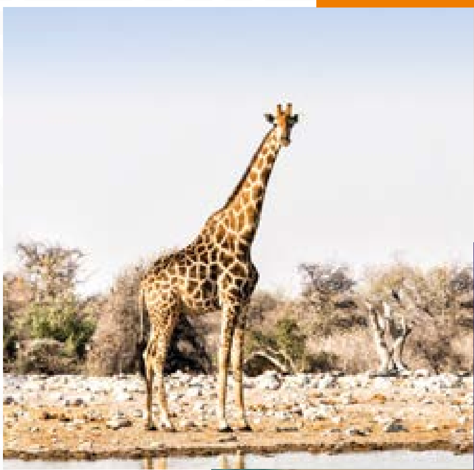
INVESTMENT BANK



Annual Report 2018

We continue on the Investment Banking path, mobilizing domestic and international debt and equity capital for investment in projects and businesses with long term sustainable goals to complement Malawi's economic development plans.

CDHIB Annual Report for 2018

CDHIB, together with Government, championed the establishment of Malawi's private sector oriented development finance institution, the Malawi Agricultural and Industrial Investment Corporation Plc ("MAIIC"). MAIIC was launched on 28th November 2018 with the objective of mobilizing domestic and international financial and human capital to invest in private sector-led economic development. MAIIC will change the development finance landscape in Malawi through the blending of public and private as well as international and domestic capital to finance private sector agricultural and industrial development. This will ensure a source of much needed long-term capital to finance projects, the bulk of which have already been identified in agriculture, manufacturing, mining, energy, tourism, and housing.

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Contents

Vision, mission statement & core values

Vision

To be the leading specialist bank in Malawi.

Mission

To deliver financial solutions to our clients by effectively utilizing the best human capital and information technology. CDHIB is committed, through good corporate governance and compliance, to meeting the requirements of its shareholders and the regulatory authorities.

Core values

Integrity
Respect
Teamwork
Equity
Innovation

Investment Banking Services

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

CDH Investment Bank in partnership with the Government of Malawi

Government of Malawi	K225bn	Government of Malawi promissory notes issuance programme	C0-arranger	2014
Umodzi Holdings (UMODZI PARK HOTEL · CONVENTIONS · EVENTS)	K4.2bn	Hotel redevelopment project financing facility	Lead arranger and local agent bank	2015
ADMARC	K47bn	Commercial paper	Lead arranger	2016
Salima Sugar Co	K13.9bn	Project finance facility	Lead arranger and local agent bank	2018
MAIIC		Establishment of Development Finance Institution	Lead arranger	2018
Governement of Malawi		Financing facility to Members of Parliament	Arranger & funder	2014 & 2018

INVESTMENT BANK

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Best Investment Bank in Malawi - 2015, 2016 & 2017
Global Banking & Finance Review

Banking innovations that help your business **grow**

CDH INVESTMENT BANK
www.cdh-malawi.com

Franklin Kennedy- Chairman

Joint statement by Chairman and Chief Executive Officer

We are pleased to present CDH Investment Bank's ("CDHIB") annual report and financial statements for the year ended 31 December 2018.

The year in perspective

2018 was another significant year for the Bank having celebrated some very exciting milestones in a challenging operating environment. These milestones resulted from the continued growth of our flagship investment banking activities. Our financial advisory services team was active in arranging structured finance for our major clients whose projects are changing lives in various regions of the country. In addition, CDHIB, together with Government, championed the establishment of Malawi's private sector oriented development finance institution, the Malawi Agricultural and Industrial Investment Corporation Plc ("MAIIC"). MAIIC was launched on 28th November 2018 with the objective of mobilizing domestic and international financial and human capital to invest in private sector-led economic development. MAIIC will change the development finance landscape in Malawi through the blending of public and private as well as international and domestic capital to finance private sector agricultural and industrial development. MAIIC is scheduled to be operational in 2019 initially with the mobilization of domestic capital to be subsequently complemented with funding from the international capital markets. This will ensure a source of much needed long-term capital to finance projects, the bulk of which have already been identified in agriculture, manufacturing, mining, energy, tourism, and housing.

Challenging environment

Intermittent supply of power and water combined with structural challenges were significant constraints in the operating environment for many of our major clients in 2018. Output was also affected by low agricultural production during the 2017/2018 season as erratic rains and an advent fall of army worm infestation negatively impacted crop output. Consistently rising inflationary pressure during the year emanating from low agricultural production and upward cost adjustments for electricity, water and fuel, combined to impact the Bank's business in 2018.

High levels of non-performing loans (NPLs) in the entire financial sector affected the levels of new business underwritten by banks. The regulatory authorities required all banks to ensure NPLs do not exceed 5% of loan portfolio. The spill-over effects of the previous year's tight economic conditions affected our customers' ability to service loans. Consequently, the bank made provisions for non-performing assets and wrote off bad debts. In spite of these negative factors, CDHIB registered positive financial performance to continue to build a foundation for the Bank's future growth.

Overall performance

The bank realized a consolidated profit after tax of K965 million against prior year performance of K246 million representing an increase of 293%. Operating income before impairment of non-performing loans and advances grew by 7% from K6,780 million to K7,278 million mainly on account of growth in investment banking fees by 59% and an increase in other fees and commissions by 126%. Operating expenses showed a slight increase of 2% from 2017. Overall loan impairments reduced by 34% mainly reflecting enhanced risk management strategies. Total assets grew by 40% from K61,634 million to K86,533 million mainly due to increased investment funds as most customers were attracted by innovative treasury products offered by the Bank. We are pleased to report that the Bank complied with all regulatory bodies' guidelines, directives and regulations. Having secured CDHIB's Investment Banking foundation, Management and the Board are now focused on realizing earnings potential from our core business. This will be accomplished through continued full engagement with our clients, improving productivity and investing in our people and culture.

Seven years ago, CDHIB set out on a journey with a specific focus in the market and we are pleased with what the Bank has achieved and the contributions we have made to the Malawi economy.

Corporate culture

CDHIB has a strong corporate culture for results grounded in an investment banking strategy which requires differentiation in the financial markets. This will result in a value added proposition for our clients, their employees and their markets which includes serving others whose ambitions include wealth creation and growth. As part of this commitment, the Board is determined to ensure that CDHIB remains a place where all employees have the

Misheck Esau- CEO/Managing Director

opportunity to fulfil their potential. Our stakeholders expect honesty and integrity and we will continue to promote a culture in which our human assets are encouraged to exceed their productive goals.

Corporate social investment and sustainability

CDHIB continues to place paramount importance on the operating environment in which we operate. Our social investment strategy places priority in helping people in our communities reach their full potential. We strongly believe that focusing on the health, well-being and education in our society will help build stable, growing and prosperous communities. It is pleasing to note that our project finance clients are making a significant impact in the creation of sustainable jobs and wealth. A new sugar plantation in the central region of Malawi (Salima Sugar Company Limited), upon the bank mobilising more finance in 2018 for plantation development, increased its employment numbers to 2,500 direct employees from a zero starting base in 2014. The promoters of the project and other stakeholders are pleased with to date achievements in the surrounding areas which are experiencing significant economic transformation. It is also important to note that with all CDHIB supported projects, the Bank follows sound environmental management practices.

In 2019 and beyond, CDHIB will continue to invest its financial and human capital in building the Banks capacity to ensure the continued sustainability in the businesses of our clients and their environment. The bank will continue to work with experts in various fields to ensure that all our services are directed responsibly towards the advancement of our clients, staff, communities, the environment and our stakeholders.

Compliance, governance and risk management

CDH Investment Bank seeks to maintain a conservative and consistent approach to enterprise risk management. Helping to ensure protection of customers' assets, together with responsible lending will support the Malawi economy. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder value. All employees are responsible for the management of risk, with the ultimate accountability resting with the Board of Directors.

Strategic direction

We continue on the Investment Banking path, mobilizing domestic and international debt and equity capital for investment in projects and businesses with long term sustainable goals to complement Malawi's economic development plans. The Bank believes we are on the right path to provide our shareholders with sustainable higher returns even if operating in a challenging market environment.

Business prospects and outlook

The recent stability of current economic conditions as evidenced by reductions in both interest and inflation rates, offer hope for increased economic activity in 2019 and beyond. CDHIB remains committed to continue offering innovative products whilst deepening its banking operations. Corporate finance and advisory services bringing tailor-made and structured transactions to the market, remain the anchor of CDHIB's business.

Global market turbulence is a given and will lead to new risks and regulations. CDHIB will stay relevant to immediate market conditions and competition. Consequently, we have strategically positioned our business to take advantage of the opportunities. Sound governance structure, resilient business model and the continued momentum reflected in our strategic businesses, will generate sound returns in 2019 and beyond. We are forging ahead with greater optimism and determination, knowing that we are well positioned to meet the aspirations of our stakeholders.

Vote of thanks

CDHIB would like to thank all esteemed clients and stakeholders, strategic partners, and regulatory authorities for their continued support for the Bank. We also thank our fellow Directors and the entire CDHIB Team for your tireless support throughout the year.

Franklin Kennedy Board Chairman	**Misheck Esau** Chief Executive Officer, and Managing Director

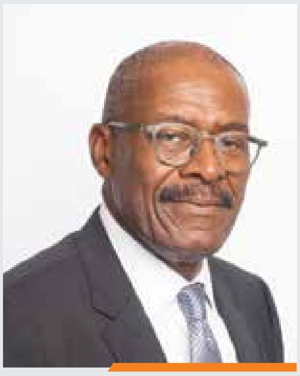
Banking innovations that help your business grow

CDHIB Board of Directors

Franklin Kennedy
Chairman

Misheck Esau
Managing Director

Kofi Sekyere
Director



Robert Abbey
Director

Elias Malion
Director

Ted Sauti-Phiri
Director

John McGrath
Director

Charles Asare
Director

Naomi Ngwira
Director

Kingsley Zulu
Director

CDHIB Management

Misheck Esau
CEO / Managing Director

Jean Rene Moukala
Deputy Chief Executive Officer

Thoko Mkavea
Chief Investment Banking Officer

Beatrix Mosiwa
Chief Finance Officer

Benison Jambo
Chief Business Development Officer

Paul Nyachiwowa
Chief Treasury Officer

Christopher Ngwira
Chief Internal Auditor

Daniel Mwangwela
Chief Legal/Compliance Officer & Company Secretary

James Chikoti
Acting Chief Operating Officer

Chris Chirwa
Chief Information Officer

Economic review for 2018 and outlook for 2019

1. Interbank market

1.1 Liquidity levels on the interbank market were higher in 2018 relative to 2017. Excess liquidity reserves averaged K9.11 billion per day compared to K5.54 billion per day in 2017, representing a 65% increase. Liquidity levels were highest in December 2018 when excess liquidity reserves averaged K16.05 billion per day and were lowest in May 2018 when excess liquidity reserves averaged K4.53 billion per day.

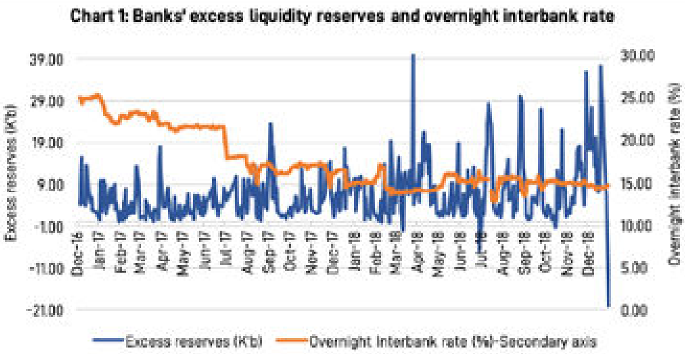
1.2 With high liquidity levels, coupled with persistent downward pressure on the general level of interest rates emanating mainly from the interest rate capping bill, the overnight interbank rate declined, averaging 14.79% during the year compared to the average of 18.52% in 2017.

1.2 Banks borrowed more from each other than they resorted to the Reserve Bank of Malawi (RBM) during the year as indicated by an increase in overnight interbank borrowing to a daily average of K8.24 billion from an average of K6.76 billion in 2017, while access on the Lombard Facility of the Reserve Bank (also known as the discount window) decreased to a daily average of K6.64 billion compared to a daily average of K7.01 billion in 2017.

1.3 The central bank withdrew a total of K337.60 billion from the market at an average rate of 15.00% through open market operations (OMO) during the year, compared to a total of K898.88 billion at an average rate of 18.68% in the previous year.

1.4 Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the last two years. The chart shows that the interbank rate remained within the RBM target band of +2/-4 percentage points of the Policy rate which was stable at 16.00% throughout the year.

(Source: Reserve Bank of Malawi)



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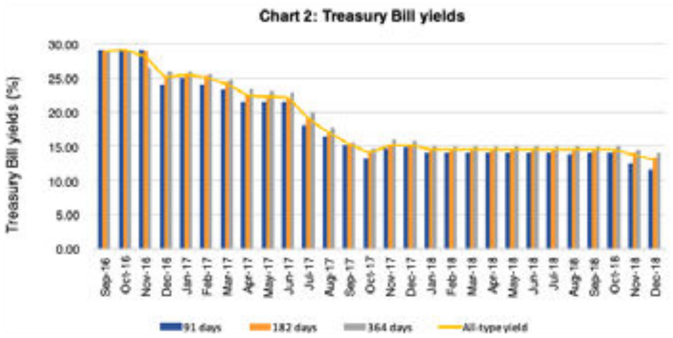
2. Government securities

2.1 In 2018 Government raised a total of K490.41 billion through auctions for Treasury Bills (TB) compared to K243.67 billion raised in 2017, representing a 102% increase. Total applications for Treasury bills for the year amounted to K569.55 billion (2017: K444.13 billion), representing a 7.22% rejection rate (2017: 45.14%).

2.2 Treasury Bill yields were broadly stable in 2018. They only started to decline in the last two months of the year. The 91-day TB yield averaged 13.64%, the 182-day TB yield averaged 14.37% and the 364-day TB yield averaged 14.88%, resulting in an all-type (average) yield of 14.30% which is lower than the all-type yield of 19.76% recorded in 2017.

2.3 Chart 2 shows that TB yields declined between November 2016 and September 2017 before stabilizing in 2018. Towards the end of the year 2018, however, the yields started to decline again, largely due to mounting downward pressure on the general level of interest rates as the interest rate capping bill gained prominence.



