18th Annual General Meeting
12th June 2014

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Please note that a Proxy Form has been enclosed within this Pack

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 18th Annual General meeting of the Company will be held at Sunbird, Mount Soche Hotel, Njamba Room in Blantyre, on Thursday 12th June 2014 at 3.30 p.m. to transact the following business:

1.1 Audited Financial Statements
To receive and adopt the audited financial statements for the year ended 31 December 2013 together with the reports of the auditors and directors thereon.

1.2 Dividend
To approve a final dividend of MK233.625 million (10 tambala per share); which together with MK 934.5 million (40 tambala per share) interim dividend paid on the 23rd August 2013 and a second interim dividend of MK700.875 million (30 tambala per share) paid on the 17th April 2014 will bring the total dividends paid to MK1.869 billion (80 tambala per share) in respect of the financial year ended 31st December 2013.

1.3 Directors

1.3.1 To re-elect as directors Messrs R.C.Kantaria and H.N.Anadkat who retire by rotation but being eligible offer themselves for re-election.
- 1.3.1.1 Re-election of R.C Kantaria
- 1.3.1.2 Re-election of H.N Anadkat

1.3.2 To confirm the remuneration of the executive directors for the year ended 31 December 2013 and to authorize the non-executive directors to determine the remuneration of the executive directors for the forthcoming year.

1.3.3 To fix the fees and sitting allowances for the Chairman and other independent non-executive directors for the year ending 31 December 2014:

1.3.4 Directors Fees
- 1.3.4.1 **Chairman**: From K2,000,000 to K2,800,000 per annum
- 1.3.4.2 **Other non-executive directors:** From K1,750,000 to K2,450,000 per annum

1.3.5 Sitting Allowances
- 1.3.5.1 **Chairman:** From K125,000 to K175,000
- 1.3.5.2 **Other non-executive directors:** From K100,000 to K140,000

1.3.6 To confirm the special remuneration paid to non-executive directors in accordance with the provisions of the articles of the company during the year ended 31 December 2013.

1.4 Auditors

1.4.1 To approve the payment of audit fees of K31,812,500 to KPMG in respect of the audit of the financial statements for the year ended 31 December 2013.

1.4.2 To re-appoint KPMG as auditors for the year ending 31 December 2014.

1.5 Other Business

To transact such other business as may be transacted at an annual general meeting of members.

Dated: 9th May 2014
By Order of the Board

Daniel Mwangwela
Company Secretary

MINUTES OF THE 17th ANNUAL GENERAL MEETING

Minutes of the Seventeenth Annual General Meeting of First Merchant Bank Limited held on 16th June 2013 at the Njamba Room, Mount Soche, Blantyre.

1.1 Directors Present

Mr R. C. Kantaria	Chairman
Mr H. N. Anadkat	Vice Chairman
Mr D. Dikshit	Managing Director
Mr N. G. Anadkat	Director
Mr J. M. O'Neill	Director
Mr M. Msisha	Director
Mr B. Jani	Director
Mr D Mwangwela	Company Secretary

1.2 Members present by Proxy

Member	**Proxy holder**
Manhill Limited	J. M. O'Neill
FMB Pension Fund	J. M. O'Neill
Prime Bank Limited	R.C Kantaria
Prime Capital Holdings Limited	R.C Kantaria
Simsbury Holdings Limited	H. N. Anadkat
Livingstone Holdings Limited	H. N. Anadkat
Zambezi Investments Limited	H. N. Anadkat
Marshal Chilenga	R.C Kantaria
The Trustees of the Homes for Elderly Europeans	J. M. O'Neill

1.3 Shareholders Present

Lameck Chitsakamire
Thomas Kadantot
V Banda
CDH Capital Ltd
P.Mabuli
R.L Msiska
Gibson Dominico Mwamira
Andrew Mkandawire
M.Msisha
Wilson Kuyoywa
Sheik A.J.Kawinga

1.4 Quorum

The Company Secretary reported that a quorum of members was present and the Chairman called the meeting to order at 3.30 pm. It was agreed that the notice of the meeting, which was properly given, be taken as read.

1.5 Scrutineer

The Chairman informed the meeting that he had appointed Deloitte as independent scrutineer of the voting at the meeting.

1.6 Minutes of the Sixteenth Annual Meeting

The minutes of the 16th Annual General Meeting as circulated to members were approved as a true record of the meeting.

1.7 Audited Financial Statements

That the audited financial statements for the year ended 31 December 2012 together with the reports of the auditors and directors thereon are approved and adopted.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.8 Dividend

That as recommended by directors, a final dividend of K116,812,500 million (5 tambala per share) be paid in respect of the financial year ended 31 December 2012.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.9 Directors

1.9.1 That Messrs N.G. Anadkat and M. Msisha who retire by rotation but being eligible offering themselves for re-election, be re-elected as directors.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.9.2 That the appointment of Dheeraj Dikshit as Managing Director is approved.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.9.3 That the remuneration of the executive directors for the year ended 31 December 2012 be confirmed and that the non-executive directors be authorized to determine the remuneration of the executive directors for the forthcoming year.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.9.4 That the base remuneration of the non-executive directors be fixed at K1,750,000 per annum for the year ending 31 December 2013.

1.9.5 That the special remuneration paid to non-executive directors in accordance with the provisions of the articles of the company during the year ended 31 December 2012.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.10 Auditors

1.10.1 That the payment of audit fees of K24,300,000 to KPMG in respect of the audit of the financial statements for the year ended 31 December 2012.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.10.2 That KPMG be re-appointed as auditors for the year ending 31 December 2013.

(Votes for: 2,137,615,598 Votes against: Nil Abstentions: Nil Total 2,137,615,598)

1.11 Other Business

There was no other business of which due notice had been given.

Signed:……………………………………..

Chairman

2013 CHAIRMAN'S REPORT

I am pleased to report that 2013 was another successful year for the group. During the year two major corporate actions were completed. We enhanced our capital base through the placement of US$10 million of subordinated fixed income notes with non resident institutional investors and we completed the acquisition of significant equity interests in banking operations in Zambia and Mozambique. Considerable progress has also been achieved on several major projects to upgrade information technology throughout all group companies.

Financial performance for the year was again very satisfactory with both net interest margin and non funded income growing by in excess of 70% and the overall outcome of a group profit after tax of K6 billion translating into a 75% increase in earnings per share from 146 tambala to 261 tambala.

Total assets of the group grew by 56% from K53 billion to K83 billion as a result of a combination of organic growth in customer liabilities, retention of earnings, business acquisition and the deployment of the proceeds of the subordinated debt issue.

Economic Review

It had been hoped that 2013 would see a return to economic stability following the volatility experienced in the wake of major economic liberalization measures in 2012. However, contrary to expectations, another year of economic turbulence was experienced for a variety of reasons some of which were predicted and some of which were totally unforeseen.

In the first quarter of the year the legacy impact of the disastrous 2012 tobacco harvest continued to be felt. The Kwacha remained under pressure and, in the absence of adequate accumulated foreign exchange reserves, depreciated sharply over this period. Inflationary pressures persisted with the year on year inflation rate remaining above 30% until April 2013.

The monetary authorities remained firmly committed to policies aimed at combining growth in money supply and kept the bank rate unchanged at 25%. As the banking sector took steps to address its liquidity issues, there was a significant decline in recourse to discount window borrowing and by the second quarter those banks unable to meet their liquidity reserve requirements were largely able to square their positions in the interbank market. With money supply growth under control and stability returning to the financial sector, expectations were that the onset of the harvest season would see the economy turn the corner.

Good rainfall patterns throughout most of the country saw a rebound in agricultural output which grew by an estimated 6.1% (having contracted by 2.3%in 2012). In particular tobacco production increased by over 100% from 80,000 tonnes to 169,000 tonnes realizing US$362million against US$178million in the prior year. As the economy remains largely agriculture dependent, the good performance of the key agricultural sector had a positive impact on most all economic sectors. The availability of both fuel and foreign exchange also benefited sectors such as manufacturing and construction. Overall real GDP is estimated to have grown by in excess of 5% in 2013.

As foreign exchange flowed into the economy against a background of controlled domestic money supply, the Kwacha began to appreciate in value. Inflationary pressures began to ease as Kwacha prices of essential imports declined and food prices fell post harvest.

Then it was revealed that significant amounts of government resources may have been misappropriated in a variety of frauds. As a consequence, bilateral donors immediately suspended balance of payments support and project support routed through government accounts. An independent forensic audit, in addition to indentifying numerous deficiencies in controls over government accounts, concluded from an examination of transactions between April and September 2013 that K13.6 billion may have been misappropriated in this six month period alone. To put this in context, the amount of identified possible loss is close to 10% of domestic tax revenues over the period in question.

The impact of the misappropriations and, to an even greater extent, the impact of the consequential suspension of donor support immediately manifested itself in the fiscal out turn. Despite reasonably robust domestic revenues, the fiscal deficit recorded for the six months from July to December 2013 was a staggering K80 billion. Predictably, government had no option but to resort to domestic borrowing to finance the deficit through issuance of treasury bills and recourse to “way and means” advances from RBM. Treasury bill stock increased from K135 billion to K228 billion over the course of the year and by year end Government’s net borrowing from the monetary authorization, inclusive of treasury bills held by RBM, had reached K126 billion.

Money supply grew by 35% over the course of the year, probably somewhat less than what might have been expected given the extent of government borrowing. It would appear that the continued adherence to contractionary monetary policies had the desired effect of dampening demand for or availability of private sector credit, the growth in which was contained at 16.5% for the year. As a result, inflation did not resume its upward spiral and the year closed with an annual inflation rate of 23.5%.The Kwacha value, however, fell by 22.5% in dollar terms over the last quarter of the year.

Group Performance

Key highlights of the 2013 group performance were:

- 56% growth in total assets from K53 billion to K83 billion.
- 79% growth in profit attributable to shareholders from K3.4 billion to K6.1 billion.
- 42% growth in shareholder’s equity from K12.1 billion to K17.1 billion.

The group remained competitive in the Malawi deposit market with our Malawi deposit base growing by approximately K10 billion over the year. The balance of the K17 billion growth in group deposits is attributable to our acquisitions during the year. The majority of the growth in domestic deposits was in the form of lower cost current and savings account as we chose not to compete aggressively for higher cost wholesale term deposits which tend to be somewhat volatile in the illiquid market conditions which prevailed through most of the year.

Funds available to the group from increased deposits, retention of earnings and the proceeds of a US$10 million subordinated debt placement saw total group assets grow by K30 billion from K53 billion to K83 billion. In light of the turbulent economic conditions in Malawi and as a new entrant into other markets, we remained relatively risk averse in the deployment of funds. K36 billion or of 43% our total group assets of K83 billion were deployed in low risk money market investments, cash and cash equivalents. Our overall group credit to deposit ratio declined significantly from 70% to 56% over the course of the year.

Despite increasing prudence in our balance sheet management, we were able to maintain our overall group net interest margin at the acceptable level of 13.7% principally due to the high yields available on Malawi government paper and inter bank placements in Malawi.

Growth in non interest income from K4.6 billion to K8.3 billion was broad based and exceeded expectations. The main contributor was foreign exchange trading as volumes traded remained high in the liberalized foreign exchange market. A rebound in the domestic equity market saw the fair value of our listed equity portfolio increase by some K2 billion. Given the long term nature of our investment in subsidiaries during the year and cognizant of the risks attached to entry into any new market, your board has deemed it prudent to expense the excess of consideration paid over fair value of subsidiary assets acquired.

Expenditure containment remains a challenge, not only due to the inflationary environment in Malawi but also due to the costs of absorbing and rationalizing the operations of new affiliates and establishing new technology platforms across the group. Although operating costs grew significantly, a correspondingly greater increase in income levels has resulted in a drop from 46% to 43.5% in the group cost to income ratio.

The overall economic conditions prevailing in Malawi continue to impact on the quality of our advances portfolio and it has been considered prudent to set aside an impairment provision of K1 billion against accounts where recovery may be in doubt. A substantial proportion of these accounts are held by our leasing subsidiary which was more exposed to the transport sector which had been particularly impacted first by fuel and forex shortages and then by the reduced output of the agricultural sector in 2012.

Profit attributable to shareholders grew by in excess of 70% to K6.4 billion with K1.3 billion being distributed as dividends to shareholders during the year and the balance being retained to augment the group capital base.

Human Resources

Operating in an increasingly competitive environment, managing talent has become an important factor in achieving targeted performance and our 2013 results are testimony to our success in developing the ability of our staff to execute the bank's key strategic deliverables consistently. Also, a culture of pay for performance has now been inculcated across the group. For acquisitions during the year, their human resource processes have been aligned with the FMB group and we are pleased that, through change management sessions for affected staff, we achieved 100% integration of these employees into the FMB structure.

