ANNUAL REPORT I 2015

20

YEARS OF BANKING
EXCELLENCE

FMB
FIRST MERCHANT
BANK LIMITED

Obituary

In fond memory of our Director

and Co-founder Mr. Natwarlal Gordhandas Anadkat,

and his dear wife Mrs. Sushila Anadkat.

Mr. Anadkat passed on in June 2015 and

Mrs. Anadkat passed on in January 2016.

About FMB Group

FIRST MERCHANT BANK LIMITED (FMB) is a public limited liability company incorporated in Malawi under the Malawi Companies Act, 1984. It is listed on the Malawi Stock Exchange (MSE) and is registered as a commercial bank under the Banking Act 1989. FMB was listed on the MSE on the 19th of June, 2006.

It has two 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, and FMB Capital Markets Limited, a licenced portfolio manager.

FMB also holds a 70% shareholding in Capital Bank Limited, a licensed commercial bank incorporated in Mozambique, a 38.60% shareholding in Capital Bank Limited, a licensed commercial bank incorporated in Botswana and 49% in First Capital Bank Limited, a licensed commercial bank incorporated in Zambia.

Our Vision

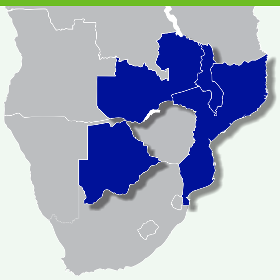
To be the financial services provider of choice to all bankable socio-economicsegments in Malawi and other territories in the region.

Our Core Values

- Integrity
- Customer focus
- Employee development
- Honesty

Our Reach

The FMB Group Network offers a comprehensive range of financial services to both the corporate and personal banking markets. Operating in Southern Africa in 4 countries the FMB Group network is made up as follows:



Malawi
POS Points – 70
Number of ATMs – 57
Branches /Agencies – 29
Number of Agency/ Cashiering Points - 9

Mozambique
POS Points - 22
Number of ATMs' - 5
Branches/ Agencies – 4

Zambia
Number of ATMs' - 7
Branches/ Agencies - 5

Botswana
Number of ATMs' - 6
Branches/ Agencies - 5

Contents

20 YEARS OF BANKING EXCELLENCE

Celebrating 20 years in business

26 June 2015 - A parade in Lilongwe marked the official start of the celebrations.


25 June 2015 - The 20th Anniversary celebrations kicked off with every branch being decorated for the commemoration.


26 June 2015 - Executive & Senior Management in a photo moment here with the late N. G. Anadkat.


26 June 2015 - Staff donned FMB colors to showcase the 20th Anniversary celebrations.

26 July 2015 - Celebrations were held around Malawi such as this Famiiy Day in Mzuzu which included traditional dancing.


5th August 2015 - AGM in progress at FMB Training Centre in Blantyre


5th August 2015 - Central Africa Stock Exchange CASE Handbook launch. Sponsored by FMB for the 4th year.

To mark our 20th year in business FMB embarked on a series of commemorative events involving all stakeholders - customers, employees and the Malawian community

2 August 2015 - FMB Staff Family Sports Day - Egg race in Blantyre

2 August 2015 - FMB Staff Family Sports Day – Football tournament in Blantyre

2 August 2015 - FMB Staff Family Sports Day - 3 legged race in Blantyre

3 August 2015 - Celebration march through the streets of Blantyre with the Malawi Police Band.

2 August 2015 - The Floor Steppers spicing up the occasion in Blantyre.

3rd August 2015 - Long serving members of staff pose with FMB Board of Directors at the Awards Dinner.

3rd August 2015 - A long serving member of staff acknowledging his award.

3rd August 2015 - The late Mrs Sushila Anadkat along with the outgoing Chairman Mr. R. Kantaria (middle) & Mr. H. Anadkat cutting the 20th Anniversary cake.

FMB Group's
20 Year Milestones

FIRST MERCHANT BANK (FMB)
opens its first branch in Blantyre in June

1995

1995

FMB Opens Lilongwe Branch

Construction of Head Office, Blantyre,
Livingstone Towers Building

2001

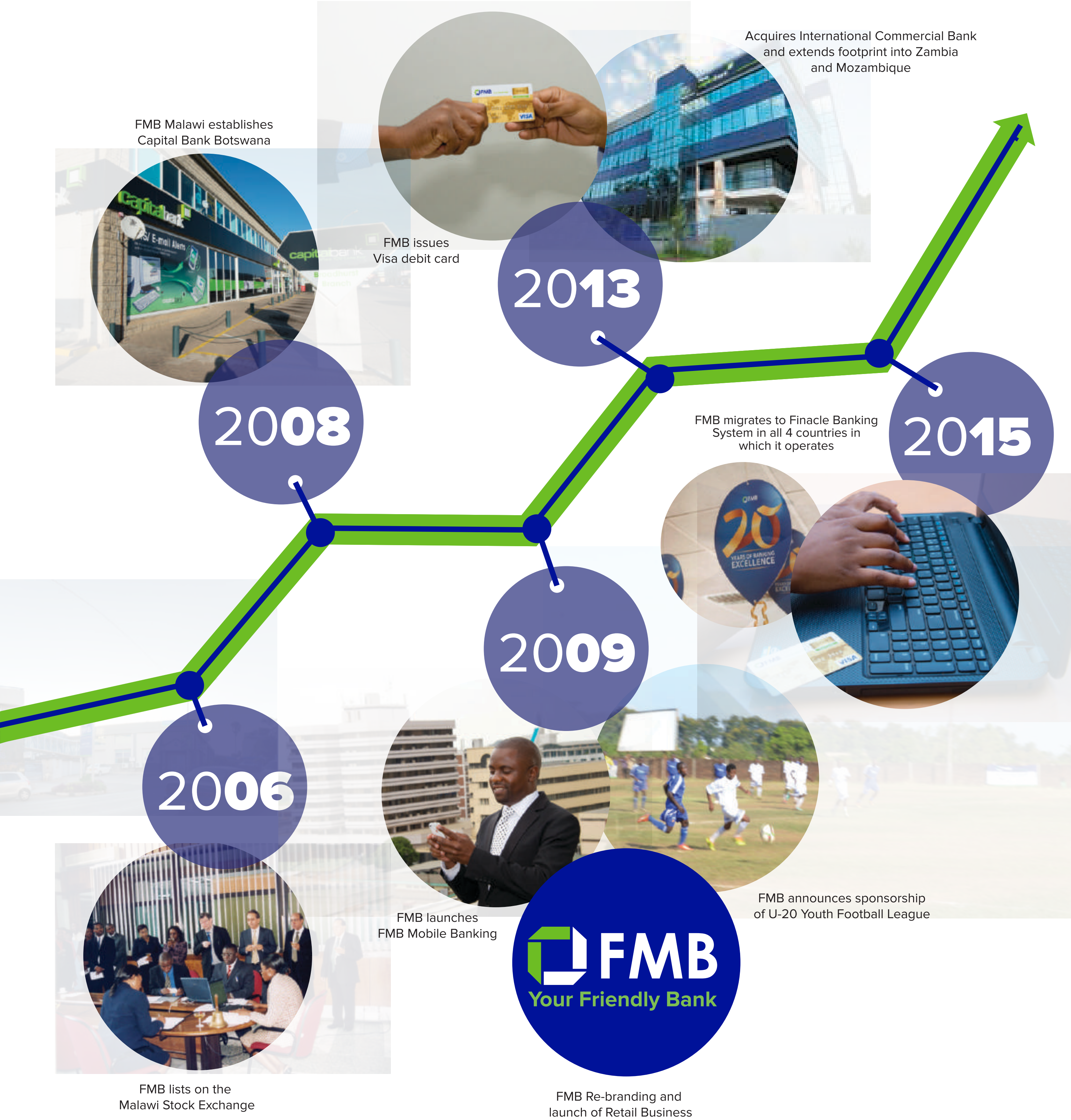
2002

LFC
Friends with money

Acquires Leasing & Finance
Company (LFC)

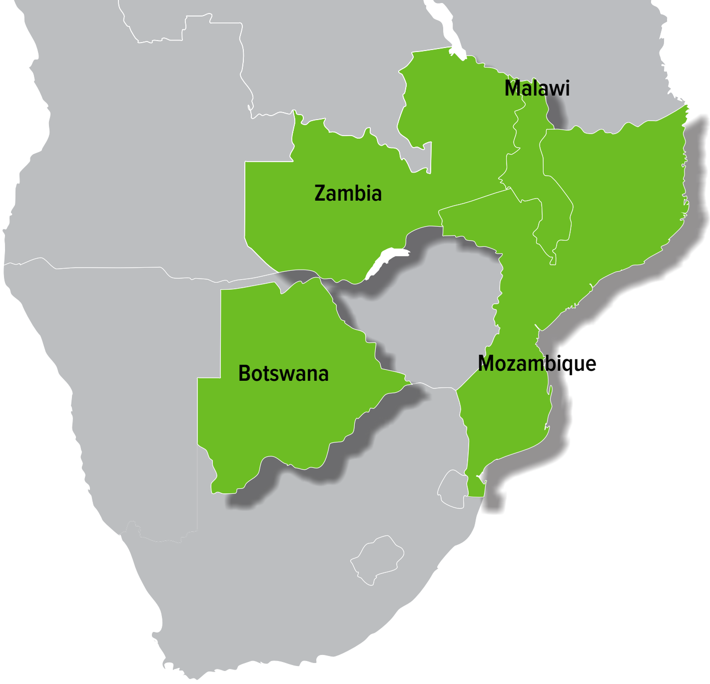
Introduction of Electronic
Banking services

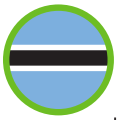
2004



CELEBRATING 20 YEARS OF BANKING EXCELLENCE

Regional Economic Review





Botswana

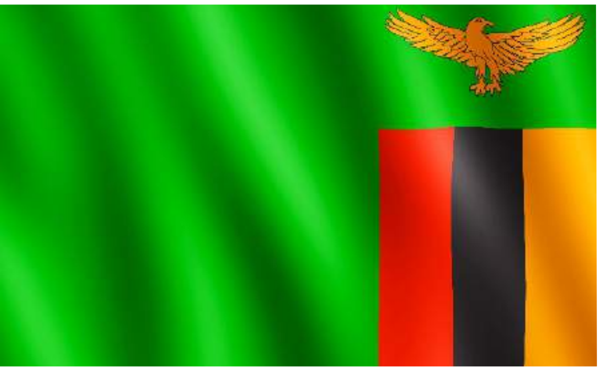
Economic momentum continued to slow in 2015, GDP growth falling from 5.8% in 2013 and 3.2% the following year to just 1%. Despite this latest decline – which derived primarily from commodity price weakness – most of Botswana's economic and financial fundamentals remained sound.

In 2015 the mining sector's contribution to GDP fell by 14%, a response to lower worldwide demand for diamonds and copper. Diamonds account for 40% of government revenue and more than 80% of dollar-denominated export earnings and the extraction of this single resource – although at present poorly integrated with the rest of the economy – is of cardinal importance to national finances.

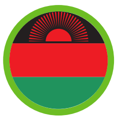
The relative robustness of the Botswana economy in the face of a disappointing GDP figure was illustrated in 2015 by the maintenance of import cover amounting to 19 months and an overall inflation figure which was substantially lower than those recorded by other southern African countries. Botswana's 2015/16 budget deficit was estimated at 2.8% of GDP after three years of surpluses, an outcome which reflected lower income from diamond and copper exports and lower-than-expected VAT and customs and excise revenue as well as the effects of drought and energy constraints. The country's 2016/17 budget envisages the budget shortfall rising to 4%.

While GDP growth was slowing, so too was inflation – halving between 2013 and 2015 to 3.1%. Imported inflation was limited with food cost increases being muted and weak fuel prices underpinning the country's inflation performance. The strength of the pula versus the rand, the source currency for much of Botswana's imports, further dampened inflationary pressures.

Reporting in March 2016, the IMF foresaw a real increase in GDP growth in the new year and, while the current account had declined in 2015 to a very modest surplus, this was expected to remain in positive territory, improving as Botswana returned to a stronger growth trajectory. In 2015 the country's trade deficit was largely offset by net receipts from the Southern African Customs Union.



Strong evidence that inflation was being well managed enabled the central bank to cut its policy rate from 6.5% to 6.0% in August 2015. In its report, the IMF commended Botswana for its commitment to increase financial risk testing and transparency. Inward investment opportunities include the authorities' economic diversification drive and plans to actively promote the development of tourism and special economic zones.



Malawi

Adverse weather conditions, rampant inflation and a weak currency combined with fiscal and monetary policy challenges to almost halve Malawi's growth performance in 2015 relative to consensus projections at the beginning of the year.

At an estimated 3.0%, GDP growth fell well short of the 5.4% envisaged by the 2014/15 national budget tabled in September 2014. Other key budget assumptions – most notably inflation and the value of the kwacha – turned out to be substantially more sanguine than was actually the case. These areas of underperformance, combined with the withdrawal of donor budgetary funding, led to government borrowings for the year that were 400% higher than those proposed.

In October 2015 the World Bank predicted that Malawi's 2015/16 budget deficit was likely to be in the order of 7.0%, a significant increase on the 5.4% of 2014/15 when, the Bank noted, developmental expenditure was halved to accommodate lower-than-expected revenue and growing demands for recurrent spending, including salaries and debt servicing.

The most profound brakes on Malawian economic growth in 2015 were weather related: flooding in January and a subsequent drought which reduced production of the staple maize crop by some 30% and left 2.8 million people exposed to food insecurity. Positively, tobacco production held up well in 2015 although income was negatively affected by depressed international prices.

The importance of fiscal discipline was emphasised this year by both the World Bank and the IMF which warned that a lack of such discipline was negatively affecting overall business and investor confidence while noting that donors continued to take fright at the so-called cashgate scandal of 2013. Provided that there was greater fiscal consolidation and tighter monetary policy, (and given the absence of drought and/or flooding) the IMF foresaw inflation easing in 2016, reaching single digits the following year, and growth rebounding over the medium term, to recent levels in the region of 5%-plus.

Given the government's domestic financing requirement, the public sector plays a disproportionate role in the Malawian financial sector. This requirement and the dominance of a few large borrowers combined with very high interest rates restricted the banking sector's ability to broaden the extension of growth-generating credit in 2015. While a reduction in the key liquidity reserve requirement increased banking-sector liquidity and enabled a reduction in prime lending rates from a high of 38%, private-sector credit extension declined with lending rates likely to remain prohibitive for all but a small concentration of borrowers until such time as inflation is effectively reined in. Inflation remained high throughout 2015, ending the year at some 25%.

Mozambique

Mozambique experienced significant economic headwinds in 2015, GDP growth slipping below 7% for only the second time in two decades, the metical losing half of its value against the US dollar and foreign investment flows falling precipitously.

Compounding the country's economic challenges, at 10.55% by year-end, inflation was almost double the official target while the current account deficit widened.

In 2015 the depressed state of commodity markets weighed negatively on Mozambique and persistently low LNG and coal prices could potentially have a profound impact on the country's short- and medium-term prospects.

The Mozambican government's ability to foster growth was severely hampered by the metical's dramatic depreciation. The potential upside of this development was limited by prevailing poor commodity prices while increasing the burden of domestic debt – more than 80% of which is denominated in foreign currency.

In November the IMF extended a US$ 284 million support package to Mozambique but disbursement was abruptly suspended in April 2016 when the fund announced that Mozambique had failed to disclose to it over US$1 billion in external debt. Embarrassment over the non-disclosure shook investor and lender sentiment towards Mozambique with observers warning of an imminent default.

For 2016 the authorities had projected a budget deficit equivalent to 10.2% of GDP – approximating the figure for 2014 but higher than the 6.5% achieved in 2015. The 2016 deficit increase is largely ascribable to Mozambique's need to invest in infrastructure, including that underpinning so-called megaprojects, while the state's burgeoning employment bill continues to consume a disproportionate share of resources, as does debt servicing. While the restructuring, in 2015, of state fishing company Ematum's $850 million debt was met with disquiet (ratings agency Standard and Poor's described it as being "tantamount to a default"), investors subsequently approved the restructure, giving the authorities some fiscal breathing space. An improvement in donor sentiment in 2016 and greater spending discipline had been considered likely to improve short-term fiscal prospects but the debacle over IMF funding severely clouded the country's short-term prospects.

Mozambique's current account deficit – at over a third of GDP – is reportedly the third highest in the world and while of concern to investors and lenders, is set to increase even further, to as much as 90% of GDP by 2020. This trend is expected in the ramp-up to LNG production which it is generally agreed will translate into GDP growth rates of over 20% for most of the 2020s. In achieving this game-changing outlook, so-called final investment decisions, by the two key LNG developers, expected in mid-2016, will be of the utmost importance.

Responding to mounting inflation woes and in a bid to restore investor confidence, in December 2015 the Bank of Mozambique increased its lending rate to commercial banks by 150 basis points while also raising its reserve requirements. In early 2016 inflation had moderated and the national currency had clawed back some of the losses sustained in the previous year. Of on-going concern, however, is the limited ability of monetary policy to influence the growth of credit and so-called financial deepening. Successive interest rate hikes implemented in 2015 are likely to have the effect of putting credit even further beyond the reach of smaller businesses, a fact that undermines Mozambique's drive to diversify beyond its reliance on commodities.

Zambia

Zambia's enviable five-year record of posting annual growth rates averaging over 6% and well in excess of the sub-Saharan average ended abruptly in 2015.

The effects of slumping copper prices – which had been in play since 2011 – finally caught up with Zambia which also suffered a particularly poor maize harvest (following a bumper crop in 2014).

After recording annual growth of 6.4% since 2010, in 2015 Zambian GDP slumped to half that figure while the kwacha suffered a devastating depreciation, falling as much as 70% against the US dollar. As the kwacha plummeted, inflation peaked and was still running at over 22% in Q1 2016. Not only did the drought threaten food security and impact Zambia's balance of payments, low water levels also deprived the country of as much as 700 megawatts of hydroelectric power capacity, impacting manufacturing and services as rolling blackouts.

In 2015 international copper prices fell by a quarter, having a singularly negative impact on an economy which derives three-quarters of its export revenue from the metal. As a result, mining receiptsd declined to 13% of government revenue in 2015, from a high of 17% three years earlier. Despite the signs of slackening demand for copper, government had, in recent years, followed a determinedly expansionary fiscal policy. With revenue regularly disappointing against projections, Zambia ran fiscal deficits of 6.7% in 2013 and 8.1% in 2015. As a result, gross government debt rose to 50% of GDP by year-end 2015, 75% of which debt is denominated in foreign currency. (In July 2015 Zambia issued its third, $1.25 billion, Eurobond.)