(Source: Reserve Bank of Malawi)

2.4 In 2018 the Government also embarked on a debt restructuring programme which saw the issuing of 2-year, 3-year, 5-year and 7-year Treasury Notes (TN) through auctions conducted by RBM. A total of K104.56 billion was raised through these auctions at the average yield of 18.08% for the 2-year TN, 19.53% for the 3-year TN, 20.42% for the 5-year TN and 24.00% for the 7-year TN. The Government will continue to issue TNs in 2019.

2.5 Looking ahead, following the significant monetary policy changes that RBM made in January 2019, which include:- the reduction of the Policy rate from 16% to 14.5%; the reduction of the Lombard rate from 18.0% to 14.9%; the reduction of the Liquidity Reserve Requirement (LRR) from 7.5% to 5.0% for domestic currency deposits and to 3.5% for foreign currency deposits; and the pegging of the base lending rate for commercial to the Lombard rate 14.9%, yields on Government securities like other interest rates in the market are expected to decline in the near term before stabilizing later in the year when the market fully responds the policy changes.

3. Foreign exchange market

3.1 The Kwacha remained broadly stable in 2018, registering a marginal depreciation of 0.23% against the USD and appreciations of 5.38%, 13.69% and 3.72% against the GBP, ZAR and EUR, respectively, between 29th December 2017 and 31st December 2018. This is an improvement from the previous year when the Kwacha registered depreciations of 0.47%, 9.59%, 11.79% and 13.45% against the USD, GBP, ZAR and EUR.

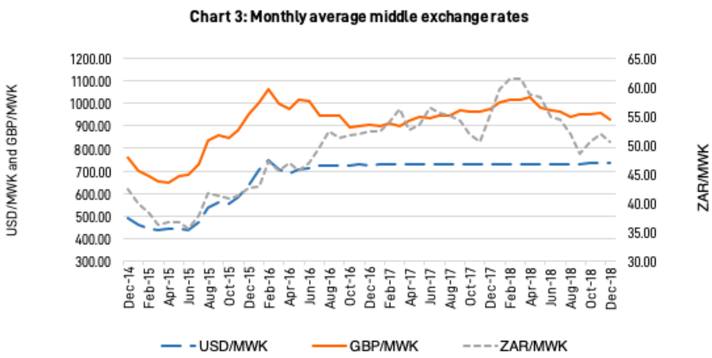
3.2 Table 1 and Chart 3 below provide an overview of how the Kwacha has fared against the four major trading currencies in the last three years.

Tale 1: End of year middle exchange rates

Crrency	31-Dec-18	29-Dec-17	30-Dec-16	2018 Change	2017 Change
USD	733.69	732.03	728.62	▼ 0.23%	▼ 0.47%
GBP	926.83	979.53	893.83	▲ -5.38%	▼ 9.59%
ZAR	50.96	59.04	52.81	▲ -13.69%	▼ 11.79%
EUR	836.75	869.07	766.03	▲ -3.72%	▼ 13.45%

(Source: Reserve Bank of Malawi)

Note: Upward arrow represents appreciation and downward arrow represent depreciation of the Kwacha.

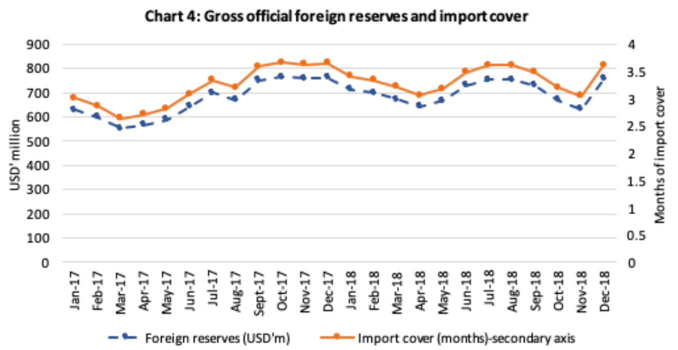


(Source: Reserve Bank of Malawi)

3.3 The continued stability of the Kwacha against the USD despite the general strengthening of the USD during the year, could be attributed to stronger confidence in the Kwacha from market players, robust forex reserves which ensured consistent availability of forex on the market, and tight monetary conditions which resulted in weak demand for imports. Besides these factors, the appreciation of the Kwacha against the other major trading currencies in 2018 was on account of pressures on these currencies on the international market, partly due to uncertainty in the UK regarding Brexit negotiations and political uncertainty in the Euro area.

3.4 With regard to forex reserves, the RBM managed to keep official reserves at or above 3.0 months of import cover throughout the year, as depicted in Chart 4 below, largely due to an increase in forex inflows from tobacco exports - in 2018 Malawi realised a total of USD337.50m from tobacco auction sales, a 58.82% increase when compared to USD212.51m realized during the 2017 season.

3.5 Gross official foreign reserves stood at USD755.22 million (3.61 months of import cover) on 31st December 2018, slightly lower than USD761.97 million (3.65 months of import cover) recorded on 29th December 2017. Private foreign reserves were observed at USD330.84 million (1.58 months of import cover) as at the end of December 2018, compared to USD414.03 million (1.98 months of import cover) during the same period the previous year.

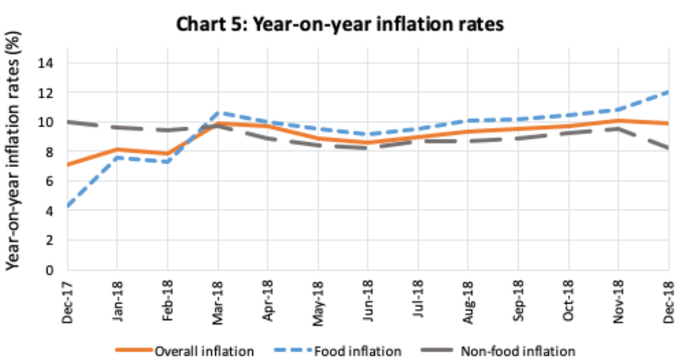


(Source: Reserve Bank of Malawi)

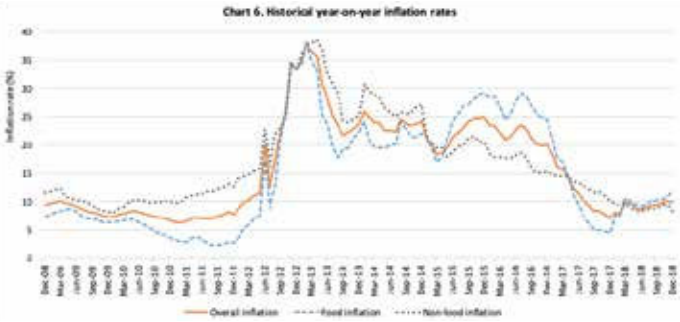
3.6 Looking ahead, the Kwacha is expected to remain broadly stable in the short to medium term, supported by a robust forex reserves position. In the long term, however, depreciation risks could emanate from trade imbalances due the country's weak and less diversified export base and from exogenous shocks such as rising international oil prices.

4. Inflation

4.1 2018 registered a relatively stable inflation rate despite unwavering pressures from upward adjustments in utility prices and rising maize prices. Headline inflation rate remained within a single digit throughout the year, expect in November 2018. It averaged 9.2%, down from the average of 11.5% in 2017 on account of a decline in both food and non-food inflation rates which averaged 9.8% and 9.0%, respectively, compared to 10.3% and 12.9% in 2017.



(Source: National Statistical Office)



(Source: Reserve Bank of Malawi)

4.2 The decline in inflation in 2018 relative to the previous years could largely be attributed to a relatively stable macroeconomic environment during the year, including stable exchange rate and interest rates which could have improved confidence in the economy.

4.3 The inflation rate, however, faced consistent pressures from elevated maize prices and upward adjustments in utility prices. Maize price rose by over 60% in 2018 compared to 2017 levels on account of lower than average harvest in the 2017/2018 season as most parts of the country experienced dry spells and fall army worm attacks. The Malawi Energy Regulatory Authority (MERA) approved two price hikes for electricity in 2018 (in February 2018 and October 2018). As at the end of the year, electricity tariff stood at K88.02/Kwh, up by 53.00% from K57.72/Kwh as at the end of the previous year. Further, MERA approved three upward adjustments in fuel prices during the year (in July, October and November) which were later adjusted downwards in December 2018. As of December 2018, prices for petrol, diesel and paraffin stood at K923.50 per litre, K949.60 per litre and K781.80 per litre, respectively, representing increases of 11.98%, 16.40% and 20.52% when compared to K824.70 per litre, K815.80 per litre and K648.70 per litre as of December 2017.

4.4 Looking forward, headline inflation is expected to continue to decline in 2019, partly supported by continued stability in the exchange rate and expected improvement in agricultural output following a normal rainfall pattern so far experienced in the 2018/2019 season which could lessen the impact of any further upward adjustments in utility prices. RBM projects an average headline inflation rate of 8.5% in 2019 and targets an average annual rate of 5% by 2021.

4.5 Risks to this inflation outlook include significant shocks to this year's agricultural output, unfavourable shocks to international oil prices and possible increase in Government expenditure especially during the elections period, among other factors.

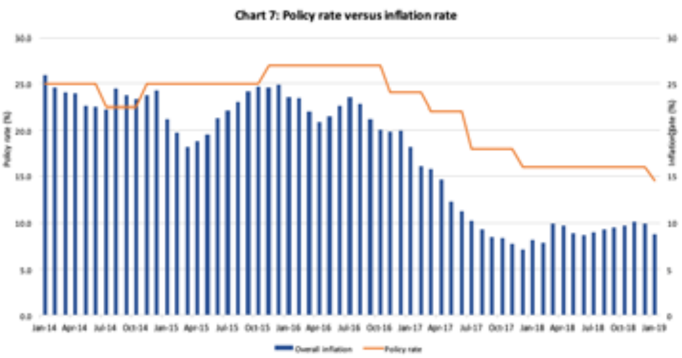
5. Monetary policy

5.1 The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi (RBM) met three times in 2018 (in March, July and September) to review developments in the local and global economy that inform monetary policy decisions.

On all three occasions the Committee decided to maintain the monetary policy stance and so kept the Policy rate unchanged at 16.00%, the Lombard rate at 18.00% and the Liquidity Reserve Requirement (LRR) at 7.50%. The cautious stance of monetary policy was on account of persistent upward inflationary pressures that prevailed during the most part of the year. The decision was thus aimed at containing risks and supporting disinflation towards the RBM medium term objective of 5.00%. The RBM committed to complementing this policy stance with consistent mop-up operations to maintain tight liquidity conditions in the market.

5.2 In 2017 the MPC revised the Policy rate downwards three times which saw the Policy rate decline from 24.00% as at the beginning of the year to 16.00% as at the end of the year.

5.3 The chart below depicts the historical trend of the Policy rate relative to inflation rate. The chart shows that the Policy rate has been on a declining trend since November 2016.



(Source: RBM, NSO)

5.4 Going into 2019, on 29th and 30th January 2019, the MPC met for their first meeting of 2019. After taking into consideration developments in the domestic and global economy and macroeconomic outlook, the Committee observed that risks to inflation experienced in 2018 had started to dissipate and that the macroeconomic outlook for 2019 looked favourable. The Committee thus decided to loosen monetary policy as follows:

5.4.1 reduce the Policy rate (PR) from 16.0% to 14.5%;
5.4.2 reduce the Liquidity Reserve Requirement (LRR) ratio from 7.5% to 5.0% for domestic currency deposits and from 7.5% to 3.75% for foreign currency deposits;
5.4.3 reduce the Lombard rate from 18.0% to 14.9%; and
5.4.4 peg the Base lending rate for commercial banks at the Lombard rate.

5.5 These policy changes were aimed at assisting the financial sector and the private sector to harness synergies and effectively contribute to economic growth.

5.6 In response to the monetary policy changes, commercial banks reduced their maximum lending rates which now range from 25.80% to 26.9%, compared to the range of 32.00% to 39.00% before the revision.

5.7 Looking forward, we expect the MPC to take a cautious stance in the short to medium term to allow the market to fully respond to the recent changes. All other interest rates in the market could continue to decline in the near term and then stabilise later in the year. In the long term, we expect further interest rate cuts if shocks to inflation and the exchange rate continue to be contained.

6. Economic growth

6.1 RBM and the World Bank estimate that economic activity moderated to around 4.0% and 3.7%, respectively, in 2018 from around 5.2% in 2017, owing to a decline in agricultural production as erratic rains and a fall army worm infestation negatively impacted crop output. Structural challenges related to the intermittent supply of power and water were also a significant constraint on production in 2018.

6.2 In 2019 economic growth is expected to be slightly better than in 2018 largely on account of a rebound in agriculture following an expected normal rainfall pattern and a favourable macroeconomic environment. RBM and the Government project a real GDP growth rate of 4.1% for 2019 driven by good performance in the following economic activities: agriculture; wholesale and retail trade; transportation and storage; information and communication; and professional, scientific and technical services, among others. Agriculture output in 2019 is expected to recover to 2.0% from 0.6% in 2018, the wholesale and retail trade sector is estimated to grow by 4.9%, transport and storage by 5.4% and information and communication by 7.5%.

Table 2: Government estimates and forecasts of growth rates

	2017	2018	2019
Agriculture, forestry and fishing	6.1	0.6	2.0
Mining and Quarrying	1.6	1.9	1.5
Manufacturing	2.0	3.8	3.5
Utilities	2.6	4.4	3.1
Construction	4.4	4.9	3.7
Wholesale and retail	5.0	4.4	4.9
Transport and storage	6.0	5.2	5.4
Accommodation and food service activities	4.2	5.9	4.0
Information and communication	6.5	7.0	7.5
Financial and Insurance activities	5.5	7.1	3.9
Real estate activities	4.4	3.9	2.8
Professional, scientific and technical services, Administrative and support service activities	4.0	5.2	5.9
Public administration and defense	5.7	7.2	6.1
Education	6.6	9.4	7.6
Human health and social work activities	5.3	6.0	5.7
Other services	4.3	5.2	5.0
Sum of all industries	5.0	3.8	3.9
Plus taxes less subsidies on products	7.7	7.1	7.7
GDP in 2010 constant prices	5.2	4.0	4.1

(Source: Business Interviews Summary Report, September 2018 - compiled by National Accounts and Balance of Payments Technical Committee)

	2017e	2018f	2019f
Real GDP	2.5	4.0	3.7
Agriculture	-2.3	5.0	2.5
Industry	2.4	2.2	3.0
Services	4.4	4.0	4.5

Table 3: World Bank growth rate estimates for Malawi

(Source: World Bank's Malawi Systematic Country Diagnostic: Breaking the Cycle of Low Growth and Slow Poverty Reduction - December 2018)

7. Stock market performance

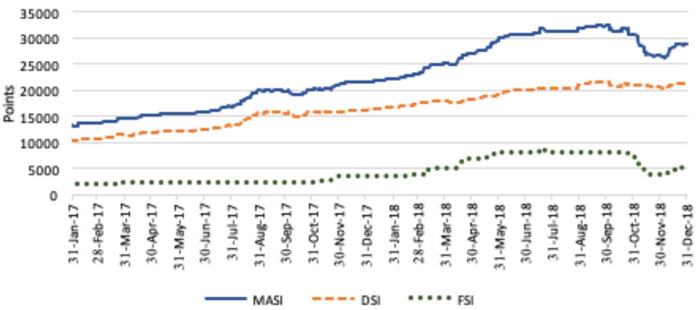
7.1 The Malawi Stock Exchange (MSE) was buoyant for the second consecutive year as it registered a positive return on investment of 34.19% compared to 62.14% in 2017. The Malawi All Share Index (MASI) closed the year at 28,983.53 points compared to 21,598.07 as at the beginning of the year.

