FMB

FIRST MERCHANT BANK LIMITED

ANNUAL REPORT 2016

TABLE OF CONTENTS

FMB is committed to social investment through the advancement of health, education, sports and environmental issues.

Particular encouragement is given to branch and agency initiatives in the communities served by the bank.

ABOUT THIS REPORT

FMB Group has operations in Malawi, Botswana, Mozambique and Zambia.

This report covers FMB Group's Malawi operations and its subsidiaries (Leasing and Finance Company of Malawi Ltd, Capital Bank Botswana, Capital Bank SA Mozambique and First Capital Bank Zambia) in the majority of the disclosures. As FMB Malawi's operations constitute the majority of the Group's earnings, the report has a bias towards these. The report covers the period from 1st January to 31st December 2016.

Where applicable and appropriate it includes information post 31st December 2016.

The report covers the Group's activities, comprising of retail, business banking, corporate banking, international banking and other financial services like digital payment platforms, money transfer services, bill payments and cash management services.

In this report, we aim to provide stakeholders with meaningful, accurate, transparent and balanced information.

REFLECTING ON THE HIGHLIGHTS OF 2016

Earnings per Share
273 tambala

Dividends per Share**
70 tambala

PE Ratio*
6.22

Price/Book Value Ratio*
1.25

Return on Equity
34%

Shareholders' Funds 2016
MK'm 31 763

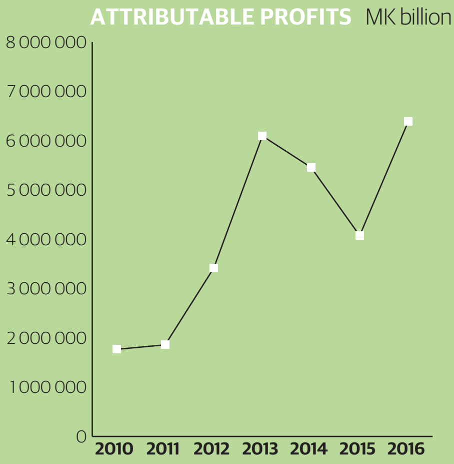
Total Assets
MK'm 327 414

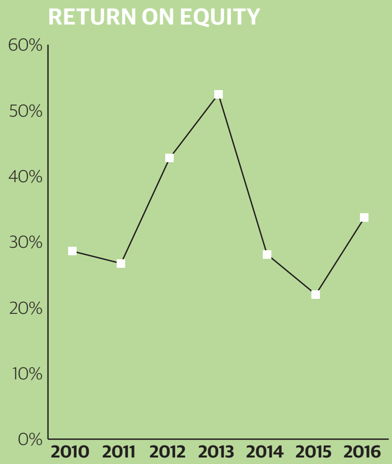
Total Income
MK'm 34 229

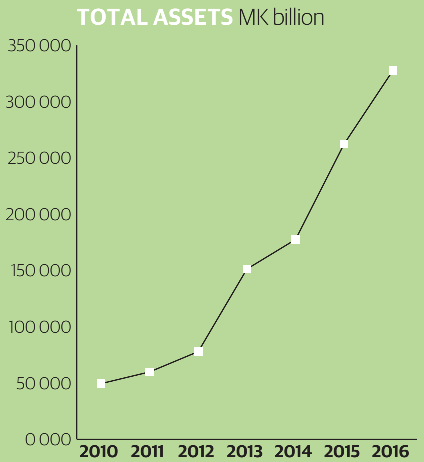
Profit after Tax
MK'm 7 661

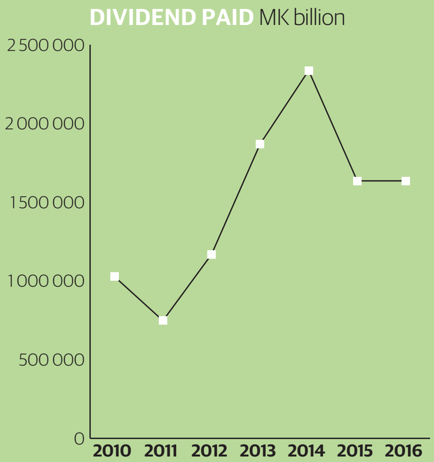
Share Price at Year-End
1 700 tambala

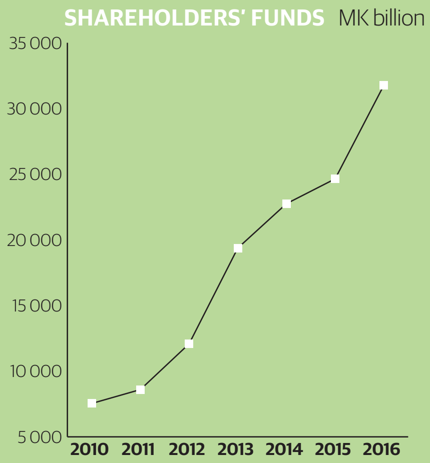
** at year end share price　** including final dividend*

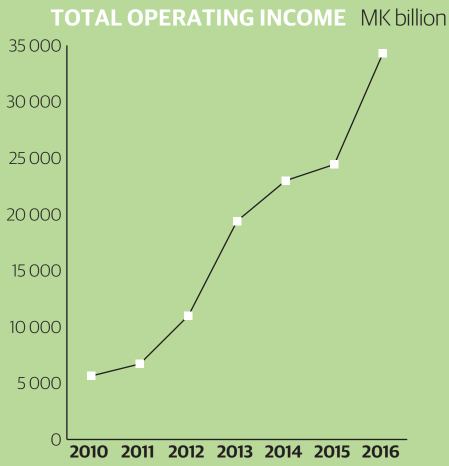

ATTRIBUTABLE PROFITS MK billion
8 000 000
7 000 000
6 000 000
5 000 000
4 000 000
3 000 000
2 000 000
1 000 000
0
2010 2011 2012 2013 2014 2015 2016


