income

Other operating income includes gains or losses arising on translation of foreign exchange transactions and net gains on the sale of assets and is recognised on the accruals basis.

(w) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current assets, and they relate to income taxes levied in the same tax authority on the same taxable entity, or on different entities but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(x) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares.

(y) Acceptances, guarantees and letters of credit

Acceptances, guarantees and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities, unless it is probable that the Group will be required to make payments under these instruments, in which case they are recognised as provisions

(z) Determination of fair values

Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting year during which the change has occurred.

- The fair values of investments in the listed equities are derived from price ruling at reporting date.
- The fair values of properties are estimated by a qualified valuer on an open market value basis.

6. RISK MANAGEMENT

The board of directors of the Group has ultimate responsibility for the level of risk taken by the Group and accordingly they have approved the overall business strategies and significant policies of the Group, including those related to managing and taking risk. Senior management in the Group is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with applicable rules and regulation, both on a long-term and day-to-day basis. The Group has a risk management department, which is independent of those who accept risks in the Group. The risk management department is tasked to:

- identify current and emerging risks
- develop risk assessment and measurement systems
- establish policies, practices and other control mechanisms to manage risks
- develop risk tolerance limits for senior management and board approval
- monitor positions against approved risk tolerance limits
- report results of risk monitoring to senior management and the board.

To ensure that risk management is properly explained to and understood by all business lines the board has established the following risk management policies:

- Credit Risk Management Policy
- Liquidity Risk Management Policy
- Operational Risk Management Policy
- Capital Risk Management Policy
- Market Risk Policy

6.1 Financial risks

The Bank is exposed to the following financial risks from financial instruments:

a) Credit risk;
b) Liquidity risk
c) Market risk, and
d) Operational risks

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6. RISK MANAGEMENT (CONTINUED)

6.1 Financial risks (continued)

6.1.1 Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet their contractual obligations, and arises principally from the Group's loans and advances to customers and other banks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk
The Boards of Directors of the Group have delegated responsibility for the management of credit risk to their Credit Committees to which separate Credit departments report. The Credit Committees are responsible for oversight of credit risk, including:

- *Formulating credit policies,* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. All credit facilities are authorized by Head Office management. Larger facilities require approval by The Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk.* The Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branches concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Reviewing compliance of business units with agreed exposure limits.

Exposure to credit risk
The Group's exposure to credit risk principally comprises loans and advances to customers analysed as follows:

	CONSOLIDATED AND SEPARATE			
	Investment securities		Loans and advances to customers	
	2016	2015	2016	2015
Standard (fully performing)	-	1,472,386	**10,632,296**	12,167,419
Past due but not impaired	-	-	**439,292**	54,749
Gross exposure to credit risk	-	1,472,386	**11,071,588**	12,222,168
Less: Allowance for impairment (note 11)	-	-	**(440,150)**	(131,092)
	-	1,472,386	**10,631,438**	12,091,076
Neither past due nor impaired assets comprise:				
Current 1-30 days	-	1,472,386	**10,632,296**	12,167,419

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Past due but not impaired loans and advances comprise:	CONSOLIDATED AND SEPARATE	
	2016	2015
30-60 days	**6,584**	54,749
61-90 days	**103,101**	-
>90 days	**329,607**	-
	439,292	54,749

An estimate of the fair value of collateral held against loans and advances to customers is shown below:

Against past due but not impaired		
Property	**12,240**	**88,906**

Against neither past due nor impaired		
Property	**985,679**	4,482,676
Motor vehicles	**287,146**	139,666
Others	**8,958,251**	4,362,888
	10,231,076	**8,985,230**

The Group's policy is to pursue the timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations. The Group has not taken possession of any of the collateral.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and/or interest due according to the contractual terms of the loan/securities agreements.

Past due but not impaired loans

These are loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Impairment policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when the Credit committee determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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6. RISK MANAGEMENT (CONTINUED)

6.1 Financial risks (continued)

6.1.1 Credit risk (continued)

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Economic sector risk concentrations within the customer loan portfolio were as follows:

	CONSOLIDATED AND SEPARATE	
	2016	**2015**
Agriculture	**936,342**	2,257,561
Construction	**23,586**	240,917
Manufacturing	**3,348,307**	5,256,186
Wholesale and retail	**2,192,374**	1,102,084
Tourism and leisure	**2,876**	787,711
Transport	**848,296**	560,914
Others	**3,719,807**	2,016,795
	11,071,588	12,222,168

The risk that counterparties to trading instruments might default on their obligations is monitored on an on-going basis. When monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and the volatility of the fair value of trading instruments.

To manage the level of credit risk, the Group deals with counterparties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

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CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of financial asset for credit risk related items.

CONSOLIDATED AND SEPARATE	Note	Performing		Non-Performing					
2016		**Standard**	**Special Mention**	**Sub Standard**	**Doubtful**	**Loss**	**Total**	**Security against impaired loans**	**Net impairment**
Credit quality									
Money market investments	9	47,134,552	-	-	-	-	47,134,552	-	-
Loans and advances to customers	11	10,632,296	109,685	60,610	177,434	91,563	11,071,588	1,279,312	440,150
Total recognised financial instruments		**57,766,848**	**109,685**	**60,610**	**177,434**	**91,563**	**58,206,140**	**1,279,312**	**440,150**
2015									
Credit quality									
Investment securities	9	1,472,386	-	-	-	-	1,472,386	-	-
Money market investments	9	14,862,083	-	-	-	-	14,862,083	-	-
Loans and advances to customers	11	12,167,419	-	30,476	21,782	2,491	12,222,168	488,000	131,092
Total recognised financial instruments		28,501,888	-	30,476	21,782	2,491	28,556,637	488,000	131,092

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6. RISK MANAGEMENT (CONTINUED)

6.1.1 CREDIT RISK (CONTINUED)

Maximum exposure to credit risk without taking into account any collateral

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IAS 39 *Financial Instruments: Recognition and measurement* as well as other financial instruments not recognised. The maximum exposure is presented gross, before the effect of mitigation through the use of master netting and collateral agreements.

Gross maximum exposure	NOTE	CONSOLIDATED		SEPARATE	
		2016	2015	2016	2015
Cash held with the central bank of Malawi	8	**1,611,267**	1,512,180	**1,611,267**	1,512,180
Cash held with local banks	8	**866**	2,371	**866**	2,371
Cash held with foreign banks	8	**1,859,924**	3,490,233	**1,859,924**	3,490,233
Clearing balances	8	**(940,002)**	467,492	**(940,002)**	467,492
Cash balances	8	**496,799**	135,934	**496,799**	127,462
Money market investments	9	**47,134,552**	16,334,469	**47,134,552**	16,334,469
Loans and advances with other banks	10	**2,697,695**	1,313,612	**2,697,695**	1,313,612
Personal and Business Banking					
▪ Other loans and advances	11	**1,365,195**	2,120,938	**1,365,195**	2,120,938
Corporate and Investment Banking					
▪ Corporate lending	11	**9,706,393**	10,101,230	**9,706,393**	10,101,230
Total recognised financial instruments		**63,932,689**	35,478,459	**63,932,689**	35,469,987
Financial guarantees	34	**160,613**	164,807	**160,613**	164,807
Total unrecognised financial instruments		**160,613**	164,807	**160,613**	164,807
Total credit risk exposure		**64,093,302**	35,643,266	**64,093,302**	35,634,794

Net exposure to credit risk without taking into account any collateral or other credit enhancements

In respect of certain financial assets, the Group has legally enforceable rights to offset them with financial liabilities. However, in normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, the financial assets are not offset against the respective financial liabilities for financial reporting purposes. However, the exposure to credit risk relating to the respective financial assets is as follows:

CONSOLIDATED			At 31 December 2016
	NOTE	Carrying amount	Net exposure to credit risk
Cash and balances with banks	8	**3,028,854**	**3,028,854**
Loans and advances to related party	10	**2,697,695**	**2,697,695**
Loans and advances to customers	11	**10,631,438**	**10,631,438**
Investments	9	**47,134,552**	**47,134,552**
		63,492,539	**63,492,539**

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CONSOLIDATED			At 31 December 2015
	NOTE	Carrying amount	Net exposure to credit risk
Cash and balances with banks	8	5,608,210	5,608,210
Loans and advances to other banks	10	1,313,612	1,313,612
Loans and advances to customers	11	12,091,076	12,091,076
Investments	9	16,334,469	16,334,469
		35,347,367	35,347,367

SEPARATE			At 31 December 2016
	NOTE	Carrying amount	Net exposure to credit risk
Cash and balances with banks	8	**3,028,854**	**3,028,854**
Loans and advances to other banks	10	**2,697,695**	**2,697,695**
Loans and advances to customers	11	**10,631,438**	**10,631,438**
Investments	9	**47,134,552**	**47,134,552**
		63,492,539	**63,492,539**

SEPARATE			At 31 December 2015
	NOTE	Carrying amount	Net exposure to credit risk
Cash and balances with banks	8	5,599,738	5,599,738
Loans and advances to other banks	10	1,313,612	1,313,612
Loans and advances to customers	11	12,091,076	12,091,076
Investments	9	16,334,469	16,334,469
		35,338,895	35,338,895

Collateral held and other credit enhancements and their financial effect

The Group hold collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principle types of collateral held against different types of financial assets.

Type of credit exposure

	2016	2015	Principle type of collateral held
Loans and advances to banks	%	%	
▪ Inter-bank placement	**100**	100	Marketable securities
Loans and advances to retail customers			
▪ Personal loans	**95**	95	Cash and property
Loan advances to corporate customers			
▪ Asset Finance	**100**	100	Property and equipment
▪ Other	**90**	89	Commercial property floating charges over corporate assets

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6. RISK MANAGEMENT (CONTINUED)

6.1.1 Credit risk (continued)

Loan and advances to corporate customers

The general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first change over real estate, floating charges over all corporate assets and other liens and guarantees.

Because the Group's focus on corporate customers' creditworthiness, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely for impaired loans, the group obtains appraisals of collateral measurement. At 31 December 2016, the net carrying amount of impaired loans and advances to corporate customers amounted to **K109 million** (2015: Knil million) and the value of identifiable collateral held against those loans and advances amounted to **Knil million** (2015: Knil million).

In addition to the collateral included in the table above, the Group also holds other types of collateral and credit enhancements such as second charges for which specific values are not generally available.

Details of collateral held by the Group as security against loans, advances and other credit enhancements at the year-end are shown below:

Consolidated and Separate	2016	2015
Property	**985,679**	4,482,676
Motor Vehicles	**287,146**	139,666
Stocks	**2,172,620**	2,736,943
Guarantees	**654,637**	604,433
Cash	**2,333,107**	635,576
Debentures	**361,387**	361,387
Others	**3,436,500**	24,549
	10,231,076	**8,985,230**

The Group policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations.