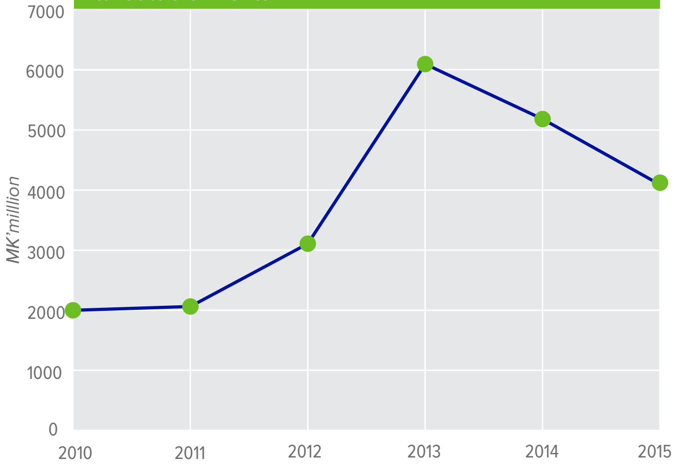
With a general election scheduled for August 2016, observers have doubted Zambia's ability to consolidate expenditure while bodies including the IMF and World Bank have urged the authorities to take bold action on electricity tariffs and fuel and agricultural subsidies. Despite the outlook for the economy, the 2016 budget projected expenditure consuming an even greater share of GDP than in 2015 while the prospects for increased revenue collection appeared, at best, doubtful.

With a government seemingly committed to an expansionary fiscal stance, monetary policy was largely employed to cap inflationary pressures, a policy that, as events proved, failed to deliver hoped-for outcomes. In April the statutory reserve ratio was increased to 18% while leaving the key policy rate unchanged until November when it was increased from 12.5% to 15.5% and caps on lending rates were removed in a bid to increase the availability of credit.

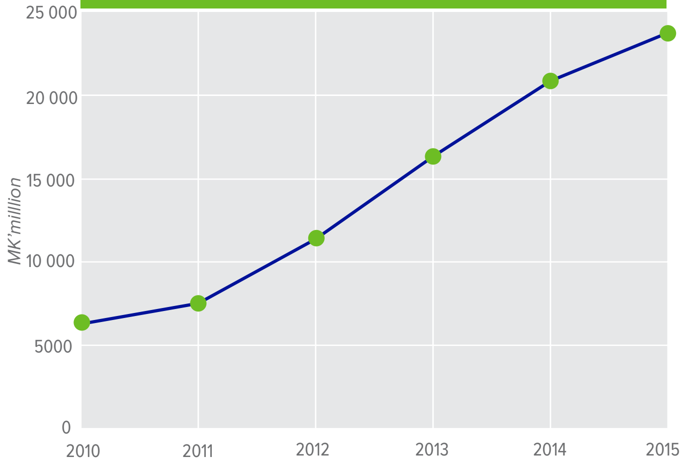
Subsequent to the year end Zambia's prospects for achieving projected growth in the order of 5% by 2017/18 received a boost when Glencore announced a US$1.1 billion investment in three new shafts. International copper prices, however, remained depressed.

Financial Highlights

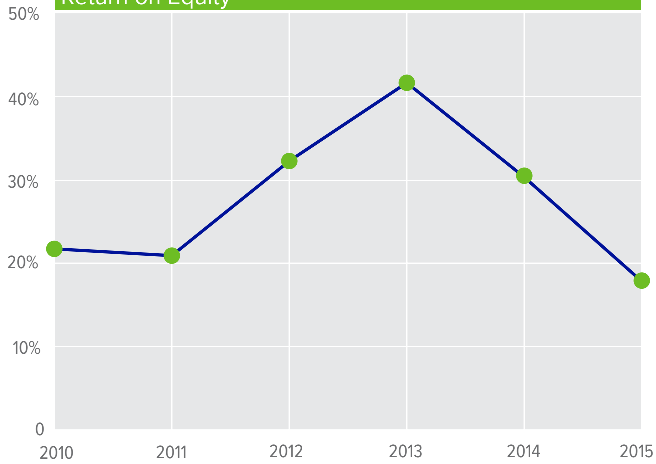
Attributable Profits



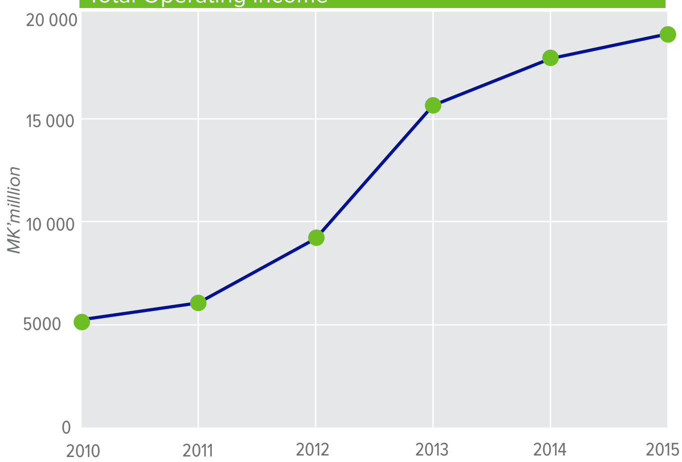
Shareholders' Funds



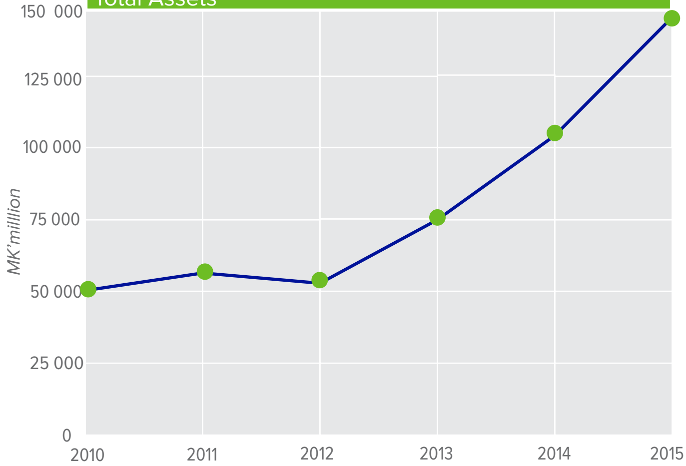
Return on Equity



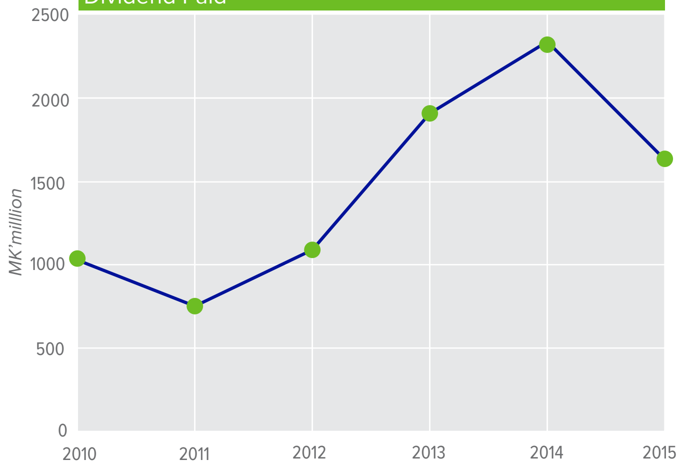
Total Operating Income



Total Assets



Dividend Paid



	MK'm		
Shareholders' Funds 2015	23 233	Earnings per Share	174 tambala
Total Assets	149 049	Dividends per Share**	70 tambala
Total Income	18 486	PE Ratio*	8.03
Profit after Tax	3 861	Price/ Book Value Ratio*	1,41
Share Price at Year End	1400 tambala	Return on Equity	18%

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

Hitesh Anadkat - Group Chairman

Chairman's Letter

The year under review saw us celebrate 20 years of operations, starting from humble beginnings with one branch in Blantyre, Malawi and growing into a regional banking group with a presence and multiple points of representation in Botswana, Malawi, Mozambique and Zambia. However, our celebrations were overshadowed by our sorrow over the death during the year of Mr. Natwarlal Anadkat who was a founding shareholder of FMB and a much valued director from its inception. We will greatly miss his wise counsel.

On the operational front, upgrades of the core banking system across the group continued and another milestone was reached when FMB itself successfully switched over to Finacle in mid-2015. The new system is highly parameterized and rich in functionality and operational controls. Its introduction has brought considerable efficiencies into our business processes.

Economic growth in all our territories of operation slowed dramatically. Botswana, Mozambique and Zambia were faced with a slump in world commodity prices. The Malawi economy saw a contraction in output from its dominant agriculture sector due to adverse weather patterns. The relative strength of the Botswana economy allowed it to ride the storm and maintain high levels of foreign reserves, a manageable fiscal deficit and even a declining inflation rate. The relatively more fragile economies of the other three countries fared worse, the major manifestations of their problems being expanding fiscal deficits, mounting inflation rates and sharp depreciations in the values of their domestic currencies.

Against this background, the group continued to maintain balance sheet growth momentum with total group assets increasing by 43% to just short of K150 billion. The increase was, however, skewed towards lower risk, lower yield liquid assets as the depressed economic climate and prevailing high interest rate regime limited the available good quality lending opportunities.

Monetary policy interventions in various territories saw periods of tight money market liquidity driving up the cost of deposits. Net interest margin narrowed in percentage terms but still grew by 40% in absolute terms on the back of an expanded balance sheet.

Despite this, overall operating income was relatively flat. Regulatory interventions in the foreign exchange markets impacted adversely on both trading margins and volumes traded, with a resultant sharp fall in income from foreign exchange trading. Also, our listed equity portfolio returned a net loss in a depressed market.

Although the increase in our operating costs was contained marginally below inflation, the absence of growth in operating income has seen our cost to income ratio rise to a less than acceptable 66%.

We are vigorously enforcing cost containment strategies across the Group but it may take time to realize the full potential reduction in premises and staff costs as a result of IT upgrades and back office centralization. A return to historic efficiency levels will, therefore, require strong growth in both funded and non-funded income.

The capital adequacy levels of both the Company and the Group remain above the regulatory requirements. However, in order to achieve our targeted growth in income, we will need to take on a greater proportion of higher risk weight assets and continue to invest in technology to drive non funded income growth. Accordingly, your board has deemed it prudent to conserve our capital base to ensure that capital adequacy requirements do not pose a constraint to future growth. A second interim dividend will not be paid for the year ended 31 December 2015 and the total proposed dividend for the year is 70 tambala (2014:100 tambala).

The macroeconomic environment is expected to remain challenging in the year ahead. Mozambique will struggle to restore investor and donor confidence and Zambia will face difficulties in containing its fiscal deficit but the major concern is a looming food shortage in Malawi where maize production has slumped due to El Nino induced weather patterns. The need to import maize to meet the food deficit will, unless there is major donor assistance, have negative implications for foreign exchange reserves, government spending and efforts to control inflation and currency depreciation.

Our response to the likely challenges at the macroeconomic level is to continue to implement our cost containment strategies and remain relatively conservative in the management of our balance sheet whilst striving for broad based growth in both funded and non-funded income.

Lastly, I wish to express my gratitude to the directors, management and staff of all the Group companies for their dedication and hard work. Also, I thank the Central Banks of all the countries in which we operate for their support. I convey, on behalf of the entire FMB family, our sincere appreciation to Mr. Rasik Kantaria whom I succeeded as Chairman during the year. Rasik has most ably led the FMB Group for the first 20 years of its existence. I am happy to report that he will remain a director and continue to provide us with valuable guidance into the future.

Hitesh Anadkat
Chairman
May 2016

Dheeraj Dikshit - Group Managing Director

Group Managing Director's Report

2015 was a successful year in terms of our strategic initiatives both to grow our customer base and to increase operational efficiency across the group. However, several, mainly exogenous, factors caused us to fall short of our profitability targets. Principal amongst these was the general economic downturn in the region. Additionally, interventions by monetary authorities, aimed at restoring stability in foreign exchange and money markets, have negatively impacted on domestic net interest income and income from foreign exchange trading, both key income lines of the group.

Group Performance

Notable highlights of the group's performance in 2015 were a 43% growth in total assets from K104.4 billion to K149.0 billion, a 60% increase in customer deposits from K64.5 billion to K103.2 billion and a more modest 4% increase in operating income from K17.8 billion to K18.5 billion.

As explained by the Chairman in his letter to shareholders, increased deposits were deployed more towards liquid investments, which grew by 67% from K43 billion to K70 billion, than towards higher yielding advances, which grew by 38% from K40 billion to K56 billion. Growth in deposits was mainly in the form of foreign currency accounts and term deposits from which we earn a narrower net interest margin. In Malawi, the requirement to maintain a liquidity reserve in domestic currency in respect of foreign currency deposits has also depressed net interest income. The combined effect of these factors was a narrowing in net interest margin from 10.4% achieved last year to 9.5% this year. Total net interest income did however grow by 39% from K8.7 billion to K12 billion.

Non interest income fell sharply from last year's total of K9.1 billion to K6.4 billion. Fee and commission income was flat as a result of reduced economic activity and a lesser volume of business transaction across all segments of our customer base. Our net gain on foreign exchange trading was down significantly. In Malawi, the gains that might have been expected as the domestic currency depreciated were negated by regulatory caps on spreads and losses on our subordinated debt exposure. In Mozambique, new regulations denied us access to previously profitable sources of foreign exchange. Our other non interest income line, income from listed equity

investments, also performed poorly, recording a net loss in a bear market where our individual investee companies also suffered a contraction in profitability.

Operating expenditure was contained in line with expectations, increasing by 23% from K9.9 billion to K12.2 billion. Significant increases due to the implementation of new IT systems were incurred in depreciation expense and annual software maintenance charges included in premises and equipment costs. However, increased efficiencies have enabled us to contain the growth in our largest operating expenditure line, staff costs, which increased by 18% over the prior year.

The majority of impairment losses charged against income, K416 million out of K675 million, were recorded in our Mozambique subsidiary. This relates mainly to one facility which continues to be paid down but has been classified and impaired on technical grounds. Overall, we believe we are carrying a prudent level of provisioning against our advances portfolio throughout the group.

Performance of our associated companies continues to improve. Capital Bank Botswana remains consistently profitable with our share of its after tax profits increasing from K216 million to K284 million. First Capital Bank Zambia also showed an improved performance but returned a modest loss for the year.

The reported group profit before taxation for the year of K5.6 billion is K2.8 billion less than the K7.4 billion recorded in the prior year, the main contributory factor in this rather disappointing result being the K2.7 billion drop in non interest income discussed above.

Major Projects
In mid 2015, FMB successfully switched over to its new core banking system, Finacle. The new system gives us an enhanced control environment and numerous operational efficiencies such as straight through processing of Swift and RTGS transfers and bill payments.

Our new switch is now operational in Malawi and is also processing Botswana and Zambia card transactions saving on overall group costs and offering us the opportunity to replicate functionalities such as mobile banking across the group. The switch has been integrated with the Malawi national switch allowing our card holders to utilize the ATM and POS network of all banks in Malawi and vice versa. To take advantage of this, we have embarked on a process of merchant acquisitions to roll out POS machines during 2016. We have also upgraded our ATM machine network.

Our data warehouse has been implemented, with the database domiciled in Malawi but warehousing data for Botswana, Malawi and Zambia. In addition to allowing full automation of Basel II reporting in Malawi, the warehouse allows management to source a wealth of data to analyze and monitor business performance trends.

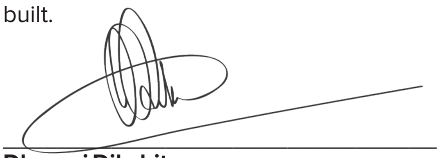
We are proceeding with the implementation of a centrally managed AML software, Transwatch, which automates the screening of all transactions for sanctioned parties. Such a system is now a necessity for remaining integrated in the global financial markets.

Other projects undertaken include the now completed upgrade of the internet banking platforms in all four countries, the launch of the new group website, pilot testing of cheque deposit machines in selected branches in Malawi and continued expansion of our bill payment service offering in Malawi, the latest addition being Malawi Revenue Authority.

Outlook
The short term macro economic forecasts for the region are not optimistic and we expect a continuation, to one degree or another, of the challenges faced in recent years. In particular, I echo the concern of our Chairman over the extent of the projected food deficit in Malawi, currently the main profit centre of the group.

Whilst economic growth remains muted, we need to strive to increase market share and promote our transactional banking service offerings to achieve our desired financial targets. To this end, I am pleased to report that the introduction of our new systems has enabled us to deploy more human resources into commercial and other customer facing roles without any increase in real terms in our overall staff costs. We are optimistic that we will see a positive return from this initiative.

Appreciation
Finally I would like to express my gratitude to the management and staff of all group companies for their efforts over the past year. Their commitment to the FMB group is the foundation on which our success has been built.

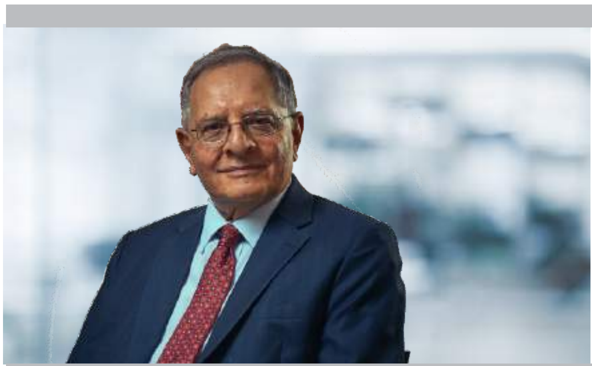


Dheeraj Dikshit
Group Managing Director

FMB Group Board of Directors

Hitesh N Anadkat
Chairman

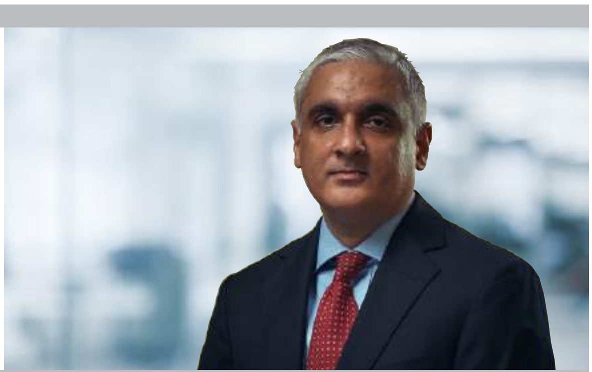
Mr. Anadkat holds an MBA from Cornell University and a BSc (Hons) Economics from the University of London. Prior to returning to Malawi to establish First Merchant Bank, he worked in a corporate finance house in USA specialising in mergers and acquisitions and company valuations. He also holds other directorships in a number of sectors of the Malawi economy, principally, banking, telecommunications, manufacturing and property development. Mr Anadkat was appointed Chairman in August 2015.



Rasik C Kantaria
Director

Mr. Kantaria has a BSc in Economics, is Chairman of Prime Bank Limited, Kenya and Chairman of Prime Capital and Credit Limited, Kenya. He holds directorates in a number of other sectors of the Kenyan economy, principally property and tourism. His other directorships in Malawi are: The Leasing and Finance Company of Malawi Limited and BNC Packaging Limited. He was Chairman of the FMB Group until August 2015.

Dheeraj Dikshit
Group Managing Director



Mr. Dikshit holds an MBA and a Bachelor of Commerce. Prior to joining FMB, Mr Dikshit worked for HSBC in different senior capacities. He has more than 22 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr Dikshit joined FMB in 2011.