RETURN ON EQUITY
60%
50%
40%
30%
20%
10%
0%
2010 2011 2012 2013 2014 2015 2016


TOTAL ASSETS MK billion
350 000
300 000
250 000
200 000
150 000
100 000
50 000
0 000
2010 2011 2012 2013 2014 2015 2016


DIVIDEND PAID MK billion
2 500 000
2 000 000
1 500 000
1 000 000
500 000
0
2010 2011 2012 2013 2014 2015 2016


SHAREHOLDERS' FUNDS MK billion
35 000
30 000
25 000
20 000
15 000
10 000
5 000
2010 2011 2012 2013 2014 2015 2016


TOTAL OPERATING INCOME MK billion
35 000
30 000
25 000
20 000
15 000
10 000
5 000
0
2010 2011 2012 2013 2014 2015 2016

After two extremely trying years we emerged not only unscathed from **multiple storms but substantially strengthened.**

Hitesh Anadkat – *Group Chairman*

DEAR SHAREHOLDERS

The year here reviewed was in almost all respects a remarkably positive one for the Group, a year of solid, often exceptional, achievements, all of which augured well for FMB's future.

In 2016 our operating context remained challenging in the extreme with Malawi, Mozambique and Zambia continuing to feel the adverse effects of the economic setbacks suffered in the previous year. In all of our markets growth was well shy of that of recent years, economic activity and investment being negatively affected by drought and depressed commodity prices. In Mozambique investor sentiment was rocked by revelations concerning previously undisclosed national debt and electricity shortages hampered growth prospects in Malawi and Zambia. Only in Botswana did we begin to see a resumption of growth and a material strengthening of the national currency.

In Malawi, Mozambique and Zambia inflation remained stubbornly high and above 20% for most of the year. Interest rates persisted at concomitantly elevated levels, thus increasing the cost of borrowing. In both Malawi and Mozambique our interest expense rose by over 100% though in the case of Malawi, this derived largely from our decision to replace dollar-denominated debt with kwacha-denominated borrowings, albeit at effectively higher rates.

PERFORMANCE IN THE FACE OF ADVERSITY

As the Group Managing Director explains in his message, the robust performances recorded by each of our operations were all the more commendable given the strong economic headwinds facing the various countries of the region. These performances speak, I believe, to the strength of our board and of management, both at group level and at all of our various operations, the dedication of our staff and the evolving strength of both our systems and our strategy.

Even the most cursory reading of FMB's 2016 financial reports will disclose the fact of our having restated 2015 information in our balance sheet and income statement. As the Key Audit Matter in this annual report makes clear, this restatement derives from our decision (with which the external auditors concurred following an extensive evaluation) to consolidate the financial statements of what were previously our associates, Capital Bank Botswana and First Capital Bank of Zambia. This is not the place to elaborate on this decision beyond stating that it reflects the reality of our control over these key FMB Group operations and, almost coincidentally, that this decision accorded precisely with the Reserve Bank of Malawi's draft consolidated-reporting requirements for purposes of capital assessment. Our 2016 performance against almost all key indicators was outstanding, notwithstanding this restatement.

RESTRUCTURING TO UNLOCK OPPORTUNITY

Subsequent to our December year-end shareholders representing 55% of our issued capital announced their intention to transfer their shares in FMB to FMB Capital Holdings plc (FMBCH), a new holding company for the group incorporated in Mauritius. Holders of the remaining 45% of FMB shares will be offered shares in FMBCH on the same terms. The board and I believe that this decision, which has been endorsed by the relevant authorities including the Reserve Bank of Malawi and the Malawi Stock Exchange, will be in the very best interests of both the Group and its shareholders. As such, we have no hesitation in strongly commending this arrangement to all shareholders.

Needless to say, we remain immensely proud of our Malawian heritage and, as such, shares in FMBCH will be listed – it is envisaged by the end of 2017 – on the Malawi Stock Exchange. A dual listing on the Mauritius Stock Exchange is being contemplated as we are of the opinion that such a step may well unlock further value for shareholders.

In March 2017 we announced our intention to acquire the majority of Barclays Bank PLC's interest in Barclays Bank Zimbabwe. We are convinced that this acquisition, which is subject to completion of satisfactory due diligence and regulatory approvals, will translate into sustainable value for all stakeholders and will benefit employees and customers in that country.

CREATING VALUE FOR ALL

In saying that we will benefit customers and employees in Zimbabwe, we can state without fear of contradiction that FMB has an extremely proud record of adding value to the lives of the people associated with it and to the communities in which it operates. For 21 years we have consistently rewarded our investors while, equally, rewarding our employees. In 2016 we spent MK80.8 million on developing our people's skills, at the same time helping deserving causes in our communities

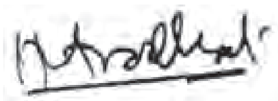
After two extremely trying years we emerged not only unscathed from multiple storms but substantially strengthened. We reduced our cost to income ratio, were able to invest substantial amounts in increasing our footprint and our service offering and proved the stability of the systems upon which we will drive future wealth generation.