We recognize that leadership competence is our key competitive advantage and in 2013 we implemented the Graduate Trainee Programme to enhance our leadership capacity and thereby improve our success management. Nine (9) Graduate Trainees were enrolled under this programme and are expected to complete the programme by end of this year.

In line with our HIV/AIDS Workplace Policy, we conducted HIV/AIDS awareness sessions for all our staff at regional level in Blantyre, Lilongwe and Mzuzu. Through these sessions we educated our staff on employee wellness and on the effects of the HIV/AIDS pandemic on both individual and organizational productivity.

In terms of building staff competence and capacity, we ran 30 internal and 19 external training courses/workshops during the year. The majority of in house training was focused on building skills capacity for staff occupying sales and/or service roles. The external training mainly focused on building leadership and managerial skills for our staff. Compliance and risk management training was also conducted throughout the group.

Corporate Social Responsibility

Recognizing that our responsibilities as an institution extend beyond providing a sustainable return to our shareholders, we provide financial and other material support to numerous worthy causes with a primary focus on health, education, sports and environmental initiatives.

The" FMB GO GREEN" tree planting campaign and the quarterly blood drives which were launched in the year under review are a manifestation of FMB's commitment to making a difference in the communities that we serve.

We also continued to fund educational programmes and charitable initiatives that benefit the youth mostly through scholarships to needy students pursuing their secondary school and college education. Donations were also made to charitable organizations involved in worthwhile initiatives to rehabilitate or construct school infrastructure.

With regard to sporting activities we added hockey to the list of the various sporting sponsorships in our CSR portfolio by sponsoring both the men's and women's hockey leagues; we will continue to support these leagues on a yearly basis. We also made large contributions to sports festivals held at different university campuses in the course of the year.

Outlook

The economic outlook for Malawi, the main profit centre of the group, remains uncertain. Following the May 2014 national elections, the biggest challenge for government will be to restore donor confidence in the efficacy of controls over government accounts to prevent further misappropriation of national resources. The existing domestic resource envelope of Government is already largely consumed in meeting establishment costs and debt service commitments. Without the resumption of donor support, burgeoning fiscal deficits seem inevitable.

Some growth in national output can be expected but the current 2014 GDP growth estimate of 5% may prove optimistic. The crop harvest looks promising following generally good rainfall across the country. Tobacco production may be marginally up on 2013 but prices may be a little softer while cotton production seems to have stagnated at around 50,000 tonnes. Early indications are that a food surplus will be achieved. The mining sector will be adversely affected by the suspension of uranium production due to the prevailing world uranium prices.

Continued curtailment of Government recurrent expenditure and little if any government development expenditure will have a negative impact on growth across almost all sectors of the economy.

The appreciation in value of the Kwacha in the early months of 2014 and the continued easing in the rate of inflation would indicate that monetary policy is achieving a degree of success. It will however prove difficult, even as foods prices fall post harvest, to contain inflation against a background of the increasing fiscal deficit. It is also a matter of time until the business community moves to reduce the foreign liability position accumulated in anticipation of a seasonal appreciation in the value of the Kwacha. This should lead to both a weakening in the Kwacha and a contraction in domestic liquidity as the year progresses. Much may depend on to what extent and at what price the monetary authorities are prepared to release accumulated official foreign exchange reserves to maintain stability.

Given the unpredictability of the short to medium term economic scenario, we will remain prudent and will continue to conservatively manage our balance sheet and maintain relatively high liquidity and capital buffers.

We anticipate continued balance sheet growth but with some contraction in net interest income which should be compensated by an increase in all non funded income lines with the possible exception of foreign exchange trading profits.

Significant planned expenditure on technology upgrades across the group will, in our opinion, be justified by the resultant economic benefits of increased operational efficiency.

We have also embarked on a programme to enhance the physical infrastructure and human resources of our recent acquisitions in the fast growing economies of Mozambique and Zambia. We are confident that, following a period of consolidation, these operations will, in the medium term, make a significant contribution to shareholder value.

Acknowledgements

On behalf of the board, I take this opportunity to extend my gratitude to the central banks of Malawi, Botswana, Zambia and Mozambique for the support and guidance accorded to the FMB Group especially with regard to the major corporate actions that we have concluded in the course of the year.

I would also like to congratulate and thank the entire management and staff of the group across all four countries for a truly successful year; special mention is extended to the IT & Operations teams for successfully integrating two new banking operations into the group and for the progression of various processes put in place to upgrade the core banking software and implement several other major technology initiatives. My thanks also go the directors of the various group companies whose guidance has been invaluable to me and to the entire management team.

I acknowledge with gratitude the continued cooperation of our associates in the industry both domestic financial institutions and international overseas correspondent banks.

It is important that, above all, I thank all our valued customers and shareholders; we appreciate their unwavering support without which we could not have grown into the institution we are today.

R. C. Kantaria

Chairman

2013 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FIRST MERCHANT BANK LIMITED

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended

31 December 2013

Contents

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 2013.

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 three 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 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%** (2012: 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.

During the year the bank acquired interest in the operations of International Commercial Bank (ICB) in Malawi, Mozambique and Zambia. The acquisition effective date was 30 June 2013. These consolidated financial statements include the effect of the acquisition. The acquired entities have been rebranded to Capital Bank Limited and First Capital Bank Limited, commercial banks incorporated in Mozambique and Zambia respectively. The continuing operations of International Commercial Bank Limited in Malawi have been merged with the operations of First Merchant Bank Limited.

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 **MK233.625million** (10 tambala per share) and final dividend of **MK116.813 million** (5 tambala per share) were paid during the year. An interim dividend for the year 2013 of **MK934.5 million** (40 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 2014. The Directors also propose a final dividend of **MK233.625 million** (10 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	Managing Director	
Mr. J.M. O'Neill	Executive Director	
Mr. N.G. Anadkat	Director – Non Executive	
Mr. B. Jani	Director – Non Executive	
Mr. M. Msisha	Director – Non Executive	
Mr. S.G. Malata	Director – Non Executive	Up to 26 September 2013
Mr. D Mwangwela	Company Secretary	Effective from 26 April 2013

In accordance with the Company's Articles of Association, Messrs N.G Anadkat and M. Msisha retired by rotation at the last Annual General Meeting on 16 May 2013 and were reappointed. Messrs R.C Kantaria and H.N Anadkat retire at the forthcoming Annual General Meeting but being eligible for re-appointment they offer themselves for re-election.

SHAREHOLDING ANALYSIS

Name	**2013**	2012
	(%)	%
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 2014 financial statements.

Mr. D. Dikshit
Managing Director

Mr. M. Msisha
Director

6 March 2014

STATEMENT ON CORPORATE GOVERNANCE

THE BOARD

The Bank has a unitary Board of Directors comprising a Non-Executive Chairman, 5 Non-Executive Directors and 2 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 4 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 2013

Member	21 Feb- 2013	16 May-2013	26 Sep- 2013	26 Nov- 2013
Mr. R.C. Kantaria - Chairman	x	√	√	√
Mr. H.N. Anadkat - Vice Chairman	√	√	√	√
Mr. D. Dikshit – Managing Director	√	√	√	√
Mr. J.M. O'Neill – Executive Director	√	√	√	√
Mr. N.G. Anadkat – Non Executive Director	√	√	√	√
Mr. M. Msisha – Non Executive Director	√	√	√	√
Mr. S.G. Malata – Non Executive Director	√	√	R	N/A
Mr. B. Jani – Non Executive Director	√	√	√	x

Key
√ = Attended
x = Apology
R = Resigned
N/A = Not Applicable

* Mr. S. Malata resigned from the board on 26 September 2013.

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, 2 Non-Executive Directors and 1 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 the ALCO is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure etc. between funds mobilized and funds deployed. The ALCO seeks to manage risks in order to minimize the volatility of net interest income and protect the long term economic value of the Bank. The committee also monitors the capital adequacy of the Bank.

Key functions of the ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring that contingency funding plans are in place to avert funding crises. The ALCO is composed of the Managing Director and 6 members of management and meets regularly, usually once a month. The members of the ALCO are:

Mr. L. Kondowe	General Manager – Finance (Chairman)
Mr. D Dikshit	Managing Director
Mr. T. Kadantot	General Manager – Corporate and International Banking.
Miss. A. Jazza	Chief Risk Officer
Mr. M. Kadumbo	Manager, Financial Control
Ms. M. Nyasulu	Manager, Treasury
Ms. C. Chirwa	Manager, Risk and Compliance

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

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 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 3 non-executive Directors, 1 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 S.G. Malata	Non-Executive Director (Retired 26 September 2013)

Audit Committee Meetings Attendance 2013

Members	21 March 2013	9 October 2013
Mr. M. Msisha - Chairman	√	√
Mr. S.G. Malata (Resigned on 26 September 2013)	√	R
Mr B. Jani	x	√

Key:
√ = Attended
x = Apology
R = Resigned

Credit Committee
The Credit Committee comprises 3 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 2013

Members	25 April 2013	17 May 2013	27 June 2013	19 July 2013
Mr. H. N. Anadkat - Chairman	√	√	√	√
Mr. J.M O'Neill	√	√	√	√
Mr. N.G. Anadkat	x	√	x	x

Members	23 August 2013	22 September 2013	24 October 2013	23 November 2013
Mr. H. N. Anadkat - Chairman	x	√	√	√
Mr. J.M O'Neill	√	√	x	√
Mr. N.G. Anadkat	√	√	√	√

Key:
√=Attended
x=Apology

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

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 meets twice a year and comprises the following members:-

Appointment and Remuneration Committee Attendance 2013

Member	11 April 2013	9 October 2013
Mr H. N. Anadkat -Chairman	√	x
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 comprise of one non-executive director, who is chairman of the committee and one non-executive director and the Managing Director, General Manager, Risk and Compliance Manager. The members of committee are:-

Mr. S. Malata	Non-Executive Director (Chairman – up to 26th September 2013)
Mr. J.M O'Neill	Executive Director – (Chairman after 26th September 2013)
Mr. B. Jani	Non-Executive Director
Mr. D. Dikshit	Managing Director
Mr. L. Kondowe	General Manager, Finance
Ms. C. Chirwa	Manager, Risk and Compliance

Risk Committee Meetings Attendance 2013

Member	12 April 2013	5 October 2013
Mr. S. Malata – Chairman	√	X
Mr. B Jani	√	√
Mr. J.M. O'Neill	√	√

Key

√ = Attended

x = Apology

DIRECTORS QUALIFICATIONS

R.C. Kantaria, BSc (Econ)	-	Chairman
H.N. Anadkat, BSc (Econ), MBA	-	Vice-Chairman
J.M. O'Neill, BSc (Maths & Mgt Sc) FCA, CPA (Mw)	-	Executive Director
M. Msisha SC LLM (Toronto), LLB (Hons) Mw	-	Director
S. Malata, MA (Acc & Fin)	-	Director
B. Jani, Post Grad. (Commerce), BSc (Banking & Fin. Mgt)	-	Director
N.G. Anadkat	-	Director
D. Dikshit, B Comm. MBA	-	Managing 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 2013 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 such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors' 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 to continue as a going concern and have no reason to believe that 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 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 **6 March 2014** and are signed on its behalf by.

By order of the Board

....

Mr. D. Dikshit	**Mr. M. Msisha**
Managing Director	**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 2013, the consolidated and separate statements of 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 8 to 73.

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 the requirements of 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 misstatements, whether due to fraud or errors.

Auditors' 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 controls 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 2013 and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Malawi Companies Act, 1984, so far as it concerns members of the company.