6.1.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, both under stressed and normal conditions, without causing damage to the Group's reputation.

The daily liquidity position is monitored. It is assumed that under normal circumstances customer demand deposits will remain stable or increase in value and unrecognised loan/overdraft commitments are not expected to be immediately drawn down in their entirety. Regular stress testing is done under normal and severe, market conditions and the results are discussed with the Asset and Liability Committee (ALCO) and the Board Audit, Risk and Compliance Committee (BARC).

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All liquidity policies and procedures are subject to review and approval by ALCO. These are management committees which meet once a month or more often if necessary. The daily monitoring of liquidity is the responsibility of an integrated treasury department which monitors the level of mismatches in the maturity positions of assets and liabilities.

Asset and Liability Management Committee (ALCO)
The primary objective of ALCO is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure etc. between funds mobilized and funds deployed. ALCO seeks to manage risks in order to minimize the volatility of net interest income and protect the long-term economic value of the Bank. The committee also monitors the capital adequacy of the Bank.

Key functions of ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring that contingency funding plans are in place to avert funding crises.

The table below analyses financial assets and financial liabilities into relevant maturity rankings based on the remaining contractual maturities:

CONSOLIDATED								
2016	NOTE	Carrying amount	Cash inflow /(outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	8	3,028,854	3,028,854	3,028,854	-	-	-	-
Gross loans, advances and leases	11	10,631,438	10,128,356	2,637,719	82,534	1,476,699	2,705,237	3,226,167
Money market investments	9	47,134,552	45,802,534	1,028,261	4,072,314	20,773,322	14,567,124	5,361,513
Amounts due from related parties	33	148,820	148,820	148,820	-	-	-	-
Balances due from other banks	10	2,697,695	2,697,695	2,697,695	-	-	-	-
Total assets		63,641,359	61,806,259	9,541,349	4,154,848	22,250,021	17,272,361	8,587,680
LIABILITIES								
Current and savings account	16	5,256,053	5,249,602	5,249,602	-	-	-	-
Foreign currency accounts	16	3,673,371	3,666,623	3,666,623	-	-	-	-
Term deposit accounts	16	11,433,267	11,264,190	28,808	8,601,055	2,634,327	-	-
Short-term deposits	17	33,769,619	31,125,529	11,264,420	12,340,431	4,420,678	3,100,000	-
Subordinated debt	18	1,000,000	1,000,000	-	-	-	-	1,000,000
Balances due to other banks	19	5,950,000	5,950,000	5,950,000	-	-	-	-
Total liabilities		61,082,310	58,255,944	26,159,453	20,941,486	7,055,005	3,100,000	1,000,000
Net liquidity gap		2,559,049	3,550,315	(16,618,104)	(16,786,638)	15,195,016	14,172,361	7,587,680
Cumulative liquidity gap		-	-	(16,618,104)	(33,404,742)	(18,209,726)	(4,037,365)	3,550,315

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

6. RISK MANAGEMENT (CONTINUED)

6.1.2 Liquidity risk (continued)

CONSOLIDATED								
2015	NOTE	Carrying amount	Cash inflow /(outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	8	5,608,210	5,608,210	5,608,210	-	-	-	-
Gross loans, advances and leases	11	12,091,076	10,729,719	5,285,594	106,012	1,455,351	2,218,397	1,664,365
Investment in securities	9	1,472,386	1,575,000	375,000	500,000	-	700,000	-
Money market investments	9	14,862,083	14,699,612	2,742,982	7,726,465	77,312	1,965,810	2,187,043
Amounts due from related parties	33	438,143	438,143	438,143	-	-	-	-
Balances due from related parties	10	1,313,612	1,304,678	1,304,678	-	-	-	-
Total assets		35,785,510	34,355,362	15,754,607	8,332,477	1,532,663	4,884,207	3,851,408
LIABILITIES								
Current and savings account	16	3,639,302	3,598,026	3,598,026	-	-	-	-
Foreign currency accounts	16	5,285,918	5,286,538	5,286,538	-	-	-	-
Term deposit accounts	16	6,880,330	6,855,902	3,946,451	2,477,502	156,403	275,546	-
Short-term deposits	17	13,565,793	13,730,962	6,874,574	5,584,142	1,272,246	-	-
Amounts due to related parties	33	304	304	304	-	-	-	-
Subordinated debt	18	1,000,000	1,000,000	-	-	-	-	1,000,000
Balances due to other banks	19	2,600,000	2,600,000	2,600,000	-	-	-	-
Total liabilities		32,971,647	33,071,732	22,305,893	8,061,644	1,428,649	275,546	1,000,000
Net liquidity gap		2,813,863	1,283,630	(6,551,286)	270,833	104,014	4,608,661	2,851,408
Cumulative liquidity gap		-	-	(6,551,286)	(6,280,453)	(6,176,439)	(1,567,778)	1,283,630

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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SEPARATE								
2016	NOTE	Carrying amount	Cash inflow /(outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	8	3,028,854	3,028,854	3,028,854	-	-	-	-
Gross loans, advances and leases	11	10,631,438	10,128,356	2,637,719	82,534	1,476,699	2,705,237	3,226,167
Money market investments	9	47,134,552	45,802,534	1,028,261	4,072,314	20,773,322	14,567,124	5,361,513
Amounts due from related parties	33	148,820	148,820	148,820	-	-	-	-
Balances due from related parties	10	2,697,695	2,697,695	2,697,695	-	-	-	-
Total assets		63,641,359	61,806,259	9,541,349	4,154,848	22,250,021	17,272,361	8,587,680
LIABILITIES								
Current and savings account	16	5,256,053	5,249,602	5,249,602	-	-	-	-
Foreign currency accounts	16	3,673,371	3,666,623	3,666,623	-	-	-	-
Term deposit accounts	16	11,433,267	11,264,190	28,808	8,601,055	2,634,327	-	-
Short-term deposits	17	33,769,619	31,125,529	11,264,420	12,340,431	4,420,678	3,100,000	-
Subordinated liabilities	18	1,000,000	1,000,000	-	-	-	-	1,000,000
Balances due to other banks	19	5,950,000	5,950,000	5,950,000	-	-	-	-
Total liabilities		61,082,310	58,255,944	26,159,453	20,941,486	7,055,005	3,100,000	1,000,000
Net liquidity gap		2,559,049	3,550,315	(16,618,104)	(16,786,638)	15,195,016	14,172,361	7,587,680
Cumulative liquidity gap		-	-	(16,618,104)	(33,404,742)	(18,209,726)	(4,037,365)	3,550,315

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

6. RISK MANAGEMENT (CONTINUED)

6.1.2 Liquidity risk (continued)

SEPARATE								
2015	**NOTE**	**Carrying amount**	**Cash inflow /(outflow)**	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-3 years**
ASSETS								
Cash and cash equivalents	8	5,599,738	5,599,738	5,599,738	-	-	-	-
Gross loans, advances and leases	11	12,091,076	10,729,719	5,285,594	106,012	1,455,351	2,218,397	1,664,365
Investment in securities	9	1,472,386	1,575,000	375,000	500,000		700,000	
Money market investments	9	14,862,083	14,699,612	2,742,982	7,726,465	77,312	1,965,810	2,187,043
Amounts due from related parties	33	441,385	441,385	441,385	-	-	-	-
Balances due from other banks	10	1,313,612	1,304,679	1,304,679	-	-	-	-
Total assets		35,780,280	34,350,133	15,749,378	8,332,477	1,532,663	4,884,207	3,851,408
LIABILITIES								
Current and savings account	16	3,640,070	3,599,468	3,599,468	-	-	-	-
Foreign currency accounts	16	5,286,538	5,286,538	5,286,538	-	-	-	-
Term deposit accounts	16	6,880,384	6,855,902	3,946,451	2,477,502	156,403	275,546	-
Short-term deposits	17	13,565,793	13,730,962	6,874,574	5,584,142	1,272,246	-	-
Amounts due to related parties	33	304	304	304	-	-	-	-
Subordinated liabilities	18	1,000,000	1,000,000		-	-	-	1,000,000
Balances due to other banks	19	2,600,000	2,600,000	2,600,000	-	-	-	-
Total liabilities		32,973,089	33,073,174	22,307,335	8,061,644	1,428,649	275,546	1,000,000
Net liquidity gap		2,807,191	1,276,959	(6,557,957)	270,833	104,014	4,608,661	2,851,408
Cumulative liquidity gap		-	-	(6,557,957)	(6,287,124)	(6,183,110)	(1,574,449)	1,276,959

The previous table shows the undiscounted cash flows on the Group's financial assets and liabilities on the basis of their earliest possible contractual maturity. Out of these, 20% are demand deposits and overdrafts, and are classified in the up to one-month category with the balance in the 1-3 years category as the Group's expected cash flows on these instruments varies significantly from their contractual maturity profile.

The Group's asset liability committee manages liquidity gaps by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily. The committee reviews product and customer behavioural assumptions when there is indication that there is a shift in one or more variables.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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The Reserve Bank of Malawi has issued the following guidelines on the management of liquidity:

- Liquidity Ratio 1: Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 30 percent.

- Liquidity Ratio 2: Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20 percent.

Liquidity Ratios 1 and 2 were as specified below:

	CONSOLIDATED AND SEPARATE	
CDH Investment Bank Limited	**2016**	**2015**
Liquidity Ratio I	**68.06%**	52.23%
Liquidity Ratio II	**68.06%**	52.23%

6.1.3 Market risk

Market risk management policy

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group income or the value of its holding of financial instruments. The objective of the Group's market risk management policy is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

6.1.3.1 Foreign exchange risk

Foreign exchange rate risk is the potential impact of adverse currency rates movements on earnings and economic value. It arises from change in value of local currency against foreign currencies.

Foreign currency transactions and positions are monitored by Treasury department and ALCO whose responsibilities are described below.

Foreign exchange rate risk management

The responsibilities of the Treasury Department include monitoring of foreign exchange risk. This involves the risks of the Group incurring financial loss on settlement of foreign exchange positions taken in both the trading and banking books. The foreign exchange positions arise from the following activities:

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the unhedged position arising from customer driven foreign exchange transactions.

- Holding foreign currency position in the bank books (e.g. in the form of loans, deposits, cross border investments, etc).

The treasury department is responsible for:

- Setting the foreign exchange risk management strategy and tolerance levels.
- Ensuring that effective risk management systems and internal controls are in place.
- Monitoring significant foreign exchange exposure.
- Ensuring that foreign exchange operations are supported by adequate management information systems which complement the risk management strategy
- Reviewing the policies, procedures and currency limits regularly in line with changes in the economic environment.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

6. RISK MANAGEMENT (CONTINUED)

6.1.3.1 Foreign exchange risk (continued)

Foreign exchange rate risk management (Continued)

The ALCO regularly monitors the controls put in place by the treasury department, which are approved and reviewed by the board from time to time.