John M O'Neill
Group Finance Director

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

Bharat Jani
Director

Mr. Jani holds both Bachelor and Master of Commerce degrees and diplomas in Financial Management, Banking, and Computerised Banking. He joined Prime Bank Ltd, Kenya in 2001 and is currently the Managing Director of Prime Bank Limited, Kenya. He has over 36 years' banking experience, having previously worked for Reserve Bank of India, Union Bank of India and Trust Bank Limited in Kenya. He holds no other directorships in Malawi.

Modecai Msisha SC
Director

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

Dr. E. Ngalande
Director

Dr. Ngalande holds a BSocSc from the University of Malawi, an MA in Development Economics and Political Economy from Strathclyde University, and a PHD in Economics from Boston University. He has held postdoctoral teaching posts at leading Universities, prior to senior positions in government and the public sector. In 2000 he worked as the Governor of the Reserve Bank of Malawi in which he served a full term of five years ending in 2005. In 2006 he was appointed Executive Director of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa. He has published widely in Agricultural Economics, Health Care, Financing and Social Sectors. Dr Ngalande has served on several parastatal boards in Malawi.

Kevin Carpenter
Director

Mr. Carpenter, who has been in Malawi for over 28 years, was Partner in Charge of the PricewaterhouseCoopers Malawi practice until his retirement in 2008. He has since acted as an independent consultant. His experience includes external and internal audit, taxation, financial modeling, feasibility studies and project appraisals, business formation, structuring and restructuring. He has a wealth of accumulated experience having offered specialised advice to a large number of local and international organisations.

Executive Management

Dheeraj Dikshit
Group Managing Director

Mr. Dikshit holds an MBA and a Bachelor of Commerce. Prior to joining FMB, Mr Dikshit worked for HSBC in different senior capacities. He has more than 22 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr Dikshit joined FMB in 2011.

John M O'Neill
Group Finance Director

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

Kobus Louw
Group General Manager, Credit & Operations

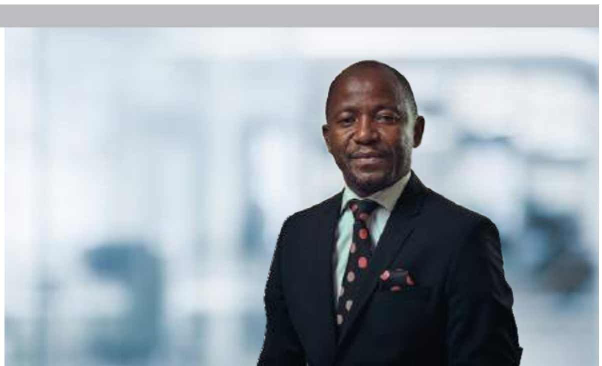
Mr. Louw holds an MBA and a Bachelor of Economics. He is presently studying towards a Masters in Futures Studies. Mr. Louw has 30 years' experience, having worked for two of the largest South African banks in a range of capacities. Most recently, he was Head of Business Banking for First National Bank Namibia. Mr Louw joined FMB on 1 April 2015.

Thomas J Kadantot
Group General Manager, International Banking

Mr. Kadantot's qualifications include an MBA in Finance & Accounting and a Post Graduate Diploma in Business Administration. He also holds a Bachelor of Science degree in Physics, Mathematics & Statistics from Bombay University, and a CAIIB (1) from India Institute of Bankers. His work experience spans 27 years. He has worked in various senior managerial positions in foreign exchange, branch operations, corporate banking, correspondent banking, trade finance and treasury.

Phillip Madinga
Group General Manager, Corporate & Commercial Banking

Mr. Phillip Madinga holds an MBA, a Bachelor of Business Management & Administration (Honours) and a BSocSci (Economics). He has also completed an Executive Development Programme (EDP) with the University of Stellenbosch Graduate Business School. He has over 22 years experience in banking and finance. He was previously Managing Director of FDH Bank Limited and prior to that was Head of Corporate and Investment Banking with Standard Bank Limited. In his own capacity, Mr Madinga is the Board Chairman of Sunbird Tourism Limited.



Regional CEO's

Jaco Viljoen
Chief Executive Officer, Capital Bank, Botswana

Mr. Viljoen is a holder of an MBA and several degrees. He has 21 years' work experience, and previously worked for Standard Bank and Barclays before joining Capital Bank. He is an expert in retail banking, commercial banking and marketing.

Jorge Stock
Chief Executive Officer, Capital Bank, Mozambique

Mr. Stock holds a Bachelor of Arts degree in Economics and French with Honors. He has 22 years' work experience and previously worked for BPI and BFA. He has expertise in retail banking, corporate banking, marketing and lean value stream leading.

Sachin Nigam
Chief Executive Officer, First Capital Bank, Zambia

Mr. Nigam is the Chief Executive Officer of First Capital Bank (FCB) and holds a Master of Business Administration degree. He has 17 years' experience in corporate and personal banking, wealth management, retail assets, credit assessment and grading, gained in the Indian banking sector from CRISIL, HSBC and ICICI.

Corporate Social Reponsibility

As a responsible corporate citizen the FMB Group is committed to making a significant and meaningful contribution to the development and upliftment of the communities we work in.

Across a range of sectors and social activities - education, sports, health and the environment - the year in review saw the Group actively engaged in providing enabling funding and other resources.

We are proud that our initiatives were recognised and rewarded when we emerged winners of the 'Corporate Social Investment of the Year Award' at the 2015 CIM Marketing Excellence Awards.

Health

Education

Environment

Sport

Financial Statements


Teller 2


FMB
Currency
TT Buy
TT Sell
Cash Buy
USD
GBP
ZAR
EURO
BWP

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 2015.

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 five wholly owned subsidiaries incorporated in Malawi as follows:

- The Leasing and Finance Company of Malawi Limited – Involved in deposit taking and asset financing.
- FMB Forex Bureau Limited – Involved in operation of foreign exchange bureaux.
- FMB Pensions Limited – Involved in Administration of Pension Funds.
- FMB Capital Markets Limited – Involved in asset management and
- International Commercial Bank Limited – Involved in realization of residual assets of former bank.

The Group has the following subsidiary operating outside Malawi:

- Capital Bank Limited - Mozambique – Involved in corporate and retail banking (70% shareholding).

The Group also has associated companies operating outside Malawi as follows:

- First Capital Bank Zambia Limited - Involved in corporate and retail banking (49% shareholding).
- Capital Bank Limited – Botswana – Involved in corporate and retail banking (38.6% shareholding)

The physical address of First Merchant Bank Limited'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 profit or loss and other 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 **MK 700.875 million** (30 tambala per share) and final dividend of **MK 467.25 million** (20 tambala per share) were paid during the year. An interim dividend for the year 2015 of **MK 1,168.125 million** (50 tambala per share) was paid during the year. The Directors propose a final dividend of **MK 467.25 million** (20 tambala per share) for approval at the forthcoming Annual General Meeting.

DIRECTORATE AND SECRETARY
The following Directors and Company Secretaries served during the year:

Mr H N Anadkat	Chairman, Non – Executive
Mr D Dikshit	Group Managing Director
Mr J M O'Neill	Group Finance Director
Mr R C Kantaria	Director – Non Executive
Mr N G Anadkat (deceased)	Director – Non Executive (up to 27 June 2015)
Mr B Jani	Director – Non Executive
Mr M Msisha	Director – Non Executive
Mr J Claassen	Director – Non Executive (Resigned on 14 September 2015)
Dr.E.Ngalande	Director – Non Executive (Appointed on 24 March 2015)
Mr. K.M Carpenter	Director – Non Executive (Appointed on 5 August 2015)
Mr D Mwangwela	Company Secretary (up to 30 September 2015)
Mr. O. Mtokale	Company Secretary (from 1 November 2015)

Mr M. Msisha and Mr D. Dikshit retire by rotation at the forthcoming Annual General Meeting but being eligible for re-appointment they offer themselves for re-election. A resolution will also be put before the meeting to confirm the appointment of Mr Kevin M. Carpenter who was co-opted to the board in August 2015.

Shareholding Analysis	2015 %	2014 %
Prime Capital and Credit Limited	11.24	11.24
Prime Bank Limited	11.24	11.24
Zambezi Investments Limited	-	44.94
Simsbury Holdings Limited	-	22.69
Magni Holdings Limited	32.80	-
N G Anadkat Limited	7.15	-
Hitesh N Anadkat	4.99	-
General Public	32.58	9.89
	100.00	**100.00**

Mr. J.M. O'Neill
Group Finance Director

Mr. M. Msisha
Director

12 April 2016

Statement on Corporate Governance

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

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

Board Meetings Attendance 2015				
Member	24 Mar-2015	9 Jun-2015	5 Aug- 2015	24 Nov- 2015
Mr R C Kantaria - Chairman – Chairman to 5 August 2015	✓	✓	✓	✓
Mr H N Anadkat - Vice Chairman - Chairman from 5 August	✓	✓	✓	✓
Mr D Dikshit - Group Managing Director	✓	✓	✓	✓
Mr J M O'Neill-Group Finance Director	✓	✓	✓	✓
Mr. N.G. Anadkat - Non Executive Director (Deceased)	X	✓	N/A	N/A
Mr M Msisha - Non-executive Director	✓	✓	✓	✓
Mr J Claassen - Non-executive Director	✓	✓	X	N/A
Mr B Jani - Non-executive Director	✓	✓	✓	✓
Dr. E. Ngalande - Non Executive Director	N/A	✓	X	✓
Mr K.M. Carpenter - Non Executive Director	N/A	N/A	N/A	✓
	✓ = Attended	X = Apology	N/A = Not Applicable	

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

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

Mr D Dikshit	Group Managing Director (Chairman)
Mr T Kadantot	General Manager - Corporate and International Banking
Miss A Jazza	Head - Corporate Banking
Mr R. Bajaj	Chief Commercial Officer
Mr S. Singhvi	Chief Operating Officer
Mr. K. Louw	Group General Manager, Credit and Operations
Mr M Kadumbo	Manager - Financial Control
Miss M Nyasulu	Manager - Treasury
Miss C Chirwa	Manager - Risk and Compliance

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

The Audit Committee comprises 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 J. Claassen	Non-Executive Director

Audit Committee Meetings Attendance 2015	24 Mar 2015	8 Jun 2015	4 Aug 2015	24 Sep 2015
Mr M Msisha	✓	✓	✓	✓
Mr B Jani	✓	✓	✓	✓
Mr J Claassen	✓	✓	X	N/A
	✓ = Attended	X = Apology		N/A = Not Applicable

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 Meetings Attendance 2015	27 Feb 2015	3 May 2015	3 Nov 2015
Mr. H. N. Anadkat - Chairman	✓	✓	✓
Mr. J.M O'Neill	✓	✓	✓
Mr. N.G. Anadkat	✓	X	N/A
✓ = Attended	X = Apology		N/A = Not Applicable

Appointments and Remuneration Committee
The Appointments and Remuneration Committee nominates persons to be appointed Directors (subject to shareholders' approval) and recommends to the Board, Executive and Non-Executive Directors and senior management remuneration.

The Committee also approves overall human resource and remuneration policies and strategies. The Appointments and Remuneration Committee comprises the following members:-

Mr H. N. Anadkat	Chairman
Mr M. Msisha	

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 two non-executive directors, one of whom is chairman of the committee and one executive director. The Company Managing Director, General Manager, Group General Manager - Credit and Operations, Manager, Financial Control and Risk and Compliance Manager attend all meetings. The members of the committee are:-

Mr. J. Claassen	Non-Executive Director (Chairman)
Mr. B. Jani	Non-Executive Director
Mr. J.M O'Neill	Group Finance Director

Risk Committee Meetings Attendance 2015	24 Mar 2015	8 Jun 2015	4 Aug 2015	24 Sep 2015
Mr. J. Claassen – Chairman	✓	✓	X	N/A
Mr B Jani	✓	✓	✓	✓
Mr. J.M. O'Neill	✓	✓	✓	✓

✓ = Attended X = Apology N/A = Not Applicable

DIRECTORS' QUALIFICATIONS

H.N. Anadkat, BSc (Econ), MBA	Chairman
D. Dikshit, B Comm. MBA	Group Managing Director
J.M. O'Neill, BSc (Maths & Mgt Sc) FCA, CA (Mw)	Group Finance Director
R.C. Kantaria, BSc (Econ)	Director
M. Msisha, SC LLM (Toronto), LLB (Hons) Mw	Director
J. Claassen, Bcom(Commerce)	Director
B. Jani, Post Grad. . (Commerce), BSc (Banking & Fin. Mgt)	Director
E. Ngalande, Phd, BSoc, MA	Director
K.M. Carpenter, FCA, CA (Mw)	Director

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 2015 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 and Banking Act 2010. In addition, the directors are responsible for preparing the directors' report.

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

The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the International Financial Reporting Standards and in a manner required by the Malawi Companies Act, 1984.

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 12 April 2016 and are signed on its behalf by:

By order of the Board

Mr. J.M. O'Neill
Group Finance Director

Mr. M. Msisha
Director

12 April 2016

Auditors' Report

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF FIRST MERCHANT BANK LIMITED

We have audited the consolidated and separate financial statements of First Merchant Bank Limited, which comprise the statements of financial position as at 31 December 2015, 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, as set out on pages 30 to 100.

Directors' Responsibility for the Consolidated and separate financial statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 management, as well as evaluating the overall presentation of the 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, these financial statements give a true and fair view of the consolidated and separate financial position of First Merchant Bank Limited as at 31 December 2015 and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in a manner as required by the Malawi Companies Act, 1984, so far as it concerns members of the company.

KPMG

Chartered Accountants (Malawi)
Blantyre

12 April 2016

KPMG

Statements of Financial Position

In thousands of Malawi Kwacha

		Consolidated		Separate	
	Note	**2015**	**2014**	**2015**	**2014**
Assets					
Cash and cash equivalents	7	35,766,563	32,429,431	28,565,161	24,978,112
Money market investments	8	34,230,490	10,651,002	26,991,153	6,599,188
Loans and advances to customers	9	52,533,783	35,650,617	40,285,729	29,486,492
Finance lease receivables	10	3,296,497	4,556,258	-	-
Amounts due from related parties	12	263,197	127,288	377,072	202,907
Derivative asset	38	543,373	-	543,373	-
Current tax assets	30 (c)	572,499	-	331,530	-
Investments in listed companies	13	4,617,771	5,025,873	4,617,771	5,025,873
Investment in subsidiaries	14(a)	-	-	3,569,833	2,778,288
Investment in associated companies	14(b)	5,054,032	4,817,482	4,297,105	4,297,105
Property and equipment	15(b)	7,572,605	8,178,029	5,902,424	6,912,930
Intangible assets	15(a)	2,846,744	835,751	2,224,273	156,960
Other assets	11	1,751,479	2,091,115	1,016,450	1,579,398
Total assets		**149,049,033**	**104,362,846**	**118,721,874**	**82,017,253**
Liabilities and equity					
Liabilities					
Balances due to other banks	18	11,733,706	7,341,200	9,381,320	6,222,275
Customer deposits	17	103,159,117	64,493,327	78,334,359	46,143,472
Current tax liabilities	30(c)	-	409,599	-	367,144
Other payables	19	2,405,538	5,033,762	2,164,940	4,462,222
Employee benefits liabilities	20	75,227	75,227	75,227	75,227
Subordinated debt	37	6,644,451	4,644,276	6,644,451	4,644,276
Deferred tax liabilities	16	922,212	351,933	652,801	210,624
Total liabilities		**124,940,251**	**82,349,324**	**97,253,098**	**62,125,240**
Equity					
Share capital	21(a)	116,813	116,813	116,813	116,813
Share premium	21(b)	1,565,347	1,565,347	1,565,347	1,565,347
Property revaluation reserve	22	2,634,331	2,705,248	2,550,356	2,550,356
Loan loss reserve	23	1,588,083	488,594	1,345,670	445,009
Non distributable reserves	24	350,000	350,000	-	-
Translation reserve	25	96,668	(55,297)	-	-
Retained earnings		16,881,479	16,158,436	15,890,590	15,214,488
Total equity attributable to equity holders of the company		**23,232,721**	**21,329,141**	**21,468,776**	**19,892,013**
Non controlling interest	32(b)	876,061	684,381	-	-
Total equity		**24,108,782**	**22,013,522**	**21,468,776**	**19,892,013**
Total equity and liabilities		**149,049,033**	**104,362,846**	**118,721,874**	**82,017,253**

The consolidated and separate financial statements were approved for issue by the Bank's Board of Directors on 12 April 2016 and were signed on its behalf by:

Mr. J.M. O'Neill-Group Finance Director

Mr. M. Msisha - Director

Statements of Profit or Loss and other Comprehensive Income

In thousands of Malawi Kwacha

		Consolidated		Separate	
	Note	**2015**	**2014**	**2015**	**2014**
Interest income	26	17,112,528	12,505,246	12,728,531	9,288,852
Interest expense on deposits and other accounts		(5,079,389)	(3,837,064)	(2,960,979)	(2,230,507)
Net interest income		**12,033,139**	8,668,182	**9,767,552**	7,058,345
Fees and commission income		4,431,949	4,377,378	2,759,419	3,310,352
(Loss)/ Income from investments	27	(352,563)	762,867	147,437	1,562,867
Gain on foreign exchange transactions		2,373,826	4,036,977	2,350,452	3,978,031
Total operating income		**18,486,351**	**17,845,404**	**15,024,860**	**15,909,595**
Staff and training costs	28	6,549,133	5,541,187	5,024,206	4,343,126
Premises and equipment costs		1,346,584	1,053,776	1,346,199	1,053,649
Depreciation expense	15	981,365	598,967	744,304	523,372
Other expenses	29	3,305,359	2,746,442	2,135,019	1,635,702
Impairment loss on financial assets	39	674,931	516,400	164,735	451,179
Total expenses		**12,857,372**	**10,456,772**	**9,414,463**	**8,007,028**
Operating profit		**5,628,979**	**7,388,632**	**5,610,397**	**7,902,567**
Share of profit from associate		236,550	122,485	-	-
Profit before income tax expense		**5,865,529**	**7,511,117**	**5,610,397**	**7,902,567**
Income tax expense	30	(2,004,715)	(2,314,371)	(1,697,384)	(1,965,288)
Profit for the year		**3,860,814**	**5,196,746**	**3,913,013**	**5,937,279**
Other comprehensive income **Items that will never be classified to profit or loss**					
Revaluation surplus on property		-	970,416	-	911,360
Deferred tax on revalued property		-	(123,300)	-	(123,300)
Deferred tax released on disposal of a revalued property		14,369	-	-	-
		14,369	**847,116**	**-**	**788,060**
Items that are or may be classified to profit or loss					
Translation difference for foreign operations		217,094	(23,076)	-	-
Total other comprehensive income for the year		**231,463**	**824,040**	**-**	**788,060**
Total comprehensive income for the year		**4,092,277**	**6,020,786**	**3,913,013**	**6,725,339**
Profit or loss attributable to:					
Owners of the parent		4,073,496	5,457,150	3,913,013	5,937,279
Non controlling interest	32(b)	(212,682)	(260,404)	-	-
Profit for the year		**3,860,814**	**5,196,746**	**3,913,013**	**5,937,279**
Total comprehensive income attributable to:					
Owners of the parent		4,239,830	6,288,112	3,913,013	6,725,339
Non controlling interest		(147,553)	(267,326)	-	-
Total comprehensive income for the year		**4,092,277**	**6,020,786**	**3,913,013**	**6,725,339**
Basic and diluted earnings per share (tambala)	31	174	234		