7.2 The market registered significant improvements in both the volume and value of shares traded. The volume of traded shares increased by 37.11% to 958,247,064 and the value of traded shares increased by 260.28% to K48.70 billion.

7.3 11 counters registered capital gains while 2 counters registered losses. Top gainers were BHL (141.64%), TNM (93.10%), PCL (90.00%), OML (52.04%) and SUNBIRD (51.04%) and top losers were ILLOVO (-16.67%) and MPICO (-15.44%).

7.4 During the year, MSE listed the first corporate bond by New Finance Bank and 6 Government of Malawi Treasury Notes with tenors ranging from 2-3 years. However, there was no trade in the listed debt securities as was the case in the previous year.

Chart 8: Malawi Stock Exchange share price indices



(Source: Malawi Stock Exchange)

Table 4: Share trading summary

	Dec-18	Dec-17	% Price change
Market indices			
MASI	28,983.53	21,598.07	34.19%
DSI	21,318.07	16,272.64	31.01%
FSI	5,265.12	3,519.43	49.60%
Gainers			
BHL	13.00	5.38	141.64%
TNM	28.00	14.50	93.10%
PCL	1,140.00	600.00	90.00%
OML	2,980.00	1,960.00	52.04%
SUNBIRD	145.00	96.00	51.04%
FMBCH	100.00	67.00	49.25%
NICO	43.00	34.00	26.47%
NITL	75.00	60.06	24.88%
NBM	332.02	270.08	22.93%
NBS	10.00	8.50	17.65%
STANDARD	670.00	610.00	9.84%
Flat			
OMU	2,513.25	2,513.25	0.00%
Losers			
MPICO	13.20	15.61	-15.44%
ILLOVO	200.00	240.00	-16.67%

(Source: Malawi Stock Exchange)

8. Financial results for the half year ended 30th June 2018

8.1 During the year, listed companies and some financial institutions published their financial results for the half year ended 30th June 2018. All companies listed in Table 7 below, except Nedbank, posted profits and most companies registered improvements in profits compared to a corresponding period in the previous year. A relatively stable macroeconomic environment, especially with regard to interest rates, exchange rate and inflation rate, was mentioned by some companies as one of the contributing factors to good performance during the period.

8.2 Most banks reported lower profits than the previous corresponding period due to among other factors, reduced interest income, an increase in loan impairments and weak response on the supply side to macroeconomic gains experienced during the period partly owing to infrastructural challenges in the power sector.

Table 5: Published financial results for the half year ended 30th June 2018

	H1 2018 PAT (K'm)	Movement	H1 2017 PAT (K'm)
Listed companies			
FMB Bank (Malawi only)	6,580	31%	5,035
FMB Capital Holdings PLC (USD'm)	20		
MPICO PLC	3,799	38%	2,760
National Bank fo Malawi PLC	8,541	-10%	9,527
NBS Bank	479	142%	(1,136)
NICO Holdings PLC	5,973	39%	4,303
National Investment Trust PLC	1,429	42%	1,009
Press Corporation PLC	23,079	227%	7,061
Standard Bank	5,532	-32%	8,163
Sunbird	1,173	9%	1,072
TNM	6,942	46%	4,750
Unlisted banks			
CDH Investment Bank	672	34%	503
Ecobank	2,120	-1%	2,134
FDH Bank	1,342	-26%	1,820
Nedbank	(1,053)	-15%	(912)
New Finance Bank	820	180%	(1,022)
Discount house			
First Discount House	157	-75%	634

9. Commodities

9.1 Tobacco

9.1.1 The 2018 tobacco auction market lasted 26 weeks and closed in September 2018, by which a total of USD337.50m had been realized, compared to USD212.51m realized during the 2017 season, representing a 58.82% increase. The increase in proceeds from tobacco sales in 2018 relative to the previous year is on account of an increase in volumes sold. In the 2018 season the total volume of tobacco sold amounted to 202.00 million kilograms, 89.60% higher than 106.54 million kilograms sold during the 2017 season. The increase in volumes is on account of higher production for 2018 and also an influx of leaf imports from Zambia and Mozambique sold in Malawi.

9.1.2 The increase in volumes, however, led to a decline in prices. The all-type tobacco price averaged USD1.67 per kilogram, 16.08% lower than USD1.99 per kilogram recorded at the close of the 2017 season.

9.1.3 Below is a summary of how the tobacco market fared in 2018 relative to the previous year.

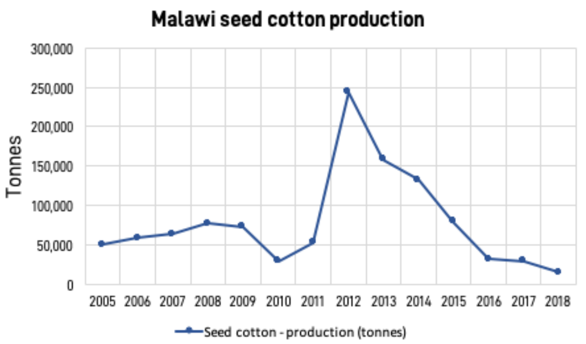
	2018	2017	Change
Volume (kg)	202.00 million	106.54 million	89.60%
Average price (USD/kg)	1.67	1.99	(16.08%)
Turnover (USD)	337.50 million	212.51 million	58.82%

Source: Tobacco Control Commission (TCC)

9.2 Cotton

9.2.1 Cotton production remains low in Malawi, averaging 90,654 metric tonnes per year 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 respectively) when Government rolled out a K1.6 billion support initiative. Since then cotton production has been declining, reaching an estimated 15,000 metric tonnes in 2018.

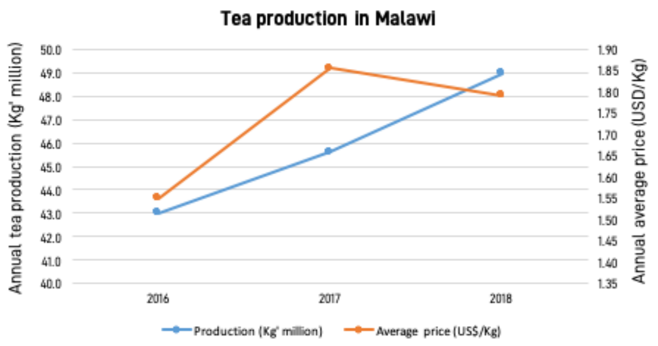
In 2018, cotton in Malawi attracted a minimum price of K375 per kilogram before rising to K420 per kilogram. For 2019, the Government has set a minimum cotton price of K375 per kilogram.



Sources: Food and Agriculture Organisation of the United Nations (FAOSTAT) & Cotton Council of Malawi

9.3 Tea

9.3 production in Malawi has been increasing in the last three year. According to RBM Monthly Economic Reviews, Malawi's tea production surged by 7% in 2018 to a total of 49.0 million kilograms compared to a total of 45.6 million kilograms in 2017 and 43.0 million kilograms in 2016.
In terms of pricing, tea prices averaged US$1.79 per kilogram in 2018, down by 3% when compared to an average of US$1.83 per kilogram in 2017. In 2016, tea prices averaged US$1.55 per kilogram.



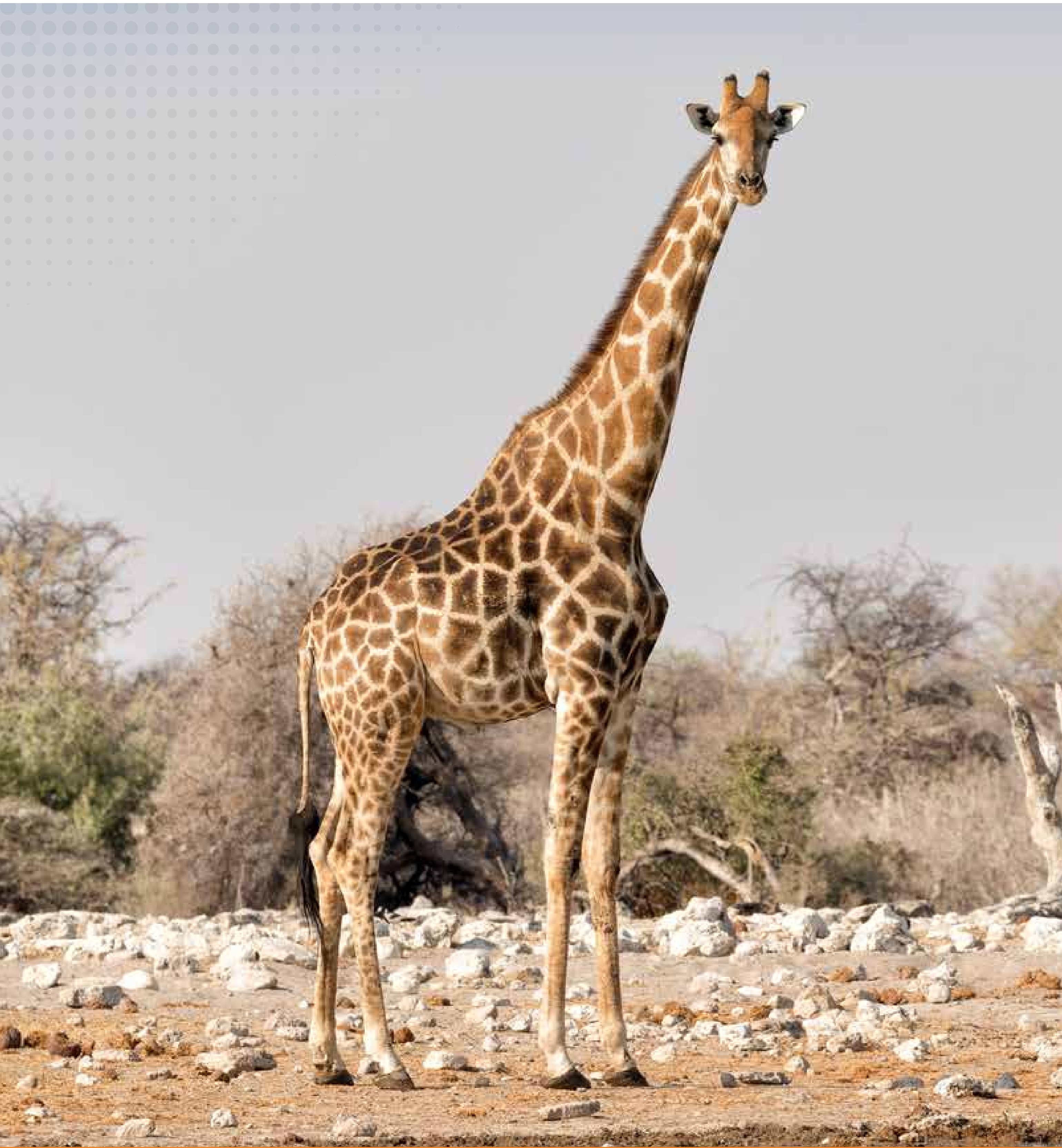
Source: RBM Monthly Economic Reviews

10. Interest rate capping bill

10.1 A member of parliament moved a motion in parliament on 8th December 2016 to cap interest rates on loans obtained from banks and other lending institutions with an aim of protecting consumers from exorbitant loan prices. The issue sparked debate in 2018 as members of parliament held consultations with various stakeholders on the issue to inform decisions regarding a bill that was being drafted. The RBM also organized a conference on the same.

10.2 The general consensus from the debate was that lending rates in Malawi are too high compared to other countries in the Sub-Saharan African region but the debaters deferred on whether capping interest rates by law was the way to go to bring down the lending rates.

10.3 The first draft of the bill was presented in Parliament on 13th December 2018. The members of parliament, however, resolved that there was need for further consultations on the bill and so referred the matter to a Joint Parliamentary Committee comprised of the Public Accounts Committee, the Government Assurances Committee and the Women's Caucus.



Directors' Report

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 2018.

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 licenced as a bank under the Financial Services 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, a dormant company incorporated to trade in foreign exchange under the Exchange Control (Foreign Exchange Bureau Fixing Sessions) Regulations Act, 1994. Continental Holdings Limited owns 74.45% of the shares of CDH Investment Bank Limited. CDH Forex Bureau Limited 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

No dividend was declared for the year ended 31 December 2018 (2017: MKNil million).

Directorate and Secretary

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

The following directors and secretary served during the year:

Mr Franklin Kennedy	Chairman
Mr Kofi Sekyere	Director
Mr Robert Abbey	Director
Dr Naomi Ngwira	Director (Appointed on 14 December 2017)
Mr Gibson Ngalamila	Director (Resigned on 22 June 2018)
Mr Elias Malioni	Director (Appointed on 19 July 2018)
Mr Ted Sauti -Phiri	Director
Mr Kingsley Zulu	Director
Mr John McGrath	Director
Mr Charles Asare	Director
Mr Misheck Esau	Managing Director
Mr Daniel Mwangwela	Company Secretary

Percentage shareholding analysis

Name	2018	2017
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

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs. Grant Thornton Malawi, Chartered Accountants and Business Advisors as auditors in respect of the Group's 31 December 2019 financial statements.

....	....
Franklin Kennedy	**Kingsley Zulu**
Chairman	Director

29th March 2019.

