



**INVESTMENT BANK**

**Annual Report 2017**



**“We will continue to pride ourselves as Malawi’s leading investment bank through our growing interest in project finance that is contributing to the expansion of the economy into new areas of investment and job creation”**





# 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

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# Investment Banking Services

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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.





➤ Raise the game in **Project Finance**  
with Malawi's leading investment bank

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Capital City Banking Centre  
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Tel: +265 (0) 1 780 500



INVESTMENT BANK

➤ Banking innovations that help your business grow

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**Franklin Kennedy**  
Chairman

## Joint statement by Chairman and Chief Executive Officer

It is a great honour to present CDH Investment Bank's financial report for the year ended 31 December, 2017. Despite the challenges that characterized the environment, most notably the rising non-performing loans in the whole sector generally, poor performance of the agricultural exports and the shrinking interest rate margins, the bank was able to register impressive performance. This is attributable to the bank's continued pursuit of a clear and consistent strategy of being the leading investment bank in Malawi that provides a diverse range of financial advisory services. Additionally, the year 2017 has been historic to the bank, as we celebrated its fifth anniversary. We remain optimistic of the future growth and opportunities. We continue to strengthen stakeholder relationships and cementing foundations of the bank. We will continue to pride ourselves as Malawi's leading investment bank through our growing interest in project finance that is contributing to the expansion of the economy into new areas of investment and job creation. CDHIB remains committed to continue offering innovative investment banking services that will take the economy of Malawi forward. Investment banking remains the anchor of the bank's business as it targets to do more projects in the priority sectors of the economy.

### Overall performance

Despite the successes in performance mentioned above, the past year proved to be a challenge for the bank as it recorded a drop in earnings compared to the previous year. The bank realized consolidated profit after tax of MWK246 million against prior year performance of MWK983 million representing a decline of 75%. However, the operating income before impairments on loans and advances grew by 35% from MWK5, 010 million to MWK6,780 million mainly on account of growth in net interest income which went up by 89% and fees and commissions which went up by 28%. The operating expenses increased by 28% mainly due to increased activity arising from operations of the new branch in the Capital City. Total assets decreased by 5% from MWK64, 799 million to MWK61, 634 million mainly due to a repayment in government- supported business on due date which was followed by the shedding off of the liabilities that funded the same.

Loan impairments were significantly above prior year due to increased exposure in the manufacturing sector resulting from the spillover effects of the tight economic conditions experienced in the previous year. The bank will focus on robust credit risk management to avert future non-performing loans and emphasise on recoveries of written off loans. Nevertheless, we are pleased to report that despite the challenges faced, the bank complied with all Reserve Bank of Malawi's capital and liquidity guidelines at the end of the year.

### Human Capital Development

The sustainability of our business model depends largely on our human capital and positioning CDHIB as an attractive employer in the financial services industry. We focus on building a strong, diverse and capable workforce by providing a workplace that stimulates and rewards distinctive performance. The success of CDHIB's strategy will depend in part on our ability to retain, motivate, develop, and continue to attract employees with the skills and experience to help the bank master challenges and make the most of the opportunities in the market.

Investing in our employees remains of paramount importance. Employees are valued for their unique potential and talent as they represent the face of the business. CDHIB's identity is that of a diverse family that finds relevance in serving its client base. During the year, the bank invested in sharpening the skills and knowledge of its staff through targeted training both within and outside Malawi.

We are sincerely grateful to all employees for their constructive contribution in 2017. We were able to achieve good progress against many strategic priorities despite our challenges. Continuing that partnership will be key to implementing the significant changes that lie ahead of us in 2018.

### Corporate social investment

For CDHIB, sustainability is about building our business to ensure that we have a positive impact on the economic and social progress of communities and on the environment, while growing and preserving clients and stakeholders' wealth based on strong relationships of trust. This commitment to sustainability means integrating social, ethical and environmental considerations into our day-to-day operations. As we strive to build value for the bank and its shareholders, we will continue to make a positive difference in Malawi.

In 2017, the bank allocated a total of MWK15 million to improve the livelihood of surrounding communities with special focus on health and education. Continued stakeholder engagement will ensure that CDHIB remains relevant in the market and to the society as a whole. Efforts will continue to be made to understand and address the expectations of our stakeholders to facilitate enduring relationships. A key element of this is the bank's solid corporate governance that ensures sustainable management with a long-term vision.

### Compliance, governance and risk management

Strong management and corporate governance continue to be key pillars of CDHIB. In 2017, the various board committees continued to play a vital role in supporting the board and





**Misheck Esau**  
CEO & MD

management to discharge their duties. We strive to be a distinctive specialist bank driven by commitment to our core philosophies and values. Our strategic goals and objectives are based on the aspiration to be recognized as a niche bank. This distinction is embodied in our entrepreneurial culture, which is balanced by a strong risk management discipline, client centric approach and an ability to be nimble, flexible and innovative. We aim to build well-defined, value-added businesses focused on serving the needs of select market niches where we can compete effectively.

Acting with integrity to maintain and uphold a strong reputation requires solid, strategic governance practices to ensure we are building a sustainable environment for everyone. CDHIB is committed to the interests of its stakeholders. In order to maintain trust, we strive to enhance customer protection, lend fairly, balance stakeholder interests, and operate the bank with integrity.

In 2017, we continued to lay emphasis on improving the bank's risk management, credit delivery and monitoring, work ethics and general productivity. Additionally, we continued to ensure that our corporate governance policies and standards stayed ahead of the most exacting statutory requirements and showed strong adherence to our values.

#### Strategic direction

In 2017, we launched the bank's five-year strategic plan, which is expected to take the bank to the next level. The bank has built-in flexibility, resources and agility necessary to continue on a growth path notwithstanding the prevailing operating environment. The bank is therefore expected to continue to perform well in the years ahead. The successful strategic alignment of the bank towards investment banking and the simplification of the specialist banking business model over the past few years have resulted in a scalable platform from which the bank's businesses can continue to grow. Going forward, CDHIB will strive to enhance its competitive advantage and strengthen its financial position.

#### Business prospects and outlook

The bank has navigated through somewhat uncertain operating environments over the past few years, which have reminded us about who we are and what we stand for. We are continuing to build CDHIB into a high quality, client-driven investment bank that is relevant in its core markets.

Our focus over the next years will be to execute our key strategic initiatives so that CDHIB, going forward, will be recognized as an agile, innovative, service-driven specialist bank.

The continuous stability of the current economic conditions as evidenced by downward trends in interest rates and inflation rates offer hope for increased economic activity going forward. CDHIB remains committed to continue offering innovative investment banking and treasury products whilst widening its online distribution channels. Investment banking remains the anchor of the bank's business as it targets to do more on project and trade finance transactions.

We expect the year 2018 to be more encouraging with the various initiatives and comprehensive plans and push from the government in the form of implementation of several large infrastructure projects and among others, which certainly would increase the government spending and stimulate the economy. Consequently, we have strategically positioned our businesses to take advantage of the opportunities and we are confident that our sound governance structure, resilient business model and the continued momentum reflected in our strategic businesses, will guarantee valuable returns in 2018 and beyond.

The bank will continue its efforts in innovating and providing the best solutions to its customers. In this endeavor, the bank will be introducing more digital products and services, focus on strengthening the technology framework by upgrading its existing systems and introducing new technology products.

#### Vote of thanks

Finally, we would like to express our profound gratitude to all our customers for their unflinching trust in the CDHIB brand. We would also like to place on record the efforts of all management and staff for their dedication and commitment in ensuring that the bank continues to achieve the desired objectives. We are very grateful to our fellow directors for their gracious contribution and invaluable guidance provided to the bank during the year. Together with management, the board remains resolute and are confident that opportunities abound in our chosen markets. The CDHIB brand remains strong, and our workforce possesses the necessary skills, vigour and experience to position the brand for the future. Let us all continue to "raise the game" in 2018.

**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 McGrath**  
Director



**Charles Asare**  
Director



**Kingsley Zulu**  
Director



# Management



**Misheck Esau**  
Chief 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 & Compliance  
Officer/ Company Secretary



**Chris Chirwa**  
Chief Information  
Technology Officer

A man in a white shirt and tie is standing in a field of tall green grass, looking up and drawing the outline of the African continent in the sky with a marker. The background is a bright, hazy sky. The entire image is framed by a dashed blue border. In the top right corner, there is a solid orange square. In the bottom right, there is an orange L-shaped graphic element. A blue rectangular box is positioned at the bottom left, containing the title text.

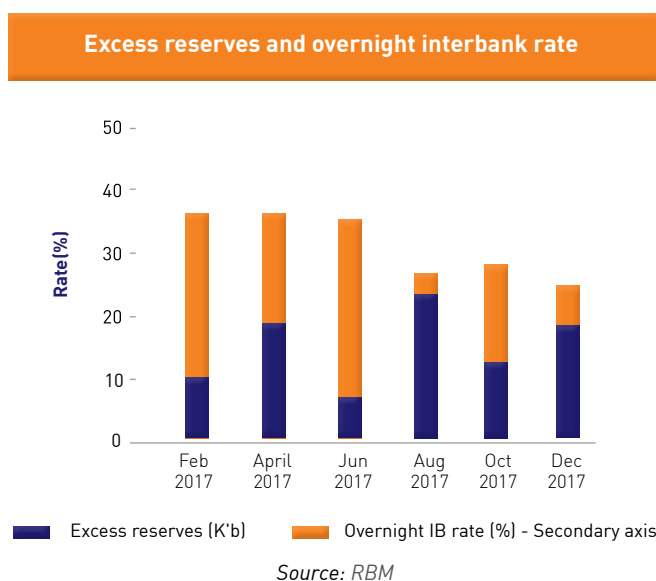
# Annual Economic Review 2017

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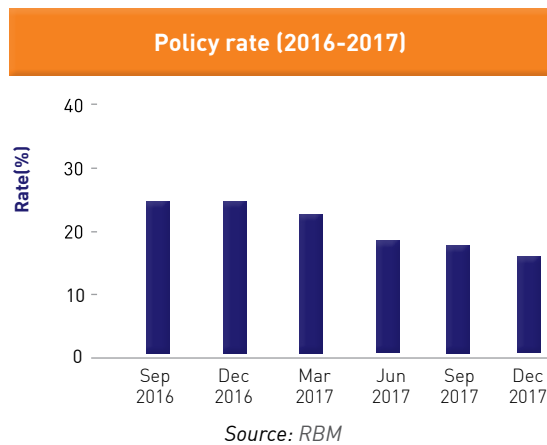
## 1.0 INTERBANK MARKET AND INTEREST RATES

- 1.1 Liquidity conditions on the interbank market were generally tight in 2017. Excess reserves averaged MWK5.54 billion per day compared to MWK7.33 billion per day in 2016. Excess reserves were lowest at negative MWK0.79 billion in April and were the highest at MWK23.58 billion in September towards the close of the tobacco auction season. As a result of policy rate cuts which were triggered mainly by decelerating inflation and exchange rate stability during the year, the overnight interbank rate declined, averaging 18.52% from 24.46% in 2016, despite persistent tight monetary conditions.
- 1.2 Overnight interbank borrowing increased to a daily average of MWK6.76 billion from an average of MWK5.12 billion in 2016. Access on the Lombard Facility of the Reserve Bank of Malawi (RBM) (also known as the discount window) increased to a daily average of MWK7.01 billion compared to a daily average of MWK6.94 billion in 2016.
- 1.3 The central bank withdrew a daily average of MWK6.38 billion (total: MWK898.88 billion) from the market at an average rate of 18.68% through open market operations (OMO) during the period under review.
- 1.4 The chart below summarizes the movement of excess reserves and overnight interbank rate in the last three years.



- 1.5 The Monetary Policy Committee (MPC) revised the policy rate downwards three times in 2017. The first adjustment was by 200 basis points from 24% to 22% in March 2017. The second adjustment was by 400 basis points to 18% in July 2017, and the last adjustment was by 200 basis points to 16% in December 2017. On all the three occasions that the policy rate was revised, the decision was made after considering developments in the local economy, especially the disinflation process and the stability of the exchange rate that prevailed throughout the year; as well as the outlook on inflation and developments in the global economy. The downward revisions in the policy rate were triggered by the need to maintain a tight monetary policy to keep inflation on a downward trend. Low inflation in turn was expected to guarantee low interest rates and prolonged stability of the exchange rate. The committee, however, maintained the Liquidity Reserve Requirement (LRR) at 7.5 percent.

1.6 The chart below depicts the trend of the policy rate in the last five years.



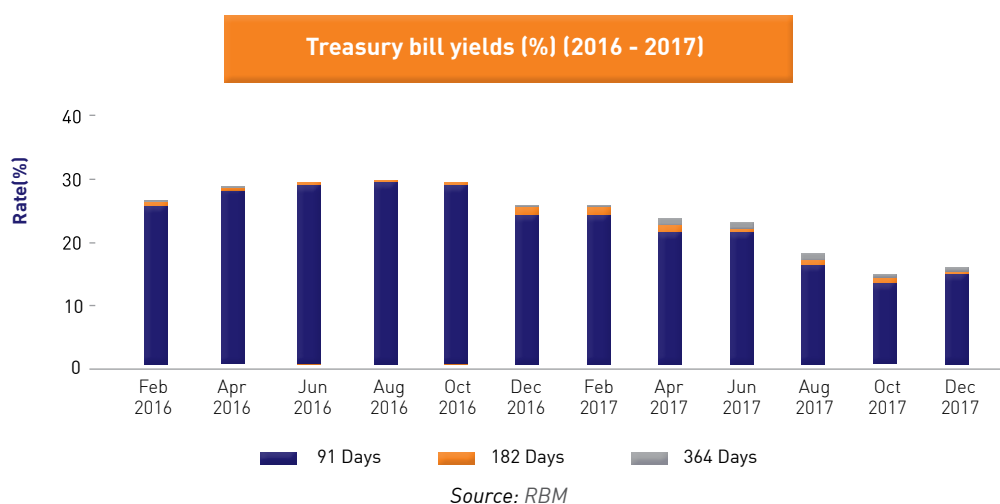
1.7 In response to the policy rate cuts, all other interest rates on the market declined during the year. The Lombard rate declined from 26.00% as at the beginning of the year to 16.00% as at the end of the year. The overnight interbank rate decelerated from 25.1% as at 3 January 2017 to 14.72% as at 28 December 2017. Consequently base lending rates for commercial banks also declined in the year 2017. They ranged between 32.00% and 35.00% at the beginning of the year to the currently range of between 23.00% and 25.50%.

1.8 Looking forward, interest rates are likely to continue the downward trend in the short to medium term as no significant negative shocks to underlying macroeconomic fundamentals are immediately expected. In 2018, if inflation remains in the single digit and shocks to the exchange rate continue to be contained, backed by sufficient foreign reserves, the MPC could cut the policy rate further, leading to an across the board deceleration of interest rates. The interbank rate will most likely remain close to the policy rate amid continued tight liquidity conditions as authorities intensify mop up operations to withdraw liquidity injected from expansionary operations. The RBM has clearly stated their intention to keep the interbank rate within the band of  $\pm 200$  basis points around the policy rate.

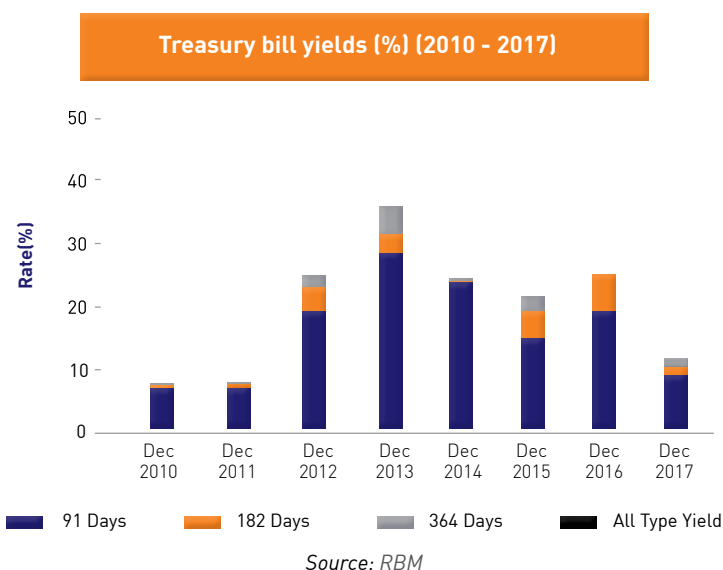
## 2.0 TREASURY BILLS

2.1 During the year under review, government raised MWK243.67 billion through Treasury bill auctions compared to MWK367 billion raised in 2016. Total applications for Treasury bills stood at MWK444.13 billion, representing a 45.14% rejection rate (2016: 14%). In response to Policy Rate cuts, Treasury bill yields declined during the year, with the all type Treasury bill yield averaging 19.76% from 27.87% in 2016 and closing the year 2017 at 14.53%.

