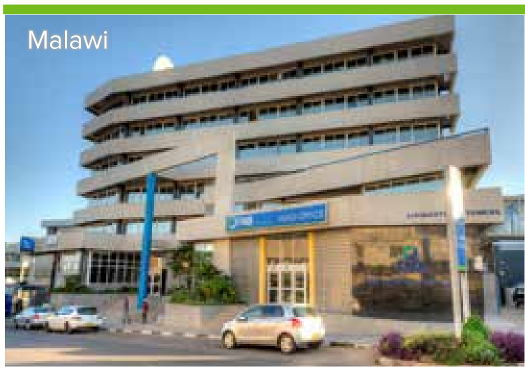
FMB

FIRST MERCHANT BANK LIMITED



ANNUAL REPORT | 2014

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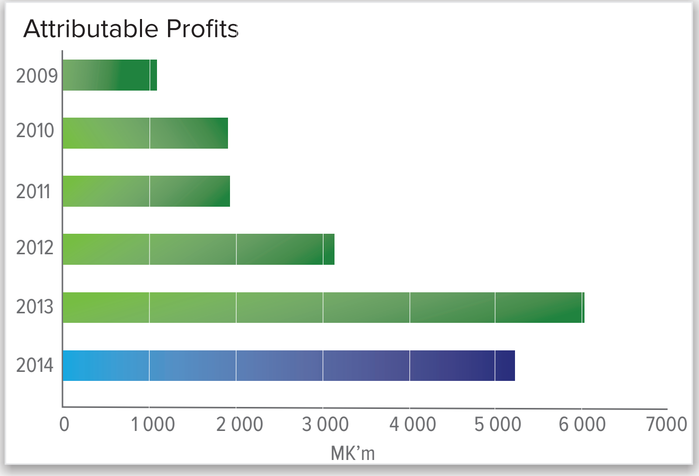
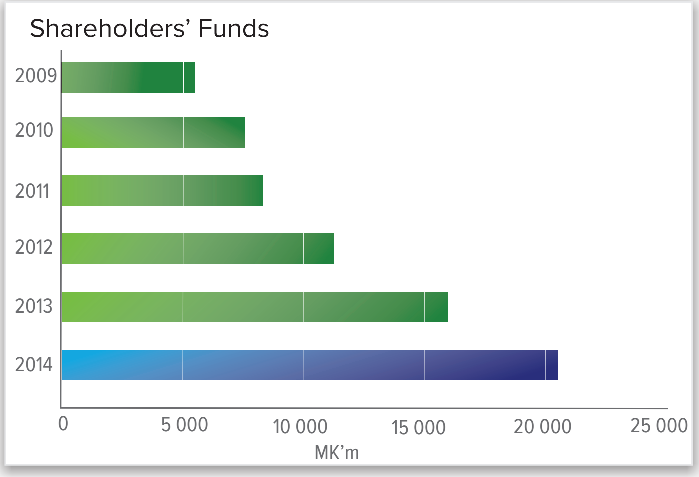
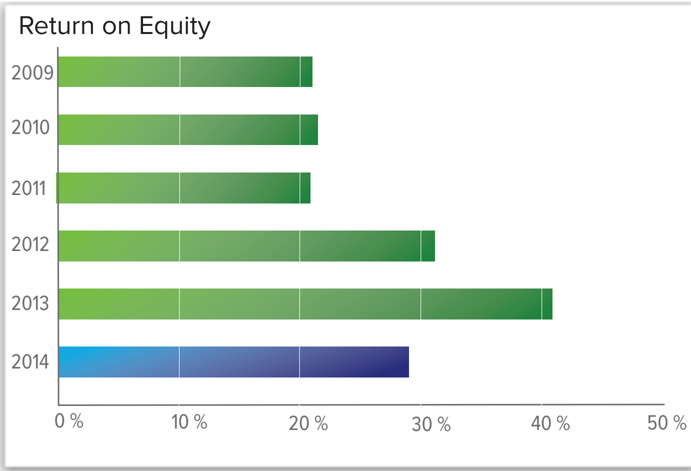
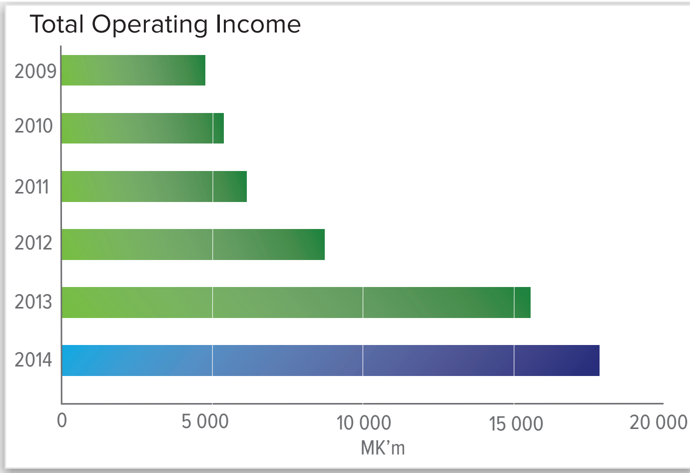
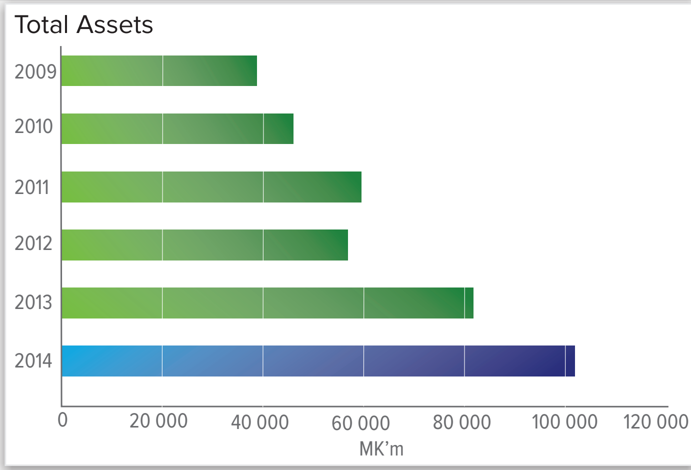
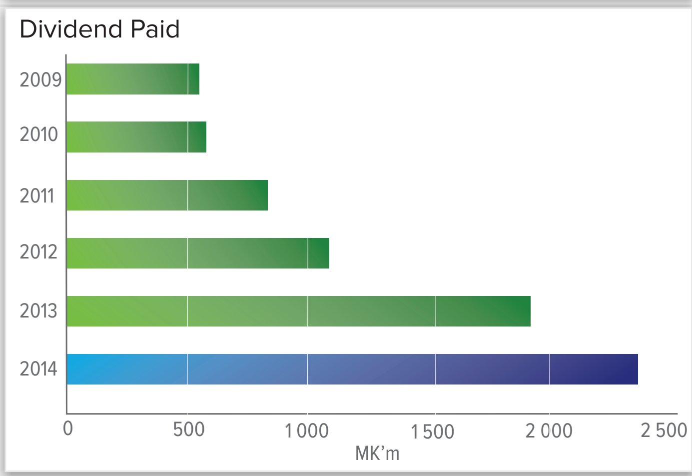












	MK'm		MK'm
Shareholders' Funds 2014	21 329	Earnings per Share	234 tambala
Total Assets	104 363	Dividends per Share**	100 tambala
Total Income	17 845	PE Ratio*	8.10
Profit after Tax	5 197	Price/ Book Value Ratio*	2.07
Share Price at Year End	1896 tambala	Return on Equity	30%

** at year end share price*
*** including final dividend*

Regional Economic REVIEW

Botswana

Botswana GDP growth for 2014 is estimated to come in at around 5% with trade and mining being the fastest growing sectors.

The 2013/14 Government budget proposal forecast a modest budget surplus of P779 million predicated on total revenue of P44 billion. However, mineral revenues actually received were significantly higher than budgeted such that overall revenues of P49 billion were P5 billion better than budget. This together with some savings on expenditure saw a final budget outturn of a surplus of P7.2 billion, equivalent to 5.6% of GDP. A more modest surplus of P1.3 billion or 1% of GDP is budgeted for 2014/15.

The headline inflation rate which had remained around 4.3% for the first three quarters of the year fell to 3.8% in December 2014 largely as a result of a sharp drop in global oil prices leading to lower fuel prices. Food price inflation has also been declining over the course of 2014.

Although monetary policy remains broadly accommodative, banking sector liquidity has become extremely tight with the overall credit deposit ratio for the industry hovering around 80%. This has seen a reduction in the annualized rate of overall bank credit growth to around 14% with a shift away from lending to households for consumption which grew at a lesser pace of around 10%.

The value of the Pula remains closely linked to the South African Rand. Over the course of the year the Pula appreciated by a relatively insignificant 1.7% against the Rand, but the weakness of the Rand against the US dollar saw the Pula depreciate by 8.4% against the US dollar over the year.

Malawi

Malawi achieved an estimated 6% increase in GDP in 2014 with all economic sectors registering positive rates of growth apart from mining which contracted by 4.6% following the suspension of operations at Kayelekera Uranium Mine.

Resumption of budgetary support by development partners awaits more progress on reforms to the management of public finances. Recurrent expenditure could not be contained below the level of domestic revenues with a resultant estimated fiscal deficit for 2014/15 equivalent to 4.3% of GDP.

The deficit was financed by external and domestic borrowing though the latter decreased marginally over the year due to conversion of US$250 million equivalent of domestic debt to a treasury note subsequently discounted with PTA Bank. An increasing proportion of the country's US$1.8 billion external debt is higher cost, non concessional debt contracted in recent years.

Inflationary pressures persisted, particularly in the second half of the year as the Kwacha lost value. Average headline inflation rate at year end was 23.8% compared to 27.3% at end 2013.

Monetary policy remained contractionary with the Policy Rate closing the year at 25% and a reduction in liquidity arising from the directive that banks meet their liquidity reserve requirements for foreign currency deposits in the equivalent value of Kwacha. The annual rate of growth in broad money eased to 20%

from 35% and growth in credit to the private sector was muted, expanding by some 17% over the year.

The Malawi Kwacha again exhibited considerable seasonal volatility which saw it appreciate to a high of 385 to the US dollar during the tobacco season, subsequently depreciating to a low of 482 before stabilizing in December to close the year at 455. At year end gross official reserves were US$600 million equivalent to 3.1 months prospective import cover. A US$200 million increase in gross reserves over the year is largely due to the injection of US$250 million from PTA Bank.

Mozambique

In 2014, the Mozambique economy continued to grow strongly with real GDP estimated to have increased by 7.6%. Foreign direct investment and government expenditure drove growth across various economic sectors including extractive industries, construction, transport and communication, financial and other services.

Government took an expansionary fiscal stance in 2014 ahead of its stated intention to adopt a more restrictive fiscal policy from 2015 onwards. The fiscal outturn after grants is estimated to be a deficit equivalent to 10% of GDP. The level of budgetary support from development partners continues to decline and, apart from one off taxes collected on transfer of interests in gas concessions, the full impact on government revenues of the so called megaprojects in the extractive sector is not likely to materialize in the near term.

Successive fiscal deficits have been financed by public debt of which domestic and external borrowing comprise 15% and 85% respectively. An increasing proportion of external debt is in the form of bilateral loans which carry higher interest rates than the more concessional multilateral loans. The level of public debt which equates to 56.5% of GDP is considered sustainable by the IMF who, however, recommend a more restrictive fiscal policy going forward to contain the rate of growth in public debt.

Inflation remained very subdued in 2014 due to a stable metical and bumper harvests, which pushed down food prices. The increase in the CPI over 2014 as a whole was 1.93%, with a pattern of price increases in the first four months, followed by five months of deflation and then price increases again in the last three months of the year.

The monetary authorities continued with a relatively prudent monetary policy stance despite little inflationary pressures in the economy. The interest rate on the benchmark central bank accommodation facility closed the year at 7.5% and the required reserves ratio remained unchanged throughout the year at 8%.

A high current account deficit reflects imports for the development of megaprojects but is compensated by capital account inflows in the form of foreign direct investment. Accordingly, the currency remained stable trading in a relatively narrow band (30 to 31) to the US dollar through until October before weakening somewhat around the time of the presidential elections. Official foreign exchange reserve assets remain broadly unchanged for the last three years at approximately 2.5 months of prospective import cover.

Zambia

Zambia's GDP is estimated to have grown by 6% in 2015. A bumper maize crop has seen a rebound in the agricultural sector which grew by 6.5% with other strong contributors to economic expansion being the construction and services sectors.

Government has made some progress towards reducing the fiscal deficit which was reduced to 5.1% of GDP from the 2013 level of 6.5% of GDP due to higher than anticipated domestic revenues and a significant cut in capital expenditure. The deficit, however, does not reflect VAT refunds due to exporters (following a 2013 change in VAT rules) which by December 2014 is estimated to have reached some K5 billion, around 3% of GDP.

Deficit financing has seen government borrowing climb to around 30% of GDP. The recent growth in borrowing comprises mainly external, non concessional debt including the 2012 and 2014 Eurobond issues. Although overall public debt remains sustainable, risk may arise from a future need to finance the bullet repayments due on the Eurobonds in 2022 and 2024.

Average inflation fluctuated between 7% and 8% in 2014, with the average for the year of 7.8% somewhat higher than the targeted rate of 6.5% and the 2013 average of 7.0%. Inflation was largely driven by a sharp depreciation in the value of the Kwacha in the first half of the year.

The monetary authorities adopted several measures to contain inflation and reduce pressure on the currency. The Policy Rate was increased from 9% to 12% in April 2014 and again to 12.5% in November 2014. The statutory liquidity reserve requirement was also increased from 8% to 14%. One immediate impact of these changes was to push up yields on government securities in light of the tighter liquidity conditions.

The Zambian Kwacha depreciated sharply over the first five months of the year falling from 5.5 to 6.8 to the US Dollar. Increases in interest rates and intervention by BOZ in the foreign exchange market saw the currency recover to 6.2 to the dollar in June 2014 and remain stable until towards the end of the year. In November and December the Kwacha weakened marginally to 6.4 to the dollar, largely on account of the strengthening of the US currency.




Chairman's LETTER

Rasik C Kantaria
Chairman

The year 2014 saw further significant progress achieved on numerous projects undertaken to position the group for future growth in all its territories of operation. New core banking systems are now in place in Botswana, Mozambique and Zambia with Malawi on track to go live on the new system in the second quarter of 2015.

In tandem with the IT system upgrades we have successfully centralized the back office operations of each bank which initiatives together have led to enhanced controls and increased operational efficiency. Additionally, a comprehensive review of human resources was undertaken to harmonize grading and performance evaluation policies and procedures throughout the group and ensure that our terms and conditions of service and employee compensation are relevant and competitive in the markets in which we operate.

We have now completed the upgrade of the physical infrastructure of First Capital Bank, Zambia and Capital Bank, Mozambique with new modern head offices in both territories together with a renovation and refurbishment of all branches. In Zambia we have opened a new branch in the growing industrial area of Makeni in Lusaka and commenced the process of expanding our geographical outreach to the Copperbelt through the establishment of branches in Ndola (opened in March 2015) and Kitwe (opening scheduled for later in 2015).

Reserve Bank of Malawi implemented Basel II guidelines with effect from 1 January 2014 and I am pleased to report that, since implementation, we have remained compliant with the increased capital adequacy ratios both at bank and group level.

Major IT system upgrades, either completed or in progress, will facilitate adherence to various Basel II reporting requirements. These include implementation of software to record incidents relating to operational risk, a credit origination system in use in Malawi since April 2014 and to be rolled out to other countries in 2015 and implementation of a data warehouse solution to enable automation of Basel II reporting.

The economies in which we operate all enjoyed significant growth in GDP ranging from 5% to 7.5% in 2014 but the financial sectors of these economies faced numerous challenges. A common theme was domestic currency weakness for a variety of reasons including uncertainty surrounding political transition in Zambia and Mozambique, continuing fiscal deficits in Malawi and in Botswana the knock on effect of a depreciating South African Rand. Direct policy interventions which impacted on profitability included changes to liquidity reserve requirements in Zambia and Malawi and a moratorium on increases in fees and commissions in Botswana. Indirectly, we felt the impact of an aggressively contractionary monetary policy in Malawi and a less liquid banking sector in Botswana (following transfer of significant government department deposits from commercial banks to Bank of Botswana).

Despite the challenging environment, the group continues to enjoy strong balance sheet growth with total group assets increasing by over 25% to now exceed K100 billion. We remain relatively conservative in terms of management of our balance sheet and over 40% of our total assets are represented by lower risk cash equivalents and money market investments.

Significant financial resources have been invested in the many projects we have undertaken to position our group for future growth and this has had an unavoidable negative impact on our profitability. Although group operating income grew by a satisfactory 12% from K16 billion to K18 billion, expenditure has grown at a faster rate and our cost to income ratio has worsened from 44% to 56%. The overall outcome is a 10% drop in earnings per share from 261 tambala to 234 tambala.

Looking forward, the rate of economic growth in the region should remain robust albeit marginally below that achieved in 2014. Our major concern is whether contraction in agricultural output in Malawi as a result of the severe floods experienced in the country will be sufficiently mitigated by the positive impact of donor funded, post disaster reconstruction projects. Monetary policy in Malawi is likely to remain contractionary as inflationary pressures persist due to continuing fiscal deficits and the push effect of increased food prices following a poor harvest.

Prudent banking practice, let alone increased banking sector regulation, requires that we remain conservative in the deployment of the funds at the disposal of the group. We, therefore, anticipate sustainable rather than spectacular growth in operating revenues. We are however, optimistic that we have absorbed the initial cost burden of transforming our recent acquisitions in Mozambique and Zambia and expect these operations to begin to make an increasing contribution to group results. This, together with technology enhancements in Malawi, should lead to an increase in overall group efficiency and a return to historic cost to income ratios.

In conclusion, I wish to thank the central banks of all the countries in which we operate for their guidance and support, the directors of all group companies for their invaluable advice, management and staff for their dedication and commitment and last, but most importantly, our shareholders and customers for their continued confidence and trust in the FMB group.

Rasik C. Kantaria
Chairman
June 2015


CAPITAL HOUSE
capitalbank
Head Office
Ground Floor
capitalbank
Head Office
1st Floor
capitalbank
Gaborone Main Branch


FMB
FMB
FirstCash


capitalbank
ATM
JUNTE-SE A NÓS
capitalbank

Dheeraj Dikshit
Group Managing Director

Group Managing Director's REPORT

As alluded to by the Chairman in his letter to shareholders, 2014 was a challenging year for the group. I am pleased to report that management and staff responded well to the challenges posed by a difficult macroeconomic environment and a more demanding regulatory regime, whilst at the same time implementing major technology upgrades and a human resource restructuring exercise across the group. I am sincerely appreciative of the commitment and diligence of all involved, particularly the project teams from IT and Operations departments.

The group continues to enjoy strong balance sheet growth with total assets increasing by 25% over the course of the year funded by a combination of increased deposits, new credit lines and retention of earnings. Although overall operating revenues grew by 12%, there was a 10% contraction in group profitability due to the relatively higher rate of increase in operating expenditure. We are confident that this expenditure will generate future payback in many forms including increased operational efficiency, enhanced customer service and ability to meet the increasingly demanding regulatory requirements applicable to the banking sector.

Group Performance
Key highlights of the 2014 group performance were:-

- 20% growth in customer deposits from K53.6 billion to K64.5 billion
- 25% growth in total assets from K82.9 billion to K104.3 billion
- 12% growth in operating income from K15.9 billion to K17.8 billion

We continue to focus on growing our base of lower cost current and savings deposits which comprise around 80% of our total liabilities to the public. This has enabled us to maintain a very healthy net interest margin of over 12% at the company level and 10% at group level.

The growth in total assets of the group arises from the increase in total deposits, retention of earnings and drawings on a line of credit availed to the holding company by European Investment Bank for on lending to customers in specific economic sectors.

Monetary policy remained contractionary and, as a result, market liquidity was extremely tight at various times during the year. We, therefore, continued to exercise prudence in the deployment of funds at our disposal. At year end K43 billion or 41% of our total assets were in the form of low risk money market investments, cash and cash equivalents.

Credit extended by the group grew at a somewhat faster pace than deposits, expanding by 33% from K30 billion net to K40 billion net over the course of the year. Over K4 billion of the K10 billion increase was lending from lines of credit rather than customer deposits and if this is factored out, credit growth is somewhat lower than growth in liabilities to customers. Our group credit deposit ratio remains conservative at 62%. The quality of our advances portfolio has definitely been affected by the economic conditions in Malawi over recent years but we believe we have established a prudent level of provisioning against non performing accounts.

Overall, operating income grew by 12% with a somewhat mixed performance for the major income headings. Net interest income grew by 14% against a 20% growth in deposits reflecting the anticipated marginal narrowing in interest margins. Gains from foreign exchange trading remained at the same level as 2013 at K4 billion with increased volumes traded compensating for a reduction in spreads over the course of the year. A 34% increase in fee and commission income from K3.3 billion to K4.4 billion bears testimony to the success of our efforts to diversify and expand our sources of non funded income. Investment income is volatile by nature, fair value gains on listed equities being closely linked to the overall performance of the Malawi Stock Exchange, and 2014 gains of K477 million lagged some way behind the K2089 million gains achieved in 2013.

Operating expenses excluding impairment losses were up by 43% from K6,919 million to K9,940 million, increasing at a much faster pace than both inflation and growth in income. Approximately K1 billion of this increase can be attributed to the inclusion of a full year's expenses for Capital Bank, Mozambique (only six months were consolidated in 2013), reducing the real growth to around 30%. As explained earlier in my introductory paragraph, we believe that the increase in our operating cost base is necessary to establish the platform for future sustainable growth. In the near term we anticipate an increase in group revenues such that our cost to income ratio falls back to historic levels of below 50%.

Major projects throughout the group

Botswana

- The new core banking system, Finacle, was implemented in August 2014 together with relatedsystems such as the switch (integrated with Malawi), a new internet banking platform and the EBA financial reporting package.
- Investment in and implementation of the Aperta clearing software and Visa card system upgrade to a debit chip card offering.
- Back office operations of branches were centralised leading to operational efficiency, enhanced controls and savings on head count.
- A comprehensive HR review was undertaken in December 2014 including implementation of a new grading structure consistent with the rest of the group.

