THE MALAWI GOVERNMENT GAZETTE

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CONTENTS

GENERAL NOTICE NO. 95

RESERVE BANK OF MALAWI

Directors' report and statement of Directors' responsibilities for the year ended 31st December, 2016

Introduction

The directors present the Reserve Bank of Malawi (the "Bank") consolidated and separate annual financial statements for the year ended 31st December, 2016.

This report addresses the performance of the Bank and its subsidiary (Export Development Fund Limited) (the "Group") during the year under review.

These consolidated and separate annual financial statements have been prepared on a going concern basis taking cognisance of the unique aspects relating to some of the Bank's functions as stipulated under the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi), as well as the Bank's relationship with the Government of Malawi.

The consolidated and separate annual financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Reserve Bank of Malawi Act,(Cap. 44:02 of the Laws of Malawi). They include full and responsible disclosures and are based on appropriate accounting policies which have been applied consistently and which are supported by reasonable and prudent judgments and estimates. The integrity and objectivity of the information in these annual financial statements are management's responsibility. Management is responsible for ensuring that all information in this report is consistent with the annual financial statements.

These consolidated and separate annual financial statements have been audited by the Bank's independent auditors, KPMG (Malawi) and KPMG Inc. (South Africa), who were given unrestricted access to all financial records and related data, including minutes of the meetings of the Board and the Board Audit Committee.

Nature of Business

The Reserve Bank of Malawi is the Central Bank of the Republic of Malawi, created and regulated by the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi). The principal objectives of the Reserve Bank of Malawi are as follows:

- to issue legal tender currency in Malawi;
- to act as banker and advisor to the Government;
- to maintain external reserves so as to safeguard the international value of the currency;

- to implement measures designed to influence the money supply and the availability of credit, interest rates and exchange rates with the view to promoting economic growth, employment, stability in prices and a sustainable balance of payments position;
- to promote a sound financial structure in Malawi including payment systems, clearing systems and adequate financial services;
- to promote money and capital markets in Malawi;
- to act as lender of last resort to the banking system;
- to supervise banks and other financial institutions;
- to collect economic data of the financial and other sectors for research and policy purposes; and
- to promote development in Malawi.

EXPORT DEVELOPMENT FUND LIMITED (EDF)

The Export Development Fund Limited (EDF) was set up by the Malawi Government through the Reserve Bank of Malawi with its major objective being to ensure that Malawi's vast export potential and business opportunities are exploited in order to generate the much needed foreign exchange for the country.

In pursuance of this major objective, the EDF:

- serves as a pool of financial resources for export diversification and growth;
- offers insurance to exporters against payment risks;
- refinances participating financial institutions;
- provides guidance in export-related activities;
- encourages production and value addition for exports;
- generates foreign exchange as well as create employment; and
- provides guarantees and financial services and products to persons involved in export trade.

Export Development Fund (EDF) Limited was registered as a limited liability company on the 6th of February, 2012. The company was registered with a share capital of K500 million (Five Hundred Million Kwacha) divided into 500 million shares of K1.00 (One Kwacha) each. During the year ended 31st December, 2015, an additional 50 million shares of K1 each were issued bringing the total share capital to MK550 million (Five Hundred and Fifty Million Kwacha) divided into 550 million ordinary shares of one Kwacha each. Further to this, additional paid in capital of K2,150 million was injected in 2015 by the Bank in EDF, bringing the Bank's total investment in EDF to K2,700 million. At the moment, Reserve Bank of Malawi holds 99.99% of the equity in EDF.

COMPLIANCE WITH THE REQUIREMENTS OF THE RESERVE BANK OF MALAWI ACT (CAP. 44:02 OF THE LAWS OF MALAWI)

Government borrowing from the Reserve Bank of Malawi is guided by section 40 of the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi), which stipulates that the total amount of advances outstanding at any time made by the Bank under this section shall not exceed 10 percent (10 percent in 2015) of the domestic revenue of the Government for the previous financial year. As at 31st December, 2016, the outstanding Advances to Government did not exceed the legal limit.

In order for Government to remain within the legal borrowing limit, Reserve Bank of Malawi monitors the Government's financial position on a daily basis, and reports accordingly. Detailed statistics and reports are produced and sent daily to Government. The reports contain information on revenue collected, expenditure incurred, overall net position, financing, current and outstanding net position of Ways and Means Advances, among others.

Board of Directors

The following directors served on the Board—

Name	*Position*	*Period*
MR. CHARLES CHUKA	Governor and Chairman	Full Year
MS. MEG KAJIYANIKE	Deputy Governor, Operations	Full Year
DR. NAOMI NGWIRA	Deputy Governor, Economic Services	Full Year
DR. GRANT KABANGO	Deputy Governor, Supervision	Full Year
DR. RONALD MANGANI	Secretary to the Treasury—*Ex Officio member*	Full Year
JUSTICE I. J MTAMBO	*Member*	Full Year
MR. DAVID LESLIE GRIMES	*Member*	Full Year
MRS. DOROTHY NGWIRA	*Member*	Full Year
MS. ROSEMARY MKANDAWIRE	*Member*	Full Year
DR. RICHARD MUSSA	*Member*	Full Year

Financial position

The statements of financial position are presented on pages 7 and 8. Total assets of the Group increased by K261,286 million during the year. Significant increases were in treasury notes (K244,447 million), cash and cash equivalent balances (K25,582 million), treasury bills (K19,318 million) and, advances to Malawi Government (K6,992 million). The increases were offset by decreases in promissory notes (K38,871 million), balances with foreign banks (K6,050 million) and special drawing rights (K3,268 million).

Significant increases in the liabilities were in other OMO deposits (K169,226 million), notes and coins in circulation (K44,478 million), borrowings (K43,753 million), other domestic liabilities (K264 million), government deposits (K5,841) and allocation of special drawing rights (K3,390 million). The increases were offset by a decrease in bankers'deposits (K9,845 million) and other foreign deposits (K5,857 million).

Interest in contracts

There were no contracts entered into during the year in which directors or officers of the Group had interests that significantly affected the affairs or business of the Group.

Going concern

The directors have made an assessment and concluded that the Bank and its subsidiary will be able to continue as a going concern and it is appropriate to prepare the consolidated and separate annual financial statements on a going concern basis.

The role of the Board of Directors

The Board of Directors ("the Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and exercises this responsibility through the Board Audit Committee ("the Committee"). The Committee is therefore qualified to review the consolidated and separate annual financial statements and to recommend their approval by the Board. The Committee is mandated by its Charter to meet management and the internal and external auditors.

The Committee evaluates the independence of the external auditors and reviews all services provided by them. The Committee has a duty to review the adoption of, and changes in accounting principles and procedures that have a material effect on the consolidated and separate annual financial statements and to review and assess key management proposals including risk management issues and make recommendations on the same for approval. The Board considers and where necessary, approves the Committee's recommendations.

The consolidated and separate annual financial statements on pages 6 to 77 were approved by the Board on 31st March, 2017 and are signed on its behalf by—

Governor and Chairman of the Board *Chairperson, Board Audit Committee*

INDEPENDENT AUDITORS' REPORT

To the Shareholder of the Reserve Bank of Malawi

Opinion

We have audited the consolidated and separate financial statements of Reserve Bank of Malawi (the Group and Bank) set out on pages 6 to 77, which comprise the statements of financial position as at 31st December, 2016, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and statements of 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 the Reserve Bank of Malawi as at 31st December, 2016, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi).

Basis for opinion

We conducted our audit in accordance with the international Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the Group and Bank in accordance with the International Ethics Standard Board for Accountants, *Code for Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report and Statement of Directors' Responsibilities. The other information does not include the consolidated and separate financial statements and our auditors' 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 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 the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group and/or Bank 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.

KPMG

KPMG

JOEL MWENELUPEMBE
Chartered Accountant (Malawi)
Partner

Lilongwe, Malawi

Date 31st March, 2017

KPMG Inc

KPMG Inc.

VANESSA YUILL
Chartered Accountant (SA)
Registered Auditor
Director
Johannesburg, Republic of South Africa

Date 31st March, 2017

RESERVE BANK OF MALAWI

STATEMENTS OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2016

ASSETS	Note	Consolidated 31 Dec. 2016 K'm	Separate 31 Dec. 2016 K'm	Consolidated 31 Dec. 2015 K'm	Separate 31 Dec. 2015 K'm
Foreign Assets					
Cash and cash equivalents	7	2,995	2,995	1,427	1,427
Balances with foreign banks	8	424,790	424,790	430,840	430,840
Special drawing rights		66	66	3,334	3,334
Gold reserves		10,638	10,638	8,939	8,939
Investment in Norsad Finance Limited	9	2,379	—	2,207	—
Total Foreign Assets		**440,868**	**438,489**	**446,747**	**444,540**
Domestic Assets					
Cash and cash equivalents	7	27,690	26,241	3,676	1,801
Advances to Malawi Government	10	34,858	34,858	27,866	27,866
Other assets	11	24,688	17,513	14,370	9,962
Investments in Malawi Government:					
- promissory notes	12	18,981	18,981	57,867	57,867
- treasury notes	13	401,625	401,625	157,178	157,178
- treasury bills	14	28,667	28,667	9,349	9,349
Property and equipment	15	68,134	68,041	67,115	66,997
Intangible assets	16	3,638	3,638	3,710	3,710
Investment in Export Development Fund	17	—	2,700	—	2,700
Investment in Malswitch	18	17	17	17	17
Total Domestic Assets		608,298	602,281	341,148	337,447
TOTAL ASSETS		**1,049,166**	**1,040,770**	**787,895**	**781,987**

The notes on pages 14 o 77 are an integral part of these annual consolidated and separate financial statements.

LIABILITIES AND EQUITY		K'm	K'm	K'm	K'm
Foreign Liabilities					
Government deposits	19	117,687	117,687	105,694	105,694
Other deposits	20	3,361	3,361	9,218	9,218
Borrowings	21	155,980	151,292	112,227	109,517
Allocation of Special Drawing Rights	22	65,301	65,301	61,911	61,911
Total Foreign Liabilities		**342,329**	**337,641**	**289,050**	**286,340**

Domestic Liabilities					
Notes and coins in circulation	23	184,445	184,445	139,967	139,967
Government deposits	19	39,628	39,628	45,780	45,780
Bankers' deposits	24	56,173	56,173	66,018	66,018
Other liabilities	25	24,261	23,997	16,818	16,534
Open market operations(OMO) instruments	26	268,934	268,934	99,708	99,708
Ex-Gratia benefit provision	27	8,069	8,069	5,295	5,295
Total Domestic Liabilities		**581,510**	**581,246**	**373,586**	**373,302**
Equity Attributable to Parent					
Capital	28.1	19,484	19,484	19,484	19,484
General reserve fund	28.2	18,445	18,445	13,997	13,997
Special account	28.3	66,845	66,845	61,674	61,674
Revaluation reserve	28.4	34,652	34,652	34,652	34,652
Fair value reserve (available-for-sale financial assets)		(17,543)	(17,543)	(7,462)	(7,462)
Retained earnings	28.5	1,065	—	707	—
Capital reserve	28.7	2,379	—	2,207	—
Total Equity Attribute to Parent		**125,327**	**121,883**	**125,259**	**122,345**
TOTAL LIABILITIES AND EQUITY		**1,049,166**	**1,040,770**	**787,895**	**781,987**

The annual financial statements from pages 6 to 77 were approved and authorised for use by the Board of Directors on 31st March, 2017 and were signed on its behalf by—

Mr. Charles Chuka *Governor and Chairman of the Board*

Mrs. Dorothy Ngwira *Chairperson, Board Audit Committee*

The notes on pages 14 o 77 are an integral part of these annual consolidated and separate financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER, 2016

	Note	Consolidated 31 Dec 2016 K'm	Separate 31 Dec 2016 K'm	Consolidated 31 Dec 2015 K'm	Separate 31 Dec 2015 K'm
Interest income		120,516	119,248	47,273	46,399
Interest expense		(53,448)	(53,207)	(3,717)	(3,676)
Net interest income		67,068	66,041	43,556	42,723
Fee and commission income		686	460	611	336
Fee and commission expense		(187)	(187)	(239)	(233)
Net fee and commission income		499	273	372	103
Revenue		**67,567**	**66,314**	**43,928**	**42,826**
Property income		35	35	51	51
Other income		784	784	8,341	8,341
Total income		68,386	67,133	52,320	51,218
Personnel expenses		(18,045)	(17,762)	(14,711)	(14,525)
Operating expenses		(22,165)	(21,553)	(19,609)	(19,206)
Depreciation and amortisation		(2,895)	(2,850)	(1,283)	(1,251)
Impairment loss on non-current assets		—	—	(1,893)	(1,893)
Impairment loss on loans		(125)	(170)	(472)	(472)
Profit for the year before foreign exchange revaluations		25,156	24,798	14,352	13,871
Foreign exchange revaluations					
Net loss on revaluation of IMF facilities		(10,671)	(10,671)	(41,031)	(41,031)
Net gain on revaluation of other foreign exchange balances		14,143	14,143	100,760	100,760
Profit for the year		28,628	28,270	74,081	73,600
Other comprehensive income					
Items that will never be reclassified to profit or loss:					
Revaluation of property		—	—	20,653	20,653
Re-measurement of ex-gratia benefit		(1,976)	(1,976)	(2,224)	(2,224)
		(1,976)	(1,976)	18,429	18,429
Items that are or may be reclassified to profit or loss:					
Net gain on revaluation of gold holdings		1,699	1,699	1,945	1,945
Net gain on revaluation of investment in Norsad		172	—	663	—
Fair value reserve (available-for-sale financial assets)					
Net change in fair value		(10,252)	(10,252)	(7,462)	(7,462)
Net amount reclassified to profit or loss		171	171	176	176
		(8,210)	(8,382)	(4,678)	(5,341)
Total other comprehensive income for the year		**(10,186)**	**(10,358)**	**13,751**	**13,088**
Total comprehensive income for the year		**18,442**	**17,912**	**87,832**	**86,688**