2.2 The following two charts depict the movement of the Treasury bill yields in the last seven years.







- 2.3 Looking ahead, the Treasury bill yields are expected to stabilize around the Policy Rate as the authorities work to consolidate the gains made in stabilizing the economy in 2017. In the short to medium term, Treasury bill yields may face a downward pressure as the authorities target cheaper funds due to high government debt levels.

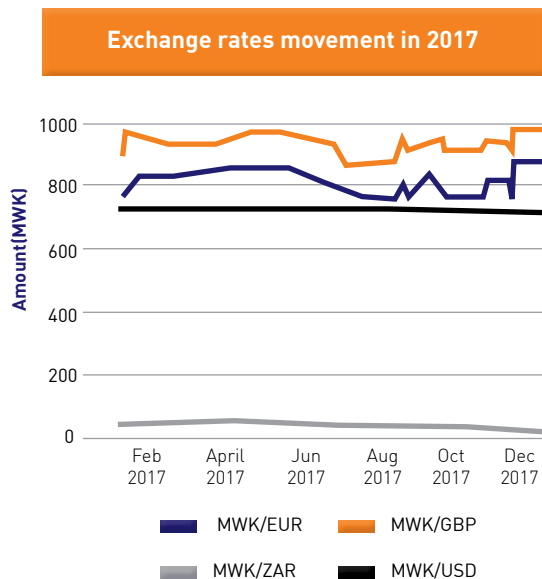
### 3.0 EXCHANGE RATES

- 3.1 The Malawi Kwacha was broadly stable in 2017, registering a marginal depreciation of 0.08% against the USD and depreciations of 9.78%, 9.67% and 13.51% against the ZAR, GBP and EUR, respectively, between 30 December 2016 and 29 December 2017. As at 29 December 2017, the Malawi Kwacha was trading at MWK725.584/USD, MWK58.4941/ZAR, MWK976.4909/GDP and MWK866.7101/EUR, compared to MWK725.0093/USD, MWK53.2829/ZAR, MWK890.3839/GBP and MWK763.5798/EUR as at 30 December 2016.
- 3.2 The relative stability of the Malawi Kwacha in 2017 can be attributed to the tobacco marketing season which raked in USD212.5 million, the resumption of aid and credit facilities from development partners which ensured consistent availability of forex in the country, as well as tight monetary conditions which mitigated the impact of a wide current account deficit.
- 3.3 The table below provides an annual overview of how the Malawi Kwacha fared against the four major trading currencies in the last three years.

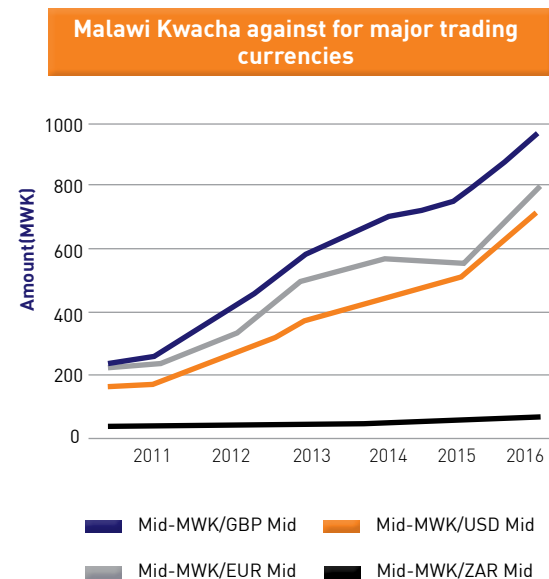
#### Malawi Kwacha exchange rate movement against major trading currencies

Currency	29 Dec 2017	30 Dec 2016	31 Dec 2015	2017 Change	2016 Change
USD	725.584	725.0093	664.365	▼ 0.08%	▼ 9.13%
GBP	976.4909	890.3839	984.3232	▼ 9.67%	▲ -9.54%
EUR	866.7101	763.5798	726.3503	▼ 13.51%	▼ 5.13%
ZAR	58.4941	53.2829	42.6975	▼ 9.78%	▼ 24.79%

3.4 The following charts provide a historical pictorial view of the trend of the exchange rates.

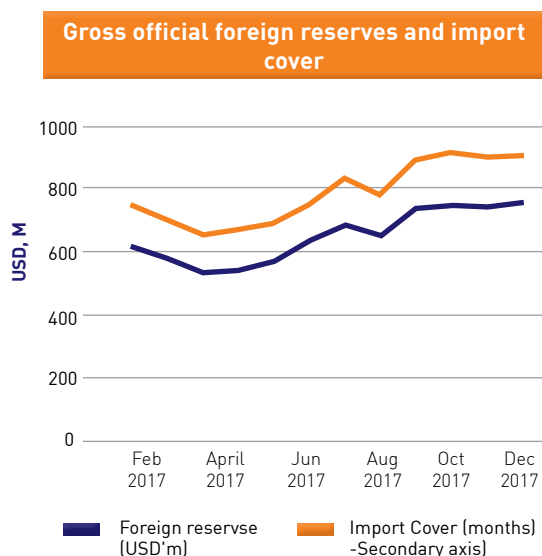


Source: RBM



Source: RBM

- 3.5 The Malawi Kwacha is expected to remain broadly stable in the short to medium term as the country currently has sufficient foreign exchange reserves. In the long term, however, the local currency could depreciate further due to trade imbalances and exogenous shocks such as rising international fuel prices.
- 3.6 Gross official foreign reserves were observed at USD761.97 million (3.65 months of imports) on 29 December 2017, 25.54% higher than USD606.93 million (2.90 months of imports) observed at the end of 2016. Private foreign reserves were observed at USD414.03 million (1.98 months of imports) from USD336.61 million (1.61 months of imports).
- 3.7 The following charts depict the trend of total foreign reserves position and import cover movement in 2017 and since 1990.



Source: RBM



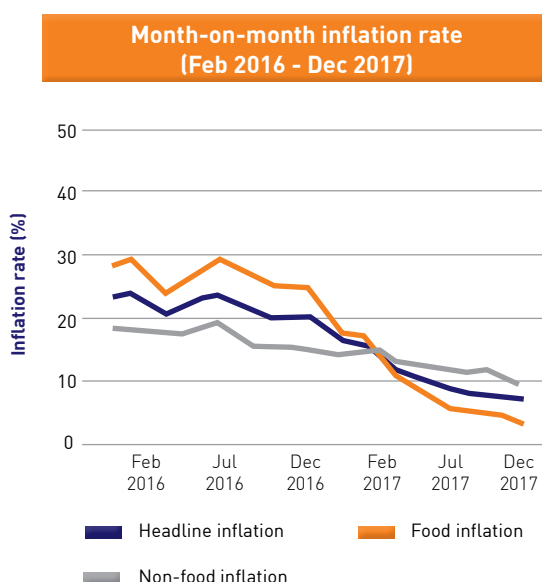
Source: World Bank-World development indicators database



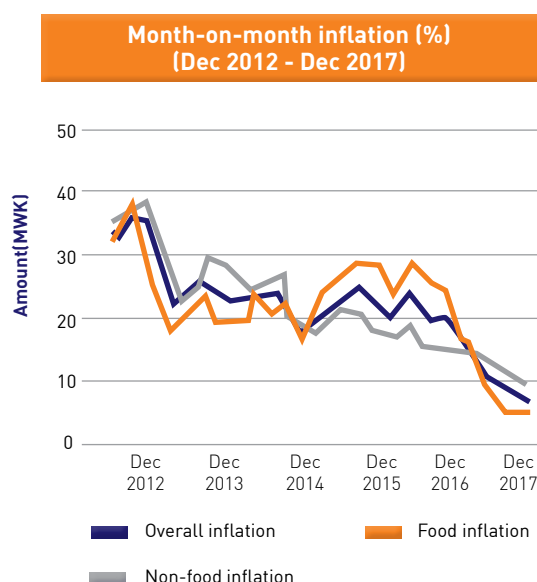
- 3.8 The Reserve Bank of Malawi has stated in its 2018 strategic plan that it aims to maintain the import cover above 3 months throughout the year. Among its efforts to ensure that the goal is realized, the RBM will aim to generate an extra USD600 million (MWK440 billion) in export earnings through the Export Development Fund (EDF) and increase diaspora remittances to USD200 million from USD38 million.

## 4. INFLATION

- 4.1 Annual headline inflation decreased to 11.5% in 2017 from 21.7% in 2016 due to a slowdown in both food and non-food inflation. Annual food inflation decreased to 10.3% in 2017 from 26.6% in 2016, whereas annual non-food inflation decreased to 12.8% from 17.1%.
- 4.2 As at end December 2017, month-on-month headline inflation was at 7.1%, compared to 20.0% in December 2016. Month-on-month food inflation stood at 4.3% in December 2017, compared to 24.4% in December 2016, whereas month-on-month non-food inflation stood at 10.0% in December 2017, compared to 15.45% in December 2016.



Source: National Statistics Office (NSO)



Source: National Statistics Office (NSO)

- 4.3 The decline in inflation in 2017 is largely attributed to low agricultural food prices (especially maize) necessitated by a bumper harvest in the 2016/2017 growing season, a stable exchange rate backed by sufficient availability of forex, stable fuel prices, a tight monetary policy and a tight fiscal stance which saw the government spending within its budget.
- 4.4 Looking ahead, in 2018, the inflation rate could remain in the single digit as RBM targets an inflation rate of 5% by the end of the year. The continued disinflation could give room for a further reduction in interest rates. However, upside risks to inflation remain rising global oil prices, power challenges, government not being committed to fiscal discipline and a possible rebound in maize prices. 2018 maize harvest is threatened by the prevailing fall armyworm and a dry spell that hit some parts of the country in January 2018.

## 5. STOCK MARKET

5.1 The stock market was buoyant in 2017 as it registered a positive return on investment of 62.14% compared to a negative return of 8.53% in 2016. The market registered a 70.09% increase in share volume traded to 698,894,283 shares compared to a traded volume of 410,895,390 shares in 2016. Traded share value amounted MWK13.52 billion in 2017, compared to MWK6.20 billion in 2016, representing a 118.14% increase. Top gainers for the year were FMB, TNM, NICO, MPICO and NITL, with registered share price gains of 182.35%, 139.67%, 100.00%, 99.36% and 76.65%, respectively.

5.2 The following table summarizes stock price movements on the Malawi Stock Exchange in 2017.

Trading Summary	29 Dec 2017	3 Jan 2017	Capital Gain
<b>Market Indices (MWK 1 billion)</b>			
MASI	21598.07	13320.51 ▲	62.14%
DSI	16272.64	10456.92 ▲	55.62%
FSI	3519.43	2026.07 ▲	73.71%
<b>Gainers (Price in MWK)</b>			
FMB	48.00	17.00 ▲	182.35%
TNM	14.50	6.05 ▲	139.67%
NICO	34.00	17.00 ▲	100.00%
MPCO	15.61	7.83 ▲	99.36%
NITL	60.06	34.00 ▲	76.65%
SUNBIRD	96.00	58.50 ▲	64.10%
ILLOVO	240.00	160.00 ▲	50.00%
FMBCH	67.00	45.01 ▲	48.86%
NBS	8.50	6.00 ▲	41.67%
BHL	28.00	20.10 ▲	39.30%
STANDARD BANK	610.00	500.00 ▲	22.00%
OLD MUTUAL	1960.00	1612.00 ▲	21.59%
NBM	270.08	237.12 ▲	13.90%
PCL	600.00	540.00 ▲	11.11%

Source: Malawi Stock Exchange

## 6. ECONOMIC GROWTH

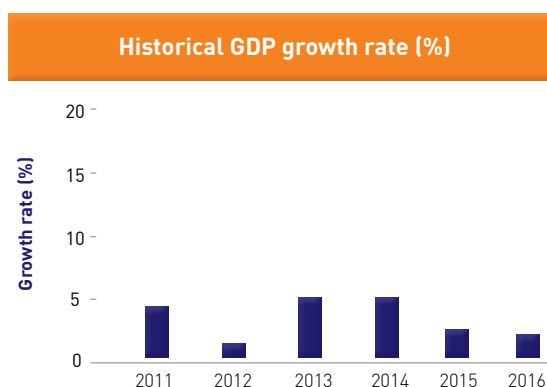
6.1 Malawi is projected to register a real economic growth rate of 4.50% in 2017 by the World Bank and the International Monetary Fund (IMF), from the rate of 2.50% recorded in 2016. Economic growth in the previous two consecutive years (2015 and 2016) was largely crippled by regional adverse weather conditions which led to contraction of the agricultural sector. Higher economic growth is expected in 2017 following favorable weather conditions which facilitated a rebound in agricultural production. The World Bank estimates a growth of 5.00% in 2017 for the agricultural sector, up from 2.30% in 2016, led by increased production of the country's staple crop, maize, which is estimated at 3.5 million tons in 2017, representing a 46.20% increase from the output of 2.4 million tons recorded in 2016.

- 6.2 Despite high growth rates in the agriculture sector, growth rates for the industry and services sectors are expected to be modest. According to the World Bank Economic Monitor for November 2017, the services sector is expected to register a growth rate of 0.2 percentage points higher than that recorded in 2016 and the industry sector a growth rate of 0.8 percentage points higher than that of 2016. Within these sectors, however, the transportation and storage services and manufacturing sub-sectors are expected to register significant growth rates due to increased availability of agricultural goods. Wholesale and retail trade and financial and insurance services are also expected to register higher than average growth rates. Despite the expected rebound in manufacturing, the sector's growth remains weak, mainly due to structural constraints in the supply of energy and water which continue to adversely affect production.
- 6.3 The structural constraints in the supply of energy and water was the major risk to economic growth in 2017. Production in the manufacturing sector, especially, might have been adversely affected by the continued power outages.
- 6.4 Growth forecasts for 2018 are more optimistic on the back of better performance of the agricultural sector and general macroeconomic fundamentals. The IMF, World Bank, and the EIU, project that real economic growth will reach 5.00%, 5.00% and 4.10%, respectively, in 2018.
- 6.5 Risks to economic growth in 2018 include insufficient power supply which could slow down economic growth by reducing private sector activity, and high government debt levels which might keep interest rates high and crowd out private sector funding for growth. The fall armyworm outbreak and a dry spell that hit some parts of the country in January 2018, also threaten agricultural output in 2018.
- 6.6 The table below shows real economic growth projections to 2018

**Real Economic Growth Projections**

	2015	2016	2017	2018	2019
EIU	2.90%	2.90%	4.40%	4.10%	4.10%
IMF	2.95%	2.30%	4.50%	5.00%	5.00%
World Bank	2.80%	2.50%	4.50%	5.00%	5.00%
Malawi Government	3.30%	2.70%	5.00%	-	

- 6.7 The following chart depicts the Malawi's GDP growth rate from 2011 to 2016.



Source: World Bank-World development indicators database



## 7. COMMODITIES

### 7.1 Tobacco

7.1.1 The 2017 tobacco market season registered better performance in terms of prices compared to the previous season. The all-type tobacco price averaged USD1.99 per kilogram, 40.1% higher than USD1.42 per kilogram recorded at the close of the 2016 season. However, total volume of tobacco sales in 2017 decreased by 45.4% to 106.5 million kilograms, compared to 195.1 million kilograms in 2016. Consequently, the total realization from tobacco sales in 2017, amounting USD212.5 million, was 23.1% lower than USD276.4 million realized in 2016.