In order to build up our capital to sustain the growth of our banks no interim dividend was declared in 2016. However, given the better-than-expected full-year results now reported, directors are pleased to recommend to the forthcoming annual general meeting a final dividend of 50 tambala per share.

For this sterling all-round achievement I thank and congratulate my fellow directors, our management team and staff, our customers, regulators and investors.

At the time of writing, strong signs of recovery, increasing stability and growth were emerging in all of our markets. The inflation woes that prevailed for much of 2016 began to recede towards the end of the year, currencies clawed back the losses they had sustained earlier in the year and interest rates began to decline.

In the first quarter of the new year good rains and higher commodity prices, combined with rallies in equities, especially in Malawi, underpinned hopes of more normalised growth and investor confidence in the new year. We look forward to reporting, in a year's time, on our 2017 performance not only with confidence but with great anticipation.



Hitesh Anadkat
Chairman

May 2017

WHO WE ARE AND WHAT WE DO

FMB commenced operations in June 1995, being the first private sector commercial bank to be granted a banking licence in Malawi. It listed on the Malawi Stock Exchange in June 2006. In its initial years, FMB predominantly catered for business customers but gradually progressed to expand its service offering and distribution to cater for all segments of the economy including promoting financial inclusion.

In July 2002, FMB acquired Leasing and Finance Company (LFC) enabling it to add asset financing, mortgage loans and leasing schemes to its product portfolio.

As it expanded its operations in Malawi, FMB extended its footprint across borders by establishing a commercial bank in Botswana in 2008 – Capital Bank, Botswana.

In June 2013, FMB further expanded its footprint in the SADC region through a simultaneous acquisition from ICB Financial Group Holdings AG (ICB) of Switzerland of its banking operations in Malawi, Mozambique and Zambia. While the Malawi business ICB was merged into FMB, its operations in Zambia and Mozambique were rechristened as First Capital Bank Zambia and Capital Bank S.A., Mozambique respectively.

In continuation of its strategy to be a regional bank in the SADC region, FMB is in discussions with Barclays Bank PLC to acquire their majority shareholding in Barclays Bank of Zimbabwe.

FMB, Malawi's operations comprise 8 branches, 21 agencies, 57 ATMs, 70 Point of Sale (POS) devices through partnerships with Agora shops (20) and Farmers World outlets (48) and 20 cashiering counters offered through biller partnerships in designated biller locations; this is probably the widest distribution network amongst all the commercial banks in Malawi. In Botswana, Zambia and Mozambique the bank has four, six and four branches respectively.

As the financial services industry keeps evolving globally FMB has ensured that its product and service offering is in step with global trends and as such, the bank's delivery platforms have migrated from the traditional 'brick and mortar' branches and agencies to other channels such as First Mobile (its mobile phone based digital platform), point of sale devices (POS), ATMs and through e-banking. The bank has also progressively added to its product/ service portfolio non-traditional banking services such as bill payments, subscription payments, cashiering counters situated at biller partners premises, cash-in-transit (CIT) services and other digital payment solutions offered through its varied digital platforms. For its business customers, the bank has introduced extended banking hours in select branches located in busy market places to facilitate late hour banking as businesses close shop for the day.

In keeping with the quest for promoting financial inclusion, FMB has extended its services to remote areas of the country through Social Cash Transfer (SCT) programmes where it is able to reach out to them through the use of its digital platforms and mobile vans.

Customers also enjoy FMB's friendly customer service through its dedicated Relationship Managers and Sales teams catering to Corporate Banking, Government, International Organisations and NGOs, as well as Business and Private Banking segments; these are ably supported by specialists in Treasury who facilitate forex and import payment requirements, and the Alternate Channels teams for all their digital banking solutions.

FMB is committed to creating sustainable shareholder value and long-term customer loyalty through providing superior financial products to the communities it serves.

FMB's commitment to employee development is enhanced by a continuous learning culture that is built on reliability, trust, professionalism and mutual respect. Self-development is encouraged, and augmented through appropriate training consistent with the employees' area of work.

OUR REACH

Outside of Malawi we have a presence in three countries within the Southern Africa Development Community (SADC) and East Africa region where our network extends to Botswana, Mozambique and Zambia.

MALAWI

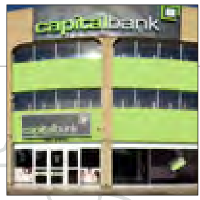
FMB

POS Points: **70**
Number of ATMs: **58**
Branches: **8**
Agencies: **21**
Cashiering Points: **9**

BOTSWANA

capitalbank

Number of ATMs: **6**
Branches: **4**
Shareholding in Capital Bank Limited held by FMB: **38.6%**



MALAWI

LFC

Branches: **2**
Shareholding in LFC held by FMB: **100%**

ZAMBIA

First capitalbank

Number of ATMs: **7**
Branches: **6**
Shareholding in First Capital Bank Limited held by FMB: **49%**

MOZAMBIQUE

capitalbank

POS Points: **41**
Number of ATMs: **5**
Branches /Agencies: **4**
Shareholding in Capital Bank Limited held by FMB: **70%**

BOTSWANA

With the exception of Botswana, in 2016 the markets in which FMB operates continued to experience straitened economic and banking conditions while, in all cases, towards the end of the year, prospects began to improve.

In 2016 Botswana returned to the stability and incremental growth which have been hallmarks of its economic performance in recent years.