RESERVE BANK OF MALAWI

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

Consolidated	Note	Capital K'm	General reserve K'm	Fair value reserve K'm	Revaluation reserve K'm	Special account K'm	Gold revaluation reserve K'm	Capital reserve K'm	Retained earnings K'm	Total Equity K'm
Balance as at 1st January, 2016		19,484	13,997	(7,462)	34,652	61,674	—	2,207	707	125,259
Total comprehensive income for the year										
Profit for the year	28.3	—	—	—	—	—	—	—	28,628	28,628
Statutory transfer of loss on revaluation of IMF facilities	28.3	—	—	—	—	(10,671)	—	—	10,671	—
Statutory transfer of gain on revaluation of other foreign exchange balances		—	—	—	—	14,143	—	—	(14,143)	—
Other comprehensive income										
Revaluation of gold holdings	28.6	—	—	—	—	—	1,699	—	—	1,699
Transfer of foreign exchange gain on revaluation of gold holdings	28.3	—	—	—	—	717	(717)	—	—	—
Gain on revaluation of investment in Norsad		—	—	—	—	—	—	—	172	172
Transfer of gain on revaluation of investment in Norsad	28.7	—	—	—	—	—	—	172	(172)	—
Fair value reserve (available-for-sale financial assets)										
Net change in fair value	28.5	—	—	(10,252)	—	—	—	—	—	(10,252)
Net amount reclassified to profit or loss		—	—	171	—	—	—	—	—	171
Re-measurement of ex-gratia benefit		—	—	—	—	—	—	—	(1,976)	(1,976)
Total other comprehensive income		—	—	(10,081)	—	717	982	172	1,976)	(10,186)
Total comprehensive income		—	—	(10,081)	—	4,189	982	172	23,180	18,442
Transactions with owners of the Group										
Contributions and distributions										
Transfer to general reserve fund	28.2	—	4,448	—	—	—	—	—	(4,448)	—
Transfer to special account	28.3	—	—	—	—	3,264	(982)	—	(2,282)	—
Appropriation due to Malawi Government		—	—	—	—	—	—	—	(16,092)	(16,092)
Redemption of existing promissory notes	28.3	—	—	—	—	(2,282)	—	—	—	(2,282)
Total contributions and distributions		—	4,448	—	—	982	(982)	—	(22,822)	(18,374)
Balance as at 31st December, 2016		19,484	18,445	(17,543)	34,652	66,845		2,379	1,065	125,327

ESERVE BANK OF MALAWI

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

Consolidated	Note	Capital K'm	General reserve K'm	Fair value reserve K'm	Revaluation reserve K'm	Special account K'm	Gold revaluation reserve K'm	Capital reserve K'm	Retained earnings K'm	Total Equity K'm
Balance as at 1st January, 2016		19,484	12,065	(176)	13,999	—	—	1,544	226	47,142
Total comprehensive income for the year										
Profit for the year		—	—	—	—	—	—	—	74,081	74,081
Statutory transfer of loss on revaluation of IMF facilities	28.3	—	—	—	—	(41,031)	—	—	41,031	—
Statutory transfer of gain on revaluation of other foreign exchange balances	28.3	—	—	—	—	100,760	—	—	(100,760)	—
Other comprehensive income										
Revaluation of gold holdings	28.6	—	—	—	—	—	1,945	—	—	1,945
Transfer of foreign exchange gain on revaluation of gold holdings	28.3	—	—	—	—	2,869	(2,869)	—	—	—
Revaruation of property	28.4	—	—	—	20,653	—	—	—	—	20,653
Gain on revaluation of investment in Norsad		—	—	—	—	—	—	—	663	663
Transfer of gain on revaluation of investment in Norsad		—	—		—	—	—	663	(663)	—
Fair value reserve (available-for-sale financial assets)										
Net change in fair value	28.5	—	—	(7,462)	—	—	—	—	—	(7,462)
Net amount reclassified to profit or loss		—	—	176	—	—	—	—	—	176
Re-measurement of ex-gratia benefit					—	—	—	—	(2,224)	(2,224)
Total other comprehensive income				(7,286)	20,653	2,869	(924)	663	2,224)	13,751
Total comprehensive income				(7,286)	20,653	62,598	(924)	663	12,128	87,832
Transactions with owners of the Group										
Contributions and distributions										
Transfer to general reserve fund	28.2	—	1,932			—	—	—	(1,932)	—
Transfer to special account	28.3	—	—	—		241	924	—	(1,165)	—
Appropriation due to Malawi Government		—	—	—	—	—	—	—	(8,550)	(8,550)
Redemption of existing promissory notes	28.3	—	—	—	—	(1,165)	—	—	—	(1,165)
Total contributions and distributions		—	1,932	—	—	(924)	924		(11,647)	(9,715)
Balance as at 31 December 2016		19,484	13,997	(7,462)	34,652	61,674	-	2,207	707	125,259

ESERVE BANK OF MALAWI

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

Consolidated	Note	Capital K'm	General reserve K'm	Fair value reserve K'm	Revaluation reserve K'm	Special account K'm	Gold revaluation reserve K'm	Retained earnings K'm	Total Equity K'm
Balance as at 1 January 2016		19,484	13997	(7,462)	34,652	61,674	—	—	122,345
Total comprehensive income for the year									
Profit for the year		—	—	—	—	—	—	28,270	28,270
Statutory transfer of loss on revaluation of IMF facilities	28.3	—	—	—	—	(10,671)	—	10,671	—
Statutory transfer of gain on revaluation of other foreign exchange balances	28.3	—	—	—	—	14,143	—	(14,143)	—
Other comprehensive income									
Revaluation of gold holdings	28.6	—	—	—	—	—	1,699	—	1,699
Transfer of foreign exchange gain on revaluation of gold holdings	28.3	—	—	—	—	717	(717)	—	—
Fair value reserve (available-for-sale financial assets)									
Net change in fair value	28.5	—	—	(10,252)	—	—	—	—	(10,252)
Net amount reclassified to profit or loss		—	—	171	—	—	—	—	171
Re-measurement of ex-gratia benefit		—	—	—	—	—	—	(1,976)	(1,976)
Total other comprehensive income		—	—	(10,081)	—	717	982	(1,976)	10,358
Total comprehensive income		—	—	(10,081)	—	4,189	982	22,822	17,912
Transactions with owners of the Bank									
Contributions and distributions									
Transfer to general reserve fund	28.2	—	4,448	—	—	—	—	(4,448)	—
Transfer to special account	28.3	—	—	—	—	3,264	(982)	(2,267)	—
Appropriation due to Malawi Government		—	—	—	—	—	—	(16,092)	(16,092)
Redemption of existing promissory notes	28.3	—	—	—	—	(2,282)	—	—	(2,282)
Total contributions and distributions		—	4,448	—	—	982	(982)	(22,822)	(18,374)
Balance as at 31 December 2016		19,484	18,445	(17,543)	34,652	66,845	—	—	121,883

ESERVE BANK OF MALAWI

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

Consolidated	Note	Capital K'm	General reserve K'm	Fair value reserve K'm	Revaluation reserve K'm	Special account K'm	Gold revaluation reserve K'm	Retained earnings K'm	Total Equity K'm
Balance as at 1 January 2016		19,484	12,065	(176)	13,999	—	—	—	45,372
Total comprehensive income for the year									
Profit for the year		—	—	—	—	—	—	73,600	73,600
Statutory transfer of loss on revaluation of IMF facilities	28.3	—	—	—	—	(41,031)	—	41,031	—
Statutory transfer of gain on revaluation of other foreign exchange balances	28.3	—	—	—	—	100,760	—	(100,760)	—
Other comprehensive income									
Revaluation of gold holdings	28.6	—	—	—	—	—	1,945	—	1,945
Transfer of foreign exchange gain on revaluation of gold holdings	28.3	—	—	—	—	2,869	(2,869)	—	—
Revaluation of property	28.4	—	—	—	20,653	—	—	—	20,653
Fair value reserve (available-for-sale financial assets)									
Net change in fair value	28.5	—	—	(7,462)	—	—	—	—	(7,462)
Net amount reclassified to profit or loss		—	—	176	—	—	—	—	176
Re-measurement of ex-gratia benefit		—		—	—	—	—	(2,224)	(2,224)
Total other comprehensive income		—	—	(7,286)	20,653	2, 869	(924)	(2,224)	13,088
Total comprehensive income		—	—	(7,286)	20,653	62,598	(924)	11,647	86,688
Transactions with owners of the Bank									
Contributions and distributions									
Transfer to General Reserve Fund	28.2	—	1,932	—	—	—	—	(1,932)	—
Transfer to special account	28.3	—	—	—	—	241	924	(1,165)	—
Appropriation due to Malawi Government		—	—	—	—	—	—	(8,550)	(8,550)
Redemption of existing promissory notes	28.3	—	—	—	—	(1,165)	—	—	(1,165)
Total contributions and distributions		—	1,932	—	—	(924)	924	(11,647)	(9,715)
Balance as at 31st December, 2016		19,484	13,997	(7,462)	34,652	61,674	—	—	122,345

RESERVE BANK OF MALAWI

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

	Note	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Cash flows from operating activities					
Interest receipts		102,438	101,169	39,511	38,637
Fees and commission receipts		686	460	611	336
Interest payments		(31,940)	(31,698)	(2,846)	(2,846)
Fees and commission payments		(187)	(187)	(280)	(233)
Cash payments to employees and suppliers		(40,210)	(39,314)	(36,215)	(35,626)
		30,787	30,430	781	268
Changes in operating assets and liabilities					
(Increase)/decrease in operating assets:					
Securities held for regulatory or monetary control purposes		(214,793)	(214,793)	(133,641)	(133,641)
Other short-term negotiable securities/assets		(10,442)	(7,721)	157	4,557
Holding of special drawing rights		3,268	3,268	977	977
Advances to Malawi Government		(6,992)	(6,992)	49,666	49,666
(Decrease)/increase in operating liabilities:					
Deposits from customers		(9,861)	(9,861)	51,527	51,527
Other liabilities		4,237	4,257	(8,458)	(11,269)
Net cash from other operating activities		367	367	8,190	8,190
Deposits held for regulatory or monetary control purposes		147,717	147,717	98,878	98,878
Notes and coins in circulation		44,478	44,478	26,324	26,324
Net cash flow (used in)/generated from operating activities		**(11,234)**	**(8,850)**	**94,401**	**95,477**
Cash flow from investing activities					
Purchase of property and equipment and intangible assets		(3,886)	(3,850)	(10,201)	(10,088)
Proceeds from sale of property and equipment		129	113	15	15
Net cash flow used in investing activities		(3,757)	(3,737)	**(10,186)**	**(10,073)**
Cash flow from financing activities					
Appropriation paid to Malawi Government		(16,092)	(16,092)	(8,550)	(8,550)
Investments made		—	—	—	(910)
Proceeds from long-term borrowings		47,143	45,165	38,803	38,803
Net cash inflow from financing activities		**31,051**	**29,073**	**30,253**	**29,343**
Net increase in liquid assets		16,060	16,486	114,468	114,747
Liquid assets at the beginning of the year		435,943	434,068	261,746	259,592
Foreign exchange loss on IMF facilities balances		(10,671)	(10,671)	(41,031)	(41,031)
Foreign exchange gain on other foreign exchange balances		14,143	14,143	100,760	100,760
		3,472	3,472	59,729	59,729
Liquid assets at the end of the year		455,475	454,026	435,943	434,068
Liquid assets are composed of:					
Foreign assets					
Cash and cash equivalents	7	2,995	2,995	1,427	1,427
Balances with foreign banks	8	424,790	424,790	430,840	430,840
Domestic assets					
Cash and cash equivalents	7	27,690	26,241	3,676	1,801
Total liquid assets		**455,475**	**454,026**	**435,943**	**434,068**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. **General information**

The Reserve Bank of Malawi ("the Bank") is a Central Bank domiciled in Malawi. The Bank's registered office is at City Centre, P.O. Box 30063, Lilongwe 3. The main business of the Reserve Bank of Malawi, which is governed by the requirements of the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi, is central banking and its related activities. The Bank's principal place of business is Plot Number Bwaila 1/16, Lilongwe, Malawi.

The consolidated financial statements present the consolidated financial position, financial performance and cash flows of the Reserve Bank of Malawi and its subsidiary, Export Development Fund Limited (collectively referred to as the "Group"). The separate financial statements present the separate financial position, financial performance and cash flows of the Reserve Bank of Malawi (referred to as the Bank). When reference is made to the Group in the accounting policies, it should be interpreted as also referring to the Bank where the context requires, unless otherwise stated.

2. **Functional and presentation currency**

These annual financial statements are presented in Malawi Kwacha, which is the Group's functional currency. All amounts have been rounded to the nearest million.

3. **New accounting standards, amendments and interpretations**

All accounting standards and amendments that became effective in the current year were assessed and have no impact on the annual financial statements.

3.1 **Standards and Interpretations in issue, not yet effective**

The Group has not applied the following new and revised accounting standards and interpretations that have been issued but are not yet effective:

New or amended standards	Summary of requirements	Possible Impact on the financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2015, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on the recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1st January, 2018, with early adoption permitted.	The actual impact of the standard on the Group's consolidated financial statements in 2018 is not known and can not reliably be estimated as it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting estimates and judgements that will be made in the future.
IFRS 9 *Revenue from contracts with customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 *Construction contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1st January, 2018, with early adoption permitted.	The Group has started assessing the potential impact of the standard. So far, the standard will not have a major impact on the Group's consolidated financial statements since most of the revenues for the Group are derived from interest income which will be within the scope of the financial instrument standards.

IFRS 16 *Leases*	IFRS 16 leases - realising its long outstanding goals of bringing leases on balance sheet for all companies that lease major assets for use in business will see an increase, in reported assets or liabilities. The new standard takes effect in January 2019. Before that companies will need to gather significant additional data about their leases and make new estimates and calculations. IFRS 16 is effective for annual reporting periods beginning on or after 1st January, 2019, with early adoption permitted if IFRS 15, *Revenue from Contracts with Customers* is also adopted.	The Group has started assessing the potential impact on the consolidated financial statements. So far, there is no significant impact on the consolidated financial statements since the Group only holds a few properties under the lease agreements and the values are immaterial.

4. **Significant accounting policies**

4.1 **Statement of compliance**

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by IASB and the requirements of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi).