7.1.2 The decline in tobacco production in 2017 was on account of poor prices that farmers were offered in 2016 and high rejection rates due to overproduction.

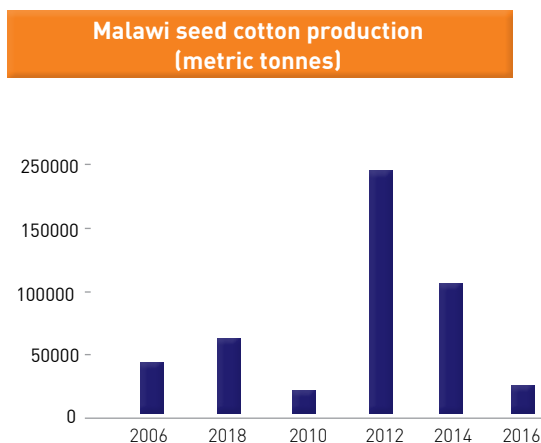
	2017	2016	Change
Volume (kg)	106.5 million kg	195.1 million kg	(45.4%)
Average price (USD/kg)	USD1.99	USD1.42	40.1%
Turnover (USD)	USD212.5 million	USD276.4 million	(23.1%)

Source: Tobacco Control Commission (TCC)

7.1.3 In 2018 season, farmers could make better margins if they grow good tobacco as the gap between demand for the crop from international buyers and production quota has narrowed. The Tobacco Control Commission (TCC) indicated that the 2018 international buyer demand stands at 171 million kilograms against 162 million kilograms to be grown by 41,784 registered farmers. In 2017, the international buyer demand was 158 million kilograms against 106 million kilograms that were sold through the auction market. However, the dry spell that persisted in January 2018 in some parts of the country could affect the output.

### 7.2 Cotton

7.2.1 Cotton production levels are still relatively low in Malawi, averaging 24.03 thousand metric tonnes in the last decade. It is only in 2012 and 2013 that the country produced relatively significant amounts (244,154 metric tonnes in 2012 and 158,826 metric tonnes). Since then cotton seed production has been declining, reaching 31,439 metric tonnes in 2016.



Source: Food and Agricultural Organization of the United Nations (FAO)

### 7.3 Fuel

7.3.1 Fuel prices were steady in 2017 at MWK824.70 per litre of petrol, MWK815.80 per litre of diesel and MWK648.70 per litre of paraffin after being adjusted three times in 2016, the last adjustment being in November 2016.

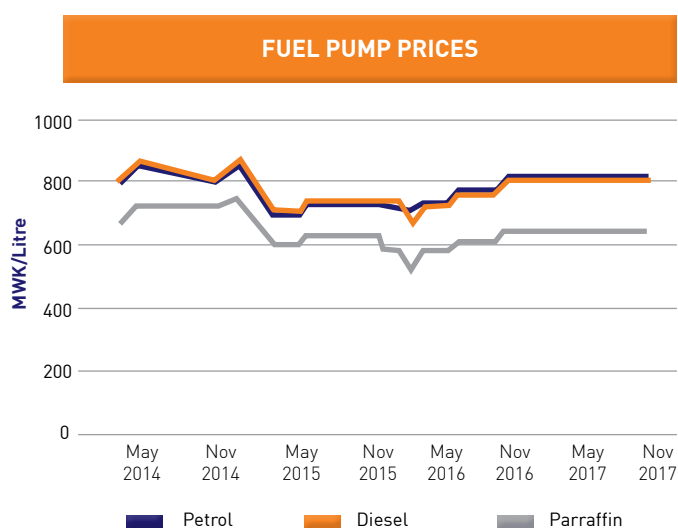
7.3.2 The Malawi Energy Regulatory Authority (MERA), however, reviewed the fuel prices a number of times during the year to determine if price adjustments were needed. The last review was in December 2017 when MERA assessed the combined effect of the movement of FOB prices and the Malawi Kwacha to US Dollar exchange rate, as well as, changes in local factors that determine the maximum pump prices. It was observed that the landed costs of petrol, diesel and paraffin had increased by 15.35%, 23.51% and 23.28%, respectively, which combined are beyond the  $\pm 5\%$  trigger limit which qualifies petrol, diesel and paraffin for an upward pump price adjustment. The MERA Board, however, resolved not to change the pump prices for all the three products but instead apply the accumulated funds in the Price Stabilization Funds (PSF) to cover the increased landed costs.

7.3.3 The table and graph below show the recent trend in prices of the three petroleum products.

**Fuel pump prices (Malawi Kwacha/litre)**

Product	Jan - Dec 2017	Nov-16	Jun-16	Mar-16
Petrol	<b>824.70</b>	824.70	788.30	743.30
Diesel	<b>815.80</b>	815.80	766.90	722.80
Paraffin	<b>648.70</b>	648.70	609.80	580.40

Source: MERA



Source: MERA

7.3.4 In 2018, local fuel prices could face an upward pressure from rising international oil prices following the decision made by oil producers in November 2017 to extend the oil output cut until end 2018.



## Consolidated and separate Financial Statements

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# 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 2017.

## 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

A final dividend of **MWK Nil million** was declared for the year ended 31 December 2017 (2016: MWK305.85 million). The final dividend for 2016 was paid during the year.

## 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:

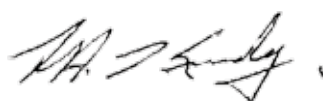
Mr Franklin Kennedy	Chairman		Mr Kingsley Zulu	Director
Mr Kofi Sekyere	Director		Mr John McGrath	Director
Mr Robert Abbey	Director		Mr Charles Asare	Director
Mr Gibson Ngalamila	Director		Mr Misheck Esau	Managing Director
Mr Ted Sauti-Phiri	Director		Mr Daniel Mwangwela	Company Secretary

## SHAREHOLDING ANALYSIS

NAME	2017	2016
	%	%
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

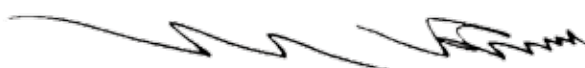
## INDEPENDENT AUDITORS

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 2018 financial statements.



**FRANKLIN KENNEDY**  
CHAIRMAN

23 MARCH 2018



**MISHECK ESAU**  
MANAGING DIRECTOR

# CORPORATE GOVERNANCE REPORT

## THE BOARD

The Group has a unitary Board of Directors comprising a chairman, eight 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
		23 March 2017	4 July 2017	3 October 2017	4 December 2017
Mr Franklin Kennedy	Chairman	✓	✓	✓	✓
Mr Kofi Sekyere	Director	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr Gibson Ngalamila	Director	✓	✓	✓	✓
Mr Ted Sauti-Phiri	Director	✓	✓	✓	✓
Mr Kingsley Zulu	Director	✓	✓	✓	✓
Mr John McGrath	Director	✓	A	✓	✓
Mr Charles Asare	Director	✓	✓	✓	✓
Mr Misheck Esau	Managing Director	✓	✓	✓	✓
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance, A = Apology

## 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
		22 March 2017	3 July 2017	2 October 2017	13 December 2017
Mr Gibson Ngalamila	Chairman	✓	✓	✓	✓
Mr Kingsley Zulu	Director	✓	✓	✓	✓
Mr Charles Asare	Director	✓	✓	✓	✓
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance, A = Apology

### 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 two 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
		22 March 2017	3 July 2017	2 October 2017	13 December 2017
Mr Ted Sauti-Phiri	Chairman	✓	✓	✓	✓
Mr John McGrath	Director	✓	✓	✓	✓
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance, A = Apology

### Finance, Business and Information Technology Committee

The Committee comprises three 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
		22 March 2017	3 July 2017	2 October 2017	13 December 2017
Mr Kofi Sekyere	Chairman	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr Misheck Esau	Managing Director	✓	✓	✓	✓
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance, A = Apology



### 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
		22 March 2017	23 June 2017	2 October 2017	13 December 2017
Mr Kofi Sekyere	Director	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr Ted Sauti-Phiri	Director	✓	✓	✓	✓
Mr John McGrath	Chairman	✓	✓	✓	✓
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance, A = Apology

N/A= Not applicable



Sugar processing factory at Salima Sugar Limited; project finance provided by CDHIB

# 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 2017, 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.

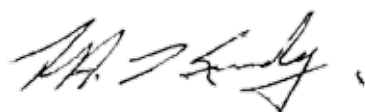
The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk 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.

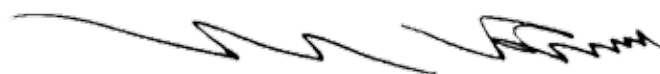
The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

## 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 2018** 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 34 to 104, which comprise the statements of financial position as at 31 December 2017, 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 2017, 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.

### Impairment of loans and advances to customers

Refer to notes 5(b)(vii), 5(f), 6.1.1, 11 and 22.3 to the consolidated and separate financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>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.</p> <p>The impairment assessments of loans and advances to customers was a key audit matter due to the following:</p> <ul style="list-style-type: none"> <li>• The significance of loans and advances to customers in the statements of financial position at year end.</li> <li>• The subjective nature of the impairment calculations, including the high level of judgement and complexity involved in determining the amounts to be impaired.</li> </ul> <p>The existence of regulatory directives for banks in Malawi, which results in a calculation of impairment that is different from the relevant accounting standards.</p>	<p>Our procedures included:</p> <p>We inspected the Bank's credit policy that sets out the provisioning processes followed by the Bank and we evaluated these processes by considering whether the impairment calculation is in compliance with the relevant accounting standards. We also evaluated whether the impairment process is in compliance with the provisions prescribed by the Reserve Bank of Malawi.</p> <p>We tested the controls in place over credit risk management, particularly the key controls relating to the granting of the loans, monitoring, and recovery of the loans.</p> <p>In respect of specific allowances for impairment:</p> <ul style="list-style-type: none"> <li>• We challenged the Bank's assumptions in grading of loans into performing and non-performing loans by selecting a sample of loans and evaluating whether the loans were graded in line with the ageing of the loans as well as our knowledge of the industry.</li> </ul>

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

Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> <li>Where impairment had been identified by the Bank, we inspected the forecasts of future cash flows prepared by management and challenged their calculations by selecting loan exposures on a sample basis and testing the appropriateness of the specific loan loss provision as at the year-end by ensuring the cash flows are reasonable based on the customers' repayment history. We also challenged assumptions around future cash flow projections and the valuation of collateral held by evaluating the expected periods to realise the collateral and expected cost to sell.</li> <li>We evaluated a sample of loans and advances which had not been identified by the Bank 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 the Bank's assessment was appropriate.</li> </ul> <p>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 also computed for each sector/industry taking into account the time it takes to identify objective evidence of impairment, based on our knowledge of the Bank.</p> <p>We evaluated the adequacy of the Bank'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 the relevant accounting standards.</p>
<p><b>Valuation of treasury bills and promissory notes</b></p> <p><i>See Notes 5(b)(vi), 5(d), and 9 the consolidated and separate financial statements.</i></p> <p>The Group and Company hold treasury bills and promissory notes for trading as part of their business. These investments are measured at fair value.</p> <p>Since the fair value of these investments is not readily available in the economy as there is an inactive market for these instruments in Malawi, these instruments held were classified as Level 2 instruments in accordance with the relevant financial reporting framework.</p> <p>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:</p> <ul style="list-style-type: none"> <li>The significance of the fair values of these investments recognised in the consolidated and separate financial statements; and</li> <li>The complexity involved in determining their fair values due to an inactive market for these instruments.</li> </ul>	<p>We tested the fair value of the treasury bills and promissory notes by considering whether the assumptions and calculation methods used are appropriate and consistent with market conditions.</p> <p>We recalculated the fair values of treasury bills and promissory notes, which included performing the following procedures:</p> <ul style="list-style-type: none"> <li>We obtained confirmations from the Reserve Bank of Malawi for all treasury bills and promissory notes 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.</li> <li>We challenged management's assumptions used in determining the valuation of these bills and notes 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 and promissory notes.</li> </ul>



# 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.



Gordon Tembo  
Chartered Accountant (Malawi)  
Partner

Blantyre, Malawi  
29 March 2018

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

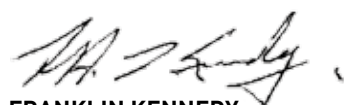
As at 31 December 2017

In thousands of Malawi Kwacha

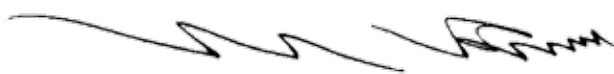
	NOTE	31 DEC 2017	31 DEC 2016 Restated*	1 JAN 2016 Restated*
<b>ASSETS</b>				
Cash and cash equivalents	8	3,949,815	3,028,854	5,608,210
Financial assets	9	33,317,667	47,134,552	16,796,810
Loans and advances to related party	10.1	2,437,836	2,880,898	1,313,612
Loans and advances to other banks	10.2	7,008,894	-	-
Loans and advances to customers	11	12,862,160	10,444,059	11,541,418
Income tax recoverable	21.1	82,449	85,449	-
Amounts due from related parties	33	127,747	148,820	438,143
Other assets	12	797,337	185,044	311,573
Assets held for sale	14(b)	28,630	57,261	150,729
Other investment	13(b)	30,000	15,000	15,000
Property and equipment	14(a)	618,086	561,901	240,721
Intangible assets	15	189,462	248,832	238,849
Deferred tax asset	21.2	183,651	8,795	-
<b>Total assets</b>		<b>61,633,734</b>	<b>64,799,465</b>	<b>36,655,065</b>
<b>LIABILITIES</b>				
Balances due to other banks	19	135,000	5,950,000	2,600,000
Customers deposits	16	26,196,479	20,362,691	15,805,550
Investment funds	17	30,489,716	33,769,619	13,565,793
Amounts due to related parties	20	-	-	304
Other liabilities and accruals		429,735	274,539	562,530
Income tax payable		-	-	262,142
Deferred tax liabilities		-	-	150,466
Subordinated liability	18	1,000,000	1,000,000	1,000,000
<b>Total liabilities</b>		<b>58,250,930</b>	<b>61,356,849</b>	<b>33,946,785</b>
<b>EQUITY</b>				
Share capital	22.1	172,458	172,458	172,458
Share premium	22.2	746,744	746,744	746,744
Loan loss reserve	22.3	430,345	9,386	114,345
Retained earnings		2,033,257	2,514,028	1,674,733
<b>Total equity</b>		<b>3,382,804</b>	<b>3,442,616</b>	<b>2,708,280</b>
<b>Total equity and liabilities</b>		<b>61,633,734</b>	<b>64,799,465</b>	<b>36,655,065</b>

\* The effects of the restatements have been disclosed in note 34.

The consolidated and separate financial statements were approved for issue by the Board of Directors on 23 March 2018 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 34 to 104. The independent auditor's report is on page 24.

# SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

In thousands of Malawi Kwacha

	NOTE	31 DEC 2017	31 DEC 2016 Restated*	1 JAN 2016 Restated*
<b>ASSETS</b>				
Cash and cash equivalents	8	3,949,815	3,028,854	5,599,738
Financial assets	9	33,317,667	47,134,552	16,796,810
Loans and advances to related party	10.1	2,437,836	2,880,898	1,313,612
Loans and advances to other banks	10.2	7,008,894	-	-
Loans and advances to customers	11	12,862,160	10,444,059	11,541,418
Income tax recoverable	21.1	78,051	81,051	-
Amounts due from related parties	33	127,747	148,820	441,385
Other assets	12	797,323	185,030	307,070
Assets held for sale	14(a)	28,630	57,261	150,729
Other investment	13(b)	30,000	15,000	15,000
Investment in subsidiary	13(a)	-	-	49,430
Property and equipment	14(a)	618,086	561,901	207,229
Intangible assets	15	189,462	248,832	238,849
Deferred tax asset	21.2	183,651	8,795	-
<b>Total assets</b>		<b>61,629,322</b>	<b>64,795,053</b>	<b>36,661,270</b>
<b>LIABILITIES</b>				
Balances due to other banks	19	135,000	5,950,000	2,600,000
Customers deposits	16	26,196,479	20,362,691	15,806,992
Investment funds	17	30,489,716	33,769,619	13,565,793
Amounts due to related parties	20	-	-	304
Other liabilities and accruals		429,735	274,539	559,566
Income tax payable		-	-	265,329
Deferred tax liabilities		-	-	150,481
Subordinated liability	18	1,000,000	1,000,000	1,000,000
<b>Total liabilities</b>		<b>58,250,930</b>	<b>61,356,849</b>	<b>33,948,465</b>
<b>EQUITY</b>				
Share capital	22.1	172,458	172,458	172,458
Share premium	22.2	746,744	746,744	746,744
Loan loss reserve	22.3	430,345	9,386	114,345
Retained earnings		2,028,845	2,509,616	1,679,258
<b>Total equity</b>		<b>3,378,392</b>	<b>3,438,204</b>	<b>2,712,805</b>
<b>Total equity and liabilities</b>		<b>61,629,322</b>	<b>64,795,053</b>	<b>36,661,270</b>

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 34 to 104.  
The independent auditor's report is on page 24.

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of Malawi Kwacha

	NOTE	CONSOLIDATED		SEPARATE	
		2017	2016	2017	2016
Interest income	23	15,887,423	12,878,065	15,887,423	12,878,065
Interest expense	23	(10,982,165)	(10,283,994)	(10,982,165)	(10,284,060)
<b>Net interest income</b>		<b>4,905,258</b>	2,594,071	<b>4,905,258</b>	2,594,005
Fees and commissions income	24	1,601,462	1,246,737	1,601,462	1,240,881
Trading income	25	222,207	1,116,850	222,207	1,102,402
Other operating income	26.1	40,918	15,729	40,918	15,729
<b>Total operating income</b>		<b>6,769,845</b>	4,973,387	<b>6,769,845</b>	4,953,017
Other income	26.2	9,735	36,740	9,735	36,740
Impairment losses on loans and advances	11	(1,808,746)	(410,444)	(1,808,746)	(410,444)
<b>Income after impairment losses on loans and advances</b>		<b>4,970,834</b>	4,599,683	<b>4,970,834</b>	4,579,313
Personnel expenses	27	(1,753,151)	(1,306,004)	(1,753,151)	(1,295,984)
Depreciation and amortisation expense	14-15	(281,020)	(210,321)	(281,020)	(204,710)
Administration expenses	28	(2,791,662)	(2,259,364)	(2,791,662)	(2,263,577)
<b>Total operating expenses</b>		<b>(4,825,833)</b>	(3,775,689)	<b>(4,825,833)</b>	(3,764,271)
<b>Profit before income tax</b>		<b>145,001</b>	823,994	<b>145,001</b>	815,042
Income tax credit	31	100,841	159,261	100,841	159,276
<b>Profit and other comprehensive income for the year</b>		<b>245,842</b>	983,255	<b>245,842</b>	974,318
Profit (loss) from discontinued operation, net of tax (Included in consolidated profit)	13(b)	-	(40,478)	-	-
<b>Total profit and other comprehensive income for the year</b>		<b>245,842</b>	983,255	<b>245,842</b>	974,318
<b>Earnings per share</b>					
Basic and diluted (MWK per share)	32	1.43	5.70		

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 34 to 104.  
The independent auditor's report is on page 24.



# 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 2017	172,458	746,744	9,386	2,514,028	3,442,616
Profit for the year	-	-	-	245,842	245,842
Total comprehensive income for the year	-	-	-	245,842	245,842
<b>Transfers within reserves</b>					
Reversal of prior year loan loss reserve	-	-	(9,386)	9,386	-
Transfer to loan loss reserve	-	-	430,345	(430,345)	-
Total transfers within reserves	-	-	420,959	420,959	-
<b>Transactions with owners of the company recognised directly in equity</b>					
Dividend paid	-	-	-	(305,654)	(305,654)
Total comprehensive income and transfers within reserves	-	-	420,959	(480,771)	(59,812)
Balance as 31 December 2017	172,458	746,744	430,345	2,033,257	3,382,804
<b>Balance at 1 January 2016</b>	<b>172,458</b>	<b>746,744</b>	<b>1,674,733</b>	<b>879,967</b>	<b>2,708,280</b>
Profit for the year	-	-	-	983,255	983,255
Total comprehensive income for the year	-	-	-	983,255	983,255
<b>Transfers within reserves</b>					
Reversal of prior year loan loss reserve	-	-	(114,345)	1,674,733	-
Transfer to loan loss reserve	-	-	9,386	(9,386)	-
Total transfers within reserves	-	-	(104,959)	104,959	-
<b>Transactions with owners of the company recognised directly in equity</b>					
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

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 34 to 104. The independent auditor's report is on page 24.

# 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 2017	172,458	746,744	9,386	2,509,616	3,438,204
Profit for the year	-	-	-	245,842	245,842
Total comprehensive income for the year	-	-	-	245,842	245,842
Transfers within reserves					
Reversal of prior year loan loss reserve	-	-	(9,386)	(9,386)	-
Transfer to loan loss reserve	-	-	430,345	430,345	-
Total transfers within reserves	-	-	420,959	420,959	-
Transactions with owners of the company recognised directly in equity					
Dividend paid	-	-	-	(305,654)	(305,654)
Total comprehensive income and transfers within reserves	-	-	420,959	(480,771)	(59,812)
Balance as at 31 December 2017	172,458	746,744	430,345	2,028,845	3,378,392
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

The consolidated and separate financial statements are to be read in conjunction with the notes from pages 34 to 104.  
The independent auditor's report is on page 24.

# STATEMENTS OF CASH FLOWS

In thousands of Malawi Kwacha

	NOTE	CONSOLIDATED		SEPARATE	
		2017	2016 Restated	2017	2016 Restated
<b>Cash flows from operating activities</b>					
Profit for the year		245,842	983,255	245,842	974,318
Adjusted for:					
▪ Depreciation and amortisation	14-15	281,020	210,321	281,020	204,710
▪ Profit on disposal assets	26.2	(9,735)	(36,740)	(9,735)	(36,740)
▪ Impairment of assets held for sale	14(b)	9,260	43,650	9,260	43,650
▪ Net impairment on loans and advances	11	1,808,746	410,444	1,808,746	410,444
▪ Effects of exchange rate fluctuations on cash		(30,567)	(124,127)	(30,567)	(124,127)
▪ Fair value adjustment on treasury bills	23	(174,611)	28,538	(174,611)	28,538
▪ Impairment on subsidiary	13(a)	-	-	-	49,430
▪ Net interest income	23	(4,730,647)	(2,622,609)	(4,730,647)	(2,622,543)
▪ Tax expense	31	(100,841)	(159,261)	(100,841)	(159,276)
		<b>(2,701,533)</b>	<b>(1,266,529)</b>	<b>(2,701,533)</b>	<b>(1,231,596)</b>
<b>Changes in:</b>					
Financial asset investments		13,991,495	(30,366,280)	13,991,495	(30,366,280)
Loans and advances to related party		443,062	(1,567,286)	443,062	(1,567,286)
Loans and advances to other banks		(7,008,894)	-	(7,008,894)	-
Loans and advances to customers		(4,226,846)	686,915	(4,226,846)	686,915
Amounts due from related parties		21,073	289,323	21,073	292,565
Other assets		(612,294)	126,529	(612,294)	122,040
Investment funds		(3,279,903)	20,203,826	(3,279,903)	20,203,826
Deposits from banks		(5,815,000)	3,350,000	(5,815,000)	3,350,000
Deposits from customers		5,833,788	4,557,141	5,833,788	4,555,699
Amounts due to related parties		-	(304)	-	(304)
Other liabilities and provisions		155,196	(287,991)	155,196	(285,027)
		<b>(3,199,856)</b>	<b>(4,274,656)</b>	<b>(3,199,856)</b>	<b>(4,239,448)</b>
Interest received	23	15,712,812	12,906,603	15,712,812	12,906,603
Interest paid	23	(10,982,165)	(10,283,994)	(10,982,165)	(10,284,060)
Advance payment of income tax	21	(71,015)	(347,591)	(71,015)	(346,380)
<b>Net cash from/(used in) operating activities</b>		<b>1,459,776</b>	<b>(1,999,638)</b>	<b>1,459,776</b>	<b>(1,963,285)</b>
<b>Cash flows from/(to) investing activities</b>					
Proceeds from the sale of equipment and motor vehicles		33,244	100,708	33,244	72,827
Acquisition of equity investment		(15,000)	-	(15,000)	-
Acquisition of property and equipment and intangible assets	14-15	(281,972)	(555,634)	(281,972)	(555,634)
<b>Net cash used in investing activities</b>		<b>(263,728)</b>	<b>(454,926)</b>	<b>(263,728)</b>	<b>(482,807)</b>
<b>Cash flows from financing activities</b>					
Dividend paid		(305,654)	(248,919)	(305,654)	(248,919)
<b>Net cash used in financing activities</b>		<b>(305,654)</b>	<b>(248,919)</b>	<b>(305,654)</b>	<b>(248,919)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>890,394</b>	<b>(2,703,483)</b>	<b>890,394</b>	<b>(2,695,011)</b>
Cash and cash equivalents at the beginning of the year		3,028,854	5,608,210	3,028,854	5,599,738
Effect of exchange rate fluctuations on cash and cash equivalents held		30,567	124,127	30,567	124,127
<b>Cash and cash equivalents at the end of the year</b>	8	<b>3,949,815</b>	<b>3,028,854</b>	<b>3,949,815</b>	<b>3,028,854</b>

# 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 company 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. The Bureau's operations were discontinued in 2016 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;

### (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.
- Note 5(y) - 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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## (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 2017.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated and separate financial statements



# 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)

Effective for the financial year commencing on or after 1 January 2019

- *IFRS 16, Leases*

IFRS 16 was issued in January 2017 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 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*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adopted of IFRS 9 on the opening balance of the Group's equity at 1 January 2018 is approximately MWK38 million representing:

- An increase of approximately MWK55 million related to impairment requirements.
- a reduction of approximately MWK17 million related to deferred tax impacts.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- the Group is yet to finalise the testing and assessment of controls over its IT systems and changes to its governance framework;
- the Group is refining and finalizing its models for ECL calculations; and
- the new accounting policies, assumptions, judgments and estimation techniques employed are subject to change until the Group finalizes its first financial statements that include date of initial application.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## *i. Classification - Financial assets*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at cost, FVOCI (Fair value through other comprehensive income) and FVTPL (Fair value through profit or loss). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI (Other comprehensive income). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (vii) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

# 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)

- *IFRS 9 Financial Instruments (continued)*

- i. *Classification- Financial assets (continued)*

#### Business model assessment

The Group has made a preliminary assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information that has been considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider;

- contingent events that would change the amount and timing of cash flows;
- leverage features
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money-e.g. periodic reset of interest rates.

#### Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 expected to be measured at amortised cost under IFRS 9.
- Held to maturity investment securities measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending of the classification criteria.
- Loans and advances to customers and investment securities that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9.

## ii. *Impairment- Financial assets, loan commitments and financial guarantee contracts*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgment over how changes in economic factors affect ECLs which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to 12-month ECLs (Expected credit losses) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date.
- other financial instruments (other than lease receivables) for which credit risk has not increased since initial recognition.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgments, estimates and assumptions, particularly in the following areas, which are discussed in detailed below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition;
- incorporating forward-looking information into the measurement of ECLs

# 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)

- *IFRS 9 Financial Instruments (continued)*

- ii. *Impairment- Financial assets, loan commitments and financial guarantee contracts (continued)*

#### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: the present value of all cash shortfalls-i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows the Group expects to receive;
- *financial assets that are credit-impaired at the reporting date*: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the present value of the expected payments to reimburse the holder less any amounts the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

#### Definition of default

The Group is likely to consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdraft are likely to be considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

The definition is likely to be consistent with the definition that will be used for regulatory purposes.

In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: e.g. breaches of contract;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group ;and
- based on data developed internally and obtained from external sources

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The various inputs into the impairment assessment such as credit risk grades, the term structure of PDs (Probability of defaults) are yet to be agreed by management. These parameters are likely to be derived from internally developed statistical models and other historical data that leverage regulatory models where possible.

## Determining whether credit risk has increased significantly

The Group is yet to establish the framework that will incorporate both quantitative and qualitative information to determine whether the credit risk on a financial instrument has increased significantly since initial recognition. The framework is likely to be aligned with the Group's internal credit risk management process.

## Impact assessment

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses are likely to increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Group has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact will be a decrease in loss allowance (before tax of approximately MWK55 million. This is because management took an aggressive position on impairments as at 31 December 2017 based on the old impairment framework.

### iii. Classification-Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IFRS 9 all fair value changes of financial liabilities designated at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

### iv. De-recognition and contract information

IFRS 9 incorporates the requirements of IAS 39 for the de-recognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognize any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Group expects no impact from adopting these new requirements.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

#### • *IFRS 9 Financial Instruments (continued)*

#### v. *Disclosures*

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

#### vi. *Impact on capital planning*

The Group's lead regulator has issued draft guidelines on the implementation of IFRS 9. The detailed impact on capital adequacy is yet to be determined.

#### vii. *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Difference in carrying amounts (if any) of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognized in retained earnings and reserves as at 1 January 2018.
- The following assessments will have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held
  - The designation and revocation of previous designations of certain financial assets and financial liabilities (if any) as measured at FVTPL

#### viii. *Impairment - Financial assets, loan commitments and financial guarantee contracts*

The following assessments have to be made on the basis of the facts and circumstances that exists at the date of initial application.

- the determination of the business model within which a financial asset is held.
  - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - the designation of certain investments in equity instruments not held for trading as FVOCI.
  - for a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
  - If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.
- *IFRS 15 Revenue from Contracts with Customers*

IFRS 9 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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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.

## i. Sale of goods

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

Since the Group is not engaged in sale of goods, IFRS 15 will not have significant impact on the financial statements.

## ii. Rendering of service

The Group is involved in providing invest banking advisory services to its clients. If services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognized using the stage-of-completion method.

Based on the Group's assessment, the fair values of the services and the revenue recognized using the stage-of-completion method are broadly similar. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services.

## iii. Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

### *IFRIC 22 Foreign Currency Transactions and Advance Considerations*

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 *The Effects of Changes in Foreign Exchange Rates* is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The interpretation applies for annual reporting periods beginning on or after 1 January 2018. The interpretation is likely to have no significant impact on the financial statements.

### *IFRIC 23 Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted. Detailed disclosures on tax treatments will be made as at the applicable date.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 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.

#### *(iii) De-recognition*

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.

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In the statements of financial position on de-recognition 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 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.



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Financial assets and liabilities (continued)

#### *(vii) Identification and measurement of impairment (continued)*

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 such as changes in the market reference rate 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.

#### *(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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## (c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with the 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) Investment funds

Financial asset investments and Investment funds 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.

Financial asset investments and Investment funds 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 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.

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) Financial Assets

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Financial Assets (continued)

#### (i) Held-to-maturity (continued)

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.

### (i) Property and equipment

#### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## *(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 re-assesses 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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Intangible assets (continued)

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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## (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.

## (n) 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.*

## (o) 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.

## (p) Equity

### Share issue costs

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

### Loan loss reserve

This represents non-distributable reserve required by the Reserve Bank of Malawi 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.



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) 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.

### (r) 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 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.

### (s) 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 in the income statement as the related services are performed.

### (t) Income from investments

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

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

## (u) 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.

## (v) 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. 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.

## (w) 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.

## (x) 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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) 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.

