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7. **Investment properties** (Continued)
Included in the investment properties balance as at 31 December 2016 were properties encumbered as follows:

7.1 *Development House in Blantyre valued at K1.296 billion, MPICO House valued at K806 million, MPICO House in Mzuzu valued at K679 million and Lingadzi House valued at K1.449 billion.*

These properties were subject of a charge in favour of National Bank of Malawi to secure the following facilities:

- A sum of K1.5 billion - loan;
- An overdraft facility of K300 million.

All of the above facilities were entered into to finance the construction of Mall (The Gateway) which is under MPICO Malls Limited. The company owns 65.8% in this subsidiary (notes 9 and 15). However, due to repayment of the loans as at year end, the company is in the process of removing the encumbrances.

7.2 *Centre House Arcade valued at K2.88 billion, Aquarius House valued at K773 million, Chief Kilupula Building valued at K959 million, Ekistics House valued at K566 million, Old Mutual House valued at K1,011 million and Taurus House valued at K457 million.*

The properties are the subject of a charge in favour of Shelter Afrique and International Finance Corporation (IFC) to secure an initial loan of ZAR116.2 million to finance the construction of The Gateway Mall in MPICO Malls Limited. The loan was obtained in 2014.

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8. Plant and equipment

See accounting policy Note 4.2

	Fixtures & fittings	Generators	Motor vehicle	Furniture & equipment	Total
COST					
At 1 January 2016	**65,910**	**44,651**	**49,800**	**142,064**	**302,425**
Additions	**2,929**	**-**	**-**	**44,214**	**47,143**
Disposal	**-**	**-**	**-**	**(433)**	**(433)**
At 31 December 2016	**68,839**	**44,651**	**49,800**	**185,845**	**349,135**
At 1 January 2015	52,425	44,651	37,550	113,024	247,650
Additions	13,485	-	16,100	33,881	63,466
Disposals	-	-	(3,850)	(4,841)	(8,691)
At 31 December 2015	65,910	44,651	49,800	142,064	302,425
ACCUMULATED DEPRECIATION					
At 1 January 2016	**51,894**	**28,541**	**16,206**	**96,358**	**192,999**
Depreciation	**3,977**	**2,770**	**10,837**	**18,288**	**35,872**
Disposals	**-**	**-**	**-**	**(137)**	**(137)**
At 31 December 2016	**55,871**	**31,311**	**27,043**	**114,509**	**228,734**
At 1 January 2015	44,173	25,571	12,573	84,430	166,747
Depreciation	7,721	2,970	7,483	16,675	38,849
Disposal	-	-	(3,850)	(4,747)	(8,597)
At 31 December 2015	51,894	28,541	16,206	96,358	192,999
CARRYING AMOUNT					
Carrying amount at 31 December 2016	**12,968**	**13,340**	**22,757**	**71,336**	**120,401**
Carrying amount at 31 December 2015	14,015	16,110	33,593	45,709	109,426

A register of the fixed assets as required by Section 16 of the Malawi Companies Act 2013 is maintained by the company's registered office and available for inspection.

9. Investments in subsidiary companies (at cost)

See accounting policy Note 4.15

	2016 %	2015 %	**2016**	2015
Wholly owned subsidiaries				
New Capital Properties Limited	**100.00**	100.00	**570**	570
Capital Developments Limited	**100.00**	100.00	**68,969**	68,969
Other subsidiaries				
MPICO Malls Limited	**65.80**	65.80	**4,681,388**	4,681,388
Frontline Investments Limited	**69.50**	69.50	**1,870**	1,870
Capital Investments Limited	**50.75**	50.75	**1,401**	1,401
Total investment in subsidiary companies			**4,754,198**	4,754,198

The investments in subsidiary companies comprise ordinary shares and are stated at cost. The subsidiaries have no other forms of shares in issue.

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10. Related parties

The ultimate holding company is Old Mutual Malawi Limited. MPICO Limited has the following subsidiaries: MPICO Malls Limited, Frontline Investments Limited, New Capital Properties Limited, Capital Developments Limited and Capital Investments Limited.

At the year-end, the company had the following balances with subsidiary companies. The company also had staff loans and advances as disclosed in the statement of financial position.