Statements of Changes in Equity

In thousands of Malawi Kwacha

Consolidated	Share Capital	Share Premium	Translation reserve	Property revaluation reserve	Loan loss reserve	Non distributable reserve	Retained earnings	Total	Non controlling interest	Total equity
Balance at 1 January 2015	**116,813**	**1,565,347**	**(55,297)**	**2,705,248**	**488,594**	**350,000**	**16,158,436**	**21,329,141**	**684,381**	**22,013,522**
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	**4,073,496**	**4,073,496**	**(212,682)**	**3,860,814**
Other comprehensive income										
Deferred tax on property revaluation	-	-	-	14,369	-	-	-	14,369	-	14,369
Foreign currency translation differences for foreign operations	-	-	151,965	-	-	-	-	151,965	65,129	217,094
Total other comprehensive income	**-**	**-**	**151,965**	**14,369**	**-**	**-**	**-**	**166,334**	**65,129**	**231,463**
Total comprehensive income for the year	**-**	**-**	**151,965**	**14,369**	**-**	**-**	**4,073,496**	**4,239,830**	**(147,553)**	**4,092,277**
Transfers within reserves										
Transfer of realized reserve on sale of property	-	-	-	(85,286)	-	-	85,286	-	-	-
Transfer to loan loss reserve	-	-	-	-	1,099,489	-	(1,099,489)	-	-	-
Total transfers within reserves	-	-	-	(85,286)	1,099,489	-	(1,014,203)	-	-	-
Transactions with owners recorded directly to equity										
Contributions and distributions to owners										
Additional capital subscription	-	-	-	-	-	-	-	-	339,233	339,233
Dividends to owners of the parent	-	-	-	-	-	-	(2,336,250)	(2,336,250)	-	(2,336,250)
Total transactions with owners	-	-	-	-	-	-	(2,336,250)	(2,336,250)	339,233	(1,997,017)
Balance at 31 December 2015	**116,813**	**1,565,347**	**96,668**	**2,634,331**	**1,588,083**	**350,000**	**16,881,479**	**23,232,721**	**876,061**	**24,108,782**

Statements of Changes in Equity

In thousands of Malawi Kwacha

Consolidated	**Share Capital**	**Share Premium**	**Translation reserve**	**Property revaluation reserve**	**Loan loss reserve**	**Non distributable reserve**	**Retained earnings**	**Total**	**Non controlling interest**	**Total equity**
Balance at 1 January 2014	**116,813**	**1,565,347**	**(39,143)**	**1,858,132**	**297,613**	**350,000**	**12,994,892**	**17,143,654**	**468,331**	**17,611,985**
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	**5,457,150**	**5,457,150**	**(260,404)**	**5,196,746**
Other comprehensive income										
Property revaluation surplus	-	-	-	970,416	-	-	-	970,416	-	970,416
Deferred tax on property revaluation surplus				(123,300)	-	-	-	(123,300)	-	(123,300)
Arising on consolidation of subsidiary	-	-	(16,154)	-	-	-	-	(16,154)	(6,922)	(23,076)
Total other comprehensive income	-	**-**	**(16,154)**	**847,116**	**-**	**-**	**-**	**830,962**	**(6,922)**	**824,040**
Total comprehensive income for the year	-	**-**	**(16,154)**	**847,116**	**-**	**-**	**5,457,150**	**6,288,112**	**(267,326)**	**6,020,786**
Transfers within reserves										
Transfer to loan loss reserve	-	-	-	-	190,981	-	(190,981)	-	-	-
Total transfers within reserves	-	-	-	-	190,981	-	(190,981)	-	-	-
Transactions with owners recorded directly to equity										
Contributions and distributions to owners										
Additional capital subscription	-	-	-	-	-	-	-	-	483,376	483,376
Dividends to owners of the parent (Note 33)	-	-	-	-	-	-	(2,102,625)	(2,102,625)	-	(2,102,625)
Total transactions with owners	-	-	-	-	-	-	(2,102,625)	(2,102,625)	483,376	(1,619,249)
Balance at 31 December 2014	**116,813**	**1,565,347**	**(55,297)**	**2,705,248**	**488,594**	**350,000**	**16,158,436**	**21,329,141**	**684,381**	**22,013,522**

Statements of Changes in Equity

In thousands of Malawi Kwacha

Separate	Share capital	Share premium	Property revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1 January 2015	**116,813**	**1,565,347**	**2,550,356**	**445,009**	**15,214,488**	**19,892,013**
Total comprehensive income for the year						
Profit for the year					3,913,013	3,913,013
Total comprehensive income for the year	**-**	**-**	**-**		**3,913,013**	**3,913,013**
Transfers between Reserves						
Transfer to loan loss reserve	-	-	-	900,661	(900,661)	-
Total transfers between reserves	-	-	-	900,661	(900,661)	-
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid (Note 33)	-	-	-	-	(2,336,250)	(2,336,250)
Balance at 31 December 2015	**116,813**	**1,565,347**	**2,550,356**	**1,345,670**	**15,890,590**	**21,468,776**
Balance at 1 January 2014	**116,813**	**1,565,347**	**1,762,296**	**246,245**	**11,578,598**	**15,269,299**
Total comprehensive income for the year						
Profit for the year					5,937,279	5,937,279
Other comprehensive income						
Property revaluation	-	-	911,360	-	-	911,360
Deferred tax on property revaluation	-	-	(123,300)	-	-	(123,300)
Total comprehensive income for the year	**-**	**-**	**788,060**	**-**	**5,937,279**	**6,725,339**
Transfers between Reserves						
Transfer to loan loss reserve	-	-	-	198,764	(198,764)	-
Total transfers between reserves	-	-	-	198,764	(198,764)	-
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid (Note 33)	-	-	-	-	(2,102,625)	(2,102,625)
Balance at 31 December 2014	**116,813**	**1,565,347**	**2,550,356**	**445,009**	**15,214,488**	**19,892,013**

Statements of Cash Flows

In thousands of Malawi Kwacha

		Consolidated		Separate	
	Note	**2015**	**2014**	**2015**	**2014**
Cash flows from operating activities					
Interest and fees received		25,103,965	23,042,159	17,958,310	16,183,606
Interest paid		(5,265,746)	(3,797,166)	(3,147,335)	(2,190,609)
Cash paid to suppliers and employees		(13,236,776)	(9,015,513)	(10,232,443)	(6,498,910)
		6,601,443	**10,229,480**	**4,578,532**	**7,494,087**
Net increase / (decrease) in customer balances		22,367,455	342,596	21,226,915	(1,401,958)
Cash generated from operations		**28,968,898**	**10,572,076**	**25,805,447**	**6,092,129**
Dividend received from listed and subsidiary companies		161,272	265,796	661,272	1,065,796
Income taxes paid	30 (c)	(2,402,165)	(2,318,212)	(1,953,881)	(2,096,815)
Net cash from operating activities		**26,728,005**	**8,519,660**	**24,512,838**	**5,061,110**
Cash flows from investing activities					
Purchases of money market investments	8	(23,579,488)	(6,026,711)	(20,391,965)	(3,585,753)
Proceeds from sale of equipment		174,919	-	7,212	-
Subscription for shares in subsidiary companies	14(a)	-	-	(791,545)	(1,184,700)
Acquisition of property and equipment	15	(2,695,107)	(2,864,953)	(1,901,967)	(1,911,471)
Net cash used in investing activities		**(26,099,676)**	**(8,891,664)**	**(23,078,265)**	**(6,681,924)**
Cash flows to financing activities					
Dividend paid	33	(2,336,250)	(2,102,625)	(2,336,250)	(2,102,625)
Repayment of loans from foreign banks		(764,393)	(411,490)	(764,393)	(411,490)
Subscription of new capital by non-controlling interest	14(a)	339,233	483,376	-	-
Proceeds from new credit line from foreign banks		1,196,001	3,108,944	1,196,001	3,108,944
Net cash (used in) from financing activities		**(1,565,409)**	**1,078,205**	**(1,904,642)**	**594,829**
Net increase / (decrease) in cash and cash equivalents		(937,080)	706,201	(470,069)	(1,025,985)
Cash and cash equivalents at 1 January		32,429,431	31,461,380	24,978,112	25,742,247
Effect of exchange rate fluctuations on cash and cash equivalents held		4,274,212	261,850	4,057,118	261,850
Cash and cash equivalents at 31 December	7	**35,766,563**	**32,429,431**	**28,565,161**	**24,978,112**

Notes to the Financial Statements

1. Reporting Entity

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

2. Basis of preparation

(i) **Statement of compliance**

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

The consolidated and separate financial statements were authorised for issue by the Board of Directors on **12 April 2016**.

(ii) **Basis of measurement**

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

- properties which are revalued;
- financial instruments at fair value through profit or loss are measured at fair value;

(iii) **Functional and presentation currency**

These consolidated and separate financial statements are presented in Malawi Kwacha, which is the 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 requires 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.

- Notes 4(c)(v), 9, 39 - Loans and advances to customers - Impairment
- Notes 4(c)(v), 10, 39 - Finance leases receivables- Impairment
- Notes 6,13 - Fair value measurement

(v) **Going concern basis of accounting**

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayments terms of the banking facilities as disclosed in note 18.

3 (a). ***Standards issued but not yet effective***

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements:

New or amended standards	Summary of requirements	Possible impact on the financial statements
IFRS 9 Financial instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 30 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The company is assessing the possible impact on its financial statements resulting from the application of IFRS 9.
IFRS 15 Revenue from contracts with customers	IFRS 15 establishes a comprehensive framework to determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted.	The company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact on the Company's financial statements.

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012 – 2014 Cycle-various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure Initiative (Amendments to IAS 1)
- Leases (IFRS 16)

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, namely The Leasing and Finance Company of Malawi Limited, FMB Pensions Limited, FMB Forex Bureau Limited, FMB Capital Markets Limited, Capital Bank Limited (Mozambique) and International Commercial Bank Limited (Malawi), and its associated companies, namely 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 remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(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 financial statements from the date that control commences until the date that control ceases. Uniform accounting policies have been applied throughout the Group.

(ii) **Loss of control**
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interest and other components of equity. Any resulting gain or loss, is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

(iv) **Transactions eliminated on consolidation**
Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

Interest in associates 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.

(b) Foreign currency

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

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss.

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

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

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

(c) Financial assets and liabilities

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

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

(ii) Classification

Financial assets

The Group classifies its financial assets into one of the following categories:

- loans and receivables
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss

(iii) Derecognition

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

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

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

(iv) Offsetting

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

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

(v) Identification and measurement of impairment

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

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

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

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

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

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.

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 non-financial assets are measured at cost less impairment losses, if any. Other assets comprise prepayments, cheques in the course of collection, dividends receivable, stocks of consumable stationery and computer spares and other receivables.

(f) Loans and advances to customers

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

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

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

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

(g) Investment securities

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 or fair value through profit or loss.

(I) Held-to-maturity

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

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

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

(ii) Fair value through profit or loss

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

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

(h) Investment in subsidiaries

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

(i) Investments in associates

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

(j) Intangible assets

Intangible assets acquired separately are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset it relates to. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives from the date that the asset is available for use. The effects of any changes in estimates are accounted for on a prospective basis. Intangible assets are amortised over five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The effects of any changes in estimates are accounted for on a prospective basis.

(k) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Revaluation

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

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

(iii) Subsequent Costs

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

(iv) Depreciation

Property and equipment 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%

(i) 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.

(l) Impairment of non-financial assets

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

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

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

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

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

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

(m) Customer deposits and balances due to other banks

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

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

(n) 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.

(o) 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.

(p) 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.

(I) 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.

(q) 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.

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 held to maturity investments.

4.Significant accounting policies (continued)

Income from finance leasing is included in net interest income as further described in accounting policy ®.

® **Leases**

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

(i) Finance lease - The Group as a lessor

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

(ii) Operating leases - The Group as a lessee

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

(s) Fees and commission income

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

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

(t) Income from investments

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

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

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

(u) Income tax

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

(i) Current tax

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.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is 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.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

(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) Provision

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pretax 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.

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

(y) Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under the fair value policy. Derivatives are always categorised as held-for-trading.

All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles as described under the heading “Offsetting”.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

(z) Financial guarantees, acceptances and letters of credit

Financial guarantees, acceptances and letters of credit are accounted for as off-statement of finance position transactions and disclosed as contingent liabilities, unless it is probable that the Group will be required to make payments under these instruments, in which case they are recognised as provisions.

(aa) Amounts due from related parties

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

5 Risk Management

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

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

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

5 (a) Risk Management Policies and Control

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

5 (b) Risk Management Structure

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

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

5 (c) Board Sub-Committees

(i) The Risk Committee

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

The Group Managing Director, General Manager - Corporate and International Banking, Group General Manager - Credit and Operations, Financial Control Manager and Risk and Compliance Manager attend the meetings.

(Ii) The Credit Committee

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

- Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers.
- Approval of all credit facilities above the discretionary limits set for management save for those requiring full Board approval in accordance with 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 Group Managing Director, General Manager - Corporate and International Banking, Company Secretary and Legal Counsel, Group General Manager - Credit and Operations, Credit Operations Manager, Risk and Compliance Manager, and Credit Control Manager attend the meetings.

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

(Ii) The Audit Committee

The Committee comprises of three non-executive directors.

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

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

5 (d) Management

(i) The Group Managing Director

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

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

(ii) The Risk and Compliance Manager

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

(I) 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 – Corporate and International Banking (Chairman)
- Group Managing Director
- Group General Manager - Credit and Operations
- Risk and Compliance Manager
- Treasury Manager
- Financial Control Manager.
- Chief Operating Officer
- Chief Commercial Officer
- Head of Corporate Banking
- Head of Government and International Organisations

5. Risk Management (continued)

(I) Management Risk Committee (MRC)
The Management Risk Committee (MRC) comprises

- Group Managing Director,
- Group General Manager - Credit and Operations,
- General Manager – Corporate and International Banking,
- Group Head of Information Technology,
- Risk and Compliance Manager,
- Chief Operations Officer,
- Chief Commercial Officer,
- Head of Corporate Banking
- Head of Government and International Organisations
- Head of Internal Audit,
- Head of Human Resources,
- Head of Marketing,
- Company Secretary and Legal Counsel.

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

(ii) Management Credit Committee (MCC)
The Management Credit Committee (MCC) comprises

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

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

5 (e) Risk Management Philosophy

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

Board of Directors		
1st line of Defence Risk Taking Unit Business Unit/ Office Managers	**2nd line of Defence** Risk Control Unit Risk and Compliance Department, Credit Risk Management and Underwriting	**3rd line of Defence** Independent Assurance Internal Audit
1st Line of Defence: Comprises 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: a. Formulating risk management framework and policies; developing tools and methodologies for risk identification and measurement; b. Performing independent risk monitoring and reporting to the Risk Committee of the Board Responsibilities of Credit Risk Management and Underwriting function include: a. Formulating credit policies; assessing credit facility applications/ proposals and recommending approvals to Credit Committee. B. Monitoring credit facilities and reporting to the Credit Committee of the Board.	**3rd Line of Defence:** Comprises of business units and Head Office departments. Provides independent assessments of risk management processes and infrastructure, as well as the adequacy and effectiveness of risk policies and internal controls.

5 (f) Risk Appetite

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

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

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

5 (g) Market Disclosures

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

RBM requires all banks in Malawi to provide comprehensive disclosures for risk management practices.

The Group has a Market Disclosure policy. A risk management report will be published twice a year.

5 (h) Stress Testing

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

5 (i) Significant Risks

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

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

5 (j) Capital Management

***(i)* Overview**

The Group operates a centralised capital management model. The capital management objectives as detailed in the Capital Management Framework are to meet the capital ratios required by 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.

5. Risk Management(continued)

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

(iv) Capital position as at 31 December 2015

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

In thousands of Malawi Kwacha

	Consolidated		Separate	
Tier 1 capital	2015	2014	2015	2014
Share capital	116,813	116,813	116,813	116,813
Share premium	1,565,347	1,565,347	1,565,347	1,565,347
Non-distributable reserves	350,000	350,000	-	-
Retained earnings	16,881,479	16,158,436	15,890,590	15,214,488
Deduct: Investments in unconsolidated entities	(2,527,016)	(4,832,482)	(3,933,469)	(4,312,105)
Deferred tax asset	(723,270)	(184,559)	(701,561)	(167,506)
Total Tier 1 Capital	**15,663,353**	**13,173,555**	**12,937,720**	**12,417,037**
Tier 2 capital				
Translation reserve	96,668	(155,297)	-	-
Property revaluation reserve	2,634,331	2,705,248	2,550,356	2,550,356
Loan loss reserve	1,588,083	488,594	1,345,670	445,009
Deduct: Investments in unconsolidated entities	(2,527,016)	-	(3,933,469)	-
Eligible subordinated debt	6,644,451	4,644,276	6,644,451	4,644,276
Total Tier 2 capital	**8,436,517**	**7,782,821**	**6,607,008**	**7,639,641**
Total qualifying capital	24,099,870	20,956,376	19,544,728	20,056,678
Total risk weighted assets	118,642,842	103,957,149	101,877,047	87,958,179
Tier 1 risk based capital ratio (minimum of 10%)	**13.20%**	**12.67%**	**12.70%**	**14.12%**
Total risk-weighted capital ratio (minimum of 15%)	**20.31%**	**20.16%**	**19.18%**	**22.80%**

***(i)* Credit Risk Management**

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

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

The board has established authorization thresholds for the Group 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.