The Group's foreign exchange exposures at the reporting date were as follows:

CONSOLIDATED	Assets	Liabilities	Net	Exchange Rate movement	Impact on profit and equity (net of tax)
USD	-	129,258	(129,258)	0.14%	(126)
GBP	142,975	130,000	12,975	0.40%	36
EUR	152,946	55,000	97,946	-	-
ZAR	443,753	-	443,753	0.50%	1,553
Other	667	-	667	0.77%	4
					1,467

SEPARATE	Assets	Liabilities	Net	Exchange Rate movement	Impact on profit and equity (net of tax)
USD		129,258	(129,258)	0.14%	(126)
GBP	142,975	130,000	12,975	0.40%	36
EUR	152,946	55,000	97,946	-	-
ZAR	443,753	-	443,753	0.50%	1,553
Other	667	-	667	0.77%	4
					1,467

At 31 December 2016, if the Malawi Kwacha had weakened/strengthened by the above exchange rate movements against the US dollar, Great British Pound, Euro and the South African Rand with all other variables held constant, post-tax profit for the year would have been **K1.47 million** (2015: K 0.052 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency-denominated financial instruments.

6.1.3.2 Interest rate risk

Interest rate risk is the exposure of Group's financial condition to adverse movements in interest rates. It basically arises from timing differences in the maturity of re-pricing of the Group's assets and liabilities. Changes in interest rates can have adverse effects on the Group's earnings and its economic value. ALCO monitors interest rate risk in the Group.

Interest rate gap management techniques employed by the Group are the following; migrating more assets into the floating rate category and more liabilities into the fixed rate category in times of increasing interest rates. This brings more flexibility on the re-pricing of the assets. Another approach is to ensure that there is a proper match between asset and liability maturity tenors. The Group also determines an appropriate asset and liability mix to manage its margins.

Stress testing on the three elements of interest rate risk is done by an independent risk function. The results are discussed with ALCO and the Risk Committee and appropriate risk mitigation measures and contingency plans are implemented. Below is a summary of the Group's interest rate gap position:

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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CONSOLIDATED		Fixed Rate Instruments							
2016	**NOTE**	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total carrying amount**
Cash and cash equivalents	8	3,028,854	-	-	-	-	-	-	3,028,854
Loans and advances	10-11	-	13,329,133	-	-	-	-	-	13,329,133
Money market investments	9	-	-	6,432,594	20,773,322	1,500,000	13,067,123	5,361,513	47,134,552
Total assets		3,028,854	13,329,133	6,432,594	20,773,322	1,500,000	13,067,123	5,361,513	63,492,539
Deposits from banks	19	-	-	5,950,000	-	-	-	-	5,950,000
Current and savings accounts	16	-	-	5,256,053	-	-	-	-	5,256,053
Foreign currency accounts	16	-	-	3,673,371	-	-	-	-	3,673,371
Term deposit accounts	16	-	-	8,798,940	2,634,327	-	-	-	11,433,267
Short-term deposits	17	-	-	13,908,510	16,761,109	1,500,000	1,600,000	-	33,769,619
Subordinated liabilities	18	-	-	-	-	-	-	1,000,000	1,000,000
Total liabilities		-	-	37,586,874	19,395,436	1,500,000	1,600,000	1,000,000	61,082,310
Interest gap		3,028,854	13,329,132	(31,154,280)	1,377,886	-	11,467,123	4,361,513	2,410,229
Impact on post tax profit or equity of an increase in the interest rate									
5%		-	466,520	(1,090,400)	48,226	-	401,349	152,653	(84,358)
Impact on post tax profit or equity of a decrease in the interest rate									
5%		-	(466,520)	1,090,400	(48,226)	-	(401,349)	(152,653)	84,358

Variable rate instruments expose the Group to interest rate risk whereas fixed rate instruments expose the Group to fair value interest rate risk. The sensitivity impact is calculated at 70% of 5% of the interest rate gap. The 70% is applied to take into account tax effects.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

6. RISK MANAGEMENT (CONTINUED)

6.1.3.2 Interest rate risk (continued)

CONSOLIDATED				Fixed Rate Instruments					
2015	NOTE	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total carrying amount
Cash and cash equivalents	8	5,608,210	-	-	-	-	-	-	5,608,210
Loans and advances	10-11	-	13,404,688	-	-	-	-	-	13,404,688
Investment securities	9	-	1,472,386	-	-	-	-	-	1,472,386
Money market investments	9	-	2,567,517	6,314,401	1,827,312	330,680	1,635,130	2,187,043	14,862,083
Total assets		5,608,210	17,444,591	6,314,401	1,827,312	330,680	1,635,130	2,187,043	35,347,367
Deposits from banks	19	-	-	2,600,000	-	-	-	-	2,600,000
Current and savings accounts	16	-	-	3,639,302	-	-	-	-	3,639,302
Foreign currency accounts	16	-	-	5,285,918	-	-	-	-	5,285,918
Term deposit accounts	16	-	-	6,448,381	156,403	275,546	-	-	6,880,330
Short-term deposits	17	-	-	12,184,500	1,381,293	-	-	-	13,565,793
Subordinated liabilities	18	-	-	-	-	-	-	1,000,000	1,000,000
Total liabilities		-	-	30,158,101	1,537,696	275,546	-	1,000,000	32,971,343
Interest gap		5,608,210	17,444,591	(23,843,700)	289,616	55,134	1,635,130	1,187,043	2,376,024
Impact on post tax profit or equity of an increase in the interest rate									
5%		-	610,561	(834,530)	10,137	1,930	57,230	41,547	83,161
Impact on post tax profit or equity of a decrease in the interest rate									
5%		-	(610,561)	834,530	(10,137)	(1,930)	(57,230)	(41,547)	(83,161)

Variable rate instruments expose the Group to interest rate risk whereas fixed rate instruments expose the Group to fair value interest rate risk. The sensitivity impact is calculated at 70% of 5% of the interest rate gap. The 70% is applied to take into account tax effects.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

SEPARATE		Fixed Rate Instruments							
2016	NOTE	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total carrying amount
Cash and cash equivalents	8	3,028,854	-	-	-	-	-	-	3,028,854
Loans and advances	10-11	-	13,329,133	-	-	-	-	-	13,329,132
Money market investments	9	-	-	6,432,594	20,773,322	1,500,000	13,067,123	5,361,513	47,134,552
Total assets		3,028,854	13,329,133	6,432,594	20,773,322	1,500,000	13,067,123	5,361,513	63,492,539
Deposits from banks	19	-	-	5,950,000	-	-	-	-	5,950,000
Current and savings accounts	16	-	-	5,256,053	-	-	-	-	5,256,053
Foreign currency accounts	16	-	-	3,673,371	-	-	-	-	3,673,371
Term deposit accounts	16	-	-	8,798,940	2,634,327	-	-	-	11,433,267
Short-term deposits	17	-	-	13,908,510	16,761,109	1,500,000	1,600,000		33,769,619
Subordinated debt	18	-	-	-	-	-	-	1,000,000	1,000,000
Total liabilities		-	-	37,586,874	19,395,436	1,500,000	1,600,000	1,000,000	61,082,310
Interest gap		3,028,854	13,329,133	(31,154,280)	1,377,886	-	11,467,123	4,361,513	2,410,229
Impact on post tax profit or equity of increase of interest rate									
5%		-	466,520	(1,090,400)	48,226	-	401,349	152,653	(84,358)
Impact on post tax profit or equity of decrease of interest rate									
5%		-	(466,520)	1,090,400	(48,226)	-	(401,349)	(152,653)	84,358

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

6. RISK MANAGEMENT (CONTINUED)

6.1.3.2 Interest rate risk (continued)

SEPARATE		Fixed Rate Instruments							
2015	NOTE	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total carrying amount
Cash and cash equivalents	8	5,599,738	-	-	-	-	-	-	5,599,738
Loans and advances	10-11	-	13,404,688	-	-	-	-	-	13,404,688
Investment securities	9	-	1,472,386	-	-	-	-	-	1,472,386
Money market investments	9	-	2,567,517	6,314,401	1,827,312	330,680	1,635,130	2,187,043	14,862,083
Total assets		**5,599,738**	**17,444,591**	**6,314,401**	**1,827,312**	**330,680**	**1,635,130**	**2,187,043**	**35,338,895**
Deposits from banks	19	-	-	2,600,000	-	-	-	-	2,600,000
Current and savings accounts	16	-	-	3,639,302	-	-	-	-	3,639,302
Foreign currency accounts	16	-	-	5,286,538	-	-	-	-	5,286,538
Term deposit accounts	16	-	-	6,448,435	156,403	275,546	-	-	6,880,384
Short term deposits	17	-	-	12,458,716	1,381,293	-	-	-	13,840,009
Subordinated debt	18	-	-	-	-	-	-	1,000,000	1,000,000
Total liabilities		**-**	**-**	**30,432,991**	**1,537,696**	**275,546**	**-**	**1,000,000**	**33,246,233**
Interest gap		**5,599,738**	**17,444,591**	**(24,118,590)**	**289,616**	**55,134**	**1,635,130**	**1,187,043**	**2,092,662**
Impact on post tax profit or equity of increase of interest rate									
5%		-	**610,561**	**(844,151)**	**10,137**	**1,930**	**57,230**	**41,547**	**73,243**
Impact on post tax profit or equity of decrease of interest rate									
5%		-	**(610,561)**	**844,151**	**(10,137)**	**(1,930)**	**(57,230)**	**(41,547)**	**(73,243)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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Effective interest rates of financial assets and liabilities

The effective interest rates for the principal financial assets and liabilities at 31 December were in the following ranges: -

	Consolidated and Separate	
	2016	2015
	%	%
ASSETS		
Government securities	**13-32**	20-25
Deposits with banking institutions	**24-29**	20-28
Loans and advances to customers (base rate)	**35.00**	37.50
LIABILITIES		
Customer deposits	**14-29**	16-28

6.2 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, liquidity, interest rate and market risks such as those arising from legal and regulatory requirements and the requirement to observe generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The objective of the Group is to manage operational risks so as to balance the avoidance of financial losses and damages to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned by the Risk committee of the board to senior management within all operating units. The responsibility is supported by the development of overall standards in the Group for the management of operational risks in the following areas: -

- requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures.
- requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action.
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where it is cost effective
- implementation of anonymous hotline for reporting fraud and other inappropriate conduct as per fraud risk policy.

Compliance with Group standards is supported by a programme of yearly reviews undertaken by the Group Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit, Risk and Compliance Committee.