Amounts due (to)/ from related parties	**2016**	2015
New Capital Properties Limited	**13,156**	(2,434)
Capital Developments Limited	**32,488**	(14,586)
Frontline Investments Limited	**74,108**	53,340
Capital Investments Limited	**85,338**	50,682
MPICO Malls Limited	**660,282**	150,941
Net amount due (to) / from subsidiaries	**865,372**	237,943

The amounts due from subsidiaries are mainly due to management fees receivable, Value Added Tax (VAT) and short-term loans. At year end, management fees have been accrued in all subsidiaries except for MPICO Malls Limited (MML). These amounts were yet to be paid as at reporting date. Due to Group VAT registration, MPICO Limited pays on behalf of all its subsidiaries and recover the same from its subsidiaries. In order for MML to meet its short obligations, the parent company advanced some funds to it hence the outstanding amount of K660 million.

Related party loan:		
Non-current assets:		
MPICO Malls Limited	**3,223,555**	1,325,261

The amount above is in respect of intercompany loans advanced to MPICO Malls Limited to finance the construction of the Mall. The loan is unsecured repayable in 7 years. During the reporting period, MPICO Limited advanced a further K1.7 billion to its subsidiary in order for the latter to pay final invoices of the main contractor and carry out fittings for the co-anchor tenant at the Gateway Mall.

MPICO Limited had the following transactions and balances with Old Mutual, the parent company:

Pension contribution costs for the year	**58,565**	51,388
Contributions towards Group life cover	**18,422**	2,569
Rental income and service charges for the year	**53,520**	33,450
Old Mutual Group internal auditors' remuneration (excluding expenses)	**1,296**	16,694

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10. Related parties (Continued)

Rental income and service charges for the year relates to the rentals charged by MPICO Limited for the office space that Old Mutual occupies in Old Mutual House in Lilongwe. The service charges relate to Old Mutual's share of utilities paid by MPICO Limited that are then recovered from the tenants, charged based on office space occupied. These transactions are at arms-length.

During the year, the company entered into the following transactions with its subsidiary companies.

	2016	2015
Management fees charged to subsidiaries	179,124	319,890
Interest charged to MPICO Malls Limited	230,449	247,380
Investments in other subsidiaries		
MPICO Malls Limited	4,681,388	4,681,388
Frontline Investments Limited	1,870	1,870
Capital Investments Limited	1,401	1,401
	4,684,659	4,684,659
Transaction with other related parties:		
Secured staff loans	39,497	45,475
Dividend receivable from subsidiaries		
Frontline Investments Limited	10,425	-
MPICO Malls Limited – Preference shares dividend	748,971	350,708
	759,396	350,708

Compensation of key management personnel

No loans were advanced to employees in key positions during the year (2015 Nil). At 31 December 2016 the total loans balance outstanding from employees in key positions was **K33.1** million (2015: K48.5 million). These loans were granted on the same interest and repayment terms as loans to other staff members. Furthermore, emoluments paid to the employees in key positions during the year were as follows:

Salary and pension	294,137	321,234

No loans and advances were granted to directors during the year.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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		2016	2015
11.	**Trade and other receivables**		
	See accounting policy Note 4.18		
	Rental and service charges	**192,644**	97,320
	Prepaid property expenses	**27,866**	19,203
	Valuation and consultancy receivables	**12,060**	28,822
	Accrued interest on rentals	**130,211**	22,712
	Staff receivables	**38,404**	30,240
	Other receivables (VAT)	**119,196**	25,434
	Provision for doubtful receivables	**(31,483)**	(32,461)
	Total receivables	**488,898**	191,270

Interest is charged on receivables in respect of outstanding rentals at 4% above the prevailing commercial bank lending rate. As at year end the amount outstanding from Government was **K362 million** (2015: K291 million). The total interest charged on overdue Government rentals and other tenants amounted to **K207 million** (2015: K89 million) for the year.

The company has provided fully for all receivables over 90 days, except for rentals receivable from Government, because historical experience is such that receivables that are past due beyond 90 days are generally not recoverable. However, receivables due from Government are generally recoverable despite significant delays in settlement of amounts due and these are covered by interest on outstanding balance to counter loss of value.

Movement in provision for doubtful receivables	2016	2015
Balance at beginning of the year	**32,461**	9,732
Amounts recovered during the year	**(19,173)**	(4,877)
Increase in provision recognized in the profit or loss	**18,195**	27,606
Balance at end of the year	**31,483**	32,461

In determining the recoverability of rentals receivable, the company considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. Except for the Government which accounts for approximately **44%** (2015: 62%) of total rental income, the concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the provision already made for doubtful receivables.