Annual Report 2018

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

Member		Date 23.03.2018	Date 22.06.2018	Date 27.09.2018	Date 07.12.2018
Mr Franklin Kennedy	Chairman	√	√	√	√
Mr Kofi Sekyere	Director	√	√	√	√
Mr Robert Abbey	Director	√	√	√	√
Mr Gibson Ngalamila	Director (Up to June 2018)	√	√	N/A	N/A
Dr Naomi Ngwira	Director (From September 2018)	N/A	N/A	√	√
Mr Ted Sauti-Phiri	Director	√	√	√	√
Mr Kingsley Zulu	Director	√	√	√	√
Mr John McGrath	Director	√	√	√	√
Mr Charles Asare	Director	√	√	√	√
Mr Elias Malion	Director (From December 2018)	N/A	N/A	N/A	√
Mr Misheck Esau	Managing Director	√	√	√	√
Mr Daniel Mwangwela	Company Secretary	√	√	√	√

Key

√ = Attendance
N/A = Not a director at the time

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 19.03.18	Date 18.06.2018	Date 25.09.18	Date 05.12.2018
Mr Gibson Ngalamila	Chairman (Up to June 2018)	√	√	N/A	N/A
Dr Naomi Ngwira	Chairperson (From September 2018)	N/A	N/A	√	√
Mr Elias Malion	Director (From December 2018)	N/A	N/A	N/A	√
Mr Kingsley Zulu	Director	√	√	√	√
Mr Charles Asare	Director	√	√	√	√
Mr Daniel Mwangwela	Company Secretary	√	√	√	√

Key

√ = Attendance
N/A = Not a director at the time

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

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

Meeting attendance

Members		Date 21.03.2018	Date 18.06.2018	Date 25.09.2018	Date 05.12.2018
Mr Ted Sauti-Phiri	Chairman	√	√	√	√
Mr. John McGrath	Director	√	√	√	√
Mr Charles Asare	Director (From June 2018)	N/A	√	√	√
Mr Daniel Mwangwela	Company Secretary	√	√	√	√

Key

√ = Attendance
N/A = Not a director at the time

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 plans, 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 four times in a year and on ad hoc basis when necessary.

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

Members		Date 21.03.2018	Date 20.06.2018	Date 25.09.2018	Date 05.12.2018
Mr Kofi Sekyere	Chairman	√	√	√	√
Mr Robert Abbey	Director	√	√	√	√
Mr Misheck Esau	Managing Director	√	√	√	√
Mr Daniel Mwangwela	Company Secretary	√	√	√	√

Key:

√ = Attendance

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:

Member		Date 21.03.2018	Date 18.06.2018	Date 25.09.2018	Date 05.12.2018
Mr John McGrath	Chairman	√	√	√	√
Mr Kofi Sekyere	Director	√	√	√	√
Mr Robert Abbey	Director	√	√	√	√
Mr Ted Sauti-Phiri	Director	√	√	√	√
Mr Daniel Mwangwela	Company Secretary	√	√	√	√

Key:

√ = Attendance

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 2018, and the 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 consolidated and separate 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 consolidated and separate financial statements; and
5. Preparation of consolidated and separate 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 to continue as going concern. The directors decided to discontinue the operations of CDH Forex Bureau in June 2016. The directors have no reason to believe that the operations of CDH Investment Bank Limited will not continue as a going concern 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 International Financial Reporting Standards (IFRS).

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 29th March 2019 and signed on its behalf by:

....	....
Franklin Kennedy	**Kingsley Zulu**
Chairman	Director

Grant Thornton
An instinct for growth™

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 18 to 79, which comprise the statements of financial position as at 31 December 2018, 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 2018, 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 of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of loans and advances to customers Refer to notes 5(b)(i), 6.1.1, 11 and 22.3 to the consolidated and separate financial statements. A significant proportion of the Group's business involves making loans and advances to customers. When considering whether these loans and advances may be impaired, the Bank makes estimations of expected credit losses which are measured using present values of projected cashflows. The impairment assessments of loans and advances to customers was a key audit matter due to the following: • The significance of loans and advances to customers in the statements of financial position at year end. • The subjective nature of the impairment calculations, including the high level of judgement and complexity involved in determining the amounts to be impaired.	Our procedures included: 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 requirements of IFRS 9 Financial Instruments. We also evaluated whether the impairment process is in compliance with the directives issued by the Reserve Bank of Malawi, 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. In respect of allowances for impairment: • We challenged the management's assumptions in assessing whether the credit risk of a facility has increased significantly since initial recognition by selecting a sample of loans and evaluating whether the loans were being actively serviced and also, assessing whether there are significant changes to macro and micro economic factors affecting the borrowers. • We also assessed the provisions categorised as stage 1 and checked whether these facilities were performing and are in line with our knowledge of the industry and economy. • We evaluated the inputs into the calculations of expected credit losses for reasonableness.

Key audit matter	How our audit addressed the key audit matter
	• For impairments identified, 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 loans impairment allowance 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. We evaluated the adequacy of the 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 standards.
Valuation of treasury bills and promissory notes See Notes 5(b)(ii), 5(c), and 9 the consolidated and separate financial statements. The Group and Company hold treasury bills and promissory notes for trading as part of their business. These investments are measured at fair value. 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 IFRS 13, Fair Value measurement. We considered the valuation of these investments to be a key audit matter in our audit of the consolidated and separate financial statements due to: • The significance of the fair values of these investments recognised in the consolidated and separate financial statements; and • The complexity involved in determining their fair values due to an inactive market for these instruments.	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. We recalculated the fair values of treasury bills and promissory notes, which included performing the following procedures: • We obtained confirmations from the Reserve Bank of Malawi for all treasury bills and promissory notes held by the Group and matched the maturity dates, the original yield rates and nominal values of the treasury bills to those confirmations. • We challenged management's assumptions used in determining the valuation of these bills 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.

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.
- 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.

Grant Thornton

Grant Thornton
Malawi Chartered Accountant and Business Advisors

Gordon Tembo
Chartered Accountant (Malawi) Partner

Blantyre, Malawi
29th March 2019.

Statements of financial position

As at 31 December 2018

In thousands of Malawi Kwacha

	Note	Consolidated		Separate	
ASSETS		2018	2017	2018	2017
Cash and cash equivalents	8	4,441,329	3,949,815	4,441,329	3,949,815
Financial assets	9	52,351,352	33,317,667	52,351,352	33,317,667
Loans and advances to related party	33	1,994,779	2,437,836	1,994,779	2,437,836
Loans and advances to other banks	10	4,418,858	7,008,894	4,418,858	7,008,894
Loans and advances to customers	11	20,386,372	12,862,160	20,386,372	12,862,160
Income tax recoverable	21.1	112,016	82,449	107,618	78,051
Amounts due from related parties	33	279,402	127,747	279,402	127,747
Other assets	12	1,809,756	797,337	1,809,743	797,323
Assets held for sale	14(b)	6,199	28,630	6,199	28,630
Other investment	13(b)	30,000	30,000	30,000	30,000
Equipment	14(a)	568,646	618,086	568,646	618,086
Intangible assets	15	103,413	189,462	103,413	189,462
Deferred tax asset	21.2	30,928	183,651	30,928	183,651
Total assets		86,533,050	61,633,734	86,528,638	61,629,322
LIABILITIES					
Balances due to other banks	19	4,232,881	135,000	4,232,881	135,000
Customers deposits	16	35,168,813	26,196,479	35,168,813	26,196,479
Investment funds					
	17	40,670,032	30,489,716	40,670,032	30,489,716
Other liabilities and accruals	20	568,155	429,735	568,155	429,735
Subordinated liability	18	1,600,000	1,000,000	1,600,000	1,000,000
Total liabilities		82,239,881	58,250,930	82,239,881	58,250,930
EQUITY					
Share capital	22.1	172,458	172,458	172,458	172,458
Share premium	22.2	746,744	746,744	746,744	746,744
Loan loss reserve	22.3	1,452	430,345	1,452	430,345
Retained earnings		3,372,515	2,033,257	3,368,103	2,028,845
Total equity		4,293,169	3,382,804	4,288,757	3,378,392
Total equity and liabilities		86,533,050	61,633,734	86,528,638	61,629,322

The consolidated and separate financial statements were approved for issue by the Board of Directors on 29th March 2019 and were signed on its behalf by:

Franklin Kennedy
Chairman

Kingsley Zulu
Director

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2018

In thousands of Malawi Kwacha

		Consolidated		Separate	
	Note	2018	2017	2018	2017
Interest income	23	11,558,758	15,887,423	11,558,758	15,887,423
Interest expense	23	(7,623,828)	(10,982,165)	(7,623,828)	(10,982,165)
Net interest income		3,934,930	4,905,258	3,934,930	4,905,258
Fees and commission income	24	2,617,097	1,601,462	2,617,097	1,601,462
Trading income	25	699,977	222,207	699,977	222,207
Other operating income	26.1	20,702	40,918	20,702	40,918
Total operating income		7,272,706	6,769,845	7,272,706	6,769,845
Other income	26.2	5,229	9,735	5,229	9,735
Impairment losses on loans and advances	11	(1,197,018)	(1,808,746)	(1,197,018)	(1,808,746)
Income after impairment losses on loans and advances		6,080,917	4,970,834	6,080,917	4,970,834
Personnel expenses	27	(1,859,952)	(1,753,151)	(1,859,952)	(1,753,151)
Depreciation and amortisation expense	14-15	(246,739)	(281,020))	(246,739)	(281,020)
Administration expenses	28	(2,838,362)	(2,791,662)	(2,838,362)	(2,791,662)
Total operating expenses		(4,945,053)	(4,825,833)	(4,945,053)	(4,825,833)
Profit before income tax		1,135,864	145,001	1,135,864	145,001
Income tax (expense)/ credit	31	(170,499)	100,841	(170,499)	100,841
Profit and other comprehensive income for the year		965,365	245,842	965,365	245,842

Statements of changes in equity

For the year ended 31 December 2018

In thousands of Malawi Kwacha

Consolidated	Share capital	Share premium	Loan loss reserve	Retained earnings	Total equity
Balance at 1 January 2018	172,458	746,744	430,345	2,033,257	3,382,804
Transitional adjustment on IFRS 9 adoption at 1 Jan 2018	-	-	-	(55,000)	(55,000)
Restated balance as at 1 January 2018	172,458	746,744	430,345	1,978,257	3,327,804
Profit for the year	-	-	-	965,365	965,365
Total comprehensive income for the year	-	-	-	965,365	965,365
Transfers within reserves					
Transfer to loan loss reserve	-	-	(428,893)	428,893	-
Total transfers within reserves	-	-	(428,893)	428,893	-
Total comprehensive income and transfers within reserves	-	-	(428,893)	1,394,258	965,365
Balance as 31 December 2018	172,458	746,744	1,452	3,372,515	4,293,169

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
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 31 December 2017	172,458	746,744	430,345	2,033,257	3,382,804

Statements of changes in equity

For the year ended 31 December 2018

In thousands of Malawi Kwacha

Separate	Share capital	Share premium	Loan loss reserve	Retained earnings	Total equity
Balance at 1 January 2018	172,458	746,744	430,345	2,028,845	3,378,392
Transitional adjustment on IFRS 9 adoption at 1 Jan 2018	-	-	-	(55,000)	(55,000)
Restated balance as at 1 January 2018	172,458	746,744	430,345	1,973,845	3,323,392
Profit for the year	-	-	-	965,365	965,365
Total comprehensive income for the year	-	-	-	965,365	965,365
Transfers within reserves					
Transfer to loan loss reserve	-	-	(428,893)	428,893	-
Total transfers within reserves	-	-	(428,893)	428,893	-
Total comprehensive income and transfers within reserves	-	-	(428,893)	1,394,258	965,365
Balance as at 31 December 2018	172,458	746,744	1,452	3,368,103	4,288,757

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

Statements of changes in equity

For the year ended 31 December 2018

In thousands of Malawi Kwacha

	Note	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
Cash flows from operating activities					
Profit for the year		965,365	245,842	965,365	245,842
Adjusted for:					
- Depreciation and amortisation	14-15	246,739	281,020	246,739	281,020
- Profit on disposal assets	26.2	(5,229)	(9,735)	(5,229)	(9,735)
- Impairment of assets held for sale	14(b)	9,337	9,260	9,337	9,260
- Net impairment on loans and advances	11	1,197,018	1,808,746	1,197,018	1,808,746
- Effects of exchange rate fluctuations on cash		(12,050)	(30,567)	(12,050)	(30,567)
- Fair value adjustment on treasury bills	23	130,484	(174,611)	130,484	(174,611)
- Net interest income	23	(4,065,414)	(4,730,647	(4,065,414)	(4,730,647)
- Tax expense	31	170,499	(100,841)	170,499	(100,841)
		(1,363,251)	(2,701,533)	(1,363,251)	(2,701,533)
Changes in:					
Financial asset investments		(19,164,169)	13,991,495	(19,164,169)	13,991,495
Loans and advances to related party		443,057	443,062	443,057	443,062
Loans and advances to other banks		2,590.036	(7,008,894)	2,590,036	(7,008,894)
Loans and advances to customers		(8,776,230)	(4,226,846)	(8,776,230)	(4,226,846)
Amounts due from related parties		(151,655)	21,073	(151,655)	21,073
Other assets		(1,012,420)	(612,294)	(1,012,420)	(612,294)
Investment funds		10,180,316	(3,279,903)	10,180,316	(3,279,903)
Deposits from banks		4,097,882	(5,815,000)	4,097,882	(5,815,000)
Deposits from customers		8,972,334	5,833,788	8,972,334	5,833,788
Other liabilities and provisions		138,420	155,196	138,420	155,196
		(4,045,680)	(3,199,856)	(4,045,680)	(3,199,856)
Interest received	23	11,689,242	15,712,812	11,689,242	15,712,812
Interest paid	23	(7,623,828)	(10,982,165)	(7,623,828)	(10,982,165)
Advance payment of income tax	21	(47,344)	(71,015))	(47,344)	(71,015)
Net cash (used in)/generated from operating activities		**(27,610)**	**1,459,776**	**(27,610)**	**1,459,776**
Cash flows from/(to) investing activities					
Proceeds from the sale of equipment		22,735	33,244	22,735	33,244
Acquisition of equity investment		-	(15,000)	-	(15,000)
Acquisition of property and equipment and intangible assets	14-15	(115,662)	(281,972)	(115,662)	(281,972)
Net cash used in investing activities		(92,927)	(263,728)	(92,927)	(263,728)
Cash flows from financing activities					
Proceeds from issue of subordinated debts		600,000	-	600,000	-
Dividend paid	-	(305,654)	-	(305,654)	
Net cash from /(used in) financing activities		**600,000**	**(305,654)**	**600,000**	**(305,654)**
Net increase in cash and cash equivalents		479,463	890,394	479,463	890,394
Cash and cash equivalents at the beginning of the year		3,949,815	3,028,854	3,949,815	3,028,854
Effect of exchange rate fluctuations on cash and cash equivalents held	1	2,051	30,567	12,051	30,567
Cash and cash equivalents at the end of the year	**8**	**4,441,329**	**3,949,815**	**4,441,329**	**3,949,815**

THE GRAND

Malawi Agricultural & Industrial Inv

28th Nov 2018

Malawi Agricultural & Industrial Investment Corporation plc (MAIIC) is a government-initiated and private-sector governed development finance entity that has been created to bridge the financing gaps in Malawi as a way of spearheading private sector development. MAIIC was offically launched on 28th November 2018 by **His Excellency Prof. Arthur Peter Mutharika, President Of The Republic Of Malawi** and will contribute to the socio-economic development, job and wealth creation in Malawi.