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

c. **Foreign currency loans**

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

d. **Lending to local banks**

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

5. Risk Management(continued)

e. Guarantees

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

f. Letters of credit

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

5 (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 2015, these were as follows:

In thousands of Malawi Kwacha

Consolidated		**Loans and advances to**		**Finance lease receivables**		**Money market investments**	
	Notes	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Carrying amount	**8,9,10**	**52,533,783**	**35,650,617**	**3,296,497**	**4,556,258**	**34,230,490**	**10,651,002**
Standard (fully performing)		44,597,988	32,318,915	2,283,281	3,215,944	34,230,490	10,651,002
Past due but not impaired		5,889,141	3,094,101	229,435	1,078,527	-	-
Impaired		4,255,006	3,157,983	1,762,229	2,321,891	-	-
Gross receivable		**54,742,135**	**38,570,999**	**4,274,945**	**6,616,362**	**34,230,490**	**10,651,002**
Past due but not impaired loans and advances to customers comprise:							
30-60 days		5,613,921	1,117,510	221,610	161,280	-	-
61-90 days		275,220	1,311,175	7,825	304,222	-	-
>90 days		-	665,416	-	613,025	-	-
		5,889,141	**3,094,101**	**229,434**	**1,078,527**	**-**	**-**
An estimate of the fair value of collateral held against loans and advances to customers is shown							
Against individually impaired							
Property		6,155,062	7,119,742	1,661,100	1,441,500	-	-
Others		195,076	571,578	438,254	554,636	-	-
		6,350,138	**7,691,320**	**2,099,354**	**1,996,136**	**-**	**-**
Against past due but not impaired							
Property		3,480,231	1,385,251	526,500	910,827	-	-
Others		820,335	33,030	39,700	821,415	-	-
		4,300,566	**1,418,281**	**566,200**	**1,732,242**	**-**	**-**
Separate							
Carrying amount	**8,9,10**	**40,285,729**	**29,486,492**	**-**	**-**	**26,991,153**	**6,599,188**
Standard (fully performing)		32,788,620	28,092,130	-	-	26,991,153	6,599,188
Past due but not impaired		5,889,141	1,783,169	-	-	-	-
Impaired		3,405,399	2,534,633	-	-	-	-
Gross receivable		**42,083,160**	**32,409,932**	**-**	**-**	**26,991,153**	**6,599,188**
Past due but not impaired loans and advances to customers comprise:							
30-60 days		5,613,921	1,117,510	-	-	-	-
61-90 days		275,220	422,406	-	-	-	-
>90 days		-	243,253	-	-	-	-
		5,889,141	**1,783,169**	**-**	**-**	**-**	**-**
An estimate of the fair value of collateral held against loans and advances to customers is shown							
Against individually impaired							
Property		6,155,062	6,528,701	-	-	-	-
Others		195,076	571,578	-	-	-	-
		6,350,138	**7,100,279**	**-**	**-**	**-**	
Against past due but not impaired							
Property		3,480,231	1,385,251	-	-	-	-
Others		820,335	33,030	-	-	-	-
		4,300,566	**1,418,281**	**-**	**-**	**-**	**-**

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.

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

(i) **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.

(ii) **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.

(ii) **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.

(iv) **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.

(v) **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 2015 were as follows:

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Agriculture	12,555,826	9,576,906	12,114,668	8,741,167
Mining	26,208	43,189	26,208	43,189
Financial services	1,897,601	2,713,375	1,840,058	2,593,931
Construction	2,656,373	2,063,664	1,582,604	1,302,545
Energy / electricity / gas / water	41,155	70,033	12,071	51,696
Manufacturing	9,401,186	4,875,846	9,231,803	4,461,991
Wholesale and retail	19,809,244	17,880,232	11,298,168	10,752,655
Individual / households	2,120,959	2,164,080	1,468,033	1,391,955
Real estate	99,327	134,198	99,327	134,198
Tourism & leisure	615,945	616,844	465,651	442,553
Transport & communication	4,017,237	4,135,514	2,906,503	2,042,556
Others	5,776,019	913,480	1,038,066	451,496
	59,017,080	45,187,361	42,083,160	32,409,932
Split into:				
Loans and advances (Note 9)	54,742,135	38,570,999	42,083,160	32,409,932
Finance leases (Note 10)	4,274,945	6,616,362	-	-
	59,017,080	45,187,361	42,083,160	32,409,932

5. Risk Management (continued)

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.

In thousands of Malawi Kwacha

		Consolidated		Separate	
	Note	2015	2014	2015	2014
Gross maximum exposure					
Balances with central banks	7	9,580,169	10,386,631	7,601,018	8,886,247
Balances with other banks	7	21,818,625	18,231,139	17,021,669	12,856,677
Money market investments	8	34,230,490	10,651,002	26,991,153	6,599,188
Cheques in the course of clearing	7	86,070	166,727	86,070	166,727
Derivative asset	38	543,373	-	543,373	-
Investment in finance leases	10	4,274,945	6,616,362	-	-
Loans and advances	9	54,742,135	38,570,999	42,083,160	32,409,932
Total recognised financial assets		125,277,807	84,622,860	94,326,443	60,918,771
Letters of credit	35	26,983,105	5,391,861	26,117,340	4,499,595
Financial guarantees	35	13,315,081	7,267,867	13,209,783	7,160,689
Total unrecognised financial assets		40,298,186	12,659,728	39,327,123	11,660,284
Total credit risk exposure		**165,575,993**	**97,282,588**	**133,653,566**	**72,579,055**

5 (n) Market Risk

- **Market Risk Management**

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

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

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

- **Foreign Exchange Risk**

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

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

In the banking book, assets and liabilities mismatch is 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.

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%.

5 (r) Exposure to market risk

Foreign exchange exposures were as follows:

Consolidated

(MK' Million)	2015				2014			
	Assets	**Liabilities**	**Net**	**Sensitivity**	**Assets**	**Liabilities**	**Net**	**Sensitivity**
USD	32,775	30,997	1,778	1.78	13,058	16,963	(3,905)	(39.05)
GBP	6,351	6,287	64	0.64	634	346	288	2.88
EUR	4,700	4,579	121	1.21	1,505	1,159	346	3.46
ZAR	201	86	115	1.15	353	160	193	1.93
INR	27	-	27	0.27	29	-	29	0.29
JPY	22	-	22	0.22	257	-	257	2.57
MT	16,582	16,991	(409)	4.09	2,281	-	2,281	22.81

Separate

(MK' Million)	2015				2014			
	Assets	**Liabilities**	**Net**	**Sensitivity**	**Assets**	**Liabilities**	**Net**	**Sensitivity**
USD	31,817	29,445	2,372	23.72	11,588	15,496	(3,908)	(39.08)
GBP	6,351	6,287	64	0.64	634	346	288	2.88
EUR	4,693	4,447	246	2.46	1,421	1,075	346	3.46
ZAR	196	53	143	1.43	4,461	1,691	2,770	27.70
INR	27	-	27	0.27	29	-	29	0.29
JPY	22	-	22	0.22	257	-	257	2.57

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

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

5. Risk Management (continued)

5 (r) Exposure to market risk (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.

Consolidated

In thousands of Malawi Kwacha			Fixed rate instruments					
2015	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
Total assets	37,126,696	27,152,344	29,303,247	11,072,353	12,158,258	13,135,874	19,100,261	149,049,033
Total liabilities and equity interest	27,511,759	72,104,755	25,696,744	7,793,286	1,356,563	5,381,426	9,204,500	149,049,033
Interest sensitivity gap	9,614,937	(44,952,411)	3,606,503	3,279,067	10,801,695	7,754,448	9,895,761	-

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

Separate

In thousands of Malawi Kwacha			Fixed rate instruments					
2015	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
Total assets	33,896,353	23,407,515	22,836,767	7,185,524	8,756,045	8,460,285	14,179,385	118,721,874
Total liabilities and equity	24,361,744	63,920,436	14,458,855	115,228	1,279,686	5,381,426	9,204,499	118,721,874
Interest sensitivity gap	9,534,609	(40,512,912)	8,377,912	7,070,296	7,476,359	3,078,859	4,974,886	-

In thousands of Malawi Kwacha			Fixed rate instruments					
2014	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total**
Total assets	33,079,249	25,831,392	10,330,502	5,982,798	5,024,930	-	1,768,382	82,017,253
Total liabilities and shareholders' funds	25,007,230	39,380,447	7,274,735	407,014	264,596	51,321	9,631,910	82,017,253
Interest sensitivity gap	8,072,019	(13,549,055)	3,055,767	5,575,784	4,760,334	(51,321)	(7,863,528)	-

5. Risk Management (continued)

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

Assets:	2015 %	2014 %
Government securities	27	18 - 32
Deposits with banking institutions	20	23 - 25
Loans and advances to customers (base rate)	35	38
Liabilities:		
Customer deposits	0.15 - 25	0.15 - 24

Equity risk

The value of investment in listed companies as at 31 December 2015 and 2014 were as follows:

Fair value of investment in listed companies	4,617,771	5,025,873
Cost	793,679	793,679
Net increase in fair value of investments in listed equities	(408,102)	476,952
Impact on profit and equity of increase of share prices by 10%	461,777	502,587
Impact on profit and equity of decrease in share prices by 10%	(461,777)	(502,587)

Liquidity Risk

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

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

Policies

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

Liquidity Risk Management

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

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

Assessment of Liquidity Risk

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

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

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

Stress Testing

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

Liquidity risk
The Group's maturity gap analysis as at 31 December 2015 is given below:

In thousands of Malawi Kwacha

Consolidated	Note	Carrying amount	Gross nominal inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 Years
Assets									
Cash and cash equivalents	7	35,766,563	35,766,563	35,766,563	-	-	-	-	-
Money market Investments	8	34,230,490	34,230,490	1,701,661	8,065,155	12,047,296	8,686,222	3,730,156	-
Gross loans, advances and leases	9-10	55,830,280	59,017,080	15,755,470	8,358,468	5,452,428	3,108,013	13,847,988	12,494,713
Investments in listed companies		4,617,771	4,617,771	923,554	923,554	923,554	923,554	923,554	-
Other assets		3,623,538	3,623,538	3,623,538	-	-	-	-	-
Total assets		**134,068,642**	**137,255,442**	**57,770,786**	**17,347,177**	**18,423,278**	**12,717,789**	**18,501,698**	**12,494,713**
Liabilities									
Current and savings accounts	17	41,530,815	41,530,815	41,530,815	-	-	-	-	-
Foreign currency accounts	17	30,573,940	30,573,940	30,573,940	-	-	-	-	-
Term deposits accounts	17	31,054,362	31,054,362	14,090,882	8,882,938	7,684,559	395,983	-	-
Total liabilities to customers		**103,159,117**	**103,159,117**	**86,195,637**	**8,882,938**	**7,684,559**	**395,983**	**-**	**-**
Due to other banks	18	11,733,706	11,733,706	38,316	2,684,608	108,727	960,580	5,381,426	2,560,049
Subordinated debt	37	6,644,451	6,644,451	-	-	-	-	6,644,451	-
Other liabilities		1,356,434	1,356,434	1,356,434	-	-	-	-	-
Total liabilities		**122,893,708**	**122,893,708**	**87,590,387**	**11,567,546**	**7,793,286**	**1,356,563**	**12,025,877**	**2,560,049**
Net liquidity gap		**11,174,934**	**14,361,734**	**(29,819,601)**	**5,779,631**	**10,629,992**	**11,361,226**	**6,475,821**	**9,934,664**
Cumulative liquidity gap		**11,174,934**	**14,361,734**	**(29,819,601)**	**(24,039,969)**	**(13,409,977)**	**(2,048,751)**	**4,427,070**	**14,361,734**

5. Risk Management (continued)

Liquidity risk
The Group's maturity gap analysis as at 31 December 2014 is given below:

in thousands of Malawi Kwacha

Consolidated	**Note**	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**Over 3 years**
Assets									
Cash and cash equivalents	7	32,429,431	32,429,431	32,429,431	-	-	-	-	-
Money market investments	8	10,651,002	11,195,433	967,540	1,022,276	5,025,448	4,121,654	-	58,515
Gross loans, advances and leases	9-10	40,206,875	45,187,360	7,867,389	12,427,831	12,535,164	5,090,561	3,769,799	3,496,616
Investments in listed companies	13	5,025,873	5,025,873	1,005,175	1,005,175	1,005,175	1,005,175	1,005,173	-
Other financial assets		1,710,304	1,710,304	1,710,304	-	-	-	-	-
Total assets		**90,023,485**	**95,548,401**	**43,979,839**	**14,455,282**	**18,565,787**	**10,217,390**	**4,774,972**	**3,555,131**
Liabilities									
Current and savings accounts	17	38,403,866	38,403,866	38,403,866	-	-	-	-	-
Foreign currency accounts	17	11,999,631	11,999,631	11,999,631	-	-	-	-	-
Term deposits accounts	17	14,089,830	14,089,830	6,298,192	7,247,271	393,167	151,200	-	-
Total liabilities to customers		**64,493,327**	**64,493,327**	**56,701,689**	**7,247,271**	**393,167**	**151,200**	**-**	**-**
Due to other banks	18	7,341,200	7,341,200	1,648,925	326,661	62,064	315,917	2,010,929	2,976,704
Subordinated debt	37	4,644,276	4,644,276	-	-	-	-	-	4,644,276
Other financial liabilities		5,518,588	5,518,588	5,518,588	-	-	-	-	-
Total liabilities		**81,997,391**	**81,997,391**	**63,869,202**	**7,573,932**	**455,231**	**467,117**	**2,010,929**	**7,620,980**
Net liquidity gap		**8,026,094**	**13,551,010**	**(19,889,363)**	**6,881,350**	**18,110,556**	**9,750,273**	**2,764,043**	**(4,065,849)**
Cumulative liquidity gap		**8,026,094**	**13,551,010**	**(19,889,363)**	**(13,008,013)**	**5,102,543**	**14,852,816**	**17,616,859**	**13,551,010**

Liquidity risk

The Company's maturity gap analysis as at 31 December 2015 is given below:

in thousands of Malawi Kwacha

Separate	**Note**	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**Over 3 Years**
Assets									
Cash and cash equivalents	7	28,565,161	28,565,161	28,565,161	-	-	-	-	-
Money market Investments	8	26,991,153	26,991,153	493,820	5,761,809	8,645,083	8,460,285	3,630,156	-
Loans, advances and leases	9-10	40,285,729	42,083,160	14,311,844	8,132,957	2,305,281	2,625,042	8,332,068	6,375,968
Investments in listed companies	13	4,617,771	4,617,771	923,554	923,554	923,554	923,554	923,554	-
Other assets		2,605,846	2,605,846	2,605,846	-	-	-	-	-
Total assets		**103,065,660**	**104,863,091**	**46,900,225**	**14,818,320**	**11,873,918**	**12,008,881**	**12,885,778**	**6,375,968**
Liabilities									
Current and savings accounts	17	34,981,682	34,981,682	34,981,682	-	-	-	-	-
Foreign currency accounts	17	28,938,754	28,938,754	28,938,754	-	-	–	-	-
Term deposits accounts	17	14,413,923	14,413,923	6,488,825	7,599,491	6,501	319,106	-	-
Total liabilities to customers		**78,334,359**	**78,334,359**	**70,409,261**	**7,599,491**	**6,501**	**319,106**	**-**	**-**
Due to other banks	18	9,381,320	9,381,320	38,316	332,223	108,727	960,580	5,381,426	2,560,048
Subordinated debt	37	6,644,451	6,644,451	-	-	-	-	6,644,451	-
Other liabilities		1,182,803	1,182,803	1,182,803	-	-	-	-	-
Total liabilities		**95,542,933**	**95,542,933**	**71,630,380**	**7,931,714**	**115,228**	**1,279,686**	**12,025,877**	**2,560,048**
Net liquidity gap		**7,522,727**	**9,320,158**	**(24,730,155)**	**6,886,606**	**11,758,690**	**10,729,195**	**859,901**	**3,815,920**
Cumulative liquidity gap		**7,522,727**	**9,320,158**	**(24,730,155)**	**(17,843,549)**	**(6,084,858)**	**4,644,337**	**5,504,238**	**9,320,158**

5. Risk Management (continued)

Liquidity risk

The Group's maturity gap analysis as at 31 December 2014 is given below:

in thousands of Malawi Kwacha

Separate	Note	Carrying amount	Gross nominal inflow /	Up to 1	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years
Assets									
Cash and cash equivalents	7	24,978,112	24,978,112	24,978,112	-	-	-	-	-
Money market investments	8	6,599,188	7,143,619	-	623,410	4,222,562	2,297,647	-	-
Gross loans, advances and leases	9-10	29,486,492	32,409,932	4,712,080	11,762,864	12,350,178	1,034,625	1,949,679	600,506
Investments in listed companies	13	5,025,873	5,025,873	1,005,175	1,005,175	1,005,175	1,005,175	1,005,173	-
Other assets		1,219,086	1,219,086	1,219,086	-	-	-	-	-
Total assets		**67,308,751**	**70,776,622**	**31,914,453**	**13,391,449**	**17,577,915**	**4,337,447**	**2,954,852**	**600,506**
Liabilities									
Current and savings	17	27,380,816	27,380,816	27,380,816	-	-	-	-	-
Foreign currency accounts	17	11,999,631	11,999,631	11,999,631	-	-	-	-	-
Term deposits accounts		6,763,025	6,763,025	214,926	6,203,149	344,950	-	-	-
Total liabilities to customers		**46,143,472**	**46,143,472**	**39,595,373**	**6,203,149**	**344,950**	**-**	**-**	**-**
Due to other banks	18	6,222,275	6,222,275	530,000	326,661	62,064	315,917	2,010,929	2,976,704
Subordinated debt	37	4,644,276	4,644,276	-	-	-	-	-	4,644,276
Other liabilities		4,904,593	4,904,593	4,904,593	-	-	-	-	-
Total liabilities		**61,914,616**	**61,914,616**	**45,029,966**	**6,529,810**	**407,014**	**315,917**	**2,010,929**	**7,620,980**
Net liquidity gap		**5,394,135**	**8,862,006**	**(13,115,513)**	**6,861,639**	**17,170,901**	**4,021,530**	**943,923**	**(7,020,474)**
Cumulative liquidity gap		**5,394,135**	**8,862,006**	**(13,115,513)**	**(6,253,874)**	**10,917,027**	**14,938,557**	**15,882,480**	**8,862,006**

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.

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.

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.

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.

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.

5. Risk Management (continued)

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.