The year before, the country experienced a sharp slowdown in GDP growth: from 5.8% in 2013 and 3.2% in 2014, to just 1%, and a budget deficit equivalent to 2.8% of GDP, the first such deficit in four years. In 2016, however, an improved earnings performance by the diamond sector, the source of much of government and export revenue, boosted economic growth to an estimated 2.9%. The current account surplus, which declined in 2015, rebounded strongly in 2016 and, whereas the 2017/18 budget reflected a larger deficit in terms of expenditure, as a share of GDP the deficit reduced from that of 2015/16 to 1.43%.

Water and power shortages which plagued the country for much of 2015 and early 2016 were largely overcome during the year, underpinning a solid performance on inflation, the headline inflation figure for the year being very near the lower end of the Bank of Botswana's target range of 3% to 6%. Such was the level of inflation that, in September 2016, the central bank reduced its policy rate, from 6% to 5.5%. (Commercial banks' base lending rates correspondingly reduced from 7.5% to 7.0% from September.)

Over the year the pula strengthened by 9% relative to the US dollar. This derived in no small part from the strength of the South African rand which in 2016 represented 50% of the value of the pula basket.

In early 2017 the minister of finance and economic development predicted GDP growth for the new year of 4.2% while cautioning that this outlook was dependent on sustained global growth and commodity prices. Diamond and even copper prices were expected to maintain their recent rallies. However, lingering concerns over Botswana's resource dependence were underscored by the announcement, in October 2016, that the country's largest (state-owned) copper and nickel mine would be provisionally liquidated because of persistent losses.

MALAWI

Ongoing drought conditions exerted a sharply negative economic impact on Malawi in 2016.

In particular, output of the maize crop disappointed while sugar and cotton yields were also below recent historical levels. Tobacco output was relatively stable but international prices for the key burley crop remained depressed. Drought, and flooding in some areas, put as much as 17% of the population at risk of not being able to meet their food requirements, a situation that was eased by the large-scale importation of largely donor-funded supplies.

The effects of the drought were not restricted to agricultural yields; low water levels on Lake Malawi and the Shire River slashed the country's ability to generate electricity, resulting in regular load-shedding of up to 12 hours or more per day. With a minimal increase in activity in the financial services, retail and wholesale and communications sectors, GDP growth was a muted 3%.

Inflation remained stubbornly high throughout the year, driven largely by food price increases. Whereas headline inflation began the year at 23.5%, by year end this had moderated to approximately 20%, declining further in early 2017.

In a context of high inflation and low growth, the Reserve Bank of Malawi maintained policy rates at above inflation in an effort to drive inter-bank and wholesale rates towards alignment with policy rates and to support the kwacha. In November, however, with indications that inflation was moderating, the policy rate reduced from a high of 27% (which prevailed for most of the year) to 24%. The differential between the policy rate and banks' base lending rate was little changed, however, with high rates continuing to serve as a disincentive to medium- and long-term borrowing and, therefore, investment.

In March 2017 the Reserve Bank reacted to a continued reduction in inflation by reducing the policy rate a further 200 basis points, to 22%.

One beneficial effect of a stringent monetary policy was to stabilise the kwacha which recorded one of its least volatile performances of the past five years, trading in a relatively narrow band of between, approximately, 680 and 720 to the US dollar. Improved fiscal discipline and effective efforts to maintain confidence in the currency served to allay concerns about Malawi's current-account deficit with foreign-exchange reserve cover stabilising by year end at three months of imports.

As a result of efforts to support the kwacha, money-market liquidity remained tight but little changed from the previous year. In February 2017 government committed to reining in its domestic borrowing, which debt amounted at the time to some K700 billion.

In early 2017 most economic indicators were considerably more positive than had been the case during the previous year. Inflation and interest rates declined, and improved rainfall underpinned projections that GDP growth would return to 4% or 5%, a view with which the IMF concurred in March 2017.

MOZAMBIQUE

Various negative exogenous and domestic developments combined to produce an extremely challenging economic environment for most of 2016.

Chief among Mozambique's economic challenges was a dire shortage of foreign exchange, a hangover from the previous year when the country's balance of payments deteriorated sharply and the metical lost half of its value. In 2016 poor commodity prices and adverse weather conditions weighed heavily on the country's economic prospects with GDP growth for the full year, at an estimated 3.3% at the time of reporting, being half that of 2015 and one of the lowest in recent years.

Investor, lender and donor sentiment were adversely affected by revelations in the year concerning undisclosed foreign borrowings and mounting concerns about the country's ability to meet its debt obligations, concerns which appeared to have been borne out by Mozambique defaulting on almost US$60 million of interest payments which fell due in January 2017.

Official response to the continued fall-off in the value of the metical against the currencies of most major trading partners – from 45 to the US dollar at the beginning of the year to a low of 80 by October – was premised on a succession of increases in the policy rate, by a cumulative (XXX) basis points. In response to mounting inflation, resulting largely from a disappointing export performance and erosion of the currency, the authorities sought to address excess liquidity by implementing a succession of increases in banks' reserve requirements, from 7% to 15.5%. (A number of Mozambican banks struggled to meet these requirements in a year of considerable financial turmoil. The country's fourth largest bank was placed under administration by the Central Bank of Mozambique and growth in credit extension to the private sector slipped from 19.3% in 2015 to 12.5% in 2016.)

Decelerating economic growth and output derived from a number of factors. The international prices of coal, natural gas and other commodities remained under pressure for much of the year. Agricultural production was hampered by drought conditions in the south and central regions, and floods in the north. In the first half of the year simmering tensions between government and Renamo military forces disrupted agriculture, transport and investment. Investor sentiment was undermined by mounting concerns around public-sector debt, inflation and the weakness of the metical.