> *In particular, I want to commend CDH Investment Bank for fighting with so much determination to make this happen. CDH Investment Bank will go down in history as the bank that led new path of investment and creating wealth for Malawians.*
>
> *- His Excellency Prof. Arthur Peter Mutharika*

1

His Excellency Prof. Arthur Peter Mutharika, President of The Republic of Malawi arrive at Bingu International Convention Centre (BICC).

HIS EXCELLENCY Prof. Arthur Peter Muthalika Official Address and launch of the Malawi Agricultural and Industrial Investment Corporation Plc (MAIIC)

5

MAIIC Directors pose with **His Excellency Prof. Arthur Peter Mutharika**, after unvailing

6

Mrs. Edith Jiya, Group Chief Executive Officer, Old Mutual Malawi Plc speaking to the audience

Hon. Goodall Gondwe, Minister of Finance, Economic Planning and Development

10

A cross section during the launch

Delegates after the launch

CDH
INVESTMENT BANK

D LAUNCH
vestment Corporation plc (MAIIC)

BICC

Mr Franklin Kennedy, Board Chairperson, CDH Investment Bank making his statement

A cross section of delegates listening to the speeches

Mr Misheck Esau, Chief Executive Officer/Managing Director, CDH Investment Bank listening attentively to the presentations

Chindime ndi Phungwako entertaining the audience

HIS EXCELLENCY Prof. Arthur Peter Muthalika

A glimpse of some of the delegates

Notes to the consolidated and separate financial statements

Notes to the consolidated and separate financial statements

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(w)** - 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.

- **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

New guidance for the recognition of revenue from contracts with customers

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Classifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as IFRS 15) replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue- related Interpretations. The new Standard has been applied retrospectively without restatement or adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognised in retained earnings.

IFRS 9 also contains new requirements on application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.
The impact of adopting IFRS 9 has been explained in detail in note 5(b).

(b) New or revised standard or interpretations that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated and separate financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and interpretations have been published by the IASB. None of these Standards, amendments or interpretation have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and interpretations neither adopted nor listed below have been disclosed as they are expected to have a material impact on the Group's financial statements.

- **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. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability, with exception/relief for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from the period beginning on or after 1st January 2019. Early adoption is permitted, however the Group has decided not early adopt.
Management is in the process of assessing the full impact of this standard. So far the Group:

- Has decided to make use of the practical expedient not tp perform a full review of existing leases and apply IFRS 16 only to new or modified contracts. As some leases will be modified or renewed in 2019, the Group has reassessed these leases and concluded they will be recognized on the statement of financial position as a right of use asset.

- Believes that the most significant impact will be that the Group will need to recognize a right of use asset and lease liability for the office building, other residential premises and motor vehicles currently treated as operating leases.

As at 31st December 2018, the future minimum lease payments amounted to K2.1billion. This will mean that the nature of the expense of the above cost will change from being operating lease expense to depreciation and interest expenses. The new standard shall apply retrospectively without restatement of financial statements.

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

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The table below illustrates the impact of adoption of IFRS 9 on both the classification and measurement as well the impact on ECL:

Measurement category			Carrying amount		
Original IAS 39	Original IAS 39 Measurement category	New IFRS9 Category	Closing balance 31 December 2017	Adoption of IFRS9	Opening balance 1 January 2018
Loans receivables (Provisions)	Amortised cost	Amortised cost	22,308,890	(55,000)	22,253,890
Financial investments	Held for trading & Held to maturity	Fair value through profit or loss	33,317,667	-	33,317,667
Cash and cash equivalents	Amortised cost	Amortised cost	3,949,815	-	3,949,815
Other assets net of prepayments and inventory	Amortised cost	Amortised cost	292,228	-	292,228

i) Financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

  However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:
- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held trading in OCI; and
- The Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Business Model assessment

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset. For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

The Group considers all relevant information available when making the business model assessment. such as:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, 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 the 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 its strategy for how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When an instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are 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.

Financial assets at FVTPL

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Assessment of 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 and 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 profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes 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 considers;

- 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 loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset ofinterest rates).

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortised cost exchange differences are recognised in profit or loss in the 'other income' line item;

- For debt instruments measured at FVTOCI exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other income' line item. Other exchange differences are recognised in OCI in the investments revaluation reserve;

- For financial assets measured at FVTPL exchange differences are recognised in profit or loss either in 'net trading income', if the asset is held for trading, or in 'net income from other financial instruments at FVTPL' if otherwise held at FVTPL; and

- For equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investments revaluation reserve.

- The change are recognized in the statement of comprehensive income to comply with the requirement of IAS 21 Effects of Changes in Foreign Exchange Rates.

Impairment

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Loans and advances to customers;
- Loans and advances to related party; and
- Loans and advances to other banks.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default

events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR (Effective Interest Rate).

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The disappearance of an active market for a security because of financial difficulties; or

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 6):

- The Group considers the following as constituting an event of default:
- The borrower is past due more than 90 days on any material credit obligation to the Group; or
- The borrower is unlikely to pay its credit obligations to the Group in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Group monitors all financial assets to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 3).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

(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) Financial assets investments and 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) 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

These are recognised at fair value through other comprehensive income.

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.

(iii) 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.

(iv) 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

(v) 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.

(vi) 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.

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.

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.

(i) 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.

(j) 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.

(k) 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) iii.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Fees and commissions

IFRS 15 "Revenue with Customers" and the related 'Clarifications to IFRS 15 Revenue from contracts with customers (herein referred to as 'IFRS 15') replaces IAS 18 "Revenue", and several revenue-related interpretations. The new standard has been applied retrospectively without restatement. There were no material effects to the financial statements arising from the adoption of this standard.

Fees and commission income and expenses are recognized in the income statement when parties to the contract have approved the contract (in writing or orally or in accordance with the bank's practice and it is probable that the entity will collect consideration to which it is entitled in exchange for the goods and services that are transferred to the customer.

Other fees and commission income, account service fees, sales commissions, placement fees and syndicated fees are recognized in income statement when goods or services are transferred.

Other operating income which include gains and losses arising from translation of foreign exchange transactions and net gains on sale of assets are recognized in the statement of comprehensive income.

(q) Income from investments

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

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

(r) 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 accruals basis.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(v) Determination of fair values (continued)
Fair value measurement (continued)

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.

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.
- 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:

	Investment securities		Loans and advances to customers		Loans and advances to related party		Loans and advances to other banks	
	2018	2017	2018	2017	2018	2017	2018	2017
Standard (fully performing)	3,290,753	9,351,745	18,632,066	13,208,767	1,994,779	2,437,836	4,418,858	7,008,894
Past due and impaired	-	-	8,884	2,003,178	-	-	-	-
Past due but not impaired	-	-	1,818,999	83,332	-	-	-	-
Gross exposure to credit risk	3,290,753	-	20,459,949	15,295,277	1,994,779	2,437,836	4,418,858	7,008,894
Less: Allowance for impairment (note 11)	-	-	(73,577)	(1,294,689)	-	-	-	-
Interest in suspense (note 11)	-	-	-	(1,138,428)	-	-	-	-
	3,290,753	9,351,745	20,386,372	12,862,160	1,994,779	2,437,836	4,418,858	7,008,894
Neither past due nor impaired assets comprise:								
Current 1-30 days (Standard)	3,290,753	9,351,745	18,632,066	13,208,767	1,994,779	2,437,836	4,418,858	7,008,894

Past due loans and advances comprise:

	Consolidated and Separate	
	2018	2017
30-60 days	946	46,145
61-90 days	29,496	73,488
>90 days	1,797,441	1,966,877
	1,827,883	2,086,510

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

	2018	
Property	-	231,400
Against neither past due nor impaired		
Property	4,115,019	413,102
Motor vehicles	123,635	800,460
Others	14,140,216	8,160,157
	18,378,870	9,373,719

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 those 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 expected credit 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.

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	
	2018	2017
Agriculture	603,169	718,245
Construction	957,689	464,475
Manufacturing	8,059,452	5,318,843
Wholesale and retail	8,353,058	4,439,272
Tourism and leisure	1,000,966	2,811
Transport	448,359	736,961
Others	1,037,256	3,614,670
	20,459,949	15,295,277

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.

6. Risk management (continued)
6.1.1 Credit risk (continued)

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.

	Note	Performing	Non - Performing					Security against impaired loans	Net impairment
2018									
Credit quality									
Financial assets at fair value through profit or loss	9.1	52,351,352	-	-	-	-	52,351,352	-	-
Loans and advances to related party	33	1,994,779	-	-	-	-	1,994,779	-	-
Loans and advances to other banks	10	4,418,858	-	-	-	-	4,418,858	-	-
Loans and advances to customers	11	18,632,066	-	946	29,496	1,797,441	20,459,949	867,346	73,577
Total recognised financial instruments		77,397,055	-	946	29,496	1,797,441	79,224,938	867,346	73,577
2017									
Credit quality									
Financial assets at fair value through profit or loss	9.1	33,317,667	-	-	-	-	33,317,667	-	-
Loans and advances to related party	33	2,437,836	-	-	-	-	2,437,836	-	-
Loans and advances to other banks	10	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
Total recognised financial instruments		55,973,164	-	99,547	429,055	1,557,908	58,059,674	3,177,081	1,294,689

6. Risk management (continued)
6.1.1 Credit risk (continued)

The total expected credit losses for loans and advances as at 31 December 2018 and 31 December 2017 were as follows:

	2018	2017
Expected credit loss rate	8%	20%
Gross carrying amount	0,459,949	15,295,277
Lifetime expected credit loss	1,636,796	3,059,055

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 IFRS 9 Financial Instruments 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.

	Note	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
Cash held with the Reserve Bank of Malawi	8	2,917,697	2,238,054	2,917,697	2,238,054
Cash held with local banks	8	5,278	5,843	5,278	5,843
Cash held with foreign banks	8	986,981	1,391,842	986,981	1,391,842
Clearing balances	8	527	(1,000)	527	(1,000)
Cash balances	8	530,846	315,076	530,846	315,076
Financial assets at fair value through profit or loss	9.1	52,351,352	33,317,667	52,351,352	33,317,667
Loans and advances to related parties	10	1,994,779	2,437,836	1,994,779	2,437,836
Loans and advances to other banks					
Personal and Business Banking					
	10	4,418,858	7,008,894	4,418,858	7,008,894
- Other loans and advances	11	1,824,935	1,247,620	1,824,935	1,247,620
Corporate and Investment Banking:					
- Corporate lending	11	17,465,449	12,546,702	17,465,449	12,546,702
Total recognised financial instruments		82,496,702	60,508,534	82,496,702	60,508,534
Financial guarantees	35	739,478	723,738	739,478	723,738
Total unrecognised financial instruments		739,478	723,738	739,478	723,738
Total credit risk exposure		83,236,180	61,232,272	83,236,180	61,232,272

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:

		At 31 December 2018	
Consolidated	Note	Carrying amount	Net exposure to credit risk
Cash and balances with banks	8	4,441,329	4,441,329
Loans and advances to related party	10.1	1,994,779	1,994,779
Loans and advances to other banks	10.2	4,418,858	4,418,858
Loans and advances to customers	11	20,386,372	20,386,372
Financial assets	9.1	52,351,352	52,351,352
		83,592,690	83,592,690

		At 31 December 2017	
Consolidated	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
		59,576,372	59,576,372

Separate	Note	Carrying amount	Net exposure to credit risk
		At 31 December 2018	
Cash and balances with banks	8	4,441,329	4,441,329
Loans and advances to other banks	10.1	1,994,779	1,994,779
Loans and advances to other banks	10.2	4,418,858	4,418,858
Loans and advances to customers	11	20,386,372	20,386,372
Financial assets	9.1	52,351,352	52,351,352
		83,592,690	83,592,690

Separate	Note	Carrying amount	Net exposure to credit risk
		At 31 December 2018	
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
		59,576,372	59,576,372

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

	2018	2017
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	20	92
Cash and property		
Loan advances to corporate customers		

Annual Report 2018

Loan and advances to corporate customers

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

Because the Group's focus on corporate customers' creditworthiness, the Group does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely for impaired loans, the group obtains appraisals of collateral measurement. At 31 December 2018, the net carrying amount of impaired loans and advances to corporate customers amounted to K1.755 million (2017: K1.587 million) and the value of identifiable collateral held against those loans and advances amounted to K nil million (2017: K nil 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

	2018	2017
Consolidated and Separate	2018	2017
Property	4,115,019	413,102
Motor Vehicles	123,635	800,460
Stocks	1,150,066	433,750
Guarantees	11,193,975	607,275
Cash	1,451,563	2,709,132
Debentures	345,612	506,250
Others	-	3,903,750
	18,379,870	9,373,719

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.