6. Financial assets and liabilities

Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

In thousands of Malawi Kwacha

Consolidated	**Note**	**Held-for trading**	**Designated At fair value**	**Held-to-maturity**	**Loans and receivables**	**Other Amortised cost**	**Total Carrying amount**
31 December 2015							
Cash and cash equivalents	7	-	-	-	35,766,563	-	35,766,563
Money market investments	8	-	-	34,230,490	-	-	34,230,490
Loans and advances to customers	9	-	-	-	52,533,783	-	52,533,783
Finance lease receivables	10	-	-	-	3,296,497	-	3,296,497
Amounts due from related parties	12	-	-	-	263,197	-	263,197
Derivative assets	38	543,373	-	-	-	-	543,373
Investments in listed companies	13	-	4,617,771	-	-	-	4,617,771
Investment in associated companies	14(b)	-	-	-	-	5,054,032	5,054,032
Cheques in-course of collection	11	-	-	-	1,228	-	1,228
		543,373	**4,617,771**	**34,230,490**	**91,861,268**	**5,054,032**	**136,306,934**
Financial liabilities							
Balances due to other banks	18	-	-	-	-	11,733,706	11,733,706
Customer deposits	17	-	-	-	-	103,159,117	103,159,117
Subordinated debt	37	-	-	-	-	6,644,451	6,644,451
		-	**-**	**-**	**-**	**121,537,274**	**121,537,274**

6. Financial assets and liabilities (continued)

Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

In thousands of Malawi Kwacha

Consolidated	Note	Held-for trading	Designated At fair value	Held-to-maturity	Loans and receivables	Other Amortised cost	Total Carrying amount
31 December 2014							
Cash and cash equivalents	7	-	-	-	32,429,431	-	32,429,431
Money market investments	8	-	-	10,651,002	-	-	10,651,002
Loans and advances to customers	9	-	-	-	35,650,617	-	35,650,617
Finance lease receivables	10	-	-	-	4,556,258	-	4,556,258
Amounts due from related parties	12	-	-	-	127,288	-	127,288
Investments in listed companies	13	-	5,025,873	-	-	-	5,025,873
Investment in associated companies	14(b)	-	-	-	-	4,817,482	4,817,482
Cheques in-course of collection	11	-	-	-	356,106	-	356,106
		-	**5,025,873**	**10,651,002**	**73,119,700**	**4,817,482**	**136,306,934**
Financial liabilities							
Balances due to other banks	18	-	-	-	-	7,341,200	7,341,200
Customer deposits	17	-	-	-	-	64,493,327	64,493,327
Subordinated debt	37	-	-	-	-	4,644,276	4,644,276
		-	**-**	**-**	**-**	**76,478,803**	**76,478,803**

6. Financial assets and liabilities (continued)

Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

In thousands of Malawi Kwacha

Separate	**Note**	**Held-for trading**	**Designated At fair value**	**Held-to-maturity**	**Loans and receivables**	**Other Amortised cost**	**Total Carrying amount**
31 December 2015							
Cash and cash equivalents	7	-	-	-	28,565,161	-	28,565,161
Money market investments	8	-	-	26,991,153	-	-	26,991,153
Loans and advances to customers	9	-	-	-	40,285,729	-	40,285,729
Amounts due from related parties	12	-	-	-	377,072	-	377,072
Derivative assets	38	543,373	-	-	-	-	543,373
Investments in listed companies	13	-	4,617,771	-	-	-	4,617,771
Investment in subsidiaries	14(a)	-	-	-	-	3,569,833	3,569,833
Investment in associated companies	14(b)	-	-	-	-	4,297,105	4,297,105
Cheques in-course of collection	11	-	-	-	1,228	-	1,228
		543,373	**4,617,771**	**26,991,153**	**69,229,190**	**7,866,938**	**109,248,425**
Financial liabilities							
Balances due to other banks	18	-	-	-	-	9,381,320	9,381,320
Customer deposits	17	-	-	-	-	78,334,359	78,334,359
Subordinated debt	37	-	-	-	-	6,644,451	6,644,451
		-	**-**	**-**	**-**	**94,360,130**	**94,360,130**

6. Financial assets and liabilities (continued)

Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

In thousands of Malawi Kwacha

Separate	Note	Held-for trading	Designated	Held-to-maturity	Loans and receivables	Other Amortised cost	Total Carrying amount
31 December 2014							
Cash and cash equivalents	7	-	-	-	24,978,112	-	24,978,112
Money market investments	8	-	-	6,599,188	-	-	6,599,188
Loans and advances to customers	9	-	-	-	29,486,492	-	29,486,492
Amounts due from related parties	12	-	-	-	202,907	-	202,907
Investments in listed companies	13	-	5,025,873	-	-	-	5,025,873
Investment in subsidiaries	14(a)	-	-	-	-	2,778,288	2,778,288
Investment in associated companies	14(b)	-	-	-	-	4,297,105	4,297,105
Cheques in-course of collection	11	-	-	-	356,106	-	356,106
		-	**5,025,873**	**6,599,188**	**55,023,617**	**7,075,393**	**73,724,071**
Financial liabilities							
Balances due to other banks	18	-	-	-	-	6,222,275	6,222,275
Customer deposits	17	-	-	-	-	46,143,472	46,143,472
Subordinated debt	37	-	-	-	-	4,644,276	4,644,276
		-	**-**	**-**	**-**	**57,010,023**	**57,010,023**

Fair values of financial instruments

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: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and

6. Financial assets and liabilities (continued)

other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, and foreign currency exchange rates.

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

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

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

The Group does not provide fair value disclosure for financial instruments not measured at fair value, when the carrying amount is a reasonable approximation of fair value and for an investment in equity instruments that do not have a quoted price in an active market for an identical instrument.

6. Financial instruments measured at fair value – Fair value hierarchy

Consolidated
31 December 2015

In thousands of Malawi Kwacha

	Note	Level 1	Level 2	Level 3	Total
Investment securities					
Investments in listed companies	13	4,617,771	-	-	4,617,771
		4,617,771	**-**	**-**	**4,617,771**
Derivative assets held for risk management					
Foreign exchange		-	543,373	-	543,373
		-	**543,373**	**-**	**543,373**
31 December 2014					
Investment securities					
Investments in listed companies	13	5,025,873	-	-	5,025,873
		5,025,873	**-**	**-**	**5,025,873**

Separate

	Note	Level 1	Level 2	Level 3	Total
31 December 2015					
Investment securities					
Investments in listed companies	13	4,617,771	-	-	4,617,771
		4,617,771	-	-	4,617,771
Derivative assets held for risk management					
Foreign exchange		-	543,373	-	543,373
			543,373		**543,373**
31 December 2014					
Investment securities					
Investments in listed companies	13	5,025,873	-	-	5,025,873
		5,025,873	**-**	**-**	**5,025,873**

7. Cash and cash equivalents

See accounting policy note 4 (d)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Liquidity reserve deposits:				
Central Banks	9,580,169	10,386,631	7,601,018	8,886,247
Placements with other banks	21,818,625	18,231,139	17,021,669	12,856,677
Cheques in-course of clearing	86,070	166,727	86,070	166,727
Cash balances	4,281,699	3,644,934	3,856,404	3,068,461
	35,766,563	**32,429,431**	**28,565,161**	**24,978,112**

Amounts deposited with Central Banks for liquidity reserve requirement are not available for the Group's operating activities and do not attract interest. Other cash and cash equivalents with other banks earn Interest of **4-25%** (2014: 8-25%) .

8. Money market investments

See accounting policy note 4(g)

Treasury Bills – Other Central Banks	1,755,238	354,307	-	-
Promissory Notes	12,616,264	-	11,936,398	-
Malawi Government Treasury Bills	19,858,988	10,249,048	15,054,755	6,551,541
Local Registered Government Stocks	-	47,647	-	47,647
	6,599,188	**34,230,490**	**10,651,002**	**26,991,153**
Movement during the year was as follows:-				
As at 1 January	10,651,002	4,624,291	6,599,188	3,013,435
Additions	23,579,488	6,026,711	20,391,965	3,585,753
As at 31 December	**34,230,490**	**10,651,002**	**26,991,153**	**6,599,188**

The interest rate on money market investments approximates the market interest rate and hence the carrying amount reasonably approximates the fair value. All money market investments mature within 12 months.

9. Loans and advances to customers

See accounting policy note 4 (f)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Loans and advances at amortised cost are receivable as follows:				
Maturing within 3 months	22,590,295	15,190,230	22,269,824	14,584,469
Maturing between 3 and 12 months	11,521,704	17,525,524	8,501,932	13,936,271
Maturing after 12 months	20,630,136	5,855,245	11,311,404	3,889,192
	54,742,135	**38,570,999**	**42,083,160**	**32,409,932**
Specific allowances for impairment:				
Balance at 1 January	(1,378,692)	(1,269,593)	(1,383,174)	(869,087)
Charge for the year (Note 39)	(533,907)	(497,824)	(116,213)	(451,179)
Customer debit balances offset against non-interest income	(813,722)	(346,558)	(813,722)	(346,558)
Write - offs	1,795,645	735,284	1,791,166	283,650
Balance at 31 December	**(930,676)**	**(1,378,692)**	**(521,943)**	**(1,383,174)**
Collective impairment allowance:				
Charge for the year (Note 39)	(48,522)	-	(48,522)	-
Balance at 31 December	(48,522)	-	(48,522)	-
Interest in suspense:				
Balance at 1 January	(1,541,690)	(988,937)	(1,540,266)	(979,901)
Additional interest suspended for the year	312,536	(552,753)	313,300	(560,365)
Balance at 31 December	**(1,229,154)**	**(1,541,690)**	**(1,226,966)**	**(1,540,266)**
Net loans and advances	**52,533,783**	**35,650,617**	**40,285,729**	**29,486,492**

The directors consider that the carrying amounts of loans and advances are a reasonable approximation of 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 notes 5k (iii) and 39.

Loans and advances as per industry/sector have been disclosed in note 5(l)(x).

Effective base interest rates for loans and advances have been disclosed in note 41.

10. Finance lease receivables

See accounting policy note 4 (r)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Investment in finance leases at amortised cost receivable:				
Less than one year	1,963,744	3,719,383	-	-
Between 1 and 5 years	2,184,148	2,793,930	-	-
More than 5 years	127,053	103,049	-	-
Balance at 31 December	**4,274,945**	**6,616,362**	**-**	**-**
Specific allowances for impairment:				-
Balance at 1 January	(670,230)	(861,468)	-	-
Charge for the year	(92,502)	(18,576)	-	-
Write - offs	489,718	209,814	-	-
Balance at 31 December	**(273,014)**	**(670,230)**	-	-
Interest in suspense:				-
Balance at 1 January	(1,389,874)	(672,331)	-	-
Recoveries of previously suspended interest	216,394	104,863	-	-
Write - offs	1,475,970	374,104	-	-
Additional interest suspended for the year	(1,007,924)	(1,196,510)	-	-
Balance at 31 December	**(705,434)**	**(1,389,874)**	-	-
Net finance lease receivables	**3,296,497**	**4,556,258**	-	-

The directors consider that the carrying amount of lease receivables reasonably approximates to their fair value.
The average effective interest rate contracted is approximately 39% (2014: 41%).

11. Other assets

See accounting policy note 4 (e)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Cheques in course of collection	1,228	356,106	1,228	356,106
Prepayments	366,555	326,262	334,701	305,763
Dividend receivable from listed companies	3,450	109,183	3,450	109,183
Stock of consumable stationery	116,556	98,700	116,556	98,700
Stock of computer spares	128,633	83,137	128,633	83,137
Assets held for sale *	59,345	-	-	-
Other receivables	1,075,712	1,117,727	431,882	626,509
	1,751,479	**2,091,115**	**1,016,450**	**1,579,398**

All other assets are recoverable/realisable within 12 months and no interest is charged on overdue balances.

Assets held-for-sale relates to assets duly authorised for disposal by the subsidiary's Board of Directors as at 31 December 2015.

12. Amounts due from related parties

See accounting policy note 4 (aa)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
FMB Forex Bureau Limited	-	-	-	3,426
FMB Pensions Limited	-	-	34,282	25,321
Capital Bank Limited, Mozambique	-	-	62,811	38,381
The Leasing and Finance Company of Malawi Limited	-	-	16,782	8,491
Capital Bank Limited, Botswana (Associate)	152,003	100,339	152,003	100,339
First Capital Bank, Zambia (Associate)	111,194	26,949	111,194	26,949
	263,197	**127,288**	**377,072**	**202,907**

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

13. Investments in listed companies

See accounting policy note 4 (c) & 4 (z)

In thousands of Malawi Kwacha

	Consolidated and Separate			
	2015		2014	
	Valuation	Cost	Valuation	Cost
Balance at 1 January	5,025,873	793,679	4,548,921	793,679
Decrease/ Increase in fair value of listed companies during the year (note 27)	(408,102)	-	476,952	-
Balance at 31 December	**4,617,771**	**793,679**	**5,025,873**	**793,679**

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

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

Separate	Shares Held ('000)		Share Price		Market Value (MK'000)	
	2015	2014	2015	2014	2015	2014
Illovo Sugar Company Limited	12,916	12,916	230,00	294.20	2,970,574	3,799,752
National Investment Trust Limited	25,767	25,767	55.00	41.50	1,417,165	1,069,315
Telekom Networks Malawi Limited	38,339	38,339	6.00	4.09	230,032	156,806
					4,617,771	**5,025,873**

Fair value measurement of investments in listed companies has been categorised as Level 1 fair value based on quoted prices in Malawi Stock Exchange Market.

14. Investment in subsidiaries and associates

(a) Investment in subsidiaries (at cost)

See accounting policy note 4 (h)

In thousands of Malawi Kwacha

	Shareholding		Carrying value	
	2015	**2014**	**2015**	**2014**
The Leasing and Finance Company of Malawi	100.00%	100.00%	65,911	65,911
FMB Forex Bureau Limited	100.00%	100.00%	10,000	10,000
FMB Pensions Limited	100.00%	100.00%	-	-
International Commercial Bank Limited – Malawi	100.00%	100.00%	148,791	148,791
FMB Capital Markets Limited	100.00%	100.00%	50,000	50,000
Capital Bank Limited - Mozambique	70.00%	70.00%	3,295,131	2,503,586
			3,569,833	**2,778,288**

Movement during the year was as follows:		
As at 1 January	2,778,288	2,268,564
Additions during the year	791,545	1,184,700
Impairment of subsidiary	-	(668,152)
Effect of exchange rate difference	-	6,824
As at 31 December	**3,569,833**	**2,778,288**

The investment in FMB Pensions Limited is fully impaired.

Subscription of shares in subsidiaries were as follow:

First Merchant Bank Limited's contribution:

Capital Bank Limited - Mozambique (70%)	791,545	1,127,876
FMB Capital Markets Limited (100%)	-	50,000
Effect of exchange rate difference	-	6,824
	791,545	**1,184,700**
Non-controlling interest's contribution:		
Capital Bank Limited - Mozambique (30%)	339,233	483,376
	339,233	**483,376**

(b) Investment in associated companies (at cost)
See accounting policy note 4 (i)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Shareholding				
Capital Bank Limited – Botswana	38.60%	38.60%	38.60%	38.60%
First Capital Bank Limited – Zambia	49.00%	49.00%	49.00%	49.00%
Carrying value				
Capital Bank Limited – Botswana	1,761,440	1,477,388	903,852	903,854
First Capital Bank Limited – Zambia	3,292,592	3,340,094	3,393,253	3,393,251
	5,054,032	**4,817,482**	**4,297,105**	**4,297,105**
Movement during the year:				
Balance at 1 January				
Capital Bank Limited – Botswana	1,477,388	1,261,366	903,852	903,852
First Capital Bank Limited – Zambia	3,340,094	3,433,631	3,393,253	3,393,251
Share of Profits/(Losses) in associates				
Capital Bank Limited – Botswana	284,052	216,020	-	-
First Capital Bank Limited – Zambia	(47,502)	(93,535)	-	-
Balance at 31 December	**5,054,032**	**4,817,482**	**4,297,105**	**4,297,105**
Share of profit in associates: **Profit before tax**				
Capital Bank Limited – Botswana	944,532	756,575		
First Capital Bank Limited – Zambia	(379,737)	(183,196)		
Taxation				
Capital Bank Limited – Botswana	(208,647)	(196,935)		
First Capital Bank Limited – Zambia	282,795	(7,691)		
Profit after tax				
Capital Bank Limited – Botswana	735,886	559,637		
First Capital Bank Limited – Zambia	(96,942)	(190,887)		
Share of profits after tax				
Capital Bank Limited – Botswana	284,052	216,020		
First Capital Bank Limited – Zambia	(47,502)	(93,535)		

15(a) Intangible Assets
See accounting policy note 4(j)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Cost				
As at 1st January	1,600,748	1,070,959	631,546	485,486
Transfer (Note 15b)	1,511,551	-	1,511,551	-
Additions	912,886	529,789	821,901	146,060
As at 31 December	**4,025,185**	**1,600,748**	**2,964,998**	**631,546**
Accumulated amortisation				
As at 1st January	764,997	634,480	474,587	347,125
Charge for the year	413,444	130,517	266,138	127,461
As at 31st December	1,178,441	764,997	740,725	474,586
Carrying Amount	**2,846,744**	**835,751**	**2,224,273**	**156,960**

Intangible assets relate to computer software and are measured at cost incurred in the acquisition and development of computer software, including website development costs. The transfer relate to software development and enhancements that were transferred from capital work in progress under property and equipment.

15(b) Property and equipment

See accounting policy note 4(k)

In thousands of Malawi Kwacha

Consolidated	Freehold properties	Leasehold properties	Motor Vehicles	Motor Vehicles - Operating Lease	Equipment fixtures & fittings	Capital work in progress	Total
Cost or valuation							
Balance at 1 January 2015	2,575,571	2,310,542	554,568	-	3,327,195	2,152,331	10,920,207
Additions during the year	847	176,366	164,229	459,223	660,697	320,859	1,782,221
Disposals during the year	(86,000)	-	(35,907)	-	(39,178)	(99,525)	(260,610)
Effects of changes in exchange rates	-	110,639	19,395	-	(45,721)	-	84,313
Transfers during the year	-	133,087	-	-	409,576	(2,054,214)	(1,511,551)
Balance at 31 December 2015	**2,490,418**	**2,730,634**	**702,285**	**459,223**	**4,312,569**	**319,451**	**11,014,580**
Accumulated depreciation and impairment losses							
Balance at 1 January 2015	2,979	176,164	318,217	-	2,244,818	-	2,742,178
Charge for the year	76,779	49,929	91,889	-	349,324	-	567,921
Released on disposal	(850)	-	(16,081)	-	(37,847)	-	(54,778)
Effects of changes in exchange rates	-	115,497	24,753	-	17,604	-	157,854
Charge on operating lease	-	-	-	28,800	-	-	28,800
Balance at 31 December 2015	**78,908**	**341,590**	**418,778**	**28,800**	**2,573,899**	**-**	**3,441,975**
Cost or valuation							
Balance at 1 January 2014	1,464,997	1,468,267	341,733	-	2,996,724	1,465,173	7,736,894
Additions during the year	-	369,149	221.388	-	321,370	1,446,724	2,358,631
Revaluation surplus	527,076	318,060	-	-	-	-	845,136
Impairment recovery	12,024	-	-	-	-	-	12,024
Disposals during the year	-	-	(8,553)	-	(458)	-	(9,011)
Transfers	571,474	155,066	-	-	9,559	(759,566)	(23,467)
Balance at 31 December 2014	**2,575,571**	**2,310,542**	**554,568**	**-**	**3,327,195**	**2,152,331**	**10,920,207**
Accumulated depreciation and impairment losses							
Balance at 1 January 2014	39,769	185,879	256,095	-	1,919,126	-	2,400,869
Charge for the year	37,712	34,341	70,675	-	325,722	-	468,450
Released on disposal	-	-	(8,553)	-	(30)	-	(8,583)
Eliminated on revaluation	(74,502)	(44,056)	-	-	-	-	(118,558)
Balance at 31 December 2014	2,979	176,164	318,217	-	2,244,818	-	2,742,178
Carrying amount							
At 31 December 2015	**2,411,510**	**2,389,044**	**283,507**	**430,423**	**1,738,670**	**319,451**	**7,572,605**
At 31 December 2014	**2,572,592**	**2,134,378**	**236,351**	**-**	**1,082,377**	**2,152,331**	**8,178,029**

15(b) Property and equipment (continued)

In thousands of Malawi Kwacha

Consolidated	Freehold properties	Leasehold properties	Motor vehicles	Equipment fixture & fittings	Capital work in progress	Total
Cost or valuation						
Balance at 1 January 2015	2,387,571	1,619,157	347,963	2,454,382	2,152,331	8,961,404
Additions	-	176,366	7,000	575,841	320,859	1,080,066
Disposals	-	-	(5,441)	(39,178)	(99,525)	(144,144)
Transfers	-	133,087	-	409,576	(2,054,214)	(1,511,551)
Balance at 31 December 2015	**2,387,571**	**1,928,610**	**349,522**	**3,400,621**	**319,451**	**8,385,775**
Accumulated depreciation and impairment						
Balance at 1 January 2015	2,980	15,368	216,659	1,813,466	-	2,048,473
Charge for the year	74,469	39,331	49,021	315,345	-	478,166
Released on disposal	-	-	(5,441)	(37,847)	-	(43,288)
Balance at 31 December 2015	**77,449**	**54,699**	**260,239**	**2,090,964**	**-**	**2,483,351**
Cost or valuation						
Balance at 1 January 2014	1,324,997	1,141,603	227,454	2,236,159	1,465,173	6,395,386
Additions	-	4,428	129,062	185,197	1,446,724	1,765,411
Revaluation surplus	479,076	318,060	-	-	-	797,136
Impairment recovery	12,024	-	-	-	-	12,024
Transfers	571,474	155,066	-	33,026	(759,566)	-
Balance at 31 December 2014	**2,387,571**	**1,619,157**	**347,963**	**2,454,382**	**2,152,331**	**8,961,404**
Accumulated depreciation and impairment losses						
Balance at 1 January 2014	37,603	33,697	176,044	1,527,996	**-**	1,775,340
Charge for the year	35,545	25,727	49,168	285,471	-	395,911
Released on disposal	-	-	(8,553)	-	-	(8,553)
Eliminated on revaluation	(70,168)	(44,056)	-	-	-	(114,224)
Balance at 31 December 2014	**2,980**	**15,368**	**216,659**	**1,813,467**	**-**	**2,048,474**
Carrying amount						
At 31 December 2015	**2,310,122**	**1,873,911**	**89,283**	**1,309,657**	**319,451**	**5,902,424**
At 31 December 2014	**2,384,591**	**1,603,789**	**131,304**	**640,915**	**2,152,331**	**6,912,930**

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 impairment recovery in 2014 related to a freehold property which was considered impaired in 2012 when it was revalued but there was a revaluation surplus when it was again revalued in 2014.