4.2 **Basis of preparation**

The financial statements have been prepared on historical cost basis, except for available-for-sate financial investments, property and gold reserves, all of which have been measured at fair value.

4.3 **Basis of consolidation**

The annual consolidated and separate financial statements comprise the Bank and its subsidiary, Export Development Fund (EDF).

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within' equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

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 and separate financial statements from the date on which control commences until the date when control ceases.The investment is accounted for using the equity method.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non controlling interest 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.

Transactions eliminated on consolidation

Inter-group balances and transactions and any unrealised income and expenses arising from inter-group transactions are eliminated in preparing the annual 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.

4.4 **Transactions on behalf of the Government of Malawi**

Certain transactions entered into on behalf of the Government of Malawi and assets and liabilities arising out of these transactions are not reflected in the annual financial statements as the Group is concerned in such transactions only as an agent as per Section 42 of the Reserve Bank of Malawi Act, (Cap 44.02 of the Laws of Malawi).

4.5 **Property, plant and equipment**

Land and buildings

Land and buildings are held for use in the production or supply of goods and services or for administrative purposes.

Recognition and measurement

Land and buildings are initially measured at cost. Cost includes expenditure directly attributable to bringing the asset to the location and working condition for its intended use. Subsequent to initial measurement, land is recognised at its revalued amount being the fair value at the date of the revaluation less subsequent accumulated impairment losses whilst buildings are measured at their revalued amounts being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment tosses.

The Bank obtains an independent valuation of properties every 3 years, but also revalues its land and buildings with sufficient regularity when there is objective evidence from impairment indicators that property may have suffered impairment loss, to ensure that the carrying amounts do not differ materially from those that would be determined using fair values at each reporting period. Surpluses on revaluation are recognised in other comprehensive income, except to the extent that surplus reverses a previous revaluation deficit recognised in profit or loss, in which case the credit to that extent is recognised in profit or loss. Deficits on revaluation are recognised in profit or loss except to the extent that the deficit relates to a prior revaluation in which case it is recognised in other comprehensive income.

Computer equipment

These assets are carried at cost less accumulated depreciation, and any accumulated impairment losses. The expenditure is amortised over a three year period on a straight-line basis. Their residual values, depreciation methods and useful lives are reviewed and adjusted, if appropriate, annually.

Furniture and equipment

These assets are carried at cost less accumulated depreciation, and any accumulated impairment losses on the reducing balance basis over the anticipated useful lives of the assets at the following annual rates:

Furniture	10%
Equipment	25%

The assets' residual values, useful economic lives and depreciation methods are reviewed and adjusted, if appropriate, at every year-end.

Motor vehicles

These assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Their useful life is four years and the depreciation method used is straight line. Their residual values, depreciation methods and useful lives are reviewed and adjusted, if appropriate, annually.

Subsequent expenditure

Subsequent expenditure is recognised only to the extent that it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

Office and residential properties are depreciated on a straight-line basis at rates between 1% and 3.23% per annum. Land is not depreciated. Their residual values, depreciation methods and useful lives are reviewed and adjusted, if appropriate, annually.

The depreciable amount of a revalued asset is based on its revalued amount.

Derecognition

Property and equipment is derecognised on disposal and when no future economic benefits are expected from its use or disposal.

Gains and losses on disposal of assets

Gains and losses on disposal of property and equipment is determined by comparing proceeds less disposal costs with carrying amount; and are included in profit or loss.

4.6 Intangible assets (computer software)

The Group's intangible assets include the value of computer software acquired in business. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately

Intangible assets with a finite useful life that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over the asset's estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each reporting period.The estimated useful life is 3 to 6 years.

Internally generated intangible assets

Development expenditure on an internally generated intangible asset is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefit are probable and the Group intends to and has sufficient resources to complete development and to use or sale the asset. Otherwise expenditure is recognised in profit or toss as it is incurred.

internally generated intangible assets are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation of computer software is calculated using the straight-line method to write down the cost of intangible assets to their residual values over a three year period except for the Oracle general ledger and Automated Transfer System (ATS) and Central Securities Depository (GSD) software which are amortised over a period of six years.

4.7 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

For impairment testing, assets are grouped together into smaller groups of assets that generate cashflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (CGU). The recoverable amount of an asset or CGU is the higher of fair value Less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its tarrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. impairment tosses are recognised as an expense immediately, unless the relevant asset is land or buildings, other than investment property, carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that a revaluation increase has been recognised.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment toss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversaL of the impairment loss is treated as a revaluation increase to the extent that a revaluation decrease has been recognised.

4.8 **Gold**

According to Section 25 of Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi) the Group is required to hold Gold as part of its foreign reserves to back and stabilise the Malawi Kwacha currency. The value attributable to gold is determined by the prevailing market price of Gold as per Bloomberg financial data. Valuation gains/losses are included in other comprehensive income for the year.

4.9 **Financial instruments**

Classification

Financial instruments include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, employee benefit plans and provisions. Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are classified as follows:

(i) **Financial assets**

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition

loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to counterparties with no intention of trading the receivables. The Group has categorised the following financial assets under this category: cash and cash equivalents, balances with foreign banks, Special Drawing Rights ("SDR") holdings, Advances to Malawi Government and loans and advances.

Available-for-sale

These investments are those which may be sold as part of the Group's official operations or otherwise. The Group has categorised the following financial assets under this category: Government treasury bills, treasury notes, promissory notes, Investment in Malswitch, EDF and Norsad Fund Limited.

Subsequent to initial recognition, available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income until the financial asset is derecognised or impaired. Interest income and dividend income received on available-for-sale financial assets are recognised in profit or loss.

The Bank has a 5 percent interest in Malswitch and a 99.99 percent interest in Export Development Fund which are classified as available for sale financial assets in the separate financial statements. These investments are not quoted on the stock exchange and their fair value cannot be reliably measured. They are therefore measured at cost less impairment losses. Norsad Investment is measured using the net asset method and the Group has 3.68% shareholding in the company.

Financial assets at fair value through profit and loss (FVTPL)

This category has two sub-categories: (1) financial assets held for trading and (2) those designated at fair value through profit or toss at inception.

A financial asset is classified as `held for trading' if it is acquired principally for the purpose of selling in the short term, it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if it is so designated by management. Derivatives are also classified as held for trading, unless they are designated as hedges at inception.

A financial asset is designated as at fair value through profit or loss when it either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset, or recognising the gains or losses on it on different bases; or a portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to key management personnel The class of financial assets designated by the Group under this category are investments the Group has with fund managers which are included within balances with foreign banks. These investments are reported at fair value.

(ii) **Financial liabilities**

Financial liabilities are classified as financial liabilities at amortised cost. The classification depends on the purpose for which the financial liabilities were acquired. Financial liabilities are initially measured at cost including transaction costs.

Loans from the International Monetary Fund ("IMF")

The Bank receives loans from the IMF. These loans have been accounted for under IAS 39, Financial Instrument: Recognition and Measurement and measured initially at fair value and subsequently measured at amortised cost. IMF transactions are denominated in Special Drawing Rights (SDR). Gains and losses on translation of assets and liabilities denominated in SOR are included in profit or loss.

The following liabilities have been classified as financial liabilities measured at amortised cost: notes and coins in circulation; open market operations (OMO) instruments; borrowings; allocation of special drawing rights; bankers' deposits and other liabilities. The Group has not classified any financial liabilities as fair value through profit or loss.

Measurement

(i) *Initial recognition of financial assets and financial liabilities*

Financial assets and liabilities are initially measured at fair value which includes transaction costs, unless the instrument is classified as at fair value through profit or loss.

(ii) *Subsequent valuation of financial assets and financial liabilities*

Subsequent to initial measurement, gains and fosses arising from changes in the fair value of assets classified as fair value through profit or loss are included in the profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of financial assets are recognised as other comprehensive income until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised as other comprehensive income is recognised in the profit or loss. Any premium or discount paid on the purchase of available for sale debt instruments is amortised through the profit or loss using the effective interest rate method.

The fair values of quoted investments in active markets are based on current bid prices. In other cases, the Group establishes fair value by using appropriate valuation techniques. Investment in equity instruments with no reliable fair value measurement are measured at cost.

Loans and receivables and financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest recognised on an effective yield basis.

Derecognition

(i) **Financial assets**

The Group derecognises financial assets or a portion thereof when the contractual rights to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership of the financial assets are transferred. 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 at the amount it may have to pay. If the Group retains substantially all 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.

The Group writes off certain loans and investment securities when they are determined to be uncollectable.

(ii) **Financial liabilities**

The Group derecognises a financial liability when its contractual obligations have been discharged, cancelled, or have expired.

(iii) **Offsetting**

The Group offsets financial assets and liabilities and presents the net amount in the statements of financial position when and only when, there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Identification and measurement of impairment

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

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Group considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

When a loan is deemed uncollectible, it is written off and recognised in profit or loss. Subsequent recoveries are recognised in profit or loss. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is recognised in profit or loss.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this'case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

4.10 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities in foreign currencies are translated to Malawi Kwacha at rates of exchange ruling at the reporting date.

Under the terms of Section 54 (5) of the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi)., those gains or losses that relate to revaluations or devaluations of the Malawi currency are transferred to a special account reserve without affecting the Bank's profit or loss account. In the event that the special account reserve is in debit, the Government shall make good of such losses by issuing a promissory note.

Exchange differences dealt with under the terms of Section 54 (5) of the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi) are excluded from the calculation of profit and are appropriated to the general reserve fund.

Foreign currency differences on translation for monetary items are generally recognised in profit or loss. Where a gain or loss on a non-monetary item is recognised directly in other comprehensive income, such as equity investments classified as financial assets that are available for sale, the related exchange gain or loss is also recognised in other comprehensive income.

4.11 Repurchase agreements

In the course of its financial market operations, the Bank engages in repurchase agreements involving domestic currency securities.

Securities sold and contracted for purchase under repurchase agreements are classified under IAS 39 as "at fair value through profit or loss", as they are held for trading, and reported in the statements of financial position within the relevant investment portfolio. In accordance with this Standard the securities are valued at market bid prices on the reporting date and recognised gains or losses are taken to profit or loss. The counterpart obligation to repurchase the securities as reported in other liabilities at amortised cost, the difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Securities purchased and contracted for sale under repurchase agreements are classified under IAS 39 as "loans and receivables" and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

4.12 Cost of new notes and coins

The cost of new notes is charged to the profit or Loss at the time of issue. The cost of new notes received but not issued is shown as part of other assets. The cost of new coins (issued and unissued) is charged to profit or loss at the time of purchase.

4.13 Related parties transactions

The Bank is owned by the Malawi Government and utilises the exemption from the full disclosure requirement in relation to related party transactions and outstanding balances with Government.

4.14 Interest income and expense

Interest income and expense for all interest bearing financial instruments is recognised in profit or loss using the effective interest rate method. The effective interest rate method 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 period) 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 losses.

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

Interest income and expense presented in the statements of profit or loss includes:

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

4.15 Fee and commission income and expenses

Fee and commission income and expenses include account servicing fees, supervision fees, licensing and registration fees. These are recognised as the related services are performed.

4.16 Property income

Property income relates to rental income received from investment property and fair value changes thereof. The Bank receives income from the renting of the old Blantyre branch building and hiring fees on its recreation center and Silver stadium.

4.17 Other income

All other income not classified in the above categories are accommodated in the other income category.

4.18 Retirement benefit costs

The Group contributes to a defined contribution retirement benefit fund for employees. However, management guarantees minimum monthly pension for retirees thereby rendering it a hybrid scheme in that a minimum monthly pension vests regardless of past contributions. Contributions are recognised as an expense when employees have rendered service entitling them to the contributions. The assets of the scheme are held by the Reserve Bank pension fund. Further the Group also operates a defined benefit plan in the form of an ex- gratia benefit, Mn the aim of providing terminal benefits to its employees based on final pensionable salary as per guideline of the human resource policy. The valuation of the defined benefit obligation is done annually by an independent actuary using the projected unit method. The present value of the benefit is determined by discounting the estimated cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related liability. Remeasurement of retirement benefits comprise experience adjustments (the effects of difference between the previous actuarial assumptions and at actually occurred), as well as the effects of changes in actuarial assumptions and is reflected in other comprehensive income.

4.19 **Provisions, contingent assets and contingent liabilities**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4.20 **Capital**

Capital is classified as equity. The entire equity capital of the Group is held by the Government of Malawi. Under section 5 (2) of the Reserve Bank Act (Cap. 44:02 of the Laws of Malawi) the capital of the Bank shall be increased from time to time with consent from the Minister and the Government and that the latter shall ensure that the Bank is kept solvent at all times.

4.21 **Cash and cash equivalents**

For the purpose of the statements of cash now, cash and cash equivalents includes cash and short term liquid investments which are readily convertible to known amount of cash within a period of one month. Cash and cash equivalents are carried at amortised cost.

4.22 **Government grants**

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; and are subsequently recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the related expenses are recognised.

5. **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5.1 **Critical judgments in applying the Group's accounting policies**

5.1.1 **Maturity profile for balances with banks**

Management considered the short term nature and other relevant factors for the balances with foreign banks and classified these as maturing within three months.

5.2 **Basis of accounting estimates and judgements**

5.2.1 **Impairment of financial assets**

An asset is impaired if its carrying amount is greater than its estimated recoverable amount.

(i) Financial assets carried at amortised cost

For trade receivables and loans the carrying amount is reduced through the use of an allowance account. If the trade receivable is uncollectible, it is written off against the allowance account and when the amounts are truly written off they are removed from both accounts.

(ii) **Financial assets carried at fair value**

In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative foss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not subsequently reversed through profit or loss, Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

5.2.2 **Valuation of land and buildings**

The Group values its land and buildings every three years or whenever there is significant evidence that the value of land and building have changed.

5.2.3 **Fair values and effective interest rates of financial assets**

In the opinion of management, fair values of the Group's financial assets approximate their respective carrying amounts. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation techniques used are (the fair value hierarchy):

Level 1: Quoted prices in active markets for identical items;

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from the market data). Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 6.5 and 15.

5.2.4 **Provision for ex-gratia benefit**

The Group has provided for an ex-gratia benefit obligation as at 31st December, 2016, (see note 27) by engaging an actuary who carried out the assessment. Management considers the estimates in arriving at the amount of the provision to be appropriate.