KPMG
cutting through complexity

Certified Public Accountants (Malawi)
Blantyre

KPMG

6 March 2014

STATEMENTS OF FINANCIAL POSITION
In thousands of Malawi Kwacha

		Group		Company	
	Note	**2013**	2012	**2013**	2012
ASSETS					
Cash and cash equivalents	7	**31,461,380**	15,962,215	**25,742,247**	15,593,573
Money market investments	8	**4,624,291**	2,878,008	**3,010,788**	2,674,726
Loans and advances to customers net	9	**25,833,352**	20,383,711	**22,775,479**	20,625,501
Finance lease receivables net	10	**4,337,258**	5,354,608	**-**	-
Other assets	11	**1,675,220**	576,565	**1,209,198**	563,576
Amounts due from subsidiaries and associated companies	12	**-**	-	**232,740**	194,650
Investments in listed companies	13	**4,548,921**	2,488,253	**4,548,921**	2,488,253
Investment in subsidiaries	14(a)	**-**	-	**2,268,564**	75,911
Investment in associated companies	14(b)	**4,694,997**	1,067,956	**4,297,105**	903,854
Property and equipment	15	**5,772,504**	4,312,255	**4,758,407**	4,149,262
Total assets		**82,947,923**	53,023,571	**68,843,449**	47,269,306
LIABILITIES AND EQUITY					
Current Liabilities					
Customer deposits	17	**53,598,066**	36,390,079	**40,383,238**	32,387,874
Balances due to other banks	18	**1,000,000**	200,000	**2,404,085**	200,000
Income tax payable		**352,743**	467,371	**361,992**	426,361
Other liabilities	19	**4,169,605**	1,573,785	**4,274,638**	1,499,437
Employee benefits liabilities	20	**25,227**	28,041	**25,227**	28,041
Deferred tax liabilities	16	**289,330**	482,064	**224,003**	451,141
Total Current liabilities		**59,434,971**	39,141,340	**47,673,183**	34,992,854
Long Term Liabilities					
Balances due to other banks	18	**1,565,044**	1,775,643	**1,565,044**	1,775,643
Subordinated Debt	40	**4,335,923**	-	**4,335,923**	-
Total Long Term Liabilities		**5,900,967**	1,775,643	**5,900,967**	1,775,643
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	**1,858,132**	1,614,204	**1,762,296**	1,519,018
Investment revaluation reserve		**-**	1,827,528	**-**	1,688,085
Loan loss reserve	23	**297,613**	240,464	**246,245**	205,675
Non distributable reserves	24	**350,000**	350,000	**-**	-
Translation reserve		**(39,143)**	-	**-**	-
Retained earnings		**12,994,892**	6,392,232	**11,578,598**	5,405,871
Total equity attributable to equity holders of the Company		**17,143,654**	12,106,588	**15,269,299**	10,500,809
Non Controlling Interest		**468,331**	-	**-**	-
Total equity		**17,611,985**	12,106,588	**15,269,299**	10,500,809
Total equity and liabilities		**82,947,923**	53,023,571	**68,843,449**	47,269,306

The financial statements of the Group and Company were approved for issue by the Bank's Board of Directors on **6 March 2014** and were signed on its behalf by:

………………………………………**Managing Director** ……………………………………**Director**
Mr. D. Dikshit **Mr. M. Msisha**

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.
The independent auditors' report is on page 7.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
In thousands of Malawi Kwacha

		Group		Company	
	Note	**2013**	2012	**2013**	2012
Interest income	25	**11,045,045**	5,800,254	**7,848,423**	4,423,208
Interest expense on deposits and other accounts		**(3,469,562)**	(1,498,217)	**(1,835,774)**	(867,937)
Net interest income		**7,575,483**	4,302,037	**6,012,649**	3,555,271
Fees and commission income		**3,258,647**	2,248,814	**2,978,227**	2,259,912
Income from investments	26	**1,159,714**	546,656	**1,159,714**	803,301
Gain on foreign exchange transactions		**3,901,962**	1,872,418	**3,879,951**	1,872,418
Net trading income		**15,895,806**	8,969,925	**14,030,541**	8,490,902
Other operating income	27	**3,070**	28,273	**3,070**	264
Total operating income		**15,898,876**	8,998,198	**14,033,611**	8,491,166
Staff and training costs	28	**3,399,831**	2,130,817	**2,996,109**	2,021,966
Premises and equipment costs		**844,705**	543,794	**844,705**	543,794
Depreciation expense	15	**561,567**	396,434	**492,801**	383,178
Other expenses	29	**2,113,259**	1,099,669	**1,526,959**	1,004,991
Impairment loss on financial assets		**1,029,389**	447,077	**324,404**	303,286
Total expenses		**7,948,751**	4,617,791	**6,184,978**	4,257,215
Operating profit		**7,950,125**	4,380,407	**7,848,633**	4,233,951
Share of profit from associate		**233,790**	164,102	**-**	-
Profit before income tax expense		**8,183,915**	4,544,509	**7,848,633**	4,233,951
Income tax expense	30	**(2,195,274)**	(1,127,841)	**(2,062,577)**	(1,062,483)
PROFIT FOR THE YEAR		**5,988,641**	3,416,668	**5,786,056**	3,171,468
Other comprehensive income					
Items that will never be classified to profit or loss					
Revaluation surplus on property		**-**	1,361,727	-	1,280,400
Decrease in deferred tax on property revaluation		**268,022**	(270,721)	**267,372**	(246,981)
		268,022	1,091,006	**267,372**	1,033,419
Items that are or may be classified to profit or loss					
Transfer to profit and loss on reclassification		**-**	(20,116)	-	-
Translation difference for foreign operations		**122,693**	-	-	-
		122,693	(20,116)	-	-
Total other comprehensive income for the year		**390,715**	1,070,890	**267,372**	1,033,419
Total comprehensive income for the year		**6,379,356**	4,487,558	**6,053,428**	4,204,887
Profit or loss attributable to:					
Owners of the parent		**6,093,125**	3,416,668	**5,786,056**	3,171,468
Non controlling interest		**(104,484)**	-	-	-
Profit for the year		**5,988,641**	3,416,668	**5,786,056**	3,171,468
Total comprehensive income attributable to:					
Owners of the parent		**6,447,032**	4,487,558	**6,053,428**	4,204,887
Non controlling interest		**(67,676)**	-	-	-
Total comprehensive income for the year		**6,379,356**	4,487,558	**6,053,428**	4,204,887
Basic and diluted earnings per share (tambala)	31	**261**	146		

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.

The independent auditors' report is on page 7.

STATEMENTS OF CHANGES IN EQUITY

In thousands of Malawi Kwacha

Group	Share capital	Share premium	Translation reserve	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Non distributable reserve	Retained earnings	Equity Attributable to owners of the company	Non controlling interest	Total equity
Balance at 1 January 2012	**116,813**	**1,565,347**	**(44,187)**	**523,198**	**1,381,407**	**114,638**	**350,000**	**4,593,039**	**8,600,255**	**739,075**	**9,339,330**
Total comprehensive income for the year											
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,416,668**	**3,416,668**	**-**	**3,416,668**
Other Comprehensive income											
Deferred tax on property revaluation	-	-	-	(270,721)	-	-	-	-	(270,721)	-	**(270,721)**
Property revaluation	-	-	-	1,361,727	-	-	-	-	1,361,727	-	**1,361,727**
Transfer to profit and loss on reclassification	-	-	44,187	-	-	(64,303)	-	-	(20,116)	-	**(20,116)**
Total other comprehensive income	**-**	**-**	**44,187**	**1,091,006**	**-**	**(64,303)**	**-**	**-**	**1,070,890**	**-**	**1,070,890**
Total comprehensive income for the year	**-**	**-**	**44,187**	**1,091,006**	**-**	**(64,303)**	**-**	**3,416,668**	**4,487,558**	**-**	**4,487,558**
Transfers within reserves											
Transfer to loan loss reserve	-	-	-	-	-	190,129	-	(190,129)	-	-	-
Transfer from investment revaluation reserve	-	-	-	-	306,676	-	-	(306,676)	-	-	-
Total transfers within reserves	-	-	-	-	306,676	190,129	-	(496,805)	-	-	-
Transactions with owners, recorded directly in equity											
Contributions and distributions											
Arising on loss of control in subsidiary	-	-	-	-	139,445	-	-	(139,445)	-	(739,075)	**(739,075)**
Dividends to owners of the parent	-	-	-	-	-	-	-	(981,225)	(981,225)	-	**(981,225)**
Total transaction with owners	**-**	**-**	**-**	**-**	**139,445**	**-**	**-**	**(1,120,670)**	**(981,225)**	**(739,075)**	**(1,720,300)**
Balance at 31 December 2012	**116,813**	**1,565,347**	**-**	**1,614,204**	**1,827,528**	**240,464**	**350,000**	**6,392,232**	**12,106,588**	**-**	**12,106,588**

STATEMENTS OF CHANGES IN EQUITY

In thousands of Malawi Kwacha

Group	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 transaction 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

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.

The independent auditors' report is on page 7.

STATEMENTS OF CHANGES IN EQUITY

In thousands of Malawi Kwacha

Company	Share capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2012	**116,813**	**1,565,347**	**485,599**	**1,381,407**	**16,898**	**3,711,083**	**7,277,147**
Total comprehensive income for the year							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,171,468**	**3,171,468**
Other comprehensive income							
Property revaluation	-	-	1,280,400	-	-	-	1,280,400
Deferred tax on property revaluation	-	-	(246,981)	-	-	-	(246,981)
Total other comprehensive income	**-**	**-**	**1,033,419**	**-**	**-**	**-**	**1,033,419**
Total comprehensive income for the year	-	-	1,033,419	-	-	3,171,468	4,204,887
Transfers within reserves							
Transfer to loan loss reserve	-	-	-	-	188,777	(188,777)	-
Transfer to investment revaluation reserve	-	-	-	306,678	-	(306,678)	-
Total transfers within reserves	**-**	**-**	**-**	**306,678**	**188,777**	**(495,455)**	**-**
Transactions with owners, recorded directly in equity							
Contributions and distributions							
Dividends to owners of the parent	-	-	-	-	-	(981,225)	(981,225)
Total transactions with owners	-	-	-	-	-	(981,225)	(981,225)
Balance at 31 December 2012	**116,813**	**1,565,347**	**1,519,018**	**1,688,085**	**205,675**	**5,405,871**	**10,500,809**

STATEMENTS OF CHANGES IN EQUITY

In thousands of Malawi Kwacha

Company	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 to 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

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.

The independent auditor's report is on page 7.

STATEMENTS OF CASH FLOWS

In thousands of Malawi Kwacha

		Group		Company	
	Note	**2013**	2012	**2013**	2012
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and fees received		**18,218,551**	9,905,986	**15,453,071**	8,510,179
Interest paid		**(3,435,388)**	(1,463,412)	**(1,801,600)**	(832,979)
Cash paid to suppliers and employees		**(4,930,725)**	(3,617,186)	**(4,980,705)**	(3,494,453)
		9,852,438	4,825,388	**9,170,766**	4,182,747
Net increase/ (decrease) in customer balances		**8,251,381**	(1,241,275)	**7,922,912**	7,168,550
Cash generated from operations		**18,103,819**	3,584,113	**17,093,678**	11,351,297
Dividend received from listed and subsidiary companies, net of tax		**202,762**	70,345	**202,762**	220,345
Income taxes paid		**(2,234,614)**	(883,093)	**(2,086,712)**	(695,042)
Net cash from operating activities		**16,071,967**	2771,365	**15,209,728**	10,876,600
CASH FLOWS FROM INVESTING ACTIVITIES					
(Purchases)/maturities of money market investments		**(1,743,638)**	667,056	**(336,062)**	(325,273)
Proceeds from sale of shares and other investments	13	**28,332**	17,292	**28,332**	17,292
Purchase of shares in associate companies	14	**(3,393,251)**	(7,869)	**(3,393,251)**	(7,869)
Cash acquired less consideration paid on acquisition of subsidiary companies	37	**3,582,318**	-	**(3,308,503)**	-
Proceeds from sale of equipment		**-**	264	**-**	264
Acquisition of property and equipment	15	**(1,853,922)**	(645,719)	**(1,101,946)**	(642,073)
Purchase of listed equity investments	13	**-**	(67,177)	**-**	(67,177)
Net cash (used in)/from investing activities		**(3,380,161)**	(36,153)	**(8,111,430)**	(1,024,836)
CASH FLOWS TO FINANCING ACTIVITIES					
Dividend paid		**(1,284,938)**	(981,225)	**(1,284,938)**	(981,225)
Proceeds from subordinated debt issuance		**4,092,297**	-	**4,092,297**	-
Net cash from/ (used in) financing activities		**2,807,359**	(981,225)	**2,807,359**	(981,225)
Net increase in cash and cash equivalents		**15,256,148**	1,753,987	**9,905,657**	8,870,539
Cash and cash equivalents at 1 January		**15,962,215**	13,938,583	**15,593,573**	6,453,389
Effects of changes in exchange rates		**243,017**	269,645	**243,017**	269,645
Cash and cash equivalents at 31 December	7	**31,461,380**	15,962,215	**25,742,247**	15,593,573
ADDITIONAL STATUTORY DISCLOSURE					
Net movement in working capital		**9,493,660**	2,630,119	**9,104,412**	3,250,624

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.

The independent auditors' report is on page 7.

NOTES TO THE CONSOLIDATED AND SEPARATE 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 Banks 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 the provisions of 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 6 March 2014.

(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 leases receivables- Impairment
- Note 15 - Depreciation of property and equipment
- Notes 6,13 - Fair value measurement

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2. Basis of preparation (continued)

vi) Changes in accounting policies

Except for the changes below, the company has consistently applied the accounting policies as set out in note 3 to all periods presented in these financial statements.

The company has adopted the following new standards and amendments to standards including any consequential amendments to the other standards with a date of initial application of 1 January 2013.

a. Presentation of items of other comprehensive income (Amendment to IAS 1)
b. IFRS 13 Fair value measurement

The nature of the effects of the changes are explained below.

a) Presentation of items of other comprehensive income

As a result of amendment to IAS 1, the company has modified the presentation of items of other comprehensive income in its statement of profit or loss and other comprehensive income, to present items that would be classified to profit or loss in the future separately from those that would never be. Comparative information has been represented on the same basis.

b) Fair value measurement

In accordance with the transitional provision of IFRS 13, the Company has applied the new definition of fair value, as set out in note 4 prospectively. The change had no significant impact on the measurement of the company's assets and liabilities, but the company has included new disclosures in the financial statements which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Company has provided relevant comparative disclosures under those standards.