		2016	2015
12.	**Cash and cash equivalents as stated in the statement of financial position**		
	See accounting policy Note 4.17		
	Funds at call and on deposit	**725,240**	469
	Bank balances and cash	**79,166**	20,868
		804,406	21,337
	Bank overdraft	**(140,720)**	(621,123)
	Cash and cash equivalents as presented in statements of cash flows	**663,686**	(599,786)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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	2016	2015

12. Cash and cash equivalents as stated in the statement of financial position (continued)

The Company has an overdraft facility of **K300 million** (2015: K300 million) with FDH Bank Limited and **K300 million** with National Bank of Malawi (2015:K300 million). The FDH facility is secured on Development House at the rate of 2.0% above the FDH base rate. The facility was due for renewal on 31 December 2016. The National Bank of Malawi facility is secured as per note 7.1 at the rate of 1.5% below National Bank of Malawi base rate.

Most bank accounts are maintained with National Bank of Malawi and the deposits attract interest at an average **9%** per annum (2015; 18%).

13. Investment properties classified as held for sale

See accounting policy Note 4.4

Valuation	2016	2015
At the beginning of the year	-	274,000
Disposal	-	(274,000)
At the end of the year	-	-

14(a) Share capital

See accounting policy Note 4.19

	2016	2015
Authorised:		
3,000,000,000 Ordinary shares of 5t each		
2015: 1,200,000,000 Ordinary Shares of 5t each)	150,000	60,000
Issued and fully paid:		
2,298,047,460 Ordinary shares of 5t each		
(2015: 1,149,023,730 Ordinary Shares of 5t each)		
In issue at 1 January	57,451	57,451
Ordinary shares issue during the year	57,451	-
Total issued and fully paid share capital	114,902	57,451

During the year the company made a rights offer on the basis of one (1) rights offer shares of every one (1) MPICO share held by shareholders.

14(b) Share premium

	2016	2015
Share premium arising from rights issue	8,996,856	-
Ordinary share used	(57,451)	-
Rights issue transaction costs	(312,467)	-
At the end of the year	8,626,938	-

During the year the company made a rights offer at a subscription price of K7.83 per MPICO share on the basis of 1 (one) rights offer shares of every 1 (one) MPICO share held by shareholders. Nominal value of each ordinary being K0.05, the transaction gave rise to a share premium of K8,939 billion which was credited to share premium account less associated transaction costs of K312 million in accordance with IAS 32 and Companies Act, 2013 of Malawi.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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15. Borrowings (continued)

See accounting policy Note 4.8

	National Bank of Malawi	Old Mutual (Malawi) Limited	Total
2016			
At 1 January 2016	1,197,915	3,002,577	4,200,492
Accrued interest	-	896,812	896,812
Additions during the year	985,936	-	985,936
Repayments during the year	(2,182,370)	(3,335,701)	(5,518,071)
Closing balance	1,481	563,688	565,169
Amounts due after 1 year	-	-	-
Amounts due within 1 year	1,481	563,688	565,169
Total borrowings	1,481	563,688	565,169
2015			
At 1 January 2015	1,273,705	2,349,495	3,623,200
Accrued interest	-	753,082	753,082
Repayments during the year	(75,790)	(100,000)	(175,790)
Closing balance	1,197,915	3,002,577	4,200,492
Amounts due after 1 year	1,027,020	3,002,577	4,029,597
Amounts due within 1 year	170,895	-	170,895
Total borrowings	1,197,915	3,002,577	4,200,492

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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15. Borrowings summary (Continued)

	2016	2015
Balance at 1 January	**4,200,492**	3,623,200
Additions during the year	**985,936**	-
Accrued interest	**896,812**	753,082
Repayments during the year	**(5,518,071)**	(175,790)
Balance at 31 December	**565,169**	4,200,492
Amounts due after 1 year	**-**	4,029,597
Amounts due within 1 year	**565,169**	170,895
Total borrowings	**565,169**	4,200,492

15.1 Company borrowings:

15.1.1 K1.5 billion was borrowed from National Bank of Malawi. The amount is subject to interest charges at 1.5% below the bank's base lending rate and is repayable over a period of 10 years with a moratorium of 2 years. The loan was repaid as at reporting date.