Malawi

- A new credit origination system was implemented in April 2014 – this system will be rolled out to other group companies in 2015.
- Automation of Basel 11 reporting commenced through implementation of a data warehouse solution.
- A new switch is being implemented to enhance the service capabilities of channels such as ATM, POS and Mobile banking and also facilitate integration with the National Switch.
- An operational risk software has been implemented to record all incidents related to operational risk.
- Work commenced on upgrade of the core banking system to Finacle, expected to go live in May 2015.

Mozambique

- A new core banking system, Banka (software widely used in the Mozambique banking sector) was implemented in May 2014 which led to an expanded range of services offered in the areas of card and electronic banking services and improved operational efficiency.
- The bank moved into its new head office and completely refurbished and rebranded its entire branch network.
- As with other territories, back office operations of branches were centralized and a comprehensive HR review undertaken.



Zambia

- The new core banking system, Finacle was implemented in May 2014 together with related systems such as the integrated switch and EBA financial reporting.
- Work commenced on implementation of the new internet banking platform, to be launched in February 2015.
- The expansion of the bank's branch network got underway with work on a fourth Lusaka branch in the Makeni industrial area and the first Copperbelt branch in Ndola, both opening in March 2015. The site for a second Copperbelt branch in Kitwe has also been acquired.
- As with other territories, back office operations were centralized and a comprehensive HR review undertaken.

Outlook

A common theme for the economics in which we operate is the need for fiscal consolidation. Malawi, Mozambique and Zambia need to work towards eliminating recurring fiscal deficits and even Botswana with its fiscal surpluses will need to absorb the impact of the new "fiscal rule" which commits to saving 40% of mining revenues in a future generations fund. Against this background, it is not expected that any of the respective monetary authorities will adopt a more accommodative monetary stance in the near future, particularly as domestic currency weakness is likely to be another recurring theme for a variety of reasons.

We, therefore, anticipate a narrowing of interest spreads particularly at the margin (due to the continued tight liquidity and resultant high cost of attracting term deposits). Regulatory intervention in certain of the territories in the form of more exacting reserve requirements and caps on lending rates, fees and commissions will also continue to affect potential profitability of some of our operations.

Nevertheless, we are confident we have the infrastructure in place and the strong leadership and commercial teams in all our companies to grow and diversify our revenue base over the coming years. We also anticipate being able to contain the rate of growth in expenditure below the rate of growth in income.

Appreciation

My thanks go to the management teams and staff across the entire group for their efforts over the past year to implement many challenging projects. We now move to the next stage in our institutional evolution and I am confident that they will again rise to the new challenge of building our business on the sound platforms we have now established.

Dheeraj Dikshit
Group Managing Director
June 2015

BOARD OF DIRECTORS

Rasik C Kantaria
Chairman

Mr. Kantaria has a BSc in Economics, is Chairman of Prime Bank Limited, Kenya and Chairman of Prime Capital and Credit Limited, Kenya. He holds directorates in a number of other sectors of the Kenyan economy, principally property and tourism. His other directorships in Malawi are: The Leasing and Finance Company of Malawi Limited and BNC Packaging Limited

Hitesh N Anadkat
Vice Chairman

Mr. Anadkat holds an MBA from Cornell University and a BSc (Hons) Economics from the University of London. Prior to returning to Malawi to establish First Merchant Bank, he worked in a corporate finance house in USA specialising in mergers and acquisitions and company valuations. He also holds other directorships in a number of sectors of the Malawi economy, principally, banking, telecommunications, manufacturing and property development.

Dheeraj Dikshit
Group Managing Director

Mr. Dikshit holds an MBA and a Bachelor of Commerce. Prior to joining FMB, Mr Dikshit worked for HSBC in different senior capacities. He has more than 21 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr Dikshit joined FMB in 2011.

John M O'Neill
Group Finance Director

Mr. O'Neill is a fellow and member of the Institutes of Chartered Accountants in Ireland and Malawi respectively. His professional working experience of over 40 years includes 17 years with Deloitte, where he served six years as a partner in its Malawi Practice. He was appointed to the Board of FMB in 1996 and currently holds the position of Group Finance Director.

Natwarlal G Anadkat
Director

Mr. Anadkat is a respected and long established businessman in Malawi, where he has been in business for over 50 years. His other directorships in Malawi are: Avon Investments Limited, N. G. Anadkat Limited, BNC Packaging Limited and Zambezi Investments Limited.

Modecai Msisha SC
Director

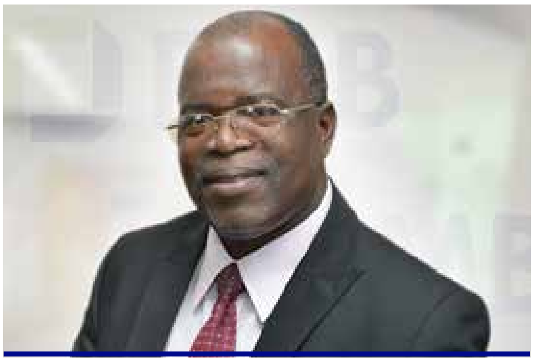
Mr. Msisha, SC is a legal practitioner in practice since 1975. He holds an LLB (Malawi) and LLM (Toronto) and has worked as a State Prosecutor, Legal Aid Advocate and Lecturer in law. He has been a partner in Nyirenda & Msisha Law Offices since 1990. He was elevated to Senior Counsel in 1997, and has served in prominent roles in a number of special legal assignments and commissions of national importance.

Bharat Jani
Director

Mr. Jani holds both Bachelor and Master of Commerce degrees and diplomas in Financial Management, Banking, and Computerised Banking. He joined Prime Bank Limited, Kenya in 2001 and is currently the Managing Director of Prime Bank Limited, Kenya. He has over 35 years' banking experience, having previously worked for Reserve Bank of India, Union Bank of India and Trust Bank Limited in Kenya. He holds no other directorships in Malawi.

Jan A. Claassen
Director

Mr. Claassen holds BComm and LLB degrees from the University of Port Elizabeth, and a Bankers Diploma from the Institute of Bankers SA. He qualified in Advanced Finance for Bankers with the Business School at the University of Witwatersrand, Management Development (UCT), Bank Financial Management Simulation (Institute of Bankers - SA) and Executive Graduate School Leadership (UNISA). He has 38 years' experience in senior management, and was Group Managing Director for Letshego Holdings Limited from 2003 to 2014.



Dr. E. Ngalande
Director

Dr. Ngalande holds a BSocSc from the University of Malawi, an MA in Development Economics and Political Economy from Strathclyde University, and a PHD in Economics from Boston University. He has held postdoctoral teaching posts at leading Universities, prior to senior positions in government and the public sector. In 2006 he was appointed Executive Director of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa. He has published widely in Agricultural Economics, Health Care, Financing and Social Sectors. Dr Ngalande has served on several parastatal boards in Malawi.

EXECUTIVE MANAGEMENT & REGIONAL CEOs

Dheeraj Dikshit
Group Managing Director

Mr. Dikshit holds an MBA and a Bachelor of Commerce. Prior to joining FMB, Mr Dikshit worked for HSBC in different senior capacities. He has more than 21 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr Dikshit joined FMB in 2011.

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Mr. O'Neill is a fellow and member of the Institutes of Chartered Accountants in Ireland and Malawi respectively. His professional working experience of over 40 years includes 17 years with Deloitte, where he served six years as a partner in its Malawi Practice. He was appointed to the Board of FMB in 1996 and currently holds the position of Group Finance Director.

Kobus Louw
Group General Manager, Credit & Operations

Mr. Louw holds an MBA and a Bachelor of Economics. He is presently studying towards a Masters in Futures Studies. Mr. Louw has 29 years' experience, having worked for two of the largest South African banks in a range of capacities. Most recently, he was Head of Business Banking for First National Bank Namibia. Mr Louw joined FMB on 1 April 2015.

Thomas J Kadantot
General Manager, Corporate & International Banking

Mr. Kadantot's qualification includes an MBA in Finance & Accounting and a Post Graduate Diploma in Business Administration. He also holds a Bachelor of Science degree in Physics, Mathematics & Statistics from Bombay University, and a CAIIB (1) from India Institute of Bankers. His work experience spans 26 years. He has worked in various senior managerial positions in foreign exchange, branch operations, corporate banking, correspondent banking, trade finance and treasury.

Devendar Kuragayala
Group Head of Information Technology

Mr. Kuragayala holds an MBA and a Bachelor of Engineering. He has more than 26 years' working experience, with his core areas of expertise covering cards IT and banking operations IT. Prior to joining FMB in 2011, he worked at General Electric, HSBC, and Barclays Bank.

Michael Ngwira
General Manager, Leasing & Finance Company of Malawi

Mr. Ngwira holds an MBA from the University of Cape Town - Graduate Business School. He also has a B.Sc. in Engineering from the University of Malawi, the Polytechnic. Prior to joining LFC, Michael was Chief Operating Officer of Petroleum Importers Limited, a procurement agent for the oil marketing companies in Malawi. Michael joined LFC on 1st May 2015.

Jorge Stock
Chief Executive Officer, Capital Bank, Mozambique

Mr. Stock holds a Bachelor of Arts degree in Economics and French with Honors. He has 21 years' work experience and previously worked for BPI and BFA. He has expertise in retail banking, corporate banking, marketing and lean value stream leading.

Sachin Nigam
Chief Executive Officer, First Capital Bank, Zambia

Mr. Nigam is the Chief Executive Officer of First Capital Bank (FCB) and holds a Master of Business Administration degree. Sachin has 16 years' experience in corporate and personal banking, wealth management, retail assets, credit assessment and grading, gained in the Indian banking sector from CRISIL, HSBC and ICICI.

Jaco Viljoen
Chief Executive Officer, Capital Bank, Botswana

Mr. Viljoen is a holder of an MBA and several degrees. He has 20 years' experience and previously worked for Standard Bank and Barclays before joining Capital Bank. He is an expert in retail banking, commercial banking and marketing.

As a corporate citizen FMB acknowledges that it can play an important role in the support and development of the communities in which it operates. To this end for the year under review FMB partnered with organisations and government institutions on a wide range of initiatives encompassing health, education, sports, and the environment.

Corporate Social RESPONSIBILITY

Health

CT Scanner Donation

In conjunction with our principal shareholders, the Anadkat and Kantaria families, FMB donated a MK70 million state of the art CT scan machine to the Blantyre Adventist Hospital to assist patients in Blantyre and the surrounding areas. The hospital is required to give access to the equipment to less privileged patients at no cost.

Blood Donation Sponsorship

FMB has for the past three years been partnering with Malawi Blood Transfusion (MBTS), to support blood donation initiatives across the country. MBTS has an annual target of 80,000 pints of blood a year and FMB has been assisting MBTS in meeting this target by sponsoring blood donation camps across the country and encouraging its staff, as well as students from schools, employees of corporate organisations, and the general public, to donate blood.

Hospital Hamper Donations

Each year at Christmas, FMB distributes gift hampers to sick children and new mothers at various hospitals throughout Malawi. Our donations cheer up children and mothers who would have been home with their families and relatives during the festive season. In 2014, we distributed hampers in six different hospitals across the country.

Operation Smile

For the last three years, FMB has provided financial assistance to Operation Smile Mission, an NGO of volunteer surgeons from different countries who assist needy patients born with cleft lip and palate deformities. Most patients are stigmatised and live in isolation because of these conditions. FMB's donation was used to help the mission provide meals to patients, and 20 members of FMB staff joined the Operation Smile team in distribution of meals and cleaning their shelters.

NPL Mothers Day Fun Run

To commemorate Mother's Day, FMB supports the NPL fun run, in which corporate institutions are encouraged to participate and make donations in the form of medical equipment. The medical equipment is donated to the maternity ward at a hospital of NPL's choice and donations rotate among the three regions of the country each year. In 2014, donations were directed to Mangochi District Hospital.

Education

FMB Scholarships

FMB is actively involved in providing scholarships to needy children from less privileged families, in its endeavour to promote education and to support the poorer segments of Malawian society. Scholarships are awarded to deserving students to cover tuition payments, and FMB has over the years, made annual commitments to over 68 students.

School Bag Donation

FMB encourages pupils in primary schools to excel in their education through a programme where school bags are donated to reward pupils who have done well in their studies.

In 2014, FMB donated school bags to pupils in six different schools across Malawi.

FMB MAWU Literacy Awards

Since 2008, FMB sponsors the MAWU Literacy Awards in which writers submit their short stories to the Malawi Writers Union (MAWU) Secretariat, and a panel of judges picks the winning stories. In 2014, thirteen writers were rewarded at an event which took place at the FMB Training Centre. Awards were presented by the Minister of Information, Tourism and Culture, the Hon Kondwani Nankhumwa. The awards are aimed at encouraging creative writing among budding writers.

Beehive Bike Chase

This is a fundraising bicycle race that takes place in Chilomoni, Blantyre, to raise funds for infrastructural development at an Early Childhood Learning Centre, which provides free education to pre-school children who are orphans, or children from underprivileged homes. Participating teams are encouraged to donate the bicycles they use in the race towards a worthy cause. FMB's bicycles from the 2013 and 2014 races were donated to Mangochi District Hospital to be used by Health Surveillance Assistants who are trained in community-based maternal and newborn care.

Samaritan Trust Donation

Samaritan Trust has been reaching out to an average of 200 street children each year, aged between 8 and 18 years. In 2014, encouraged by their objective to create a chance and choice for the street child, FMB contributed towards the charity, which delivers sustainable institutionalised support for street children, to enable them to access education and vocational skills needed for reintegration back into the Malawian Society.

Rewarding Academic Excellence

In recognition of the exceptional 2014 Malawi School Certificate Examinations (MSCEs) results by the majority of the girls at St Mary's Secondary School in Zomba, including being awarded a number of scholarships to study abroad, FMB made a donation towards a project to expand their library. As a result of the expansion, the library will be able to accommodate over 200 students at once, and a computer room, that allows the girls to have easy access to electronic information.

Sports

Under 20 Youth Football League

In 2009, FMB introduced the FMB Under-20 Youth Football League by providing financial assistance to the National Football League Committee (an affiliate of the Football Association of Malawi), to help with the country's youth football development programme at grassroots level. The league started with a sponsorship of MK4 million, which has now risen to MK20 million. Participating teams are drawn from all three regions of the country.

Hockey Sponsorship

FMB has been sponsoring the six and eleven-aside hockey league's development programme since 2013. The winning men's and women's teams in the 2013/14 FMB Hockey Leagues (Genetrix Hockey Clubs), travelled to Bulawayo in Zimbabwe sponsored by FMB to participate in a club championships tournament. Besides football and hockey, FMB also sponsors basketball, golf, rugby and cricket.

Environment

Go Green Campaign

FMB's 'Go Green' Campaign introduced three years ago, is a tree planting initiative undertaken in association with the Wildlife Environmental Society of Malawi (WESM), whereby a nation-wide campaign is carried out involving several schools, FMB branches and agencies. In 2014, six schools were involved and 6,000 trees were planted nationwide.


FMB
HEAD OFFICE
LIVINGSTONE
FMB

Directors' Report

The Directors have pleasure in submitting their report, together with the audited consolidated and separate financial statements of First Merchant Bank Limited and its subsidiaries for the year ended 31 December 2014.

Nature of Business, Incorporation and Registered Office

First Merchant Bank Limited is a public limited liability company incorporated in Malawi under the Malawi Companies Act, 1984. It is listed on the Malawi Stock Exchange and is registered as a commercial bank under the Banking Act 2010. It has four wholly owned subsidiaries incorporated in Malawi, The Leasing and Finance Company of Malawi Limited, a licensed financial institution engaged in deposit taking and asset finance, FMB Pensions Limited, a company administering pension funds, FMB Capital Markets Limited, a licenced portfolio manager and FMB Forex Bureau Limited, a licensed foreign exchange bureau and holds a 70% shareholding in Capital Bank Limited, a licensed commercial bank incorporated in Mozambique. First Merchant Bank Limited also holds a 38.60% shareholding in Capital Bank Limited, a licensed commercial bank incorporated in Botswana and 49% in First Capital Bank Limited, a licensed commercial bank incorporated in Zambia.

The physical address of the holding Company's registered office is:

Livingstone Towers
Private Bag 122
Glyn Jones Road
Blantyre
Malawi

Financial Performance

The results and state of affairs of the Group and Company are set out in the accompanying consolidated and separate statements of financial position, statements of comprehensive income, statements of changes in equity, statements of cash flows and associated accounting policies and notes.

Dividends

Last year's second interim dividend of MK700.875 million (30 tambala per share) and final dividend of MK233.625 million (10 tambala per share), were paid during the year. An interim dividend for the year 2014 of MK1,168.125 million (50 tambala per share) was paid during the year and a second interim dividend of MK700.875 million (30 tambala per share) has been declared and will be paid in April 2015. The Directors also propose a final dividend of MK467.25 million (20 tambala per share) for approval at the forthcoming Annual General Meeting.

Directorate and Secretary

The following Directors and Secretary served during the year:

Mr R C Kantaria	Chairman, Non-executive	
Mr H N Anadkat	Vice Chairman, Non-executive	
Mr D Dikshit	Group Managing Director	
Mr J M O'Neill	Group Finance Director	
Mr N G Anadkat	Director, Non-executive	
Mr B Jani	Director, Non-executive	
Mr M Msisha	Director, Non-executive	
Mr J Claassen	Director, Non-executive	(Appointed on 25 September 2014)
Mr D Mwangwela	Company Secretary	

In accordance with the Company's Articles of Association, Messrs R C Kantaria and H N Anadkat retired by rotation at the last Annual General Meeting on 20 June 2014 and were reappointed. Messrs J M O'Neill and B Jani retire at the forthcoming Annual General Meeting, but being eligible for re-appointment they offer themselves for re-election. A resolution will also be put before the meeting to confirm the appointment of Mr J Claassen, who was co-opted to the Board in September 2014.

Shareholding Analysis

Name	2014 %	2013 %
Zambezi Investments Limited	44.94	44.94
Simsbury Holdings Limited	22.69	22.69
Prime Capital and Credit Limited	11.24	11.24
Prime Bank Limited	11.24	11.24
General Public	9.89	9.89
	100.00	**100.00**

Auditors

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs KPMG, Certified Public Accountants and Business Advisors (Malawi) as auditors in respect of the Company's 31 December 2015 financial statements.

Mr D Dikshit
Group Managing Director

Mr M Msisha
Director

24 March 2015

Statement on Corporate Governance

The Board

The Bank has a unitary Board of Directors comprising a non-executive Chairman, five non-executive Directors and two executive Directors. The Board has adopted without modification, the major principles of modern corporate governance as contained in the reports of Cadbury and King II, and the Basel Committee on Banking Supervision.

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

Board Meetings Attendance 2014

Member	6 Mar 2014	12 Jun 2014	25 Sep 2014	9 Dec 2014
Mr R C Kantaria - Chairman	√	√	√	√
Mr H N Anadkat - Vice Chairman	√	√	√	√
Mr D Dikshit - Group Managing Director	√	√	√	√
Mr J M O'Neill - Group Finance Director	√	√	√	√
Mr N G Anadkat - non-executive Director	√	√	√	√
Mr M Msisha - non-executive Director	√	√	√	√
Mr J Claassen - non-executive Director *	N/A	N/A	√	x
Mr B Jani - non-executive Director	√	√	√	x

Key: √ = Attended x = Apology N/A = Not Applicable
* Mr J Claassen was appointed to the Board on 25 September 2014

Board and Management Committees

There is one permanent management committee namely, the Asset and Liability Management Committee (ALCO), four permanent board committees, the Audit Committee, Credit Committee, Appointments and Remuneration Committee and Risk Committee (which comprises both Directors and senior management). Additionally, there is an informal Business Promotion Committee which comprises branch managers, senior management, two non-executive Directors and one executive Director. This committee meets regularly, usually once a month, and reviews the Bank's market position relative to its peers, and sets operational strategy to maintain and grow market share.

Asset and Liability Management Committee (ALCO)

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

Key functions of ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk, and ensuring that contingency funding plans are in place to avert funding crises. ALCO is composed of the Managing Director and six members of management and meets regularly, usually once a month. The members of ALCO are:

Mr L Kondowe	General Manager - Finance	(Resigned on 30 September 2014)
Mr D Dikshit	Group Managing Director (Chairman)	
Mr T Kadantot	General Manager - Corporate and International Banking	
Miss A Jazza	Head - Corporate Banking	
Mr R Mvula	Head - Credit	
Mr M Kadumbo	Manager - Financial Control	
Ms M Nyasulu	Manager - Treasury	
Ms C Chirwa	Manager - Risk and Compliance	

Audit Committee

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

The Audit Committee comprises three non-executive Directors, one of whom acts as Chairman. The Committee meets at least twice a year. The members of the Audit Committee are:

Mr M Msisha	Non-executive Director (Chairman)
Mr B Jani	Non-executive Director
Mr J Claassen	Non-executive Director

Audit Committee Attendance 2014

Members	11 Jun 2014	24 Sep 2014
Mr M Msisha - Chairman	√	√
Mr J Claassen	X	√
Mr B Jani	√	√

Key: √ = Attended x = Apology

Credit Committee

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

- Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers;
- Approval of all credit facilities above the discretionary limits set for management, save for those facilities requiring full Board approval, in accordance with Reserve Bank of Malawi directives; and
- Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required.