Risk management function also assesses operational risks and discusses the results with senior management and the risk committee.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

6. RISK MANAGEMENT (CONTINUED)

6.3 Capital management

Reserve Bank of Malawi sets and monitors the capital requirements for the Company and requires the Bank to maintain a minimum of **10 percent** and **15 percent** (2015: 10 percent and 15 percent) for core (Tier 1) and total Tier 2) capital respectively. The Company's regulatory capital is analysed in two parts:

- Tier I capital, which includes paid-up share capital, share premium, retained earnings, and other reserves less investment in subsidiaries
- Tier II capital, which includes investment revaluation reserve, property revaluation reserve, loan loss reserve and subordinated debt capital limited to 50% of the Tier I capital.

The calculation of both the above ratios is given below:

		Separate	
	Note	2016	2015
Tier 1 capital			
Share capital	22	**172,458**	172,458
Share premium	22	**746,744**	746,744
Retained earnings		**2,509,616**	1,679,258
Less: Investments in unconsolidated banking & financial subsidiary companies		**(7,500)**	(7,500)
		3,421,318	2,590,960
Tier 2 capital			
Subordinated debt (limited to 50% of Tier 1 capital)		**800,000**	1,000,000
Loan loss reserve		**1,886**	106,845
	22	**-**	-
		801,886	**1,106,845**
Total regulatory capital		**4,223,204**	3,697,805
Risk weighted assets		**18,424,079**	18,059,047
Capital ratios			
Tier 1 capital expressed as a percentage of total risk-weighted assets		**18.57%**	14.35%
Total capital expressed as a percentage of total risk weighted assets		**22.92%**	20.48%

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by the reciprocal of the minimum capital ratio of 10% and adding the resulting figures to the sum of risk weighted assets for credit risk. A scaling factor is applied in order to broadly maintain the aggregate level of minimum capital requirements, while also providing incentives to adopt the more advanced risk-sensitive approaches to the framework. The scaling factor is applied to the risk-weighted asset amounts for credit risk assessment under the IRB approach.

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In its capital planning, the Group considers the impact of economic downturns/recession and the impact this would have on its capital and earnings. This is covered under the budgeting process where the balance sheet and income statement are projected in line with the Group's interest rate view.

In the event that actual performance is deviating from projected performance, the budget is revised to reflect the current economic situation and submitted to the board for approval with details of the measures to be taken and the revised targets.

The Group and its individually regulated operations have complied with all externally imposed capital requirements for Tier 1 and Tier 2 capital as stipulated above.

6.4 Compliance risk

The office of the Chief Legal and Compliance Officer is an independent risk management unit, which also has unrestricted access to the Managing Director and the Chairman of Board, Audit, Risk and Compliance Committee. The Group is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the bank's compliance risk.

Money laundering controls are managed within the compliance function. The Group has adopted anti-money laundering policies including Know-Your-Customer policies and procedures and adheres to the country's anti-money laundering legislation and Reserve Bank of Malawi regulations.

The management of compliance risk has become a distinct discipline within the Group's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the Know-Your-Customer and anti-money laundering procedures and legislation became an area of major focus for the Group. The Group has a Chief Legal and Compliance Officer who consults the country's Financial Intelligence Authority on money laundering and anti-terrorist financing matters.

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7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below provides a reconciliation of the line items in the statement of financial position and categories of financial instruments. It does not provide fair value information where the carrying amount approximate their fair values.

Consolidated						
31 December 2016	**Note**	**Held-for-trading**	**Held-to-maturity**	**Loans and receivables**	**Other financial liabilities**	**Carrying amount**
Financial assets						
Cash and cash equivalents	8	-	-	3,028,854	-	3,028,854
Money market investments	9	3,397,284	43,737,268	-	-	47,134,552
Loans and advances to customers	11	-	-	10,631,438	-	10,631,438
Loans and advances to related parties	10	-	-	2,697,695	-	2,697,695
Amounts due from related parties	33	-	-	148,820	-	148,820
Other receivables	12	-	-	244,143	-	244,143
		3,397,284	**43,737,268**	**16,750,950**	**-**	**63,885,502**
Financial liabilities						
Deposits from customers	16	-	-	-	20,362,691	20,362,691
Loans and advances from other banks	19	-	-	-	5,950,000	5,950,000
Short term deposits	17	-	33,769,619	-	-	33,769,619
Other payables	20	-	-	-	461,918	461,918
Subordinated debt	18	-	-	-	1,000,000	1,000,000
		-	**33,769,619**	**-**	**27,774,609**	**61,544,228**

The carrying amounts of these balances equate to the fair value of those financial instruments.

31 December 2015						
Financial assets						
Cash and cash equivalents	8	-	-	5,608,210	-	5,608,210
Investments securities	9	-	1,472,386	-	-	1,472,386
Money market investments	9	2,619,148	12,242,935	-	-	14,862,083
Loans and advances to customers	11	-	-	12,091,076	-	12,091,076
Loans and advances to banks	10	-	-	1,313,612	-	1,313,612
Amounts due from related parties	33	-	-	438,143	-	438,143
Other receivables	12	-	-	187,813	-	187,813
		2,619,148	**13,715,321**	**19,638,854**	**-**	**35,973,323**
Financial liabilities						
Deposits from customers	16	-	-	-	15,805,550	15,805,550
Loans and advances from other banks	19	-	-	-	2,600,000	2,600,000
Short-term deposits	17	-	13,565,793	-	-	13,565,793
Amounts due to related parties	33	-	-	-	304	304
Other payables	20	-	-	-	646,883	646,883
Subordinated debt	18	-	-	-	1,000,000	1,000,000
		-	**13,565,793**	**-**	**20,052,737**	**33,618,530**

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Separate						
31 December 2016	Note	Held-for-trading	Held-to-maturity	Loans and receivables	Other financial liabilities	Carrying amount
Financial assets						
Cash and cash equivalents	8	-	-	3,028,854	-	3,028,854
Money market investments	9	3,397,284	43,737,268	-	-	47,134,552
Loans and advances to customers	11	-	-	10,631,438	-	10,631,438
Loans and advances to related parties	10	-	-	2,697,695	-	2,697,695
Amounts due from related parties	33	-	-	148,820	-	148,820
Other receivables	12	-	-	244,129	-	244,129
		3,397,284	43,737,268	16,750,936	-	63,885,488
Financial liabilities						
Deposits from customers	16	-	-	-	20,362,691	20,362,691
Loans and advances from other banks	19	-	-	-	5,950,000	5,950,000
Short-term deposits	17	-	33,769,619	-	-	33,769,619
Other payables	20	-	-	-	461,918	461,918
Subordinated debt	18	-	-	-	1,000,000	1,000,000
		-	33,769,619	-	27,774,609	61,544,228
31 December 2015						
Financial assets						
Cash and cash equivalents	8	-	-	5,599,738	-	5,599,738
Investments securities	9	-	1,472,386	-	-	1,472,386
Money market investments	9	2,619,148	12,242,935	-	-	14,862,083
Loans and advances to customers	11	-	-	12,091,076	-	12,091,076
Loans and advances to banks	10	-	-	1,313,612	-	1,313,612
Amounts due from related parties	33	-	-	441,385	-	441,385
Other receivables	12	-	-	185,436	-	185,436
		2,619,148	13,715,321	19,631,247	-	35,965,716
Financial liabilities						
Deposits from customers	16	-	-	-	15,806,992	15,806,992
Loans and advances from other banks	19	-	-	-	2,600,000	2,600,000
Short term deposits	17	-	13,565,793	-	-	13,565,793
Amounts due to related parties	33	-	-	-	304	304
Other payables	20	-	-	-	542,149	542,149
Subordinated debt	18	-	-	-	1,000,000	1,000,000
		-	13,565,793	-	19,949,445	33,515,238

Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques. A fair value disclosure is not required for financial instruments whose carrying amounts approximate its fair value.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity and concentration.

(a) Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants take this into consideration in pricing the derivatives.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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During the current year, low trading volumes continued and there has not been sufficient trading volume to establish an active market for certain asset-backed securities and so the Group has determined the fair value for these asset-backed securities using other valuation techniques.

These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows.

The Group's valuation methodology for valuing these asset-backed securities uses a discounted cash flow methodology that takes into account original underwriting criteria, borrower attributes (such as age and credit scores), LTV ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the 'waterfall' applicable to the security and discounted at a risk-adjusted rate.

The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

As part of its trading activities, the Group enters into OTC structured derivatives – primarily options indexed to credit spreads, equity prices, foreign exchange rates and interest rates – with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different underlyings.

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, then it takes into account any existing arrangements that mitigate the credit risk exposure (e.g. master netting agreements with the counterparty).

(b) Valuation framework

The Group has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by senior personnel in the Finance and Treasury departments.

Significant valuation issues are reported to the Board Audit, Risk and Compliance Committees.

(c) Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statements of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses un-observable inputs.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(c) Financial instruments measured at fair value – fair value hierarchy (continued)

Consolidated and Separate	Note	Level 1	Level 2	Level 3	Total
31 December 2016					
Treasury bills – other investments	9.2	-	3,397,284	-	3,397,284
Total		**-**	**3,397,284**	**-**	**3,397,284**
31 December 2015					
Treasury bills – Investment securities	9.1	-	1,097,386	-	1,097,386
Treasury bills – other investments	9.2	-	2,619,148	-	2,619,148
Total		-	3,716,534	-	3,716,534

The following table sets out financial instruments at amortised cost where the Directors believe that the carrying amounts approximate their amortised cost.