3. New standards and interpretations not yet adopted

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards in the year commencing 1 January 2013.

- IAS 1 'Presentation of Items of Other Comprehensive Income' has been adopted on 1 January 2013 for the first time for the financial reporting year ending 31 December 2013.

  The amendment requires that items presented within other comprehensive income be grouped separately into those items that will be recycled into profit or loss at a future point in time, and those items that will never be recycled. The amendment affects presentation only and therefore has no impact on the company's financial position or performance.

- IAS 19 'Employee Benefits' has been adopted on 1 January 2013 for the first time for the financial reporting period ending 31 December 2013.

  The amendments eliminate the option to defer the recognition of gains and losses resulting from defined benefit plans, as well as the options for presentation of gains and losses relating to these plans. The disclosure requirements are also improved to show the characteristics of defined benefit plans and the risk arising from these plans. The Company does not have any defined benefit obligations, therefore this amendment will have no impact on the financial performance or position.

- IAS 27 'Separate Financial Statements' has been adopted on 1 January 2013 for the first time for financial reporting year ending 31 December 2013.

  The amended version of this standard now only deals with the requirements for separate financial statements, while requirements for consolidated financial statements are now contained in IFRS 10. The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost or in accordance with IFRS 9. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. The effects of the amendment are not considered significant to the Company.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3. New standards and interpretations not yet adopted (continued)

- IAS 28 'Investments in Associates and Joint Ventures (as revised in 2011)' has been adopted on 1 January 2013 for the first time for the financial reporting year ending 31 December 2013.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures and describes the application of the equity method to investments in joint ventures in addition to associates.

- IFRS 7 'Financial Instruments : Disclosure - Offsetting Financial Assets and Financial Liabilities' has been adopted on 1 January 2013 for the first time for the financial reporting year ending 31 December 2013.

  Amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

- IFRS 10 'Consolidated Financial Statements' has been adopted on 1 January 2013 for the first time for the financial reporting year ending 31 December 2013.

  The amendments introduce a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. The effects of this amendment are not considered significant to the Company.

- IFRS 11 'Joint arrangements' has been adopted on 1 January 2013 for the first time for the financial reporting year ending 31 December 2013.

  IFRS 11 focuses on the rights and obligations of joint arrangements, rather than legal form. It distinguishes joint arrangements between joint operations and joint ventures, and always requires the equity method for jointly controlled entities. The effects of this amendment are not considered significant to the Company.

- IFRS 12 'Disclosure of Interests in Other Entities' has been adopted on 1 January 2013 for the first time for the financial reporting year ending 31 December 2013.

  IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities, as well as the effects of those interests on the entity's financial position, financial performance and cash flows. The effects of this amendment affect disclosure only and therefore has no impact on the company's financial position or performance.

- IFRS 13 'Fair Value Measurement' has been adopted on 1 January 2013 for the first time for the financial reporting year ending 31 December 2013.

  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. The Company is currently assessing the impact that this standard will have on the financial position and performance.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

3. New standards and interpretations not yet adopted (continued)

- In May 2012, the IASB issued an omnibus of amendments to its standards and interpretations, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the amendments is not expected to have any impact on the financial position nor financial performance of the company. The amendments are effective for annual periods beginning on or after 1 January 2013.

The following standards, amendments to standards, and interpretations, effective in future accounting periods, and which are relevant to the company have not been early adopted in these financial statements:

- IAS 32 'Offsetting Financial Assets and Financial Liabilities' will be adopted by 1 January 2014 for the first time for the financial reporting year ending 31 December 2014.

  The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts". This means that the right of set-off:
  - must not be contingent on a future event; and
  - must be legally enforceable in all of the following circumstances:
    - the normal course of business;
    - the event of default; and
    - the event of insolvency or bankruptcy of the entity and all of the counterparties.

  The Company is currently assessing the impact of the amendment on the Company's financial position and performance.

- IFRS 7 'Financial Instruments - Mandatory effective date and transition disclosures (amendments to IFRS 9 and IFRS 7)'.

  Mandatory effective date for IFRS 9 is 1 January 2015. The amendments to IFRS 7 depend on when IFRS 9 is adopted and affect the extent of comparative information required to be disclosed. This does not have any impact on the Company.

- IFRS 9 'Financial Instruments: Classification and measurement' will be adopted by 1 January 2015 for the first time for the financial reporting year ending 31 December 2015.

  IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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, 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 investee. The financial statements of subsidiaries are included in the Consolidated and Separate 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 these Consolidated and Separate 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 and Separate 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 are 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(b) Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated to Malawi Kwacha at the foreign 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 foreign 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 foreign exchange rate (middle rate) at the date of the transaction.

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. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency 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 from a part of the net investment in foreign operation, are recognised directly in the foreign currency translation reserve.

(c) Financial assets and liabilities

(i) Recognition and measurement
The group initially recognise loans debt securities issued and subordinate receivables on the date on which they are originated. All other financial asset 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, or for gains and losses arising from a group of similar transactions within the Group's trading activity.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(v) 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 vantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices for financial instruments traded in active markets where these are available. Where quoted prices are not available, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models.

The value produced by a model or other valuation technique is adjusted to take into account a number of factors as appropriate because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to take into account model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments measured at fair value on the statement of financial position.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vi) 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 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(v) Identification and measurement of impairment (continued)

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 and other receivables.

(f) Loans and advances

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

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 initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(g) 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.

(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).**

(iii) Available for sale
Available-for-sale investments are non-derivative investments that are designed 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 are classified to profit or loss. The group classify its investment in quoted companies as available for sale investments.

(h) Investment in subsidiaries
Investments in subsidiaries are recognised at cost in the company 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.

(ii) Property and equipment

(i) Owned assets
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 **(k).**

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, qualifying borrowing costs, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(ii) Property and equipment (continued)

(i) Owned assets(continued)

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.

Freehold properties and leasehold improvements are subject to revaluation every three years and whenever economic conditions have significantly changed, with surpluses on revaluation being 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.

All properties are subject to revaluation every three years and when ever economic conditions have significantly changed, with surpluses on revaluation being transferred to a non-distributable property revaluation reserve.

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

(ii) Depreciation

Property and equipment are 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%

At each reporting date, residual values, and useful lives of each item of property and equipment are reassessed.

(j) Capital work in progress

Capital work in progress represent gross amount spent to date in carrying out work of a capital nature. It is measured at cost recognised to date.

Capital work in progress is presented as part of property and equipment in the 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(k) Impairment of non-financial assets (continued)

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 of loss in respect of goodwill is not reversed.

(l) Customer deposits and liabilities 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(p) 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.

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

(q) 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.

(r) 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.

(s) Income from investments

Income from investments includes dividend income and increase in fair value of investments.

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

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

(t) Other operating income

Other income includes rentals receivable and net gains on the sale of assets and is recognised on the accruals basis.

(u) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the 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 balance sheet 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

4. Significant accounting policies (continued)

(u) Income tax (continued)

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.

(v) 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.

(w) 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.

(x) 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.

NOTES TO THE 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.

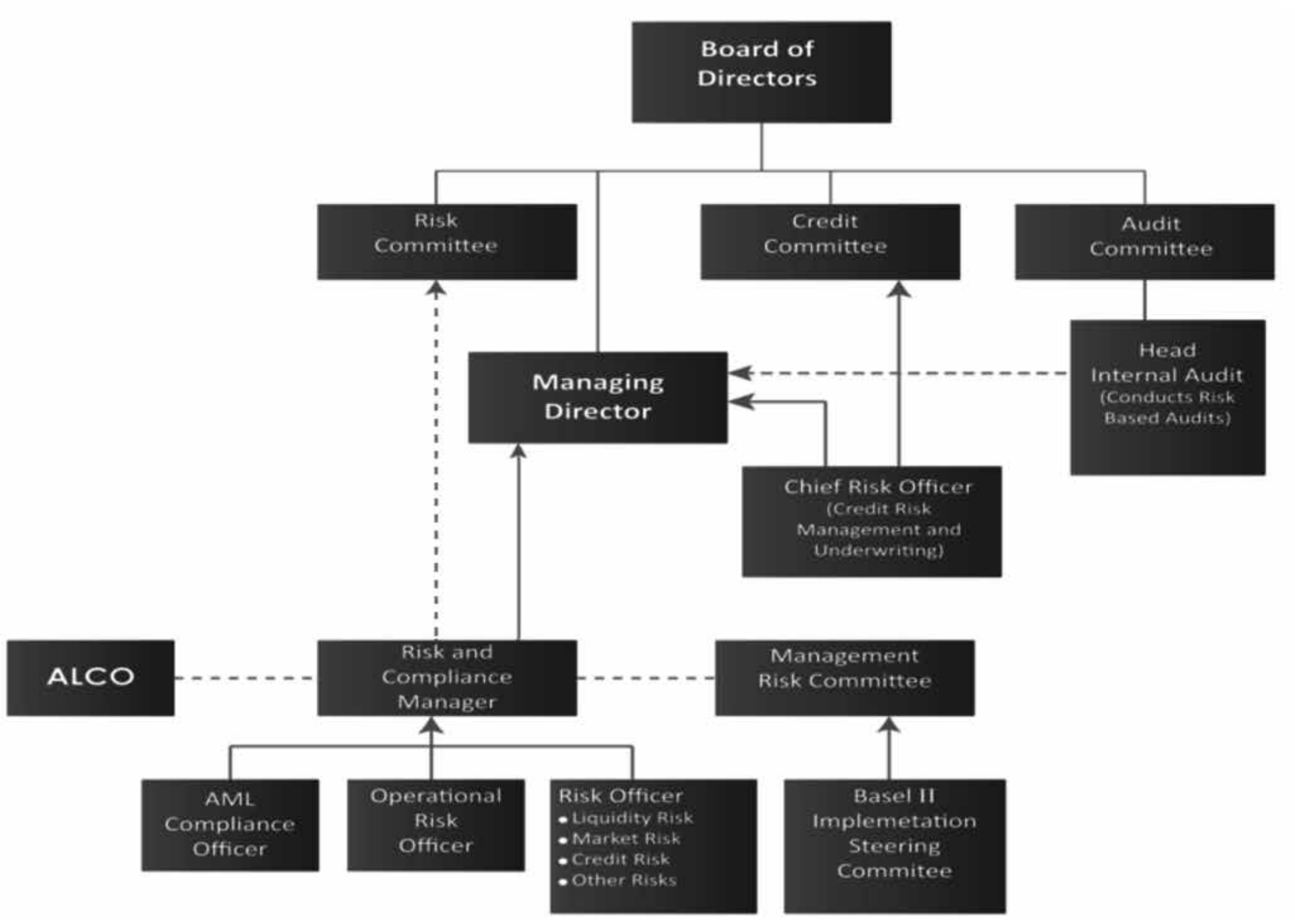
5 (a) Risk Management Policies and Control

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 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 most influential role-players in the risk management framework are illustrated in the structure below:



NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

5 (b) Risk Management Structure (continued)

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 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:

- Executive Director (Chairman),
- Managing Director,
- General Manager - Finance,
- Chief Risk Officer,
- Risk and Compliance Manager.

(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 Reserve Bank of Malawi (RBM) directives.
- Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning when required.

The Credit Committee comprises:

- The Managing Director,
- Chief Risk Officer,
- General Manager - Corporate and International Banking,
- Legal Counsel,
- Credit Operations Manager,
- Risk and Compliance Manager,
- Credit Control Manager.

The General Managers of the local subsidiaries in lending or leasing business also attend these meetings.

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

(iii) The Audit Committee
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. The Committee comprises of three non-executive directors. 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

5 (d) Management

(i) The Managing Director

The 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 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 and the Chairman of the Board.

(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:

- General Manager
- Finance (Chairman),
- Managing Director,
- General Manager – Corporate and International Banking,
- Risk and Compliance Manager,
- Treasury Manager,
- Chief Risk Officer,
- Financial Control Manager.

(iv)Management Risk Committee (MRC)

The Management Risk Committee (MRC) comprises
- Managing Director,
- General Manager – Finance,
- General Manager – Corporate and International Banking,
- Chief Risk Officer (who is the head of Credit department),
- Risk and Compliance Manager,
- Chief Operations Officer,
- Chief Commercial Officer,
- Head of Information Technology,
- Head of Audit,
- Head of Human Resources,
- Head of Marketing,
- Legal Counsel.

It is chaired by the 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) Basel II Implementation Steering Committee

The Basel II Implementation Steering Committee was formed under the MRC. It is chaired by the Managing Director. Effective January 2014, banks in Malawi will implement Basel II. In preparation for this, FMB formed a Basel II Steering committee, which comprises some Management Risk Committee members. This committee plans, coordinates and monitors the Bank's readiness for Basel II.