6. **Risk management**

6.1 **Risk management governance structure**

The Group is exposed to significant risks such as credit, interest rate, liquidity, currency and operational risks due to the nature of its business. Responsibility for management of the Bank is vested with the Board. Accordingly, the Board has the overall and ultimate responsibility for the management of risks within the Bank. It receives reports from Executive Management which, in turn, is supported by the Board Risk Oversight Committee.

On-going institutional risk management oversight rests with the Governor's Office which receives support from Functional Heads supported by the Heads of Department who are designated as the risk managers in their respective functional areas in the risk management process. Heads of Department have the responsibility of ensuring that risk management practices and treatments are consistent with the Bank's requirement and are regularly monitored to ensure that management strategies remain effective and commensurate with the level of risk exposure. Specific to the risk management function, the Strategy and Risk Management Department (SRD) coordinates on an on-going basis the Bank-wide risk management process. The Bank's employs are also encouraged to actively support and contribute to risk management initiatives and advise their management of risk issues they believe require attention.

6.2 Operational risk

This is the risk of losses arising from the operations of the Bank. Losses can occur due to system malfunctions or failure to follow procedures. Operational risk manifests itself in losses, customer complaints and claims. To reduce the risk, management continuously reviews the controls and procedures in place. In addition, the Internal Audit Department periodically determines whether the controls in place are commensurate with the risks involved. Disaster recovery arrangements are also in place so that business can continue should major disruptions occur.

6.3 Financial instruments

6.3.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instruments and equity instruments, are disclosed in note 4 to the annual financial statements.

6.3.2 **Categories of financial instruments**

	Note	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Available-for-sale financial assets					
Treasury notes	13	401,625	401,625	157,178	157,178
Promissory notes	12	18,981	18,981	57,867	57,867
Treasury bills	14	28,667	28,667	9,349	9,349
Investment in Malswitch	18	17	17	17	17
Investment in Export Development Fund	17	—	2,700	—	2,700
Investment in Norsad Finance Limited	9	2379	—	2,207	—
Total		451,669	451,990	226,618	227,111
Loans and receivables (including cash and cash equivalents)					
Special Drawing Rights	22	66	66	3,334	3,334
Loans and advances included in other assets	11	11,933	4,762	8,337	3,929
Advances to Malawi Government	10	34,858	34,858	27,866	27,866
Balances with foreign banks, excluding items at FVTPL	8	352,322	352,322	365,551	365,551
Cash and cash equivalents	7	30,685	29,236	5,103	3,228
Total		429,864	421,244	410,191	403,908
Fair value through Profit or Loss (FVTPL)					
Presented as part of balances with foreign banks					
Investment with fund managers					
Bonds-Floating	8	33,824	33,824	30,147	30,147
Bonds-Fixed	8	38,644	38,644	35,142	35,142
Total		72,468	72,468	65,289	65,289

Categories of financial instruments—*(continued)*

Financial liabilities	Note	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Financial liabilities measured at amortised cost					
Notes and çoins in circulation	23	184,445	184,445	139,967	139,967
OMO instruments	26	268,934	268,934	99,708	99,708
Borrowings	21	155,980	151,292	112,227	109,517
Allocations of special drawing rights	22	65,301	65,301	61,911	61,911
Bankers' deposits	24	56,173	56,173	66,018	66,018
Government deposits	19	157,315	157,315	151,474	151,474
Other deposits	20	3,361	3,361	9,218	9,218
Other liabilities Less provisions	25	22,286	22,022	15,275	14,991
Total		913,795	908,843	655,798	652,804

6.4 **Financial risk management objectives**

The Group is involved in policy-oriented activities and therefore its risk management framework differs from the risk management frameworks for most other financial institutions that are there to maximize shareholders' returns.

The majority of the Group's financial risks arise from the foreign reserves management and domestic financial market operations. The main objectives of the domestic reserves management is to ensure that the activities of the Group are in line with stipulated statutes in order to ensure that there is no conflict of interest with the monetary policy framework and regulatory function as a central bank whilst that for foreign reserves management is to ensure that there is a sufficient amount of liquid financial resources at any time to undertake interventions in order to maintain stability of the exchange rate and facilitate official transactions. These functions are undertaken by the Financial Markets Department which also manages the financial risks relating to these operations through internal risk reports that analyse exposure by degree and magnitude of risks. These risks include market risk, credit risk, liquidity risk and interest rate risk.

As a matter of policy, interest rate risk on local investments and foreign exchange risk are not actively managed. This recognises the fact that active risk management could require the Bank to carry out transactions that conflict with its monetary policy stance. In the management of foreign reserves, minimising liquidity risk is one of the considerations taken to maintain an effective foreign exchange intervention capability.

6.4.1 **Capital risk management**

The Group manages its capital to ensure that its principal objectives are undertaken with adequate capital cover. In accordance with Section 5 (2) of the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi), the Bank's capital is, from time to time increased by such amounts as approved by the Board, with the consent of the Minister, and the Government subscribes and pays up, at par, the required amount. The Government ensures that the Bank is kept solvent at all times. The principal elements of the Group's capital are as disclosed in the statements of changes in equity.

6.4.2 **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

In providing liquidity through the open market operations or Malawi Inter-bank Transfer and Settlement System (MITASS), credit risk is managed by dealing with counterparties that meet appropriate credit and functional criteria, and by ensuring that exposures are fully collateralised by high-quality, marketable securities.

Credit risk on investments of foreign reserves is managed by holding only high-quality securities, issued largely by governments, government agencies and supranational organisations stipulated in the Reserves Management Policy. The exposure on supranational organisations will not exceed a maximum of sixty percent of the reserves due to the amount of credit risk they carry. Controls are further instilled through limiting exposure to counterparties as well as monitoring changes in credit worthiness continuously.

The table below shows the balances and advances with major banks and other institutions at the reporting date and the institutions' recent credit ratings according to either the Standard and Poor credit or Fitch rating scale. This represents the maximum credit exposure as at the reporting date for the Group.

Credit limits and balances with major central and commercial banks and other institutions at 31st December, 2016.

Bank/other institutions	**Locations**	**Rating**	**Credit limit as percentage of total portfolio**	**Actual holding as percentage of total portfolio**	**Carrying Amount Km**
Bank of England	Europe-North	AA	No limit	0.01%	48
Bank of Canada	America	AAA	No limit	0.00%	2
Deutsche Bundesbank	Europe	AAA	No limit	0.53%	2,237
Reserve Bank of South Africa	Africa-North	BBB	No limit	0.01%	58
Federal Reserve Bank of New York	America	AA+	No limit	14.91%	62,967
Bank of Tokyo Mitsubishi	Asia-North	A	20.00	0.01%	60
Citibank	America	A+	20.00	1.17%	4,928
Standard Chartered Bank	Europe	A+	20.00	0.04%	161
Crown Agents Fund Managers*	Europe	BB-	No limit	17.23%	72,798
Crown Agents Bank	Europe	BB-	No limit	0.70%	2,944
African Export and Import Bank	Africa	BBB-	60.00	3.39%	14,329
Commercial Bank of Mauritius	Africa	BBB-	20.00	0.02%	72
First Rand Bank	Africa	BBB-	20.00	3.12%	13,187
ESA Trade and Development Bank PTA Bank	Africa	BB	60.00	43.50%	183,747
Industrial & Commercial Bank of China	Asia	A	20.00	15.37%	64,913

Credit risk—(continued)

Credit limits and balances with major central and commercial banks and other institutions at 31st December, 2015.

Bank/other institutions	**Locations**	**Rating**	**Credit limit as percentage of total portfolio**	**Actual holding as percentage of total portfolio**	**Carrying Amount Km**
Bank of England	Europe-North	AA+	No limit	0.05%	222
Bank of Canada	America	AAA	No limit	0.00%	1
Deutsche Bundesbank	Europe	AA+	No limit	0.31%	1,317
Reserve Bank of South Africa	Africa-North	BBB-	No limit	0.03%	116
Federal Reserve Bank of New York	America	AA+	No limit	9.33%	39,980
Bank of Tokyo Mitsubishi	Asia-North	A	No limit	0.03%	114
Citibank	America	A+	20.00	7.61%	33,401
Mizuho Bank LDN	Europe	A	20.00	3.06%	13,129
Standard Chartered Bank	Europe	A+	20.00	0.06%	147
NATIXIS CB	Africa	A	20.00	7.61%	32,597
Crown Agents Fund Managers*	Europe	BBB-	No limit	15.40%	65,991
Crown Agents Bank	Europe	BBB-	20.00	0.86%	3,698
Bank of Mauritius	Africa	BBB+	No limit	0.02%	66
First Rand Bank	Africa	BBB-	20.00	11.72%	50,238
PTA Bank	Africa	BB	No limit	43.77%	187,602

The 17 % (2015: 15 %) with the Crown Agents Fund Managers includes a diversified portfolio of investments held with government and financial institutions.

6.4.3 Liquidity risk

Liquidity risk is the potential that an institution will be unable to meet its obligations as they fall due because of inability to liquidate assets or obtain adequate funding or that it cannot unwind or offset specific exposures without significantly affecting market prices.

The Group manages its foreign exchange liquidity risk through appropriate structuring of its portfolios and investing in liquid assets and deep markets including short term deposits and bonds issued by governments of the G7 countries. Under International Monetary Fund (IMF) liabilities (note 21) the Bank agrees with the IMF monetary targets that are to be achieved for macroeconomic stability.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Consolidated

At 31st December, 2016

	Note	Up to 1 month K'm	1 to 3 months K'm	4 to 12 months K'm	Over 12 months K'm	undetermined K'm	Total K'm
Financial and other assets							
Special Drawing Rights		—	—	—	66	—	66
Investments in Norsad Finance Ltd.	9	—	—	—	—	2,379	2,379
Investments in Malswitch	18	—	—	—	—	17	17
Investments in Malawi Government							
- promissory notes	12	425	—	—	18,556	—	18,981
- treasury notes	13	20,677	—	48,075	332,873	—	401,625
- treasury bills	14	—	26,319	2,348	—	—	28,667
Advances to Malawi Government	10	34,858	—	—	—	—	34,858
Liquid assets							
-Balances with foreign banks	8	—	424,790	—	—	—	424,790
-Cash and cash equivalents	7	30,685	—	—	—	—	30,685
Other assets	11	52	22,643	1,993	—	—	24,688
Total financial and other assets		86,697	473,752	5,416	351,495,	22,396	966,756
Financial liabilities							
Allocation of Special Drawing Rights	22	—	—	—	65,301	—	65,301
Borrowings	21	—	—	—	4,688	151,292	155,980
OMO instruments	27	79,851	81,215	107,868	—	—	268,934
Notes and coins in circulation	23	184,445	—	—	—	—	184,445
Bankers' deposits	24	56,173	—	—	—	—	56,173
Other deposits	20	3,361	—	—	—	—	3,361
Government deposits	19	157,315	—	—	—	—	157,315
Other liabilities	25	24, 261	—	—	—	—	24,261
Total financial liabilities		505,406	81,215	112,556	216,593	—	915,770

Consolidated

At 31st December, 2015

	Note	Up to 1 month K'm	1 to 3 months K'm	4 to 12 months K'm	Over 12 months K'm	undetermined K'm	Total K'm
Financial and other assets							
Special Drawing Rights		—	—	—	66	—	66
Investments in Norsad Finance Ltd.	9	—	—	—	—	2,700	2,700
Investments in Malswitch	18	—	—	—	—	17	17
Investments in Malawi Government							
- promissory notes	12	425	—	—	18,556	—	18,981
- treasury notes	13	20,677	—	48,075	332,873	—	401,625
- treasury bills	14	—	26,319	2,348	—	—	28,667
Advances to Malawi Government	10	34,858	—	—	—	—	34,858
Liquid assets							
-Balances with foreign banks	8	—	424,790	—	—	—	424,790
-Cash and cash equivalents	7	29,236	—	—	—	—	29,236
Other assets	11	—	17,513	—	—	—	17,513
Total financial and other assets		85,196	468,622	50,423	351,495	2,717	958,453
Financial liabilities							
Allocation of Special Drawing Rights	22	—	—	—	65,301	—	65,301
Borrowings	21	—	—	—	151,292	—	151,292
OMO instruments	27	79,851	81,215	107,868	—	—	268,934
Notes and coins in circulation	23	184,445	—	—	—	—	184,445
Bankers' deposits	24	56,173	—	—	—	—	56,173
Other deposits	20	3,361	—	—	—	—	3,361
Government deposits	19	157,315	—	—	—	—	157,315
Other liabilities	25	23, 997	—	—	—	—	23, 997
Total financial liabilities		505,142	81,215	107,868	216,593	—	910,818

Consolidated

At 31st December, 2015

	Note	Up to 1 month K'm	1 to 3 months K'm	4 to 12 months K'm	Over 12 months K'm	undetermined K'm	Total K'm
Financial and other assets							
Special Drawing Rights		—	—	—	3,334	—	3,334
Investments in Norsad Finance Ltd	9	—	—	—	—	2,700	2,700
Investments in Malswitch	18	—	—	—	—	17	17
Investments in Malawi Government							
- promissory notes	12	1,324	—	—	56,543	—	57,867
- treasury notes	13	—	—	—	157,178	—	157,178
- treasury bills	14	8,349	1,000	—	—	—	9,349
Advances to Malawi Government	10	27,866	—	—	—	—	27,866
Liquid assets							
-Balances with foreign banks	8	—	430,840	—	—	—	430,840
-Cash and cash equivalents	7	3,228	—	—	—	—	3,228
Other assets	11	—	9,962	—	—	—	9,962
Total financial and other assets		40,767	441,802		217,055	2,717	702,341
Financial liabilities							
Allocation of Special Drawing Rights	22	—	—	—	61,911	—	61,911
Borrowings (IMF loans)	21	—	—	—	109,517	—	109,517
OMO instruments	27	55,373	31,712	12,623	—	—	99,708
Notes and coins in circulation	23	139,967	—	—	—	—	139,967
Bankers' deposits	20	66,018	—	—	—	—	66,018
Other deposits	24	9,218	—	—	—	—	9,218
Government deposits	19	151,474	—	—	—	—	151,474
Other liabilities	25	16, 534	—	—	—	—	16, 534
Total financial liabilities		438,584	31,712	12,623	171,428	—	654,347

There are more liabilities in the "up to one month" category for both the Group and the Bank. The balance arose due to transactions relating to currency in circulation and deposits. The transactions were classified according to demand but as a central bank there is not much exposure.