Capital work in progress represents development costs on the Bank's various branches.

The freehold properties and leasehold improvements were last revalued on 31 December 2014 by Don Whayo BSc; MRICS; MSIM of Knight Frank Malawi Limited, independent valuers, not connected with the Group, on an open market value basis. The resultant surplus was credited to revaluation reserve in 2014. This is not available for distribution until realised.

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

15(b). Property and equipment (continued)

The following table shows the valuation technique used in measuring the fair values of freehold properties and leasehold improvements, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Open Market Value Basis Open market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The valuation process makes comparisons between the subject property and comparable property which has gone through the market in order to formulate an opinion as to a fair market value using an estimate of the future potential net income capable of being generated by the use of the property.	The valuation approach adopted takes cognisance of the performance of the property market at the time of valuation. The approach relies on sales data and all relevant factors pertaining to the property market. The method recognises that property can be assembled, not only for occupation and use of the owner, but also to let to one or more tenants who will pay the owner rent for the right to the use and occupation of the property.

For the Freehold and Leasehold properties, if the properties had not been revalued, the carrying amounts would have been as follows:

2015	Consolidated		Separate	
	Freehold Property	Leasehold Improvements	Freehold Property	Leasehold Improvements
Cost	973,830,029	794,403,556	973,830,029	794,392,824
Accumulated depreciation	129,935,193	96,694,096	129,935,193	96,692,502
Net Book Value	**843,894,83**	**697,709,460**	**843,894,83**	**697,700,322**

16. Deferred tax (assets) / liabilities

See accounting policy note 4(u)

Movements in temporary differences during the year

In thousands of Malawi Kwacha

Consolidated	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
2015				
Property and equipment	(29,042)	491,499	-	462,457
Accrued income	295,942	660,902	-	956,844
Revaluation of property	240,550	-	(14,369)	226,181
Tax losses	(2,735)	(488)	-	(3,223)
Gratuity and severance pay liabilities	(60,276)	(54,168)	-	(114,444)
Subordinated debt revaluation	(92,506)	(513,097)	-	(605,603)
	351,933	**584,648**	**(14,369)**	**922,212**
2014				
Property and equipment	97,379	(126,421)	-	(29,042)
Accrued income	78,496	217,446	-	295,942
Revaluation of property	117,250	-	123,300	240,550
Gratuity and severance pay liabilities	-	(2,735)	-	(2,735)
Investment revaluation	(6,693)	(53,583)	-	(60,276)
Property impairment	2,898	(2,898)	-	-
Subordinated debt revaluation	-	(92,506)	-	(92,506)
	289,330	**(60,697)**	**123,300**	**351,933**
Separate				
2015				
Property and equipment	(22,491)	435,001	-	412,510
Accrued income	164,526	563,722	-	728,248
Revaluation of property	213,604	-	-	213,604
Gratuity and severance pay liabilities	(52,509)	(43,449)	-	(95,958)
Subordinated debt revaluation	(92,506)	(513,097)	-	(605,603)
	210,624	**442,177**	**-**	**652,801**
2014				
Property and equipment	62,115	(84,606)	-	(22,491)
Accrued income	78,278	86,248	-	164,526
Revaluation of property	90,304	-	123,300	213,604
Gratuity and severance pay liabilities	(6,694)	(45,815)	-	(52,509)
Subordinated debt revaluation	-	(92,506)	-	(92,506)
	224,003	**(136,679)**	**123,300**	**210,624**

17. Customer deposits

See accounting policy note 4 (m)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Current and savings accounts	41,530,815	38,403,866	34,981,682	27,380,816
Foreign currency accounts	30,573,940	11,999,631	28,938,754	11,999,631
Term deposit accounts	31,054,362	14,089,830	14,413,923	6,763,025
	103,159,117	64,493,327	78,334,359	46,143,472
Payable as follows:				
Maturing within 3 months	95,078,575	63,948,960	78,008,752	45,798,522
Maturing after 3 months	8,080,542	544,367	325,607	344,950
	103,159,117	**64,493,327**	**78,334,359**	**46,143,472**

For information about interest rates refer to note 5(r).

18. Balances due to other banks

See accounting policy note 4 (l)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Local banks	2,352,386	1,648,925	-	530,000
European Investment Bank	9,343,004	5,538,299	9,343,004	5,538,299
NORSAD Agency	38,316	153,976	38,316	153,976
	11,733,706	**7,341,200**	**9,381,320**	**6,222,275**
Payable as follows:				
Due between 2 and 5 years	3,669,095	2,353,567	1,316,709	1,234,642
Due within 1 year	8,064,611	4,987,633	8,064,611	4,987,633
	11,733,706	**7,341,200**	**9,381,320**	**6,222,275**

All loans due to other banks are stated at amortised cost. Balances due to local banks represent overnight borrowing by the Group.

The credit line facilities with European Investment Bank (EIB) and NORSAD Agency were made available to the Bank for on lending to customers in specified economic sectors. The EIB line of credit which is denominated in US Dollars, carries interest between 2.9% and 5.6% per annum and is repayable in equal bi-annual instalments ending on 15 March 2019.

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

19. Other payables

See accounting policy note 4 (n)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Accrued expenses	1,134,207	996,408	1,057,364	939,081
Bankers cheques issued and uncleared	403,662	487,842	403,662	487,842
Bills payable	163,551	225,708	170,005	132,910
Interest payable	325,429	139,073	325,429	139,073
Margins on letters of credit and other instruments	108,819	141,613	108,819	141,612
Trade payables	269,870	3,043,118	99,661	2,621,703
	2,405,538	**5,033,762**	**2,164,940**	**4,462,222**

20. Employee benefits liabilities

See accounting policy note 4 (p)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Movements during the year were as follows:				
Balance at 1 January	75,227	25,227	75,227	25,227
Additional provision	-	50,000	-	50,000
Balance at 31 December	**75,227**	**75,227**	**75,227**	**75,227**

The provision relates to expected cost to First Merchant Bank Limited in the likelihood that damages from a court case are awarded against the Bank.

21. Share capital

In thousands of Malawi Kwacha

	Consolidated and Separate	
(a) Share capital	**2015**	**2014**
Authorised, issued and fully paid 2,336,250,000 ordinary shares of 5 tambala each	116,813	116,813
(b) Share premium	**1,565,347**	**1,565,347**

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

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

22. Property revaluation reserve

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Property revaluation	**2,634,331**	**2,705,248**	**2,550,356**	**2,550,356**

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

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Loan loss reserve	**1,588,083**	**488,594**	**1,345,670**	**445,009**

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

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
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. Translation reserve

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Translation reserve	**96,668**	**(55,297)**	**-**	**-**

This represents retranslation differences arising on retranslation of foreign investments at the reporting date.

26. Interest income

See accounting policy note 4(q)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Loans and advances	10,908,243	8,027,287	9,640,398	7,688,885
Lease finance	1,469,485	1,475,760	-	-
Treasury bills	3,779,863	2,222,681	2,629,396	1,416,969
Local registered stocks	159,068	9,563	6,375	9,563
Promissory notes	343,318	-	343,318	-
Placements with other banks	452,551	769,955	109,044	173,435
	17,112,528	**12,505,246**	**12,728,531**	**9,288,852**

27. Income from investments

See accounting policy note 4(t)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Dividend income	55,539	285,915	555,539	1,085,915
Movement in fair value of investments (Note 13)	(408,102)	476,952	(408,102)	476,952
	(352,563)	**762,867**	**147,437**	**1,562,867**

28. Staff and training costs

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Salaries and wages	4,056,670	2,800,355	2,801,545	2,037,649
Training and other staff costs	2,278,420	2,503,931	2,018,174	2,080,637
Contributions to defined contribution plans	214,043	236,901	204,487	224,840
	6,549,133	**5,541,187**	**5,024,206**	**4,343,126**

29. Other expenses

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Administration expenses	219,931	119,453	147,476	15,037
Auditor's remuneration	88,745	70,953	54,244	42,766
Bank charges	129,394	126,608	100,598	107,212
Non-executive directors' remuneration	174,973	130,258	169,779	128,280
Insurance	130,150	68,549	113,380	63,111
Internal audit costs	52,026	57,469	6,414	13,617
Legal and professional fees	175,168	220,760	89,040	48,555
Marketing costs	506,789	256,044	352,581	213,590
Motor vehicle running costs	129,226	139,953	127,700	138,209
Office repairs	477,991	396,317	30,672	33,559
Office security	105,066	80,872	53,459	32,123
Operational losses	221,268	83,418	221,268	78,875
Postage	99,755	85,305	97,180	83,512
Printing and stationery	324,719	333,382	278,568	280,068
Professional subscriptions	40,862	37,081	39,747	36,109
Telephone expenses	139,906	201,937	55,522	112,165
Travel expenses	241,359	280,972	177,819	180,936
Utilities	48,031	57,111	19,572	27,978
	3,305,359	**2,746,442**	**2,135,019**	**1,635,702**

30. Income tax expense
See accounting policy note 4 (v)

Recognised in the statement of comprehensive income

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
(a) Current tax expense				
Current year at 30% (2014: 30%) based on profits	1,420,067	2,375,068	1,255,207	2,101,967
Origination and reversal of temporary differences (Note 16)	584,648	(60,697)	442,177	(136,679)
(b) Reconciliation of effective tax rate				
Operating profit	5,628,979	7,388,632	5,610,396	7,902,567
Tax using the domestic tax rate 30% (2013:30%)	1,688,694	2,216,590	1,683,119	2,370,770
Non-deductible expenses	71,106	66,237	58,496	63,378
Losses of subsidiary companies not deductible	212,682	260,404	-	-
Prior year over provision	(73,536)	-	-	-
Tax exempt income	105,769	(228,860)	(44,231)	(468,860)
Income tax expense in statement of profit or loss and other comprehensive income	**2,004,715**	**2,314,371**	**1,697,384**	**1,965,288**

Prior year over provision relates to 2013 tax losses for International Commercial Bank Limited, Malawi, which were not taken into account in 2014's tax returns to the Malawi Revenue Authority. These tax losses were therefore considered in the current year's tax computation

(c) Current tax (assets)/liabilities				
As at 1 January	409,599	352,743	367,144	361,992
Charges for the year	1,420,067	2,375,068	1,255,207	2,101,967
Paid during the year	(2,402,165)	(2,318,212)	(1,953,881)	(2,096,815)
As at 31 December	**(572,499)**	**409,599**	**(331,530)**	**367,144**

31. Basic and diluted earnings per share
See accounting policy note 4 (v)

The calculation of basic and diluted earnings per share at 31 December 2015 was based on profit to ordinary shareholders of **MK 4,073,496,000** (2014: MK 5,457,150,000) and a weighted average number of ordinary shares outstanding of 2,336,250,000 (2014: 2,336,250,000) calculated as follows:

In thousands of Malawi Kwacha

	Consolidated	
	2015	**2014**
Profit attributable to ordinary Shareholders (thousands)	**4,073,496**	**5,457,150**
Weighted average number of ordinary Shares in issue (thousands)	2,336,250	2,336,250
Basic and diluted earnings per share (tambala)	**174**	**234**

There are no potential dilutive ordinary shares.

32. Group subsidiaries

a) List of significant subsidiaries
The table below provides details of the significant subsidiaries of the Group:

Company name	Principal place of business	Ownership interest	
		2015	**2014**
The Leasing and Finance Company of Malawi Limited	Malawi	100%	100%
FMB Forex Bureau Limited	Malawi	100%	100%
FMB Pensions Limited	Malawi	100%	100%
Capital Bank Limited	Mozambique	70%	70%
International Commercial Bank Limited	Malawi	100%	100%
FMB Capital Markets Limited	Malawi	100%	100%

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

In thousands of Malawi Kwacha

	Capital Bank - Mozambique	
	2015	2014
NCI percentage and voting rights	30%	**30%**
Assets		
Cash and cash equivalents	6,095,876	6,882,718
Money market investments	1,755,238	354,307
Loans and advances to customers	11,799,722	5,543,366
Other assets	553,773	459,228
Intangible Assets	619,345	674,416
Property, plant and equipment	1,030,193	1,047,862
	21,854,147	**14,961,897**
Liabilities		
Current and savings accounts	16,338,857	11,132,081
Other payables	242,701	429,621
Balances due to other financial institutions	2,352,386	1,118,925
	18,933,944	**12,680,627**
Net assets	**2,920,203**	**2,281,271**
Net assets attributable to NCI	876,061	684,381
Carrying amount of NCI	**876,061**	**684,381**
Net interest income	866,990	311,759
Fees and commissions	1,450,868	975,126
Other operating income	103	55,927
Total income	**2,317,961**	**1,342,812**
Other administration costs	1,054,776	1,005,006
Salaries and wages	1,170,425	666,481
Training and other staff costs	167,872	338,336
Depreciation	218,081	48,903
Impairment loss on loans	415,747	152,101
Total operating expenses	**3,026,901**	**2,210,827**
Operating loss	**(708,940)**	**(806,015)**
Other comprehensive income	-	-
Total comprehensive income	**(708,940)**	**(806,015)**
Loss allocated to NCI	**(212,682)**	**(260,404)**
Cash flows		
Net Cash from operating activities	1,000,658	205,794
Net Cash used in investing activities	(3,311,812)	(962,175)
Net Cash from financing activities	1,524,312	1,611,252
Increase in cash and cash equivalents	(786,842)	854,871
Cash and cash equivalents at 1 January	6,882,718	6,027,847
Cash and cash equivalents at 31 December	**6,095,876**	**6,882,718**

There was no dividend paid to NCI during the year.

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

In thousands of Malawi Kwacha

	Capital Bank Botswana	First Capital Bank Zambia	Total
FMB's interest and voting rights	38.60%	49.00%	
Assets			
Cash and cash equivalents	23,244,461	14,210,470	37,454,931
Money market investments	15,089,632	2,938,467	18,028,099
Loans and advances to customers	37,906,656	13,945,466	51,852,122
Other assets	637,645	1,306,616	1,944,261
Property, plant and equipment	2,002,770	1,951,349	3,954,119
Total assets	**78,881,164**	**34,352,368**	**113,233,532**
Liabilities			
Deposits from customers and banks	66,476,462	27,978,798	94,455,260
Other liabilities	1,409,849	472,176	1,882,025
Subordinated debt	1,735,834	-	1,735,834
Total liabilities	**69,622,145**	**28,450,974**	**98,073,119**
Net assets	**9,259,019**	**5,901,394**	**15,160,413**
Net assets attributable to Group	**3,573,981**	**2,891,683**	**6,465,664**
Carrying value	**1,761,440**	**3,292,592**	**5,054,032**
Net interest income	2,471,574	1,584,741	4,056,315
Non interest income	1,317,049	566,465	1,883,514
Total operating income	3,788,623	2,151,206	5,939,829
Operating expenses	(2,640,120)	(2,423,067)	(5,063,187)
Loan impairment	(203,971)	(107,876)	(311,847)
Taxation	(208,647)	282,795	74,148
Profit for the year	735,885	(96,942)	638,943
Group's share of profit	**284,052**	**(47,502)**	**236,550**

First Merchant Bank holds only shareholding interests in its associates.

No dividend was received from associates in 2015 (2014: nil).

33. Dividends

Last year's second interim dividend of **MK 700.875million** (30 tambala per share) and final dividend of **MK 467.25 million** (20 tambala per share) were paid during the year. An interim dividend for the year 2015 of **MK 1,168.125 million** (50 tambala per share) was paid during the year. The Directors also propose a final dividend of **MK467.25 million** (20 tambala per share) for approval at the forthcoming Annual General Meeting.

34. Related party transactions
See accounting policy note 4 (w)

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

In thousands of Malawi Kwacha

	2015	2014
Corporate bodies directly or indirectly related to Directors *		
Balance at the beginning of the year	1,747,566	2,264,506
Loans granted during the year	-	15,316
Repayments	(717,824)	(532,256)
Balance at the end of the year	**1,029,742**	**1,747,566**
Key management personnel:		
Balance at the beginning of the year	198,227	138,136
Loans granted during the year	124,026	66,103
Repayments	(132,687)	(6,012)
Balance at the end of the year	**189,566**	**198,227**

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

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

Advances to employees include MK14.814 million(2013: MK10.527 million) of interest free advances and MK692 million (2013: MK585.88 million) of advances which carry interest at one quarter of the prevailing prime lending rate of the Bank. All other transactions with related parties are carried out on an arm's length basis on normal commercial terms. Details of related party transactions between the Bank and its wholly owned subsidiaries; The Leasing and Finance Company of Malawi Limited (LFC), FMB Forex Bureau Limited, FMB Pensions Limited, and FMB Capital Markets Limited which have been eliminated on consolidation are as follows:

In MK'000		
Loan and overdrafts	220,815	191,130
Deposits	309,766	687,543
Fees and commissions received	10,362	10,318
Interest income	56,653	64,402
Dividends received	500,000	800,000

Other amounts due from subsidiaries and associates companies are disclosed in note 12.