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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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

#### 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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 6. RISK MANAGEMENT (CONTINUED)

### 6.1 Financial risks (continued)

#### 6.1.1 Credit risk (continued)

- *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	
	2017	2016	2017	2016
Standard (fully performing)	9,351,745	-	13,208,767	10,390,574
Past due but not impaired	-	-	83,332	6,584
Past due and impaired	-	-	2,003,178	674,430
Gross exposure to credit risk	-	-	15,295,277	11,071,588
Less: Allowance for impairment (note 11)	-	-	(1,138,428)	(187,379)
Allowance for impairment (note 11)	-	-	(1,294,689)	(440,150)
	9,351,745		12,862,160	10,444,059

#### Neither past due nor impaired assets comprise:

Current 1-30 days (Standard)	9,351,745	-	13,208,767	10,444,917
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#### Past due but not impaired loans and advances comprise:

	CONSOLIDATED AND SEPARATE	
	2017	2016
30-60 days	46,145	6,584
61-90 days	73,488	203,101
>90 days	1,966,877	471,329
	2,086,510	681,014

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

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

	CONSOLIDATED AND SEPARATE	
	2017	2016
Against past due but not impaired		
Property	231,400	12,240
Against neither past due nor impaired		
Property	413,102	985,679
Motor vehicles	800,460	287,146
Others	8,160,157	8,958,251
	<b>9,373,719</b>	<b>10,231,076</b>

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 either because there is adequate collateral or the risk of default is remote.

## 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.



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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	
	2017	2016
Agriculture	718,245	936,342
Construction	464,475	23,586
Manufacturing	5,318,843	3,348,307
Wholesale and retail	4,439,272	2,819,903
Tourism and leisure	2,811	2,876
Transport	736,961	848,296
Others	3,614,670	3,092,278
	<b>15,295,277</b>	<b>11,071,588</b>

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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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			Total	Security against impaired loans	Net impairment
		Standard	Special Mention	Sub Standard	Doubtful	Loss			
2017									
<b>Credit quality</b>									
Financial assets at fair value through profit or loss	9.1	9,351,745	-	-	-	-	9,351,745	-	-
Financial assets held to maturity	9.1	23,965,922	-	-	-	-	23,965,922	-	-
Loans and advances to related party	10.1	2,437,836	-	-	-	-	2,437,836	-	-
Loans and advances to other banks	10.2	7,008,894	-	-	-	-	7,008,894	-	-
Loans and advances to customers	11	13,208,767	-	99,547	429,055	1,557,908	15,295,277	3,177,081	1,294,689
<b>Total recognised financial instruments</b>		<b>55,973,164</b>	<b>-</b>	<b>99,547</b>	<b>429,055</b>	<b>1,557,908</b>	<b>58,059,674</b>	<b>3,177,081</b>	<b>1,294,689</b>
2016									
<b>Credit quality</b>									
Financial assets at fair value through profit or loss	9.1	10,685,308	-	-	-	-	10,685,308	-	-
Financial assets held to maturity	9.1	36,449,244	-	-	-	-	36,449,244	-	-
Loans and advances to related party	10.1	2,880,898	-	-	-	-	2,880,898	-	-
Loans and advances to customers	11	10,390,574	-	170,295	177,434	333,285	11,071,588	1,279,312	440,150
<b>Total recognised financial instruments</b>		<b>60,406,024</b>	<b>-</b>	<b>170,295</b>	<b>177,434</b>	<b>333,285</b>	<b>61,087,038</b>	<b>1,279,312</b>	<b>440,150</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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	
		2017	2016	2017	2016
Cash held with the Reserve Bank of Malawi	8	2,238,054	1,611,267	2,238,054	1,611,267
Cash held with local banks	8	5,843	866	5,843	866
Cash held with foreign banks	8	1,391,842	1,859,924	1,391,842	1,859,924
Clearing balances	8	(1,000)	(940,002)	(1,000)	(940,002)
Cash balances	8	315,076	496,799	315,076	496,799
Financial assets at fair value through profit or loss	9.1	9,351,745	10,685,308	9,351,745	10,685,308
Financial assets held to maturity	9.1	23,965,922	36,449,244	23,965,922	36,449,244
Loans and advances to related parties	10	2,437,836	2,880,898	2,437,836	2,880,898
Loans and advances to other banks	10	7,008,894	-	7,008,894	-
<b>Personal and Business Banking</b>					
▪ Other loans and advances	11	1,247,620	1,268,888	1,247,620	1,268,888
<b>Corporate and Investment Banking</b>					
▪ Corporate lending	11	12,546,702	9,080,056	12,546,702	9,080,056
<b>Total recognised financial instruments</b>		<b>60,508,534</b>	<b>63,393,248</b>	<b>60,508,534</b>	<b>63,393,248</b>
Financial guarantees	35	723,738	160,613	723,738	160,613
<b>Total unrecognised financial instruments</b>		<b>723,738</b>	<b>160,613</b>	<b>723,738</b>	<b>160,613</b>
<b>Total credit risk exposure</b>		<b>61,232,272</b>	<b>63,553,861</b>	<b>61,232,272</b>	<b>63,553,861</b>

#### 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 2017	
	NOTE	Carrying amount	Net exposure to credit risk
Cash and balances with banks	8	3,949,815	3,949,815
Loans and advances to related party	10.1	2,437,836	2,437,836
Loans and advances to other banks	10.2	7,008,894	7,008,894
Loans and advances to customers	11	12,862,160	12,862,160
Financial assets	9.1	33,317,667	33,317,667
		<b>59,576,372</b>	<b>59,576,372</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

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	10.1	2,880,898	2,880,898
Loans and advances to customers	11	10,444,059	10,444,059
Financial assets	9.1	47,134,552	47,134,552
		<b>63,488,363</b>	<b>63,488,363</b>

SEPARATE		At 31 December 2017	
	NOTE	Carrying amount	Net exposure to credit risk
Cash and balances with banks	8	3,949,815	3,949,815
Loans and advances to other banks	10.1	2,437,836	2,437,836
Loans and advances to other banks	10.2	7,008,894	7,008,894
Loans and advances to customers	11	12,862,160	12,862,160
Financial assets	9.1	33,317,667	33,317,667
		<b>59,576,372</b>	<b>59,576,372</b>

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	10.1	2,880,898	2,880,898
Loans and advances to customers	11	10,444,059	10,444,059
Financial assets	9.1	47,134,552	47,134,552
		<b>63,488,363</b>	<b>63,488,363</b>

## 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

	2017	2016	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	92	95	Cash and property
Loan advances to corporate customers			
▪ Asset Finance	100	100	Property and equipment
▪ Other	90	90	Commercial property floating charges over corporate assets

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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 charge 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 2017, the net carrying amount of impaired loans and advances to corporate customers amounted to **MWK1,587 million** (2016: MWK109 million) and the value of identifiable collateral held against those loans and advances amounted to **MWKnill million** (2016: MWKnill 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	2017	2015
Property	413,102	985,679
Motor Vehicles	800,460	287,146
Stocks	433,750	2,172,620
Guarantees	607,275	654,637
Cash	2,709,132	2,333,107
Debentures	506,250	361,387
Others	3,903,750	3,436,500
	<b>9,373,719</b>	<b>10,231,076</b>

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 but will be actively marketed to be sold.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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).

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:



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 6. RISK MANAGEMENT (CONTINUED)

### 6.1.2. Liquidity risk (continued)

#### CONSOLIDATED

2017	NOTE	Carrying amount	Cash inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
<b>ASSETS</b>								
Cash and cash equivalents	8	3,949,815	3,949,815	3,949,815	-	-	-	-
Loans and advances to customers	11	12,862,160	14,616,073	3,029,307	2,251,605	983,369	5,584,264	2,767,528
Loans and advances to related party	10.1	2,437,836	2,478,669	1,591,312	364,029	-	523,328	-
Loans and advances to other banks	10.2	7,008,894	7,011,491	7,011,491	-	-	-	-
Financial assets at fair value through profit or loss	9.1	9,351,745	12,394,826	1,562,137	-	1,407,179	7,422,080	2,003,430
Financial assets held to maturity	9.1	23,965,922	32,549,799	66,333	6,225,764	757,710	10,160,401	15,339,591
Amounts due from related parties	33	127,747	127,747	127,747	-	-	-	-
<b>Total assets</b>		<b>59,704,119</b>	<b>73,128,420</b>	<b>17,338,142</b>	<b>8,841,398</b>	<b>3,148,258</b>	<b>23,690,073</b>	<b>20,110,549</b>
<b>LIABILITIES</b>								
Current and savings account	16	7,340,872	7,339,180	7,339,180	-	-	-	-
Foreign currency accounts	16	3,115,063	3,108,366	3,108,366	-	-	-	-
Term deposit accounts	16	15,740,544	15,973,804	8,554,073	3,770,855	2,282,228	1,366,648	-
Investment funds	17	30,489,716	31,760,934	11,342,956	7,802,048	6,414,648	6,201,282	-
Subordinated debt	18	1,000,000	1,000,000	-	-	-	-	1,000,000
Balances due to other banks	19	135,000	135,000	135,000	-	-	-	-
<b>Total liabilities</b>		<b>57,821,195</b>	<b>59,317,284</b>	<b>30,479,575</b>	<b>11,572,903</b>	<b>8,696,876</b>	<b>7,567,930</b>	<b>1,000,000</b>
<b>Net liquidity gap</b>		<b>1,882,924</b>	<b>13,811,136</b>	<b>(13,141,433)</b>	<b>(2,731,505)</b>	<b>(5,548,618)</b>	<b>16,122,143</b>	<b>19,110,549</b>
<b>Cumulative liquidity gap</b>		<b>-</b>	<b>-</b>	<b>(13,141,433)</b>	<b>(15,872,938)</b>	<b>(21,421,556)</b>	<b>(5,299,413)</b>	<b>13,811,136</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## CONSOLIDATED

2016	NOTE	Carrying amount	Cash inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
<b>ASSETS</b>								
Cash and cash equivalents	8	3,028,854	3,028,854	3,028,854	-	-	-	-
Loans and advances to customers	11	10,444,059	12,813,273	2,637,719	114,664	1,609,874	2,804,479	5,646,519
Financial assets	9.1	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	10.1	2,880,898	3,214,622	-	617,411	-	2,597,211	-
<b>Total assets</b>		<b>63,637,183</b>	<b>65,008,103</b>	<b>6,843,654</b>	<b>4,804,389</b>	<b>22,383,196</b>	<b>19,968,814</b>	<b>11,008,032</b>
<b>LIABILITIES</b>								
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	3,100,000	-
Investment funds	17	33,769,619	31,125,529	11,264,420	12,340,431	4,420,678	-	-
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	-	-	-	-
<b>Total liabilities</b>		<b>61,082,310</b>	<b>58,255,944</b>	<b>26,159,453</b>	<b>20,941,486</b>	<b>7,055,005</b>	<b>3,100,000</b>	<b>1,000,000</b>
<b>Net liquidity gap</b>		<b>2,554,873</b>	<b>6,752,159</b>	<b>(19,315,799)</b>	<b>(16,137,097)</b>	<b>15,328,191</b>	<b>16,868,814</b>	<b>10,008,032</b>
<b>Cumulative liquidity gap</b>		<b>-</b>	<b>-</b>	<b>(19,315,799)</b>	<b>(35,452,896)</b>	<b>(20,124,705)</b>	<b>(3,255,891)</b>	<b>6,752,141</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 6. RISK MANAGEMENT (CONTINUED)

### 6.1.2 Liquidity risk (continued)

#### SEPARATE

2017	NOTE	Carrying amount	Cash inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
<b>ASSETS</b>								
Cash and cash equivalents	8	3,949,815	3,949,815	3,949,815	-	-	-	-
Loans and advances to customers	11	12,862,160	14,616,073	3,029,307	2,251,605	983,369	5,584,264	2,767,507
Loans and advances to related party	10	2,437,836	2,478,669	1,591,312	364,029	-	523,328	-
Loans and advances to other banks	10	7,008,894	7,011,491	7,011,491	-	-	-	-
Financial assets at fair value through profit or loss	9.1	9,351,745	12,394,826	1,562,137	-	1,407,179	7,422,080	2,003,430
Financial assets at held to maturity	9.1	23,965,922	32,549,799	66,333	6,225,764	757,710	10,160,401	15,339,591
Amounts due from related parties	33	127,747	127,747	127,747	-	-	-	-
<b>Total assets</b>		<b>59,704,119</b>	<b>73,128,420</b>	<b>17,338,142</b>	<b>8,841,398</b>	<b>3,148,258</b>	<b>23,690,073</b>	<b>20,110,528</b>
<b>LIABILITIES</b>								
Current and savings account	16	7,340,872	7,339,180	7,339,180	-	-	-	-
Foreign currency accounts	16	3,115,063	3,108,366	3,108,366	-	-	-	-
Term deposit accounts	16	15,740,544	15,973,804	8,554,073	3,770,855	2,282,228	1,366,648	-
Investment funds	17	30,489,716	31,760,934	11,342,956	7,802,048	6,414,648	6,201,282	-
Subordinated liability	18	1,000,000	1,000,000	-	-	-	-	1,000,000
Balances due to other banks	19	135,000	135,000	135,000	-	-	-	-
<b>Total liabilities</b>		<b>57,821,195</b>	<b>59,317,284</b>	<b>30,479,575</b>	<b>11,572,903</b>	<b>8,696,876</b>	<b>7,567,930</b>	<b>1,000,000</b>
<b>Net liquidity gap</b>		<b>1,882,924</b>	<b>13,811,136</b>	<b>(13,141,433)</b>	<b>(2,731,505)</b>	<b>(5,548,618)</b>	<b>16,122,143</b>	<b>19,110,528</b>
<b>Cumulative liquidity gap</b>		<b>-</b>	<b>-</b>	<b>(13,141,433)</b>	<b>(15,872,938)</b>	<b>(21,421,556)</b>	<b>(5,299,413)</b>	<b>13,811,115</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## SEPARATE

2016	NOTE	Carrying amount	Cash inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
<b>ASSETS</b>								
Cash and cash equivalents	8	3,028,854	3,028,854	3,028,854	-	-	-	-
Loans and advances to customers	11	10,444,059	12,813,273	2,637,719	114,664	1,609,874	2,804,479	5,646,519
Financial assets	9.1	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	10.1	2,880,898	3,214,622	-	617,411	-	2,597,211	-
<b>Total assets</b>		<b>63,637,183</b>	<b>65,008,103</b>	<b>6,843,654</b>	<b>4,804,389</b>	<b>22,383,196</b>	<b>19,968,814</b>	<b>11,008,032</b>
<b>LIABILITIES</b>								
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	3,100,000	-
Investment funds	17	33,769,619	31,125,529	11,264,420	12,340,431	4,420,678	-	-
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	-	-	-	-
<b>Total liabilities</b>		<b>61,082,310</b>	<b>58,255,944</b>	<b>26,159,453</b>	<b>20,941,486</b>	<b>7,055,005</b>	<b>3,100,000</b>	<b>1,000,000</b>
<b>Net liquidity gap</b>		<b>2,554,873</b>	<b>6,752,159</b>	<b>(19,315,799)</b>	<b>(16,137,097)</b>	<b>15,328,191</b>	<b>16,868,814</b>	<b>10,008,032</b>
<b>Cumulative liquidity gap</b>		<b>-</b>	<b>-</b>	<b>(19,315,799)</b>	<b>(35,452,896)</b>	<b>(20,124,705)</b>	<b>(3,255,891)</b>	<b>6,752,141</b>

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 such as changes in maturity dates and expected residual balances to maturity.

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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 6. RISK MANAGEMENT (CONTINUED)

### 6.1.2 Liquidity risk (continued)

Liquidity Ratios 1 and 2 were as specified below:

CDH Investment Bank Limited	CONSOLIDATED AND SEPARATE	
	2017	2016
Liquidity Ratio I	53.69%	68.06%
Liquidity Ratio II	53.69%	68.06%

### 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

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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	12,424	14,630	(2,205)	0.00%	-
GBP	29	9	20	0.10%	0.014
EUR	249	178	71	0.13%	0.065
ZAR	2,635	2,016	619	0.11%	0.477
Other	-	-	-	0.00%	-
					0.556
SEPARATE					
USD	12,424	14,630	(2,205)	0.00%	-
GBP	29	9	20	0.10%	0.014
EUR	249	178	71	0.13%	0.065
ZAR	2,635	2,016	619	0.11%	0.477
Other	-	-	-	0.00%	-
					0.556

At 31 December 2017, 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 **MWK0.098 million** (2016: MWK1.47 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.