The Managing Director, Chief Risk Officer and Branch Managers attend all Credit Committee meetings in a non-voting capacity. The Credit Committee meets regularly, usually twice a quarter and comprises the following members:

Credit Committee Attendance 2014

Members	19 Feb 2014	16 May 2014	25 June 2014	23 July 2014
Mr H N Anadkat - Chairman	√	√	√	√
Mr J M O'Neill	√	√	√	√
Mr N G Anadkat	√	√	√	x

Members	23 Sept 2014	19 November 2014
Mr H N Anadkat - Chairman	√	√
Mr J M O'Neill	√	x
Mr N G Anadkat	√	√

Key: √ = Attended x = Apology

Appointments and Remuneration Committee

The Appointments and Remuneration Committee nominates persons to be appointed Directors (subject to shareholders' approval) and recommends to the Board, executive and non-executive Directors and senior management remuneration. The Committee also approves overall human resource and remuneration policies and strategies. The Appointments and Remuneration Committee comprises the following members:

Appointment and Remuneration Committee Attendance 2014

Member	19 Feb 2014
Mr H N Anadkat - Chairman	√
Mr M Msisha	√

Key: √ = Attended x = Apology

Risk Committee

The Risk Committee assists the Board in relation to assessing, controlling and mitigating business risks. The Committee identifies risks facing the Bank and recommends controls to the Board. The Risk Committee comprises two non-executive Directors, one of whom is Chairman of the Committee and one executive Director. The Group Managing Director, General Manager, Head of Credit, Manager, Financial Control and Risk and Compliance Manager attend all meetings. The members of the Committee are:

Mr J Claassen	non-executive Director (Chairman)
Mr B Jani	non-executive Director
Mr J M O'Neill	Group Finance Director

Risk Committee Attendance 2014

Member	26 September 2014	8 December 2014
Mr J Claassen - Chairman	√	x
Mr B Jani	x	√
Mr J M O'Neill	√	x

Key: √ = Attended x = Apology

Directors' Qualifications

Mr R C Kantaria, BSc (Econ)	Chairman
Mr H N Anadkat, BSc (Econ), MBA	Vice - Chairman
Mr D Dikshit, BCom. MBA	Group Managing Director
Mr J M O'Neill, BSc (Maths & Mgt Sc) FCA, CPA (Mw)	Group Finance Director
Mr M Msisha, SC LLM (Toronto), LLB (Hons) (Mw)	Director
Mr J Claassen, BCom	Director
Mr B Jani, Post Grad (Commerce), BSc (Banking & Fin. Mgt)	Director
Mr N G Anadkat	Director

Ethical Standards

The Board is fully committed to ensuring the Group's affairs are conducted with integrity and that the highest ethical standards are maintained. All employees of the Group are required to abide by a code of conduct containing detailed guidelines governing ethics and integrity in the workplace.

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of First Merchant Bank Limited, comprising the consolidated and separate statements of financial position at 31 December 2014 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Malawi Companies Act, 1984. In addition, the Directors are responsible for preparing the Directors' report.

The Act also requires the Directors to ensure that the Group and Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and ensure the financial statements comply with the Malawi Companies Act, 1984.

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

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

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

The Directors' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements, that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors have made an assessment of the Company and its subsidiaries' respective abilities to continue as going concerns, and have no reason to believe that these businesses will not be going concerns in the year ahead.

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

Approval of financial statements

The consolidated and separate financial statements of First Merchant Bank Limited as identified in the first paragraph, were approved by the Board of Directors on 24 March 2015 and are signed on its behalf by:

By order of the Board

Mr D Dikshit
Group Managing Director

24 March 2015

Mr M Msisha
Director

Independent Auditor's Report

To the Shareholders of First Merchant Bank Limited

Report on the Consolidated and Separate Financial Statements

We have audited the consolidated and separate financial statements of First Merchant Bank Limited and its subsidiaries, which comprise the consolidated and separate statements of financial position as at 31 December 2014, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 34 to 106.

Directors' Responsibility for the Consolidated and Separate Financial Statements

The Directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and in a manner required by the Malawi Companies Act, 1984 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of First Merchant Bank Limited as at 31 December 2014 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 in a manner required by the Malawi Companies Act, 1984, so far as it concerns members of the Company.

KPMG

Certified Public Accountants (Malawi)
Blantyre

24 March 2015

Statements of Financial Position

		Consolidated		Separate	
In thousands of Malawi Kwacha	**Note**	**2014**	**2013**	**2014**	**2013**
Assets					
Cash and cash equivalents	7	32,429,431	31,461,380	24,978,112	25,742,247
Money market investments	8	10,651,002	4,624,291	6,599,188	3,010,788
Loans and advances to customers	9	35,650,617	25,833,352	29,486,492	22,775,479
Finance lease receivables	10	4,556,258	4,337,258	-	-
Other assets	11	2,218,403	1,675,220	1,706,686	1,209,198
Amounts due from subsidiaries and associated companies	12	-	-	75,619	232,740
Investments in listed companies	13	5,025,873	4,548,921	5,025,873	4,548,921
Investment in subsidiaries	14 (a)	-	-	2,778,288	2,268,564
Investment in associated companies	14 (b)	4,817,482	4,694,997	4,297,105	4,297,105
Property and equipment	15	9,013,780	5,772,504	7,069,890	4,758,407
Total assets		**104,362,846**	**82,947,923**	**82,017,253**	**68,843,449**
Liabilities and equity					
Liabilities					
Customer deposits	17	64,493,327	53,598,066	46,143,472	40,383,238
Balances due to other banks	18	7,341,200	2,565,044	6,222,275	3,969,129
Income tax payable		409,599	352,743	367,144	361,992
Other liabilities	19	5,033,762	4,169,605	4,462,222	4,274,638
Employee benefits liabilities	20	75,227	25,227	75,227	25,227
Deferred tax liabilities	16	351,933	289,330	210,624	224,003
Subordinated debt	38	4,644,276	4,335,923	4,644,276	4,335,923
Total liabilities		**82,349,324**	**65,335,938**	**62,125,240**	**53,574,150**
Equity					
Share capital	21	116,813	116,813	116,813	116,813
Share premium	21	1,565,347	1,565,347	1,565,347	1,565,347
Property revaluation reserve	22	2,705,248	1,858,132	2,550,356	1,762,296
Loan loss reserve	23	488,594	297,613	445,009	246,245
Non distributable reserves	24	350,000	350,000	-	-
Translation reserve		(55,297)	(39,143)	-	-
Retained earnings		16,158,436	12,994,892	15,214,488	11,578,598
Total equity attributable to equity holders of the company		**21,329,141**	**17,143,654**	**19,892,013**	**15,269,299**
Non controlling interest		684,381	468,331	-	-
Total equity		**22,013,522**	**17,611,985**	**19,892,013**	**15,269,299**
Total equity and liabilities		**104,362,846**	**82,947,923**	**82,017,253**	**68,843,449**

The consolidated and separate financial statements were approved for issue by the Bank's Board of Directors on 24 March 2015 and were signed on its behalf by.

Mr D Dikshit
Group Managing Director

24 March 2015

Mr M Msisha
Director

Statements of Profit or Loss and Other Comprehensive Income

in thousands of Malawi Kwacha		Consolidated		Separate	
	Note	**2014**	**2013**	**2014**	**2013**
Interest income	25	12,505,246	11,045,045	9,288,852	7,848,423
Interest expense on deposits and other accounts		(3,837,064)	(3,469,562)	(2,230,507)	(1,835,774)
Net interest income		**8,668,182**	**7,575,483**	**7,058,345**	**6,012,649**
Fees and commission income		4,377,378	3,258,647	3,310,352	2,978,227
Income from investments	26	762,867	1,159,714	1,562,867	1,159,714
Gain on foreign exchange transactions		4,036,977	3,901,962	3,978,031	3,879,951
Net trading income		**17,845,404**	**15,895,806**	**15,909,595**	**14,030,541**
Other operating income	27	-	3,070	-	3,070
Total operating income		**17,845,404**	**15,898,876**	**15,909,595**	**14,033,611**
Staff and training costs	28	5,541,187	3,399,831	4,343,126	2,996,109
Premises and equipment costs		1,053,776	844,705	1,053,649	844,705
Depreciation expense	15	598,967	561,567	523,372	492,801
Other expenses	29	2,746,442	2,113,259	1,635,702	1,526,959
Impairment loss on financial assets		516,400	1,029,389	451,179	324,404
Total expenses		**10,456,772**	**7,948,751**	**8,007,028**	**6,184,978**
Operating profit		**7,388,632**	**7,950,125**	**7,902,567**	**7,848,633**
Share of profit from associate		122,485	233,790	-	-
Profit before income tax expense		**7,511,117**	**8,183,915**	**7,902,567**	**7,848,633**
Income tax expense	30	(2,314,371)	(2,195,274)	(1,965,288)	(2,062,577)
Profit for the year		**5,196,746**	**5,988,641**	**5,937,279**	**5,786,056**
Other comprehensive income **items that will never be classified to profit or loss**					
Revaluation surplus on property		970,416	-	911,360	-
Deferred tax on revalued property		(123,300)	268,022	(123,300)	267,372
		847,116	**268,022**	**788,060**	**267,372**
Items that are or may be classified to profit or loss					
Translation difference for foreign operations		(23,076)	122,693	-	-
Total other comprehensive income for the year		**824,040**	**390,715**	**788,060**	**267,372**
Total comprehensive income for the year		**6,020,786**	**6,379,356**	**6,725,339**	**6,053,428**
Profit or loss attributable to:					
Owners of the parent		5,457,150	6,093,125	5,937,279	5,786,056
Non controlling interest		(260,404)	(104,484)	-	-
Profit for the year		**5,196,746**	**5,988,641**	**5,937,279**	**5,786,056**
Total comprehensive income attributable to:					
Owners of the parent		6,288,112	6,447,032	6,725,339	6,053,428
Non controlling interest		(267,326)	(67,676)	-	-
Total comprehensive income for the year		**6,020,786**	**6,379,356**	**6,725,339**	**6,053,428**
Basic and diluted earnings per share (tambala)	31	234	261		

Statements of Changes in Equity

in thousands of Malawi Kwacha

Consolidated	Share capital	Share premium	Trans-lation reserve	Property reval-uation reserve	Loan loss reserve	Non dis-tributable reserve	Retained earnings	Attributable to owners of the Company	Non controlling interest	Total equity
Balance at 1 January 2014	**116,813**	**1,565,347**	**(39,143)**	**1,858,132**	**297,613**	**350,000**	**12,994,892**	**17,143,654**	**468,331**	**17,611,985**
Total comprehensive income for the year										
Profit for the year							**5,457,150**	**5,457,150**	**(260,404)**	**5,196,746**
Other comprehensive income										
Property revaluation	-	-	-	970,416	-	-	-	970,416	-	970,416
Deferred tax on property revaluation	-	-	-	(123,300)	-	-	-	(123,300)	-	(123,300)
Arising on consolidation of subsidiary	-	-	(16,154)	-	-	-	-	(16,154)	(6,922)	(23,076)
Total other comprehensive income	**-**	**-**	**(16,154)**	**847,116**	**-**	**-**	**-**	**830,962**	**(6,922)**	**824,040**
Total comprehensive income for the year	**-**	**-**	**(16,154)**	**847,116**	**-**	**-**	**5,457,150**	**6,288,112**	**(267,326)**	**6,020,786**
Transfers within reserves										
Transfer to loan loss reserve	-	-	-	-	190,981	-	(190,981)	-	-	-
Total transfers within reserves	**-**	**-**	**-**	**-**	**190,981**	**-**	**(190,981)**	**-**	**-**	**-**
Transactions with owners recorded directly to equity										
Contributions and distributions										
Additional capital subscription	-	-	-	-	-	-	-	-	483,376	483,376
Dividends to owners of the parent	-	-	-	-	-	-	(2,102,625)	(2,102,625)	-	(2,102,625)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**(2,102,625)**	**(2,102,625)**	**483,376**	**(1,619,249)**
Balance at 31 December 2014	**116,813**	**1,565,347**	**(55,297)**	**2,705,248**	**488,594**	**350,000**	**16,158,436**	**21,329,141**	**684,381**	**22,013,522**

Statements of Changes in Equity

in thousands of Malawi Kwacha

Consolidated	Share capital	Share premium	Translation reserve	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Non distributable reserve	Retained earnings	Attributable to owners of the Company	Non controlling interest	Total equity
Balance at 1 January 2013	**116,813**	**1,565,347**	**-**	**1,614,204**	**1,827,528**	**240,464**	**350,000**	**6,392,232**	**12,106,588**	**-**	**12,106,588**
Total comprehensive income for the year											
Profit for the year								**6,093,125**	**6,093,125**	**(104,484)**	**5,988,641**
Other comprehensive income											
Reduction in deferred tax on property revaluation	-	-	-	268,022	-	-	-	-	268,022	-	268,022
Arising on consolidation of subsidiary	-	-	85,885	-	-	-	-	-	85,885	36,808	122,693
Total other comprehensive income	**-**	**-**	**85,885**	**268,022**	**-**	**-**	**-**	**-**	**353,907**	**36,808**	**390,715**
Total comprehensive income for the year	**-**	**-**	**85,885**	**268,022**	**-**	**-**	**-**	**6,093,125**	**6,447,032**	**(67,676)**	**6,379,356**
Transfers within reserves											
Depreciation of revalued assets	-	-	-	(24,094)	-	-	-	24,094	-	-	-
Transfer to loan loss reserve	-	-	-	-	-	57,149	-	(57,149)	-	-	-
Transfer from investment revaluation reserve	-	-	-	-	(1,827,528)	-	-	1,827,528	-	-	-
Total transfers within reserves	**-**	**-**	**-**	**(24,094)**	**(1,827,528)**	**57,149**	**-**	**1,794,473**	**-**	**-**	**-**
Transactions with owners recorded directly to equity											
Contributions and distributions											
Arising on business combination	-	-	(125,028)	-	-	-	-	-	(125,028)	536,007	410,979
Dividends to owners of the parent	-	-	-	-	-	-	-	(1,284,938)	(1,284,938)	-	(1,284,938)
Total transactions with owners	**-**	**-**	**(125,028)**	**-**	**-**	**-**	**-**	**(1,284,938)**	**(1,409,966)**	**536,007**	**(873,959)**
Balance at 31 December 2013	**116,813**	**1,565,347**	**(39,143)**	**1,858,132**	**-**	**297,613**	**350,000**	**12,994,892**	**17,143,654**	**468,331**	**17,611,985**

Statements of Changes in Equity

In thousands of Malawi Kwacha

Separate

	Share capital	Share premium	Property revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2014	**116,813**	**1,565,347**	**1,762,296**	**246,245**	**11,578,598**	**15,269,299**
Total comprehensive income for the year						
Profit for the year					**5,937,279**	**5,937,279**
Other comprehensive income						
Property revaluation	-	-	911,360	-	-	911,360
Deferred tax on property revaluation	-	-	(123,300)	-	-	(123,300)
Total comprehensive income for the year	**-**	**-**	**788,060**		**5,937,279**	**6,725,339**
Transfers between Reserves						
Transfer to loan loss reserve	-	-	-	198,764	(198,764)	-
Total transfers between reserves	-	-	-	198,764	(198,764)	-
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(2,102,625)	(2,102,625)
Balance at 31 December 2014	**116,813**	**1,565,347**	**2,550,356**	**445,009**	**15,214,488**	**19,892,013**

Statements of Changes in Equity

In thousands of Malawi Kwacha

Separate	Share capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2013	**116,813**	**1,565,347**	**1,519,018**	**1,688,083**	**205,675**	**5,405,873**	**10,500,809**
Total comprehensive income for the year							
Profit for the year						**5,786,056**	**5,786,056**
Other comprehensive income							
Decrease in deferred tax on property revaluation	-	-	267,372	-	-	-	267,372
Total comprehensive income for the year	**-**	**-**	**267,372**	**-**	**-**	**5,786,056**	**6,053,428**
Transfers between reserves							
Transfer to loan loss reserve	-	-	-	-	40,570	(40,570)	-
Depreciation on revalued assets	-	-	(24,094)	-	-	24,094	-
Transfer from investment revaluation reserve	-	-	-	(1,688,083)	-	1,688,083	-
Total transfers between reserves	**-**	**-**	**(24,094)**	**(1,688,083)**	**40,570**	**1,671,607**	**-**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid	-	-	-	-	-	(1,284,938)	(1,284,938)
Balance at 31 December 2013	**116,813**	**1,565,347**	**1,762,296**	**-**	**246,245**	**11,578,598**	**15,269,299**

Statements of Cash Flows

In thousands of Malawi Kwacha

	Note	Consolidated 2014	Consolidated 2013	Separate 2014	Separate 2013
Cash flows from operating activities					
Interest and fees received		23,042,159	17,975,534	16,183,606	15,453,071
Interest paid		(3,797,166)	(3,435,388)	(2,190,609)	(1,801,600)
Cash paid to suppliers and employees		(8,532,137)	(4,930,725)	(6,498,910)	(4,480,705)
		10,712,856	9,609,421	7,494,087	9,170,766
Net increase / (decrease) in customer balances		342,596	8,251,381	(1,401,958)	7,922,912
Cash generated from operations		**11,055,452**	**17,860,802**	**6,092,129**	**17,093,678**
Dividend received from listed and subsidiary companies		265,796	202,762	1,065,796	202,762
Income taxes paid		(2,318,212)	(2,234,614)	(2,096,815)	(2,086,712)
Net cash from operating activities		**9,003,036**	**15,828,950**	**5,061,110**	**15,209,728**
Cash flows from investing activities					
Purchases of money market investments		(6,026,711)	(1,743,638)	(3,585,753)	(336,062)
Proceeds from sale of shares and other investments	13	-	28,332	-	28,332
Purchase of shares in associate companies	14	-	(3,393,251)	-	(3,393,251)
Cash acquired less consideration paid on acquisition of subsidiary companies	37	-	3,582,318	-	(3,308,503)
Subscription for shares in subsidiary companies		-	-	(1,184,700)	-
Acquisition of property and equipment	15	(2,864,953)	(1,853,922)	(1,911,471)	(1,101,946)
Net cash used in investing activities		**(8,891,664)**	**(3,380,161)**	**(6,681,924)**	**(8,111,430)**
Cash flows to financing activities					
Dividend paid		(2,102,625)	(1,284,938)	(2,102,625)	(1,284,938)
Repayment of loans from foreign banks		(411,490)	-	(411,490)	-
Proceeds from new credit line from foreign banks		3,108,944	-	3,108,944	-
Proceeds from subordinated debt issuance		-	4,092,297	-	4,092,297
Net cash from financing activities		**594,829**	**2,807,359**	**594,829**	**2,807,359**
Net increase / (decrease) in cash and cash equivalents		**706,201**	**15,256,148**	**(1,025,985)**	**9,905,657**
Cash and cash equivalents at 1 January		31,461,380	15,962,215	25,742,247	15,593,573
Effects of changes in exchange rates		261,850	243,017	261,850	243,017
Cash and cash equivalents at 31 December	**7**	**32,429,431**	**31,461,380**	**24,978,112**	**25,742,247**

Notes to the Financial Statements

1. Reporting Entity

First Merchant Bank Limited (the Bank) is a public limited liability company domiciled in Malawi. It is listed on the Malawi Stock Exchange and is registered as a commercial bank under the Banking Act, 2010. These consolidated financial statements comprise the Bank and its subsidiaries ("collectively the Group"). The Group is primarily involved in corporate and retail banking and deposit taking and asset finance. The Bank's registered office is Livingstone Towers, Private Bag 122, Glyn Jones Road, Blantyre.

2. Basis of Preparation

(I) Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), and in a manner required by the Malawi Companies Act, 1984, Banking Act 2010 and Financial Services Act 2010.

The consolidated and separate financial statements were authorised for issue by the Board of Directors on 24 March 2015.

(II) Basis of measurement

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

- Land and buildings which are revalued;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value.

(III) Functional and presentation currency

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

(IV) Use of estimates and judgements

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

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

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

- Note 9 - Loans and advances to customers - impairment
- Note 10 - Finance lease receivables - impairment
- Note 15 - Depreciation of property and equipment
- Notes 6, 13 - Fair value measurement

3. New standards and interpretations not yet adopted

At the date of authorisation of the consolidated and separate financial statements of First Merchant Bank Limited for the year ended 31 December 2014, a number of new Standards and Interpretations were in issue but not yet effective: Those which may be relevant to the Group and Company are set out below. The Group and Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated.

(I) **Equity Method in Separate Financial Statements (Amendments to IAS 27)**
The amendments allow an entity to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

(II) **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)**
The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

(III) **Disclosure Initiative (Amendments to IAS 1)**
The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016, and early application is permitted.

(IV) Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

- The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

- The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

- The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

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

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

The standard is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted under IFRS.

(VI) **IFRS 9 Financial Instruments**
On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

4. Significant accounting policies

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(a) Basis of consolidation
The Consolidated Financial Statements incorporate the financial statements of the Bank, its subsidiaries, The Leasing and Finance Company of Malawi Limited, FMB Forex Bureau Limited, FMB Pensions Limited, FMB Capital Markets Limited, Capital Bank Limited (Mozambique) and International Commercial Bank Limited (Malawi), its associated companies, First Capital Bank Limited (Zambia) and Capital Bank Limited (Botswana) (together referred to as 'the Group').

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date control is transferred to the Group.

Goodwill
The Group measures goodwill at the acquisition date as: The fair value of the consideration transferred; plus the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Any goodwill that arises is tested annually for impairment (see (k)).

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with the business combination are expensed as incurred.

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 measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(I) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee if it is exposed to, or, has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Uniform accounting policies have been applied throughout the Group.

(II) 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.

(III) Funds management

The Group manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Group controls the entity.

(IV) Transactions eliminated on consolidation

Intra-Group balances and transactions and any unrealised income and expenses arising from Intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(V) Interest in equity – accounted investees

The Group's interests in equity-accounted investees are interests in associates. Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies.

Interest in associates is accounted for using the equity method. They are recognised initially at fair value. Subsequent to initial recognition, the consolidated financial statements include the Group's share of profits or loss and other comprehensive income of equity investees, until the date on which significant influence ceases.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Malawi Kwacha at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into Malawi Kwacha at the exchange rate (middle rate) at the date on which the fair value is determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate (middle rate) at the date of the transaction.

Monetary items denominated in foreign currencies at the reporting date are translated into Malawi Kwacha using the exchange rate at that date.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available for sale equity instruments are recognised in other comprehensive income.