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:

Consolidated 2018	Note	Carrying amount	Cash inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	8	4,441,329	4,441,329	4,441,329	-	-	-	-
Loans and advances to customers	11	20,386,372	22,269,681	6,001,370	1,319,116	3,655,469	7,502,463	3,791,262
Loans and advances to related party	10.1	1,994,779	2,231,432	2,231,432	-	-	-	-
Loans and advances to other banks	10.2	4,418,858	4,436,968	4,436,968	-	-	-	-
Financial assets at fair value through profit or loss	9.1	52,351,352	54,164,318	17,126,302	5,100,803	9,940	5,674,514	26,252,760
Amounts due from related parties	33	279,402	279,402	279,402	-	-	-	-
Total assets		83,872,092	87,823,130	34,516,803	6,419,919	3,665,409	13,176,977	30,044,022
LIABILITIES		18,237,465	18,893,101	18,893,101	-	-	-	-
Current and savings account	16	3,203,133	3,196,746	3,196,746	-	-	-	-
Foreign currency accounts	16	13,728,216	13,985,892	6,682,929	5,757,022	978,408	567,533	-
Term deposit accounts	16	40,670,032	40,962,111	10,166,767	20,567,232	4,399,295	5,828,817	-
Investment funds	17	1,600,000	1,600,000	-	-	-	-	1,600,000
Subordinated debt	18	4,232,882	4,232,882	4,232,882	-	-	-	-
Balances due to other banks	19	81,671,728	82,870,732	43,172,425	26,324,254	5,377,703	6,396,350	1,600,000
Total liabilities								
Net liquidity gap		2,200,364	4,952,398	(8,655,622)	(19,904,335)	(1,712,294)	6,780,627	28,444,022
Cumulative liquidity gap		-	-	(8,655,622)	(28,559,957)	(30,272,251)	(23,491,624)	4,952,398

Consolidated 2017	Note	Carrying amount	Cash inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS	8							
Cash and cash equivalents	11	4,441,329	4,441,329	4,441,329	-	-	-	-
Loans and advances to customers	10.1	20,386,372	22,269,681	6,001,370	1,319,116	3,655,469	7,502,463	3,791,262
Loans and advances to related party	10.2	1,994,779	2,231,432	2,231,432	-	-	-	-
Loans and advances to other banks	9.1	4,418,858	4,436,968	4,436,968	-	-	-	-
Financial assets at fair value through profit or loss	33	52,351,352	54,164,318	17,126,302	5,100,803	9,940	5,674,514	26,252,760
Amounts due from related parties		279,402	279,402	279,402	-	-	-	-
Total assets		83,872,092	87,823,130	34,516,803	6,419,919	3,665,409	13,176,977	30,044,022
LIABILITIES		18,237,465	18,893,101	18,893,101	-	-	-	-
Current and savings account	16	3,203,133	3,196,746	3,196,746	-	-	-	-
Foreign currency accounts	16	13,728,216	13,985,892	6,682,929	5,757,022	978,408	567,533	-
Term deposit accounts	16	40,670,032	40,962,111	10,166,767	20,567,232	4,399,295	5,828,817	-
Investment funds	17	1,600,000	1,600,000	-	-	-	-	1,600,000
Subordinated debt	18	4,232,882	4,232,882	4,232,882	-	-	-	-
Balances due to other banks	19	81,671,728	82,870,732	43,172,425	26,324,254	5,377,703	6,396,350	1,600,000
Total liabilities								
Net liquidity gap		2,200,364	4,952,398	(8,655,622)	(19,904,335)	(1,712,294)	6,780,627	28,444,022
Cumulative liquidity gap		-	-	(8,655,622)	(28,559,957)	(30,272,251)	(23,491,624)	4,952,398

6. **Risk management (continued)**

6.1.2 Liquidity risk (continued)

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 least25% percent (2017: 30 percent).
- **Liquidity Ratio 2:** Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20 percent.

Liquidity Ratios 1 and 2 were as specified below:

CDH Investment Bank LimitedConsolidated and Separate

	2018	2017
Liquidity Ratio I	32.72%	53.69%
Liquidity Ratio II	32.72%	53.69%

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.).

Consolidated Exchange Rate and equity	Impact on profit				
	Assets	Liabilities	Net	movement	(net of tax)
USD	8,803	9,869	(1,067)	0.01%	(0.05)
GBP	17	18	(1)	0.04%	(0.00)
EUR	82	86	(4)	0.09%	(0.00)
ZAR	241	58	183	(0.14%)	(0.18)
Other	-	-	-	(0.36%)	(0.00)
					(0.23)

Separate Exchange Rate and equity	Impact on profit				
	Assets	Liabilities	Net	Movement	(net of tax)
USD	8,803	9,869	(1,067)	0.01%	(0.05)
GBP	17	18	(1)	0.04%	(0.00)
EUR	82	86	(4)	0.09%	(0.00)
ZAR	241	58	183	(0.14%)	(0.18)
Other	-	-	-	(0.36%)	(0.00)
					(0.23)

At 31 December 2018, 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 K0.023 million (2017: K 0.098 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency-denominated financial instruments.

6.1.3.2 Interest rate risk

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

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

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

Risk management (continued)

6.1.2. Liquidity risk (continued)

Consolidated 2018	Note	Carrying amount	Cash inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	8	4,441,329	4,441,329	4,441,329	-	-	-	-
Loans and advances to customers	11	20,386,372	22,269,681	6,001,370	1,319,116	3,655,469	7,502,463	3,791,262
Loans and advances to related party	10.1	1,994,779	2,231,432	2,231,432	-	-	-	-
Loans and advances to other banks	10.2	4,418,858	4,436,968	4,436,968	-	-	-	-
Financial assets at fair value through profit or loss	9.1	52,351,352	54,164,318	17,126,302	5,100,803	9,940	5,674,514	26,252,760
Amounts due from related parties	33	279,402	279,402	279,402	-	-	-	-
Total assets		83,872,092	87,823,130	34,516,803	6,419,919	3,665,409	13,176,977	30,044,022
LIABILITIES								
Current and savings account	16	18,237,465	18,893,101	18,893,101	-	-	-	-
Foreign currency accounts	16	3,203,133	3,196,746	3,196,746	-	-	-	-
Term deposit accounts	16	13,728,216	13,985,892	6,682,929	5,757,022	978,408	567,533	-
Investment funds	17	40,670,032	40,962,111	10,166,767	20,567,232	4,399,295	5,828,817	-
Subordinated debt	18	1,600,000	1,600,000	-	-	-	-	1,600,000
Balances due to other banks	19	4,232,882	4,232,882	4,232,882	-	-	-	-
Total liabilities		81,671,728	82,870,732	43,172,425	26,324,254	5,377,703	6,396,350	1,600,000
Net liquidity gap		2,200,364	4,952,398	(8,655,622)	(19,904,335)	(1,712,294)	6,780,627	28,444,022
Cumulative liquidity gap		-	-	(8,655,622)	(28,559,957)	(30,272,251)	(23,491,624)	4,952,398

Consolidated 2017	Note	Carrying amount	Cash inflow/ (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	8	3,949,815	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	33,317,667	44,944,625	1,628,470	6,225,764	2,164,889	17,582,481	17,343,021
Amounts due from related parties	33	127,747	127,747	127,747	-	-	-	-
Total assets		59,704,119	73,128,420	17,338,142	8,841,398	3,148,258	23,690,073	20,110,549
LIABILITIES								
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	-	-	-	-
Total liabilities		57,821,195	59,317,284	30,479,575	11,572,903	8,696,876	7,567,930	1,000,000
Net liquidity gap		1,882,924	13,811,136	(13,141,433)	(2,731,505)	(5,548,618)	16,122,143	19,110,549
Cumulative liquidity gap		-	-	(13,141,433)	(15,872,938)	(21,421,556)	(5,299,413)	13,811,136

Consolidated			Fixed Rate Instruments						
2018									
Assets	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	4,441,329	-	-	-	-	-	-	4,441,329
Loans and advances to customers	11	-	20,386,372	-	-	-	-	-	20,386,372
Loans and advances to related party	33	-	1,994,779	-	-	-	-	-	1,994,779
Loans and advances to other banks	10.1	-	4,418,858	-	-	-	-	-	4,418,858
Financial assets at fair value through profit or loss	9	-	-	20,582,082	9,940	1,556,438	3,950,132	26,252,760	52,351,352
Total assets		4,441,329	26,800,009	20,582,082	9,940	1,558,438	3,950,132	26,252,760	83,592,690
Liabilities									
Deposits from banks	19	-	-	4,232,882	-	-	-	-	4,232,882
Current and savings accounts	16	-	-	18,237,464	-	-	-	-	18,237,464
Foreign currency accounts	16	-	-	3,203,133	-	-	-	-	3,203,133
Term deposit accounts	16	-	-	12,182,275	978,408	567,533	-	-	13,728,216
Investment funds	17	-	-	30,441,920	4,399,295	5,828,817	-	-	40,670,032
Subordinated liabilities	18	-	-	-	-	-	-	1,600,000	1,600,000
Total liabilities		-	-	68,297,674	5,377,703	6,396,350	-	1,600,000	81,671,728
Interest gap		4,441,329	26,800,009	(47,715,592)	(5,367,763)	(4,839,912)	3,950,132	24,652,760	1,920,959
Impact on post tax profit or equity of an increase in the interest rate 5%		-	938,000	(1,670,046)	(187,872	(169,397)	138,255	862,847	67,234
Impact on post tax profit or equity of a decrease in the interest rate 5%		-	(938,000)	1,670,048	187,872	169,397	(138,255)	(862,847)	(67,234)

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.

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	-	-	7,582,239	2,040,335	6,382,429	8,345,365	8,967,299	33,317,667
Total assets		3,949,815	22,308,890	7,582,239	2,040,335	6,382,429	8,345,365	8,967,299	50,576,372
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
Total liabilities		-	-	41,708,179	7,197,784	7,915,232	-	1,000,000	57,821,195
Interest gap		3,949,815	22,308,890	(34,125,940)	(5,157,449)	(1,532,803)	8,345,365	7,967,299	1,755,177
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)

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.

Separate			Fixed Rate Instruments						
2018	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	4,441,329	-						4,441,329
Loans and advances to customers	11	-	20,386,372						20,386,372
Loans and advances to related party	10.1		1,994,779						1,994,779
Loans and advances to other banks	10.1		4,414,858						4,418,858
Financial assets at fair value through profit or loss	9.1	-	-	20,582,082	9,940	1,556,438	3,950,132	26,252,760	52,351,352
Total assets		4,441,329	26,796,009	20,582,082	9,940	1,556,438	3,950,132	26,252,760	83,592,690
Deposits from banks	19	-	-	4,232,882	-	-	-	-	4,232,882
Current and savings accounts	16	-	-	18,237,465	-	-	-	-	18,237,465

	Note	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total carrying amount
Foreign currency accounts	16	-	-	3,203,133	-	-	-	-	3,203,133
Term deposit accounts	16	-	-	12,182,275	978,408	567,533	-	-	13,728,216
Investment funds	17	-	-	30,441,920	4,399,295	5,828,817	-	-	40,670,032
Subordinated liabilities	18	-	-	-	-	-	-	1,600,000	1,600,000
Total liabilities		-	-	68,297,675	5,377,703	6,396,350	-	1,600,000	81,671,728
Interest gap		4,441,329	26,796,009	(47,715,593)	(5,367,763)	(4,839,912)	3,950,132	24,652,760	1,916,962
Impact on post tax profit or equity of an increase in the interest rate 5%		-	937,860	(1,670,046)	(187,872)	(169,397)	138,255	862,847	67,234
Impact on post tax profit or equity of a decrease in the interest rate 5%		-	(937,860)	1,670,046	187,872	169,397	(138,255)	(862,847)	(67,234)

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
Assets									
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	10.1	-	7,008,894	-	-	-	-		7,008,894
Financial assets at fair value through profit or loss	9.1	-	-	7,582,239	2,040,335	6,382,429	8,345,365	8,967,299	33,317,667
Total assets		3,949,815	22,308,890	7,582,239	2,040,335	6,382,429	8,345,365	8,967,299	59,576,372
Liabilities									
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
Total liabilities		-	-	41,708,179	7,197,784	7,915,232	-	1,000,000	57,821,195
Interest gap		3,949,815	22,308,890	(34 125 940)	(5,157,449)	(1,532,803)	8,345,365	7,967,299	1,755,177
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)

Annual Report 2018

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

	2018 %	2017 %
Assets:		
Government securities	15-25.5	19-39
Deposits with banking institutions	14-15	14-26
Loans and advances to customers (base rate)	24.5	26
Liabilities:		
Customer deposits	5-19	6-13

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 behavior. Operational risks arise from all of the Group's operations.

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

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

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

Compliance with Group standards is supported by a programme of yearly reviews undertaken by the Group Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit, Risk and Compliance Committee.
Risk management function also assesses operational risks and discusses the results with senior management and the risk committee.

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 (2017: 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: -

	Separate Note	2018	2017
Tier 1 capital			
Share capital	22.1	172,458	172,458
Share premium	22.1	746,744	746,744
Retained earnings		3,401,104	2,028,845
Less: Investments in unconsolidated banking & financial subsidiary companies		(15,000)	(15,000)
Deferred tax asset		(47,428)	(183,651)
		4,257,878	2,749,396
Tier 2 capital			
Subordinated debt (limited to 50% of tier 1 capital)		1,600,000	639,680
Investments in unconsolidated banking & financial subsidiary companies		(15,000)	(15,000)
Loan loss reserve		1,452	430,345
		1,586,452	1,055,025
Total regulatory capital		5,844,330	3,804,421
Risk weighted assets		27,641,241	23,596,564
Capital ratios			
Tier 1 capital expressed as a percentage of total risk-weighted assets		15.40%	11.65%
Total capital expressed as a percentage of total risk weighted assets.		21.14%	16.12%

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.

1. 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 approximates their fair values. The financial instruments classification in prior period are in accordance with IAS 39.

7. Classification of financial assets and liabilities (continued)

Accounting classifications and fair values (continued)

31 December 2018

Consolidated	Note	Fair value through profit and loss	Amortised cost	Carrying amount
Financial assets				
Cash and cash equivalents	8	-	4,441,329	4,441,329
Financial asset investments	9	52,351,352	-	52,351,352
Loans and advances to customers	11	-	20,386,372	20,386,372
Loans and advances to related part	10.1	-	1,994,779	1,994,779
Loans and advances to other banks	10.2	-	4,418,858	4,418,858
Amounts due from related parties	33	-	279,402	279,402
Other receivables	12	-	1,215,419	1,215,419
		52,351,352	32,736,159	85,087,511
Financial liabilities				
Deposits from customers	16	-	35,168,813	35,168,813
Loans and advances from other banks	19	-	4,232,881	4,232,881
Investment funds	17	-	40,670,032	40,670,032
Other payables	20	-	571,055	571,055
Subordinated debt	18	-	1,600,000	1,600,000
		-	82,242,781	82,242,781

2. Classification of financial assets and liabilities (continued)
Accounting classifications and fair values (continued)

The financial instrument classification in the prior period are in accordance with IAS 39 as follows:

31 December 2017

Consolidated		Fair value through profit and loss	Loans and advances	Other financial liabilities	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	8	-	3,949,815	-	3,949,815	3,949,815
Financial asset investments	9	33,317,667	-	-	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 part	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
		33,317,667	26,678,666	-	59,996,333	59,996,333
Financial liabilities						
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
		-	-	58,250,930	58,250,930	58,250,930

31 December 2018

Separate	Note	Fair value through profit and loss	Amortised cost	Carrying amount
Financial assets				
Cash and cash equivalents	8	-	4,441,329	4,441,329
Financial asset investments	9	52,351,352	-	52,351,352
Loans and advances to customers	11	-	20,386,372	20,386,372
Loans and advances to related party	10.1	-	1,994,779	1,994,779
Loans and advances to other banks	10.2	-	4,418,858	4,418,858
Amounts due from related parties	33	-	279,402	279,402
Other receivables	12	-	1,215,405	1,215,405
		52,351,352	32,736,145	85,087,497
Financial liabilities				
Deposits from customers	16	-	35,168,813	35,168,813
Loans and advances from other banks	19	-	4,232,881	4,232,881
Investment funds	17	-	40,670,032	40,670,032
Other payables	20	-	571,055	571,055
Subordinated debt	18	-	1,600,000	1,600,000
		-	82,242,781	82,242,781

7. **Classification of financial assets and liabilities (continued)**
Accounting classifications and fair values (continued)

The financial instrument classification in the prior period are in accordance with IAS 39 as follows:

31 December 2017

Separate		Fair value through profit and loss	Loans and advances	Other financial liabilities	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	8	-	3,949,815	-	3,949,815	3,949,815
Financial asset investments	9	33,317,667	-	-	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 part	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
		33,316,667	26,678,666	-	59,996,333	59,996,333
Financial liabilities						
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
		-	-	58,250,930	58,250,930	58,250,930

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.