6.4.4 Interest rate risk

Interest rate risk is the risk of a change in the value of an investment as a result of a change in the absolute level of interest rates.

The Group manages this risk in its foreign reserves investment by prescribing a benchmark index that has an acceptable level of risk, specifying target duration for each sub portfolio. Currently, the Group uses a composite of Merrill Lynch 1-3 Year US Government Bond Index (80%) and the Merrill Lynch 3 month US Dollar Deposit Offer Rate (20%) as its benchmark for foreign reserves being managed by external fund managers. Further, a risk budget is allocated to external fund managers, expressed in terms of acceptable level of underperformance versus the benchmark.

The value of the external funds being managed by the external fund managers stood at K72,468 million as at 31st December, 2016 (2015: K65,991 million).

For domestic investments in securities such as treasury bills, the Group does not actively manage the related interest rate risk because these investments are largely for monetary policy purposes and the overriding concern is the monetary policy consideration and not the interest rate risk.

The Group uses the existing contractual interest rates and maturity profiles for the various assets and liabilities held at year-end in preparing the interest rate risk sensitivity gap analysis. The table on the following page summarises the carrying amount of interest rate sensitive assets and liabilities and the notional amounts of financial instruments in the period in which they next reprice to market rates or mature. The sum of these reflects the interest rate sensitivity gap.

Consolidated

Interest rate sensitivity gap analysis		**1–3**	**4–12**	**Over 12**	**Non-rate**	
31st December, 2016	**On demand**	**months**	**months**	**months**	**sensitive**	**Total**
	K'm	**K'm**	**K'm**	**K'm**	**K'm**	**K'm**
Financial and other assets						
Special Drawing Rights	—	—	—	66	—	66
Investments in Malawi Government:						
- promissory notes	425	—	—	18,556	—	18,981
- treasury notes	20,677	—	48,075	332,873	—	401,625
- treasury bills	—	26,319	2,348	—	—	28,667
Advances to Malawi Government	34,858	—	—	—	—	34,858
Liquid assets						
- balances with foreign banks	—	351,992	—	—	—	351,992
- investments with fund managers	—	72,798	—	—	—	72,798
- cash and cash equivalents	30,685	—	—	—	—	30,685
Loan receivables included in other assets	—	5,127	1,993	—	—	7,120
Total interest bearing assets	**86,645**	**456,236**	**52,416**	**351,495**	—	**946,792**
Non-interest bearing assets	—	—	—	—	**102, 374**	**102,374**
Total financial and other assets	**86,645**	**456,236**	**52,416**	**351,495**	**102,374**	**1,049,166**

Consolidated

Interest rate sensitivity gap analysis		**1–3**	**4–12**	**Over 12**	**Non-rate**	
31st December, 2016	**On demand**	**months**	**months**	**months**	**sensitive**	**Total**
	K'm	**K'm**	**K'm**	**K'm**	**K'm**	**K'm**
Financial liabilities						
Allocation of Special Drawing Rights	—	—	—	65,301	—	65,301
Borrowings	—	—	4,688	151,292	—	155,980
OMO Instruments	79.851	81,215	107,868	—	—	268,934
Total interest bearing liabilities	79,851	81,215	112,556	216,593	—	490,215
Non-interest bearing liabilities	—	—	—	—	433,624	433,624
Shareholders' funds	—	—	—	—	125,327	125,327
Total financial liabilities	**79,851**	**81,215**	**112,556**	**216,593**	**558,952**	**1,049,166**
Interest rate sensitivity gap	**6,794**	**375,021**	**(60,140)**	**134,902**	**(456,577)**	**—**
Cumulative interest rate sensitivity gap	**6,794**	**381,815**	**321,675**	**456,577**	**—**	**—**

Separate

31st December, 2016	**On demand**	**months**	**months**	**months**	**sensitive**	**Total**
	K'm	**K'm**	**K'm**	**K'm**	**K'm**	**K'm**
Financial and other assets						
Special Drawing Rights	—	—	—	66	—	66
Investments in Malawi Government:						
- promissory notes	425	—	—	18,556	—	18,981
- treasury notes	20,677	—	48,075	332,873	—	401,625
- treasury bills	—	26,319	2,348	—	—	28,667
Advances to Malawi Government						
Liquid assets	34,858	—	—	—	—	34,858
- balances with foreign banks	—	351,992	—	—	—	351,992
- investments with fund managers	—	72,798	—	—	—	72,798
- cash and cash equivalents	29,236	—	—	—	—	29,236
Total interest bearing assets	**85,196**	**451,109**	**50,423**	**351,495**	**—**	**938,223**
Non-interest bearing assets	**—**	**—**	**—**	**—**	**102,547**	**102,547**
Total financial and other assets	**85,196**	**451,109**	**50,423**	**351,495**	**102,547**	**1,040,770**

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Separate.

31st December, 2016	On demand	1–3 months	4–12 months	Over 12 months	Non-rate sensitive	Total
	K'm	K'm	K'm	K'm	K'm	K'm
Financial liabilities						
Allocation of Special Drawing Rights	—	—	—	65,301	—	65,301
Borrowings	—	—	—	151,292	—	151,292
OMO Instruments	79,851	81,215	107,868	—	—	268,934
Total interest bearing liabilities	79,851	81,215	107,868	216,593	—	485,527
Non-interest bearing liabilities	—	—	—	—	433,360	433,360
Shareholders' funds	—	—	—	—	121,883	121,883
Total financial liabilities	79,851	81,215	107,868	216,593	555,243	1,040,770
Interest rate sensitivity gap	5,345	369,894	(57,445)	134,902	(452,696)	—
Cumulative interest rate sensitivity gap	5,345	375,239	317,794	452,696	—	—

Interest rate sensitivity gap analysis 31st December, 2015	On demand	1–3 months	4–12 months	Over 12 months	Non-rate sensitive	Total
	K'm	K'm	K'm	K'm	K'm	K'm
Financial and other assets						
Special Drawing Rights	—	—	—	3,334	—	3,334
Investments in Malawi Government:						
- promissory notes	1,324	—	—	56,543	—	57,867
- treasury notes	—	—	—	157,178	—	157,178
- treasury bills	8,349	1,000	—	—	—	9,349
Advances to Malawi Government	27,866	—	—	—	—	27,866
Liquid assets						
- balances with foreign banks	—	364,849	—	—	—	364,849
- investments with fund managers	—	65,991	—	—	—	65,991
- cash and cash equivalents	5,103	—	—	—	—	5,103
Loan receivable	—	3,239	1,206	—	—	4,445
Total interest bearing assets	42,642	435,079	1,206	217,055	—	695,982
Non-interest bearing assets	—	—	—	—	91,913	91,913
Total financial and other assets	42,642	435,079	1,206	217,055	91,913	787,895

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2016—(*Continued*)

Consolidated

Interest rate sensitivity gap analysis 31st December, 2015	**On demand K'm**	**1–3 months K'm**	**4–12 months K'm**	**Over 12 months K'm**	**Non-rate sensitive K'm**	**Total K'm**
Financial liabilities						
Allocation of Special Drawing Rights	—	—	—	61,911	—	61,911
Borrowings	—	2,710	109,517	—	—	112,227
Other OMO Instruments	55,373	31,712	12,623	—	—	99,708
Total interest bearing liabilities	55,373	31,712	15,333	171,428	—	273,846
Non-interest bearing liabilities	—	—	—	—	388,790	388,790
Shareholders' funds	—	—	—	—	125,259	125,259
Total financial liabilities	**55,373**	**31,712**	**15,333**	**171,428**	**514,049**	**787,895**
Interest rate sensitivity gap	**(12,731)**	**403,367**	**(14,127)**	**45,627**	**(422,136)**	—
Cumulative interest rate sensitivity gap	**(12,731)**	**390,636**	**376,509**	**422,130**	—	—

Separate

Interest rate sensitivity gap analysis 31st December, 2015	**On demand K'm**	**1–3 months K'm**	**4–12 months K'm**	**Over 12 months K'm**	**Non-rate sensitive K'm**	**Total K'm**
Financial and other assets						
Special Drawing Rights	—	—	—	3,334	—	3,334
Investments in Malawi Government:						
- promissory notes	1,324	—	—	56,543	—	57,867
- treasury notes	—	—	—	157,178	—	157,178
- treasury bills	8,349	1,000	—	—	—	9,349
Advances to Malawi Government	27,866	—	—	—	—	27,866
Liquid assets						
- balances with foreign banks	—	364,849	—	—	—	364,849
- investments with fund managers	—	65,991	—	—	—	65,991
- cash and cash equivalents	3,228	—	—	—	—	3,228
Total interest bearing assets	**40,767**	**431,840**		**217,055**	—	**689,662**
Non-interest bearing assets	—	—	—	—	**92,325**	**92,325**
Total financial and other assets	**40,767**	**431,840**	—	**217,055**	**92,325**	**781,987**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2016—*(continued)*

Separate

31st December 2015	**On demand** K'm	**1–3 months** K'm	**4–12 months** K'm	**Over 12 months** K'm	**Non-rate sensitive** K'm	**Total** K'm
Financial liabilities						
Allocation of Special Drawing Rights	—	—	—	61,911	—	61,911
Borrowings	—	—	—	109,517	—	109,517
Other OMO Instruments	55,373	31,712	12,623	—	—	99,708
Total interest bearing liabilities	55,373	31,712	12,623	171,428	—	271,136
Non-interest bearing liabilities	—	—	—	—	388,506	388,506
Shareholders' funds	—	—	—	—	122,345	125,345
Total financial liabilities	**55,373**	**31,712**	**12,623**	**171,428**	**510,851**	**781,987**
interest rate sensitivity gap	**(14,606)**	**400,128**	**(12,623)**	**45,627**	**(418,526)**	—
Cumulative interest rate sensitivity gap	**(14,606)**	**385,522**	**372,899**	**418,526**	—	—

6.4.5 **Market risk**

The Group is exposed to market risk on international financial markets, principally through changes in the relevant interest rates received and paid largely on its foreign assets and foreign liabilities. Exposure may also be incurred to changes in exchange rates and shifts in general market conditions, such as the liquidity of the assets market. The Bank has engaged the services of professional fund managers who manage a 'significant portfolio of its foreign assets. An appropriate benchmark was given which has several aspects in terms of quality of instruments, maximum duration and credit concentration.

6,4.5.1 **Sensitivity analysis of market risk**

The Bank uses models to assess the impact of possible changes in market risks. These risks include interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Bank bases its analysis on the interest sensitivity gap (Note 6.4.4). The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	Consolidated 2016 K'm	**Separate 2016** K'm	**Consolidated 2015** K'm	**Separate 2015** K'm
Effect on profit of a +5% change in interest rates	3,374	3,322	2,543	2502
Effect on profit of a +5% change in interest rates	(3,374)	(3,322)	(2,543)	(2,502)
Effect on equity of a +5% change in interest rates	1,214	1,163	793	750
Effect on equity of a +5% change in interest rates	(1,214)	(1,163)	793	(750)

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Bank has assets and liabilities in various currencies; however, the most significant exposure arises from assets denominated in the XDR, USD, GBP and EURO currencies. The following table demonstrates sensitivity to reasonably possible changes in the currencies in which the Group transacts, with all other variables held constant, on the Group's profit earned.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Effect on profit of a +5% change in interest rates	19,480	19,247	18,527	18,502
Effect on profit of a +5% change in interest rates	19,480	(19,247)	(18,527)	(18,502)
Effect on equity of a +5% change in interest rates	19,480	19,247	18,527	18,502
Effect on equity of a +5% change in interest rates	19,480	(19,247)	(18,527)	(18,502)

6.4.5.2 **Currency risk**

Currency risk relates to the exposure of the Group's foreign exchange position to adverse movements in foreign exchange rates. These movements may impact on the Bank's future cash flows. The Bank manages this risk by adhering to currency exposure limits as stipulated in Foreign Exchange Reserves Management Policy.