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Malawi Kwacha at exchange rates (mid-rate) ruling at the reporting date. The income and expenses of foreign operations are translated to Malawi Kwacha at average exchange rates during the year.

Exchange difference arising on the translation of the assets and liabilities of foreign operations are recognised directly in other comprehensive income and accumulated in equity in the translation reserve. When a foreign operation is disposed of in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign exchange gains or losses arising from monetary items receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to form a part of the net investment in the foreign operation, are recognised directly in the foreign currency translation reserve.

(c) Financial assets and liabilities

(I) Recognition and measurement
The Group initially recognises loans, debt securities issued and subordinate receivables on the date on which they are originated. All other financial assets or financial liabilities are recognised on the trade date which is the date on which the Group becomes a party to the contractual provisions of the instrument. A financial asset or liability is initially measured at fair value plus (for an item not classified at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the consideration received (including any new accounts obtained less any new liability assumed) is recognised in profit or loss.

(II) Classification
Financial assets
The Group classifies its financial assets into one of the following categories:

- Loans and receivables;
- Held to maturity;
- Available-for-sale; and
- At fair value through profit or loss, and within this category as:
  - Held for trading; or
  - Designated at fair value through profit or loss

(III) Derecognition

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

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

The Group also derecognises certain assets when they are deemed to be uncollectible.

(IV) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards.

(V) Identification and measurement of impairment

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

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

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

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

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

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. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset, based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

(VI) Designation at fair value through profit or loss

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

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

Investments in listed companies (see note 13) have been accounted for at fair value through profit or loss.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(e) Other assets

Other financial assets are measured at amortised cost using the effective interest method less impairment losses. Other assets comprise prepayments, cheques in the course of collection, dividends receivable, stocks of consumable stationery and computer spares and other receivables.

(f) Loans and advances to customers

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

The Group classifies its loans and advances to customers as loans and receivables.

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

Loans and advances are subsequently measured at their amortised cost using the effective interest method.

(g) Money market investments

Investment securities are initially measured at fair value plus incremental direct transaction costs, for investments not at fair value through profit and loss. Subsequent to initial recognition investment securities are accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(I) Held-to-maturity

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

Held-to-maturity investments are measured at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available- for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity investments comprise treasury bills, Local Registered Government Stocks and Malawi Government Promissory Notes and are included in money market investments.

(II) Fair value through profit or loss

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

The Group designates its investments in listed companies at fair value through profit or loss.

***(III)* Available for sale**

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted available for sale securities whose fair value cannot be reliably measured, are measured at cost. All other available-for-sale investments are measured at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available for sale debt security investments are recognised in profit or loss.

Fair value changes are recognised directly in other comprehensive income and accumulated in equity. When the investment is sold or impaired the cumulative gain or loss accumulated in equity is classified to profit or loss.

(h) Investment in subsidiaries

Investments in subsidiaries are recognised at cost in the separate financial statements less any impairment losses.

(i) Investments in associates

Investments in associates are recognised at cost plus shares of profit or loss less dividends in the consolidated financial statements.

(j) Property and equipment

(I) Recognition and measurement

Items of property and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses, except for freehold property and leasehold improvements, which are measured at revalued amount less accumulated depreciation and impairment losses as described in accounting policy (j (ii)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and qualifying borrowing costs. Purchased software that is integral to the functionality of related equipment is capitalised as part of that equipment.

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

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

***(II)* Revaluation**

Freehold properties and leasehold improvements are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value. Revaluation surpluses are recognised in other comprehensive income and accumulated in equity in a non-distributable property revaluation reserve. A revaluation surplus will be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

The revaluation surplus included in equity in respect of property, plant and equipment is transferred directly to retained earnings as the asset is being used or when the asset is sold.

***(III)* Subsequent costs**
Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(IV) Depreciation
Property and equipment is depreciated on a straight-line basis at rates that would reduce carrying amounts to their residual values, estimated at the date of purchase, over the initially anticipated useful lives of the assets. The Group re-assesses the useful lives, the depreciation method and the residual values of the assets at each reporting date. Any changes in the useful lives, depreciation method or estimated residual values are accounted for prospectively as a change in accounting estimate in accordance with IAS 8: Accounting policies changes in accounting estimates and errors. Depreciation is recognised in profit or loss.

- The depreciation rates for the current and comparative period are:
- Leasehold properties 2.5% (or period of lease if shorter)
- Freehold properties 2.5%
- Motor vehicles 25%
- Equipment, fixture and fittings 20%

***(V)* Capital work in progress**
Capital work in progress represents gross amount spent to date in carrying out work of a capital nature. It is measured at cost recognised to date.

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

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

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

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

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

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

Goodwill is tested annually for impairment. An impairment loss in respect of goodwill is not reversed.

(l) Customer deposits and balances due to other banks

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

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

(m) Other liabilities and subordinated debt

Other payables and subordinated liabilities are initially measured at fair value, minus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

(n) Share capital

Share issue costs

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

(o) Employee benefits

(I) Short-term employee benefits

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

(II) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

(p) Net interest income
Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation of the effective interest rate includes all fees and points paid or received transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(q) Net interest income
Interest income and expense presented in the profit or loss include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- Interest on available-for-sale investment securities on an effective interest rate basis;
- Interest on held to maturity investments.

Income from leasing is included in net interest income as further described in accounting policy (r).

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

(I) Finance lease - The Group as a lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

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

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

(t) Income from investments
Income from investments includes dividend income and increase in fair value of investments in listed companies.

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

Increase in fair value of investments designated at fair value through profit or loss includes all realised and unrealised fair value changes.

(u) Other operating income
Other income includes sundry non-interest income and is recognised on the accruals basis.

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

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

Deferred tax is recognised using the liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for all temporary differences. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences, when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current assets, and they relate to income taxes levied in the same tax authority on the same taxable entity, or on different entities but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

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

(x) Financial guarantees
Financial guarantee contracts require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These financial guarantee contracts are classified as insurance contracts as defined in IFRS 4 Insurance Contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the statement of financial position date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

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

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

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

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

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

The analysis of fair value hierarchy for financial assets and liabilities is disclosed in Note 6 to these consolidated and separate financial statements.

5. Risk management

The Group is faced with a variety of risks including credit, liquidity, interest rate, foreign exchange, price, operational, compliance / regulatory, reputation, strategic risks and others. The Group is committed to effectively managing these risks with a view to achieving a balance between acceptable exposure and reward.

The Board and senior management actively oversee the risk management process and implement adequate policies, procedures, comprehensive internal controls and limits that are set to mitigate risks. The Group has a risk management framework which covers risk identification, risk measurement, risk monitoring and risk control in respect of the significant risks.

The Board has a risk committee which meets regularly and gets reports from the Risk and Compliance function on risk assessment and levels of risks that the Bank is facing. Stress testing is done quarterly and the results are discussed with the Risk Committee.

5 (a) Risk management policies and control
The Group's approach to risk management is based on well-established governance processes, diversification and reliance on both individual responsibility and collective oversight, supported by comprehensive reporting. The Bank has an independent risk management and compliance function and various committees which allow executive management and the Board to evaluate the risks faced by the Bank, as well as its effectiveness for the management of these risks. These committees are integral to the Bank's risk management structure.

5 (b) Risk management structure
Responsibility for risk management resides at all levels within the Group, starting at Board level, filtering down to each business unit and ultimately each employee of the Bank.

The Board is responsible for annually approving the risk appetite which is defined as the level of risk the Group is willing to accept in fulfilling its business objectives. The Group's risk appetite framework is embedded in key decision-making processes and supports the implementation of the Group strategy. The risk appetite has been translated into risk limits. Adherence to these limits is monitored and reported to produce a risk-reward profile for the Group. The Board meets four times a year. Adequate and efficient communication and monitoring systems have been put in place to ensure that the Directors receive all relevant, accurate information to guide them in decision-making and in ensuring that the Group fully complies with relevant legal, ethical and regulatory requirements.

5 (c) Board sub-committees

(I) ***The Risk Committee***
The Risk Committee assists the Board in assessing, mitigating and controlling risks. The Committee reviews the risk, identifies causes of concern and outlines the scope of improvement where there are concerns. The Committee comprises two non- executive Directors and one executive Director.

The Group Managing Director, General Manager - Finance, General Manager, Corporate and International Banking, Head of Credit and Risk and Compliance Manager attend the meetings.

(II) ***The Credit Committee***
The Credit Committee comprises three local Directors with a good knowledge of the Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the Group's credit portfolio. Specific responsibilities include:

- Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers.
- Approval of all credit facilities above the discretionary limits set for management, save for those requiring full Board approval in accordance with RBM directives.
- Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning when required.
- The Group Managing Director, General Manager - Corporate and International Banking, Company Secretary and Legal Counsel, Head of Credit, Credit Operations Manager, Risk and Compliance Manager, and Credit Control Manager attend the meetings.

The Head of Credit is responsible for credit risk management and underwriting, including the assessment of credit facility applications and making recommendations thereon to the Group Managing Director and Credit Committee.

(III) ***The Audit Committee***
The Committee comprises three non-executive Directors.

The Audit Committee assists the Board in discharging its duties in relation to financial reporting, asset management, internal control systems and processes. It also monitors the quality of both the external and internal audit functions. The Group's external and internal auditors have unlimited access to the Audit Committee and report to it in their independent, private meetings to discuss risk exposure areas. Where the Committee identifies causes for concern or scope for improvement, it makes recommendations to the Board and presents remedial actions.

It is Board policy to maintain an independent internal audit function to undertake internal audit work throughout the Group. Internal Audit provides reliable, valued, insightful and timely assurance to the Board and executive management on the effectiveness of governance, risk management and controls over current and evolving risks in the context of the current and expected business environment.

5 (d) Management

(I) The Group Managing Director
The Group Managing Director is appointed by the Board to manage the Bank's business within an acceptable risk profile, while delivering the approved strategy that leads to the achievement of long term objectives.

The Group Managing Director appoints the Risk and Compliance Manager, who heads an independent Risk and Compliance function and has overall day-to-day accountability for risk management.

(II) The Risk and Compliance Manager
The Risk and Compliance Manager is responsible for ensuring that an integrated and effective risk management framework is maintained throughout the Bank. The Risk and Compliance Manager has direct and unfettered access to the Chairman of the Risk Committee.

(III) Asset and Liability Management Committee (ALCO)

The Asset and Liability Management Committee (ALCO) is responsible for capital management and management of liquidity risk, credit risk, interest rate risk, foreign exchange rate risk and price risk in the Bank. ALCO is a management committee and it meets monthly at a minimum. The Committee comprises:

- Group Managing Director (Chairman)
- General Manager - Finance, Planning & Strategy
- General Manager - Corporate and International Banking
- Risk and Compliance Manager
- Treasury Manager
- Head of Credit
- Financial Control Manager

(IV) ***Management Risk Committee (MRC)***

The Management Risk Committee (MRC) comprises:

- Group Managing Director
- General Manager - Finance, Planning & Strategy
- General Manager - Corporate and International Banking
- Risk and Compliance Manager
- Chief Operations Officer
- Chief Commercial Officer
- Head of Corporate Banking
- Head of Government and Private Banking Business
- Head of Credit
- Head of Information Technology
- Head of Internal Audit
- Head of Human Resources
- Head of Marketing
- Company Secretary and Legal Counsel

It is chaired by the Group Managing Director and meets monthly to review management of strategic risk, operational risk, compliance risk, reputation risk and any other risks in the Bank. This forum facilitates co-ordination and communication among various risk owners and risk management functions to resolve risk related issues in the Bank expeditiously and promote efficient management of relative risks

(V) ***Management Credit Committee (MCC)***

The Management Credit Committee (MCC) comprises:

- Group Managing Director
- General Manager - Corporate and International Banking
- Chief Commercial Officer
- Head of Corporate Banking
- Head of Credit
- Risk and Compliance Manager
- Credit Operations Manager
- Credit Control Manager

It is chaired by the Group Managing Director and meets monthly to review management of credit risk in the Bank.

5 (e) Risk management philosophy

The Group believes that risk management trickles down from the Board level to every employee; therefore, everyone within the Bank is responsible. The Group has a three line of defence approach as outlined in the diagram below:

Board of Directors		
1st Line of Defence Risk Taking Unit Business Unit Officers / Managers	**2nd Line of Defence** Risk Control Unit Risk and Compliance Department, Credit Risk Management and Underwriting	**3rd Line of Defence** Independent Assurance Internal Audit

1st Line of Defence:

Comprises business units and Head Office departments.

The business units manage risk using laid down policies and procedure

2nd Line of Defence:

Comprises Risk Management and Compliance function and Credit Risk Management and Underwriting function in Head Office.

Responsibilities of Risk Management and Compliance function include:

- Formulating risk management framework and policies; developing tools and methodologies for risk identification and measurement;
- Performing independent risk monitoring and reporting to the Risk Committee of the Board

Responsibilities of Credit Risk Management and Underwriting function include:

- Formulating credit policies; assessing credit facility applications / proposals and recommending approvals to the Credit Committee;
- Monitoring credit facilities and reporting to the Credit Committee of the Board.

3rd Line of Defence:

Comprises Internal Audit function

Provides independent assessments of risk management processes and infrastructure, as well as the adequacy and effectiveness of risk policies and internal controls.

5 (f) Risk appetite

Risk appetite is the level of risk that the Bank is willing to accept in achieving its strategic objectives. The Bank's risk appetite framework is the cornerstone of its risk management architecture. It helps management to better understand and manage risks by translating risk metrics and methods into strategic decisions, reporting, and day-to-day business decisions.

From its long term strategic goals, the Bank has identified key strategic objectives (KSOs) that it will need to pursue in the short to medium term, some of which will be measured quantitatively while others will be measured qualitatively. The Bank has set measurable thresholds for the KSOs with levels of tolerance for all risk categories. A monitoring dashboard has been created for the KSOs. These are monitored on an ongoing basis with a three colour coded scale: green, amber and red. Red indicates that the Bank has reached the minimum limit. Amber serves as a warning that the Bank is approaching minimum limits. Green indicates that the Bank is operating with buffer and is far from reaching the minimum levels. When the Bank is operating within the buffer, the dashboard indicates amber to warn management against reaching minimum levels and breaching limits.

The Board ensures that management strikes an appropriate balance between promoting short-term profitability and growth and delivering long-term sustainable performance. The Board is fully committed to ensuring that the Group's affairs are conducted with integrity and high ethical standards.

5 (g) Market disclosures

As a listed company and a bank, the Bank is obliged to make certain disclosures to the public by regulators and other authorities. This is required under the Financial Services Act 2010, Companies Act, 1984, The Listing Requirements of The Malawi Stock Exchange and Reserve Bank of Malawi (RBM) directives and the Market Disclosures guidelines.

RBM requires all banks in Malawi to provide comprehensive disclosures for risk management practices. The Group has a Market Disclosure policy. A risk management report will be published twice a year.

5 (h) Stress testing

The Group carries out stress tests to estimate the potential impact of low probability but extreme events on the Group's earnings and capital. The Group has a stress testing framework that defines scenarios to be used for different types of risk exposures. The stress testing scenarios are to be plausible. The stress scenarios that are used cover all the major types of risks including market, credit and liquidity risks. The stress test results are discussed at ALCO and Board Risk Committee and a summary of the results is sent to the Board of Directors.

5 (i) Significant risks

From the Bank's risk assessment process, the following have been identified as significant risks that the bank is facing:

1. Credit risk
2. Market risk
    - Foreign exchange rate risk
    - Interest rate risk
    - Equity risk
3. Liquidity risk
4. Operational risk
5. Compliance risk
6. Reputational risk
7. Strategic risk

5 (j) Capital management

(I) Overview

The Group operates a centralised capital management model. The capital management objectives as detailed in the Capital Management Framework are to meet the capital ratios required by RBM and the capital target ranges set by the Board and to generate sufficient capital to support asset growth.

Capital is managed according to the Capital Management Framework and through ALCO, regular reports on the capital positions. Capital risks are presented to the Risk Committee and Board. ALCO meets monthly to review, approve and make recommendations relating to the capital risk profile. This includes risk appetite, policies, limits and utilisation.

(II) Internal Capital Adequacy Assessment Process (ICAAP)

In accordance with RBM's ICAAP guidelines, the Group has a capital management planning process. Every year, the Group prepares an ICAAP document which is submitted to RBM. The ICAAP is based on the Group's five year business plan. The ICAAP is prepared by risk and finance departments in consultation with the Managing Director and other members of senior management. The ICAAP is validated by internal auditors before it is presented to the Board of Directors for approval. ICAAP is a continuous process and is revised and updated whenever there are significant changes in the business / strategic plan.

The objective of ICAAP is to ensure that the Group is adequately capitalised and that, where there are potential capital shortages, the Board and senior management ensure that the gaps are met.
The Group promotes efficient use of capital by aligning business strategy, risk appetite and expected returns with capital requirements.

(III) Capital adequacy ratios

The following minimum capital adequacy ratios have been determined by RBM:

- Tier 1 Capital / Core Capital: 10%
- Total Capital (Tier 1 and 2): 15%

(IV) *Capital position as at 31 December 2014*

The following was the capital position of the Group and the Bank:

in thousands of Malawi Kwacha

	Consolidated	Separate
Tier 1 capital		
Share capital	116,813	116,813
Share premium	1,565,347	1,565,347
Non-distributable reserves	350,000	-
Retained earnings	11,869,411	10,445,334
Current year profit	5,457,150	5,937,279
Dividends		
1st interim dividend – 2014 (paid)	(1,168,125)	(1,168,125)
2nd interim and final dividend – 2014 (payable)	(1,168,125)	(1,168,125)
Deduct: investments in unconsolidated entities	(4,832,482)	(4,312,105)
Deferred tax asset	(187,457)	(167,506)
Total Tier 1 capital	**12,002,532**	**11,248,912**
Tier 2 capital		
Translation reserve	(55,297)	-
Property revaluation reserve	2,705,248	2,550,356
Loan loss reserve	488,594	445,009
Eligible subordinated debt	4,644,276	4,644,276
Total Tier 2 capital	**7,782,821**	**7,639,641**
Total qualifying capital	**19,785,354**	**18,888,553**
Total risk weighted assets	**103,957,149**	**87,958,179**
Tier 1 risk based capital ratio (minimum of 10%)	11.55%	12.79%
Total risk-weighted capital ratio (minimum of 15%)	**19.03%**	**21.47%**

5 (k) Credit risk

(I) *Credit risk management*

Credit risk is the risk of financial loss as a result of failure of a counterparty to discharge its contractual obligation. This can be failure or delay in paying interest or the principal amount borrowed.

Management of credit risk is the responsibility of the Board and senior management. The Bank has a Credit Committee consisting of three Directors, two of whom are non-executive. Credit department has three sections; Credit Risk Management and Underwriting function, Credit Operations function and Credit Control function. All credit proposals are referred to the Head of Credit who reviews the proposal before sending their recommendations to the Group Managing Director.

The Board has established authorisation thresholds for the Group Managing Director and Credit Committee of the Board. Credit proposals above certain limits have to be taken to the full Board for approval. Credit proposals for related parties have to be taken to the Board irrespective of the authorisation threshold. In approving credit facilities, the Bank's primary consideration is the borrower's ability to repay irrespective of collateral offered.

(II) ***Role of Risk and Compliance function***

The Risk and Compliance function is independent from the credit department.

Apart from the capital charge calculations in accordance with RBM guidelines, the Group has other techniques which are used to measure level of credit risk at the end of each quarter. A Risk Management Report prepared by Risk and Compliance function is presented to ALCO and the Board Risk Committee.

For quantitative assessment, ratios are used to measure risk levels in terms of low, moderate and high. For qualitative assessment, several parameters are used to categorise the quality of credit risk management. Qualitative and quantitative risk levels are combined to arrive at the composite rating of credit risk.

On a monthly basis, the Risk and Compliance function assesses and reports to ALCO on adherence to set limits. ALCO discusses the compliance report and sets preventive measures to avoid breaching limits.

(III) ***Credit policies***

The Group has credit policies which cover the types of credit that can be offered, procedures for granting of local currency loans, overdrafts, foreign currency loans, guarantees and letters of credit; approval limits to be exercised by different authority levels for various types of exposures; credit approval processes at the branch and Head Office; applicable charges and margins above the base lending rate for different credit facilities; acceptable security and security loan ratios; record keeping; impairments and provisions; prudential limits on lending concentration; insider lending; and sector limits.

The Group uses the Estimated Recoverable Amount Method (ERAM) for provisioning of bad debts as stipulated in the guidelines issued by RBM.

The Group has a risk management framework which covers credit risk management outlining risk identification, measurement, monitoring and control procedures.

A stress testing framework covers credit risk stress testing procedures.

(IV) ***Stress testing***

Stress testing is carried out to measure levels of credit risk, among other things. Three different shocks with at least four scenarios for each are used to show impact of the behavioural pattern of the credit portfolio on Capital Adequacy Ratio (CAR).

The outcome is included in the quarterly stress testing report which is presented to ALCO and the Board Risk Committee.

(V) ***Assessment of credit risk exposures***

The Group's credit risk arises from its exposure to a portfolio consisting of foreign currency loans, local currency loans and overdrafts, leases to customers, staff loans, lending to local banks, guarantees and letters of credit and is managed as follows:

(a) ***Loans and overdraft in local currency***

The Bank has centralised approval of loans and overdrafts. Branches refer all new proposals and renewal of existing facilities to Head Office for approval. Head Office also grants credit in excess of agreed overdraft limits and marks the limits in the system.

Depending on the set thresholds and type of customer, some credit facilities have to be approved by the Credit Committee and / or the full Board.

(b) ***Leases***

The Leasing and Finance Company of Malawi (LFC) offers leases to its customers. Proposals are referred to its Credit Committee for approval. The Board issued a credit policy with procedures and limits that must be adhered to. Acceptable lease assets are land, buildings, motor vehicles and equipment. Financing is for working capital, real estate and residential mortgages and other capital expenditure. All credit facilities must be secured.