However, as was the case in several southern African countries, the fourth quarter of 2016 brought a number of more positive indicators for Mozambique. A substantial rise in export revenue, combined with a drop-off in imports, translated into the country's first positive quarterly trade balance in almost two decades and import cover rising to some five months. Inflation showed a similarly positive trend, slowing from a high of 27% in September to 20.5% by January 2017, and the currency clawing back some of its recent losses to end the year at 70 to the US dollar.

Early in 2017 consensus projections were that Mozambique's economic and monetary outlooks were considerably more positive than had been the case in 2016. In addition to rising commodity prices and predictions of improved agricultural output, a sizeable investment in exploiting the country's substantial natural-gas resources was expected to commence in 2017.

ZAMBIA

In 2016 Zambia embarked (with some success) on the arduous process of rebuilding economic momentum following a calamitous 2015 in which GDP growth halved, the kwacha lost as much as 70% of its value and inflation reached well over 20%.

The price of copper, the mainstay of the economy, remained well shy of historical highs achieved in 2011 but staged a recovery of more than 15% in 2016, a rally that was sustained into 2017. At an estimated 3%, the increase in GDP was similar to that of the previous year but less than half the 7.4% achieved annually between 2004 and 2014.

Exacerbating the economic impact of a lower copper price were poor investor sentiment (much of which derived from uncertainty ahead of the August presidential election), high borrowing costs, dampened consumer spending and power shortages which prevailed for much of 2016 (and which impacted mining production, particularly in the first half of the year). Agricultural output – which was heavily affected by drought conditions in 2015 – improved as maize production registered an almost 10% growth year on year. Construction activity, which grew by 18% in 2015, contracted on the back of reduced infrastructural spend.

Given the reduction in both mining and non-mining investment and disappointing (mostly copper-related) export earnings, a widening of 17% in the current account deficit, to US$190 million was not unexpected.

After reaching a peak of 22.9% in February 2016, headline inflation declined steadily, to 7.5% in December, and 7.0% in January 2017. This was achieved by applying a regime of extremely tight money supply which also had the desired effect of allowing the currency to recoup much of the losses sustained against the dollar, pound, euro and the rand in 2015. (In 2016 the kwacha strengthened 10.4% against the US dollar and 13.2% against the euro.)

Despite the hard-won gains made on reducing inflation and supporting the kwacha, it was only in February 2017 that the Reserve Bank saw fit to cut its benchmark rate, by 150 basis points to 14%. In light of the improved inflation outlook, and the fact that the high cost of credit was hampering investment, the Reserve Bank also cut its overnight lending rate from 25.5% to 20% and eased the statutory reserve ratio to 15.5%, from 18%.

By the end of the year, with copper prices continuing to rebound, the agricultural outlook improving and the election having been successfully completed, inflation and interest rates had declined and the country had achieved greater foreign-exchange stability. As a result, most observers were more sanguine about Zambia's prospects for achieving 4% GDP growth in 2017 although concerns lingered about fiscal discipline and the government's growing debt burden.

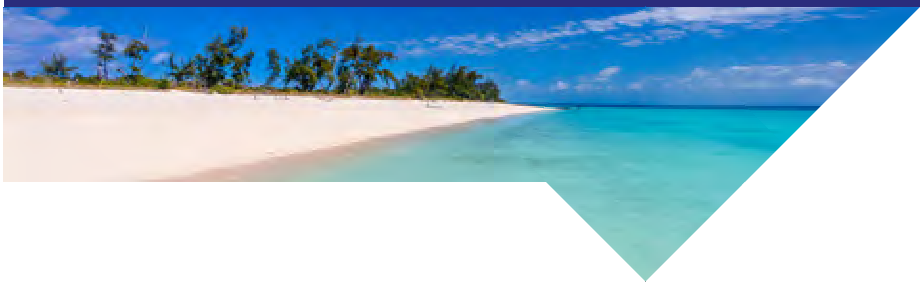
2016 PERFORMANCE


BAY

MESSAGE FROM OUR MANAGING DIRECTOR

2016 was a year of a great many highlights and successes, successes which were achieved through the disciplined implementation of strategy and a keen **and close focus on leveraging the growing maturity and efficiency of our operational processes.**

Dheeraj Dikshit – *Group Managing Director*



DEAR SHAREHOLDERS

Across the board, 2016 was a year of a great many highlights and successes, successes which were achieved through the disciplined implementation of strategy and a keen and close focus on leveraging the growing maturity and efficiency of our operational processes.

Most significantly, for the first time since we acquired our banking interests in Mozambique and Zambia in 2013, these assets all contributed to group profits. In 2016 after-tax group profit amounted to K7.66 billion, an 80% improvement on the previous year.

Another highlight of our 2016 performance was a 25% growth in total assets, from (a restated) K262 billion to K327 billion. This increase derived from material growth in the value of, especially, liquid investments and assets and, to a lesser degree, longer-term advances. In line with our strategic intent, transaction revenue – fees and commissions including foreign exchange – returned a most pleasing increase.

Our outstanding overall performance was achieved in the face of severe economic turbulence, lower-than-usual growth and, in a number of markets, high inflation and currency weakness. Success in growing our assets and increasing profits was not ascribable to any one event or even a number of events or interventions but to a continuous process of business improvement, targeted investment and a range of often far-reaching restructuring initiatives. As a result, important progress was made on improving our all-important cost-to-income ratios.