Consolidated

Currency composition as at 31st December, 2016

Figures in Millions Malawi Kwacha equivalents

Currency	**USD**	**CAD**	**GBP**	**JPY**	**CHF**	**EUR**	**ZAR**	**XDR**	**Total**
Financial liabilities									
Government deposits	108,597	—	393	—	—	8,697	—	—	117,687
Allocation of special drawing rights	—	—	—	—	—	—	—	65,301	65,301
Other deposits	3,361	—	—	—	—	—	—	—	3,361
Borrowings	4,688	—	—	—	—	—	—	151,292	155,980
Total	**116,646**	—	**393**	—	—	**8,697**	—	**216,593**	**342,329**
Assets									
Cash and cash equivalents	2,935	—	—	—	35	—	25	—	2,995
Special drawing rights	—	—	—	—	—	—	—	66	66
Gold reserve account	10,638	—	—	—	—	—	—	—	10,638
Foreign nostros	68,127	2	48	60	—	2,236	—	—	70,473
1P-Time deposits	262,989	—	13,187	—	—	—	—	—	276,176
IMF - Reserve tranche	—	—	—	—	—	—	—	2,341	2,341
Funds under foreign management and	73,331	—	1,985	—	—	—	—	—	75,316
IP - Foreign special	426	—	—	—	—	—	58	—	484
Investment in Norsad Finance Ltd.	2,379	—	—	—	—	—	—	—	2,379
Total	**420,825**	**2**	**15,220**	**60**	**35**	**2,236**	**83**	**2,407**	**440,868**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS—*(continued)*

Separate

Currency composition as at 31st December, 2016

Figures in Millions Malawi Kwacha equivalents

Currency	USD	CAD	GBP	JPY	CHF	EUR	ZAR	XDR	Total
Financial liabilities									
Government deposits	108,597	—	393	—	—	8,697	—	—	117,687
Allocation of special drawing rights	—	—	—	—	—	—	—	65,301	65,301
Other deposits	3,361	—	—	—	—	—	—	—	3,361
Borrowings	—	—	—	—	—	—	—	151,292	151,292
Total	**111,958**	—	**393**	—	—	**8,697**	—	**216,593**	**337,641**
Assets									
Cash and cash equivalents	2,935	—	—	—	35	—	25	—	2,995
Special drawing rights	—	—	—	—	—	—	—	66	66
Gold reserve account	10,638	—	—	—	—	—	—	—	10,638
Foreign nostros	68,127	2	48	60	—	2,236	—	—	70,473
IP-Time deposits	262,989	—	13,187	—	—	—	—	—	276,176
IMF - Reserve tranche	—	—	—	—	—	—	—	2,341	2,341
Funds under foreign management and	73,331	—	1,985	—	—	—	—	—	75,316
IP - Foreign special	426	—	—	—	—	—	58	—	484
Investment in Norsad Finance Ltd	2,379	—	—	—	—	—	—	—	2,379
Total	**418,446**	**2**	**15,220**	**60**	**35**	**2,236**	**83**	**2,407**	**438,489**

Currency composition as at 31st December, 2015

Figures in Millions Malawi Kwacha equivalents (millions)

Currency	USD	CAD	GBP	JPY	CHF	EUR	ZAR	XDR	Total
Financial liabilities									
Government deposits	96,066	248	—	—	—	9,380	—	—	105,694
Allocation of special drawing rights	—	—	—	—	—	—	—	61,911	61,911
Other deposits	9,218	—	—	—	—	—	—	—	9,218
Borrowings	—	—	—	—	—	—	—	109,517	109,517
Total	**105,284**	**248**	—	—	—	**9,380**	—	**171,428**	**286,340**
Financial and other assests									
Cash and cash equivalents	1,371	—	—	—	33	1	22	—	1,427
Special drawing rights	—	—	—	—	—	—	—	3,334	3,334
Gold reserve account	8,939	—	—	—	—	—	—	—	8,939
Foreign nostros	73,594	1	222	115	—	1,317	—	—	75,249
IP-Time deposits	223,814	—	59,751	—	—	—	—	—	283,566

IMF - Reserve tranche	—	—	—	—	—	—	—	2,221	2,221
Funds under foreign management and	66,946	—	2,547	—	—	—	—	—	69,519
IP - Foreign special	169	—	—	—	—	—	116	—	2,379
Total	374,833	1	62,547	115	33	1,318	138	5,555	444,540

6.5 **Fair value of financial assets and financial liabilities**

The carrying åmounts of loans and advances, liquid assets, deposits, and short-tern balances with foreign banks approximate their fair value. In the absence of an active market, discounted cashflow techniques are used to determine the fair value of the financial assets and financial liabilities.

6.5.1 **Fair value measurements recognised in the statement of financial position**

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value grouped into fair value hierarchy levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Consolidated and separate	Level 1 Kim	Level 2 K'm	Level 3 K'm	Total K'm
31st December, 2016				
Financial assets at fair value through profit or loss				
Crown Agents - Treasury Notes and Bonds	72,468	—	—	72,468
Available-for-sale financial assets				
-Treasury Bills	28,667	—	—	28,667
-Treasury Notes	—	401,625	—	401,625
-Promissory Notes	—	18,981	—	18,981
	101,135	420,606	—	521,741

	Level 1 **K'm**	**Level 2** **K'm**	**Level3** **K'm**	**Total** **K'm**
31st December, 2015				
Financial assets at fair value through profit or loss				
Crown Agents - Treasury Notes and Bonds	65,289	—	—	65,289
Available-for-sale financial assets				
-Treasury Bills	9,349	—	—	9,349
-Treasury Notes	—	157,178	—	157,178
-Promissory Notes	—	57,867	—	57,867
	74,638	215,045	—	289,683

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2016—(*continued*)

Financial Assest	Fair value as at 31st December, 2017	Fair value Hierarchy	Valuation tech-niques(s) and key inputs(s)	Significant unobservable input(s)	Relationship unobservable inputs to fair value
1 Fair value through profit or loss	Crown agent-Treasury Notes and Bond-K722,468 million	Level 1	Quoted bid prices in an active market	N/A	N/A
2 Available-for-sale securities	Treasury Bills K28,667 million	Level 1	Quoted bid prices in an active market	N/A	N/A
3 Available-for-sale securities	Treasury note-K401,625 million Promissory notes-K18,981 million	Level2	Market yields were used to calculate the fair value of these securities.	Fair value was based on expected future cash flows using the market yield rate as at 31st December, 2016 as the discount rate.	Although the Group believes that estimates of the fair value are appropriate the use of different methodologies or assumptions could lead to different measurement of fair value.

6.5.2Fair value measurements of property

For details of the Group's land and buildings (see Note 15). Information about the fair value hierarchy as at 31st December, 2016 is as follows:

	Levl 3	Fair value
Land and Buildings	55,356	55,356

6.5.3 **Fair value measurements of Gold Reserve**

See accounting policy Note 4.8	Levl 2	Fair value
Gold Reserve	10,638	10,634

The value attributable to gold is determined by prevailing market price of Gold as per Bloomberg financial data. Valuation gains/losses are included in other comprehensive income for the year. The total ounces held by the Bank for Gold as at the reporting date was 12,836.99 (2015:12,836.99).

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
7. **Cash and cash equivalents**				
See accounting policy Note 4.21				
Foreign				
Foreign cash	2,995	2,995	1,427	1,427
Sub-total	2,995	2,995	1,427	1,427

Domestic				
Cash	27,690	26,241	3,676	1,801
Sub-total	27,690	26,241	3,676	1801
Total cash and cash equivalents	30,685	29,236	5,103	3,228

8. **Balances with foreign banks**

See accounting policy Note 4.10

Analysis of balances/placements by geographical location:

Africa	211,392	211,392	270,618	270,618
Europe	80,533	80,533	86,726	86,726
North America	67,892	67,892	73,382	73,382
Asia	64,973	64,973	114	114
	424,790	424,790	430,840	430,840

The Bank's principal liquidity risk management objective is to maintain sufficient liquid resources to enable it to meet all probable cash flow needs for a rolling 1-year horizon without sourcing additional financing. Included in total balances with foreign banks are funds of K72,798 million (2015: K65,991 million) that have been placed with external fund managers (Crown Agents) who are given a mandate of investing the funds with a modified duration of less than three years. However the investments are easily convertible such that they can be liquidated at short notice.

Included in the K72,798 million (2015: K65,991 million) with external fund managers is K330 million (2015:K702 million) and funds under management by Crown Agents amounting to K72,468 million (2015: K65,991 million) whose underlying investments were as follows:

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Bonds - Floating	33,824	33,824	30,147	30,147
Bonds - Fixed	38,644	38,644	35,142	35,142
	72,468	72,468	65,289	65,289

Balances with foreign banks carry interest rates of between 0.375% and 2.375% (2015: 0.375% and 2.375%) per annum.

9, **Investment in NORSAD Finance Limited**

See accounting policy Note 4.9

The K2,379 million (2015: K2,207 million) relates to an investment by the Export Development Fund (EDF) in Norsad Finance Limited. Norsad Finance Limited is a development finance institution established to contribute to private sector development of Southern African countries by way of availing funding to enterprises that are financially, socially and environmentally sustainable and which will create jobs with decent working conditions, adopt good governance and overall assist economic growth and poverty alleviation in Southern African countries. EDF was allotted 400 Ordinary shares in Norsad Finance Limited through the Malawi Government in 2012, representing 3.68% of the Ordinary shares in Norsad Finance Limited.

10. **Advances to Malawi Government**

See accounting policy Note 4.9

Government borrowing from the Reserve Bank of Malawi is guided by section 40 of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi), which stipulates that the total amount of advances outstanding at any time made by the Bank under this section shall not exceed 10 percent (2015: 10 percent) of the domestic revenue of the Government for the previous financial year.

Under the terms of Section 40 (4) of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi), short-term advances must be repaid within four months of the end of the Malawi Government's financial year, which is 30th June, 2016. These advances bear interest at the ruling Bank rate which was at 24% (2015: 27%) as at 31st December, 2016, payable monthly. As at 31st December, 2016, the Government had K34,858 million (2015: K27.866 million) owing to the Bank as advances.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
11. Other assets				
See accounting policy Note 4.9				
Prepayments	2,508	2,508	3,276	3,276
Loans and advances	7,132	—	4,389	—
Staff loans and advances	4,801	4,762	3,948	3,929
Impairment of staff loans	(1,926)	(1,926)	(1,756)	(1,756)
Recoverable expenditure	957	957	722	722
Other receivables	4	—	2	2
Inventory: currency notes	9,317	9,317	2,863	2,863
Accrued interest	37	37	2	2
Consumable stocks	351	351	455	455
Clearing and suspense accounts	1,507	1,507	469	469
Total other assets	**24,688**	**17,513**	**14,370**	**9,962**

Staff loans are issued to members of staff at concessionary rates. The recoverable amount of the loan balances was determined using the effective interest rate method and the difference between the carrying value and the recoverable amount was recognised as an impairment loss in profit or loss. The directors consider the carrying amounts of other assets to approximate their fair values.

Included in loans and advances under the consolidated financial statements is a loan balance of K7,120 million (K4,445 million) relating to advances that have been granted by the subsidiary to its customers.

12. **Malawi Government promissory notes**		**Consolidated**	**Separate**	**Consolidated**	**Separate**
		2016	**2016**	**2015**	**2015**
See accounting policy Note 4.9		**K'm**	**K'm**	**K'm**	**K'm**
31st December 2012	(i)	—	—	27,567	27,567
31st December 2013	(ii)	18,556	18,556	28,976	28,976
Accrued interest	(iii)	425	425	1,324	1,324
Total Malawi Government promissory notes		18,981	18,981	57,867	57,867

The promissory notes, which meet the definition of financial assets in accordance with IAS 39, were issued by the Government of Malawi in accordance with Section 54 (5) of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi).

(i) An interest bearing promissory note of K27,567 issued by Malawi Government in settlement of the loss incurred by the Bank for the financial year ended 31st December, 2012, was disposed off to PTA Bank at face value during the year. The promisory note was disposed at a coupon of 1.5%.

(ii) An interest bearing promissory note of K28,976 million issued at face value by the Malawi Government in settlement of the loss incurred by the Bank for the financial year ended 31st December, 2013. A partial disposal of K8,138 million was made to PTA Bank leaving a balance of K2[illegible] million. Further the balance was partially redeemed out of the transfer made to special account reserve. The transfer represents [illegible] of the net profit for the year before foreign exchange revaluation gains or losses and [illegible] in accordance with Section 54 (4) of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi). The note is denominated in Malawi Kwacha and matures after five years from its effective issue date of 31st December, 2013. It bears interest at the ruling Bank rate.

(iii) As at 31st December, 2016, the Group recorded an accrued interest of K425 million due from Government on the existing promissory notes.

13. **Malawi Government treasury notes**	**Consolidated**	**Separate**	**Consolidated**	**Separate**
	2016	**2016**	**2015**	**2015**
See accounting policy Note 4.9	**K'm**	**K'm**	**K'm**	**K'm**
The treasury notes will mature as follows:				
Less than one year	64,672	64,672	—	—
Between one year and five years	178,229	178,229	112,336	112,336
Above five years	158,724	158,724	44,842	44,842
Total Malawi Government treasury notes	401,625	401,625	157,178	157,178

Included in the total figure for treasury notes are two treasury notes with a face value of K19,179 million and K6,083 million respectively that were issued in January 2008 as part of the recapitalisation process undertaken by the Malawi Government. The treasury notes bear a 16.5% and 27.5% coupon rate respectively and will mature as follows:

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
- Within three months	19,179	19,179	—	—
- Between one year and five years	6,083	6,083	25,262	25,262
Total Malawi Government treasury notes	25,262	25,262	25,242	25,262

Total interest income from these treasury notes for the year ended 31st December, 2016, was K4,850 million (2015: K4,837 million). The interest is receivable semi-annually.

During the year, the Government converted Advances to Malawi Government with a total balance of K224,990 million (2015:K127,000m) by issuing treasury notes with a total face value of (K383,920 million (2015:K199,692m). The Treasury notes bear coupon interest rates ranging from 10% to 14% per annum.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
14. Malawi Government treasury bills				
See accounting policy Note 4.9				
The treasury bills will mature as follows:				
less than three months	26,319	26,319	9,349	9,349
within three months and one year	2,348	2,348	—	—
Total Malawi Government treasury notes	28,667	28,667	9,349	9,349

These treasury bills are held by the Bank as available-for-sale financial assets and are carried at fair value. As at 31st December, 2016, they carried an average interest rate of 25.07% (2015: 22.41%) per annum.