(c) ***Foreign currency loans***

The Bank offers foreign currency loans to its customers. The Bank may lend up to 65% of the monthly average of its daily foreign currency deposits and in addition, the Bank has several off shore credit lines for lending to its customers. All foreign currency loans are registered with RBM as required. The loan approval process followed is stipulated in the credit policy of the Bank. To hedge the Bank from foreign exchange risk borrowers of foreign currency must be foreign exchange earners.

(d) ***Lending to local banks***

The Group lends to local banks through the interbank market. Such lending is short-term, overnight in most cases. Investment policy and the policy for domestic money market has limits on how much can be lent unsecured and secured to individual banks in the country. All interbank lending must be approved by the Managing Director.

(e) ***Guarantees***

The Bank issues financial and non-financial guarantees to third parties on behalf of its customers. The Bank often insists on cash cover in form of a fixed deposit for guarantees. There are other cases where property is accepted as security and in very exceptional cases, guarantees are issued on a clean basis. All guarantees are approved by the Credit Committee.

(f) ***Letters of credit***

The Bank issues letters of credit for its customers. Letters of credit are issued if the security requirement as stipulated in the Bank's credit policy is met.

5 (I) IFRS Disclosures on credit risk

The Group and Bank's exposure to credit risk principally comprises of loans and advances to customers and finance lease receivables. As at 31 December 2014, these were as follows:

in thousands of Malawi Kwacha

Group		**Loans and advances to customers**		**Finance lease receivables**	
	Note	**2014**	**2013**	**2014**	**2013**
Carrying amount	**9, 10**	**35,650,617**	**25,833,352**	**4,556,258**	**4,337,258**
Standard (fully performing)		32,318,915	24,226,126	3,215,944	3,361,195
Past due but not impaired		3,094,101	2,686,167	1,078,527	753,908
Impaired		3,157,983	1,179,589	2,321,891	1,755,955
Gross receivable		**38,570,999**	**28,091,882**	**6,616,362**	**5,871,058**

in thousands of Malawi Kwacha	Note	Loans and advances to customers 2014	Loans and advances to customers 2013	Finance lease receivables 2014	Finance lease receivables 2013
Past due but not impaired loans and advances comprise:					
30-60 days		1,117,510	1,683,418	161,280	83,102
61-90 days		1,311,175	636,313	304,222	221,257
>90 days		665,416	366,436	613,025	449,549
		3,094,101	**2,686,167**	**1,078,527**	**753,908**
An estimate of the fair value of collateral held against loans and advances to customers is shown below:					
Against past due but not impaired					
Property		7,119,742	2,901,704	1,441,500	253,500
Others		571,578	7,989	554,636	445,000
		7,691,320	**2,909,693**	**1,996,136**	**698,500**
Against individually impaired					
Property		1,385,251	2,086,744	910,827	700,000
Others		33,030	49,756	821,415	121,912
		1,418,281	**2,136,500**	**1,732,242**	**821,912**

Company in thousands of Malawi Kwacha	Note	Loans and advances to customers 2014	Loans and advances to customers 2013	Finance lease receivables 2014	Finance lease receivables 2013
Carrying amount	**9, 10**	**29,486,492**	**22,775,479**	**-**	**-**
Standard (fully performing)		28,092,130	21,104,995	-	-
Past due but not impaired		1,783,169	2,379,101	-	-
Impaired		2,534,633	1,140,371	-	-
Gross receivable		**32,409,932**	**24,624,467**	**-**	**-**
Past due but not impaired loans and advances comprise:					
30-60 days		1,117,510	1,490,980	-	-
61-90 days		422,406	563,574	-	-
>90 days		243,253	324,547	-	-
		1,783,169	**2,379,101**	**-**	**-**
An estimate of the fair value of collateral held against loans and advances to customers is shown below:					
Against past due but not impaired					
Property		6,528,701	2,570,000	-	-
Others		571,578	7,076	-	-
		7,100,279	**2,577,076**	**-**	**-**
Against individually impaired					
Property		1,385,251	1,848,200	-	-
Others		33,030	44,068	-	-
		1,418,281	**1,892,268**	**-**	**-**

Other collateral held includes moveable assets, receivables and share certificates pledged.

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

(VI) **Impaired loans and securities**
These are loans and securities for which the Group has determined that there is probability that it will be unable to collect all principal and / or interest due according to the contractual terms of the loan / securities agreements.

(VII) **Past due but not impaired loans**
These are loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

(VIII) **Allowances for impairment**
The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures.

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

(X) **Distribution of credit exposure by sector**
The Group monitors concentrations of credit risk by sector. Economic sector risk concentrations within the customer loan and finance lease portfolio at 31 December 2014 were as follows:

	Consolidated		**Separate**	
in thousands of Malawi kwacha	**2014**	**2013**	**2014**	**2013**
Agriculture	9,576,906	5,764,888	8,741,167	5,512,432
Mining	43,189	2,938	43,189	2,938
Financial services	2,713,375	2,320,302	2,593,931	2,251,272
Construction	2,063,664	3,498,629	1,302,545	3,237,492
Energy / electricity / gas / water	70,033	111,522	51,696	93,730
Manufacturing	4,875,846	3,175,406	4,461,991	3,038,078
Wholesale and retail	17,880,232	6,533,380	10,752,655	5,074,449
Individual / households	2,164,080	1,970,233	1,391,955	1,333,631
Real estate	134,198	107,879	134,198	107,879
Tourism & leisure	616,844	787,944	442,553	607,029
Transport & communication	4,135,514	5,469,015	2,042,556	2,865,485
Others	913,480	4,220,804	451,496	500,052
	45,187,361	**33,962,940**	**32,409,932**	**24,624,467**

5 (m) Credit quality per class of financial assets

The table below shows maximum exposure to credit risk without taking into account any collateral. The maximum exposure is presented gross, before effect of mitigation through the use of master netting and collateral agreements.

	Consolidated		Separate	
in thousands of Malawi kwacha	**2014**	**2013**	**2014**	**2013**
Gross maximum exposure				
Balances with central banks	10,386,631	9,121,943	8,886,247	7,938,359
Balances with other banks	18,231,139	17,978,363	12,856,677	14,105,831
Money market investments	10,651,002	4,624,291	6,599,188	3,010,788
Cheques in the course of clearing	166,727	939,606	166,727	939,606
Investment in finance leases	6,616,362	5,871,058	-	-
Loans and advances	38,570,999	28,091,882	32,409,932	24,624,467
Total recognised financial assets	**84,622,860**	**66,627,143**	**60,918,771**	**50,619,051**
Letters of credit	5,391,861	1,510,221	4,499,595	1,504,728
Financial guarantees	7,267,867	8,789,611	7,160,689	8,540,445
Total unrecognised financial assets	**12,659,728**	**10,299,832**	**11,660,284**	**10,045,173**
Total credit risk exposure	**97,282,588**	**76,926,975**	**72,579,055**	**60,664,224**

5 (n) Market risk

- **Market risk management**

  This is the risk that our earnings, capital or our ability to meet our business objectives will be adversely affected by changes in market prices and conditions, such as interest rates, foreign exchange rates, equity prices and commodity prices.

  Senior management and ALCO are mandated to manage market risk. Apart from the requirement to set aside capital for market risk under Basel II – Pillar I, the Group has internal procedures for identifying, measuring, monitoring and controlling market risk.

  The Group is exposed to foreign exchange risk, interest rate risk and equity risk. All these risks are properly managed as follows:

- **Foreign exchange risk**
  The Bank has a foreign exchange business policy and a foreign exchange risk management policy. The policies have exposure limits, limits for investments, trading limits and levels of authorisation of foreign currency transactions. Forex exposure positions are regularly monitored by Treasury department and senior management.

  The Group is exposed to foreign exchange risk in the trading book and the banking book. The policy for trading book exposure is that the position should be almost square.

  In the banking book, assets and liabilities mismatch is minimised. In 2013, the Bank issued a USD10 million subordinated fixed interest rate note. This foreign currency liability exposure is not hedged due to unavailability of suitable hedging instruments. Its valuation is marked to market and any revaluation gain or loss is dealt with in profit or loss for the year. Other foreign currency borrowing by the Group is hedged by foreign currency loans to customers, to minimise risk exposure.

- **Interest rate risk**
  The Group does not offer fixed rate loans and advances to its customers. This minimises interest rate risk because the Group is able to adjust base lending rates of its entities whenever there is a significant change in the market. Lending to other banks at a fixed rate is usually overnight, so interest rate risk exposure on these assets is minimal. The Group is exposed to interest rate risk on its liabilities, especially term deposits. However, the risk exposure is minimised through limiting the proportion of fixed rate term deposit in our overall liabilities to customers.

  Overall, the Group usually has more rate sensitive assets than liabilities. Its net interest margin is also wide enough to cover possible losses.

- **Equity risk**
  The performance of the equity market and the Group's equity investments are closely monitored and appropriate risk mitigation measures are implemented where necessary. Investment in equities at value is marked to market and any revaluation gains or losses are immediately recognised in the profit or loss.

5 (o) Policies
The Group has several policies which cover:

- Foreign exchange business limits for individual currencies, forex exposures and trading limits for the Bank and dealers;
- Domestic money market limits for counterparties and dealers;
- Types of instruments that the Group can invest in and maximum amounts that it can invest;
- Market risk management and stress testing;
- Categorisation of assets into trading book and banking book.

5 (p) Assessment of market risk

Apart from the capital charge calculations in accordance with RBM guidelines, the Group conducts internal risk assessments on foreign exchange risk, interest rate risk and equity risk at the end of each quarter. A risk management report is prepared by the Risk and Compliance function. This is presented to management and the Board Risk Committee.

For quantitative assessment, ratios are used to measure risk levels in terms of low, moderate and high. For qualitative assessment, several parameters are used to categorise the quality of market risk management in terms of strong, acceptable or weak. Qualitative and quantitative risk levels are used to arrive at the composite rating of each of the three components of market risk.

ALCO meets every month and discusses market risk exposure. ALCO ensures that the Group operates within regulatory and internal limits and approved policies and procedures.

In 2013, market risk was properly managed and the Group operated within limits.

5 (q) Stress testing / scenario analysis

Stress testing is done by an independent Risk and Compliance function every quarter to ascertain impact on the Bank's capital adequacy of changes in interest rates, exchange rates and share prices. Based on the result, management takes corrective steps acting on the advice of ALCO and the Board.
The following are the assumptions used:

Increase / (decrease) in interest rate by 1%, 2%, 3%, 5%, 7.5% and 10%. The same is used to measure the level of interest rate risk in the banking book.

Foreign exchange rate devaluation / appreciation by 5%, 10%, 25% and 50%.

Fall in share prices by 10%, 20%, 40% and 50%.

5 (r) Exposure to market risk

Foreign exchange exposures were as follows:

Consolidated

(MK' million)	2014				2013			
	Assets	**Liabilities**	**Net**	**Sensitivity**	**Assets**	**Liabilities**	**Net**	**Sensitivity**
USD	13,058	16,963	(3,905)	(39.05)	46,287	40,522	5,765	57.65
GBP	634	346	288	2.88	1,251	783	468	4.68
EUR	1,505	1,159	346	3.46	3,213	2,866	347	3.47
ZAR	353	160	193	1.93	8,730	4,178	4,552	45.52
INR	29	-	29	0.29	2,764	-	2,764	27.64
JPY	257	-	257	2.57	3,440	-	3,440	34.40
MT	2,281	-	2,281	22.81	588	495	93	0.93

Separate

(MK' million)	2014				2013			
	Assets	**Liabilities**	**Net**	**Sensitivity**	**Assets**	**Liabilities**	**Net**	**Sensitivity**
USD	11,588	15,496	(3,908)	(39.08)	43,374	38,264	5,110	51.10
GBP	634	346	288	2.88	1,251	783	468	4.68
EUR	1,421	1,075	346	3.46	3,213	2,866	347	3.47
ZAR	4,461	1,691	2,770	27.70	7,869	3,400	4,469	44.69
INR	29	-	29	0.29	2,764	-	2,764	27.64
JPY	257	-	257	2.57	3,440	-	3,440	34.40

A 1% strengthening of the Malawi Kwacha against the foreign currencies above at the reporting date will increase / (decrease) profit or loss by the amounts shown in the sensitivity column above.
The analysis assumes that all other variables in particular, interest rates, remain constant.

A 1% weakening of the Malawi Kwacha against the currencies above at the reporting date would have the equal but opposite effect.

Interest rate gap analysis

The tables below summarise the exposure to interest rate risk. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear an interest rate risk on unrecognised financial instruments.

Consolidated

in thousands of Malawi Kwacha

			Fixed Rate Instruments					
2014	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
Total assets	35,278,183	41,921,617	9,197,961	10,094,777	6,101,926	-	1,768,382	104,362,846
Total liabilities and shareholders' funds	27,884,044	50,403,496	15,521,048	455,231	377,181	89,936	9,631,910	104,362,846
Interest sensitivity gap	**7,394,139**	**(8,481,879)**	**(6,323,087)**	**9,639,546**	**5,724,745**	**(89,936)**	**(7,863,528)**	**-**

2013								
Total assets	30,177,908	38,599,713	8,128,526	1,957,945	1,904,501	1,168,329	1,011,000	82,947,923
Total liabilities and shareholders' funds	22,448,890	39,056,317	13,471,396	2,107,116	150,588	748,477	4,965,139	82,947,923
Interest sensitivity gap	**7,729,018**	**(456,604)**	**(5,342,870)**	**(149,171)**	**1,753,913**	**419,852**	**(3,954,139)**	**-**

Separate

in thousands of Malawi Kwacha

2014								
Total assets	33,079,249	25,831,392	10,330,502	5,982,798	5,024,930	-	1,768,382	82,017,253
Total liabilities and shareholders' funds	25,007,230	39,380,447	7,274,735	407,014	264,596	51,321	9,631,910	82,017,253
Interest sensitivity gap	**8,072,019**	**(13,549,055)**	**3,055,767**	**5,575,784**	**4,760,334**	**(51,321)**	**(7,863,528)**	**-**

2013								
Total assets	28,954,602	30,673,894	4,366,350	1,457,948	1,411,324	968,331	1,011,000	68,843,449
Total liabilities and shareholders' funds	20,155,159	35,263,779	7,061,102	619,802	150,588	627,880	4,965,139	68,843,449
Interest sensitivity gap	**8,799,443**	**(4,589,885)**	**(2,694,752)**	**838,146**	**1,260,736**	**340,451**	**(3,954,139)**	**-**

The effective interest rates for the principal financial assets and liabilities of the Bank at 31 December were:

Assets:

	2014 %	2013 %
Government securities	18 - 32	14 - 43
Deposits with banking institutions	23 - 25	17 - 37
Loans and advances to customers (base rate)	38	38

Liabilities:

Customer deposits	0.15 - 24	0.75 - 24

Equity risk

The value of investment in listed companies as at 31 December 2014 and 2013 were as follows:

Fair value of investment in listed companies	5,025,873	4,548,921
Cost	793,679	793,679
Net increase in fair value of investments in listed equities	476,952	2,089,000
Impact on profit and equity of increase of share prices by 10%	502,587	454,892
Impact on profit and equity of decrease in share prices by 10%	(502,587)	(454,892)

Liquidity risk

Liquidity risk is the potential for loss to an institution arising from its inability to meet its obligations as they fall due and / or fund its asset book and operations due to insufficient cash flow.

Liquidity risk is often triggered by consequences of other financial risks such as credit risk, market risk and operational risk. For instance, increasing credit risk through asset concentration may increase liquidity risk and a large loan default or changes in interest rate can adversely impact the liquidity position. If management misjudges the impact on liquidity of entering into a new business or product line, Group's liquidity risk would increase. Large off-balance sheet exposures, high concentrations in deposits and rapid growth in assets may pose relatively high levels of liquidity risk to the Group.

Policies

The Bank has an asset liability management policy which outlines policies and procedures in liquidity management including a contingency funding plan. All liquidity policies and procedures are subject to Board approval.

Liquidity risk management

In FMB, the Board and senior management are responsible for liquidity risk management.
The responsibility for managing the overall liquidity of the Group is delegated to ALCO. ALCO is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. ALCO meets every month. The Committee interacts regularly with line managers and Board members to enable it to monitor and control liquidity risk arising from new products and future business activities.

ALCO measures the Group's liquidity position using liquidity ratios 1 and 2, liquidity analysis also known as maturity gap analysis, its ability to keep the liquidity reserve requirements, cash flow projections, credit / deposit ratio and other ratios. The Group has an asset liability management policy, liquidity risk management policy and compliance policy. Credit and investments policies and limits are set with liquidity risk management in mind. All these policies are subject to Board approval. Apart from internal policies, the Group is also guided by the Policy Statement on Prudential Aspects of Bank Liquidity issued by the RBM.

Assessment of liquidity risk
Liquidity risk is assessed and monitored on a daily basis. A daily dashboard is circulated to executive management every morning and a Liquidity Position Report is produced by Treasury back office before end of day. This report is used for making decisions on whether to invest surplus funds or borrow funds from the interbank market in order to cover liquidity gaps. Weekly and fortnightly liquidity reports are also produced.

An independent Risk and Compliance function prepares reports for ALCO, on a monthly basis, and reports for the Risk Committee on a quarterly basis.

For quantitative assessment, gap analysis and ratios are used to measure risk levels. For qualitative assessment, several parameters are used to determine the quality of liquidity risk management.

Stress testing
Stress testing is done by Risk and Compliance function every quarter to ascertain the impact of sudden changes in short term liabilities and liquid assets on the Bank's liquidity position. The results are discussed with ALCO and the Risk Committee.

Liquidity risk
The Group's maturity gap analysis as at 31 December 2014 is given below:
in thousands of Malawi Kwacha

Consolidated	Carrying amount	Gross nominal inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3years	Over 3 years
Assets								
Cash and cash equivalents	32,429,431	32,429,431	32,429,431	-	-	-	-	-
Money market investments	10,651,002	11,195,433	967,540	1,022,276	5,025,448	4,121,654	-	58,515
Gross loans, advances and leases	40,206,875	45,187,360	7,867,389	12,427,831	12,535,164	5,090,561	3,769,799	3,496,616
Investments in listed companies	5,025,873	5,025,873	1,005,175	1,005,175	1,005,175	1,005,175	1,005,173	-
Other assets	1,710,304	1,710,304	1,710,304	-	-	-	-	-
Total assets	**90,023,485**	**95,548,401**	**43,979,839**	**14,455,282**	**18,565,787**	**10,217,390**	**4,774,972**	**3,555,131**
Liabilities								
Current and savings accounts	38,403,866	38,403,866	38,403,866	-	-	-	-	-
Foreign currency accounts	11,999,631	11,999,631	11,999,631	-	-	-	-	-
Term deposits accounts	14,089,830	14,089,830	6,298,192	7,247,271	393,167	151,200	-	-
Total liabilities to customers	**64,493,327**	**64,493,327**	**56,701,689**	**7,247,271**	**393,167**	**151,200**	**-**	**-**
Due to other banks	7,341,200	7,341,200	1,648,925	326,661	62,064	315,917	2,010,929	2,976,704
Subordinated debt	4,644,276	4,644,276	-	-	-	-	-	4,644,276
Other liabilities	5,518,588	5,518,588	5,518,588	-	-	-	-	-
Total liabilities	**81,997,391**	**81,997,391**	**63,869,202**	**7,573,932**	**455,231**	**467,117**	**2,010,929**	**7,620,980**
Net liquidity gap	**8,026,094**	**13,551,010**	**(19,889,363)**	**6,881,350**	**18,110,556**	**9,750,273**	**2,764,043**	**(4,065,849)**
Cumulative liquidity gap	**8,026,094**	**13,551,010**	**(19,889,363)**	**(13,008,013)**	**5,102,543**	**14,852,816**	**17,616,859**	**13,551,010**

The Group's maturity gap analysis as at 31 December 2013 is given below:
in thousands of Malawi Kwacha

Consolidated	Carrying amount	Gross nominal inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3years	Over 3 years
Assets								
Cash and cash equivalents	31,461,380	31,461,380	31,461,380	-	-	-	-	-
Money market investments	4,624,291	4,624,291	686,127	2,293,745	684,391	912,381	47,647	-
Loans, advances and leases	30,170,610	33,962,940	17,177,132	5,689,275	4,579,840	3,555,616	2,541,175	419,902
Investment in listed companies	4,548,921	4,548,921	909,784	909,784	909,784	909,784	909,785	-
Other assets	462,678	462,678	373,614	-	89,064	-	-	-
Total assets	**71,267,880**	**75,060,210**	**50,608,037**	**8,892,804**	**6,263,079**	**5,377,781**	**3,498,607**	**419,902**
Liabilities								
Current and savings accounts	31,965,313	31,965,313	31,965,313	-	-	-	-	-
Foreign currency accounts	10,910,123	10,910,123	10,910,123	-	-	-	-	-
Term deposit accounts	10,722,630	10,722,630	5,076,015	4,771,773	637,281	237,561	-	-
Total liabilities to customers	**53,598,066**	**53,598,066**	**47,951,451**	**4,771,773**	**637,281**	**237,561**	**-**	**-**
Due to other banks	2,565,044	2,565,044	1,000,000	33,575	123,785	150,588	627,880	629,216
Subordinated debt	4,335,923	4,335,923	-	-	-	-	-	4,335,923
Other liabilities	4,547,575	4,547,575	4,547,575	-	-	-	-	-
Total liabilities	**65,046,608**	**65,046,608**	**53,499,026**	**4,805,348**	**761,066**	**388,149**	**627,880**	**4,965,139**
Net liquidity gap	**6,221,272**	**10,013,602**	**(2,890,989)**	**4,087,456**	**5,502,013**	**4,989,632**	**2,870,727**	**(4,545,237)**
Cumulative liquidity gap	**6,221,272**	**10,013,602**	**(2,890,989)**	**1,196,467**	**6,698,480**	**11,688,112**	**14,558,839**	**10,013,602**

The Company's maturity gap analysis as at 31 December 2014 is given below:
in thousands of Malawi Kwacha