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**:**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

3 Lines of Defence Concept

1st Line of Defence:

Comprises of business units and Head Office departments.

The business units manage risk using laid down policies and procedures.

2nd Line of Defence:

Comprises of 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 Credit Committee.
- Monitoring credit facilities and reporting to the Credit Committee of the Board.

3rd Line of Defence:

Comprises of 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

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 guidelines.

Since June 2013, 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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

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 The Reserve Bank of Malawi (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 Internal Capital Adequacy Assessment Process (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 capitalized 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 The Reserve Bank of Malawi:

- Tier 1 Capital / Core Capital: 6%
- Total Capital (Tier 1 and 2): 10%

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 (j) Capital Management (continued)

***(iv)* Capital Position as at 31 December 2013**

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

Amounts reported in MK'000

	Group	Bank
TIER 1 CAPITAL		
Paid-up ordinary shares	116,813	116,813
Share premium	1,565,347	1,565,347
Non-distributable reserve	350,000	-
Retained profits	12,994,892	11,578,598
Deduct: Investments in unconsolidated entities	(4,694,997)	(6,097,916)
TOTAL TIER 1 CAPITAL	**10,332,055**	**7,162,842**
TIER 2 CAPITAL		
Translation reserve	(39,143)	-
General loan loss reserves	297,613	246,245
Asset revaluation reserves	1,858,132	1,762,296
TIER 2 CAPITAL	**2,116,602**	**2,008,541**
TOTAL QUALIFYING CAPITAL	**12,448,657**	**9,171,383**
TOTAL RISK-WEIGHTED ASSETS	**56,950,109**	**49,403,765**
TIER 1 RISK-BASED CAPITAL RATIO (Minimum of 6%)	*18.14%*	*14.50%*
TOTAL RISK-WEIGHTED CAPITAL RATIO ***(Tier 1 and Tier 2) (Minimum of 10%)***	*21.86%*	*18.56%*

(v) Basel II

Effective 1 January 2014, the Reserve Bank of Malawi will require financial institutions to meet revised regulatory capital requirements drawn up in accordance with Basel II. It is management's assessment that the Bank will have sufficient regulatory capital to comply with Basel II requirements.

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 Group has a Credit Committee consisting of three directors, two of whom are non-executive. The group has a Chief Risk Officer who heads the credit department. Credit department has three sections; Credit Risk Management and Underwriting function, Credit Operations function and Credit Control function.

Each entity in the Group has a centralized credit risk management system. All credit proposals are referred to Head Office (the office of the Chief Risk Officer in the case of the Bank and credit officers/ managers in the case of other group entities) who review the proposal before sending their recommendations to the Managing Director directly or through General Manager-Corporate and International Banking.

The board has established authorization thresholds for the Managing Director and Credit Committee of the Board. Credit proposals above a 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 authorization threshold. In approving credit facilities, the Bank's primary consideration is the borrower's ability to repay irrespective of collateral offered.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

5 (k) Credit Risk (continued)

***(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 categorize 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 centralized 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 the 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

5 (k) Credit Risk (Continued)

(v) Assessment Credit Risk Exposures (continued)

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 usually insists on cash cover in form of a fixed deposit for guarantees. There are a few exceptional cases where property is accepted as security and in very exceptional cases, guarantees are issued on 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 against security requirement as stipulated in the Bank's credit policy.

5 (l) 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 receivable. As at 31 December 2013, these were as follows:

Group

		Loans and advances to customers		Finance lease Receivables	
	Note	**2013**	2012	**2013**	2012
Carrying amount	9,10	**25,833,352**	20,383,711	**4,337,258**	5,354,608
Standard (fully performing)		**24,226,126**	19,638,409	**3,361,195**	4,672,262
Past due but not impaired		**2,686,167**	1,187,655	**753,908**	572,626
Impaired		**1,179,589**	811,609	**1,755,955**	645,665
		28,091,882	21,637,673	**5,871,058**	5,890,553
Past due but not impaired loans and advances comprise:					
30-60 days		**1,683,418**	744,302	**83,102**	18,417
61-90 days		**636,313**	281,338	**221,257**	391,119
>90 days		**366,436**	162,015	**449,549**	163,090
		2,686,167	1,187,655	**753,908**	572,626
An estimate of the fair value of collateral held against loans and advances to customers is shown below:					
Against individually impaired					
Property		**2,901,704**	2,137,776	**253,500**	20,726
Others		**7,989**	85,600	**445,000**	27,910
		2,909,693	2,223,376	**698,500**	48,636
Against past due but not impaired					
Property		**2,086,744**	590,700	**700,000**	289,420
Others		**49,756**	6,050	**121,912**	902,618
		2,136,500	596,750	**821,912**	1,192,038

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5. Risk Management (continued)

5 (l) IFRS Disclosures on credit risk (continued)

Company		**Loans and advances to customers**		**Finance lease Receivable**	
	Note	**2013**	2012	**2013**	2012
Carrying amount	9,10	**22,775,479**	20,625,501	**-**	-
Standard (fully performing)		**21,104,995**	19,873,907	**-**	-
Past due but not impaired		**2,379,101**	1,187,655	**-**	-
Impaired		**1,140,371**	808,297	**-**	-
		24,624,467	21,869,859	**-**	-
Past due but not impaired loans and advances comprise:					
30-60 days		**1,490,980**	744,302	**-**	-
61-90 days		**563,574**	281,338	**-**	-
>90 days		**324,547**	162,015	**-**	-
		2,379,101	1,187,655	**-**	-
An estimate of the fair value of collateral held against loans and advances to customers is shown below:					
Against individually impaired					
Property		**2,570,000**	2,137,776	**-**	-
Others		**7,076**	85,600	**-**	-
		2,577,076	2,223,376	**-**	-
Against past due but not impaired					
Property		**1,848,200**	590,700	**-**	-
Others		**44,068**	6,050	**-**	-
		1,892,268	596,750	**-**	-

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

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

(v) **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.

(vi) **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.

(vii) **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.

(viii) **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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 (l) IFRS Disclosures on credit risk (continued)

(ix) **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 2013 were as follows:

	Group		Company	
	2013	2012	**2013**	2012
Agriculture	**5,764,888**	3,912,215	**5,512,432**	3,772,375
Mining	**2,938**	16,999	**2,938**	16,999
Finance and insurance	**2,320,302**	1,845,292	**2,251,272**	1,838,213
Construction	**3,498,629**	3,335,629	**3,237,492**	3,182,135
Energy/electricity/gas/water	**111,522**	89,585	**93,730**	89,585
Manufacturing	**3,175,406**	3,785,664	**3,038,078**	3,626,499
Wholesale and retail	**6,533,380**	4,286,612	**5,074,449**	3,335,918
Individual/households	**1,970,233**	1,895,266	**1,333,631**	1,546,262
Real Estate	**107,879**	67,694	**107,879**	67,694
Tourism and leisure	**787,944**	959,864	**607,029**	561,506
Transport	**5,469,015**	6,305,739	**2,865,485**	3,135,764
Others	**4,220,804**	1,027,667	**500,052**	696,909
	33,962,940	27,528,226	**24,624,467**	21,869,859

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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.

	Group		Company	
	2013	2012	**2013**	2012
Gross maximum exposure				
Balances with central banks	**9,121,943**	3,641,949	**7,938,359**	3,641,949
Balances with other banks	**3,874,251**	2,544,161	**1,719**	2,201,726
Balance with foreign banks	**14,104,112**	6,810,887	**14,104,112**	6,810,887
Money market investments	**4,624,921**	2,878,008	**3,010,788**	2,674,726
Cheques in the course of clearing	**939,606**	176,781	**939,606**	176,781
Investment in Finance leases	**5,871,058**	5,890,553	**-**	-
Loans and advances	**28,091,882**	21,637,673	**24,624,467**	21,869,859
Total recognised financial instruments	**66,627,773**	43,580,012	**50,619,051**	37,375,928
Letters of credit	**1,510,221**	3,772,293	**1,504,728**	3,772,293
Financial guarantees	**8,789,611**	8,343,516	**8,540,445**	8,343,516
Total unrecognised financial instruments	**10,299,832**	**12,115,809**	**10,045,173**	**12,115,809**
Total credit risk exposure	**76,927,605**	**55,695,821**	**60,664,224**	**49,491,737**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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 banks 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 authorization of foreign currency transactions. Forex exposure positions are regularly monitored by Treasury department and senior management.

The Bank 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 minimized. In 2013, the bank issued a USD10mn 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 minimize risk exposure.

- **Interest Rate Risk**

The Group does not offer fixed rate loans and advances to its customers. This minimizes 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 minimized 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 recognized in the profit or loss.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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.
- Categorization 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 categorize 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:-

1) 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.

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

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 (r) Exposure to Market Risk as per December Financial Statements

Foreign exchange exposures were as follows:

	2013			2012		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
Group						
USD	**46,287**	**40,522**	**5,765**	11,391	7,755	3,636
GBP	**1,251**	**783**	**468**	401	306	95
EUR	**3,213**	**2,866**	**347**	1,042	8,074	(7,032)
ZAR	**8,730**	**4,178**	**4,552**	142	58	84
INR	**2,764**	**-**	**2,764**	35	-	35
JPY	**3,440**	**-**	**3,440**	12	-	12
MT	**588**	**495**	**93**	-	-	-

	2013			2012		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
Company						
USD	**43,374**	**38,264**	**5,110**	11,391	7,755	3,636
GBP	**1,251**	**783**	**468**	401	306	95
EUR	**3,213**	**2,866**	**347**	1,042	8,074	(7,032)
ZAR	**7,869**	**3,400**	**4,469**	142	58	84
INR	**2,764**	**-**	**2,764**	35	-	35
JPY	**3,440**	**-**	**3,440**	12	-	12

The table below details the effect of changes in foreign exchange rates:

Group		**Change in exchange rates**			
2013		**5%**	**10%**	**25%**	**50%**
Net long position (MK'000)	**3,397,500**				
Effect of devaluation of local currency					
Impact on profit before tax		**154,910**	**309,821**	**774,552**	**1,549,104**
Impact on equity		**118,912**	**237,825**	**594,562**	**1,189,125**
Effect of appreciation of local currency					
Impact on profit before tax		**(154,910)**	**(309,821)**	**(774,552)**	**(1,549,104)**
Impact on equity		**(118,912)**	**(237,825)**	**(594,562)**	**(1,189,125)**

Company		**Change in exchange rates**			
2013		**5%**	**10%**	**25%**	**50%**
Net long position (MK'000)	**3,098,208**				
Effect of devaluation of local currency					
Impact on profit before tax		**154,910**	**309,821**	**774,552**	**1,549,104**
Impact on equity		**108,437**	**216,875**	**542,186**	**1,084,373**
Effect of appreciation of local currency					
Impact on profit before tax		**(154,910)**	**(309,821)**	**(774,552)**	**(1,549,104)**
Impact on equity		**(108,437)**	**(216,875)**	**(542,186)**	**(1,084,373)**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 (r) Exposure to Market Risk as per December Financial Statements (continued)

The table below details the effect of changes in foreign exchange rates: **(continued)**

Group		**Change in exchange rates**			
2012		**5%**	**10%**	**25%**	**50%**
Net long position (MK'000)	909,425				
Effect of devaluation of local currency					
Impact on profit before tax		45,471	90,943	227,356	454,713
Impact on equity		31,830	63,660	159,149	318,299
Effect of appreciation of local currency					
Impact on profit before tax		(45,471)	(90,943)	(227,356)	(454,713)
Impact on equity		(31,830)	(63,660)	(159,149)	(318,299)

Company		**Change in exchange rates**			
2012		**5%**	**10%**	**25%**	**50%**
Net long position (MK'000)	909,425				
Effect of devaluation of local currency					
Impact on profit before tax		45,471	90,943	227,356	454,713
Impact on equity		31,830	63,660	159,149	318,299
Effect of appreciation of local currency					
Impact on profit before tax		(45,471)	(90,943)	(227,356)	(454,713)
Impact on equity		(31,830)	(63,660)	(159,149)	(318,229)

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

5 (r) Exposure to Market Risk as per December Financial Statements (continued)

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.

Group

			Fixed Rate Instruments					
2013	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
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)**	**-**

			Fixed Rate Instruments					
2012	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	15,052,196	34,093,367	2,819,832	-	-	-	1,058,176	53,023,571
Total liabilities and shareholders' funds	14,657,849	27,116,011	5,392,158	4,231,018	40,444	189,553	1,396,538	53,023,571
Interest sensitivity gap	**394,347**	**6,977,356**	**(2,572,326)**	**(4,231,018)**	**(40,444)**	**(189,553)**	**(338,362)**	**-**

Company

			Fixed Rate Instruments					
2013	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
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)**	**-**

			Fixed Rate Instruments					
2012	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total
Total assets	15,014,492	27,380,088	3,816,550	-	-	-	1,058,176	47,269,306
Total liabilities and shareholders' funds	12,905,789	27,195,716	3,264,113	2,277,153	40,444	189,553	1,396,538	47,269,306
Interest sensitivity gap	**2,108,703**	**184,372**	**552,437**	**(2,277,153)**	**(40,444)**	**(189,553)**	**(338,362)**	**-**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Effective Interest Rates for the Principal Financial Assets and Liabilities at 31 December.