31 December 2016	Note	At amortised cost	Total carrying amount
Consolidated			
Assets			
Medium and short term notes	9.2	11,688,718	11,688,718
Commercial paper	9.2	24,610,117	24,610,117
Reverse REPO	9.2	150,409	150,409
Promissory notes	9.2	7,288,024	7,288,024
Cash and cash equivalents	8	3,028,854	3,028,854
Loans and advances to customers	11	10,631,438	10,631,438
Loans and advances to related parties	10	2,697,695	2,697,695
Amounts due from related parties	33	148,820	148,820
Other receivables	12	244,143	244,143
Liabilities			
Deposits from customers	16	20,362,691	20,362,691
Balances due to other banks	19	5,950,000	5,950,000
Short-term deposits	17	33,769,619	33,769,619
Other payables	20	461,918	461,918

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31 December 2016	Note	At amortised cost	Total carrying amount
Separate			
Assets			
Separate	9.2	11,688,718	11,688,718
Commercial paper	9.2	24,610,117	24,610,117
Reverse REPO	9.2	150,409	150,409
Promissory notes	9.2	7,288,024	7,288,024
Cash and cash equivalents	8	3,028,854	3,028,854
Loans and advances to customers	11	10,631,438	10,631,438
Loans and advances to related parties	10	2,697,695	2,697,695
Amounts due from related parties	33	148,820	148,820
Other receivables	12	244,129	244,129
Liabilities			
Deposits from customers	16	20,362,691	20,362,691
Balances due to other banks	19	5,950,000	5,950,000
Short term deposits	17	33,769,619	33,769,619
Other payables	20	461,918	461,918

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(c) Financial instruments measured at fair value (continued)

31 December 2015	Note	At amortised cost	Total carrying amount
Consolidated			
Assets			
Medium and short-term notes	9.2	3,158,831	3,158,831
Commercial paper	9.2	3,235,300	3,235,300
Reverse REPO	9.2	130,000	130,000
Promissory notes – investment securities	9.1	375,000	375,000
Promissory notes – other investments	9.2	4,413,458	4,413,458
Warehouse receipt	9.2	33,100	33,100
Corporate bond	9.2	1,272,246	1,272,246
Cash and cash equivalents	8	5,608,210	5,608,210
Loans and advances to customers	11	12,091,076	12,091,076
Loans and advances to banks	10	1,313,612	1,313,612
Amounts due from related parties	33	438,143	438,143
Other receivables	12	187,851	187,851
Liabilities			
Deposits from customers	16	15,805,550	15,805,550
Balances due to other banks	19	2,600,000	2,600,000
Short term deposits	17	13,565,793	13,565,793
Amounts due to related parties	33	304	304
Other payables	20	649,847	649,847

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31 December 2015	Note	At amortised cost	Total carrying amount
Separate			
Assets			
Medium and short-term notes	9.2	3,158,831	3,158,831
Commercial paper	9.2	3,235,300	3,235,300
Reverse REPO	9.2	130,000	130,000
Promissory notes – investment securities	9.1	375,000	375,000
Promissory notes – other investments	9.2	4,413,458	4,413,458
Warehouse receipt	9.2	33,100	33,100
Corporate bond	9.2	1,272,246	1,272,246
Cash and cash equivalents	8	5,599,738	5,599,738
Loans and advances to customers	11	12,091,076	12,091,076
Loans and advances to banks	10	1,313,612	1,313,612
Amounts due from related parties	33	441,385	441,385
Other receivables	12	185,436	185,436
Liabilities			
Deposits from customers	16	15,806,992	15,806,992
Balances due to other banks	19	2,600,000	2,600,000
Short term deposits	17	13,565,793	13,565,793
Amounts due to related parties	33	304	304
Other payables	20	646,883	646,883

8. CASH AND CASH EQUIVALENTS	Consolidated		Separate	
	2016	2015	2016	2015
See accounting policy note 5 (c)				
Liquidity Reserve Deposits				
• Central Bank of Malawi (RBM)	**1,611,267**	1,512,180	**1,611,267**	1,512,180
Placements with other banks				
• Balances with foreign banks	**1,859,924**	3,490,233	**1,859,924**	3,490,233
• Balances with local banks	**866**	2,371	**866**	2,371
Clearing accounts	**(940,002)**	467,492	**(940,002)**	467,492
Cash balances	**496,799**	135,934	**496,799**	127,462
	3,028,854	5,608,210	**3,028,854**	5,599,738

Included in the liquidity reserve deposit with the Central Bank of Malawi is **MK1,514 million** (2015: MK1,308 million) which is not available for use by the Bank. Balances with foreign banks earn interest at Libor **0.5% to + 2.75%** (2015: Libor -0.5% to +2.75%) whilst balances with local banks earn interest at **0.5% to 2.5%** (2015: 0.5% to 2.5%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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9. MONEY MARKET INVESTMENTS	Consolidated		Separate	
9.1 Investment securities	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (g)				
Promissory notes	-	375,000	-	375,000
Treasury bills	-	1,097,386	-	1,097,386
	-	1,472,386	**-**	1,472,386

9.2 Other investments	2016	2015	2016	2015
See accounting policy note 5 (d)				
Commercial paper	**24,610,117**	3,235,300	**24,610,117**	3,235,300
Treasury bills	**3,397,284**	2,619,148	**3,397,284**	2,619,148
Medium and short-term notes	**11,688,718**	3,158,831	**11,688,718**	3,158,831
Promissory notes	**7,288,024**	4,413,458	**7,288,024**	4,413,458
Reverse REPO	**150,409**	130,000	**150,409**	130,000
Warehouse receipt	-	33,100	-	33,100
Corporate bond	-	1,272,246	-	1,272,246
	47,134,552	14,862,083	**47,134,552**	14,862,083
Analysed as:				
External funding	**32,378,985**	13,893,432	**32,378,985**	13,893,432
Internal funding	**14,755,567**	968,651	**14,755,567**	968,651
	47,134,552	14,862,083	**47,134,552**	14,862,083
Total money market investments	**47,134,552**	16,334,469	**47,134,552**	16,334,469
Money market investments are classified as follows:				
Maturing within 12 months	**41,773,038**	14,147,426	**41,773,038**	14,147,426
Maturing after 1 year	**5,361,514**	2,187,043	**5,361,514**	2,187,043
	47,134,552	16,334,469	**47,134,552**	16,334,469

The Group holds Reserve Bank of Malawi and other money market instruments with an intention to hold them to maturity. The interest rates averaged **13%-32%** (2015: 12%-31%).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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10. LOANS AND ADVANCES TO RELATED PARTY	Consolidated and Separate	
	2016	2015
See accounting policy note 5 (f)		
	2,697,695	**1,313,612**

The above balance includes balances due from Continental Asset Management Limited (Note 33) on contracts with various maturity dates after 2016 and earn interest of **29%-31%** (2015: 26%-30%). The directors consider that the carrying amount of loans and advances approximates their fair value

11. LOANS AND ADVANCES TO CUSTOMERS	2016	2015
See accounting policy note 5 (f)		
(i) Loans and advances		
Personal and business loans	**1,268,888**	1,261,179
Corporate and investment loans	**9,080,056**	9,347,591
Total gross loans and advances	**10,348,944**	10,608,770
Interest receivable	**722,644**	1,613,398
Allowance for impairment	**11,071,588**	12,222,168
Total gross loans and advances	**(440,150)**	(131,092)
Net loans and advances	**10,631,438**	12,091,076
(ii) Loans and advances are receivable as follows:		
Maturing within 3 months	**3,345,078**	6,249,756
Maturing between 3 and 12 months	**4,280,780**	4,176,955
Maturing after 12 months	**3,005,580**	1,664,365
Total gross loans and advances	**10,631,438**	**12,091,076**
(iii) Allowances for impairment Specific allowances for impairment:		
Balance at the beginning of the year	**(84,373)**	(129,986)
Charge for the year	**(360,447)**	(20,901)
Restored to accrual	**7,343**	66,514
Recoveries	**92,719**	-
Balance as at 31 December	**(344,758)**	**(84,373)**
Collective allowances for impairment:		
Balance at the beginning of the year	**(46,719)**	(41,784)
Charge for the year	**(48,673)**	(4,935)
Balance as at 31 December	**(95,392)**	**(46,719)**
Total allowances for impairment	**(440,150)**	**(131,092)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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11. LOANS AND ADVANCES TO CUSTOMERS	2016	2015
(iv) Impairment charge		
Impairment charge - specific	**(360,447)**	(20,901)
Impairment charge - collective	**(48,673)**	(4,935)
Bad debts write off	**(1,324)**	(85,386)
	(410,444)	**(111,222)**

Loans and advances to customers earn interest at a range of the Bank's base lending rate plus or minus **2% to 4%.** (2015: 2%-4%).

	Consolidated		Separate	
12. OTHER ASSETS	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (e)				
Prepayments	**124,104**	123,722	**124,104**	121,634
Other accounts receivables	**244,143**	187,851	**244,129**	185,436
	368,247	311,573	**368,233**	307,070

13(a). Other investments (At cost)		Separate	
See accounting policy note 5 (h)			
At cost	**Shareholding**	**2016**	**2015**
Investment in subsidiary			
CDH Forex Bureau Limited	**100%**		
Balance at 1 January		**49,430**	58,500
Convention of loan into share capital		**-**	31,085
Impairment of Investment in subsidiary		**(49,430)**	(40,155)
Balance at 31 December		**-**	49,430
Other investment			
		Consolidated and Separate	
National Switch Limited	**9%**	**15,000**	15,000

13(b) Discontinued operation

The Board at its meeting in June 2016 the Directors having noted the continued losses the subsidiary company was making agreed to discontinue the Bureau's operations.

The results of the subsidiary on a break up basis is as follows:

		Consolidated	
Total assets		**4,414**	51,050
Total liabilities		**4,414**	6,158
Loss before tax expenses		**(40,478)**	(20,914)
Loss after tax expenses		**(40,478)**	(28,556)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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14.(a) Property and equipment	Consolidated				
See accounting policy note 5 (i)					
	Capital work in progress	Computers	Motor vehicles	Equipment fixture & fittings	Total
2016					
Cost or valuation					
Balance at 1 January 2016	-	102,155	-	471,716	573,871
Additions during the year	486,054	8,065	10,663	35,368	540,150
Transfers to intangible assets	(87,536)				(87,536)
Disposals during the year	-	(2,379)	(4,823)	(39,346)	(46,548)
Transfer from assets-held-for-sale (Note 14(b)	-	-	-	19,371	19,371
Balance at 31 December 2016	398,518	**107,841**	**5,840**	**487,109**	**999,308**
2015					
Cost or valuation					
Balance at 1 January 2015	111,182	92,630	360,514	378,438	942,764
Additions during the year	75,306	10,583	52,500	115,677	254,066
Transfers within classes during the year	(35,759)	-	-	-	(35,759)
Disposals during the year	-	(1,058)	(413,014)	(22,399)	(436,471)
Transfer to assets-held-for-sale (Note 14(b)	(150,729)	-	-	-	(150,729)
Balance at 31 December 2015	-	102,155	-	471,716	573,871
Accumulated depreciation and impairment losses					
2016					
Balance at 1 January 2016	-	76,085	-	257,065	333,150
Depreciation charge for the year		16,463	1,627	99,194	117,284
Eliminated on disposal	-	(1,345)	-	(11,682)	(13,027)
Balance at 31 December 2016	-	**91,203**	**1,627**	**344,577**	**437,407**
2015					
Balance at 1 January 2015	-	56,919	67,115	195,307	319,341
Depreciation charge for the year	-	19,957	75,262	80,195	175,414
Eliminated on disposal	-	(791)	(142,377)	(18,437)	(161,605)
Balance at 31 December 2015	-	76,085	-	257,065	333,150
Carrying amount					
At 31 December 2016	398,518	**16,638**	**4,213**	**142,531**	**561,901**
At 31 December 2015	-	26,070	-	214,651	240,721