RESTRUCTURING BEARS FRUIT

Whereas the Botswana economy and banking sector were spared many of the shocks experienced by our other markets, in the year reported management focused considerable attention on restructuring Capital Bank's business model. Outcomes of this overhaul included a more strategic focus on predictably profitable segments. In particular, the legacy issue of non-performing loans was addressed while a number of new products were introduced. The overall outcome was a K1.58 billion (2015: K738 million), or 114%, rise in Botswana's contribution to group after-tax profits.

In 2016, the Malawian economy continued to experience severe pressure, a reality which informed our ongoing, conservative lending policy despite a surplus of liquidity. As a result, the substantial (50%) increase in interest income derived largely from our trade in sovereign securities. Similarly, in Zambia, growth in interest income related largely to money-market investments. Across the group, total interest income grew by 44% but, with the exception of Botswana, interest expenses also rose sharply. All operations remained highly liquid, cash or near cash equivalents representing between 39% and 59% of total assets.

In the case of Malawi, our interest expense grew by 132%. This was primarily due to our decision to substitute US$10 million of subordinated debt with effectively higher-cost but kwacha-denominated debt pegged to 90 day treasury bills rates. This decision entailed little direct financial benefit but was judged prudent in the context of our risk appetite framework.

While total assets grew by fully a quarter, net loans increased by a more modest 21% – an outcome of our conservative lending practices in an environment of pedestrian and uncertain growth and persistently high interest rates. In 2016 customer deposits recorded growth of 18%.

INCREASE IN TRANSACTIONAL INCOME

Confirming the success of our strategic focus on increasing transactional revenue, this year income from fees and income rose by 62% to K9 390 million. This was achieved through increased market share, investments in our physical presence and electronic banking systems as well as through cementing a number of new agreements with money transfer agencies in various markets. In tandem with the process of growing transactional balances, we succeeded in reducing exposure to expensive term deposits.

This year income from foreign-exchange transactions improved significantly – to a net gain of K5 235 million (2015: K2 893 million) after contracting between 2014 and 2015. This was largely driven by increased trading volumes across the board. In Mozambique and Zambia foreign-exchange revenue rose on the back of concerted drives to increase market share and despite these countries experiencing long periods of foreign-exchange shortages. In Botswana, pula strength translated into marginally lower foreign-exchange income with regulatory amendments having a similar effect in Malawi where overall volumes were also higher.

In all operations decisive action was taken to address non-performing loans and bad debts, the group impairment loss halving relative to that of 2015 while recovery efforts undertaken in 2016 are expected to reflect further reductions in 2017.

Less positive was the performance of the group's equity portfolio, a negative return of K1 373 million. This loss was slightly larger than the total revaluation losses, of K1 400 million suffered on our Malawi Stock Exchange investments. (It bears mentioning here, however, that in early 2017 the market sentiment changed and we anticipate positive returns for the year).

REINING IN FIXED COSTS

In 2014/15 we executed a number of strategies aimed at rationalising our costs. These measures bore fruit in 2016 as our cost-to-income ratio declined by 3.4% to 65% and all operations succeeded in limiting cost increases. Particular success was achieved in Mozambique where the dramatic weakening of the metical in the year had threatened to undermine results from that country, 55% of Capital Bank Mozambique's costs being previously denominated in US dollars. Cost-reduction measures taken included sub-letting a portion of the Mozambican head office space and carrying out a small number of redundancies.

At 26%, our overall increase in expenses was well short of inflation rates prevailing in markets other than Botswana and, with inflation moderating towards the end of the year, we anticipate a considerably larger reduction in costs relative to income, in 2017. Aside from lower inflation, not the least reason for this optimism is the fact that at least in the short term no major investments in information technology or infrastructure are envisaged.

As communicated in last year's integrated report, the transition to the core Finacle banking system was successfully accomplished in 2015 and switching platforms between the three English-speaking operations have been successfully bedded down. In addition, in 2016, solid progress was made on commissioning value-adding analytics software which will further improve decision-making while tightening day-to-day cost control. Going forward, the stability and ease of use of our earlier investments in technology will, we are confident, unlock even greater operational efficiencies.

OUTLOOK

With greater stability returning to the economies in which we transact and with growth prospects improving, we are confident that our recent investments in implementing world-class systems, in empowering our staff and in gaining market share will translate into even greater gains for all stakeholders.

At the time of writing our share price had appreciated by some two-thirds from a year previously. For their unflagging faith in FMB, I thank all shareholders while assuring them of our commitment to keep justifying that faith. I also thank management and employees in all group companies for the dedication which has made it possible to report such a noteworthy set of results – and to face the future with even greater optimism.

Dheeraj Dikshit
Group Managing Director

FIRST MERCHANT BANK, MALAWI

FMB Malawi increased profits by 32%, growing interest income 50% and transaction revenue 41% while reducing its cost-to-income ratio.

From left to right:

Kobus Louw – *Group General Manager; Credit and Operations;* **Dheeraj Dikshit** – *Group Managing Director;* **Thomas J. Kadantot** – *Group General Manager, Treasury and International Banking;* **Phillip Madinga** – *Group General Manager, Corporate and Commercial Banking*

FMB Malawi's 2016 results proved that the bank's strategic responses to the ongoing, challenging conditions affecting the Malawian economy were both appropriate and effective.

A net profit after tax of K5 184 million was 32% up on the figure for 2015. This improved performance derived from considerably stronger returns by both interest and non-interest activities.

As was the case in other markets in which the Group operates, in 2016 economic conditions in Malawi were inimical to large-scale investment and lending. As a result, FMB Malawi maintained a conservative lending policy with the value of loans and advances growing by only 4.4% in the year.