Separate	Carrying amount	Gross nominal inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years
Assets								
Cash and cash equivalents	24,978,112	24,978,112	24,978,112	-	-	-	-	-
Money market investments	6,599,188	7,143,619	-	623,410	4,222,562	2,297,647	-	-
Loans, advances and leases	29,486,492	32,409,932	4,712,080	11,762,864	12,350,178	1,034,625	1,949,679	600,506
Investments in listed companies	5,025,873	5,025,873	1,005,175	1,005,175	1,005,175	1,005,175	1,005,173	-
Other assets	1,219,086	1,219,086	1,219,086	-	-	-	-	-
Total assets	**67,308,751**	**70,776,622**	**31,914,453**	**13,391,449**	**17,577,915**	**4,337,447**	**2,954,852**	**600,506**
Liabilities								
Current and savings accounts	27,380,816	27,380,816	27,380,816	-	-	-	-	-
Foreign currency accounts	11,999,631	11,999,631	11,999,631	-	-	-	-	-
Term deposits accounts	6,763,025	6,763,025	214,926	6,203,149	344,950	-	-	-
Total liabilities to customers	**46,143,472**	**46,143,472**	**39,595,373**	**6,203,149**	**344,950**	**-**	**-**	**-**
Due to other banks	6,222,275	6,222,275	530,000	326,661	62,064	315,917	2,010,929	2,976,704
Subordinated debt	4,644,276	4,644,276	-	-	-	-	-	4,644,276
Other liabilities	4,904,593	4,904,593	4,904,593	-	-	-	-	-
Total liabilities	**61,914,616**	**61,914,616**	**45,029,966**	**6,529,810**	**407,014**	**315,917**	**2,010,929**	**7,620,980**
Net liquidity gap	**5,394,135**	**8,862,006**	**(13,115,513)**	**6,861,639**	**17,170,901**	**4,021,530**	**943,923**	**(7,020,474)**
Cumulative liquidity gap	**5,394,135**	**8,862,006**	**(13,115,513)**	**(6,253,874)**	**10,917,027**	**14,938,557**	**15,882,480**	**8,862,006**

The Company's maturity gap analysis as at 31 December 2013 is given below:
in thousands of Malawi Kwacha

Separate	Carrying amount	Gross nominal Inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years
Assets								
Cash and cash equivalents	25,742,247	25,742,247	25,742,247	-	-	-	-	-
Money market investments	3,010,788	3,010,788	-	1,366,369	684,391	912,381	47,647	-
Loans, advances and leases	22,775,479	24,624,467	10,442,284	3,464,534	4,438,577	3,318,055	2,541,175	419,842
Investments in listed companies	4,548,921	4,548,921	909,784	909,784	909,784	909,784	909,785	-
Other assets	695,418	695,418	606,354	-	89,064	-	-	-
Total asset	**56,772,853**	**58,621,841**	**37,700,669**	**5,740,687**	**6,121,816**	**5,140,220**	**3,498,607**	**419,842**
Liabilities								
Current and savings accounts	24,227,860	24,227,860	24,227,860	-	-	-	-	-
Foreign currency accounts	11,035,919	11,035,919	11,035,919	-	-	-	-	-
Term deposits accounts	5,119,459	5,119,459	789,605	3,833,836	496,018	-	-	-
Total liabilities to customers	**40,383,238**	**40,383,238**	**36,053,384**	**3,833,836**	**496,018**	**-**	**-**	**-**
Due to other banks	3,969,129	3,969,129	2,404,085	33,575	123,785	150,588	627,880	629,216
Subordinated debt	4,335,923	4,335,923	-	-	-	-	-	4,335,923
Other liabilities	4,661,857	4,661,857	4,661,857	-	-	-	-	-
Total liabilities	**53,350,147**	**53,350,147**	**43,119,326**	**3,867,411**	**619,803**	**150,588**	**627,880**	**4,965,139**
Net liquidity gap	**3,422,706**	**5,271,694**	**(5,418,657)**	**1,873,276**	**5,502,013**	**4,989,632**	**2,870,727**	**(4,545,297)**
Cumulative liquidity gap	**3,422,706**	**5,271,694**	**(5,418,657)**	**(3,545,381)**	**1,956,632**	**6,946,264**	**9,816,991**	**5,271,694**

Operational risk

Operational risk is a risk of loss or reputational damage resulting from inadequate or failed internal processes, people and systems / technology or from external events. Losses due to damage to physical assets, natural disasters, law suits, frauds, staff injuries, robberies and theft are all part of operational risk.

Operational risk management

The Board and senior management have created a culture that places high priority on effective operational risk management and adherence to sound operating controls. This culture emphasises high standards of ethical behaviour, honesty and integrity at all levels of the Group. The Bank has an organisational structure with clear reporting lines, efficient lay-out of premises conducive to close supervision, sound work systems and procedures and strong internal controls.

The Group has operations manuals, IT policies and manuals, a system of vetting employees, employee-friendly personnel policies, an employee training centre, systems of regular reconciliations of suspense accounts, an array of periodic Management Information Systems (MIS) reports, security and internal audit functions for effective management of operational risk in the Group. Disaster recovery and business continuity plans are in place to manage business disruptions. New products are thoroughly examined by a senior management committee and the Risk Management function before the Board accords approval for adoption. Insurance policies are in place for premises, various assets and employee fidelity and professional indemnity.

The policies, plans and manuals are regularly reviewed and updated, to ensure that they continue to be relevant to the environment within which the Group operates.

Processes
The Group has policies, operational manuals, guidelines and structures to manage its processes. At bank level, the Bank has a Chief Operating Officer who heads the Operations department and oversees Administration, IT, Central Clearing, Card Centre, Regional Processing Centres, Quality Control department, Branch Supervision and Head Office Operations department. All these departments have departmental heads at senior or middle management levels.

In 2012, the Bank adopted centralisation of all customer service back office processes. The centralised processes are handled at three regional processing centres (RPCs). This was done with the aim of minimising operational risk and improving efficiency. The RPC managers report to the Head of Operations at Head Office. Work done by RPCs is reviewed every day by an independent Quality Control department in Head Office to ensure that procedures are adhered to and any errors are detected at the earliest time possible.

Branch and agency managers report to Regional Managers who report to the Chief Commercial Officer and the General Manager – Corporate and International Banking.

Other specialised departments like Credit, Treasury, Risk, Compliance, Legal, Finance, Human Resources and Internal Audit report directly to the General Manager or the Managing Director. Credit, Risk and Compliance and Internal Audit also have direct reporting to the Board sub-committees.

Fraud
The Group has systems and controls to mitigate fraud risk. The Group has a fraud policy which outlines what is to be done in cases of fraud. The Group encourages staff and the public to report actual or suspected fraud through the tip-offs anonymous service, line management or the Compliance Officer. Internal Audit department investigates all fraud cases.

IT risk

The risk that the Group can suffer losses or business disruptions due to technological system failure is very high. To manage and mitigate this risk, the Group has the following in place:

1. Policies
2. Modern data centre
3. IT disaster recovery site
4. Offsite backup centre
5. Trained personnel in hardware and software systems
6. Maintenance agreements with system providers

People risk

The Group realises that its human capital is one of its most important resources. The Group has policies and guidelines on operations to ensure that employees are motivated and perform their duties at high standards at all times. The Group has a Learning and Development Centre (L&D) under Human Resources department. All new staff go through induction training. L&D organises training throughout the year for staff at all levels. Timely communication is made to staff on the Group's plans, new products and other developments. The Group recruits qualified staff and police clearance is sought for all new staff.

Assessment of operational risk
An independent Risk and Compliance function conducts ad-hoc risk assessments on premises, products and processes and reports the findings to business units or respective departments and the Managing Director. It conducts operational risk assessments as part of the Bank-wide risk assessments and reports to the Managing Director and the Risk Committee on a quarterly basis.

Each entity in the Group has an operational risk management framework which gives guidelines on how to identify, assess, monitor and control / mitigate operational risk. In addition, there are policies and procedures on operational risk management that are aligned to the overall business strategy and support continuous improvement of overall risk management in the Group.

In 2013, an Operational Risk Management System (ORMS) was developed and implemented from the third quarter. This has improved risk management in the Bank through recording all operational risk incidents and losses.

Stress testing
At the moment, no stress testing is being done specifically using operational risk scenarios. The Bank intends to introduce stress testing on operational risk from 2015.

Other risks

Compliance risk
This is the risk of legal or regulatory sanctions, material financial loss or damage to reputation that the Group may suffer as a result of failure to comply with laws, regulations, internal policies or code of conduct applicable to the Group's activities.

The Group's Board of Directors has set in place systems for identifying, measuring, monitoring and controlling all the potential lapse areas to ensure continued compliance with all the sections of the Banking Act 2010, Reserve Bank of Malawi Act 1989, Financial Services Act 2011, Money Laundering, Proceeds of Serious Crimes and Terrorist Financing Act, 2006 and RBM directives / prudential guidelines and all laws in Malawi and other territories in which it conducts operations.

Compliance risk management
To achieve proper management of compliance risk, the Board has set limits and guidelines through policies on liquidity, credit, money laundering, etc. to ensure that management operates within limits and conditions set in the laws, regulations and directives issued by the Government and the Regulator. Senior management is responsible for effective management of compliance risk by implementing and instituting a risk management framework to identify, assess, monitor and control the compliance risk in the Group as well as to report to the Board on management of risk and compliance failures, if any, from time to time. Senior management reviews the compliance management framework, operational manuals and employee guidelines periodically for appropriateness and soundness.

Each entity in the Group has a Compliance Officer who is responsible for monitoring and ensuring that regulations and policies are followed. Any breach of limits or regulations are made known to the Compliance Officer and these are reported to the Managing Director and the Board Risk Committee and the Board

Every functional head and line manager in the Group is responsible for ensuring that the Group complies with regulations and policies. Assets and Liability Committee (ALCO) is very instrumental in identifying the potential violation areas and minutes of ALCO meetings are tabled in Board meetings, to ensure that the Board is kept informed of all compliance risk management concerns.

Internal audit function conducts periodical audits and provides reasonable assurance that all activities and aspects of compliance risk are being properly managed. Internal auditors also inform management and the Audit Committee of any breaches or violations.

Reputational risk

Reputational risk is the potential that negative publicity, whether true or not, will cause a decline in the customer base, costly litigations or revenue reductions. This risk can be a result of the Group's failure to effectively manage any or all of the risk types and it can emerge at all business levels.

Reputational risk management
At FMB, it is every employee's responsibility to ensure that the Group's reputation is guarded at all times. From product development stage, we ensure that all products have been vetted to ensure that they do not tarnish the Group's image. All employees and senior management are encouraged to report any negative publicity in newspapers, social media and the grapevine to ensure that any incorrect perceptions are corrected. FMB has a marketing department and has suggestion boxes at its service centres, a call centre and tip-off anonymous service to enhance customer service but also as a means of getting feedback and information from customers and the public.

The Group has the following Board approved policies which have been formulated to manage reputation risk:

1. Reputation risk management policy, which contains guidance for management of reputation risk;
2. Disclosure policy which defines what information can be disclosed by whom to the public;
3. Market disclosure policy which defines when and what can be disclosed in the risk management report under Basel II - Pillar III.

The Board and the Managing Director have the ultimate responsibility of managing reputation risk.

Risk and Compliance function independently assesses and reports level of reputational risk to the Risk Committee.

The Group's Internal Audit function checks that reputation risk is being managed effectively in the Group during their scheduled audits and reports findings to the Board Audit Committee.

Strategic risk management

Strategic risk
This is the risk of adverse impact on earnings, capital, and reputation arising from changes in the environment and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technical changes.

The Group is guided in its strategic decision-making by a strategic plan also known as a business plan covering five years. The plan is developed by the Board of Directors in collaboration with senior management and it is reviewed regularly. The plan is updated whenever there are significant changes or new developments in the market, changes in government policies and shifts in customer behaviour. Within the ambit of the operative business plan, annual budgets are prepared and implemented by management after approval by the Board.

Board and senior management are responsible for strategic risk management. This is achieved by among other things formulating strategy and policies, setting the Group's and individual entities' risk appetites as well as careful assessment before introduction of new products and exiting from certain products. It is the duty of the Board to establish adequate systems and controls to ensure that overall risk remains within acceptable levels. The Board has a duty to assess expansion of business arenas, monitor market changes and emergence of new financial products.

All decisions and actions that have or may have an impact on the Group's strategy have prior approval of the Board. All actions or decisions touching on strategy involve functional managers' first-hand assessments of the competitive and practical considerations underlying such decisions or actions. Strategic decisions are clearly communicated throughout the organisation in a timely manner to ensure that appropriate employees are aware and engaged and act in a manner consistent with such decisions.

The Risk and Compliance function conducts periodic strategic risk assessments and reports the results to the Risk Committee.

6. Financial assets and liabilities

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, 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 where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where 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 where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amounts is a reasonable approximation of fair value.

Consolidated

31 December 2014

in thousand of Malawi Kwacha	Note	Total carrying amount	Level 1	Level 2	At amortised cost
Financial assets					
Cash and cash equivalents	7	32,429,431	-	-	32,429,431
Money market investments	8	10,651,002	-	10,651,002	-
Loans and advances to customers	9	35,650,617	-	-	35,650,617
Finance lease receivables	10	4,556,258	-	-	4,556,258
Cheques in-course of collection	11	356,106	-	-	356,106
Investments in listed companies	13	5,025,873	5,025,873	-	-
		88,669,287	**5,025,873**	**10,651,002**	**72,992,412**
Financial liabilities					
Deposits from customers	17	64,493,327	-	-	64,493,327
Balances due to other banks	18	7,341,200	-	-	7,341,200
Subordinated debt	38	4,644,276	-	-	4,644,276
		76,478,803	**-**	**-**	**76,478,803**

31 December 2013

Financial assets					
Cash and cash equivalents	7	31,461,380	-	-	31,461,380
Money market investments	8	4,624,291	-	4,624,291	-
Loans and advances to customers	9	25,833,352	-	-	25,833,352
Finance lease receivables	10	4,337,258	-	-	4,337,258
Cheques in-course of collection	11	373,614	-	-	373,614
Investments in listed companies	13	4,548,921	4,548,921	-	-
		71,178,816	**4,548,921**	**4,624,291**	**62,005,604**
Financial liabilities					
Deposits from customers	17	53,598,066	-	-	53,598,066
Balances due to other banks	18	2,565,044	-	-	2,565,044
Subordinated debt	38	4,335,923	-	-	4,335,923
		60,499,033	**-**	**-**	**60,499,033**

Separate
31 December 2014

in thousands of Malawi Kwacha	Note	Total carrying amount	Level 1	Level 2	At amortised cost
Financial assets					
Cash and cash equivalents	7	24,978,112	-	-	24,978,112
Money market investments	8	6,599,188	-	6,599,188	-
Loans and advances to customers	9	29,486,492	-	-	29,486,492
Cheques in-course of collection	11	356,106	-	-	356,106
Investments in listed companies	13	5,025,873	5,025,873	-	-
		66,445,771	**5,025,873**	**6,599,188**	**54,820,710**
Financial liabilities					
Deposits from customers	17	46,143,472	-	-	46,143,472
Balances due to other banks	18	6,222,275	-	-	6,222,275
Subordinated debt	38	4,644,276	-	-	4,644,276
		57,010,023	**-**	**-**	**57,010,023**

31 December 2013

Financial assets					
Cash and cash equivalents	7	25,742,247	-	-	25,742,247
Money market investments	8	3,010,788	-	3,010,788	-
Loans and advances to customers	9	22,775,479	-	-	22,775,479
Cheques in-course of collection	11	373,614	-	-	373,614
Investments in listed companies	13	4,548,921	4,548,921	-	-
		56,451,049	**4,548,921**	**3,010,788**	**48,891,340**
Financial liabilities					
Deposits from customers	17	40,383,238	-	-	40,383,238
Balances due to other banks	18	3,969,129	-	-	3,969,129
Subordinated debt	38	4,335,923	-	-	4,335,923
		48,688,290	**-**	**-**	**48,688,290**

7. Cash and cash equivalents

See accounting policy note 4 (d)

	Consolidated		Separate	
in thousands of Malawi Kwacha	**2014**	**2013**	**2014**	**2013**
Central Banks	10,386,631	9,121,943	8,886,247	7,938,359
Placements with other banks	18,231,139	17,978,363	12,856,677	14,105,831
Cheques in-course of clearing	166,727	939,606	166,727	939,606
Cash balances	3,644,934	3,421,468	3,068,461	2,758,451
	32,429,431	**31,461,380**	**24,978,112**	**25,742,247**

8. Money market investments

See accounting policy note 4 (g)

Treasury Bills – Other Central Banks	295,792	288,293	-	-
Corporate Bond	58,515	-	-	-
Malawi Government Treasury Bills	10,249,048	4,288,351	6,551,541	2,963,141
Local Registered Government Stocks	47,647	47,647	47,647	47,647
	10,651,002	**4,624,291**	**6,599,188**	**3,010,788**

The interest rate on Local Registered Government Stocks approximates the market interest rate and hence the carrying amount approximates the fair value. All money market investments mature within 12 months apart from a long-term corporate bond of MK58.5 million equivalent held by Capital Bank Limited (Mozambique).

9. Loans and advances to customers

See accounting policy note 4 (f)

	Consolidated		Separate	
in thousands of Malawi Kwacha	**2014**	**2013**	**2014**	**2013**
Loans and advances at amortised cost are receivable as follows:				
Maturing within 3 months	15,190,230	12,320,190	14,584,469	11,081,010
Maturing between 3 and 12 months	17,525,524	12,088,521	13,936,271	10,588,521
Maturing after 12 months	5,855,245	3,683,171	3,889,192	2,954,936
	38,570,999	**28,091,882**	**32,409,932**	**24,624,467**
Specific allowances for impairment:				
Balance at 1 January	(1,269,593)	(649,595)	(869,087)	(646,282)
Adjustment for acquisition of Capital Bank – Mozambique	-	(390,668)	-	-
Charge for the year	(1,445,411)	(718,442)	(1,291,449)	(422,128)
Customer debit balances offset against non-interest income	(346,558)	(103,247)	(346,558)	(103,247)
Write - offs	735,284	204,846	283,650	204,846
Recoveries	947,587	387,513	840,270	97,724
Balance at 31 December	**(1,378,692)**	**(1,269,593)**	**(1,383,174)**	**(869,087)**
Interest in suspense:				
Balance at 1 January	(988,937)	(604,367)	(979,901)	(598,076)
Charge for the year	(552,753)	(384,570)	(560,365)	(381,825)
Balance at 31 December	**(1,541,690)**	**(989,937)**	**(1,540,266)**	**(979,901)**
Net loans and advances	**35,650,617**	**25,833,352**	**29,486,492**	**22,775,479**

The Directors consider that the carrying amount of loans and advances approximates to their fair value.

The Group manages these loans and advances in accordance with its credit policy, internal reporting and performance measurement of these loans and advances are at amortised cost.

Impairment of loans and advances has been calculated as disclosed in note 5k (iii).

10. Finance lease receivables

See accounting policy note 4 (r)

in thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Investment in finance leases at amortised cost receivable:				
Less than one year	3,719,383	3,085,824	-	-
Between 1 and 5 years	2,793,930	2,480,413	-	-
More than 5 years	103,049	304,821	-	-
Balance at 31 December	**6,616,362**	**5,871,058**	**-**	**-**
Specific allowances for impairment:				
Balance at 1 January	(861,468)	(219,997)	-	-
Charge for the year	(141,355)	(710,273)	-	-
Write-offs	209,814	56,989	-	-
Recoveries	122,779	11,813	-	-
Balance at 31 December	**(670,230)**	**(861,468)**	**-**	**-**
Interest in suspense:				
Balance at 1 January	(672,331)	(315,948)	-	-
Recoveries	104,863	54,497	-	-
Write - offs	374,104	-	-	-
Charge for the year	(1,196,510)	(410,881)	-	-
Balance at 31 December	**(1,389,874)**	**(672,332)**	**-**	**-**
Net finance lease receivables	**4,556,258**	**4,337,258**	**-**	**-**

The Directors consider that the carrying amount of lease receivables approximates to their fair value.

11. Other assets

See accounting policy note 4 (e)

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Cheques in course of collection	356,106	373,614	356,106	373,614
Prepayments	326,262	112,522	305,763	99,374
Dividend receivable from listed companies	109,183	89,064	109,183	89,064
Stock of consumable stationery	98,700	81,525	98,700	81,525
Stock of computer spares	83,137	56,683	83,137	56,682
Other receivables	1,245,015	961,812	753,797	508,939
	2,218,403	**1,675,220**	**1,706,686**	**1,209,198**

12. Amounts due from subsidiaries and associated companies

See accounting policy note 4 (h, i)

in thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
FMB Forex Bureau Limited	-	-	3,426	194,585
FMB Pensions Limited	-	-	25,321	25,321
Capital Bank Limited, Mozambique	-	-	38,381	8,000
The Leasing and Finance Company of Malawi Limited	-	-	8,491	4,834
	-	**-**	**75,619**	**232,740**

Balances due from subsidiaries and associated companies have no fixed repayment terms, are unsecured and are interest free.

13. Investments in listed companies

See accounting policy note 4 (c)

in thousands of Malawi Kwacha

	Consolidated and Separate			
	2014		2013	
	Valuation	**Cost**	**Valuation**	**Cost**
Balance at 1 January	4,548,921	793,679	2,488,253	797,273
Increase in fair value of listed companies during the year	476,952	-	2,089,000	-
Disposals during the year	-	-	(28,332)	(3,594)
Balance at 31 December	**5,025,873**	**793,679**	**4,548,921**	**793,679**

All investments in listed companies are designated at fair value through profit or loss upon initial recognition. The increase in fair value is taken to profit or loss.