15.1.2 K986 million was borrowed from National Bank of Malawi during the year. The amount is subject to interest charges at 1.5% below the bank's base lending rate and in turn advanced to MPICO Malls Limited for the latter to pay final invoices of the main contractor and carry out fittings at the Gateway Mall.

15.1.3 K1.583 million was borrowed from Old Mutual Malawi (related party). The amount is subject to interest charges at 1% above the National Bank of Malawi base lending rate. The transaction is at arm's length. The facility was entered into to finance the construction of the Gateway Mall (note 9).

15.1.4 The balance of K1.4 million is an amount obtained from National Bank of Malawi to finance the purchase of the Managing Director's car. The amount is subject to interest at the bank's base lending rate. This last installment is due for repayment in January 2017.

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16. Deferred tax assets / (liabilities)

See accounting policy Note 4.5

Deferred tax assets/(liabilities)	Assets		Liabilities		Net	
	2016	2015	**2016**	2015	**2016**	2015
Revaluation on surpluses on investments properties	-	-	**(3,435,147)**	(2,907,272)	**(3,435,147)**	(2,907,272)
Other timing differences	-	-	**459,912**	302,161	**459,912**	302,161
Excess capital allowances	-	-	**29,267**	31,235	**29,267**	31,235
Total	-	-	**(2,945,968)**	(2,573,876)	**(2,945,968)**	(2,573,876)

Year ended 31 December 2016	**Balance at 1 January 2016**	**Recognized in Profit or loss**	**Balance at 31 December 2016**
Revaluation of investment properties	**(2,907,272)**	**(527,875)**	**(3,435,147)**
Other timing differences	**302,161**	**157,751**	**459,912**
Excess capital allowances	**31,235**	**(1,968)**	**29,267**
Total	**(2,573,876)**	**(372,092)**	**(2,945,968)**

Year ended 31 December 2015	Balance as at 1 January 2015		
Revaluation of investment properties	(2,714,384)	(192,888)	(2,907,272)
Other timing differences	167,676	134,485	302,161
Excess capital allowances	(64,565)	95,800	31,235
	(2,611,273)	37,397	(2,573,876)

17. Trade and other payables

See accounting policy Note 4.20

	2016	2015
Accruals	**58,341**	167,081
Prepaid rentals	**58,192**	80,682
VAT payables	**130,014**	32,631
Property expenses payables	**126,107**	143,794
	372,654	424,188

Accruals are in respect of various expenses incurred but whose invoices had not yet been received as at year-end. Property expenses payables relate to unpaid but booked invoices for property maintenance and other directly attributable property management costs. No interest is chargeable on these payables and there is no specific allowed credit period from the date of the invoice, but the company's financial risk management policies include ensuring that invoices are paid within 30 days.

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18. Changes in fair value of investment properties

During the year, a fair value adjustment to investment properties has been credited and the associated tax has been charged to profit or loss. To ensure compliance with profit distribution provisions under company law in Malawi, the net of tax balance has been transferred to a non-distributable reserve. This is analysed as follows:

	2016	2015
Fair value adjustment credited to profit or loss	**1,759,583**	941,976
Related deferred tax	**(527,875)**	(192,888)
Amount transferred to non-distributable reserves	**1,231,708**	749,088

19. Operating profit before income tax

Profit before taxation is arrived at after charging:-

	2016	2015
Auditors' remuneration	**20,990**	13,000
Group internal auditors' remuneration	**1,296**	16,695
Depreciation of plant and equipment	**35,872**	34,847
Profit on disposal of non-current assets	**90**	127,119
Directors' remuneration - fees for services as directors	**8,910**	7,612
-for managerial services	**113,547**	58,788
Bad debts	**18,195**	27,606
Pension costs	**58,365**	51,388
Staff costs - **25 staff in 2016** (27 in 2015)	**633,004**	508,474

20. Income tax expense

See accounting policy Note 4.5

	2016	2015
Prior year tax	**-**	(34,079)
Deferred tax movement (Note 16)	**372,092**	(10,040)
Dividend tax	**-**	81,516
Total taxation charge	**372,092**	37,397

20(a) Reconciliation of effect tax rates to standard

Profit before tax income		**1,532,302**		1,291,143
Income tax based on tax profits	**30%**	**459,691**	30 %	387,343
Non-deductible	**4%**	**54,611**	6 %	78,068
Income not subject to	**(9%)**	**(132,372)**	11 %	141,888
Other temporary differences	**1%)**	**(9,838)**	(44%)	(569,902)
Effective tax rate	**24%**	**372,092**	3 %	37,397