While interest income from lending grew by 17%, money-market instruments, principally treasury bills and promissory notes, contributed significantly to the bank's interest revenue (K7 477 million). Such was the extent of our exposure to liquid and low risk money market instruments that income from this source grew by 152%. At year end treasury bills represented the bulk of our near-cash investments which, with actual cash, equated to 45% of total assets.

As anticipated, FMB's interest expense rose sharply with the bank's decision to substitute US$-denominated subordinated debt with kwacha-denominated debt linked to 90-day treasury bill rates.

Non-interest revenue, at K7 443 million rose by 41% on the back of higher income from transaction banking services. Of particular note, a strategic focus on growing sustainable income from individual income streams paid dividends, foreign-exchange commissions rising by 62%, account services by 39% and trade services by 85%. In the year associations were forged with a number of money transfer agencies, resulting in new additional income while extended banking hours at various branches were well received by business and retail customers. In 2016 our IT platforms proved their effectiveness by enabling the bank to respond decisively and promptly to new opportunities and market developments.

In 2016 FMB's listed equity investments suffered large revaluation losses although, post-year-end, a more buoyant stock exchange allowed the bank to recover a significant proportion of these losses.

In increasing revenue by 30% and maintaining a tight rein on costs, FMB's cost-to-income ratio improved from 63% in 2015 to 59%. Similar discipline was applied to monitoring the loan portfolio with gross non-performing loans being reduced from 8% in the previous year to just 4.6% and past-due but not impaired loans showing a similarly substantial decline.

In 2017 we anticipate FMB building on the successes achieved in the previous year with lending activities returning to more normal levels as Malawi's economic prospects improve.

Dheeraj Dikshit
Group Managing Director

NET PROFIT OF
K5 184M

INTEREST INCOME UP BY
50%

TRANSACTION INCOME UP BY
41%

COST-TO-INCOME RATIO REDUCED FROM 63% TO
59%

LEASING AND FINANCE COMPANY OF MALAWI LIMITED

The major achievement during the year was the operationalisation of all business critical modules of our new core operating system, Leasepac. The new system provides us with a much improved control environment, enhanced operational efficiency and a significantly better customer interface.

From left to right:

John M O'Neill – *Managing Director;* **Sithembile Sisya** – *Senior Credit Control Officer;* **Jolly Longwe** – *Finance and Administration Manager;* **Uchizi Ngwira** – *Business Development Manager;* **Bessie Nsambo** – *Regional Manager Central and North*

The level of economic activity in Malawi in 2016 was somewhat subdued with adverse weather conditions severely impacting on agricultural output and resource constraints limiting government expenditure. As a consequence, business confidence was low translating into weak demand for asset finance throughout the year.

To counter inflationary pressures, Reserve Bank maintained a contractionary monetary policy. Aggressive intervention by the monetary authorities through open market operations ensured that yields prevailing in the interbank and wholesale money market approximated the policy rate. At the margin there was negligible, if any, spread available on risk-free deployment of wholesale deposits.

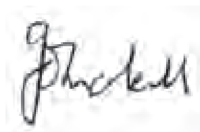
Against this background, there was little scope for profitable balance sheet growth and 2016 became a year of consolidation for LFC. Much of our efforts were applied to getting the basics right and building the platform to support sustainable growth into the future.

Our legacy non-performing advances book has been significantly reduced from K1780 million equivalent to 39% of our gross loan book at the beginning of the year to K833 million or 16% of our gross book at the end of the year. Barring the unforeseen, this positive trend looks set to continue in 2017.

The major achievement during the year was the operationalisation of all business critical modules of our new core operating system, Leasepac. The new system provides us with a much improved control environment, enhanced operational efficiency and a significantly better customer interface.

In the prevailing difficult market conditions net interest income for the year fell to K1 134 million from K1 391 million achieved in the prior year but, nevertheless, net interest margin remained a healthy 11%. An increase of K150 million in net income from vehicle fleet operating leases partially offset the fall in net interest as did a reduction in net impairment provisions from K108 million to K32 million.

Staff costs reflect the appointment of a substantive managing director midway through the year but, overall, operating expenditure remained pretty much on budget. The overall out turn for the year was an after tax profit of K598 million representing a satisfactory 30% after tax return on opening equity.



John M O'Neill
Managing Director

NET INTEREST INCOME FELL TO
K1 134M
FROM K1 391

NET INTEREST MARGIN REMAINED A HEALTHY
11%

SATISFACTORY
30%
AFTER TAX RETURN ON OPENING EQUITY

NEW CORE OPERATING SYSTEM,
LEASEPAC

CAPITAL BANK, BOTSWANA

Profits increased by almost two-thirds with all key performance indicators improving as Capital Bank Botswana's fundamentals strengthened.

From left to right:

Opelo Chabota – *Head of Retail Lending;* **Mani Neb** – *Head of Treasury and International Business;* **Cathy Folkerts** – *Head of Corporate;* **Taka Nyahunzi** – *Head of IT;* **Portia Masunda** – *Acting Head of Credit;* **Jaco Viljoen** – *CEO;* **Mahua Ghosh** – *Head of Operations;* **Ebson Mushininga** – *Head of Internal Audit;* **Vilipo Munthali** – *Head of Finance;* **Henk Kruger** – *Head of Asset Based Finance and* **Goitseone Moshabela** – *Head of Human Resources*

The bank grew after-tax profits by 60% in 2016, a sterling performance which built on the momentum achieved in recent years – a performance that points to the increasing strength of the bank's fundamentals, especially its human capital.