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14.(a) Property and equipment (continued)	Separate				
See accounting policy note 5 (i)					
	Capital work in progress	Computers	Motor vehicles	Equipment fixture & fittings	Total
2016					
Cost or valuation					
Balance at 1 January 2016	-	100,806	-	439,401	540,207
Additions during the year	486,054	8,065	10,663	35,368	540,150
Transfers to intangible assets (Note 15)	(87,536)	-	-	-	(87,536)
Disposals during the year	-	(1,030)	(4,823)	(7,031)	(12,884)
Transfer from assets-held-for-sale (Note 14(b)		-	-	19,371	19,371
Balance at 31 December 2016	**398,518**	**107,841**	**5,840**	**19,371**	**999,308**
2015					
Cost or valuation	-				
Balance at 1 January 2015	111,182	92,630	360,514	378,438	942,764
Additions during the year	75,306	9,234	52,500	83,362	220,402
Transfers to furniture & fittings	(17,268)	-	-	-	(17,268)
Transfers to intangible assets (Note 15)	(18,491)	-	-	-	(18,491)
Disposals during the year	-	(1,058)	(413,014)	(22,399)	(436,471)
Transfer to assets-held-for-sale (Note 14(b)	(150,729)	-	-	-	(150,729)
Balance at 31 December 2015	-	100,806	-	439,401	540,207
Accumulated depreciation and impairment losses					
2016					
Balance at 1 January 2016	-	75,995	-	256,983	332,978
Depreciation charge for the year	-	16,238	1,627	93,808	111,673
Eliminated on disposal	-	(1,030)	-	(6,214)	(7,244)
Balance at 31 December 2016	-	**91,203**	**1,627**	**344,577**	**437,407**
2015					
Balance at 1 January 2015	-	56,919	67,115	195,307	319,341
Depreciation charge for the year	-	19,867	75,262	80,113	175,242
Eliminated on disposal	-	(791)	(142,377)	(18,437)	(161,605)
Balance at 31 December 2015	-	75,995	-	256,983	332,978
Carrying amount					
At 31 December 2016	**398,518**	**16,638**	**4,213**	**142,532**	**561,901**
At 31 December 2015	-	24,811	-	182,418	207,229

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	Group and company	
	2016	2015
See accounting policy note 5 (i)		
Reconciliation of carrying amount		
Balance at 1 January	-	293,399
Acquisitions	**10,663**	52,500
Depreciation charge for the year	**(1,627)**	(75,262)
Disposals	**(4,823)**	(270,637)
Balance at 31 December	**4,213**	-
Carrying amounts if not revalued	**4,213**	-

Motor vehicles were revalued by authorised motor dealers of the motor vehicle brand in Malawi in December 2013 and the associated revaluation reserve was recognised in other comprehensive income. All motor vehicles with a net book value of MK270.64 million had been disposed-off to a related party as at 31 December 2016 and the Group entered into an operating lease arrangement for the same effective 1 January 2016.

VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table shows the valuation technique used in measuring the fair values of motor vehicles, as well as the significant unobservable inputs used. The valuation expert adopted a Cost Valuation Approach (i.e. Depreciated Replacement Cost).

VALUATION TECHNIQUE

Depreciated Replacement Cost (DRC)

Depreciated Replacement Cost (DRC) basis of valuation is interpreted as the current cost of replacing an asset of equivalent utility taking into account the physical, functional and economic obsolescent factors. It estimates the replacement cost of the required capacity rather than the actual asset. This approach is applied to motor vehicles of specialist nature for which there is no active market so that it is impossible to find evidence of market transactions, except by way of a sale of the vehicle, due to the uniqueness arising from its specialised nature and design.

Significant unobservable inputs

In arriving at the valuation figures, necessary adjustments have been made in order to reflect perceived market conditions. For the purpose of this report, necessary considerations have been made to reflect such important factors such as type of vehicle and condition of vehicle.

Inter-relationship between Key unobservable inputs and fair value measurement

Expected replacement costs were higher (lower).

The fair value measurements have been categorised as Level 3 for value based on inputs to the valuation techniques used.

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14.(b) Assets-held-for-sale

See accounting policy note 5(i)

Assets-held-for-sale comprises of auto teller machines that have not yet been installed and are held-for-sale.

At 31 December 2016, management committed to a plan to sell their auto teller machines (ATMs). Accordingly, those ATMs are presented as assets-held-for-sale. Efforts to sell the assets have started.

The assets-held-for-sale were measured at the lower of their carrying amounts and fair value less costs to sell and comprised the following assets:

	Consolidated and Separate	
	2016	**2015**
Opening balance	**150,729**	-
Transfer from capital work in progress	**-**	150,729
Restored to equipment, fixtures and fittings	**(19,371)**	-
Impairments during the year	**(43,650)**	-
Disposals during the year	**(30,447)**	-
Assets-held-for-sale	**57,261**	150,729

There are no cumulative income or expenses included in other comprehensive income relating to the assets-held-for-sale.

15. INTANGIBLE ASSETS	Computer software Consolidated and Separate	
	2016	**2015**
See accounting policy note 5 (k)		
Cost		
Balance at 1 January	**335,574**	142,761
Additions during the year	**15,484**	176,671
Transfers from property and equipment	**87,536**	18,491
Disposals during the year	**-**	(2,349)
	438,594	335,574
Amortisation		
Balance at 1 January	**96,725**	48,077
Eliminated on disposal	**-**	(2,349)
Amortisation charge for the year	**93,037**	50,997
Balance at 31 December	**189,762**	96,725
Carrying amount		
At 31 December	**248,832**	238,849

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	Consolidated		Separate	
16. CUSTOMER DEPOSITS	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (m)				
Current and savings accounts	**5,256,053**	3,639,302	**5,256,053**	3,640,070
Foreign currency accounts	**3,673,371**	5,285,918	**3,673,371**	5,286,538
Term deposit accounts	**11,433,267**	6,880,330	**11,433,267**	6,880,384
	20,362,691	15,805,550	**20,362,691**	15,806,992
Payable as follows:				
Maturing within 3 months	**17,728,364**	15,372,159	**17,728,364**	15,373,601
Maturing after 3 months and above	**2,634,327**	433,391	**2,634,327**	433,391
	20,362,691	15,805,550	**20,362,691**	15,806,992

For information about financial risks refer to note 6.
Interest on customer deposit balances range from **0.5% to 17%** (2015: 0.10 to 17%).

17. SHORT TERM DEPOSITS	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (d)				
Short-term deposits	**33,769,619**	13,565,793	**33,769,619**	13,565,793

This represents customer investments for funding of money market investments (note 9). Interest on these deposits range from **22% to 29%** (2015: 16% to 22%).

18. SUBORDINATED LIABILITIES	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (o)				
Corporate bond	**1,000,000**	1,000,000	**1,000,000**	1,000,000

This debt represents a corporate bond issued by the Bank at a rate of 365 day treasury bill rate plus 300 basis points. This loan is subordinated to the claims of depositors and all other secured creditors of the Bank. The debt matures on 24 December 2020. At 31 December 2016, the carrying amount of the bond approximates the fair value. There were no breaches of agreement or defaults during the year.

19. BALANCES DUE TO OTHER BANKS	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (m)				
Money market deposits	**5,950,000**	2,600,000	**5,950,000**	2,600,000

Interest rates on balances due to other banks were within a range of **14% to 29%** (2015: 6% to 27%) with maturity dates ranging from 1 to 4 days (2015: 4 to 6 days).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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	Consolidated		Separate	
20. OTHER LIABILITIES AND ACCRUALS	**2016**	**2015**	**2016**	**2015**
See accounting policy notes 5 (o)				
Unclaimed customer balances	**72,642**	74,842	**72,642**	74,842
Bankers cheques issued but not cleared	**78,926**	158,595	**78,926**	158,595
Accruals	**21,828**	104,784	**21,828**	104,734
Trade payables	**265,075**	295,392	**265,075**	292,533
Other	**23,447**	16,234	**23,447**	16,179
	461,918	649,847	**461,918**	646,883

	Consolidated		Separate	
21. INCOME TAX AND DEFERRED TAX LIABILITIES	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (w)				
21.1 Income tax recoverable / (payable)				
Balance at 1 January	**(262,142)**	13,349	**(265,329)**	10,162
Current year's charge (Note 31)	-	(330,320)	-	(330,320)
Paid during the year	**347,591**	54,829	**346,380**	54,829
Balance at 31 December	**85,449**	(262,142)	**81,051**	(265,329)

	Consolidated 2016		
	Assets	**Liabilities**	**Net**
21.2 Income tax liabilities and deferred tax liabilities			
Property and equipment	38,346	-	38,346
General provisions	9,885	-	9,885
Unrealised capital gain on property	-	(187,056)	(187,056)
Unrealised fair value adjustment loss	8,561	-	8,561
Tax losses	139,059	-	139,059
	195,851	(187,056)	8,795

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Movements in temporary differences in 2016

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	(165,810)	(6,282)	-	(172,092)
Unrealised fair value loss	5,853	(5,853)	-	-
Unrealised exchange loss	740	(740)	-	-
Tax losses	8,751	172,136	-	180,887
	(150,466)	159,261	-	8,795

	Consolidated 2015		
Deferred tax (liabilities)/assets	Assets	Liabilities	Net
Property and equipment	14,964	-	14,964
Revaluation of property	6,282	-	6,282
Unrealised capital gain on property	-	(187,056)	(187,056)
Unrealised fair value adjustment loss	5,853	-	5,853
Tax losses	8,751	-	8,751
Unrealised exchange gain	-	(29)	(29)
Unrealised exchange loss	769	-	769
	36,619	(187,085)	(150,466)

Movements in temporary differences in 2015

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	24,470	(9,506)	-	14,964
Unrealised interest	(137,258)	137,258	-	-
Revaluation of property, plant and equipment	(33,657)	33,657	6,282	6,282
Unrealised capital gain on property	(187,056)	-	-	(187,056)
Unrealised fair value loss	-	5,853	-	5,853
Tax losses	8,060	691	-	8,751
Unrealised exchange gain	(609)	580	-	(29)
Unrealised exchange loss	206	563	-	769
	(325,844)	169,096	6,282	(150,466)

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	Separate 2016		
Deferred tax (liabilities) /assets	**Assets**	**Liabilities**	**Net**
Property and equipment	38,346	-	38,346
Unrealised capital gain on property	-	(187,056)	(187,056)
General provisions	9,885	-	9,885
Unrealised fair value loss	8,561	-	8,561
Tax losses	139,059	-	139,059
	195,851	**(187,056)**	**8,795**

Movements in temporary differences in 2016

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	24,440	(24,440)	-	-
Revaluation of property and equipment	6,282	(6,282)	-	-
Tax loss	-	195,851	-	195,851
Unrealised fair value loss	5,853	(5,853)	-	-
Unrealised capital gain on property	(187,056)	-	-	(187,056)
	(150,481)	**159,276**	**-**	**8,795**

	Separate 2015		
Deferred tax (liabilities) /assets	**Assets**	**Liabilities**	**Net**
Property and equipment	24,440	-	24,440
Unrealised capital gain on property	-	(187,056)	(187,056)
Unrealised interest	5,853	-	5,853
Revaluation of property	6,282	-	6,282
	36,575	(187,056)	(150,481)

Movements in temporary differences in 2015

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	24,470	(30)	-	24,440
Unrealised interest	(137,258)	137,258	-	-
Revaluation of property, plant and equipment	(33,657)	33,657	6,282	6,282
Unrealised fair value loss	-	5,853		5,853
Unrealised capital gain on property	(187,056)	-	-	(187,056)
	(333,501)	176,738	6,282	(150,481)

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	No. of shares Consolidated and Separate		Proceeds (Value) Consolidated and Separate	
22. EQUITY AND RESERVES	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (q)				
22.1 Share capital				
Authorised	**172,458**	172,458	**172,458**	172,458
Issued and fully paid at K1.00 per share	**172,458**	172,458	**172,458**	172,458

22.2 Share premium	**2016**	**2015**
172,458,155 shares at K4.33 each	**746,744**	746,744

Share premium arose on issue of the above ordinary 172,458,155 shares at K4.33 each.