At year end, the Group's investment in listed companies' portfolio comprised:

Consolidated and Separate	**Shares Held ('000)**	**Share Price**	**Market Value (MK'000)**
Illovo	12,916	294.20	3,799,752
National Investment Trust Limited	25,767	41.50	1,069,315
Telekom Networks Malawi	38,339	4.09	156,806
			5,025,873

14. Investment in subsidiaries and associates

(a) Investment in subsidiaries

See accounting policy note 4 (h)

in thousands of Malawi Kwacha

	Shareholding		Carrying value	
	2014	**2013**	**2014**	**2013**
The Leasing and Finance Company of Malawi Limited	100.00%	100.00%	65,911	65,911
FMB Forex Bureau Limited	100.00%	100.00%	10,000	10,000
International Commercial Bank Limited – Malawi	100.00%	100.00%	148,791	816,943
FMB Capital Markets Limited	100.00%	-	50,000	-
Capital Bank Limited - Mozambique	70.00%	70.00%	2,503,586	1,375,710
			2,778,288	**2,268,564**

(b) Investment in associated companies

See accounting policy note 4 (i)

in thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Shareholding				
Capital Bank Limited – Botswana	38.60%	38.60%	38.60%	38.60%
First Capital Bank Limited – Zambia	49.00%	49.00%	49.00%	49.00%
Carrying value				
Capital Bank Limited – Botswana	1,477,388	1,261,368	903,854	903,854
First Capital Bank Limited – Zambia	3,340,094	3,433,629	3,393,251	3,393,251
	4,817,482	**4,694,997**	**4,297,105**	**4,297,105**
Movement during the year:				
Carrying value brought forward				
Capital Bank Limited – Botswana	1,261,368	1,067,956	903,854	903,854
First Capital Bank Limited – Zambia	3,433,629	-	3,393,251	-
Increase in investment:				
First Capital Bank Limited – Zambia	-	3,393,251	-	3,393,251
Share of profits / (losses) in associate				
Capital Bank Limited – Botswana	216,020	193,412	-	-
First Capital Bank Limited – Zambia	(93,535)	40,378	-	-
Balance at 31 December	**4,817,482**	**4,694,997**	**4,297,105**	**4,297,105**

14(b) Investment in associated companies (cont'd)

Share of profit in associate:	Consolidated	
in thousands of Malawi Kwacha	**2014**	**2013**
Profit before tax		
Capital Bank Limited – Botswana	756,575	678,268
First Capital Bank Limited – Zambia	(183,196)	126,777
Taxation		
Capital Bank Limited – Botswana	(196,938)	(177,201)
First Capital Bank Limited – Zambia	(7,691)	(44,372)
Profit after tax		
Capital Bank Limited – Botswana	559,637	501,067
First Capital Bank Limited – Zambia	(190,887)	82,405
Share of profits after tax		
Capital Bank Limited – Botswana	216,020	193,412
First Capital Bank Limited – Zambia	(93,535)	40,378

15. Property and equipment

See accounting policy note 4 (j)

in thousands of Malawi Kwacha

Consolidated	Freehold properties	Leasehold properties	Motor vehicles	Equipment fixture & fittings	Capital work in progress	Total
Cost or valuation						
Balance at 1 January 2014	**1,464,997**	**1,468,267**	**341,733**	**4,067,683**	**1,465,173**	**8,807,853**
Revaluation surplus	527,076	318,060	-	-	-	845,136
Impairment recovery	12,024	-	-	-	-	12,024
Disposals	-	-	(8,553)	(458)	-	(9,011)
Additions	-	369,149	221,387	827,693	1,446,724	2,864,953
Transfers	571,474	155,066	-	33,026	(759,566)	-
Balance at 31 December 2014	**2,575,571**	**2,310,542**	**554,567**	**4,927,944**	**2,152,331**	**12,520,955**
Accumulated depreciation and impairment losses						
Balance at 1 January 2014	**39,769**	**185,879**	**256,095**	**2,553,606**	**-**	**3,035,349**
Charge for the year	37,712	34,341	70,675	456,239	-	598,967
Released on disposal	-	-	(8,553)	(30)	-	(8,583)
Eliminated on revaluation	(74,502)	(44,056)	-	-	-	(118,558)
Balance at 31 December 2014	**2,979**	**176,164**	**318,217**	**3,009,815**	**-**	**3,507,175**
Cost or valuation						
Balance at 1 January 2013	**1,464,997**	**1,089,303**	**229,252**	**2,437,843**	**760,492**	**5,981,887**
Additions	-	226,659	39,774	882,808	704,681	1,853,922
Additions arising on acquisition	-	152,305	72,707	747,032	-	972,044
Balance at 31 December 2013	**1,464,997**	**1,468,267**	**341,733**	**4,067,683**	**1,465,173**	**8,807,853**
Accumulated depreciation and impairment losses						
Balance at 1 January 2013	**2,028**	**8,022**	**153,763**	**1,505,819**	**-**	**1,669,632**
Charge for the year	37,741	25,849	38,707	459,270	-	561,567
Accumulated depreciation arising on acquisition	-	152,008	63,625	588,517	-	804,150
Balance at 31 December 2013	**39,769**	**185,879**	**256,095**	**2,553,606**	**-**	**3,035,349**
Carrying amount						
At 31 December 2014	**2,572,592**	**2,134,378**	**236,350**	**1,918,129**	**2,152,331**	**9,013,780**
At 31 December 2013	**1,425,228**	**1,282,078**	**85,948**	**1,514,077**	**1,465,173**	**5,772,504**

15. Property and equipment (cont'd)

in thousands of Malawi Kwacha

Separate	Freehold property	Leasehold properties	Motor vehicles	Equipment fixture & fittings	Capital work in progress	Total
Cost or valuation						
Balance at 1 January 2014	**1,324,997**	**1,141,603**	**227,454**	**2,721,645**	**1,465,173**	**6,880,872**
Revaluation surplus	479,076	318,060	-	-	-	797,136
Impairment recovery	12,024	-	-	-	-	12,024
Additions	-	4,428	129,062	331,257	1,446,724	1,911,471
Disposals	-	-	(8,553)	-	-	(8,553)
Transfers	571,474	155,066	-	33,026	(759,566)	-
Balance at 31 December 2014	**2,387,571**	**1,619,157**	**347,963**	**3,085,928**	**2,152,331**	**9,592,950**
Accumulated depreciation and impairment						
Balance at 1 January 2014	**37,603**	**33,697**	**176,044**	**1,875,121**	**-**	**2,122,465**
Charge for the year	35,545	25,727	49,168	412,932	-	523,372
Released on disposal	-	-	(8,553)	-	-	(8,553)
Eliminated on revaluation	(70,168)	(44,056)	-	-	-	(114,224)
Balance at 31 December 2014	**2,980**	**15,368**	**216,659**	**2,288,053**	**-**	**2,523,060**
Cost or valuation						
Balance at 1 January 2013	**1,324,997**	**1,089,303**	**214,559**	**2,389,575**	**760,492**	**5,778,926**
Additions during the year	-	52,300	12,895	332,070	704,681	1,101,946
Balance at 31 December 2013	**1,324,997**	**1,141,603**	**227,454**	**2,721,645**	**1,465,173**	**6,880,872**
Accumulated depreciation and impairment						
Balance at 1 January 2013	**2,028**	**8,158**	**146,305**	**1,473,173**	**-**	**1,629,664**
Charge for the year	35,575	25,539	29,739	401,948	-	492,801
Balance at 31 December 2013	**37,603**	**33,697**	**176,044**	**1,875,121**	**-**	**2,122,465**
Carrying amount						
At 31 December 2014	**2,384,591**	**1,603,789**	**131,304**	**797,875**	**2,152,331**	**7,069,890**
At 31 December 2013	**1,287,394**	**1,107,906**	**51,410**	**846,524**	**1,465,173**	**4,758,407**

Registers of land and buildings giving details as required under the Companies Act 1984, Schedule 3, Section 16 are maintained at the registered offices of the relevant Group companies and are open for inspection by members or their duly authorised agents. The freehold properties and leasehold improvements were last revalued on 31 December 2014 by Don Whayo BSc; MRICS; MSIM of Knight Frank Malawi Limited, independent valuers, not connected with the Group, on an open market value basis. The resultant surplus was credited to revaluation reserve in 2014. This is not available for distribution until realised.

The fair value measurement for properties has been categorised as Level 3 fair value based on inputs to the valuation techniques used.

Capital work in progress represents development costs on the Bank's various branches and upgrading of various computer equipment and software.

16. Deferred tax (assets) / liabilities

Movements in temporary differences during the year
See accounting policy note 4 (v)

in thousands of Malawi Kwacha

Consolidated	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
2014				
Property and equipment	97,379	(126,421)	-	(29,042)
Accrued income	78,496	217,446	-	294,942
Revaluation of property	117,250	-	123,300	240,550
Tax losses	-	(2,735)	-	(2,735)
Gratuity and severance pay liabilities	(6,693)	(53,583)	-	(60,276)
Investment revaluation	2,898	(2,898)	-	-
Subordinated debt revaluation	-	(92,506)	-	(92,506)
	289,330	**(60,697)**	**123,300**	**351,933**
2013				
Property and equipment	102,499	(5,120)	-	97,379
Accrued income	18,019	60,477	-	78,496
Revaluation of property	388,169	(2,897)	(268,022)	117,250
Gratuity and severance pay liabilities	(25,224)	18,531	-	(6,693)
Investment revaluation	2,898	-	-	2,898
Property impairment	(4,297)	4,297	-	-
	482,064	**75,288**	**(268,022)**	**289,330**
Separate				
2014				
Property and equipment	62,115	(84,606)	-	(22,491)
Accrued income	78,278	86,248	-	164,526
Revaluation of property	90,304	-	123,300	213,604
Gratuity and severance pay liabilities	(6,694)	(45,815)	-	(52,509)
Subordinated debt revaluation	-	(92,506)	-	(92,506)
	224,003	**(136,679)**	**123,300**	**210,624**
2013				
Property and equipment	102,290	(40,175)	-	62,115
Accrued income	17,799	60,479	-	78,278
Revaluation of investment	2,898	(2,898)	-	-
Revaluation of property	357,676	-	(267,372)	90,304
Gratuity and severance pay liabilities	(25,225)	18,531	-	(6,694)
Property impairment	(4,297)	4,297	-	-
	451,141	**40,234**	**(267,372)**	**224,003**

17. Customer deposits

See accounting policy note 4 (l)

in thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Current and savings accounts	38,403,866	31,965,313	27,380,816	24,227,860
Foreign currency accounts	11,999,631	10,910,123	11,999,631	11,035,919
Term deposit accounts	14,089,830	10,722,630	6,763,025	5,119,459
	64,493,327	**53,598,066**	**46,143,472**	**40,383,238**
Payable as follows:				
Maturing within 3 months	63,948,960	52,723,224	45,798,522	39,887,220
Maturing after 3 months	544,367	874,842	344,950	496,018
	64,493,327	**53,598,066**	**46,143,472**	**40,383,238**

18. Balances due to other banks

See accounting policy note 4 (l)

Local banks	1,648,925	1,000,000	530,000	2,404,085
European Investment Bank	5,538,299	1,294,098	5,538,299	1,294,098
NORSAD Agency	153,976	270,946	153,976	270,946
	7,341,200	**2,565,044**	**6,222,275**	**3,969,129**
Payable as follows:				
Due between 2 and 5 years	4,987,633	1,257,096	4,987,633	2,661,181
Due within 1 year	2,353,567	1,307,948	1,234,642	1,307,948
	7,341,200	**2,565,044**	**6,222,275**	**3,969,129**

All loans due to other banks are stated at amortised cost.

Balances due to local banks represent overnight borrowing by the Group.

The credit line facilities with European Investment Bank (EIB) and NORSAD Agency were made available to the Bank for on lending to customers in specified economic sectors.

The EIB line of credit which is denominated in US Dollars, carries interest between 2.9% and 5.6% per annum and is repayable in equal bi-annual instalments ending on 15 March 2019.

The NORSAD Agency credit line granted on behalf of the NORSAD Fund is denominated in US dollars, carries interest at 7% per annum and is repayable in equal quarterly instalments ending on 31 December 2015.

19. Other liabilities

See accounting policy note 4 (m)

in thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Interest payable	139,073	99,175	139,073	99,175
Bankers cheques issued and uncleared	487,842	333,841	487,842	333,841
Margins on letters of credit and other instruments	141,613	862,964	141,613	862,964
Bills payable	225,708	315,730	132,910	163,563
Trade payables	3,043,118	1,631,291	2,621,703	2,068,406
Accrued expenses	996,408	926,604	939,081	746,689
	5,033,762	**4,169,605**	**4,462,222**	**4,274,638**

20. Employee benefits liabilities

See accounting policy note 4 (o)

Severance pay provision				
Balance at 1 January	25,227	28,041	25,227	28,041
Additional provision	50,000	-	50,000	-
Payment made during the year	-	(2,814)	-	(2,814)
Balance at 31 December	**75,227**	**25,227**	**75,227**	**25,227**

21. Share capital and premium

	Consolidated and Separate	
(a) Share capital	**2014**	**2013**
Authorised, issued and fully paid 2,336,250,000 ordinary shares of 5 tambala each	116,813	116,813
(b) Share premium	1,565,347	1,565,347

On 19 June 2006, following an offer to the public, 225,000,000 ordinary shares of 5 tambala each were allotted at a premium of 245 tambala per share. The resultant premium on issue of MK551.25m less offer expenses of MK37.215m was credited to share premium account.

In 2009, the Company issued by way of bonus issue from retained earnings, 111,250,000 ordinary shares of 5 tambala each at 950 tambala per share giving rise to a share premium of MK1.051 billion which was also credited to the share premium account.

22. Property revaluation reserve

in thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	2013	2014	2013
Property revaluation	**2,705,248**	**1,858,132**	**2,550,356**	**1,762,296**

This represents the surplus arising on revaluation of property net of the related deferred taxation provision and is not available for distribution to the owners.

23. Loan loss reserve

	Consolidated		Separate	
	2014	2013	2014	2013
Loan loss reserve	**488,594**	**297,613**	**445,009**	**246,245**

In order to comply with the Reserve Bank of Malawi directive on asset classification, the Directors have recognised a provision in the loan loss reserve in addition to the provisions charged to profit or loss in accordance with International Financial Reporting Standards.

24. Non-distributable reserves

	Consolidated		Separate	
	2014	2013	2014	2013
Non distributable reserves	**350,000**	**350,000**	**-**	**-**

This represents the capitalisation of retained earnings in The Leasing and Finance Company of Malawi Limited in 2009 to meet the minimum capital requirement stipulated by the regulator.

25. Interest income

See accounting policy note 4 (p)

	Consolidated		Separate	
	2014	2013	2014	2013
Loans and advances	8,027,287	7,245,690	7,688,885	6,745,232
Lease finance	1,475,760	2,007,417	-	-
Treasury bills	2,222,681	1,021,032	1,416,969	725,876
Local registered stocks	9,563	124,985	9,563	124,986
Placements with other banks	769,955	645,921	173,435	252,329
	12,505,246	**11,045,045**	**9,288,852**	**7,848,423**

26. Income from investments

See accounting policy note 4 (t)
in thousands of Malawi Kwacha

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Dividend income	285,915	186,564	1,085,915	186,564
Movement in fair value of investments	476,952	2,089,000	476,952	2,089,000
Impairment of goodwill arising on acquisition of subsidiaries (Note 37)	-	(1,115,850)	-	(1,115,850)
	762,867	**1,159,714**	**1,562,867**	**1,159,714**

27. Other operating income

See accounting policy note 4 (p)

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Sundry non-interest income	-	3,070	-	3,070
	-	**3,070**	**-**	**3,070**

28. Staff and training costs

	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Salaries and wages	2,800,355	1,537,446	2,037,649	1,319,571
Training and other staff costs	2,503,931	1,745,367	2,080,637	1,563,747
Contributions to defined contribution plans	236,901	117,018	224,840	112,791
	5,541,187	**3,399,831**	**4,343,126**	**2,996,109**

29. Other expenses

	Consolidated		Separate	
in thousands of Malawi Kwacha	**2014**	**2013**	**2014**	**2013**
Bank charges	126,608	110,074	107,212	142,665
Directors' remuneration	130,258	95,359	128,280	95,319
Administration expenses	119,453	115,240	15,037	68,796
Auditor's remuneration	70,953	78,604	42,766	32,588
Insurance	68,549	57,738	63,111	45,600
Internal audit costs	57,469	15,615	13,617	5,900
Legal and professional fees	220,760	136,599	48,555	30,842
Marketing costs	256,044	200,675	213,590	183,495
Motor vehicle running costs	139,953	118,269	138,209	108,957
Office repairs	396,317	228,355	33,559	29,166
Office security	80,872	42,349	32,123	19,665
Operational losses	83,418	132,564	78,875	119,273
Postage	85,305	59,809	83,512	58,107
Printing and stationery	333,382	248,336	280,068	206,522
Professional subscriptions	37,081	54,473	36,109	52,783
Telephone expenses	201,937	123,565	112,165	69,523
Travel expenses	280,972	256,975	180,936	232,978
Utilities	57,111	38,660	27,978	24,780
	2,746,442	**2,113,259**	**1,635,702**	**1,526,959**

30. Income tax expense

See accounting policy note 4 (v)

Recognised in the statement of comprehensive income

Current tax expense

Current year at 30% (2013: 30%) based on profits	2,375,068	2,119,986	2,101,967	2,022,343
Origination and reversal of temporary differences (Note 16)	(60,697)	75,288	(136,679)	40,234
Total income tax expense in statement of comprehensive income	**2,314,371**	**2,195,274**	**1,965,288**	**2,062,577**

Reconciliation of effective tax rate

Operating profit	**7,388,632**	**7,950,125**	**7,902,567**	**7,848,633**
Tax using the domestic tax rate 30% (2013: 30%)	2,216,590	2,385,037	2,370,770	2,354,590
Non-deductible expenses	66,237	58,895	63,378	55,901
Losses of subsidiary companies not deductible	260,404	112,159	-	-
Tax exempt income	(228,860)	(360,907)	(468,860)	(347,914)
Income tax expense in statement of profit or loss and other comprehensive income	**2,314,371**	**2,195,274**	**1,965,288**	**2,062,577**

31. Basic and diluted earnings per share

See accounting policy note 4 (w)

The calculation of basic earnings per share at 31 December 2014 was based on profit to ordinary shareholders of **MK5,457,150,000** (2013: MK6,093,125,000) and a weighted average number of ordinary shares outstanding of **2,336,250,000** (2013: 2,336,250,000) calculated as follows:

	Consolidated	
in thousands of Malawi Kwacha	**2014**	**2013**
Profit attributable to ordinary shareholders	5,457,150	6,093,125
Weighted average number of ordinary shares in issue (thousands)	2,336,250	2,336,250
Basic and diluted earnings per share (tambala)	**234**	**261**

There are no potential dilutive ordinary shares.

32. Group subsidiaries

(a) List of significant subsidiaries

The table below provides details of the significant subsidiaries of the Group:

Company name	**Principal place of business**	**Ownership interest**	
		2014	**2013**
The Leasing and Finance Company of Malawi Limited	Malawi	100%	100%
FMB Forex Bureau Limited	Malawi	100%	100%
FMB Pensions Limited	Malawi	100%	100%
Capital Bank Limited	Mozambique	70%	70%
International Commercial Bank Limited	Malawi	100%	100%
FMB Capital Markets Limited	Malawi	100%	-

(b) Non Controling Interests (NCI) in subsidiaries

The following table summarises the information relating to the Group's subsidiaries that have material non-controlling interests (NCI).

	Capital Bank - Mozambique
NCI percentage and voting rights	
in thousand of Malawi Kwacha	30%
Assets	
Cash and cash equivalents	6,882,718
Money market investments	354,307
Loans and advances to customers	5,543,366
Other assets	459,228
Property, plant and equipment	1,722,278
Total assets	**14,961,897**
Liabilities	
Current and savings accounts	11,132,081
Other payables	429,621
Balances due to other financial institutions	1,118,925
Total liabilities	**12,680,627**
Net assets	**2,281,270**
Net assets attributable to NCI	684,381
Carrying amount of NCI	**684,381**
Income statement	
Net interest income	311,759
Fees and commissions	975,126
Other operating income	55,927
Total income	**1,342,812**
Other administration costs	1,005,006
Salaries and wages	666,481
Training and other staff costs	338,336
Depreciation	48,903
Impairment loss on loans	152,101
Total operating expenses	**2,210,827**
Operating loss	**(868,015)**
Other comprehensive income	-
Total comprehensive income	**(868,015)**
Loss allocated to NCI	**(260,404)**

There was no dividend paid to NCI during the year.

(c) Material associates of the Group

The following table summarises the information on the Group's material associates accounted for using the equity method, adjusted for any differences in accounting policies.

	Capital Bank Botswana	First Capital Bank Zambia	Total
FMB's interest and voting rights	*38.60%*	*49.00%*	
in thousands of Malawi Kwacha			
Assets			
Cash and cash equivalents	18,216,117	3,780,761	21,996,878
Money market investments	4,881,209	2,811,356	7,692,565
Loans and advances to customers	30,840,160	12,082,104	42,922,264
Other assets	1,233,568	1,123,396	2,356,964
Property, plant and equipment	1,605,117	1,504,230	3,109,347
Total assets	**56,776,171**	**21,301,847**	**78,078,018**
Liabilities			
Deposits from customers and banks	46,903,250	13,314,335	60,217,585
Other liabilities	1,418,950	779,668	2,198,618
Subordinated debt	1,448,004	-	1,448,004
Total liabilities	**49,770,204**	**14,094,003**	**63,864,207**
Net assets	**7,005,967**	**7,207,844**	**14,213,811**
Net assets attributable to Group	**2,704,303**	**3,531,843**	**6,236,146**
Carrying value	**1,477,388**	**3,340,094**	**4,817,482**
Income statement			
Net interest income	2,151,028	1,181,306	3,332,334
Non interest income	1,091,714	716,852	1,808,566
Total operating income	**3,242,742**	**1,898,158**	**5,436,460**
Operating expenses	(2,308,740)	(2,069,240)	(4,377,980)
Loan impairment	(177,427)	(12,115)	(189,542)
Taxation	(196,938)	(7,691)	(204,629)
Profit for the year	**559,637**	**(190,888)**	**368,749**
Group's share of profit	**216,020**	**(93,535)**	**122,485**

33. Dividends

Last year's second interim dividend of MK700.875 million (30 tambala per share) and final dividend of MK233,625 million (10 tambala per share) were paid during the year. An interim dividend for the year 2014 of MK1,168.125 million (50 tambala per share) was paid during the year and a second interim dividend of MK700.875 million (30 tambala per share) has been declared and will be paid in April 2015. The Directors also propose a final dividend of MK467.25 million (20 tambala per share) for approval at the forthcoming Annual General Meeting.