Key management personnel compensation:

	Executive Directors		**Non-executive Directors**	
MK' 000	**2015**	**2014**	**2015**	**2014**
Salaries	220,201	219,250	-	-
Bonuses	135,000	135,000	-	-
Fees	-	-	169,779	128,280
	370,201	354,250	169,779	128,280

In addition to their salaries, the Group also provides non-cash benefits to executive Directors. The estimated value of total non-cash benefits to Directors amounts to MK5.6 million (2014: MK5.0 million).

34. Related party transactions (continued)

Directors' interests

As at 31 December 2015, 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	
	2015	**2014**
R C Kantaria	966,740,250	1,050,000,000
H N Anadkat	1,138,454,625	1,050,000,000
D Dikshit	2,000,000	3,343,808
J M O'Neill	1,309,391	2,309,391
M Msisha	1,050,000	1,050,000

35. Capital commitments and contingent liabilities

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

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

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Contingent liabilities - financial instruments				
Acceptances and letters of credit	26,983,105	5,391,861	26,117,340	4,499,595
Financial guarantees	13,315,081	7,267,867	13,209,783	7,160,689
	40,298,186	**12,659,728**	**39,327,123**	**11,660,284**

Other contingent liabilities

	2015	2014	2015	2014
Legal claims	**15,000**	**70,000**	**-**	**55,000**

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

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

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

Capital commitments

Capital Expenditure	2015	2014
Capital expenditure authorised but not contracted	**694,360**	**389,000**

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 **7.5%** (2014: 15.5%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2015, the liquidity reserve was **9.91%** (2014: 19.58%) of total customer deposits.

(ii) ***Capital Adequacy Requirement***
Reserve Bank of Malawi requires the bank to maintain a minimum capital of Tier 1 and Total Capital of **10%** and **15%** respectively as a percentage of total risk-weighted assets.

The total capital is made up of the following:

(1) Tier 1 capital, which includes paid-up share capital, share premium, retained earnings, non-distributable reserves less investment in associates and

(2) Tier 2 capital, which includes subordinated debt, asset revaluation reserves, translation reserves and general loan loss reserves

As at 31 December 2015, the Bank's Tier 1 capital ratio was **12.7**% (2014: 14.12%) of its risk bearing assets and Total capital ratio was **19.18%** (2014: 22.80%).

37. Subordinated debt

See accounting policy note 4 (m)

In thousands of Malawi Kwacha	**Consolidated and separate**	
	2015	**2014**
Creditors' and depositors' claims	**6,644,451**	**4,664,276**
Movement during the year:		
As at 1 January	4,664,276	4,335,923
Effects of changes in exchange rates	1,980,175	328,353
As at 31 December	**6,644,451**	**4,664,276**

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

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.

The notes are subordinated to general creditors and claims of depositors.

38. Derivative asset

See accounting policy note 4 (y)

In thousands of Malawi Kwacha

	Consolidated and Separate	
	2015	**2014**
The maturity analysis of derivative assets is as follows:		
Maturing within 1 year	**543,373**	**-**

The underlying currency swap transaction is as follows:

Currency swaps	**A**	**B**	**C**
Trade Date	29-12-15	08-12-15	27-11-15
Settlement Date	29-12-15	08-12-15	27-11-15
Maturity Date	29-03-16	07-06-15	27-05-16
Spot Rate	660.67	619.51	592.56
Forward Rate	684.95	664.50	635.59
Settlement Date Pay Amount	(USD 1,500,000)	(USD 2,500,000)	(USD 5,000,000)
Settlement Date Receive Amount	MK 991, 001, 250	MK 1,548, 782,250	MK 2,962,806,500
Maturity Date Pay Amount	(MK 1,027,429,950)	(MK 1,661,243,500)	(MK 3,177,944,000)
Maturity Date Receive Amount	USD 1,500,000	USD 2,500,000	USD 5,000,000

39. Impairment losses on financial assets

See accounting policy note 4(c)(v)

In thousands of Malawi Kwacha

	Consolidated		Separate	
	2015	**2014**	**2015**	**2014**
Impairment allowance on loans and advances:				
Net credit impairments raised and released	2,917,780	1,445,411	2,378,081	1,291,449
Recoveries on loans and advances previously written off	(2,335,351)	(947,587)	(2,213,346)	(840,270)
	582,429	**497,824**	**164,735**	**451,179**
Impairment allowance on finance leases:				
Net credit impairments raised and released	173,833	141,355	-	-
Recoveries on finance leases previously written off	(81,331)	(122,779)	-	-
	92,502	**18,576**	**-**	**-**
Total impairment loss on financial assets	**674,931**	**516,400**	**164,735**	**451,179**
Comprising				
Impairment allowance on loans and advances (Note 9):				
Net specific credit impairment charges	533,907	497,824	116,213	451,179
Collective credit impairment charges	48,522	-	48,522	-
	582,429	**497,824**	**164,735**	**451,179**
Impairment allowance on finance leases (Note 10):				
Net specific credit impairment charges	92,502	18,576	-	-
	92,502	**18,576**	**-**	**-**
Total impairment loss on financial assets	**674,931**	**516,400**	**164,735**	**451,179**

40. 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	**2015**	**2014**
Malawi Kwacha / GBP	989.8	729.9
Malawi Kwacha / Rand	43.4	40.5
Malawi Kwacha / US Dollar	664.4	464.4
Malawi Kwacha / Euro	729.5	564.5
Malawi Kwacha / Pula	58.4	48.8
Malawi Kwacha / Meticais	14.5	14.9
Malawi Kwacha / Zambia Kwacha	60.4	72.6
Inflation rate %	**24.9%**	24.2%

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

Malawi Kwacha / GBP	966.1
Malawi Kwacha / Rand	44.9
Malawi Kwacha / US Dollar	682.9
Malawi Kwacha / Euro	762.3
Malawi Kwacha / Pula	60.6
Malawi Kwacha / Meticais	13.7
Malawi Kwacha / Zambia Kwacha	60.7

41. Effective interest rates of financial assets and liabilities

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

	2015	2014
Assets		
Government securities	19 - 27%	18 – 32%
Deposits with banking institutions	4 - 26%	23 - 25%
Loans and advances to customers (Base Rate)	33 - 38%	38%
Liabilities		
Customer deposits	0.15 - 25%	0.15 - 24%

42. 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.
- FMB Capital Markets Limited – Asset management.
- International Commercial Bank Limited – Administration of residual assets acquired from ICB Malawi.

* Accounted for as associates

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

Branches and agencies of First Merchant Bank are all engaged in corporate and retail banking, offer similar products and services to similar classes of customer and are governed by the same regulatory environment. Given their common economic characteristics, these individual segments are aggregated and presented in a single segment, Malawi corporate and retail banking, in these financial statements.

FMB Pensions Limited, International Commercial Bank Limited and FMB Capital Markets Limited do not meet any of the quantitative thresholds set out in *IFRS 8 Segment Reporting* for separate disclosure and reporting and this segment has been aggregated into the Malawi corporate and retail banking segment information presented below.

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

Included in external interest income is income from placements with banks abroad of **K13.01million** (2014: K6.96 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year the Bank earned **K2.6 billion** (2014: K1.4 billion) interest on Government of Malawi treasury bills and local registered stock; **K350 million** (2014: K131.2 million) interest on loans and advances to enterprises controlled by Government of Malawi.

Included in income from investments for the Bank is **K500 million** (2014: K800 million) dividend received during the year from The Leasing and Finance Company of Malawi Limited which has been eliminated on consolidation.

42. Segmental reporting (continued)
In thousands of Malawi Kwacha

	Malawi				Mozambique	Zambia	Botswana			
31 December 2015	**Corporate & Retail Banking**	**Forex bureau**	**Asset finance**	**Subtotal**	**Corporate & Retail Banking**	**Corporate & Retail Banking**	**Corporate & Retail Banking**	**Total before Adjustments**	**Consolidation Adjustments**	**Total**
Interest income – external	12,735,832	94	3,015,338	15,751,264	1,417,899	-	-	17,169,163	(56,635)	17,112,528
Total interest income	**12,735,832**	**94**	**3,015,338**	**15,751,264**	**1,417,899**	**-**	**-**	**17,169,163**	**(56,635)**	**17,112,528**
Interest expense – external	(2,960,979)	-	(1,624,136)	(4,585,115)	(550,909)	-	-	(5,136,024)	56,635	(5,079,389)
Total interest expense	**(2,960,979)**	**-**	**(1,624,136)**	**(4,585,115)**	(550,909)	**-**	**-**	**(5,136,024)**	**56,635**	**(5,079,389)**
Net interest income	**9,774,853**	**94**	**1,391,202**	**11,166,149**	**866,990**	**-**	**-**	**12,033,139**	**-**	**12,033,139**
Fees and commissions	2,905,125	21,733	64,482	2,991,340	1,450,971	-	-	4,442,311	(10,362)	4,431,949
Total fees and commission	2,905,125	21,733	64,482	2,991,340	1,450,971	-	-	4,442,311	**(10,362**	4,431,949
Income from investments	147,437	-	-	147,437	-	-	-	147,437	(500,000)	(352,563)
Gain on foreign exchange transactions	2,350,451	23,375	-	2,373,826	-	-	-	2,373,826	-	2,373,826
Total operating income	**15,177,866**	**45,202**	**1,455,684**	**16,678,752**	**2,317,961**	**-**	**-**	**18,996,713**	**(510,362)**	**18,486,351**
Staff and training costs	(5,031,938)	(16,224)	(162,673)	(5,210,835)	(1,338,298)	-	-	(6,549,133)	-	(6,549,133)
Premises and equipment	(1,346,199)	(385)	-	(1,346,584)	-	-	-	(1,346,584)	-	(1,346,584)
Depreciation	(745,555)	(2,803)	(14,927)	(763,285)	(218,080)	-	-	(981,365)	-	(981,365)
Other expenses	(2,144,398)	(6,900)	(109,647)	(2,260,945)	(1,054,776)	-	-	(3,315,721)	10,362	(3,305,359)
Impairment of financial assets	(164,735)	-	(94,449)	(259,184)	(415,747)	-	-	(674,931)	-	(674,931)
Total expenditure	**(9,432,825)**	**(26,312)**	**(381,696)**	**(9,840,833)**	**(3,026,901)**	**-**	**-**	**(12,867,734)**	**10,362**	**(12,857,372)**
Share of profits in associates	-	-	-	-	-	**(47,502)**	**284,052**	236,550	-	236,550
Profit before income tax expense	**5,745,041**	**18,890**	**1,073,988**	**6,837,919**	**(708,940)**	**(47,502)**	**284,052**	**6,365,529**	**(500,000)**	**5,865,529**
Income tax expense	(1,664,241)	(5,667)	(334,807)	(2,004,715)	-	-	-	(2,004,715)	-	(2,004,715)
Profit for the year	**4,080,800**	**13,223**	**739,181**	**4,833,204**	**(708,940)**	**(47,502)**	**284,052**	**4,360,814**	**(500,000)**	**3,860,814**
Other comprehensive income										
Revaluation surplus on property	-	-	-	-	-	-	-	-	-	-
Deferred tax on revalued property	-	-	14,369	14,369	-	-	-	14,369	-	14,369
Other movements	-	-	-	-	217,094	-	-	217,094	-	217,094
Total other comprehensive income for the period	**-**	**-**	**14,369**	**14,369**	**217,094**	**-**	**-**	**231,463**	**-**	**231,463**
Total comprehensive income for the period	**4,080,800**	**13,223**	**753,550**	**4,847,573**	**(491,846)**	**(47,502)**	**284,052**	**4,592,277**	**(500,000)**	**4,092,277**
Investment in associates	-	-	-	-	-	3,292,592	1,761,440	5,054,032	-	5,054,032
Segment assets	115,339,754	94,292	11,164,249	126,598,295	21,854,147	-	-	148,452,442	(4,457,441)	143,995,001
Total segment assets	**115,339,754**	**94,292**	**11,164,249**	**126,598,295**	**21,854,147**	**3,292,592**	**1,761,440**	**153,506,474**	**(4,457,441)**	**149,049,033**
Total segment liabilities	**97,292,382**	**7,541**	**9,148,454**	**106,448,377**	**18,933,953**	**-**	**-**	**125,382,330**	**(442,079)**	**124,940,251**

42. Segmental reporting (continued)

In thousands of Malawi Kwacha

31 December 2014	Malawi Corporate & retail banking	Malawi Forex bureau	Malawi Asset finance	Subtotal	Mozambique Corporate & retail banking	Zambia Corporate & retail banking	Botswana Corporate & retail banking	Total before adjustments	Consolidation adjustments	Total
Interest income – external	9,292,915	943	2,611,720	1,905,578	664,070	-	-	12,569,648	(64,402)	12,505,246
Total interest income	**9,292,915**	**943**	**2,611,720**	**11,905,578**	**664,070**	**-**	**-**	**12,569,648**	**(64,402)**	**12,505,246**
Interest expense – external	(2,230,507)	-	(1,318,648)	(3,549,155)	(352,311)		-	(3,901,466)	64,402	(3,837,064)
Total interest expense	**(2,230,507)**	**-**	**(1,318,648)**	**(3,549,155)**	**(352,311)**	**-**	**-**	**(3,901,466)**	**64,402**	**(3,837,064)**
Net interest income	**7,062,408**	**943**	**1,293,072**	**8,356,423**	**311,759**	**-**		**8,668,182**	**-**	**8,668,182**
Fees and commissions	3,326,212	13,829	16,602	3,356,643	1,031,053	-	-	4,387,696	(10,318)	4,377,378
Total fees and commission	**3,326,212**	**13,829**	**16,602**	**3,356,643**	**1,031,053**	**-**	**-**	**4,387,696**	**(10,318)**	**4,377,378**
Income from investments	1,562,867	-	-	1,562,867	-	-	-	1,562,867	(800,000)	762,867
Gain on foreign exchange transactions	3,979,727	57,250	-	4,036,977	-	-	-	4,036,977	-	4,036,977
Total operating income	**15,931,214**	**72,022**	**1,309,674**	**17,312,910**	**1,342,812**	**-**	**-**	**18,655,722**	**(810,318)**	**17,845,404**
Staff and training costs	(4,343,496)	(23,243)	(169,631)	(4,536,370)	(1,004,817)	-	-		-	(5,541,187)
Premises and equipment	(1,053,649)	(127)	-	(1,053,776)	-	-	-	(1,053,776)	-	(1,053,776)
Depreciation	(535,746)	(2,138)	(12,180)	(550,064)	(48,903)	-	-	(598,967)	-	(598,967)
Other expenses	(1,656,799)	(17,642)	(77,313)	(1,751,754)	(1,005,006)	-	-	(2,756,760)	10,318	(2,746,442)
Impairment of financial assets	(344,166)	-	(20,133)	(364,299)	(152,101)	-	-	(516,400)	-	(516,400)
Total expenditure	**(7,933,856)**	**(43,150)**	**(279,257)**	**(8,256,263)**	**(2,210,827)**	**-**	**-**	**(10,467,090)**	**10,318**	**(10,456,772)**
Share of profits in associates	-	-	-	-	-	(93,535)	216,020	122,485	-	22,485
Profit before income tax expense	**7,997,358**	**28,872**	**1,030,417**	**9,056,647**	**(868,015)**	**(93,535)**	**216,020**	**8,311,117**	**(800,000)**	**7,511,117**
Income tax expense	(1,993,725)	8,662)	(311,984)	(2,314,371)	-	-	-	(2,314,371)	-	(2,314,371)
Profit for the year	**6,003,633**	**20,210**	**718,433**	**6,742,276**	**(868,015)**	**(93,535)**	**216,020**	**5,996,746**	**(800,000)**	**5,196,746**
Other comprehensive income										
Revaluation surplus on property	911,360	-	59,056	970,416	-	-	-	970,416	-	970,416
Deferred tax on revalued property	(123,300)	-	-	(123,300)	-	-	-	(123,300)	-	(123,300)
Other movements	-	-	-	-	(23,076)	-	-	(23,076)	-	(23,076)
Total other comprehensive income for the period	**788,060**	**-**	**59,056**	**847,116**	**(23,076)**	**-**	**-**	**824,040**	**-**	**824,040**
Total comprehensive income for the period	**6,791,693**	**20,210**	**777,489**	**7,589,392**	**(891,091)**	**(93,535)**	**216,020**	**6,820,786**	**(800,000)**	**6,020,786**
Investment in associates	-	-	-	-	-	3,340,094	1,477,388	4,817,482	-	4,817,482
Segment assets	78,471,789	87,426	9,984,739	88,543,954	14,961,884	-	-	103,505,838	(3,960,474)	99,545,364
Total segment assets	**78,471,789**	**87,426**	**9,984,739**	**88,543,954**	**14,961,884**	**3,340,094**	**1,477,388**	**108,323,320**	**(3,960,474)**	**104,362,846**
Total segment liabilities	**62,167,562**	**13,898**	**8,222,494**	**70,403,954**	**12,680,627**	**-**	**-**	**83,084,581**	**(735,257)**	**82,349,324**

43. Subsequent events

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

Shareholder Information

BY INDUSTRY AS AT 31 DECEMBER 2015

	Holders	Holder %	Total Shares	Shares %
LOCAL COMPANIES	64	3,55	204 238 687	8,74
INVESTMENT COMPANIES & TRUSTS	23	1,28	182 451 590	7,81
PENSION FUNDS	33	1,83	48 343 366	2,07
INSURANCE COMPANIES	7	0,39	8 820 608	0,38
BANKS	5	0,28	4 852 790	0,21
FOREIGN COMPANIES	14	0,78	1 654 811 221	70,83
OTHER	1655	91,89	232 731 738	9,96
Total	**1 801**	**100,00**	**2 336 250 000**	**100,00**

BY COUNTRY AS AT 31 DECEMBER 2015

	Holders	Holder %	Total Shares	Shares %
CHANNEL ISLANDS	1	0,06	766 266 044	32,80
KENYA	3	0,17	525 002 750	22,47
MALAWI	1 722	95,59	509 426 643	21,81
UNITED KINGDOM	10	0,56	442 624 562	18,94
SWITZERLAND	1	0,06	88 333 334	3,78
PORTUGAL	8	0,45	2 335 200	0,10
OTHER	56	3,11	2 261 467	0,10
Total	**1 801**	**100,00**	**2 336 250 000**	**100,00**

BY SIZE OF SHAREHOLDING AS AT 31 DECEMBER 2015

	Shares	Total Shares %	Holders	Total Holder %
1-5000	1 116 716	0,05	477	26
5001-10000	1 761 444	0,08	260	14
10001-25000	6 081 124	0,26	394	22
25001-50000	6 503 727	0,28	171	9
50001-100001	8 166 058	0,35	118	7
100001-200000	16 790 428	0,72	137	8
200001-500000	44 402 895	1,90	151	8
500001-1000000	33 587 861	1,44	46	3
1000001 and above	2 217 839 747	94,92	47	8
Total	**2 336 250 000**	**100,00**	**1 801**	**100,00**

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