22.3 Loan loss reserve	**9,386**	**114,345**

This represents non-distributable reserve required by the Reserve Bank of Malawi Limited to account. If impairment charges computed under International Financial Reporting Standard (IFRS) are lower than provisions required under the Financial Asset Classification Directive, the shortfall in provision shall be treated as an appropriation of retained earnings to loan loss reserve.

	Consolidated		Separate	
23. INTEREST INCOME	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (s)				
Loans and advances to other banks	**355,337**	83,138	**355,337**	83,138
Loans and advances to customers and other investment securities	**4,562,103**	4,243,791	**4,562,103**	4,243,791
Money market investments	**7,989,163**	4,148,391	**7,989,163**	4,148,391
Changes in fair value of financial assets (note 30)	**(28,538)**	257,707	**(28,538)**	257,707
Total interest income	**12,878,065**	8,733,027	**12,878,065**	8,733,027
Interest expense				
Deposits from other banks	**(782,069)**	(541,852)	**(782,069)**	(541,852)
Deposits from customers	**(2,352,391)**	(2,391,034)	**(2,352,457)**	(2,391,507)
Short-term deposits	**(7,149,534)**	(3,140,006)	**(7,149,534)**	(3,140,006)
Total interest expense	**(10,283,994)**	(6,072,892)	**(10,284,060)**	(6,073,365)
Net interest income	**2,594,071**	2,660,135	**2,594,005**	2,659,662

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23. INTEREST INCOME (CONTINUED)

Total interest and expense calculated using the effective interest method reported above that relate to financial assets or financial liabilities not carried at fair value through profit or loss are **K4,917 million** (2015; MK 4,327 million) and **K4,917 million** (2015; MK2,933 million) respectively for both the Company and the Group.

The changes in fair value of financial assets above represent net gains or losses in respect of financial assets at fair value through profit or loss.

	Consolidated		Separate	
24. FEES AND COMMISSIONS INCOME	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (t)				
Fee from Investments Banking Services	**987,774**	278,320	**987,774**	278,320
Other fee and commission income	**258,963**	168,379	**253,107**	168,379
	1,246,737	446,699	**1,240,881**	446,699

The net fee and commission income above arises from financial assets and liabilities at amortised cost.

25. TRADING INCOME	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (v)				
Income from money market instruments	**186,892**	442,533	**186,892**	442,533
Foreign exchange gains	**929,958**	294,004	**915,510**	274,524
	1,116,850	736,537	**1,102,402**	717,057

Income from money market instruments represents gains on promissory notes, treasury bills, commercial paper, medium term and short-term notes.

26.1 Other operating income	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (v)				
Other operating income	**15,729**	6,069	**15,729**	5,792

26.2 OTHER INCOME	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (v)				
Profit on disposal of assets	**36,740**	46,324	**36,740**	46,324

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	Consolidated		Separate	
27. Personnel expenses	**2016**	**2015**	**2016**	**2015**
Salaries and wages	**1,015,315**	689,143	**1,007,168**	678,748
Staff benefits	**133,506**	94,297	**133,425**	93,530
Contributions to defined contribution plan	**94,938**	71,929	**94,216**	70,521
Group Life Insurance Premiums	**35,643**	26,296	**34,723**	26,296
Recruitment	**4,888**	8,824	**4,877**	8,480
Incentive bonus	**6,163**	101,000	**6,163**	101,000
Staff allowances:				
• Transport allowances	**4,599**	3,654	**4,599**	3,654
• Other allowances	**10,952**	38,126	**10,813**	38,129
	1,306,004	1,033,269	**1,295,984**	1,020,358

28. ADMINISTRATION EXPENSES	**2016**	**2015**	**2016**	**2015**
Auditors' remuneration-audit fees	**21,000**	17,000	**21,000**	14,500
- VAT and other expenses	**1,733**	3,099	**1,733**	2,993
ATM running costs	**2,480**	8,435	**2,480**	8,435
Bank charges	**33,348**	19,150	**33,260**	18,600
Business travel expenses	**131,152**	63,453	**131,129**	59,369
Communication expenses	**40,914**	35,178	**40,221**	34,800
Computer expenses	**346,331**	223,695	**345,216**	223,233
Management technical support fees	**122,978**	78,088	**122,978**	78,088
Professional fees	**1,173**	17,393	**1,173**	17,393
Directors fees and expenses	**105,432**	50,141	**105,432**	50,141
Impairment of investment in subsidiary	**-**	-	**49,430**	40,155
Legal costs	**510**	11,025	**510**	11,025
Lease rental	**670,711**	411,756	**670,711**	411,756
Marketing expenses	**114,903**	78,231	**114,767**	78,104
Motor vehicle running costs	**57,177**	102,639	**57,177**	102,639
Office expenses	**111,901**	94,944	**111,312**	92,174
Office occupancy costs	**252,753**	128,614	**240,642**	115,694
Other expenses	**110,832**	59,632	**81,000**	55,479
Supervisory fees	**50,636**	17,500	**50,000**	17,500
Training costs	**83,400**	98,018	**83,406**	98,010
	2,259,364	1,517,991	**2,263,577**	1,530,088

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29. LEASE

See accounting policy note 5(p)

The Group leases office space in CDH House under an operating lease. The lease will run for a period of five years. Lease payments are determined for a period of every six months based on a six-month average of the 182 treasury bills rates to reflect market rentals.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	Consolidated		Separate	
CDH House	**2016**	**2015**	**2016**	**2015**
Less than one year	**461,260**	432,000	**461,260**	432,000
Between one year and five years	**1,845,041**	1,296,000	**1,845,041**	1,296,000
	2,306,301	1,728,000	**2,306,301**	1,728,000

The amount of operating lease expense recognised in profit of loss does not include contingent rent expenses

Motor Vehicles	**2016**	**2015**	**2016**	**2015**
Less than one year	**367,530**	47,369	**367,530**	47,369
Between one year and three years	**1,470,122**	160,928	**1,470,122**	160,928
	1,837,652	208,297	**1,837,652**	208,297
	4,143,953	1,936,297	**4,143,953**	1,936,297

The Group disposed off all motor vehicles and entered into an operating lease for the same. The lease payments of which were effective from January 2016.

30. GAIN / (LOSS) ON FINANCIAL ASSETS	**2016**	**2015**	**2016**	**2015**
Fair value (loss)/gain	**(28,538)**	257,707	**(28,538)**	257,707

The fair value loss of **MK28.5m** (2015: Gain: MK257.7m) relates to the effect of marking to market of Treasury bills which has been presented in note 23.

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	Consolidated		Separate	
31. INCOME TAX EXPENSE	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (w)				
Recognised in the profit or loss				
Current income tax expense **@ 30%** (2015: 30%)	-	330,320	-	330,320
Deferred income tax expense				
Reversal of temporary differences (note 21)	**(159,261)**	(169,096)	**(159,276)**	(176,738)
Income tax (credit)/expense	**(159,261)**	161,224	**(159,276)**	153,582
Reconciliation of effective tax rate				
Profit before income tax	**823,994**	1,006,871	**815,042**	987,627
Income tax using the enacted income tax rate of **30%** (2015: 30%)	**247,198**	302,061	**244,513**	296,288
Income not subject to tax	**(572,483)**	(193,071)	**(569,797)**	(193,071)
Accelerated capital allowance/depreciation	**(46,881)**	3,229	**(46,881)**	3,012
Expenses not deductible for tax purposes	**378,448**	224,830	**378,447**	224,091
Tax losses	-	(6,729)	-	-
Deferred tax (note 21)	**(165,543)**	(169,096)	**(165,558)**	(176,738)
Income tax (credit)/expense	**(159,261)**	161,224	**(159,276)**	153,582
Effective tax rate	**(19)%**	16%	**(20)%**	16%

The increase in the income not subject to tax adjustment is due to increased income from money market instruments amounting to **MK1,453 million** (2015: MK340 million) on sale of zero coupon bonds that are tax exempt.

32. BASIC AND DILUTED EARNINGS PER SHARE	**2016**	**2015**	**2016**	**2015**
See accounting policy note 5 (x)				
Profit attributable to ordinary shareholders	**983,255**	845,647	**974,318**	834,045
Weighted average number of ordinary shares in issue (thousands)	**172,458**	172,458	**172,458**	172,458
Basic and diluted earnings per share (MK)	**5.70**	4.90	**5.65**	4.84

There are no potential dilutive ordinary shares.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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33. RELATED PARTY TRANSACTIONS

The Group transacts part of its business with related parties including directors and parties related to or under the control of the directors. Details of related party transactions of the Group are set out below:

Consolidated and Separate 2016	Directors and their related parties	Executive Management	Other Continental Holdings Subsidiaries	Total
Advances	7,254	139,053	2,697,695	2,844,004
Deposits	(3,965)	(7,389)	(16,873,170)	(16,884,524)
Net balances	**3,289**	**131,664**	**(14,175,475)**	**(14,040,520)**
Interest received	-	24,252	207,689	231,941
Interest paid	-	-	(473,018)	(473,018)
	-	**24,252**	**(265,329)**	**(241,077)**
2015				
Advances	-	132,339	1,313,612	1,445,851
Deposits	(953)	(1,777)	(220,883)	(223,613)
Net balances	(953)	130,562	1,092,729	1,222,238
Interest received	-	26,468	14,869	41,337
	-	26,468	14,869	41,337

Advances to directors and parties related thereto are in the normal course of business and considered to be adequately secured.

Advances to executive management include **MK8.8 million** (2015: MK nil million) of interest free advances and **MK122.8 million** (2015: MK125.1 million) of advances which carry interest at about 50% of the prevailing prime lending rate of the bank and therefore is assessable to Fringe Benefit Tax. All other transactions with related parties are carried out on an arms length basis on normal commercial terms.