34. Related party transactions

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

in thousand of Malawi Kwacha	2014	2013
Corporate bodies directly or indirectly related to Directors *		
Balance at the beginning of the year	**2,264,506**	**2,018,774**
Loans granted during the year	15,316	1,168,964
Repayments	(532,256)	(923,232)
Balance at the end of the year	**1,747,566**	**2,264,506**
Key management personnel:		
Balance at the beginning of the year	138,136	226,615
Loans granted during the year	66,103	69,068
Repayments	(6,012)	(157,547)
Balance at the end of the year	**198,227**	**138,136**

** There were no loans to Directors in their individual capacities. All loans to bodies directly or indirectly linked to Directors were made on arm's length commercial terms.*

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

Advances to employees include **MK14.814 million** (2013: MK10.527 million) of interest free advances and **MK692 million** (2013: MK585.88 million) of advances which carry interest at one quarter of the prevailing prime lending rate of the Bank. All other transactions with related parties are carried out on an arm's length basis on normal commercial terms.

Details of related party transactions between the Bank and its wholly owned subsidiaries; The Leasing and Finance Company of Malawi Limited (LFC), FMB Forex Bureau Limited, FMB Pensions Limited, and FMB Capital Markets Limited which have been eliminated on consolidation are as follows:

Subsidiary Companies	2014	2013
Loan and overdrafts	191,130	220,810
Deposits	687,543	1,642,096
Fees and commissions received	10,318	10,741
Interest income	64,402	92,505
Dividends received	800,000	-

Key management personnel compensation:

	Executive Directors		Non-executive Directors	
MK' 000	**2014**	**2013**	**2014**	**2013**
Salaries	219,250	168,807	-	-
Bonuses	135,000	120,000	-	-
Fees	-	-	-	95,319
	354,250	**288,807**	**-**	**95,319**

In addition to their salaries, the Group also provides non-cash benefits to executive Directors. The estimated value of total non-cash benefits to Directors amounts to **MK5 million** (2013: MK4.0 million).

Directors' interests

As at 31 December 2014, the total direct and indirect interests of the Directors and parties related thereto in the issued share capital of the Company were as follows:

	Ordinary shares	
	2014	**2013**
R C Kantaria	1,050,000,000	1,050,000,000
H N and N G Anadkat	1,050,000,000	1,050,000,000
D Dikshit	3,343,808	3,343,808
J M O'Neill	2,309,391	2,309,391
M Msisha	1,050,000	1,050,000

35. Capital commitments and contingent liabilities

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

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

	Consolidated		Separate	
MK' 000	**2014**	**2013**	**2014**	**2013**
Contingent liabilities - financial instruments				
Acceptances and letters of credit	5,391,861	1,510,221	4,499,595	1,504,728
Financial guarantees	7,267,867	8,789,611	7,160,689	8,540,445
	12,659,728	**10,299,832**	**11,660,284**	**10,045,173**

Contingencies in respect of letters of credit will only crystalise into an asset or a liability when bills are presented in accordance with the terms and conditions of payment of the individual letters of credit.

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

35. Capital commitments and contingent liabilities (cont'd)

Other contingent liabilities	Consolidated		Separate	
	2014	**2013**	**2014**	**2013**
Legal claims	70,000	172,200	55,000	157,200

Other contingent liabilities represent civil litigation matters that will only crystalise into a liability only in the unlikely event of an unfavourable judgement.

Capital commitments

	2014	**2013**
Capital expenditure Authorised but not contracted	389,000	2,414,205

36. Statutory requirements

In accordance with Financial Services (Capital Adequacy for Banks) Directive 2012 and Directive No. LRR-07 FMO-Liquidity Reserve Requirement, the Reserve Bank of Malawi has established the following requirements as at the financial reporting date:

I. Liquidity reserve requirement

The Bank is required to maintain a liquidity reserve as defined by the Reserve Bank of Malawi, calculated on a fortnight average basis, of not less than **15.5%** (2013: 15.5%) of the preceding week's total deposit liabilities. In the last two weeks of December 2014, the liquidity reserve was **19.58%** (2013: 23.81%) of total customer deposits.

II. Capital adequacy requirement

Reserve Bank of Malawi requires the Bank to maintain a minimum capital of Tier 1 and total capital of 10% and 15% respectively as a percentage of total risk-weighted assets.

The total capital is made up of the following:

1. Tier 1 capital, which includes paid-up share capital, share premium, retained earnings, non-distributable reserves less investment in associates; and
2. Tier 2 capital, which includes subordinated debt, asset revaluation reserves, translation reserves and general loan loss reserves.

As at 31 December 2014, the Bank's Tier 1 capital ratio was **12.79%** of its risk bearing assets and total capital ratio was **21.47%.**

In 2013, minimum requirements for Tier 1 capital and total capital were 6% and 10% respectively as a percentage of total risk weighted assets. As at 31 December 2013, Tier 1 capital ratio for the Bank was 13.56% and total capital ratio was 17.62%.

37. Acquisition of subsidiary

See accounting policy note 4 (a)

In 2013 the Bank required a 70% shareholding in International Commercial Bank Limited (Mozambique), now rebranded as Capital Bank Limited, and a 100% shareholding in International Commercial Bank Limited (Malawi) whose continuing operations have been merged with First Merchant Bank Limited.

Consideration transferred
The total consideration for the acquisitions was MK3,308,503,000 paid entirely in cash.

Identifiable assets acquired and liabilities assumed

in thousands of Malawi Kwacha
The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

	International Commercial Bank Limited (Malawi)	Capital Bank Limited (Mozambique)	Total
Fair value of identifiable assets and liabilities at the acquisition date			
Property and equipment	53,628	114,266	167,894
Loans and advances	1,312,671	2,246,750	3,559,421
Cash and cash equivalents	481,118	6,409,793	6,890,891
Other assets	77,794	257,928	335,722
Customer deposits	(825,358)	(7,049,545)	(7,874,903)
Other liabilities	(157,882)	(192,413)	(350,295)
Total	**941,971**	**1,786,689**	**2,728,660**
Goodwill			
Total fair value of identifiable net assets	941,971	1,786,689	2,728,660
Non-controlling interest	-	(536,007)	(536,007)
	941,971	**1,250,682**	**2,192,653**
Consideration transferred	**1,140,863**	**2,167,640**	**3,308,503**
Goodwill written off on acquisition	**198,892**	**916,958**	**1,115,850**

Goodwill arising on acquisition of subsidiaries has been impaired in full and is not expected to be deductible for tax purposes.

38. Subordinated debt

See accounting policy note 4 (m)

	Consolidated and Separate	
	2014	**2013**
	4,664,276	**4,335,923**

In April 2013, the Bank issued a fixed interest note of USD10 million bearing interest at 10.6% per annum payable quarterly in arrears. The note will mature in its entirety six years from the date of issue subject to optional early redemption by the Bank.

Terms of subordination
The subordinated debt notes constitute direct, subordinated and unsecured obligations of First Merchant Bank Limited. The notes rank pari passu among themselves.

39. Exchange rates and inflation

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

Exchange rates	2014 MK	2013 MK	2012 MK
Malawi Kwacha / GBP	729.9	721.8	541.6
Malawi Kwacha / Rand	40.5	42.2	39.6
Malawi Kwacha / US Dollar	464.4	433.6	335.0
Malawi Kwacha / Euro	564.5	598.0	442.0
Malawi Kwacha / Pula	48.8	50.5	42.5
Malawi Kwacha / Meticais	14.9	12.4	
Malawi Kwacha / Zambia Kwacha	72.6	68.5	
Inflation rate %	**24.2**	**23.5**	**34.6**

At the time of signing these financial statements the exchange rates moved as follows:

Malawi Kwacha / GBP	645.96
Malawi Kwacha / Rand	36.81
Malawi Kwacha / US Dollar	434.79
Malawi Kwacha / Euro	474.87
Malawi Kwacha / Pula	45.17
Malawi Kwacha / Meticais	11.7
Malawi Kwacha / Zambia Kwacha	56.8

40. Effective interest rates of financial assets and liabilities

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

	2014	2013
Assets		
Government securities	18 – 32%	14 - 43%
Deposits with banking institutions	23 - 25%	17- 37%
Loans and advances to customers (Base Rate)	38%	38%
Liabilities		
Customer deposits	0.15 - 24%	0.75 - 24.00%

41. Segmental Reporting

Separate financial information is presented to the Group's chief operating decision makers in respect of the individual legal entities comprised in the Group, namely:

- First Merchant Bank Limited - corporate and retail banking in Malawi
- The Leasing and Finance Company of Malawi Limited - deposit taking and asset finance in Malawi
- FMB Forex Bureau Limited - operation of foreign exchange bureaux in Malawi
- FMB Pensions Limited - administration of pension funds
- Capital Bank Limited - Botswana - corporate and retail banking*
- First Capital Bank Limited - Zambia - corporate and retail banking*
- Capital Bank Limited - Mozambique - corporate and retail banking
- FMB Capital Markets Limited - asset management
- International Commercial Bank Limited - administration of residual assets acquired from ICB Malawi

** Accounted for as associates*

In the case of First Merchant Bank Limited information on income and expenditure, assets and liabilities is further disaggregated between its various individual branches and agencies and its Head Office operations. Head Office income includes Group treasury income from dealing in foreign currency and trading in financial instruments and income from transfer secretarial services. Head Office expenditure includes all Head Office staff, premises and overhead costs including the costs of Group treasury and capital market operations which are not separately identified in internal reports.

Branches and agencies of First Merchant Bank are all engaged in corporate and retail banking, offer similar products and services to similar classes of customer and are governed by the same regulatory environment. Given their common economic characteristics, these individual segments are aggregated and presented in a single segment, Malawi corporate and retail banking, in these financial statements. FMB Pensions Limited, International Commercial Bank Limited and FMB Capital Markets Limited do not meet any of the quantitative thresholds set out in IFRS 8 Segment Reporting for separate disclosure and reporting and this segment has been aggregated into the Malawi corporate and retail banking segment information presented below.

Income tax expense, assets and liabilities are not disaggregated but allocated in full to Head Office.

Included in external interest income is income from placements with banks abroad of **MK6.96 million** (2013: MK3.9 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year the Bank earned **MK1.4 billion** (2013: K851 million) interest on Government of Malawi treasury bills and local registered stock; **MK131.2 million** (2013: MK45.8 million) interest on loans and advances to enterprises controlled by Government of Malawi.

Included in income from investments for the Bank is **MK800 million** dividend received during the year from The Leasing and Finance Company of Malawi Limited which has been eliminated on consolidation.

41. Segmental reporting cont'd

in thousands of Malawi Kwacha	Malawi				Mozambique	Zambia	Botswana			
31 December 2014	**Corporate & retail banking**	**Forex bureau**	**Asset finance**	**Subtotal**	**Corporate & retail banking**	**Corporate & retail banking**	**Corporate & retail banking**	**Total before adjustments**	**Consolidation adjustments**	**Total**
Interest income – external	9,292,915	943	2,611,720	11,905,578	664,070	-	-	12,569,648	(64,402)	12,505,246
Total interest income	**9,292,915**	**943**	**2,611,720**	**11,905,578**	**664,070**	**-**	**-**	**12,569,648**	**(64,402)**	**12,505,246**
Interest expense – external	(2,230,507)	-	(1,318,648)	(3,549,155)	(352,311)	-	-	(3,901,466)	64,402	(3,837,064)
Total interest expense	**(2,230,507)**	**-**	**(1,318,648)**	**(3,549,155)**	**(352,311)**	**-**	**-**	**(3,901,466)**	**64,402**	**(3,837,064)**
Net interest income	**7,062,408**	**943**	**1,293,072**	**8,356,423**	**311,759**	**-**	**-**	**8,668,182**	**-**	**8,668,182**
Fees and commissions	3,326,212	13,829	16,602	3,356,643	1,031,053	-	-	4,387,696	(10,318)	4,377,378
Total fees and commission	**3,326,212**	**13,829**	**16,602**	**3,356,643**	**1,031,053**	**-**	**-**	**4,387,696**	**(10,318)**	**4,377,378**
Income from investments	1,562,867	-	-	1,562,867	-	-	-	1,562,867	(800,000)	762,867
Gain on foreign exchange transactions	3,979,727	57,250	-	4,036,977	-	-	-	4,036,977	-	4,036,977
Total operating income	**15,931,214**	**72,022**	**1,309,674**	**17,312,910**	**1,342,812**	**-**	**-**	**18,655,722**	**(810,318)**	**17,845,404**
Staff and training costs	(4,343,496)	(23,243)	(169,631)	(4,536,370)	(1,004,817)	-	-	(5,541,187)	-	(5,541,187)
Premises and equipment	(1,053,649)	(127)	-	(1,053,776)	-	-	-	(1,053,776)	-	(1,053,776)
Depreciation	(535,746)	(2,138)	(12,180)	(550,064)	(48,903)	-	-	(598,967)	-	(598,967)
Other expenses	(1,656,799)	(17,642)	(77,313)	(1,751,754)	(1,005,006)	-	-	(2,756,760)	10,318	(2,746,442)
Impairment of financial assets	(344,166)	-	(20,133)	(364,299)	(152,101)	-	-	(516,400)	-	(516,400)
Total expenditure	**(7,933,856)**	**(43,150)**	**(279,257)**	**(8,256,263)**	**(2,210,827)**	**-**	**-**	**(10,467,090)**	**10,318**	**(10,456,772)**
Share of profits in associates	-	-	-	-	-	(93,535)	216,020	122,485	-	122,485
Profit before income tax expense	**7,997,358**	**28,872**	**1,030,417**	**9,056,647**	**(868,015)**	**(93,535)**	**216,020**	**8,311,117**	**(800,000)**	**7,511,117**
Income tax expense	(1,993,725)	(8,662)	(311,984)	(2,314,371)	-	-	-	(2,314,371)	-	(2,314,371)
Profit for the year	**6,003,633**	**20,210**	**718,433**	**6,742,276**	**(868,015)**	**(93,535)**	**216,020**	**5,996,746**	**(800,000)**	**5,196,746**
Other comprehensive income										
Revaluation surplus on property	911,360	-	59,056	970,416	-	-	-	970,416	-	970,416
Deferred tax on revalued property	(123,300)	-	-	(123,300)	-	-	-	(123,300)	-	(123,300)
Other movements	-	-	-	-	(23,076)	-	-	(23,076)	-	(23,076)
Total other comprehensive income for the period	**788,060**	**-**	**59,056**	**847,116**	**(23,076)**	**-**	**-**	**824,040**	**-**	**824,040**
Total comprehensive income for the period	**6,791,693**	**20,210**	**777,489**	**7,589,392**	**(891,091)**	**(93,535)**	**216,020**	**6,820,786**	**(800,000)**	**6,020,786**
Investment in associates	-	-	-	-	-	3,340,094	1,477,388	4,817,482	-	4,817,482
Segment assets	78,471,789	87,426	9,984,739	88,543,954	14,961,884	-	-	103,505,838	(3,960,474)	99,545,364
Total segment assets	**78,471,789**	**87,426**	**9,984,739**	**88,543,954**	**14,961,884**	**3,340,094**	**1,477,388**	**108,323,320**	**(3,960,474)**	**104,362,846**
Total segment liabilities	**62,167,562**	**13,898**	**8,222,494**	**70,403,954**	**12,680,627**	**-**	**-**	**83,084,581**	**(735,257)**	**82,349,324**

41. Segmental reporting cont'd

in thousands of Malawi Kwacha	Malawi				Mozambique	Zambia	Botswana			
31 December 2013	Corporate & retail banking	Forex bureau	Asset finance	Subtotal	Corporate & retail banking	Corporate & retail banking	Corporate & retail banking	Total before adjustments	Consolidation adjustments	Total
Interest income – external	8,041,604	1,045	2,728,156	10,770,805	366,745	-	-	11,137,550	(92,505)	11,045,045
Total interest income	**8,041,604**	**1,045**	**2,728,156**	**10,770,805**	**366,745**	**-**	**-**	**11,137,550**	**(92,505)**	**11,045,045**
Interest expense – external	(1,875,577)	-	(1,471,027)	(3,346,604)	(246,949)	-	-	(3,593,553)	123,991	(3,469,562)
Total interest expense	**(1,875,577)**	**-**	**(1,471,027)**	**(3,346,604)**	**(246,949)**	**-**	**-**	**(3,593,553)**	**123,991**	**(3,469,562)**
Net interest income	**6,166,027**	**1,045**	**1,257,129**	**7,424,201**	**119,796**	**-**	**-**	**7,543,997**	**31,486**	**7,575,483**
Fees and commissions	3,037,326	52,957	35,416	3,125,699	143,689	-	-	3,269,388	(10,741)	3,258,647
Total fees and commission	**3,037,326**	**52,957**	**35,416**	**3,125,699**	**143,689**	**-**	**-**	**3,269,388**	**(10,741)**	**3,258,647**
Income from investments	1,159,714	-	-	1,159,714	-	-	-	1,159,714	-	1,159,714
Gain on foreign exchange transactions	3,879,951	-	-	3,879,951	22,011	-	-	3,901,962	-	3,901,962
Other operating income	3,070	-	-	3,070	-	-	-	3,070	-	3,070
Total operating income	**14,246,088**	**54,002**	**1,292,545**	**15,592,635**	**285,496**	**-**	**-**	**15,878,131**	**20,745**	**15,898,876**
Staff and training costs	(3,043,668)	(17,453)	(101,802)	(3,162,923)	(236,908)	-	-	(3,399,831)	-	(3,399,831)
Premises and equipment	(844,705)	-	-	(844,705)	-	-	-	(844,705)	-	(844,705)
Depreciation	(513,036)	(2,041)	(7,769)	(522,846)	(38,721)	-	-	(561,567)	-	(561,567)
Other expense	(1,697,227)	(7,791)	(79,192)	(1,784,210)	(351,621)	-	-	(2,135,831)	22,572	(2,113,259)
Impairment of financial assets	(324,404)	-	(698,460)	(1,022,864)	(6,525)	-	-	(1,029,389)	-	(1,029,389)
Total expenditure	**(6,423,040)**	**(27,285)**	**(887,223)**	**(7,337,548)**	**(633,775)**	**-**	**-**	**(7,971,323)**	**22,572**	**(7,948,751)**
Share of profits in associates	-	-	-	-	-	40,378	193,412	233,790	-	233,790
Profit before income tax expense	**7,823,048**	**26,717**	**405,322**	**8,255,087**	**(348,279)**	**40,378**	**193,412**	**8,140,598**	**43,317**	**8,183,915**
Income tax expense	(2,062,577)	(8,109)	(124,588)	(2,195,274)	-	-	-	(2,195,274)	-	(2,195,274)
Profit for the year	**5,760,471**	**18,608**	**280,734**	**6,059,813**	**(348,279)**	**40,378**	**193,412**	**5,945,324**	**43,317**	**5,988,641**
Other comprehensive income										
Tax on other comprehensive income	267,372	-	650	268,022	-	-	-	268,022	-	268,022
Other movements	-	-	-	-	122,693	-	-	122,693	-	122,693
Total other comprehensive income for the period	**267,372**	**-**	**650**	**268,022**	**122,693**	**-**	**-**	**390,715**	**-**	**390,715**
Total comprehensive income for the period	**6,027,843**	**18,608**	**281,384**	**6,327,835**	**(225,586)**	**40,378**	**193,412**	**6,336,039**	**43,317**	**6,379,356**
Investment in associates	-	-	-	-	-	3,433,629	1,261,368	4,694,997	-	4,694,997
Segment assets	64,794,676	60,385	7,511,446	72,366,507	9,669,409	-	-	82,035,916	(3,782,990)	78,252,926
Total segment assets	**64,794,676**	**60,385**	**7,511,446**	**72,366,507**	**9,669,409**	**3,433,629**	**1,261,368**	**86,730,913**	**(3,782,990)**	**82,947,923**
Total segment liabilities	**53,627,408**	**7,535**	**5,726,690**	**59,361,633**	**8,108,308**	**-**	**-**	**67,469,941**	**(2,134,003)**	**65,335,938**

42. Subsequent events

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


capitalbank

Shareholders Information

By industry
as at 31 December 2014

	Holders	Holder %	Total shares	Shares %
Local companies	66	3.66	1,612,891,647	69.04
Foreign companies	8	0.44	538,444,245	23.05
Citizen resident	1,486	82.37	99,555,445	4.26
Pension funds	36	2.00	47,775,167	2.04
Other	173	9.55	14,456,920	0.63
Investment companies & trusts	23	1.27	9,453,178	0.40
Insurance companies	7	0.39	8,820,608	0.38
Banks	5	0.28	4,852,790	0.21
Grand total	**1,804**		**2,336,250,000**	

By country
as at 31 December 2014

	Holders	Holder %	Total shares	Total shares %
Malawi	1,733	96.01	1,805,760,267	77.29
Kenya	3	0.11	525,002,750	22.47
Other	60	2.49	3,151,783	0.13
Portugal	8	0.39	2,335,200	0.10
Grand total	**1,804**		**2,336,250,000**	

By size of shareholding
as at 31 December 2014

	Shares	Total shares %	Holders	Total
1 - 5,000	1,115,104	0.05	473	26.22
5,001 - 10,000	1,727,672	0.07	255	14.14
10,001 - 25,000	6,150,119	0.26	398	22.06
25,001 - 50,000	6,873,628	0.29	181	10.03
50,001 - 100,000	8,488,077	0.36	123	6.82
100,001 - 200,000	16,564,295	0.71	136	7.54
200,001 - 500,000	46,589,957	1.99	158	8.76
500,001 - 1 ,000,000	28,151,844	1.21	40	2.22
1,000,001 and above	2,220,589,304	95.05	40	2.22
Grand total	**2,336,250,000**		**1,804**	

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FIRST MERCHANT BANK LIMITED