	2013	2012
Assets:	**%**	%
Government securities	**14-43**	7-26
Deposits with banking institutions	**17-37**	9-25
Loans and advances to customers (base rate)	**35-41**	17-35
Liabilities:		
Customer deposits	**0.75-24**	0.5-21

Equity Risk

The value of investment in listed companies as at 31 December 2013 and 2012 were as follows:

	2013	2012
Fair value of investment in listed companies	**4,548,921**	2,488,253
Cost	**793,679**	797,273
Net increase in fair value of investments in listed equities	**2,089,000**	306,676
Impact on profit and equity of increase of share prices by 10%	**454,892**	248,825
Impact on profit and equity of decrease in share prices by 10%	**(454,892)**	(248,825)

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Liquidity Risk as presented in the 2013 Financial Statements

The maturity gap analysis as at 31 December 2013 is given below:-

	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
Group								
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	912,383	47,645	-
Gross 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**	**5,377,783**	**3,498,605**	**419,902**
Liabilities								
Current and savings account	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	**64,046,608**	**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**	**4,989,634**	**2,870,725**	**(4,545,237)**
Cumulative Liquidity Gap	**6,221,272**	**10,013,602**	**(2,890,989)**	**1,196,467**	**6,698,480**	**11,688,114**	**14,558,839**	**10,013,602**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Liquidity Risk as presented in the 2013 Financial Statements (continued)

	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
Company								
Assets								
Cash and cash equivalents	25,742,247	25,742,247	25,742,247	-	-	-	-	-
Money market investments	3,010,788	3,010,788	-	1,366,372	684,391	912,383	47,645	-
Gross 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
Investment 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 assets	56,772,853	58,621,841	37,700,669	5,740,690	6,121,816	5,140,222	3,495,959	419,842
Liabilities								
Current and savings account	24,227,860	24,227,860	24,227,860	-	-	-	-	
Foreign currency accounts	11,035,919	11,035,919	11,035,919	-	-	-	-	-
Term deposit 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	4,965,135
Net Liquidity Gap	3,422,706	5,271,694	(5,418,657)	1,873,276	5,502,013	4,989,634	2,870,725	(4,545,297)
Cumulative Liquidity Gap	3,422,706	5,271,694	(5,418,657)	(3,545,381)	1,956,632	6,946,266	9,816,991	5,271,694

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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 emphasizes 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 centralization of all customer service back office processes. The centralized processes are handled at three regional processing centres (RPCs). This was done with the aim of minimizing 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 specialized departments like Credit, Treasury, Risk, Compliance, Legal, Finance, Human Resources, 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.

A Business Continuity Plan is in place defining what should be done in case of sudden business disruptions.

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 frauds. 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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 realizes 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 organizes 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 2014.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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 don't 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 contain 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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 organization 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

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.

Group

31 December 2013

Financial assets	**Note**	**Total carrying amount**	**Level 1**	**Level 2**	**At amortised cost**
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**
Deposits from banks	18	**2,565,044**	**-**	**-**	**2,565,044**
Subordinated debt	40	**4,335,923**	**-**	**-**	**4,335,923**
		60,499,033	**-**	**-**	**60,499,033**

31 December 2012

Financial assets	**Note**	Total carrying amount	Level 1	Level 2	At amortised cost
Cash and cash equivalents	7	15,962,215	-	-	15,962,215
Money market investments	8	2,878,009	-	2,878,009	-
Loans and advances to customers	9	20,383,711	-	-	20,383,711
Finance lease receivables	10	5,354,608	-	-	5,354,608
Cheques in course of collection	11	134,812	-	-	134,812
Investments in listed companies	13	2,488,253	2,488,253	-	-
		47,201,608	2,488,253	2,878,009	41,835,346
Financial liabilities					
Deposits from customers	17	36,390,079	-	-	36,390,079
Deposits from banks	18	1,975,643	-	-	1,975,643
		38,365,722	-	-	38,365,722

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In thousands of Malawi Kwacha

6. Financial assets and liabilities (continued)

Company
31 December 2013

Financial assets	Note	Total Carrying amount	Level 1	Level 2	At amortised cost
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	**25,742,247**	**3,010,788**	**27,698,014**
Financial liabilities					
Deposits from customers	17	**53,598,066**			**53,598,066**
Deposits from banks	18	**3,969,129**	**3,969,129**	**-**	**-**
Subordinated debt	40	**4,335,923**	**-**	**-**	**4,335,923**
		61,903,120	**3,969,129**	**-**	**57,933,989**

31 December 2012

Financial assets	Note	Total carrying amount	Level 1	Level 2	At Amortised cost
Cash and cash equivalents	7	15,593,573	15,593,573	-	-
Money market investments	8	2,674,726	-	2,674,726	-
Loans and advances to customers	9	20,625,501	-	-	20,625,501
Cheques in course of collection	11	134,812	-	-	134,812
Investments in listed companies	13	2,488,253	2,488,253	-	-
		41,516,865	18,081,826	2,674,726	20,760,313
Financial liabilities					
Deposits from customers	17	40,383,238	-	-	40,383,238
Deposits from banks	18	1,975,643	1,975,643	-	-
		42,358,881	1,975,643	-	42,358,881

	Group		Company	
7. Cash and cash equivalents	**2013**	2012	**2013**	2012
Liquidity Reserve Deposits:				
- Central Banks	**9,121,943**	3,641,949	**7,938,359**	3,641,949
Placements with other banks	**17,978,363**	9,355,048	**14,105,831**	9,012,613
Cheques in course of clearing	**939,606**	176,781	**939,606**	176,781
Cash balances	**3,421,468**	2,788,437	**2,758,451**	2,762,230
	31,461,380	15,962,215	**25,742,247**	15,593,573
8. Money market investments				
Treasury Bills – Other Central Banks	**288,293**	-	-	-
Malawi Government Treasury Bills	**4,288,353**	1,819,832	**2,963,143**	1,616,550
Local Registered Government Stocks	**47,645**	45,000	**47,645**	45,000
Malawi Government Promissory Notes	**-**	1,013,176	**-**	1,013,176
	4,624,291	2,878,008	**3,010,788**	2,674,726

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 between 2 and 12 months except for Local Registered Government Stocks and Malawi Government Promissory Notes which mature after 12 months.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

9. Loans and advances to customers	**Group**		**Company**	
	2013	2012	**2013**	2012
Loans and advances at amortised cost are receivable as follows:				
Maturing within 3 months	**12,320,190**	10,215,925	**11,081,010**	10,215,925
Maturing between 3 and 12 months	**12,088,521**	8,136,024	**10,588,521**	7,734,414
Maturing after 12 months	**3,683,171**	3,285,724	**2,954,936**	3,919,520
	28,091,882	21,637,673	**24,624,467**	21,869,859
Specific allowances for impairment:				
Balance at 1 January	**(649,595)**	(332,001)	**(646,282)**	(251,638)
Adjustment for reclassification of Capital Bank – Botswana	-	220,841	-	-
Adjustment for acquisition of Capital Bank – Mozambique	**(390,668)**	-	-	-
Charge for the year	**(718,442)**	(595,362)	**(422,128)**	(451,571)
Customer debit balances offset against non interest income	**(103,247)**	(177,393)	**(103,247)**	(177,393)
Write offs	**204,846**	86,035	**204,846**	86,035
Recoveries	**387,513**	148,285	**97,724**	148,285
Balance at 31 December	**(1,269,593)**	(649,595)	**(869,087)**	(646,282)
Interest in suspense:				
Balance at 1 January	**(604,367)**	(385,017)	**(598,076)**	(337,123)
Adjustment for reclassification of Capital Bank	-	47,894	-	-
Charge for the year	**(384,570)**	(267,244)	**(381,825)**	(260,953)
Balance at 31 December	**(989,937)**	(604,367)	**(979,901)**	(598,076)
Net loans and advances	**25,833,352**	20,383,711	**22,775,479**	20,625,501

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 investment strategy. 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).

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
In thousands of Malawi Kwacha

10. Finance lease receivables (net)

	Group		Company	
	2013	2012	**2013**	2012
Investment in finance leases at amortised cost receivable:				
Less than one year	**3,085,824**	2,895,545	-	-
Between one and five years	**2,480,413**	2,535,220	-	-
More than five years	**304,821**	459,788	-	-
Balance at 31 December	**5,871,058**	5,890,553	-	-
Specific allowances for impairment:				
Balance at 1 January	**(219,997)**	(79,638)	-	-
Charge for the year	**(710,273)**	(170,534)	-	-
Write-offs	**56,989**	3,432	-	-
Recoveries	**11,813**	26,743	-	-
Balance at 31 December	**(861,468)**	(219,997)	-	-
Interest in suspense:				
Balance at 1 January	**(315,948)**	(112,691)		-
Recoveries	**54,497**	86,986		
Charge for the year	**(410,881)**	(290,243)	-	-
Balance at 31 December	**(672,332)**	(315,948)	-	-
Net finance lease receivables	**4,337,258**	5,354,608	-	-

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

11. Other assets

	Group 2013	Group 2012	Company 2013	Company 2012
Cheques in course of collection	**373,614**	134,812	**373,614**	134,812
Prepayments	**112,522**	96,001	**99,374**	90,386
Dividend receivable from listed companies	**89,064**	105,262	**89,064**	105,262
Stock of consumable stationery	**81,525**	81,858	**81,525**	81,858
Stock of computer spares	**56,683**	19,596	**56,682**	19,596
Other receivables	**961,812**	139,036	**508,939**	131,662
	1,675,220	576,565	**1,209,198**	563,576

12. Amounts due from subsidiaries and associate companies

	Group 2013	Group 2012	Company 2013	Company 2012
FMB Forex Bureau Limited	-	-	**194,585**	161,521
FMB Pensions Limited	-	-	**25,321**	25,324
Capital Bank Limited-Botswana	-	-	**8,000**	7,628
The Leasing and Finance Company of Malawi Limited	-	-	**4,834**	177
	-	-	**232,740**	194,650

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

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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13. Investments in listed companies

	Group and Company			
	2013		2012	
	Valuation	**Cost**	Valuation	Cost
Balance at 1 January	**2,488,253**	**797,273**	2,128,795	747,388
Additions during the year	-	-	67,177	67,177
Increase in fair value of listed companies during the year	**2,089,000**	**-**	309,573	-
Disposals during the year	**(28,332)**	**(3,594)**	(17,292)	(17,292)
Balance at 31 December	**4,548,921**	**793,679**	2,488,253	797,273

All investments in quoted companies are held for trading. The increase in fair value is taken to profit or loss. The investments have been designated at fair value through profit or loss upon initial recognition. At year end, the group's investment in listed companies portfolio comprised:

Company	Shares Held ('000)	Share Price	Market Value (MK'000)
Illovo	12,916	287.00	**3,706,760**
National Investment Trust Limited	25,767	29.50	**760,116**
Telekom Networks Malawi	38,339	2.14	**82,045**
			4,548,921

14 . Investment in subsidiaries and associates

(a) Investment in Subsidiaries (At cost)

	Shareholding		Carrying value	
	2013	**2012**	**2013**	**2012**
The Leasing and Finance Company of Malawi Limited	100.00%	100.00%	**65,911**	65,911
FMB Pension Fund Limited	100.00%	100.00%	**-**	1.00
FMB Forex Bureau Limited	100.00%	100.00%	**10,000**	10,000
International Commercial Bank Limited - Malawi	100.00%	-	**816,943**	-
Capital Bank Limited - Mozambique	70.00%	-	**1,375,710**	-
Total Investment in Subsidiaries			**2,268,564**	75,911

(b) Investment in Associated companies (At valuation)

	Group		Company	
	2013	2012	**2013**	2012
Shareholding				
Capital Bank Limited - Botswana	**38.60%**	38.60%	**38.60%**	38.60%
First Capital Bank Limited - Zambia	**49.00%**	-	**49.00%**	-
Carrying value				
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**	-
	4,694,997	1,067,956	**4,297,105**	903,854
Movement During the year:				
Carrying value Brought Forward	**1,067,956**	710,057	**903,384**	710,057
Fair value adjustment on loss of control	**-**	185,928	**-**	185,928
Increase in investment:				
Capital Bank Limited - Botswana	**-**	7,869	**-**	7,869
First Capital Bank Limited - Zambia	**3,393,251**	-	**3,393,251**	-
Share of Profits in associate	**-**	164,102	**-**	-
Capital Bank Limited - Botswana	**193,412**		**-**	-
First Capital Bank Limited – Zambia	**40,378**	-	**-**	-
Balance at 31 December	**4,694,997**	1,067,956	**4,297,105**	903,854