	Consolidated and Separate			
Key management personnel compensation:	Executive Management		Non-Executive Directors	
	2016	2015	2016	2015
Short-term employee benefits salaries	**457,375**	340,744	**-**	-
Post-employment benefits	**45,737**	34,077	**-**	-
Directors' fees	**-**	-	**29,081**	22,501
	503,112	374,821	**29,081**	22,501

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In addition to their salaries, the Group also provides non-cash benefits to executive directors. The estimated value of total non-cash benefits to the non-executive director amounts to **MK16 million** (2015: MK16 million)

The Bank is controlled by Continental Holdings Limited, a Group incorporated in Malawi which holds 74.45% of the total shareholding of the Bank.

Other companies which are related to CDH Investment Bank Limited through common shareholdings are shown below and in the normal course of business, a number of transactions are entered into with related parties at arm's length and these include loans, deposits, foreign currency transactions, provision of professional and technical consultancy services charged at market rates.

The outstanding balances due from related parties at year end are as follows:

		Consolidated		Separate	
Related party	**Relationship**	**2016**	**2015**	**2016**	**2015**
Continental Asset Management Limited	Common ownership	**2,697,695**	1,313,612	**2,697,695**	1,313,612
Continental Capital Limited	Common ownership	**-**	-	**-**	-
Continental Holdings Limited	Common ownership	**66,759**	66,377	**66,759**	66,377
Continental Properties Limited	Common ownership	**82,061**	371,766	**82,061**	371,766
CDH Forex Bureau Limited	100% owned subsidiary	**-**	-	**-**	3,242
		148,820	438,143	**148,820**	441,385
The outstanding balances due to related parties at year end were as follows:					
Continental Capital Ltd	Common ownership	**-**	114	**-**	114
Continental Asset Mgt	Common ownership	**-**	190	**-**	190
		-	304	**-**	304
Continental Asset Mgt	Common ownership	**1,000,000**	1,000,000	**1,000,000**	1,000,000

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33.RELATED PARTY TRANSACTIONS (CONTINUED)

The balance due to Continental Asset Management Limited includes **MK1 billion** (2015: MK1 billion) relating to subordinated debt presented in Note 18.

The outstanding balances due from/to related parties at year end and value of transactions during the year are as follows:

	Relationship	Type of transaction	Value of transactions 2016	Balance at year end 2016	Value of transactions 2015	Balance at year end 2015
Continental Asset Management	Related company	Deposits	**16,873,170**	**15,708,435**	-	3,863
		Loan	**2,697,695**	**2,697,695**	1,313,612	1,313,612
		Subordinated debt	**1,000,000**	**1,000,000**	1,000,000	1,000,000
		Subordinated debt interest paid	**292,400**	**-**	300,334	-
		Interest received	**473,018**	**-**	14,869	-
		Interest paid	**207,689**	**-**	-	-
		Shared expenses	**-**		6,827	190
Continental Capital Ltd	Related company	Deposits	**126,654**	**-**	-	3,889
		Shared expenses	**970**	**-**	**1,229**	**114**
Continental Properties Ltd	Related company	Deposits	**38,081**	**-**	-	2,075
		Operating lease payments	**670,711**	**-**	419,872	-
		Shared expenses	**83,960**	**82,061**	12,482	90,105
		Sale of motor vehicles	**-**	**-**	281,661	281,661
Continental Holdings Limited	Parent company	Deposits	**3,092**	**-**	-	210,011
		Shared expenses	**81,892**	**66,759**	12,442	66,377
CDH Forex Bureau Ltd	Subsidiary	Deposits	**-**	**-**	-	1,045
		Shared expenses	**1,447**	**-**	3,242	3,242
		Additional capital			31,085	-
Executive Management	Management	Deposits	**-**	**7,389**	-	1,777
		Advances	**139,054**	**131,664**	-	132,339
		Salaries	**457,375**	**-**	340,744	-
		Long-term benefits (Pension)	**45,737**	**-**	34,074	-
		Interest received	**24,252**	**-**	26,468	-
Directors and their related parties	Directors	Deposits	**-**	**3,964**	-	953
		Fees	**53,242**	**-**	22,501	-

Included in customer deposits in note 16 are the deposit account balances held on behalf of the related parties disclosed above.

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34. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

The contractual amounts of the Bank's off balance sheet financial instruments that commit it to extend credit to customers are as follows:

	Consolidated and Separate	
	2016	**2015**
Contingent liabilities		
Financial guarantees	**160,613**	164,807
	160,613	164,807

Contingencies in respect of guarantees and performance bonds issued will only crystallise into an asset and a liability in the event of default by the relevant counterparty.

Contingencies in respect of civil litigation and labour matters will crystallise into a liability only in the unlikely event of an unfavourable judgement in which case it is estimated that claims and litigation costs could amount to **K31 million** (2015: MK28 million).

Capital commitments

The Group is not committed to incur any capital expenditure nor has it entered into any capital commitment contracts during the year **Knil** (2015: Knil).

35. STATUTORY REQUIREMENTS

In accordance with Section 27 of the Banking Act 2010, the Reserve Bank of Malawi has established the following requirements as at the financial reporting date:

(i) Liquidity Reserve Requirement

The Bank is required to maintain a liquidity reserve as defined by the Reserve Bank of Malawi, calculated on a weekly average basis, of not less than **7.5%** of the preceding weeks total deposit liabilities. In the last week of December 2016, the liquidity reserve was 7.5% (2015: 10%) of total customer deposits.

(ii) Capital Adequacy Requirement

The Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At 31 December 2016, the Bank's total available capital was **22.92%** (2015: 20.48%) and the core capital was **18.57%** (2015: 14.35%) of its risk bearing assets and contingent liabilities.

In accordance with Section 16(1) of the Financial Assets Classification Directive (2014), the Reserve Bank Malawi established the following requirement on the accounting treatment for provisioning of loan losses:

Loan loss reserve

If impairment charges computed under International Financial Reporting Standards (IFRS) are lower than provisions required under the Directive, the shortfall in provisions shall be treated as an appropriation of retained earnings to loan loss reserve.

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36. EXCHANGE RATES AND INFLATION

The average of the year-end buying and selling rates of the major foreign currencies most affecting the performance of the Group are stated below, together with the increase in the National Consumer Price Index, which represent an official measure of inflation.

	Consolidated and Separate	
Exchange rates	**2016**	**2015**
	MK	**MK**
Kwacha/GBP	**893.19**	997.53
Kwacha/Rand	**53.54**	43.41
Kwacha/US Dollar	**727.60**	672.68
Kwacha/Euro	**764.69**	732.37
Kwacha/Canadian Dollar	**541.56**	478.88
Inflation rate %	**20.00%**	24.90%

At the time of signing these consolidated and separate financial statements the exchange rates and inflation rate had moved to:

Kwacha/GBP	**896.14**
Kwacha/Rand	**57.05**
Kwacha/US Dollar	**729.77**
Kwacha/Euro	**781.85**
Inflation rate %	**16.10%**

37. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no events have occurred necessitating adjustments and disclosures to these financial statements.

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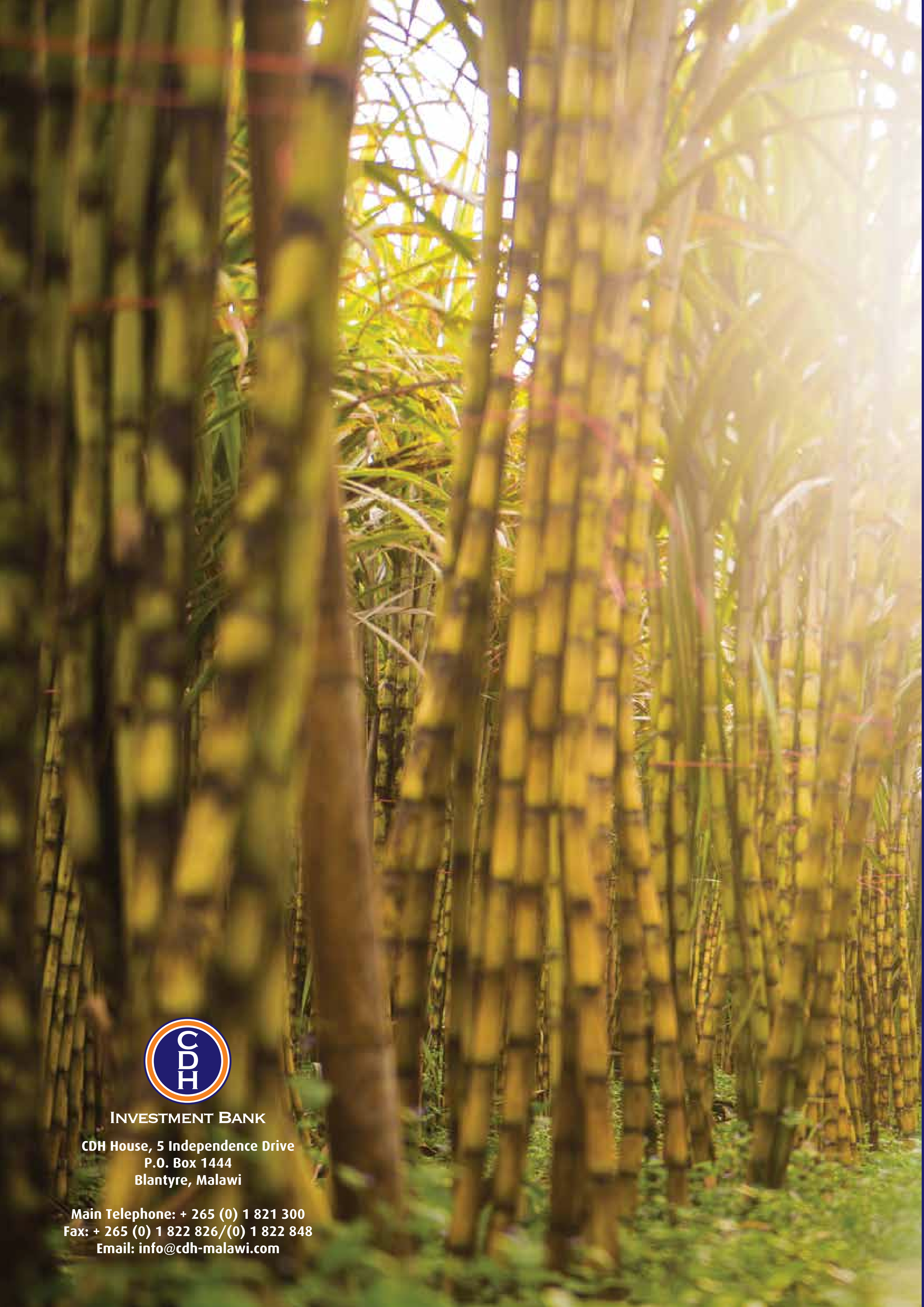

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