# 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)

Below is a summary of the Group's interest rate gap position:

CONSOLIDATED			Fixed Rate Instruments						
2017	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	3,949,815	-	-	-	-	-	-	3,949,815
Loans and advances to customers	11	-	12,862,160	-	-	-	-	-	12,862,160
Loans and advances to related party	10.1	-	2,437,836	-	-	-	-	-	2,437,836
Loans and advances to other banks	10.2	-	7,008,894	-	-	-	-	-	7,008,894
Financial assets at fair value through profit or loss	9.1	-	-	1,562,137	1,407,179	6,382,429	-	-	9,351,745
Financial assets held to maturity	9.1	-	-	6,020,102	633,156	-	8,345,365	8,967,299	23,965,922
<b>Total assets</b>		<b>3,949,815</b>	<b>22,308,890</b>	<b>7,582,239</b>	<b>2,040,335</b>	<b>6,382,429</b>	<b>8,345,365</b>	<b>8,967,299</b>	<b>50,576,372</b>
Deposits from banks	19	-	-	135,000	-	-	-	-	135,000
Current and savings accounts	16	-	-	7,340,872	-	-	-	-	7,340,872
Foreign currency accounts	16	-	-	3,115,063	-	-	-	-	3,115,063
Term deposit accounts	16	-	-	12,000,667	1,373,851	2,366,026	-	-	15,740,544
Investment funds	17	-	-	19,116,577	5,823,933	5,549,206	-	-	30,489,716
Subordinated liabilities	18	-	-	-	-	-	-	1,000,000	1,000,000
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>41,708,178</b>	<b>7,197,784</b>	<b>7,915,232</b>	<b>-</b>	<b>1,000,000</b>	<b>57,821,195</b>
<b>Interest gap</b>		<b>3,949,815</b>	<b>22,308,890</b>	<b>(34,125,939)</b>	<b>(5,157,449)</b>	<b>(1,532,805)</b>	<b>8,345,365</b>	<b>7,967,299</b>	<b>1,755,177</b>
Impact on post tax profit or equity of an increase in the interest rate 5%		-	780,811	(1,194,408)	(180,511)	(53,648)	292,088	278,855	61,431
Impact on post tax profit or equity of an increase in the interest rate 5%		-	(780,811)	1,194,408	180,511	53,648	(292,088)	(278,855)	(61,431)

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

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CONSOLIDATED				Fixed Rate Instruments						Total carrying amount
2016	NOTE	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months		
Cash and cash equivalents	8	3,028,854	-	-	-	-	-	-	3,028,854	
Loans and advances to customers	11	-	10,444,059	-	-	-	-	-	10,444,059	
Loans and advances to related party	10.1	-	2,880,898	-	-	-	-	-	2,880,898	
Financial assets	9.1	-	-	6,432,594	20,773,322	1,500,000	13,067,123	5,361,513	47,134,552	
<b>Total assets</b>		<b>3,028,854</b>	<b>13,324,957</b>	<b>6,432,594</b>	<b>20,773,322</b>	<b>1,500,000</b>	<b>13,067,123</b>	<b>5,361,513</b>	<b>63,488,363</b>	
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	
Investment funds	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	
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>37,586,874</b>	<b>19,395,436</b>	<b>1,500,000</b>	<b>1,600,000</b>	<b>1,000,000</b>	<b>61,082,310</b>	
<b>Interest gap</b>		<b>3,028,854</b>	<b>13,324,957</b>	<b>(31,154,280)</b>	<b>1,377,886</b>	<b>-</b>	<b>11,467,123</b>	<b>4,361,513</b>	<b>2,406,053</b>	
Impact on post tax profit or equity of an increase in the interest rate 5%		-	466,373	(1,090,400)	48,226	-	401,349	152,653	84,212	
Impact on post tax profit or equity of a decrease in the interest rate 5%		-	(466,373)	1,090,400	(48,226)	-	(401,349)	(152,653)	(84,212)	

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)

SEPARATE		Fixed Rate Instruments							
2017	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	3,949,815	-	-	-	-	-	-	3,949,815
Loans and advances to customers	11	-	12,862,160	-	-	-	-	-	12,862,160
Loans and advances to related party	10.1	-	2,437,836	-	-	-	-	-	2,437,836
Loans and advances to other banks	10.2	-	7,008,894	-	-	-	-	-	7,008,894
Financial assets at fair value through profit or loss	9.1	-	-	1,562,137	1,407,179	6,382,429	-	-	9,351,745
Financial assets held to maturity	9.1	-	-	6,020,102	633,156	-	8,345,365	8,967,299	23,965,922
<b>Total assets</b>		<b>3,949,815</b>	<b>22,308,890</b>	<b>7,582,239</b>	<b>2,040,335</b>	<b>6,382,429</b>	<b>8,345,365</b>	<b>8,967,299</b>	<b>59,576,372</b>
Deposits from banks	19	-	-	135,000	-	-	-	-	135,000
Current and savings accounts	16	-	-	7,340,872	-	-	-	-	7,340,872
Foreign currency accounts	16	-	-	3,115,063	-	-	-	-	3,115,063
Term deposit accounts	16	-	-	12,000,667	1,373,851	2,366,026	-	-	15,740,544
Investment funds	17	-	-	19,116,577	5,823,933	5,549,206	-	-	30,489,716
Subordinated liabilities	18	-	-	-	-	-	-	1,000,000	1,000,000
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>41,708,178</b>	<b>7,197,784</b>	<b>7,915,232</b>	<b>-</b>	<b>1,000,000</b>	<b>57,821,195</b>
<b>Interest gap</b>		<b>3,949,815</b>	<b>22,308,890</b>	<b>(34,125,939)</b>	<b>(5,157,449)</b>	<b>(1,532,805)</b>	<b>8,345,365</b>	<b>7,967,299</b>	<b>1,755,177</b>
Impact on post tax profit or equity of an increase in the interest rate 5%		-	780,811	(1,194,408)	(180,511)	(53,648)	292,088	278,855	61,431
Impact on post tax profit or equity of a decrease in the interest rate 5%		-	(780,811)	1,194,408	180,511	53,648	(292,088)	(278,855)	(61,431)

# 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 to customers	10.1	-	10,444,059	-	-	-	-	-	10,444,059
Loans and advances to related party	10.1	-	2,880,898	-	-	-	-	-	2,880,898
Financial asset investments	9.1	-	-	6,432,594	20,773,322	1,500,000	13,067,123	5,361,513	47,134,552
<b>Total assets</b>		<b>3,028,854</b>	<b>13,324,957</b>	<b>6,432,594</b>	<b>20,773,322</b>	<b>1,500,000</b>	<b>13,067,123</b>	<b>5,361,513</b>	<b>63,488,363</b>
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
Investment funds	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
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>37,586,874</b>	<b>19,395,436</b>	<b>1,500,000</b>	<b>1,600,000</b>	<b>1,000,000</b>	<b>61,082,310</b>
<b>Interest gap</b>		<b>3,028,854</b>	<b>13,324,957</b>	<b>(31,154,280)</b>	<b>1,377,886</b>	<b>-</b>	<b>11,467,123</b>	<b>4,361,513</b>	<b>2,406,053</b>
Impact on post tax profit or equity of an increase in the interest rate 5%		-	466,373	(1,090,400)	48,226	-	401,349	152,653	84,212
Impact on post tax profit or equity of a decrease in the interest rate 5%		-	(466,373)	1,090,400	(48,226)	-	(401,349)	(152,653)	(84,212)

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 6. RISK MANAGEMENT (CONTINUED)

### 6.1.3.2 Interest rate risk (continued)

#### *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	
	2017	2016
	%	%
<b>ASSETS</b>		
Government securities	19-39	13-32
Deposits with banking institutions	14-26	24-29
Loans and advances to customers (base rate)	26	35.00
<b>LIABILITIES</b>		
Customer deposits	6-13	14-29

## 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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

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.

## 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** (2016: 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 and net of an annual haircut of 20%.

The calculation of both the above ratios is given below:

	Note	2017	2016
<b>Tier 1 capital</b>			
Share capital	22.1	172,458	172,458
Share premium	22.1	746,744	746,744
Retained earnings		2,028,845	2,509,616
Less: Investments in unconsolidated banking & financial subsidiary companies		(15,000)	(7,500)
Deferred Tax Asset		(183,651)	(8,795)
		<b>2,749,396</b>	<b>3,412,523</b>
<b>Tier 2 capital</b>			
Subordinated debt (limited to 50% of tier 1 capital)		639,680	800,000
Investments in unconsolidated banking & financial			
Subsidiary companies		(15,000)	(15,000)
Loan loss reserve		430,345	9,386
		<b>1,055,025</b>	<b>794,386</b>
<b>Total regulatory capital</b>		<b>3,804,421</b>	<b>4,206,909</b>
<b>Risk weighted assets</b>		<b>23,596,564</b>	<b>18,424,079</b>
<b>Capital ratios</b>			
Tier 1 capital expressed as a percentage of total risk-weighted assets		11.65%	18.52%
Total capital expressed as a percentage of total risk weighted assets		16.12%	22.83%

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 6. RISK MANAGEMENT (CONTINUED)

### 6.3 Capital management (continued)

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.

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.



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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 2017	Note	Held-for-trading	Held-to-maturity	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
<b>Financial assets</b>							
Cash and cash equivalents	8	-	-	3,949,815	-	3,949,815	3,949,815
Financial asset investments	9.1	9,351,745	23,965,922	-	-	33,317,667	33,317,667
Loans and advances to customers	11	-	-	12,862,160	-	12,862,160	12,862,160
Loans and advances to related party	10.1	-	-	2,437,836	-	2,437,836	2,437,836
Loans and advances to other banks	10.2	-	-	7,008,894	-	7,008,894	7,008,894
Amounts due from related parties	33	-	-	127,747	-	127,747	127,747
Other receivables	12	-	-	292,214	-	292,214	292,214
		<b>9,351,745</b>	<b>23,965,922</b>	<b>26,678,666</b>	<b>-</b>	<b>59,996,333</b>	<b>59,996,333</b>
<b>Financial liabilities</b>							
Deposits from customers	16	-	-	-	26,196,479	26,196,479	26,196,479
Loans and advances from other banks	19	-	-	-	135,000	135,000	135,000
Investment funds	17	-	30,489,716	-	-	30,489,716	30,489,716
Other payables	20	-	-	-	429,734	429,734	429,734
Subordinated debt	18	-	-	-	1,000,000	1,000,000	1,000,000
		<b>-</b>	<b>30,489,716</b>	<b>-</b>	<b>27,761,213</b>	<b>58,250,929</b>	<b>58,250,929</b>

#### 31 December 2016

<b>Financial assets</b>							
Cash and cash equivalents	8	-	-	3,028,854	-	3,028,854	3,028,854
Financial asset investments	9.1	10,685,308	36,449,244	-	-	47,134,552	47,134,552
Loans and advances to customers	11	-	-	10,444,059	-	10,444,059	10,444,059
Loans and advances to related parties	10.1	-	-	2,880,898	-	2,880,898	2,880,898
Amounts due from related parties	33	-	-	148,820	-	148,820	148,820
Other receivables	12	-	-	60,940	-	60,940	60,940
		<b>10,685,308</b>	<b>36,449,244</b>	<b>16,746,774</b>	<b>-</b>	<b>63,881,326</b>	<b>63,881,326</b>
<b>Financial liabilities</b>							
Deposits from customers	16	-	-	-	20,362,691	20,362,691	20,362,691
Loans and advances from other banks	19	-	-	-	5,950,000	5,950,000	5,950,000
Investment funds	17	-	33,769,619	-	-	33,769,619	33,769,619
Other payables	20	-	-	-	274,539	274,539	274,539
Subordinated debt	18	-	-	-	1,000,000	1,000,000	1,000,000
		<b>-</b>	<b>33,769,619</b>	<b>-</b>	<b>27,774,609</b>	<b>61,544,228</b>	<b>61,544,228</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### Separate

31 December 2017	Note	Held-for-trading	Held-to-maturity	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
<b>Financial assets</b>							
Cash and cash equivalents	8	-	-	3,949,815	-	3,949,815	3,949,815
Financial asset investments	9.1	9,351,745	23,965,922	-	-	33,317,667	33,317,667
Loans and advances to customers	11	-	-	12,862,160	-	12,862,160	12,862,160
Loans and advances to related party	10.1	-	-	2,437,836	-	2,437,836	2,437,836
Loans and advances to other banks	10.2	-	-	7,008,864	-	7,008,864	7,008,864
Amounts due from related parties	33	-	-	127,747	-	127,747	127,747
Other receivables	12	-	-	292,214	-	292,214	292,214
		9,351,745	23,965,922	26,678,666	-	59,996,333	59,996,333
<b>Financial liabilities</b>							
Deposits from customers	16	-	-	-	26,196,479	26,196,479	26,196,479
Loans and advances from other banks	19	-	-	-	135,000	135,000	135,000
Investment funds	17	-	30,489,716	-	-	30,489,716	30,489,716
Other payables	20	-	-	-	429,735	429,735	429,735
Subordinated debt	18	-	-	-	1,000,000	1,000,000	1,000,000
		-	30,489,716	-	27,761,214	58,250,930	58,250,930
<b>31 December 2016</b>							
<b>Financial assets</b>							
Cash and cash equivalents	8	-	-	3,028,854	-	3,028,854	3,028,854
Financial asset investments	9.1	10,685,308	36,449,244	-	-	47,134,552	47,134,552
Loans and advances to customers	11	-	-	10,444,059	-	10,444,059	10,444,059
Loans and advances to related parties	10.1	-	-	2,880,898	-	2,880,898	2,880,898
Amounts due from related parties	33	-	-	148,820	-	148,820	148,820
Other receivables	12	-	-	60,926	-	60,926	60,926
		3,397,284	43,737,268	16,746,774	-	63,881,326	63,881,326
<b>Financial liabilities</b>							
Deposits from customers	16	-	-	-	20,362,691	20,362,691	20,362,691
Loans and advances from other banks	19	-	-	-	5,950,000	5,950,000	5,950,000
Investment funds	17	-	33,769,619	-	-	33,769,619	33,769,619
Other payables	20	-	-	-	274,539	274,539	274,539
Subordinated debt	18	-	-	-	1,000,000	1,000,000	1,000,000
		-	33,769,619	-	27,774,609	61,544,228	61,544,228

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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.

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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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.

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).

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## (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.