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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14 . Investment in subsidiaries and associates (continued)

14(b) Investment in Associated Companies (continued)

Share of profit in associate:	Group	
Profit Before Tax	**2013**	2012
Capital Bank Limited – Botswana	**678,268**	520,286
First Capital Bank Limited – Zambia	**126,777**	-
Taxation		
Capital Bank Limited – Botswana	**(177,201)**	(95,150)
First Capital Bank Limited – Zambia	**(44,372)**	-
Profit After Tax		
Capital Bank Limited – Botswana	**501,067**	425,136
First Capital Bank Limited – Zambia	**82,405**	-
Share of profits after tax		
Capital Bank Limited – Botswana	**193,412**	164,102
First Capital Bank Limited – Zambia	**40,378**	**-**

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15. Property and equipment

Group	Freehold properties	Leasehold properties	Motor vehicles	Equipment fixture & fittings	Capital work in progress	Total
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**
Cost or valuation						
Balance at 1 January 2012	1,100,245	582,475	212,476	2,424,493	553,725	4,873,414
Adjustment for reclassification of Capital Bank	(431,604)	-	(15,131)	(347,379)	(42,987)	(837,101)
Revaluation surplus during the year	793,257	506,643	-	-	-	1,299,900
Additions during the year	3,099	185	31,907	360,774	249,754	645,719
Disposals	-	-	-	(45)	-	(45)
Balance at 31 December 2012	1,464,997	1,089,303	229,252	2,437,843	760,492	5,981,887
Accumulated depreciation and impairment losses						
Balance at 1 January 2012	37,130	20,911	127,498	1,390,501	-	1,576,040
Adjustment for reclassification of Capital Bank	(11,733)	296	(10,659)	(218,109)	-	(240,205)
Charge for the year	13,446	11,827	36,924	334,237	-	396,434
Released on revaluation and disposal	(36,815)	(25,012)	-	-	-	(61,827)
Released on disposal	-	-	-	(810)	-	(810)
Balance at 31 December 2012	2,028	8,022	153,763	1,505,819	-	1,669,632
Carrying amount						
At 31 December 2013	**1,425,228**	**1,282,078**	**85,948**	**1,514,077**	**1,465,173**	**5,772,504**
At 31 December 2012	1,462,969	1,081,281	75,489	932,024	760,492	4,312,255

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15. Property and equipment (Continued)

Company	**Freehold property**	**Leasehold properties**	**Motor vehicles**	**Equipment Fixture & fittings**	**Capital work in Progress**	**Total**
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**
Cost or valuation						
Balance at 1 January 2012	609,188	582,475	182,652	2,030,248	510,738	3,915,301
Revaluation surplus during the year	714,909	506,643	-	-	-	1,221,552
Additions during the year	900	185	31,907	359,327	249,754	642,073
Balance at 31 December 2012	1,324,997	1,089,303	214,559	2,389,575	760,492	5,778,926
Accumulated depreciation and impairment						
Balance at 1 January 2012	23,507	21,207	112,133	1,148,487	-	1,305,334
Charge for the year	12,357	11,963	34,172	324,686	-	383,178
Released on revaluation	(33,836)	(25,012)	-	-	-	(58,848)
Balance at 31 December 2012	2,028	8,158	146,305	1,473,173	-	1,629,664
Carrying amount						
At 31 December 2013	**1,287,394**	**1,107,906**	**51,410**	**846,524**	**1,465,173**	**4,758,407**
At 31 December 2012	1,322,969	1,081,145	68,254	916,402	760,492	4,149,262

Registers of land and buildings giving details as required under the Companies Act 1984, Schedule 3, Section 16 are maintained at the registered office of the company and are open for inspection by members or their duly authorised agents.

The freehold properties and leasehold improvements were last revalued on 31 December 2012 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 2012. This is not available for distribution until realised. The independent valuers provide the fair value of the properties every 3 years.

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

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16. Deferred tax (assets)/liabilities

Movements in temporary differences during the year

Group	**Opening balance**	**Adjustment for Capital Bank reclassification**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
2013					
Property and equipment	**102,499**	**-**	**(5,120)**	**-**	**97,379**
Accrued income	**17,799**	**-**	**60,477**	**-**	**78,276**
Revaluation of property	**388,169**	**-**	**(2,897)**	**(268,022)**	**117,250**
Gratuity and severance pay liabilities	**(25,224)**	**-**	**18,531**	**-**	**(6,693)**
Accrued interest	**220**	**-**	**-**	**-**	**220**
Investment revaluation	**2,898**	**-**	**-**	**-**	**2,898**
Property impairment	**(4,297)**	**-**	**4,297**	**-**	**-**
	482,064	**-**	**75,288**	**(268,022)**	**289,330**
2012					
Property and equipment	201,591	(149,958)	50,866	-	102,499
Accrued income	3,780	-	14,019	-	17,799
Revaluation of property	123,432	(5,984)	-	270,721	388,169
Tax losses	(118,774)	118,774	-	-	-
Operating lease	(480)	480	-	-	-
Gratuity and severance pay liabilities	(24,777)	-	(447)	-	(25,224)
Accrued interest	34,091	(5,975)	(27,896)	-	220
Translation reserve	29,047	(29,047)	-	-	-
Investment revaluation	77,183	-	(74,285)	-	2,898
Property impairment	-	-	(4,297)	-	(4,297)
	325,093	(71,710)	(42,040)	270,721	482,064

Company	**Opening balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
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**
2012				
Property and Equipment	50,991	51,299	-	102,290
Accrued income	3,780	14,019	-	17,799
Revaluation of investment	77,183	(74,285)	-	2,898
Revaluation of Property	110,695	-	246,981	357,676
Gratuity and severance pay liabilities	(24,777)	(448)	-	(25,225)
Property impairment	-	(4,297)	-	(4,297)
	217,872	(13,712)	246,981	451,141

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		Group		Company	
17.	**Customer deposits**	**2013**	2012	**2013**	2012
	Current and savings accounts	**31,965,313**	19,297,203	**24,227,860**	19,376,908
	Foreign currency accounts	**10,910,123**	7,818,808	**11,035,919**	7,818,808
	Term deposit accounts	**10,722,630**	9,274,068	**5,119,459**	5,192,158
		53,598,066	36,390,079	**40,383,238**	32,387,874
	Payable as follows:				
	Maturing within 3 months	**51,494,138**	28,380,917	**39,887,221**	32,197,519
	Maturing after 3 months and above	**2,103,928**	8,009,162	**496,017**	190,355
		53,598,066	36,390,079	**40,383,238**	32,387,874

For information about interest rates refer to note 5.

18 .	**Balances due to other banks**				
	Local banks	**1,000,000**	200,000	**2,404,085**	200,000
	European Investment Bank loan	**1,294,098**	1,172,534	**1,294,098**	1,172,534
	Loans due to NORSAD Agency	**270,946**	603,109	**270,946**	603,109
		2,565,044	1,975,643	**3,969,129**	1,975,643
	Payable as follows:				
	Due between 2 and 5 years	**1,307,948**	1,775,643	**2,712,033**	1,775,643
	Due within 1 year	**1,257,096**	200,000	**1,257,096**	200,000
		2,565,044	1,975,643	**3,969,129**	1,975,643

All loans 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 which were made available to on lend to customers in specified economic sectors.

The EIB line of credit is denominated in US dollars, carries interest at 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.

		Group		Company	
19.	**Other liabilities**	**2013**	2012	**2013**	2012
	Interest payable	**99,175**	65,001	**99,175**	65,001
	Bankers cheques issued and uncleared	**333,841**	168,655	**333,841**	132,976
	Margins on letters of credit and forward and other instruments	**862,964**	155,720	**862,964**	155,722
	Bills payable	**315,730**	125,756	**163,563**	119,922
	Trade payables	**1,631,291**	489,786	**2,068,406**	487,698
	Accrued expenses	**926,604**	568,867	**746,689**	538,118
		4,169,605	1,573,785	**4,274,638**	1,499,437

20.	**Employee benefits liabilities**				
	Severance pay provision				
	Balance at 1 January	**28,041**	59,149	**28,041**	59,149
	Payment made during the year	**(2,814)**	(31,108)	**(2,814)**	(31,108)
	Balance at 31 December	**25,227**	28,041	**25,227**	28,041

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		Group and Company	
21 (a).	**Share capital**	**2013**	2012
	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 K551.25m less offer expenses of K37.215m 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 K1,051.312m which was also credited to the share premium account.

22. Property revaluation reserve

	Group		Company	
	2013	2012	**2013**	2012
Property revaluation	**1,858,132**	1,614,204	**1,762,296**	1,519,018

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

	Group		Company	
	2013	2012	**2013**	2012
Loan loss reserve	**297,613**	240,464	**246,245**	205,675

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

	Group		Company	
	2013	2012	**2013**	2012
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

	Group		Company	
	2013	2012	**2013**	2012
Loans and advances	**7,245,690**	3,974,636	**6,745,232**	3,989,886
Lease finance	**2,007,417**	1,277,013	-	-
Treasury bills	**1,021,032**	176,637	**725,876**	122,540
Local registered stocks	**124,985**	8,734	**124,986**	8,734
Promissory note (Malawi Government)	-	44,968	-	44,968
Placements with other banks	**645,921**	318,266	**252,329**	257,080
Total interest income	**11,045,045**	5,800,254	**7,848,423**	4,423,208

26. Income from investments

	Group 2013	Group 2012	Company 2013	Company 2012
Dividend income	**186,564**	158,364	**186,564**	308,363
Movement in fair value of investments	**2,089,000**	388,292	**2,089,000**	494,938
Impairment of goodwill arising on acquisition of subsidiaries (Note 37)	**(1,115,850)**	-	**(1,115,850)**	-
	1,159,714	546,656	**1,159,714**	803,301

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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27. Other operating income

	Group		Company	
	2013	2012	**2013**	2012
Profit on disposal of motor vehicles and equipment	-	264	-	264
Other	**3,070**	28,009	**3,070**	-
	3,070	28,273	**3,070**	264

28. Staff and training costs

	Group 2013	Group 2012	Company 2013	Company 2012
Salaries and wages	**1,537,446**	968,138	**1,319,571**	930,790
Training and other staff costs	**1,745,367**	1,090,165	**1,563,747**	1,022,854
Contributions to defined contribution plans	**117,018**	72,514	**112,791**	68,322
	3,399,831	2,130,817	**2,996,109**	2,021,966

29. Other expenses

	Group 2013	Group 2012	Company 2013	Company 2012
Other expenses include:				
Auditor's remuneration				
- Current audit fees	**78,604**	34,080	**32,588**	25,280
Directors' remuneration	**95,359**	67,210	**95,319**	67,120
Others	**1,939,296**	998,379	**1,399,052**	912,591
Total other costs	**2,113,259**	1,099,669	**1,526,959**	1,004,991

30. Income tax expense

Recognised in the statement of comprehensive income

	Group 2013	Group 2012	Company 2013	Company 2012
Current tax expense				
Current year at **30%** (2012: 30%) based on profits	**2,119,986**	1,169,881	**2,022,343**	1,076,195
Origination and reversal of temporary differences *(Note 16)*	**75,288**	(42,040)	**40,234**	(13,712)
Total income tax expense in statement of comprehensive income	**2,195,274**	1,127,841	**2,062,577**	1,062,483

Reconciliation of effective tax rate

	Group 2013	Group 2012	Company 2013	Company 2012
Operating Profit	**7,950,125**	4,380,407	**7,848,633**	4,233,951
Income tax using the domestic corporation tax rate **30%** (2012: 30%)	**2,385,037**	1,314,122	**2,354,590**	1,270,186
Non-deductible expenses	**158,151**	33,848	**55,901**	31,815
Tax exempt income	**(347,914)**	(218,873)	**(347,914)**	(238,262)
Tax incentives on training costs	-	(1,256)	-	(1,256)
Total income tax expense in statement of comprehensive income	**2,195,274**	1,127,841	**2,062,577**	1,062,483

31. Basic and diluted earnings per share

The calculation of basic earnings per share at 31 December 2013 was based on profit to ordinary shareholders of **K6,093,125 thousand** (2012: K3,416,668 thousand) and a weighted average number of ordinary shares outstanding of **2,336,250 thousand** (2012: 2,336,250) calculated as follows:

	Group	
	2013	2012
Profit attributable to ordinary shareholders	**6,093,125**	3,416,668
Weighted average number of ordinary shares in issue (thousands)	**2,336,250**	2,336,250
Basic and diluted earnings per share (tambala)	**261**	146

There are no potential dilutive ordinary shares.