20(b) Income tax

	2016	2015
As at 1 January	**423,275**	185,201
Tax recoverable for the year	**539,011**	523,395
Paid during the year	**(269,503)**	(285,321)
As at 31 December	**692,783**	423,275

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		2016	2015
21.	**Reconciliation of profit before taxation to net cash inflow from operating activities**		
	Profit before income tax	**1,532,302**	1,291,143
	Increase in fair value of investment properties	**(1,759,583)**	(941,976)
	Interest receivable	**(521,349)**	(348,627)
	Dividends receivable	**(408,689)**	(802,820)
	Interest payable	**1,648,099**	1,437,935
	Depreciation	**35,872**	34,847
	Changes in trade and other receivables	**(297,631)**	268,032
	Changes in trade and other payables	**(51,535)**	(131,227)
	Profit on disposal of non-current assets	**(90)**	(127,119)
	Movement on group company balances	**(627,429)**	(816,314)
	Net cash outflow from operating activities	**(450,033)**	(136,126)
22.	**Other Income**		
	See accounting policy Note 4.9		
	Profit on disposal of non – current assets	**90**	127,119
	Dividends income from subsidiaries	**408,689**	802,820
	Other income	**243,911**	362,137
		652,690	1,292,076

23. Financial risk management

Categorization of financial instruments

The analysis below sets out the company's classification of financial assets and liabilities and their fair values including accrued interest.

	2016	2015
Financial assets		
Trade and other receivables	**488,899**	191,270
Dividend amounts from subsidiaries	**865,372**	237,943
Funds at call and on deposit	**725,240**	469
Bank balance and cash	**79,166**	20,868
Total financial assets	**2,158,677**	450,550
Financial liabilities		
Borrowings	**565,169**	4,200,492
Trade and other payables	**372,655**	424,194
Bank overdraft	**140,720**	621,123
	1,078,544	5,245,809

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23. Financial risk management (continued)

The company has exposure to the following risks arising from its transactions in financial instruments:

- Capital risk
- Market risk
- Credit risk
- Liquidity risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the company's management of capital. 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 asset, financial liability and equity instrument are disclosed in note 4 to the separate financial statements.

Below is an analysis of how the company manages the risk associated with the following relevant financial instruments.

(a) Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company consists of mainly equity comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Board reviews the capital situation on an annual basis and based on each review, the company will balance its overall capital structure through the payment of dividends and raising finance through borrowings or repaying any existing borrowings.

(b) Market risk

(i) Foreign currency risk management

The company seldom undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations does not arise. Its exposure to foreign currency risk is minimal, as the transaction denominated in foreign currency are not significant and are very rare.

(ii) Interest rate risk management

The company is exposed to interest rate risk as it has significant borrowings. All borrowings are at commercial rates based on the bank base lending rate. The company also charges interest on overdue rentals from government at 4% above the prevailing bank base lending rate. Changes to the base lending rate would have a significant impact on the results for the year.

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23. Financial risk management (Continued)

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and ensuring that tenants pay rentals in advance, as a means of mitigating the risk of financial loss from defaults. The company's exposure and the credit worthiness of its tenants is continuously monitored. Excluding Government rentals, receivables are from a large number of tenants, spread across diverse sectors and geographical areas.

Apart from the exposure to Government, the company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk exposure is managed by proactively engaging Government in good time on amounts due from it and agreeing on a settlement plan for the outstanding balance. The credit risk on liquid funds is limited because the counterparties are financial institutions in a highly regulated industry.

The carrying amount of receivables (note 11) and cash and cash equivalents (note 12) recorded in the separate financial statements, grossed up for any allowances for losses, represents the company's maximum exposure to credit risk.