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).

(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	Note	Level 1	Level 2	Level 3	Total
31 December 2018					
Treasury bills	9.1	-	3,280,782	-	3,280,782
Promissory notes	9.1	-	9,971	-	9,971
Other investments	13(b)	-	-	30,000	30,000
Commercial papers	9.1	-	-	117,615	117,615
Medium- and short-term notes	9.1	-	-	48,942,984	48,942,984
Total		-	3,290,753	49,090,599	52,381,352
31 December 2017					
Treasury bills	9.1	-	2,451,719	-	2,451,719
Promissory notes	9.1	-	6,900,026	-	6,900,026
Other investments	13(b)	-	-	30,000	30,000
Reverse REPO	9.1	-	203,929	-	203,929
Medium- and short-term notes	9.1	-	-	23,761,993	23,761,993
Commercial papers	9.1	-	-	203,929	203,929
Total		-	9,555,674	23,995,922	33,551,596

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

31 December 2018	Note	At amortised cost	Total carrying amount
Consolidated			
Assets			
Cash and cash equivalents	8	4,441,329	4,441,329
Loans and advances to customers	11	20,386,372	20,386,372
Loans and advances to related parties	10.1	1,994,779	1,994,779
Loans and advances to other banks	10.1	4,418,858	4,418,858
Amounts due from related parties	33	279,402	279,402
Other receivables	12	1,215,419	1,215,419
Liabilities			
Deposits from customers	16	35,168,813	35,168,813
Balances due to other banks	19	4,232,882	4,232,882
Investment funds	17	40,670,032	40,670,032
Other payables	20	568,155	568,155

31 December 2017			
Consolidated			
Assets			
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
Liabilities			
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

7. Classification of financial assets and liabilities (continued)

(d) Financial instruments not measured at fair value (continued)

31 December 2018	Note	At amortised cost	Total carrying amount
Separate			
Assets			
Cash and cash equivalents	8	4,441,329	4,441,329
Loans and advances to customers	11	20,386,372	20.386,372
Loans and advances to related parties	10.1	1,994,779	1,994,779
Loans and advances to other banks	10.1	4,418,858	4,418,858
Amounts due from related parties	33	276,402	276,402
Other receivables	12	1,215,405	1,215,405
Liabilities			
Deposits from customers	16	35,168,813	35,168,813
Balances due to other banks	19	4,232,882	4,232,882
Investment funds	17	40,670,032	40,670,032
Other payables	20	568,155	568,155
31 December 2017			
Separate			
Assets			
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
Liabilities			
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

8. Cash and cash equivalents	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
See accounting policy note 5 (c)				
Liquidity Reserve Deposits				
Central Bank of Malawi (RBM)	2,917,697	2,238,054	2,917,697	2,238,054
Placements with other banks				
Balances with foreign banks	986,981	1,391,842	986,981	1,391,842
Balances with local banks	5,278	5,843	5,278	5,843
Clearing accounts	527	(1,000)	527	(1,000)
Cash balances	530,846	315,076	530,846	315,076
	4,441,329	3,949,815	4,441,329	3,949,815

Included in the liquidity reserve deposit with the Central Bank of Malawi is MK2,880 million (2017: MK2,151 million) which is not available for use by the Bank. Balances with foreign banks earn interest at Libor 1.8% to + 2.3% (2017: Libor 0.5% to + 2.75%) whilst balances with local banks earn interest at bank rate 0.10% to 2.5% (2017: 0.5% to 2.5%).

9. Financial assets	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
9.1 Financial assets at fair value through profit or loss				
See accounting policy note 5 (g)				
Promissory notes	9,971	6,900,026	9,971	6,900,026
Treasury bills	3,280,782	2,451,719	3,280,782	2,451,719
	3,290,753	9,351,745	3,290,753	9,351,745
Commercial paper	117,615	-	117,615	-
Medium- and short-term notes	48,942,984	23,761,993	48,942,984	23,761,993
Reverse REPO	-	203,929	-	203,929
	49,060,599	23,965,922	49,060,599	23,965,922
Total investments	52,351,352	33,317,667	52,351,352	33,317,667
Analysed as:				
External funding	40,670,032	30,489,716	40,670,032	30,489,716
Internal funding	11,681,320	2,827,951	11,681,320	2,827,951
	52,351,352	33,317,667	52,351,352	33,317,667
Investments are classified as follows:				
Maturing within 12 months	24,911,559	7,731,413	24,911,559	7,731,413
Maturing after 1 year	27,439,793	25,586,254	27,439,793	25,586,254
	52,351,352	33,317,667	52,351,352	33,317,667

The Group holds Reserve Bank of Malawi instruments at fair value through profit or loss and other financial instruments with an intention to hold them to maturity. The interest rates averaged 15% - 17% (2017: 19%-39.5%).

10. Loans and advances to other banks	2018	2017
See accounting policy note 5 (b)	4,418,858	7,008,894

The balance includes contracts with Crown Agents as a foreign Bank and local banks on contracts and earn interest of 4% (2017: 1%-5%) in foreign denominated contracts and 14% - 15% in local currency contracts (2017: 15%-29%). 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% - 5% (2017: 1%-15%) with maturity date ranging from 3 – 10 days (2017: 3– 19 days)

11. Loans and advances to customers

See accounting policy note 5 (b)

	Consolidated and Separate 2018	2017
(i) Loans and advances		
Personal and business loans	1,824,936	1,247,620
Corporate and investment loans	17,465,449	12,546,702
Total gross loans and advances	19,290,385	13,794,322
Interest receivable	1,169,564	1,500,955
	20,459,949	15,295,277
Interest in Suspense	-	(1,138,428)
Allowance for impairment	(73,577)	(1,294,689)
Net loans and advances	20,386,372	12,862,160
(ii) Loans and advances are receivable as follows:		
Maturing within 3 months	11,882,379	4,933,129
Maturing between 3 and 12 months	7,272,738	6,269,601
Maturing after 12 months	1,231,255	1,659,430
Total net loans and advances	20,386,372	12,862,160
(iii) Allowances for impairment		
Specific allowances for impairment:		
Balance at the beginning of the year	(2,313,487)	(532,137)
IFRS 9 transition adjustment	(55,000)	-
Reversal/(charge) for the year	2,294,179	(1,784,507)
Restored to accrual	-	3,157
Recoveries on impaired loans	102,260	-
Balance as at 31 December	27,952	(2,313,487)
Collective allowances for impairment:		
Balance at the beginning of the year	(119,631)	(95,392)
Reversal/(charge) for the year	-	(24,239)
Restored to accrual	18,102	-
Balance as at 31 December	(101,529)	(119,631)
	(73,577)	(2,433,117)

	2018	2017
(iv) Impairment charge		
Reversal/(charge) for the year - specific	2,294,179	(1,784,507)
Reversal/(charge) for the year – collective	-	(24,239)
Bad debts recoveries	102,260	-
Bad debts write off	(3,593,457)	-
	(1,197,018)	(1,808,746)

The initial application of IFRS 9 has led to adjustment in retained earnings of K55 million.
Loans and advances to customers earn interest at a range of the Bank's base lending rate plus or minus +3% to -2.5%. (2017: 2%-2%). The net carrying value of loans and advances is considered a reasonable approximation of fair value. Note 6.1.1 includes disclosures relating to the allowances for expected credit losses. The above comparative for impairment provisions refer to the IAS39 measurement basis which applied an incurred loss model, whereas the current year applies IFRS9 which is expected loss model.

		Consolidated		Separate
12. Other assets	2018	2017	2018	2017
See accounting policy note 5 (e)				
Prepayments	594,339	505,109	594,339	505,109
Fees receivable	365,625	-	365,626	-
Other accounts receivable	849,792	292,228	849,778	292,214
	1,809,756	797,337	1,809,743	797,323

13. Other investments (At cost/fair value through other comprehensive income)

See accounting policy note 5 (f) – (i) and (ii)

			Separate	
	At cost	Shareholding	2018	2017
13(a)	Investment in subsidiary			
	CDH Forex Bureau Limited	100 %	-	-

			Consolidated and Separate	
	At fair value through other comprehensive income			
13(b)	Other investment			
			2018	2017
	National Switch Limited	9 %	30,000	30,000

14(a). Equipment

See accounting policy note 5 (h)

Consolidated and separate	Capital work in progress	Computers	Motor vehicles	Equipment fixture & fittings	Total
2018					
Cost					
Balance at 1 January 2018	-	115,352	-	1,091,834	1,207,186
Additions during the year	-	6,163	-	96,064	102,227
Disposals during the year	-	-	-	(7,100)	(7,100)
Balance at 31 December 2018	-	121,515	-	1,180,798	1,302,313
Consolidated and separate					
2017					
Cost					
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)
Balance at 31 December 2017	-	115,352	-	1,091,834	1,207,186

Consolidated and separate 2018	Capital work in progress	Computers	Motor vehicles	Equipment fixture & fittings	Total
Accumulated depreciation and impairment losses					
2018					
Balance at 1 January 2018	-	95,549	-	493,551	589,100
Depreciation charge for the year	-	11,618	-	135,637	147,255
Eliminated on disposal	-	-	-	(2,688)	(2,688)
Balance at 31 December 2018	-	107,167	-	626,500	733,667
Consolidated and separate					
2017					
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)
Balance at 31 December 2017	-	95,549	-	493,551	589,100
Carrying amount					
At 31 December 2018	-	14,348	-	554,298	568,646
At 31 December 2017	-	19,803	-	598,283	618,086

The Group operates an operating lease arrangement for all motor vehicles.

There were no encumbrances on the Equipment as at year end.

14(b) Assets-held-for-sale
See accounting policy note 5(h)

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 continue,
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	
	2018	2017
Opening balance	28,630	57,261
Impairments during the year	(9,337)	(9,260)
Disposals during the year	(13,094)	(19,371)
Balance at end of year	6,199	28,630

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

15. Intangible assets

	Computer software	
	Consolidated and Separate	
See accounting policy note 5 (j)	2018	2017
Cost		
Balance at 1 January	488,582	438,594
Additions during the year	13,435	56,540
Disposals during the year	-	(6,552)
	502,017	488,582
Amortisation		
Balance at 1 January	299,120	189,762
Eliminated on disposal	-	(6,552)
Amortisation charge for the year	99,484	115,910
Balance at 31 December	398,604	299,120
Carrying amount		
At 31 December	103,413	189,462

16. Customer deposits

See accounting policy note 5 (k)	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
Current and savings accounts	18,237,465	7,340,872	18,237,465	7,340,872
Foreign currency accounts	3,203,133	3,115,063	3,203,133	3,115,063
Term deposit accounts	13,728,215	15,740,544	13,728,215	15,740,544
	35,168,813	26,196,479	35,168,813	26,196,479
Payable as follows:				
Maturing within 3 months	33,622,873	22,456,601	33,622,873	22,456,601
Maturing after 3 months and above	1,545,940	3,739,878	1,545,940	3,739,878
	35,168,813	26,196,479	35,168,813	26,196,479

For information about financial risks refer to note 6.
Interest on customer deposit balances range from 0.25% to 19% (2017: 0.25 to 13.5%).

17. Investment funds

See accounting policy note 5 (d)

Investment funds	40,670,032	30,489,716	40,670,032	30,489,716

This represents customer investments for funding of Financial asset investments (note 9). Interest on these deposits range from 10% to 20% (2017: 10% to 31.5%).

18. Subordinated liabilities

See accounting policy note 5 (m)

Corporate bond	1,600,000	1,000,000	1,600,000	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 30 April 2024. At 31 December 2018, 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

See accounting policy note 5 (k)

Deposits from other banks	4,232,881	135,000	4,232,881	135,000

Interest rates on balances due to other banks were within a range of 13.25% to 18% (2017: 14% to 15%) with maturity dates ranging from 1 to 7 days (2017: 1 to 4 days).

20. Other liabilities and accruals

See accounting policy notes 5 (l)

	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
Unclaimed customer balances	72,029	72,847	72,029	72,847
Bankers cheques issued but not cleared	46,578	72,603	46,578	72,603
Accruals	221,356	95,329	221,356	95,329
Trade payables	175,811	149,914	175,811	149,914
Other	52,381	39,042	52,381	39,042
	568,155	429,735	568,155	429,735

21. Income tax and deferred tax liabilities

See accounting policy note 5 (v)

21.1 Income tax recoverable

Balance at 1 January	82,449	85,449	78,051	81,051
Prior year under provision	(17,776)	(74,015)	(17,776)	(74,015)
Advance payment of tax	47,344	71,015	47,344	71,015
Balance at 31 December	112,016	82,449	107,618	78,051

21.2 Deferred tax

Deferred tax (liabilities) /assets

	2018 Assets	2018 Liabilities	2018 Net
Property and equipment	9,141	-	9,141
General provisions	5,460	-	5,460
Leave provision	-	(5,041)	(5,041)
Unrealised exchange losses	-	-	-
Gain on ATMs	-	-	-
Unrealised fair value gain	39,145	-	39,145
Tax losses	-	(17,777)	(17,777)
	53,746	(22,818)	30,928

Movements in temporary differences in 2018

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing Balance
Equipment	(19,047)	28,188	-	9,141
General Provisions	35,889	(30,429)	-	5,460
Leave provision	6,530	(11,571)	-	(5,041)
Unrealised exchange loss	7,972	(7,972)		-
Gain on ATMs	(3,836)	3,836	-	-
Unrealised fair value gain	(52,383)	91,528	-	39,145
Tax losses	208,526	(226,303)	-	(17,777)
	183,651	(152,723)	-	30,928

Deferred tax (liabilities) /assets

	2017 Assets	2017 Liabilities	2017 Net
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

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

22. Equity and reserves

See accounting policy note 5 (o)

	No. of shares Consolidated and Separate		Proceeds (Value) Consolidated and Separate	
	2018	2017	2018	2017
22.1 Share capital				
Authorised	172,458	172,458	172,458	172,458
Issued and fully paid at K1.00 per share	172,458	172,458	172,458	172,458
22.2 Share premium				
172,458,155 shares at K4.33 each			746,744	746,744

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

	Consolidated and Separate 2018	2017
22.3 Loan loss reserve	1,452	430,345

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.