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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 2013	2012
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%**	-
International Commercial Bank Limited	Malawi	**100%**	-

(b) NCI in subsidiaries

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

	Capital Bank Limited (Mozambique)
NCI percentage and voting rights	**30%**
Assets	9,385,947
Liabilities	(7,853,751)
Net assets	**1,532,196**
Net Assets attributable to NCI	**459,659**
Carrying amount of NCI	**468,331**
Revenue	285,496
Loss	(348,280)
Total comprehensive income	(348,280)
Loss allocated to NCI	**(104,484)**

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, adjusted for any differences in accounting policies.

In MK'000	Capital Bank Limited (Botswana)	First Capital Bank Limited (Zambia)	Total
Percentage of Interest and voting rights	**38.60%**	**49%**	
Assets	53,887,782	17,111,131	**70,998,913**
Liabilities	47,311,285	8,162,801	**55,474,086**
Net assets	**6,576,497**	**8,948,330**	**15,524,827**
Carrying Amount	**1,261,368**	**3,433,629**	**4,694,997**
Revenue	3,003,841	787,355	**3,791,196**
Profit	501,067	82,405	**583,472**
Other comprehensive income	-	-	-
Total comprehensive income	**501,067**	**82,405**	**583,472**
Group's share of profit	193,412	40,378	**233,790**
Group's share of total comprehensive income	193,412	40,378	**233,790**
Dividends received	-	-	-

33. Dividends

Last year's second interim dividend of **MK233.625million** (10 tambala per share) and final dividend of **MK116.813 million** (5 tambala per share) were paid during the year. An interim dividend for the year 2013 of **MK934.5 million** (40 tambala per share) was paid during the year and a second interim dividend of **MK350.438 million** (15 tambala per share) was declared and will be paid in April 2014. The Directors also propose a final dividend of **MK584.063 million** (25 tambala per share) for approval at the forthcoming Annual General Meeting.

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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:

	2013	2012
Corporate bodies directly or indirectly Related to Directors*		
Balance at the beginning of the year	**2,018,774**	1,116,183
Loans granted during the year	**1,168,964**	1,315,986
Repayments	**(923,232)**	(413,395)
Balance at the end of the year	**2,264,506**	2,018,774
Subsidiary companies:		
Balance at the beginning of the year	**-**	39,682
Loans granted during the year	**-**	960,318
Repayments	**-**	(1,000,000)
Balance at the end of the year	**-**	-
Key management personnel:		
Balance at the beginning of the year	**226,615**	162,301
Loans granted during the year	**69,068**	173,645
Repayments	**(157,547)**	(109,331)
Balance at the end of the year	**138,136**	226,615

- *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 **MK10,527,000** (2012: MK2,947,000) of interest free advances and M**K585,883,000** (2012: MK449,885,000) 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 and its associate Capital Bank Limited, The Leasing and Finance Company of Malawi Limited (LFC), FMB Forex Bureau Limited and FMB Pension Fund which have been eliminated on consolidation are as follows:

Subsidiary Companies	2013	2012
Deposits by LFC Limited with FMB Limited	**1,400,000**	(56,685)
Loan syndications	**5,360**	647,791
Short term deposits	**242,096**	-
Fees and commissions received	**10,741**	31,647
Interest received	**1,112,228**	-
Interest paid	**10,675**	113,586
Management fees (Capital Bank Limited)	**-**	8,100

Key management personnel compensation:

	Executive Directors		**Non-Executive Directors**	
	2013	2012	**2013**	2012
Salaries	**169,000**	118,000	-	-
Bonuses	**120,000**	93,000	-	-
Fees	**-**	-	**95,319**	67,020
	289,000	211,000	**95,319**	67,020

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 **MK4 million** (2012: MK3.1 million).

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34. Related party transactions (Continued)

Directors' interests

As at 31 December 2013, 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	
	2013	2012
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**	-
J. M. O'Neill	**2,309,391**	5,309,391
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:

	Group		Company	
	2013	2012	**2013**	2012
Contingent liabilities				
Acceptances and letters of credit	**1,510,221**	3,772,293	**1,504,728**	3,772,293
Financial guarantees	**8,789,611**	8,343,516	**8,540,445**	8,343,516
	10,299,832	12,130,809	**10,045,173**	12,115,809
Other contingent liabilities				
Legal Claims	**172,200**	155,100	**157,200**	140,100

Contingencies in respect of letters of credit will only crystallise 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 crystallise into an asset and a liability in the event of default by the relevant counterparty.

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

Capital commitments

	Company	
Capital expenditure	**2013**	2012
Authorised but not contracted, includes K1.26 billion for investment in new core banking system.	**2,414,205**	967,000

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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%** (2012: 15.5%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2013, the liquidity reserve was **23.81%** (2012: 16.28%) of total customer deposits.

(ii) ***Capital Adequacy Requirement***
The Bank's available capital is required to be a minimum of 6% of its risk bearing assets and contingent liabilities. At 31 December 2013, the Bank's available capital was **14.5%** (2012: 14.07%) of its risk bearing assets and contingent liabilities.

37. Acquisition of subsidiary

See accounting policy note 4(a)
During the year 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 K3,308,503,000 paid entirely in cash.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

Fair value of identifiable assets and liabilities at the acquisition date	**International Commercial Bank Limited (Malawi)**	**Capital Bank Limited (Mozambique)**	**Total**
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	6,409,723	6,890,821
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.

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38. 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	2013	2012	2011
	MK	MK	MK
Malawi Kwacha/GBP	**721.8**	541.6	255.0
Malawi Kwacha/Rand	**42.2**	39.6	22.2
Malawi Kwacha/US Dollar	**433.6**	335.0	165.4
Malawi Kwacha/Euro	**598.0**	442.0	214.4
Malawi Kwacha/Pula	**50.5**	42.5	21.7
Malawi Kwacha/Meticais	**12.4**		
Malawi Kwacha/Zambia Kwacha	**68.5**		
Inflation rate %	23.5%	34.6%	9.8%

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

Malawi Kwacha/GBP	**708.7**
Malawi Kwacha/Rand	**39.3**
Malawi Kwacha/US Dollar	**421.3**
Malawi Kwacha/Euro	**578.6**
Malawi Kwacha/Pula	**47.5**
Malawi Kwacha/Meticais	**14.4**
Malawi Kwacha/Zambia Kwacha	**78.4**

39. Effective interest rates of financial assets and liabilities

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

	2013	2012
Assets		
Government securities	**14.92 - 43.38%**	7.25 - 26.4%
Deposits with banking institutions	**17.30 - 37.33%**	6.50 - 32.0%
Loans and advances to customers	**7.75 - 41.00%**	7.75 - 45.0%
Liabilities		
Customer deposits	**0.75 - 24.00%**	0.75 - 31.0%

	2013	2012
40. Subordinated debt	**4,335,923**	-

In April 2013, the Bank issued a fixed interest note of US$10 million bearing interest at 10.6% per annum payable quarterly in arrears. The note will mature in its entirety 6 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.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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 – corporate and retail banking in Botswana. *
- First Capital Bank – Zambia Corporate and Retail Banking.*
- Capital Bank Limited -Mozambique – Corporate and Retail Banking.

* 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 funds management, corporate advisory and 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 Pension Fund Limited does 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 **K5.02 million** (2012: K.4.5 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year the Group earned **K1.146 million** (2012: K185.4 million) interest on Government of Malawi treasury bills and local registered stock; **K45.8 million** (2012: K77 million) interest on loans and advances to enterprises controlled by Government of Malawi.

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41. Segmental reporting (continued)

31 December 2013	Malawi Corporate & Retail Banking	Malawi Forex Bureau	Malawi Asset Finance	Malawi Subtotal	Mozambique Corporate & Retail Banking	Zambia Corporate & Retail Banking	Botswana 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**	**1,827**	**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**	**1,827**	**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	-	122,693
Total other Comprehensive Income for the period	**390,065**	-	**650**	**390,715**	-	-	-	**390,715**	-	**390,715**
Total comprehensive income for the period	**6,150,536**	**18,608**	**281,384**	**6,450,528**	**(348,279)**	**40,378**	**193,412**	**6,336,039**	**1,827**	**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**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

In thousands of Malawi Kwacha

31 December 2012	Malawi Corporate & Retail Banking	Malawi Forex Bureau	Malawi Asset Finance	Malawi Subtotal	Mozambique Corporate & Retail Banking	Zambia Corporate & Retail Banking	Botswana Corporate & Retail Banking	Total Before Adjustments	Consolidation Adjustments	TOTAL
Interest Income – External	4,423,208	-	1,490,780	5,913,989	-	-	-	5,913,989	113,735	5,800,254
Total Interest Income	**4,423,208**	**-**	**1,490,780**	**5,913,989**	**-**	**-**	**-**	**5,913,989**	**113,735**	**5,800,254**
Interest Expense – External	(867,937)	-	(776,349)	(1,644,286)	-	-	-	(1,644,286)	(146,069)	(1,498,217)
Total Interest Expense	**(867,937)**	**-**	**(776,349)**	**(1,644,286)**	**-**	**-**	**-**	**(1,644,286)**	**(146,069)**	**(1,498,217)**
Net Interest Income	**3,555,271**	**-**	**714,431**	**4,269,703**	**-**	**-**	**-**	**4,269,703**	**(32,334)**	**4,302,037**
Fees and Commissions	2,259,912	-	20,366	2,280,278	-	-	-	2,280,278	31,464	2,248,814
Other external Fees and Commissions	-	-	-	-	-	-	-	-	-	-
Total Fees and Commission	**2,259,912**	**-**	**20,366**	**2,280,278**	**-**	**-**	**-**	**2,280,278**	**31,464**	**2,248,814**
Income from Investments	696,656	-	-	696,656	-	-	-	696,656	150,000	546,656
Gain on foreign exchange transactions	1,872,418	-	-	1,872,418	-	-	-	1,872,418	-	1,872,418
Other Operating Income	2,202	26,942	-	29,143	-	-	-	29,143	870	28,273
Total Operating income	**8,386,459**	**26,942**	**734,797**	**9,148,198**	**-**	**-**	**-**	**9,148,198**	**150,000**	**8,998,198**
Staff and Training costs	(2,027,342)	(12,538)	(90,937)	(2,130,817)	-	-	-	(2,130,817)	-	(2,130,817)
Premises and Equipment	(543,794)	-	-	(543,794)	-	-	-	(543,794)	-	(543,794)
Depreciation	(389,074)	(2,041)	(5,318)	(396,434)	-	-	-	(396,434)	-	(396,434)
Other expense	(1,007,504)	(7,515)	(84,650)	(1,099,669)	-	-	-	(1,099,669)	-	(1,099,669)
Impairment of financial assets	(303,286)	-	(143,791)	(447,077)	-	-	-	(447,077)	-	(447,077)
Total Expenditure	**(4,271,000)**	**(22,094)**	**(324,697)**	**(4,617,791)**	**-**	**-**	**-**	**(4,617,791)**	**-**	**(4,617,791)**
Share of profits in associates	-	-	-	-	-	-	164,102	164,102	-	**164,102**
Profit before income tax expense	4,115,459	4,848	410,100	4,530,407	-	-	164,102	4,694,509	150,000	4,544,509
Income tax expense	(1,062,484)	(1,419)	(125,063)	(1,188,966)	-	-	-	(1,188,966)	(61,125)	(1,127,841)
Profit for the year	**3,052,975**	**3,429**	**285,038**	**3,341,441**	**-**	**-**	**164,102**	**3,505,543**	**88,875**	**3,416,668**
Other Comprehensive Income										
Transfer on reclassification	(20,116)	-		(20,116)	-	-	-	(20,116)		(20,116)
Tax on other comprehensive income	(246,981)	-	(23,740)	(270,721)	-	-	-	(270,721)		(270,721)
Revaluation surplus on property	1,280,400	-	81,327	1,361,727	-	-	-	1,361,727	-	1,361,727
Total other Comprehensive Income for the period	**1,013,303**	**-**	**57,587**	**1,070,890**	**-**	**-**	**-**	**1,070,890**	**-**	**1,070,890**
Total comprehensive income for the period	**4,066,278**	**3,429**	**342,625**	**4,412,331**	**-**	**-**	**164,102**	**4,576,433**	**88,875**	**4,487,558**
Investment in associates	-	-	-	-	-	-	1,067,956	1,067,956	-	1,067,956
Segment Assets	46,235,977	198,959	6,376,466	53,879,358	-	-	-	53,879,358	(1,923,743)	51,955,615
Total Segment assets	**46,235,977**	**198,959**	**6,376,466**	**53,879,358**	**-**	**-**	**1,067,956**	**54,947,314**	**(1,923,743)**	**53,023,571**
Total Segment Liabilities	**36,824,023**	**164,716**	**4,873,096**	**41,861,835**	**-**	**-**	**-**	**41,861,835**	**(944,852)**	**40,916,983**

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

42. Subsequent events

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