Consolidated and Separate					
31 December 2017	Note	Level 1	Level 2	Level 3	Total
Treasury bills	9.1	-	2,451,719	-	2,451,719
Promissory notes	9.1	-	6,900,026	-	6,900,026
<b>Total</b>		-	<b>9,351,745</b>	-	<b>9,351,745</b>
31 December 2016					
Treasury bills	9.1	-	3,397,284	-	3,397,284
31 December 2016	9.1	-	7,288,024	-	7,288,024
<b>Total</b>		-	<b>10,685,308</b>	-	<b>10,685,308</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### (c) Financial instruments not measured at fair value (continued)

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

31 December 2017	Note	At amortised cost	Total carrying amount
<b>Consolidated</b>			
<b>Assets</b>			
<b>Financial assets not measured at fair value</b>			
Medium and short term notes	9.1	23,761,993	23,761,993
Reverse REPO	9.1	203,929	203,929
Cash and cash equivalents	8	3,949,815	3,949,815
Loans and advances to customers	11	12,862,160	12,862,160
Loans and advances to related parties	10.1	2,437,836	2,437,836
Loans and advances to other banks	10.1	7,008,864	7,008,864
Amounts due from related parties	33	127,747	127,747
Other receivables	12	292,228	292,228
<b>Liabilities</b>			
Deposits from customers	16	26,196,479	26,196,479
Balances due to other banks	19	135,000	135,000
Investment funds	17	30,489,716	30,489,716
Other payables	20	429,735	429,735

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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31 December 2016	Note	At amortised cost	Total carrying amount
<b>Consolidated</b>			
<b>Assets</b>			
<b>Financial assets not measured at fair value</b>			
Medium and short term notes	9.1	11,688,718	11,688,718
Commercial paper	9.1	24,610,117	24,610,117
Reverse REPO	9.1	150,409	150,409
Cash and cash equivalents	8	3,028,854	3,028,854
Loans and advances to customers	11	10,444,059	10,444,059
Loans and advances to related parties	10.1	2,880,898	2,880,898
Amounts due from related parties	33	148,820	148,820
Other receivables	12	60,940	60,940
<b>Liabilities</b>			
Deposits from customers	16	20,362,691	20,362,691
Balances due to other banks	19	5,950,000	5,950,000
Investment funds	17	33,769,619	33,769,619
Other payables	20	274,539	274,539
<b>31 December 2017</b>			
<b>Separate</b>			
<b>Assets</b>			
<b>Financial assets at fair value P&amp;L</b>			
Medium and short term notes	9.1	23,761,993	23,761,993
Reverse REPO	9.1	203,929	203,929
Cash and cash equivalents	8	3,949,815	3,949,815
Loans and advances to customers	11	12,862,160	12,862,160
Loans and advances to related parties	10.1	2,437,836	2,437,836
Loans and advances to other banks	10.1	7,008,864	7,008,864
Amounts due from related parties	33	127,747	127,747
Other receivables	12	292,214	292,214
<b>Liabilities</b>			
Deposits from customers	16	26,196,479	26,196,479
Balances due to other banks	19	135,000	135,000
Investment funds	17	30,489,716	30,489,716
Other payables	20	429,735	429,735



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### (c) Financial instruments not measured at fair value (continued)

31 December 2016	Note	At amortised cost	Total carrying amount
Separate			
<b>Assets</b>			
<b>Financial assets at fair value through profit or loss</b>			
Medium and short term notes	9.1	11,688,718	11,688,718
Commercial paper	9.1	24,610,117	24,610,117
Reverse REPO	9.1	150,409	150,409
Cash and cash equivalents	8	3,028,854	3,028,854
Loans and advances to customers	11	10,444,059	10,444,059
Loans and advances to related parties	10.1	2,880,898	2,880,898
Amounts due from related parties	33	148,820	148,820
Other receivables	12	60,926	60,926
<b>Liabilities</b>			
Deposits from customers	16	20,362,691	20,362,691
Balances due to other banks	19	5,950,000	5,950,000
Investment funds	17	33,769,619	33,769,619
Other payables	20	274,539	274,539

## 8. CASH AND CASH EQUIVALENTS

	Consolidated		Separate	
	2017	2016	2017	2016
<i>See accounting policy note 5 (c)</i>				
Liquidity Reserve Deposits				
• Central Bank of Malawi (RBM)	2,238,054	1,611,267	2,238,054	1,611,267
<i>Placements with other banks</i>				
• Balances with foreign banks	1,391,842	1,859,924	1,391,842	1,859,924
• Balances with local banks	5,843	866	5,843	866
Clearing accounts	(1,000)	(940,002)	(1,000)	(940,002)
Cash balances	315,076	496,799	315,076	496,799
	<b>3,949,815</b>	3,028,854	<b>3,949,815</b>	3,028,854

Included in the liquidity reserve deposit with the Central Bank of Malawi is **MWK2,151 million** (2016: MWK1,514 million) which is not available for use by the Bank. Balances with foreign banks earn interest at Libor **0.5% to + 2.75%** (2016: Libor -0.5% to + 2.75%) whilst balances with local banks earn interest at bank rate **0.5% to 2.5. %** (2016: 0.5% to 2.5%).

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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9. FINANCIAL ASSETS	Consolidated		Separate	
9.1 Financial assets at fair value through profit or loss	2017	2016	2017	2016
<i>See accounting policy note 5 (g)</i>				
Promissory notes	6,900,026	7,288,024	6,900,026	7,288,024
Treasury bills	2,451,719	3,397,284	2,451,719	3,397,284
	9,351,745	10,685,308	9,351,745	10,685,308
Financial assets held to maturity				
Commercial paper	-	24,610,117	-	24,610,117
Medium and short-term notes	23,761,993	11,688,718	23,761,993	11,688,718
Reverse REPO	203,929	150,409	203,929	150,409
	23,965,922	36,449,244	23,965,922	36,449,244
<b>Total investments</b>	<b>33,317,667</b>	<b>47,134,552</b>	<b>33,317,667</b>	<b>47,134,552</b>
<b>Analysed as:</b>				
External funding	30,489,716	32,378,985	30,489,716	32,378,985
Internal funding	2,827,951	14,755,567	2,827,951	14,755,567
	33,317,667	47,134,552	33,317,667	47,134,552
<b>Investments are classified as follows:</b>				
Maturing within 12 months	7,731,413	41,773,038	7,731,413	41,773,038
Maturing after 1 year	25,586,254	5,361,514	25,586,254	5,361,514
	33,317,667	47,134,552	33,317,667	47,134,552

The Group holds Reserve Bank of Malawi at fair value through profit or loss and other financial instruments with an intention to hold them to maturity. The interest rates averaged **19%-39.5%** (2016: 13%-32%).

10. LOANS AND ADVANCES TO OTHERS	2017	2016
<i>See accounting policy note 5 (f)</i>		
10.1 Loans and advances to related party	2,437,836	2,880,898
10.2 Loans and advances to other banks	7,008,894	-

The above balance includes balances due from Continental Asset Management Limited (Note 33) on contracts with various maturity dates after 2017 and earn interest of **1% - 5%** in foreign denominated contracts and **15% - 29%** in local currency contracts (2016: 29%-31%). The directors consider that the carrying amount of loans and advances approximates their fair value.

Interest rates for balances from other banks were within the range of **1% - 15%** (2016: 14%-29%) with maturity date ranging from **3 - 19 days** (2016: 4 - 6 days).

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

	Consolidated and Separate	
11. LOANS AND ADVANCES TO CUSTOMERS	2017	2016
<i>See accounting policy note 5 (f)</i>		
<b>(i) Loans and advances</b>		
Personal and business loans	1,247,620	1,268,888
Corporate and investment loans	12,546,702	9,080,056
Total gross loans and advances	13,794,322	10,348,944
Interest receivable	1,500,955	722,644
	15,295,277	11,071,588
Interest in Suspense	1,138,428	(187,379)
Allowance for impairment	(1,294,689)	(440,150)
<b>Net loans and advances</b>	<b>12,862,160</b>	<b>10,444,059</b>
<b>(ii) Loans and advances are receivable as follows:</b>		
Maturing within 3 months	4,933,129	3,345,078
Maturing between 3 and 12 months	6,269,601	4,093,401
Maturing after 12 months	1,659,430	3,005,580
<b>Total net loans and advances</b>	<b>12,862,160</b>	<b>10,444,059</b>
<b>(iii) Allowances for impairment Specific allowances for impairment:</b>		
Balance at the beginning of the year	(532,137)	(271,752)
Charge for the year	(1,784,507)	(360,447)
Restored to accrual	3,157	7,343
Recoveries on impaired loans	-	92,719
<b>Balance as at 31 December</b>	<b>(2,313,487)</b>	<b>(532,137)</b>
<b>Collective allowances for impairment:</b>		
Balance at the beginning of the year	(95,392)	(46,719)
Charge for the year	(24,239)	(48,673)
<b>Balance as at 31 December</b>	<b>(119,631)</b>	<b>(95,392)</b>
<b>Total allowances for impairment</b>	<b>(2,433,117)</b>	<b>(627,529)</b>
<b>(iv) Impairment charge</b>		
Impairment charge - specific	(1,784,507)	(360,447)
Impairment charge - collective	(24,239)	(48,673)
Bad debts write off	-	(1,324)
	<b>(1,808,746)</b>	<b>(410,444)</b>

Loans and advances to customers earn interest at a range of the Bank's base lending rate plus or minus **2% to 5%**.  
(2016: 2%-4%).

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

	Consolidated		Separate	
12. OTHER ASSETS	2017	2016	2017	2016
<i>See accounting policy note 5 (e)</i>				
Prepayments	505,109	124,104	505,109	124,104
Other accounts receivables	292,228	60,940	292,214	60,926
	797,337	185,044	797,323	185,030

13(a). Other investments (At cost)	Separate		
See accounting policy note 5 (h)			
At cost	Shareholding	2017	2016
Investment in subsidiary			
CDH Forex Bureau Limited	100%		
Balance at 1 January		-	49,430
Impairment of Investment in subsidiary		-	(49,430)
Balance at 31 December		-	

13(b) Other investment	Consolidated and Separate		
National Switch Limited	9%	30,000	15,000

## 13(c) 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	4,430	4,414
Total liabilities	4,430	4,414
Loss before tax expenses	-	(40,478)
Loss after tax expenses	-	(40,478)

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 14.(a) Property and equipment (continued)

See accounting policy note 5 (i)

Consolidated and separate	Capital work in progress	Computers	Motor vehicles	Equipment fixture & fittings	Total
<b>2017</b>					
<i>Cost</i>					
Balance at 1 January 2017	398,518	107,841	5,840	487,109	999,308
Additions during the year	23,050	12,052	-	190,330	225,432
Transfers to between classes of assets	(421,568)	4,036	-	417,532	-
Disposals during the year	-	(8,577)	(5,840)	(3,137)	(17,554)
<b>Balance at 31 December 2017</b>	-	115,352	-	1,091,834	1,207,186
<b>Consolidated</b>					
<b>2016</b>					
<i>Cost</i>					
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
<b>Balance at 31 December 2016</b>	398,518	107,841	5,840	487,109	999,308
<b>Consolidated and separate</b>					
<b>2017</b>					
<i>Accumulated depreciation and impairment losses</i>					
Balance at 1 January 2017	-	91,203	1,627	344,577	437,407
Depreciation charge for the year	-	12,923	136	152,051	165,110
Eliminated on disposal	-	(8,577)	(1,763)	(3,077)	(13,417)
<b>Balance at 31 December 2017</b>	-	95,549	-	493,551	589,100
<b>Consolidated</b>					
<b>2016</b>					
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)
<b>Balance at 31 December 2016</b>	-	91,203	1,627	344,577	437,407
<i>Carrying amount</i>					
<b>At 31 December 2017</b>	-	19,803	-	598,283	618,086
<b>At 31 December 2016</b>	398,518	16,638	4,213	142,532	561,901

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 14.(a) Property and equipment

See accounting policy note 5 (i)

Separate	Capital work in progress	Computers	Motor vehicles	Equipment fixture & fittings	Total
<b>2016</b>					
<i>Cost or valuation</i>					
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
<b>Balance at 31 December 2016</b>	<b>398,518</b>	<b>107,841</b>	<b>5,840</b>	<b>487,109</b>	<b>999,308</b>
<i>Accumulated depreciation and impairment losses</i>					
<b>2016</b>					
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)
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>91,203</b>	<b>1,627</b>	<b>344,577</b>	<b>437,407</b>
<i>Carrying amount</i>					
<b>At 31 December 2016</b>	<b>398,518</b>	<b>16,638</b>	<b>4,213</b>	<b>142,532</b>	<b>561,901</b>

All motor vehicles with a net book value of **MWK4,213 million** had been disposed-off to a related party as at 31 December 2017 and the Group operates an operating lease arrangement for all motor vehicles.

There were no encumbrances on the property and equipment as at year end.

## 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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 14(b) Assets-held-for-sale (continued)

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	
	2017	2016
Opening balance	57,261	150,729
Restored to equipment, fixtures and fittings	-	(19,371)
Impairments during the year	(9,260)	(43,650)
Disposals during the year	(19,371)	(30,447)
<b>Balance at end of year</b>	<b>28,630</b>	<b>57,261</b>

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

	Computer software Consolidated and Separate	
	2017	2016
<b>15. INTANGIBLE ASSETS</b>		
<i>See accounting policy note 5 (k)</i>		
<b>Cost</b>		
Balance at 1 January	438,594	335,574
Additions during the year	56,540	15,484
Transfers from property and equipment	-	87,536
Disposals during the year	(6,552)	-
	<b>488,582</b>	<b>438,594</b>
<b>Amortisation</b>		
Balance at 1 January	189,762	96,725
Eliminated on disposal	(6,552)	-
Amortisation charge for the year	115,910	93,037
<b>Balance at 31 December</b>	<b>299,120</b>	<b>189,762</b>
<b>Carrying amount</b>		
<b>At 31 December</b>	<b>189,462</b>	<b>248,832</b>



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

	Consolidated		Separate	
16. CUSTOMER DEPOSITS	2017	2016	2017	2016
<i>See accounting policy note 5 (m)</i>				
Current and savings accounts	7,340,872	5,256,053	7,340,872	5,256,053
Foreign currency accounts	3,115,063	3,673,371	3,115,063	3,673,371
Term deposit accounts	15,740,544	11,433,267	15,740,544	11,433,267
	26,196,479	20,362,691	26,196,479	20,362,691
Payable as follows:				
Maturing within 3 months	22,456,601	17,728,364	22,456,601	17,728,364
Maturing after 3 months and above	3,739,878	2,634,327	3,739,878	2,634,327
	26,196,479	20,362,691	26,196,479	20,362,691

For information about financial risks refer to note 6.

Interest on customer deposit balances range from **0.25% to 13.5%** (2016: 0.5 to 17%).

17. INVESTMENT FUNDS	2017	2016	2017	2016
<i>See accounting policy note 5 (d)</i>				
Investment funds	30,489,716	33,769,619	30,489,716	33,769,619

This represents customer investments for funding of Financial asset investments (note 9). Interest on these deposits range from **10% to 31.5%** (2016: 22% to 29%).

18. SUBORDINATED LIABILITIES	2017	2016	2017	2016
<i>See accounting policy note 5 (n)</i>				
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 2017, 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	2017	2016	2017	2016
<i>See accounting policy note 5 (m)</i>				
Deposits from other banks	135,000	5,950,000	135,000	5,950,000

Interest rates on balances due to other banks were within a range of **14% to 15%** (2016: 14% to 29%) with maturity dates ranging from 1 to 4 days (2016: 4 to 6 days).

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

	Consolidated		Separate	
20. OTHER LIABILITIES AND ACCRUALS	2017	2016	2017	2016
<i>See accounting policy notes 5 (n)</i>				
Unclaimed customer balances	72,847	72,642	72,847	72,642
Bankers cheques issued but not cleared	72,603	78,926	72,603	78,926
Accruals	95,329	21,828	95,329	21,828
Trade payables	149,914	77,696	149,914	77,696
Other	39,042	23,447	39,042	23,447
	429,735	274,539	429,735	274,539

	Consolidated		Separate	
21. INCOME TAX AND DEFERRED TAX LIABILITIES	2017	2016	2017	2016
<i>See accounting policy note 5 (v)</i>				
<b>21.1 Income tax recoverable</b>				
Balance at 1 January	85,449	(262,142)	81,051	(265,329)
Prior year under provision	(74,015)	-	(74,015)	-
Advance payment of tax	71,015	347,591	71,015	346,380
Balance at 31 December	82,449	85,449	78,051	81,051

	Consolidated and separate 2017		
21.2 Deferred tax	Assets	Liabilities	Net
<b>Deferred tax (liabilities) /assets</b>			
Property and equipment	-	(19,047)	(19,047)
General provisions	35,889	-	35,889
Leave provision	6,530	-	6,530
Unrealised exchange losses	7,972	-	7,972
Gain on ATMs	-	(3,836)	(3,836)
Unrealised fair value gain	-	(52,383)	(52,383)
Tax losses	208,526	-	208,526
	258,917	(75,266)	183,651

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## Movements in temporary differences in 2017

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Property and equipment	38,346	(57,393)	-	(19,047)
General Provisions	9,885	26,004	-	35,889
Leave provision	-	6,530	-	6,530
Unrealised exchange loss	-	7,972	-	7,972
Gain on ATMs	(187,056)	183,220	-	(3,836)
Unrealised fair value gain	8,561	(60,944)	-	(52,383)
Tax losses	139,059	69,467	-	208,526
	8,795	174,856	-	183,651

	2016		
Deferred tax (liabilities)/assets	Assets	Liabilities	Net
Property and equipment	38,346	-	38,346
General provisions	9,885	-	9,885
Gain on ATMs	-	(187,056)	(187,056)
Unrealised fair value gain	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	(165,810)	204,156	-	38,346
General provision	-	9,885	-	9,885
Unrealised exchange losses	740	(740)	-	-
Gain on ATMs	-	(187,056)	-	(187,056)
Unrealised fair value gain	5,853	2,708	-	8,561
Tax losses	8,751	130,308	-	139,059
	(150,466)	159,261	-	8,795

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

	No. of shares Consolidated and Separate		Proceeds (Value) Consolidated and Separate	
	2017	2016	2017	2016
<b>22. EQUITY AND RESERVES</b>				
<i>See accounting policy note 5 (p)</i>				
<b>22.1 Share capital</b>				
Authorised	172,458	172,458	172,458	172,458
Issued and fully paid at MWK1.00 per share	172,458	172,458	172,458	172,458
<b>22.2 Share premium</b>			2017	2016
172,458,155 shares at MWK4.33 each			746,744	746,744

Share premium arose on issue of the above ordinary 172,458,155 shares at MWK4.33 each.