(d) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

	Note	1-3 months	3-12 months	Over 12 months	Total
2016					
Liabilities					
Trade and other payables	17	**372,655**	**-**	**-**	**372,655**
Borrowings	15	**565,169**	**-**	**-**	**563,169**
Bank overdraft	12	**140,720**	**-**	**-**	**140,720**
Total		**1,078,544**	**-**	**-**	**1,078,544**
2015					
Liabilities					
Trade and other payables	17	424,194	-	-	424,194
Borrowings	15	113,764	57,131	4,029,597	4,200,492
Bank overdraft	12	121,123	500,000	-	621,123
Total		659,081	557,131	4,029,597	5,245,809

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23. Financial risk management (Continued)

(e) Accounting classifications and fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(i) Valuation models

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

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

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

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

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

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For the year ended 31 December 2016

In thousands of Malawi Kwacha

23. **Financial risk management** (Continued)

(e) Accounting classifications and fair values of financial instruments

(ii) Fair value of financial instruments– fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statements of financial position.

31 December 2016 Assets	Level 1	Level 2	Level 3	Total
Investments properties	-	-	11,726,210	11,726,210
Total	**-**	**-**	**11,726,210**	**11,726,210**

31 December 2015 Assets				
Investments properties	-	-	9,966,329	9,966,329
Total	-	-	9,966,329	9,966,329

(iii) Level 3 fair value measurements

Significant unobservable inputs are developed as follows:

- Expected prepayment rates are derived from historical prepayment trends, adjusted to reflect current conditions.
- The probabilities of default and loss severities for retail assets are derived from historical default and recovery information and adjusted for current conditions.
- Correlations between and volatilities of the underlying are derived through extrapolation of observable volatilities, recent transaction prices, quotes from other market participants, data from consensus pricing services and historical data adjusted for current conditions.

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23. Financial risk management (Continued)

(f) Categories of financial instruments

	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2016				
Cash and cash equivalents	804,406	-	804,406	804,406
Secured staff loan	39,497	-	39,497	39,497
Dividend receivable from subsidiaries	759,396	-	759,396	759,396
Trade and other receivables	488,899	-	488,899	488,899
Total	**2,092,198**	**-**	**2,092,198**	**2,092,198**
Trading liabilities				
Borrowings	-	565,169	565,169	565,169
Bank overdraft	140,720	-	140,720	140,720
Total	**140,720**	**565,169**	**705,889**	**705,889**
31 December 2015				
Cash and cash equivalents	21,337	-	21,337	21,337
Secured staff loan	45,475	-	45,475	45,475
Dividend receivable from subsidiaries	350,708	-	350,708	350,708
Trade and other receivables	191,270	-	191,270	191,270
Total	608,790	-	608,790	608,790
Trading liabilities				
Borrowings	-	4,200,492	4,200,492	4,200,492
Bank overdraft	621,123	-	621,123	621,123
Total	621,123	4,200,492	4,821,615	4,821,615

24. Operating lease arrangements

The company as lessor

Leasing arrangements

Operating leases relate to the investment property owned by the company with lease terms of between 1 and 10 years, with an option to extend the lease term. All operating lease contracts contain market based rental review clauses in the event that the lessee exercises its option to renew. Additionally, the rentals are renegotiated on an annual basis based on prevailing market conditions. The lessees do not have options to purchase the property at the expiry of the lease period.

The property rental income earned by the company from its investment property, all of which is leased out under operating leases, amounts to **K1.4 billion** (2015: K1.1 billion).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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25. Contingent liabilities

There are a number of proceedings outstanding against the company as at 31 December 2016. If defence against these actions is unsuccessful, the claims and litigation costs could amount to **MK20 million** (2015: MK54 million).

	2016	2015
26. Capital commitments		
Authorised	**362,040**	214,000

Capital expenditure commitments are financed from internal resources, existing facilities as well as external sources.

27. Exchange rates and inflation

The average of the period-end buying and selling rates of the foreign currencies most affecting the performance of the company are stated below, together with the National Consumer Price Index, which represents an official measure of inflation.

	2016	2015
Kwacha/ US	**725.4**	664.5
Kwacha/Rand	**50.4**	41.9
Kwacha/ GBP	**878.2**	973.9
Kwacha/Euro	**764.0**	717.8
Inflation (%)	**19.9%**	24.9%

As at signing of these separate financial statements the above rates had moved as follows:

	2016	2015
Malawi Kwacha/ US	**725.4**	686.4
Malawi Kwacha/Rand	**53.3**	44.7
Malawi Kwacha/ GBP	**891.8**	968.9
Malawi Kwacha/Euro	**760.5**	767.4
Inflation (%)	**20%**	23.5%

28. Subsequent events

Subsequent to the reporting date, no events have occurred necessitating adjustments to or disclosure in the separate financial statements.