15. Property and equipment

See accounting policy Note 4.5

Consolidated

2016	Land & buildings K'm	Computer hardware K'm	Furniture equipment and motor vehicles K'm	Total K'm
Cost or valuation				
At beginning of the year	54,563	2,183	13,518	70, 264
Additions	1,546	490	1,373	3,409
Disposals	—	(23)	(197)	(220)
At end of the year	56,109	2,650	14,694	73,453

15. **Property and equipment** *(continued)*

2016	Land and buildings K'm	Computer hardware K'm	Furniture equipment and motor vehicles K'm	Total K'm
Accumulated depreciation and impairment				
At beginning of the year	58	655	2,436	3,149
Charge for the year	696	439	1,211	2,346
Disposal	—	(20)	(156)	(176)
At end of the year	754	1,074	3,491	5,319
Carrying amount at end of the year	**55,355**	**1,576**	**11,203**	**68,134**

2015	Land and buildings K'm	Computer hardware K'm	Furniture equipment and motor vehicles K'm	Total K'm
Cost or valuation				
At beginning of the year	34,715	1,247	4,603	40,565
Additions	5,835	244	3,708	9,787
Disposals	—	(19)	(62)	(81)
Transfers	(5,880)	712	5,267	99
Revaluation surplus	20,204	—	—	20,204
Impairment toss	(311)	(1)	2	(310)
At end of the year	**54,563**	**2,183**	**13,518**	**70,264**
Accumulated depreciation and impairment				
At beginning of the year	14	505	1,914	2,433
Charge for the year	203	166	578	947
Disposal	—	(16)	(56)	(72)
Eliminated on Revaluation	(159)	—	—	(159)
At end of the year	58	655	2,436	3,149
Carrying amount at end of the year	**54,505**	**1,528**	**11,082**	**67,115**

Separate

2016	Land and buildings K'm	Computer hardware K'm	Furniture equipment and motor vehicles K'm	Total K'm
Cost or valuation				
At beginning of the year	54,563	2,178	13,315	70,056
Additions	1,547	488	1,340	3,375
Disposals	—	(23)	(182)	(205)
At end of the year	56,110	2,643	14,473	73,226
Accumulated depreciation and impairment				
At beginning of the year	58	653	2,348	3,059
Charge for the year	695	440	1,165	2,300
Disposal	—	(20)	(154)	(174)
At end of the year	753	1,073	3,359	5,185
Carrying amount at end of the year	55,357	1,570	11,114	68,041

2015	Land and buildings K'm	Computer hardware K'm	Furniture equipment and motor vehicles K'm	Total K'm
Cost or valuation				
At beginning of the year	34,715	1,242	4,514	40,471
Additions	5,835	244	3,594	9,673
Disposals	—	(19)	(62)	(81)
Tranfers	(5,880)	712	5,267	99
Revaluation Surplus	20,204	—	—	20,204
Impairment loss	(311)	(1)	2	(310)
At end of the year	54,563	2,178	13,315	70,056
Accumulated depreciation and impairment				
At beginning of the year	14	504	1,857	2,375
Charge for the year	203	165	547	915
Disposal	—	(16)	(56)	(72)
Tranfers	—	—	—	—
Elimated on Revaluation	(159)	—	—	(159)
At end of the year	58	653	2,348	3,059
Carrying amount at end of the year	54,505	1,525	10,967	66,997

Property and equipment —(*continued*)

Valuations of land and buildings are performed by independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Land and buildings were revalued as at 31st December, 2015, on an open market value basis as follows:

(*a*) Reserve Bank Mzuzu Branch, New and Old Blantyre Branch by A. M. Chinkhadze, Registered Member of the Royal Institution of Chartered Surveyors (RICS), (Dip., BSc. (Agric) (MW), BSc. (Hons) (Property Valuation & Management) (UK), MBA (RSA), MSIM)) of Upimbi Property Services.

(*b*) Reserve Bank Headquarters, Silver Strikers Stadium, Club house by J. J. Kantema BSc. (Hans) Land Admin., BSoc., MSIM, Registered Valuation Surveyor, of Real Property and Development Consultants.

(*c*) Official Residences in Blantyre, Lilongwe and Mzuzu, Salima and Mangochi Cottages & Guest houses by T. G. Msonda BSc (L Admin) MR1CS MSIM Chartered Valuation Surveyor of T. G. Msonda & Associates.

The following assumptions were used by the valuer:

1. Open market values are the estimated amounts for which a property should be exchanged on the date of valuation between a willing buyer and a willing seller dealing at arm's length.
2. The valuation did not take into account plant and equipment and other items such as furniture and fittings. The leases will be renewed by the Malawi Government's ministry responsible upon expiry.
3. The properties and their values are not affected by any matters that would be revealed by local search or by any statutory notice and properties are free from encumbrances, restrictions or charges.

As at 31st December, 2016, and 2015 the cost of land and cost less accumulated depreciation of building was as follows:

2016	**Land**	**Building**	**Total**
	(K'm)	**(K'm)**	**(K'm)**
Headquarters	200	3,314	3,514
New Blantyre Branch	34	2,505	2,539
Old Blantyre	10	582	592
Mzuzu Branch	9	20,484	20,493
Residential Property	93	491	584
Utility Building	—	161	161
Warehouse/Printing Property	—	216	216
Cafeteria Property	—	442	442
Club House Property	36	151	187
Silver Strikers Stadium	53	491	544
Guesthouses	183	788	971
Cottages	43	229	272
Work in progress-Enhancements		123	123
Total	661	29,977	30,638

2015	Land (K'm)	Building (K'm)	Total (K'm)
Headquarters	200	3,084	3,284
New Blantyre Branch	34	2,429	2,463
Old Blantyre	10	495	505
Mzuzu Branch	9	19,508	19,517
Residential Property	93	491	584
Utility Building	—	161	161
Warehouse/Printing Property	—	216	216
Cafeteria Property	—	442	442
Club House Property	36	151	187
Silver Strikers Stadium	53	488	541
Guesthouses	183	686	869
Cottages	43	166	209
Work in progress-Enhancements	—	113	113
Total	661	28,430	29,091

2015

16. **Intangible assets**

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
See accounting policy Note 4.6				
Cost				
At the beginning of the year	4,055	4,055	4,768	4,768
Transfers	—	—	(102)	(102)
Additions	477	477	677	677
Impairment loss	—	—	(1,583)	(1,583)
Revaluation surplus	—	—	295	295
At the end of the year	4,532	4,532	4,055	4,055
Accumulated amortisation and impairment				
At the beginning of the year	345	345	563	563
Charge for the year	549	549	338	338
Disposal	—	—	(556)	(556)
At the end of the year	894	894	345	345
Carrying amount at the end of the year	3,638	3,638	3,710	3,710

Intangible assets represent computer software and costs associated with development of software for the Bank's use. Software is amortised over its expected useful economic life that ranges from 3 to 6 years. Included in the software is Automated Transfer System (ATS) and Central Securities Depository system which was given to the Bank by way of a grant by Malawi Government through a World Bank loan.

17. Investment in Export Development Fund

See accounting policy Note 4.9

The K2,700 million (2015: K2,700 million) relates to investment the Bank made in Export Development Fund (EDF) for the establishment of a Limited company whose major objective is to ensure that Malawi's vast export potential and business opportunities are exploited in order to generate the much needed foreign exchange for the country. The Bank holds 99.99% of the shareholding in the company. In 2015 the Bank injected additional capital of K910 million in the subsidiary.

18. Investment in Malawi Switch Centre Limited ("MALSWITCH")

See accounting policy Note 4.9

The Bank holds 5 percent of the shareholding in MALSWITCH with the Malawi Government being the majority shareholder with 94 percent shareholding. The total investment as at the reporting date was K17 million (2015:K17 million).

19. Government deposits

See accounting policy Note 4.9

Under the provisions of the Reserve Bank of Malawi Act (Cap [illegible] of the Laws of Malawi), one of the principal objectives of the Bank is to act as banker and adviser to the Government. Acting in this capacity, the Bank receives deposits which represent all receipts accruing to the Government.

The Bank also facilitates the operation of the Government Credit Ceiling Authority ("CCA") through the maintenance of holding accounts which eventually fund the operating accounts of Government Ministries held at the Reserve Bank of Malawi. No interest is payable on these deposits which are repayable on demand.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Government deposits				
Denominated in foreign currencies	117,687	117,687	105,694	105,694
Denominated in local currency	39,628	39,628	45,780	45,780
Total deposits	157,315	157,315	151,474	151,474

20. Other deposits

See accounting policy Note 4.9

Denominated in foreign currencies	3,361	3,361	298	298
Denominated in local currency	—	—	8,920	8 920
Total deposits	3,361	3,361	9,218	9,218

Other deposits are made up of sate proceeds from the National Oil Company of Malawi (NOCMA) on fuel in respect of its repayment of a strategic structured commodity loan facility with Eastern and Southern African Trade and Development (PTA) Bank. The total balance for such deposits amounted to K3,361 million (2015:

21. **Borrowings**

See accounting policy Note 4.9

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
International monetary Fund ("IMF")				
Exogenous Shock Facility ("ESF")	13,657	13,657	25,896	25,896
Extended Credit Facility ("ECF")	79,829	79,829	28,909	28,909
Poverty Reduction Growth Facility ("PRGF")	57,706	57,706	54,712	54,712
	151,192	151,192	109,517	109,517
PTA Loan	4,788	—	2,710	—
Total borrowing	155,980	151,192	112,227	109,517

The Exogenous Shock Facility ("ESF") is a loan that the IMF Executive Board approved for Malawi to support the authorities in their adjustment to the terms of trade shock caused by rapid increases in fuel and fertilizer prices in 2008. The ESF loan is denominated in Special Drawing Rights ("XDR") and bears interest at 0.25% (2015: 0.25%) per annum. The loan is repayable in installments of XDR3.47 million, payable half-yearly and commenced in 2016 up to the year 2018.

The Poverty Reduction and Growth Facility ("PRGF") loan is denominated in Special Drawing Rights ("XDR") and bears interest at 0.0% (2015: 0.0%) per annum. Draw-downs under this facility are repayable half-yearly in equal installments from September 2011. Final installments for the loans are expected in the year 2018.

On 23rd July, 2012, the Executive Board of IMF approved a three-year arrangement for Malawi under the Extended Credit Facility (ECF) in an amount equivalent to XDR 104.1 million (about US$ 156.2 million). Following the approval, the Bank was availed ECF loan tranches of XDR13 million each in April 2013, July 2012 and December 2012.

The loan from Eastern and Southern African Trade and Development Bank (PTA Bank) is denominated in US Dollars. The loan is payable from proceeds of receivables from commodity exports. The facility is revolving, renewable every year for a period of three years. The loan bears interest at 6.50% per annum.

22. **Allocation of Special Drawing Rights ("SDR")**

See accounting policy Note 4.9

The allocation of SDR, which are due to the IMF, represents XDR66 million (K65,301 million) (2015: XDR66m (K61,911 million)) and bears interest at an average rate of 0.11% (2015: 0.11%) per annum. The liability represents an allocation and has no fixed repayment dates.

23. **Notes and coins in circulation**

See accounting policy Note 4.9

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Notes	183,545	183,545	139,145	139,145
Coins	900	900	822	822
Total notes and coins in circulation	184,445	184,445	139,967	139,967

The liability for notes and coins in circulation is the net liability after off-setting notes and coins held by the Bank as cash on hand because cash held by the Bank does not represent currency in carculation.

24. **Bankers' deposits**

See accounting policy Note 4.9

Bankers' deposits for local currency denominated accounts as at 31st December, 2016, amounted to K56,173 million (2015: K66,018 million).

In the exercise of its powers under Section 36 of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi), the Bank requires all commercial banks to maintain a specified liquidity reserve with the Central Bank at all times. No interest is payable on these deposits. In July 2015 the Bank revised the Liquidity Reserve Requirement to 7.5 percent from 15.5 percent in order to improve liquidity in the market and consequently expand the credit base that would in turn support growth.

25. **Other liabilities**

See accounting policy Note 4.9

	Consolidated 2016 K'm	**Separate 2016 K'm**	**Consolidated 2015 K'm**	**Separate 2015 K'm**
Payables	2,555	2,555	1,923	1,923
Appropriation to Government	16,092	16,092	8,550	8,550
Payroll accruals	448	448	257	257
Provision	1.943	1.943	1,543	1,543
Other payables	2,364	2,100	3,632	3,348
Deferred income- ATS CSD	[illegible]	[illegible]	913	913
Total other liabilities	[illegible]	[illegible]	16,818	16,534

The amount of appropriation due to Malawi Government is payable in accordance with provisions of Section 54 of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi), on appropriation of the Bank's profits.

The deferred income: Automated Transfer System (ATS) and Central Securities Depository system liability relates to a grant given to the Bank by the Malawi Government through a World Bank loan to strengthen the financial sector. The Financial Sector Technical Assistance Project unit is responsible for the implementation of the various projects as defined in the contract and the Bank is the implementing unit for the project.

The deferred income under other liabilities is in respect of the recognition of a portion of the Grant relating to Automated Transfer System and Central Securities Depository systems which is reflected as an asset in the books of the Bank.

26. **Open Markets Operations (OMO) instruments**

See accounting policy Note 4.9

	Consolidated 2016 K'm	**Separate 2016 K'm**	**Consolidated 2015 K'm**	**Separate 2015 K'm**
Open Market Instruments	268.934	268.934	99.708	99.708
Total Open Markets Operations instruments (OMO)	268.934	268,934	99,708	99,708

The open markets operations instruments comprise borrowings by the Bank from various financial institutions. The instruments are carried at an average annual coupon rate of 26% (2015: 29%). The major part of the borrowings during the year was between the Bank and the commercial Banks.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
27. Ex-Gratia benefit provision				
See accounting policy Note 4.8				
At the beginning of the year	5,295	5,295	2,613	2,613
Adjustment/provision made in the year	2,774	2,774	2,682	2,682
Total Ex-gratia benefit provision	8,069	8,069	5,295	5,295

In September 2011, the Bank introduced an Ex-Gratia benefit which is payable upon retirement, end of fixed term contract, resignation or termination of service of the employee and is based on the number of years of service. The benefit has the effect of an unfunded defined benefit scheme and is subject to Human Resource Policies, Procedures and Guidelines for members of staff.

Independent professional experts, Alexander Forbes Financial Services (Proprietary) Limited of the Republic of South Africa, carried out the ex-gratia benefit valuation exercise for the year ended 31st December, 2016.