<b>22.3 Loan loss reserve</b>	430,345	9,386
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This represents non-distributable reserve required by the Reserve Bank of Malawi 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	
	2017	2016	2017	2016
<b>23. INTEREST INCOME</b>				
<i>See accounting policy note 5 (r)</i>				
Loans and advances to other banks	961,150	355,337	961,150	355,337
Loans and advances to customers and other investment securities	3,267,127	4,562,103	3,267,127	4,562,103
Financial asset investments	11,484,535	7,989,163	11,484,535	7,989,163
Changes in fair value of financial assets (note 30)	174,611	(28,538)	174,611	(28,538)
<b>Total interest income</b>	<b>15,887,423</b>	<b>12,878,065</b>	<b>15,887,423</b>	<b>12,878,065</b>
<b>Interest expense</b>				
Deposits from other banks	(288,431)	(782,069)	(288,431)	(782,069)
Deposits from customers	(1,937,396)	(2,352,391)	(1,937,396)	(2,352,457)
Investment funds	(8,756,338)	(7,149,534)	(8,756,338)	(7,149,534)
<b>Total interest expense</b>	<b>(10,982,165)</b>	<b>(10,283,994)</b>	<b>(10,982,165)</b>	<b>(10,284,060)</b>
<b>Net interest income</b>	<b>4,905,258</b>	<b>2,594,071</b>	<b>4,905,258</b>	<b>2,594,005</b>

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 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 **MWK4,228 million** (2016; MWK 4,917 million) and **MWK4,228 million** (2016; MWK4,917 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	2017	2016	2017	2016
<i>See accounting policy note 5 (s)</i>				
Fee from Investments Banking Services	1,208,041	987,774	1,208,041	987,774
Other fee and commission income	393,421	258,963	393,421	253,107
	1,601,462	1,246,737	1,601,462	1,240,881

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

25. TRADING INCOME	2017	2016	2017	2016
<i>See accounting policy note 5 (u)</i>				
Income from financial instruments	114,465	186,892	114,465	186,892
Foreign exchange gains	107,742	929,958	107,742	915,510
	222,207	1,116,850	222,207	1,102,402

Income from financial instruments represents gains on promissory notes, treasury bills, medium term and short term notes.

26.1 Other operating income	2017	2016	2017	2016
<i>See accounting policy note 5 (u)</i>				
Other operating income	40,918	15,729	40,918	15,729
26.2 OTHER INCOME	2017	2016	2017	2016
<i>See accounting policy note 5 (u)</i>				
Profit on disposal of assets	9,735	36,740	9,735	36,740

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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	Consolidated		Separate	
27. PERSONNEL EXPENSES	2017	2016	2017	2016
Salaries and wages	1,359,730	1,015,315	1,359,730	1,007,168
Staff benefits	180,746	133,506	180,746	133,425
Contributions to defined contribution plan	127,209	94,938	127,209	94,216
Group Life Insurance Premiums	49,243	35,643	49,243	34,723
Recruitment	6,102	4,888	6,102	4,877
Incentive bonus	-	6,163	-	6,163
Staff allowances:				
• Transport allowances	5,916	4,599	5,916	4,599
• Other allowances	24,205	10,952	24,205	10,813
	1,753,151	1,306,004	1,753,151	1,295,984
28. ADMINISTRATION EXPENSES	2017	2016	2017	2016
Auditors' remuneration-audit fees	22,700	21,000	22,700	21,000
-VAT and other expenses	3,215	1,733	3,215	1,733
ATM running costs	1,086	2,480	1,086	2,480
Bank charges	31,995	33,348	31,995	33,260
Business travel expenses	155,664	131,152	155,664	131,129
Communication expenses	43,393	40,914	43,393	40,221
Computer expenses	361,492	346,331	361,492	345,216
Management technical support fees	128,165	122,978	128,165	122,978
Professional fees	60,042	1,173	60,042	1,173
Directors fees and expenses	126,448	105,432	126,448	105,432
Impairment of investment in subsidiary	-	-	-	49,430
Impairment of asset held for sale	9,260	43,650	9,260	43,650
Legal costs	14,425	510	14,425	510
Lease rental	1,001,332	670,711	1,001,332	670,711
Marketing expenses	121,221	114,903	121,221	114,767
Motor vehicle running costs	64,148	57,177	64,148	57,177
Office expenses	142,289	111,901	142,289	111,312
Office occupancy costs	280,747	252,753	280,747	240,642
Other expenses	202,464	67,182	202,464	37,350
Supervisory fees	(31,020)	50,636	(31,020)	50,000
Training costs	52,596	83,400	52,596	83,406
	2,791,662	2,259,364	2,791,662	2,263,577

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 29. LEASE

See accounting policy note 5(o)

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	2017	2016	2017	2016
Less than one year	284,541	461,260	284,541	461,260
Between one year and five years	1,138,164	1,845,041	1,138,164	1,845,041
	1,422,705	2,306,301	1,422,705	2,306,301

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

Motor Vehicles	2017	2016	2017	2016
Less than one year	482,912	367,530	482,912	367,530
Between one year and three years	1,931,047	1,470,122	1,931,047	1,470,122
	2,413,959	1,837,652	2,413,959	1,837,652
	3,836,664	4,143,953	3,836,664	4,143,953

The Group disposed of 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	2017	2016	2017	2016
Fair value gain/(loss)	174,611	(28,538)	174,611	(28,538)

The fair value gain of **MWK80m** (2016: Gain: MWK28.5m) relates to the effect of marking to market of USD promissory notes which has been presented in note 23.



# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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	Consolidated		Separate	
31. INCOME TAX EXPENSE	2017	2016	2017	2016
<i>See accounting policy note 5 (v)</i>				
<i>Recognised in the profit or loss</i>				
Prior year under provision	74,015	-	74,015	-
<i>Deferred tax credit</i>				
Reversal of temporary differences (note 21.2)	(174,856)	(159,276)	(174,856)	(159,276)
Income tax credit	(100,841)	(159,261)	(100,841)	(159,276)
<i>Reconciliation of effective tax rate</i>				
Profit before income tax	145,001	823,994	145,001	815,042
Income tax using the enacted income tax rate of 30% (2016: 30%)	43,500	247,198	43,500	244,513
Income not subject to tax	(196,201)	(572,483)	(196,201)	(569,797)
Accelerated capital allowance	(19,047)	(46,881)	(19,047)	(46,881)
Expenses not deductible for tax purposes (Fringe Benefit Tax and Penalties)	171,748	372,166	171,748	372,165
Prior year under provision	74,015	-	74,015	-
Deferred tax (note 21.2)	(174,856)	(159,261)	(174,856)	(159,276)
Income tax (credit)/expense	(100,841)	(159,261)	(100,841)	(159,276)
Effective tax rate	(70)%	(19)%	(70)%	(20)%
<b>32. BASIC AND DILUTED EARNINGS PER SHARE</b>				
<i>See accounting policy note 5 (w)</i>				
Profit attributable to ordinary shareholders	245,842	983,255	245,842	974,318
Weighted average number of ordinary shares in issue (thousands)	172,458	172,458	172,458	172,458
Basic and diluted earnings per share (MWK)	1.43	5.70	1.43	5.65
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 2017	Directors and their related parties	Executive Management	Other Continental Holdings Subsidiaries	Total
Advances	-	180,184	4,287,848	4,468,032
Deposits	(2,816)	(9,586)	(12,019,057)	(12,031,459)
<b>Net balances</b>	<b>(2,816)</b>	<b>170,598</b>	<b>(7,731,209)</b>	<b>(7,563,427)</b>
Interest received	2,321	34,904	184,400	221,625
Interest paid	(57)	(957)	(707,258)	(708,272)
	2,264	33,947	(522,858)	(486,647)
<b>2016</b>				
Advances	7,254	139,053	2,697,695	2,844,004
Deposits	(3,965)	(7,389)	(16,873,170)	(16,884,524)
<b>Net balances</b>	<b>3,289</b>	<b>131,664</b>	<b>(14,175,475)</b>	<b>(14,040,520)</b>
Interest received	-	24,252	207,689	231,941
Interest paid	-	-	(473,018)	(473,018)
	-	24,252	(265,329)	(241,077)

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 **MWK2.4 million** (2016: MWK8.8 million) of interest free short-term salary advances and **MWK178.4 million** (2016: MWK122.8 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 arm's length basis on normal commercial terms.

Key management personnel compensation:	Consolidated and Separate			
	Executive Management		Non-Executive Directors	
	2017	2016	2017	2016
Short-term employee benefits salaries	502,549	457,375	-	-
Post-employment benefits	50,255	45,737	-	-
Directors' fees	-	-	54,380	29,081
	552,804	503,112	54,380	29,081

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 33. RELATED PARTY TRANSACTIONS (CONTINUED)

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 **MWK23 million** (2016: MWK16 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 to/from related parties as separately disclosed at year end are as follows:

Related party	Relationship	Consolidated		Separate	
		2017	2016	2017	2016
Continental Asset Management Limited	Common ownership	2,437,836	2,880,898	2,437,836	2,880,898
Continental Capital Limited	Common ownership	-	-	-	-
Continental Holdings Limited	Common ownership	66,759	66,759	66,759	66,759
Continental Properties Limited	Common ownership	60,988	82,061	60,988	82,061
CDH Forex Bureau Limited	100% owned subsidiary	-	-	-	-
		127,747	148,820	127,747	148,820
<b>Subordinated liability</b>					
Continental Asset Mgt	Common ownership	1,000,000	1,000,000	1,000,000	1,000,000

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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The balance due to Continental Asset Management Limited includes **MWK1 billion** (2015: MWK1 billion) relating to subordinated debt presented in Note 18.

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

	Relationship	Type of transaction	Value of transactions 2017	Balance at year end 2017	Value of transactions 2016	Balance at year end 2016
Continental Asset Management Limited	Related company	Deposits	11,070,563	11,920,322	16,873,170	15,708,435
		Loan	2,350,836	2,437,836	2,880,898	2,880,898
		Subordinated debt	-	1,000,000	1,000,000	1,000,000
		Subordinated debt interest paid	286,740	-	292,400	-
		Interest received	184,400	-	473,018	-
		Interest paid	707,259	-	207,689	-
		Shared expenses	12,003	-	-	-
Continental Capital Ltd	Related company	Deposits	93,515	93,515	126,654	-
		Shared expenses	5,334	-	970	-
Continental Properties Ltd	Related company	Deposits	5,219	5,219	38,081	-
		Operating lease payments	953,631	-	670,711	-
		Shared expenses	-	-	83,960	82,061
		Sale of motor vehicles	60,988	-	-	-
Continental Holdings Limited	Parent company	Deposits	2,002	4,917	3,092	-
		Shared expenses	7,245	-	81,892	66,759
CDH Forex Bureau Ltd	Subsidiary	Shared expenses	-	-	1,447	-
Executive Management	Management	Deposits	2,197	9,586	-	7,389
		Advances	48,540	180,184	139,054	131,664
		Salaries	502,549	-	457,375	-
		Long-term benefits (Pension)	50,255	-	45,737	-
		Interest received	34,904	-	24,252	-
Directors and their related parties	Directors	Deposits	2,816	-	-	3,964
		Fees	15,188	-	53,242	-

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

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 34. PRIOR PERIOD ERRORS

During the year, it was determined that interest receivable on financial assets, loans and advances and interest in suspense were incorrectly presented in the financial statements for years ended 31 December 2015 and 2016. These corrections have been effected as prior period errors in accordance with IAS 8 as follows:

- Interest receivable on financial assets was erroneously presented in loans and advances to customers and interest receivable on loans and advances to related party was erroneously presented in other assets.
- Interest in suspense relating to loans and advances to customers was erroneously presented in other liabilities and accruals.

Details of the adjustments in the account balances and impact of each line of the financial statements is detailed below:

	Consolidated			Consolidated		
	2016 As previously reported	Impact of Adjustments	2016 As restated	2015 As previously reported	Impact of Adjustments	2015 As restated
Financial assets at FVTPL	-	10,685,308	10,685,308	1,472,386	18,528	1,490,914
Financial assets held to maturity	47,134,552	(10,685,308)	36,449,244	14,862,083	443,813	15,305,896
Loans and advances to customers	10,631,438	(187,379)	10,444,059	12,091,076	(549,658)	11,541,418
Loans and advances to related parties	2,697,695	183,203	2,880,898	1,313,612	-	1,313,612
Other assets	368,247	(183,203)	185,044	311,573	-	311,573
Other liabilities and accruals	(461,918)	187,379	(274,539)	(649,847)	87,317	(562,530)
	-	-	-	-	-	-

	Separate			Separate		
	2016 As previously reported	Impact of Adjustments	2016 As restated	2015 As previously reported	Impact of Adjustments	2015 As restated
Financial assets at FVTPL	-	10,685,308	10,685,308	1,472,386	18,528	1,490,914
Financial assets held to maturity	47,134,552	(10,685,308)	36,449,244	14,862,083	443,813	15,305,896
Loans and advances to customers	10,631,438	(187,379)	10,444,059	12,091,076	(549,658)	11,541,418
Loans and advances to related parties	2,697,695	183,203	2,880,898	1,313,612	-	1,313,612
Other assets	368,233	(183,203)	185,030	307,070	-	307,070
Other liabilities and accruals	(461,918)	187,379	(274,539)	(646,883)	87,317	(559,566)
	-	-	-	-	-	-

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

## 35. 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	
	2017	2016
<i>Contingent liabilities</i>		
Financial guarantees	723,738	160,613
	723,738	160,613

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 **MWK18.4 million** (2016: MWK31 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 **MWKnil** (2016: MWKnil).

## 36. 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 2017, the liquidity reserve was **7.5%** (2016: 7.5%) 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 2017, the Bank's total available capital was **15.05%** (2016: 22.92%) and the core capital was **11.76%** (2016: 18.57%) 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.

# NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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## 37. 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 decrease in the closing National Consumer Price Index, which represent an official measure of inflation.

Exchange rates	Consolidated and Separate	
	2017	2016
	MWK	MWK
Malawi Kwacha/GBP	975.17	893.19
Malawi Kwacha/Rand	58.72	53.54
Malawi Kwacha/US Dollar	726.17	727.60
Malawi Kwacha/Euro	865.61	764.69
Malawi Kwacha/Canadian Dollar	577.01	541.56
Inflation rate %	7.1%	20.00%

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

Malawi Kwacha/GBP	1,025.96
Malawi Kwacha/Rand	61.47
Malawi Kwacha/US Dollar	726.17
Malawi Kwacha/Euro	894.86
Inflation rate %	7.8%

## 38. EVENTS AFTER THE REPORTING DATE

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

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