23. Interest income	Consolidated 2018	Consolidated 2017	Separate 2018	Separate 2017
See accounting policy note 5 (q)				
Loans and advances to other banks	502,150	961,150	502,150	961,150
Loans and advances to customers and other investment securities	4,051,246	3,267,127	4,051,246	3,267,127
Financial asset investments	7,135,846	11,484,535	7,135,846	11,484,535
Changes in fair value of financial assets (note 30)	(130,484)	174,611	(130,484)	174,611
Total interest income	11,558,758	15,887,423	11,558,758	15,887,423
Interest expense				
Deposits from other banks	(97,102)	(288,431)	(97,102)	(288,431)
Deposits from customers	(2,388,002)	(1,937,396)	(2,388,002)	(1,937,396)
Investment funds	(5,138,724)	(8,756,338)	(5,138,724)	(8,756,338)
Total interest expense	(7,623,828)	(10,982,165)	(7,623,828)	(10,982,165)
Net interest income	3,934,930	4,905,258	3,934,930	4,905,258

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 K 5,993 million (2017; MK 4,228 million) and K 5,993 million (2017; MK4,228 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.

24. Fees and commission income

See accounting policy note 5 (r)

Fee from Investment Banking Services	1,925,321	1,208,041	1,925,321	1,208,041
Other fee and commission income	691,776	393,421	691,776	393,421
	2,617,097	1,601,462	2,617,097	1,601,462

The fees and commission income above arise from financial assets and liabilities at amortised cost

25. Trading income	2018	Consolidated 2017	2018	Separate 2017
See accounting policy note 5 (s)				
Income from financial instruments	541,167	114,465	541,167	114,465
Foreign exchange gains	158,810	107,742	158,810	107,742
	699,977	222,207	699,977	222,207

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

26.1 Other operating income				
See accounting policy note 5 (t)				
Other operating income	20,702	40,918	20,702	40,918

26.2 Other income				
See accounting policy note 5 (t)				
Profit on disposal of assets	5,229	9,735	5,229	9,735

27. Personnel expenses				
Salaries and wages	1,382,987	1,359,730	1,382,987	1,359,730
Staff benefits	188,200	180,746	188,200	180,746
Contributions to defined contribution plan	136,302	127,209	136,302	127,209
Group Life Insurance Premiums	41,521	49,243	41,521	49,243
Recruitment	8,029	6,102	8029	6,102
Incentive bonus	70,000	-	70,000	-
Staff allowances - Transport allowances	436	5,916	436	5,916
- Other allowances	32,477	24,205	32,477	24,205
	1,859,952	1,753,151	1,859,952	1,753,151

28. Administration expenses

	2018	Consolidated 2017	2018	Separate 2017
Auditors' remuneration-audit fees	22,700	22,700	22,700	22,700
-VAT and other expenses	4,745	3,215	4,745	3,215
ATM running costs	-	1,086	-	1,086
Bank charges	51,098	31,995	51,098	31,995
Business travel expenses	179,173	155,664	179,173	155,664
Communication expenses	42,805	43,393	42,805	43,393
Computer expenses	496,894	361,492	496,894	361,492
Management technical support fees	127,692	128,165	127,692	128,165
Professional fees	40,517	60,042	40,517	60,042
Directors fees and expenses	159,161	126,448	159,161	126,448
Impairment of asset held for sale	9,337	9,260	9,337	9,260
Legal costs	42,989	14,425	42,989	14,425
Lease rental	809,083	1,001,332	809,083	1,001,332
Marketing expenses	123,190	121,221	123,190	121,221

Motor vehicle running costs	62,100	64,148	62,100	64,148
Office expenses	144,715	142,289	144,715	142,289
Office occupancy costs	354,095	280,747	354,095	280,747
Other expenses	57,609	202,464	57,609	202,464
Supervisory fees	49,634	(31,020)	49,634	(31,020)
Training costs	60,825	52,596	60,825	52,596
	2,838,362	2,791,662	2,838,362	2,791,662

29. Lease

See accounting policy note 5(n)		Consolidated		Separate
	2018	2017	2018	2017

The Group leased office space in CDH House under an operating lease which ran for a period of five years with an expiry date of 31 December 2018. Lease payments were 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 1 January 2019, the lease contract was terminated, and the Bank entered into rental agreement with Continental Asset Management Limited.

CDH House				
Less than one year	-	284,541	-	284,541
Between one year and five years	-	1,138,164	-	1,138,164
	-	1,422,705	-	1,422,705
Motor Vehicles				
Less than one year	523,818	482,912	523,818	482,912
Between one year and three years	2,095,272	1,931,047	2,095,272	1,931,047
	2,619,090	2,413,959	2,619,090	2,413,959
	2,619,090	3,836,664	2,619,090	3,836,664

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. (Loss) /(gain) on financial assets

Fair value (loss)/gain	(130,484)	174,611	(130,484)	174,61

The fair value loss of MK130m (2017: Gain: MK175m) relates to the effect of marking to market of financial instruments which has been presented in note 23.

31. Income tax expense

See accounting policy note 5 (v)

	Consolidated		Separate	
Recognised in profit or loss	2018	2017	2018	2017
Prior year under provision	17,776	74,015	17,777	74,015
Deferred tax charge/(credit)				
Reversal of temporary differences (note 21.2)	152,722	(174,856)	152,722	(174,856)
Income tax charge/(credit)	170,499	(100,841)	170,499	(100,841)

Reconciliation of effective tax rate

Profit before income tax	1,135,864	145,001	1,135,864	145,001
Income tax using the enacted income tax rate of 30% (2017: 30%)	340,759	43,500	340,759	43,500
Income not subject to tax	(290,919)	(196,201)	(290,919)	(196,201)
Accelerated capital allowance	9,141	(19,047)	9,141	(19,047)
Expenses not deductible for tax purposes (Fringe Benefit Tax and Penalties)	(40,700)	171,748	(40,700)	171,748
Prior year under provision	17,777	74,015	17,777	74,015
Deferred tax (note 21.2)	152,722	(174,856)	152,722	(174,856)
Income tax (credit)/expense	170,499	(100,841)	170,499	(100,841)
Effective tax rate	(20) %	(70) %	(20) %	(70)%

32. Basic and diluted earnings per share

See accounting policy note 5 (w)

Profit attributable to ordinary shareholders	943,364	245,842	943,364	245,842	
Weighted average number of ordinary shares in issue (thousands)	172,458	172,458	172,458		172,458
Basic and diluted earnings per share (MK)	5.47	1.43	5.47		1.43

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	Directors and their related parties	Executive Management	Other Continental Holdings subsidiaries	Total
2018				
Advances	-	313,055	4,125,357	4,438,412
Deposits	(3,074)	(3,165)	(15,143,964	(15,150,202
Net balances	(3,074)	309,890	(15,143,964)	(10,711,790)
Interest received	-	56,468	687,853	744,321
Interest paid	-	-	(438,824)	(438,824)
	-	56,468	249,029	305,497
2017				
Advances	-	180,184	4,287,848	4,468,032
Deposits	(2,816)	(9,586)	(12,019,057)	(12,031,459)
Net balances	(2,816)	170,598	(7,731,209)	(7,563,427)
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)

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 MK0.8 million (2017: MK2.4 million) of interest free short-term salary advances and MK312.2 million (2017: MK178.4 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	
	2018	2017	2018	2017
Short-term employee benefits salaries	584,987	502,549	-	-
Post-employment benefits	58,499	50,255	-	-
Directors' fees	-	-	59,014	54,380
	643,486	552,804	59,014	54,380

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 MK32 million (2017: MK23 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.

33. Related party transactions (continued)

The outstanding balances due to/from related parties as separately disclosed at year end are as follows:
Loans and advances to related party

		Consolidated		Separate	
Related party	Relationship	2018	2017	2018	2017
Money market					
Continental Asset Management Limited	Common ownership	1,994,779	2,437,836	1,994,779	2,437,836
Loans advances to other financial institutions					
Continental Asset Management Limited	Common ownership	4,125,357	2,437,836	4,125,357	2,437,836
Intercompany balances					
Continental Asset Management Limited	Common ownership	212,643	-	212,643	-
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	-	60,988
CDH Forex Bureau Limited	100% owned subsidiary	-	-	-	-
		279,402	127,747	279,402	127,747
Subordinated liability					
Continental Asset Management Limited	Common ownership	1,600,000	1,000,000	1,600,000	1,000,000

The balance due to Continental Asset Management Limited includes MK1.6 billion (2017: MK1 billion) relating to subordinated debt presented in Note 18.

33. Related party transactions (continued)

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 2018	Balance at year end 2018	Value of transactions 2017	Balance at year end 2017
Continental Asset Management	Related company	Deposits	14,250,405	14,648,907	11,070,563	11,920,322
Limited		Loan	4,055,394	4,125,357	2,350,836	2,437,836
		Subordinated debt	-	1,600,000	-	1,000,000
		Subordinated debt interest paid	149,129	-	286,740	-
		Interest received	687,853	-	184,400	-
		Interest paid	438,824	-	707,259	-
		Shared expenses	7,315	-	12,003	-
Continental Capital Ltd	Related company	Deposits	236,000	236,000	93,515	93,515
		Shared expenses	3,851	-	5,334	-
Continental Properties Ltd	Related company	Deposits	259,056	259,056	5,219	5,219
		Operating lease payments	779,697	-	953.631	-
		Shared expenses	-	-	-	-
		Sale of motor vehicles	-		60,988	-

	Relationship	Type of transaction	Value of transactions 2018	Balance at year end 2018	Value of transactions 2017	Balance at year end 2017
Continental Holdings Limited	Parent company	Deposits	21,161	21,161	2,002	4,917
		Shared expenses	26,823	-	7,245	-
Executive Management	Management	Deposits	3,165	3,165	2,197	9.586
		Advances	264,134	313,055	48,540	180,184
		Salaries	584,987	-	502,549	-
		Long term benefits (Pension)	58,499	-	50,255	-
		Interest received	56,468	-	34,904	-
Directors and their related parties	Directors	Deposits	3,074	3,074	2,816	-
		Fees	59,014	-	15,188	-

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

34. Capital commitments and contingent liabilities

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

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

	Consolidated and Separate	
	2018	2017
Contingent liabilities		
Financial guarantees	739,478	723,738
	739,478	723,738

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 K19.2 million (2017: MK18.4 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 K nil (2017: K nil).

35. Statutory requirements

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

(i) Liquidity Reserve Requirement
The Bank is required to maintain a liquidity reserve as defined by the Reserve Bank of Malawi, calculated on a weekly average basis, of not less than 7.5% of the preceding weeks total deposit liabilities. In the last week of December 2018, the liquidity reserve was 7.5% (2017: 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 2018, the Bank's total available capital was 21.14% (2017: 16.12%) and the core capital was 15.40% (2017: 11.65%) of its risk bearing assets and contingent liabilities.

In accordance with Section 16(1) of the Financial Assets Classification Directive (2018), 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.

36. Exchange rates and inflation

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

	Consolidated and Separate	
	2018	2017
	MK	MK
GBP/Kwacha	927.65	975.17
Rand/Kwacha	50.78	58.72
US Dollar /Kwacha	728.75	726.17
Euro/Kwacha	833.69	865.61
Canadian Dollar/Kwacha	535.31	577.01
Inflation rate %	9.2%	7.1%

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

GBP/Kwacha	944.5	999.4
Rand/Kwacha	53.4	60.9
US Dollar /Kwacha	730.5	725.6
Euro/Kwacha	826.6	891.8
Inflation rate	9.5%	7.1%

37. **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.

Notes

Notes

Annual Report 2018

The leading investment bank in Malawi

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.

MAIIC
MAIIC
Establishment of Development Finance Institution
Lead arranger
2018
CDH Investment Bank

Salima Sugar Co
USD 19 million
Project finance facility
Lead Arranger and local agent bank
2018
CDH Investment Bank

NBS Bank
NBS Bank
Your Caring Bank
USD 16.2 million
Rights Issue
Lead Financial Advisors
June 2017
CDH Investment Bank

Britam Insurance
Britam
With you every step of the way
Capital restructuring through a Court Approved Scheme of Arrangement and delisting
Mandated arranger
May 2016
CDH Investment Bank

Sunbird Hotels
SUNBIRD
Hotels and Resorts
USD 5 million
Medium term note
Lead arranger and fiscal agent
June 2015
CDH Investment Bank

Umodzi Holdings
UMODZI PARK
HOTEL · CONVENTIONS · EVENTS
Hotel redevelopment project financing facility
Lead arranger and local agent bank
May 2015
CDH Investment Bank

Stansfield
STANSFIELD
USD2.75 million
Corporate bond
Mandated arranger and fiscal agent
December 2014
CDH Investment Bank

Press Agriculture Ltd.
PAL
USD 9 million
Commercial paper
Lead arranger
June 2014
CDH Investment Bank

Best Investment Bank in Malawi - 2015, 2016 & 2017
Global Banking & Finance Review

Banking innovations that help your business grow

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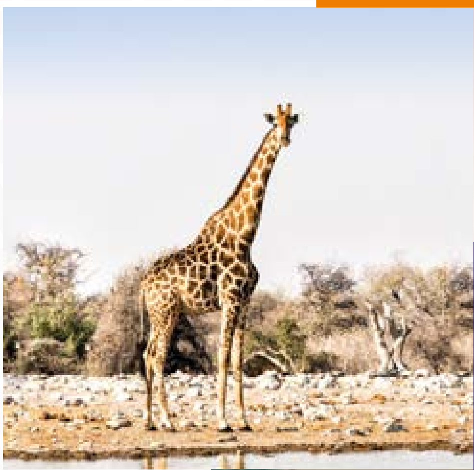
INVESTMENT BANK



Annual Report 2018

We continue on the Investment Banking path, mobilizing domestic and international debt and equity capital for investment in projects and businesses with long term sustainable goals to complement Malawi's economic development plans.