Movement in net defined benefit (asset) liability

	Defined benefits obligation		Fair value planned assets		Assest ceiling		Net defined benefit liability (asset)	
	2016	2015	2016	2015	2016	2015	2016	2015
Balance as at 1st January	5,295	2,613	—	—	—	—	2,613	2,613
Included in profit or loss								
Current service cost (excluding expenses)	286	132	—	—	—	—	132	132
Net interest cost	756	428	—	—	—	—	428	428
	1,042	560	—	—	—	—	560	560
Included in OCI								
Remeasurements:								
Actual loss (again) arising from:								
Financial assumptions	1,769	1,568	—	—	—	—	1,568	1,568
Exprience adjustments	207	655	—	—	—	—	655	655
	1,976	2,223	—	—	—	—	2,223	2,223
Other								
Benefits paid	(224)	(101)	—	—	—	—	(101)	(101)
Balance as at 31st December	8,069	5,295	—	—	—	—	5,295	5,295

Reconciliation of Ex-Gratia benefit provision	2016 K'm	2015 K'm
Opening value	5,295	2,613
Employer contribution	(244)	(101)
Amount recognised in profit or loss	1,042	560

Reconciliation of Ex-Gratia benefit provision—*(continued)*	**2016**	**2015**
	K'm	**K'm**
Amount recognised in OCI	1,976	2,223
Closing value (net liability)	8,069	5,295
Key assumptions		
Discount rate	14.09%	13.85%
Salary inflation	9.14%	8.41%
Sensitivity information		
1% increase in discount rate		
Increase in defined benefit obligation (amount)	(621)	(429)
Increase in defined benefit obligation (percentage)	-7.7%	-8.10%
1% decrease in discount rate		
Decrease in defined benefit obligation (amount)	711	490
Decrease in defined benefit obligation (percentage)	8.8%	9.30%
1% increase in inflation		
Increase in defined benefit obligation (amount)	738	511
Increase in defined benefit obligation (percentage)	9.1%	9.70%
1% decrease in inflation		
Decrease in defined benefit obligation (amount)	(653)	(453)
Decrease in defined benefit obligation (percentage)	-8.1%	-8.60%

28. **Capital and reserves**

28.1 **Capital**

The capital account is maintained in accordance with section 5 of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi) which stipulates that from time to time the capital of the Bank be increased by such an amount as the board may approve with consent of the minister and the Government shall subscribe and pay up at par, the amount of such increase and shall ensure that the Bank is kept solvent at all times.

28.2 **General reserve fund**

The general reserve fund is maintained in accordance with the terms of Section 54 (2) and (3) of the Reserve Bank of Malawi Act, (Cap. 44:02 of the Laws of Malawi), where 25% of distributable profit or K4,000 million, whichever is higher, is allocated to the general reserve fund until it reaches 10% of the amount of currency in circulation at each financial year end. With the approval of the Minister of Finance, further allocations may be made to the general reserve fund. In the event of a loss being incurred by the Bank, such a loss is deducted from the general reserve fund until the fund is exhausted at which point the government will cover the remaining loss.

28.3 **Special account**

The special account is maintained in accordance with the terms of Section 54 (4) of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi). The Act stipulates that in the event of outstanding promissory notes issued by the Government to cover losses from currency devaluation, 10% of the net profit or K1,000 million, whichever is higher, shall be credited to the special account to be used in redemption of such outstanding promissory notes; and if the remainder of the net profit is less than K1,000 million, the whole amount shall be credited to the special account.

Further, Section 54 (5) of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi), stipulates that results from any devaluation or revaluation of the Malawi currency shall be posted directly into a special account. In order to fully comply with International Financial Reporting Standards, these exchange differences are recognised in profit or toss before being transferred to the special account reserve. Included in the special account reserve is an amount relating to foreign exchanges differences on the translation of gold holdings.

28.4 **Revaluation reserve**

The revaluation reserve is maintained to cater for net surpluses or deficits arising from the revaluation of land and property. The net surpluses are recognised in other comprehensive income before being transferred to the revaluation reserve whilst deficits on revaluation are charged to profit or loss, except to the extent that the deficit relates to a prior surplus transferred to the revaluation reserve. This is non distributable to shareholders.

28.5 **Fair value reserve on available-for-sale financial assets**

The fair value reserve is maintained for gains and losses arising from a change in the fair value of available-for-sale financial assets which are recognised in other comprehensive income. When these financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. This is non distributable to shareholders.

28.6 **Gold revaluation reserve**

The effects of changes in the dollar price of gold held by the Group is recognised in the gold revaluation reserve.

28.7 **Capital reserve**

In 2012, the subsidiary (the Export Development Fund Limited) was allotted 400 ordinary shares in Norsad Finance Limited through the Malawi Government, which is denominated in US dollars. The capital reserve is maintained for the investment made in Norsad Finance Limited and any foreign translation differences are recognised in profit or loss before being transferred to the capital reserve.

29. Concentration of funding

The Bank's significant end of year concentrations of funding were as follows:

2016

Consolidated (figures in K'm)	Malawi Government K'm	Public and local Institutions K'm	Foreign Governments and financial Institutions K'm	Total K'm
Foreign Currency				
Financial liabilities				
Borrowings (IMF loans)	—	—	155,980	155,980
Allocation of Special Drawings Rights (SDRs)	—	—	65,301	65,301
Other deposits	—	—	3,361	3,361
Government deposits	117,687	—	—	117,687
Total	**117,687**	—	**224,642**	**342,329**
Local Currency				
Financial liabilities				
Government deposits	39,628	—	—	39,628
Bankers deposits	—	56,173	—	56,173
OMO Instruments	—	—	268,934	268,934
Total	**39,628**	**56,173**	**268,934**	**364,735**

Other liabilities				
Notes and coins in circulation	—	184,445	—	184,445
Other liabilities	16,092	8,169	—	24,261
Total	16,092	192,614	—	208,706
Total liabilities	173,407	248,787	493,576	915,770

Separate

	Malawi Government K'm	Public and local Institutions K'm	Foreign Governments and financial Institutions K'm	Total K'm
Foreign Currency				
Financial liabilities				
Borrowings (IMF loans)	—	—	151,292	151,292
Allocation of Special Drawings Rights (SDRs)	—	—	65,301	65,301
Other deposits	—	—	3,361	3,361
Government deposits	117,687	—	—	117,687
Total	117,687	—	219,954	337,641
Local Currency				
Financial liabilities				
Government deposits	[illegible]	—	—	39,628
Bankers deposits	—	[illegible]	—	[illegible]
OMO Instruments	—	—	268,934	268,934
Total	39,628	56,173	268,934	364,735
Other liabilities				
Notes and coins in circulation	—	184,445	—	184,445
Other liabilities	16,092	7,905	—	23,997
Total	16,092	192,350	—	208,442
Total liabilities	173,407	248,523	488,888	910,818

Consolidated

	Malawi Government K'm	Public and local Institutions K'm	Foreign Governments and financial Institutions K'm	Total K'm
Foreign Currency				
Financial liabilities				
Borrowings (IMF loans)	—	—	112,227	112,227
Allocation of Special Drawings Rights (SDRs)	—	—	61,911	61,911
Other deposits	—	—	298	298
Government deposits	105,694	—	—	105,694
Total	105,694	—	174,436	280,130

Local Currency				
Financial liabilities				
Government deposits	45,780	—	—	45,780
Bankers' deposits	—	66,018	—	66,018
Others deposits	—	—	8,920	8,920
OMO Instruments	—	—	99,708	99,708
Total	**45,780**	**66,018**	**108,628**	**220,426**
Other liabilities				
Notes and coins in circulation	—	139,967	—	139,967
Other liabilities	8,550	8,268	—	16,818
Total	**8,550**	**148,235**	—	**156,785**
Total liabilities	**160,024**	**214,253**	**283,064**	**657,341**

2015

Separate

	Malawi Government K'm	Public and local Institutions K'm	Foreign Governments and financial Institutions K'm	Total K'm
Foreign Currency				
Financial liabilities				
Borrowings (IMF loans)	—	—	109,517	109,517
Allocation of Special Drawings Rights (SDRs)	—	—	61,911	61,911
Other deposits	—	—	298	298
Government deposits	105,694	—	—	105,694
Total	**105,694**	—	**171,726**	**277,420**
Local Currency				
Financial liabilities				
Government deposits	45,780	—	—	45,780
Bankers deposits	—	66,018	—	66,018
Others deposits	—	—	8,920	8,920
OMO Instruments	—	—	99,708	99,708
Total	**45,780**	66,018	**108,628**	**220,426**
Other liabilities				
Notes and coins in circulation	—	139,967	—	139,967
Other liabilities	8,550	7,984	—	16,534
Total	**8,550**	**147,951**	—	**156,501**
Total liabilities	**160,024**	**213,969**	**280,354**	**654,347**

30. Net interest income

Net interest income is comprised of net interest income from money market, banking and foreign reserve management operations.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Interest income				
Domestic money market operations	102,926	102,926	29,305	29,305
Banking operations	10,646	10,646	13,419	13,419
Foreign reserve management	5,676	5,676	3,675	3,675
Other interest receivable	1,268	—	874	—
	120,516	119,248	47,273	46,399
Interest expense				
Money market operations	53,165	53,165	3,489	3,489
Other interest payable	283	42	228	187
	53,444	53,207	3,717	3,676
Net interest income	67,068	66,041	43,556	42,723

31 Other income

Loan repayment by Reserve Bank of Zimbabwe	—	—	6,454	6,454
Grant income	402	402	1,470	1,470
Other income	382	382	417	417
	784	784	8,341	8,341

The Malawi Government obtained a loan from the World Bank amounting to SDR 18.1 million (equivalent of USD28 million) on 2nd November, 2011, of which only USD15.5 million was disbursed as at 31st December, 2015.

The Grant is aimed at supporting the priorities outlined in the Malawi's poverty reduction strategy, the Malawi Growth and Development Strategy which was launched in 2006, the Country Assistance Strategy and Country Economic Memorandum through reforms of the financial sector. In this regard, the Group the recognised the Grant in its books using the Income approach as per IAS 20: Accounting for Government Grant and Disclosure of Government Assistance.

The related expenses of K402 million (2015: K1,470 million) have been accounted for in the profit or loss account.

operations.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
32. Capital and other commitments				
Endorsed by senior management				
Capital commitments contracted	380	380	1,240	1,240
Total capital and other commitments	380	380	1,240	1,240

Capital commitments relate to outstanding costs for acquisition of items for various projects and are to be financed from internal resources.

33. **Taxation**

The Bank is exempt from payment of income tax under Section 57 of the Reserve Bank of Malawi Act (Cap. 44:02 of the Laws of Malawi).

34. **Employee benefits**

As indicated in note 4.20, the Bank operates a defined contribution pension fund for its employees through an internally managed pension fund (Fund). The Bank contributes 15% of the eligible employee's basic salary whilst the eligible employee contributes 3.5% of the basic salary. The contributions due and paid to the Fund by the Bank in the year amounted to K1,017 million (2015: K1,364 million). The contributions are charged to profit or loss in the year they arise. Further, the Bank operates an Ex-Gratia benefits scheme for employees on retirement, termination, and resignation which is calculated as per conditions in the guidelines on human resource policies and procedures for members of staff (*see Note 26*).

35. **Related party transactions**

In the context of the Bank, related party balances include transactions made by any of the following persons:

- The Government of Malawi;
- Government bodies;
- The Governor and his Deputies;
- Senior Government Officers;
- Members of the Board of Directors;
- Cabinet Ministers and Head of State;
- Immediate family of the above categories;
- The Reserve Bank of Malawi Pension Fund;
- Employees in key positions ;and
- PTA Bank.

The transactions to be reported are those that affect the Bank in making financial and operating decisions. Examples of such transactions include:

- Finance (loans);
- Preferential treatment on application of exchange control and licensing regulations;
- Procurement and investment contracts;
- Disposal of assets;
- Guarantees and collaterals; and
- Terminal benefits.

The Bank undertakes to disclose the nature of related party relationships, types of transaction, and the elements of the transactions necessary for the understanding of the annual financial statements.

During the year ended 31st December, 2016, loans totalling K18 million (2015: K58 million) were advanced to employees in key positions (Executive Management). At 31st December, 2016, the total loans outstanding from employees in key positions amounted to K92 million (2015: K67 million). These loans were granted on the same interest and repayment terms as loans to other staff members.

Emoluments paid to the employees in key positions during the reporting period were as follows:

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Salary, gratuity and benefits	570	570	491	991
In addition to related party balances reported in notes 9, 10, 12, 13, 14, 17, 18, 19, 20 and 29, the following transactions took place between the Bank and Government.				
Interest income on advances to Malawi Government	10,356	10,356	13,250	13,250
Interest income on promissory notes	10,754	10,754	14,611	14,611
Interest income on treasury bills	7,865	7,865	300	300
Interest income on treasury notes	81,869	81,869	13,457	13,457

During the year the Bank placed total deposits of K183,747 million (2015: K187,602 million) with PTA Bank (see note 6.4.2). PTA is a supranational development financial institution with membership comprising eighteen COMESA African states and Malawi Government is one of them. The deposits are subject to commercial negotiation on terms and conditions of varying interest rates and terms.

During the year the Bank disposed of a promissory note with a face value of K27,567 million and a partial disposal of K8,138 million was also made for a promissory note with a face value of K28,976 million to PTA Bank. The promissory note carried an interest of 15%.

36. **Economic factors**

The average exchange rates of the foreign currencies most affecting the performance of the Bank are stated below, together with the National Consumer Price Index, which represents an official measure of inflation.

	1 USD	1 GBP	1 EURO	1 XDR	1 ZAR
31st December, 2016	725.01,	890.38	763.58	971.58	53.28
31st December, 2015	664.36	984.32	726.35	921.32	42.70

At 31st December, 2016, the Bank rate was 24.0% (2015: 27.0%) while the annual official rate of inflation was 20.0% (2015: 24.9%).

Subsequent to year-end, as at 10th March, 2017, the exchange rates to the Malawi Kwacha and inflation rate had moved as follows:

USD	:	725.80
GBP	:	882.50
EURO	:	769.42
XDR	:	977.38
ZAR	:	54.63
Inflation (for January 2016)	:	20.0%

No adjustments arising from the movements of the exchange rates and inflation rate after 31st December, 2016, have been made in the annual financial statements.

37. **Bank accounts held on behalf of third parties**

The Bank opens and holds external bank accounts on behalf of third parties, mainly consisting of Donor funded projects and the Government of Malawi. The Bank has no ownership of the funds in these accounts and accordingly they are not accounted for in the accounting records of the Bank. They are not reconciled or controlled by the Bank and are not included as assets or liabilities in these annual financial statements.

38. **Contingent liabilities and encumbrances**

In line with normal banking operations, the Bank conducts business involving documentary credits. The majority of these facilities are offset by corresponding obligations of third parties.

	Consolidated 2016 K'm	Separate 2016 K'm	Consolidated 2015 K'm	Separate 2015 K'm
Letters of Credit				
PTA Bank	10,476	10,476	39,196	39,196
Schindler (SA) Investment Holdings	48	48	664	664
	10,524	10,524	39,860	39,860

The Group recognised a contingent liability of K166 million in respect of various legal cases.

39. **Subsequent events**

There are no events subsequent to the year-end that require disclosure in or adjustments to these financial statements.