In the previous year, Botswana's GDP growth faltered after several years of robust growth. In the year reviewed, however, the country resumed its upward trajectory, growth and investment rebounding and central-government fiscal discipline proving its effectiveness. In an environment of greater stability and a lower bank rate, Capital Bank Botswana succeeded in growing its balance sheet, loan book, deposits and overall profitability.

In 2016, Capital Bank Botswana increased net profit after tax to BWP23,886 million (2015: BWP 14,933 million), the largest profit since the bank's inception in 2008. In the context of relatively low inflation and monetary stability, the individual contributions from our various revenue streams speak to the robustness of our operations and our ongoing ability to generate sustainable returns. The following statistics reflect the outcomes of Capital Bank Botswana's interventions:

In 2016, the value of our loans rose by 25.7% while non-performing loans were reduced through vigorous and close attention, the effects of which interventions will likely be reflected in our 2017 results. In total, provisions reduced by 50%.

Also in 2016, the bank grew deposits by more than 24% despite an economic environment that remained clouded by uncertainty and often largely negative investor sentiment. By focusing closely on very targeted blue-chip clients, the bank achieved great success in recruiting a number of low-risk clients to its portfolio. Typically higher-yielding current and savings account (CASA) customers grew by 41%.

In winning new business and bolstering our market presence, investments were made in, especially, recruitment for our corporate sales, asset-based finance and retail loans teams. IT expenditure also rose. As a result, at 13%, total costs were slightly above inflation.

Following the introduction of a highly successful core banking system in 2014, a new, more centralised operating model and a continuous focus on growing the transactional base, revenue volumes across the product offering rose significantly. In 2016 account-services income rose 21% and commission-related income by 44%. Foreign-exchange revenue remained unchanged from that of 2015 despite concerted marketing efforts, income being impacted by pula strength against the major currencies. Positively, the launch of payroll-based unsecured personal loans opens up the possibility of significant new revenue streams.

Building on the strength of our recent performance and the culmination of a very successful turnaround strategy begun two years previously and with the capital base growing by 20% in 2016 alone, Capital Bank Botswana is well poised to reap the benefits of its inherent strengths and the country's positive prospects.

Jaco Viljoen
Chief Executive Officer

AFTER-TAX PROFITS UP 60%

LENDING INCOME INCREASED DESPITE SUBDUED BORROWING DEMAND

ALL SEGMENTS CONTRIBUTED TO GROWTH

FEE AND COMMISSION REVENUE UP 20%

CAPITAL BANK S.A., MOZAMBIQUE

Capital Bank recorded its first ever profit while navigating its way through extremely challenging economic, monetary and business headwinds.

From left to right:

Joana Marcal – *Operations Manager;* **Nuno Guimaraes** – *Marketing and Retail Manager;* **Lâmia Mohamed** – *Compliance and Risk Manager;* **Manuel Alfai** – *Treasury Manager;* **Teresa Paula Dias Braz** – *Deputy CEO, Chief Operating Officer;* **Firmino Baloi** – *Audit Manager;* **Jorge Stock** – *Chief Executive Officer;* **Victor Menezes** – *IT Manager;* **Joaquim Domingos Gaspar** – *Legal and Recovery Manager;* **Nilson Bila** –*Corporate Manager and* **Delminda Mulima** – *Credit Manager*

The year 2016 was a historic one for Capital Bank as the Mozambican operation improved on virtually all key performance metrics. This was despite extremely volatile economic and monetary operating contexts which buffeted the national currency, slashed growth and saw the authorities take drastic measures to protect the interests of depositors and investors in other banks.

Capital Bank's increasingly mature levels of internal discipline and expertise, combined with growing balance-sheet strength, ensured that it successfully withstood the effects of a plummeting currency, at times seemingly runaway inflation, low investment and restrictive monetary measures. Not only did the bank emerge unscathed from the effects of a turbulent year, it succeeded in posting its first profit since acquisition. Profit after tax grew by 138% to MT22 million, an achievement that was driven by a 81% rise in net interest income.

In addition to increasing interest revenue (by some 91% in total) the bank posted a 42% growth in transactional (non-interest) income.

Interest income rose on the back of sharp increases in interest rates with the bank maintaining a prudent policy on credit extension due to the economic challenges facing the country in 2016 and the paucity of bankable investment opportunities. While limiting credit extension to the private sector, the bank increased its investment in treasury bills, this source of income rising by some 140% in the year.

As in previous years, the contribution of current and savings accounts to total deposits remained little changed at approximately 42%.

Whereas the bank benefited from the infusion of US$3.2 million from the parent in order to bolster its capital position, we increased our assets by more than 10% and underscored our resilience in a challenged banking sector. Cost management was a top priority and the success achieved in this area was a key driver of the first ever profit. Overall growth in costs was contained at 20% despite inflation rising rapidly to over 25% which, in turn, was spared by the value of the metical falling by more than 50%. Among the various cost-rationalisation initiatives was a successful renegotiation of previously US$-denominated lease rentals to metical-based agreements.

Non-performing loans, which had previously detracted from Capital Bank's performance, were managed down to 6.2%, in line with market averages.

Achieving profitability in the economic climate of 2016 reflects the fact that the bank has achieved a level of scale and stability so as to benefit from the expected upturn in the economic fortunes of Mozambique.

Jorge Stock
Chief Executive Officer

FIRST FULL-YEAR NET PROFIT

INTEREST REVENUE DOUBLED

NON-INTEREST INCOME UP BY 42%

AT 20%, COST INCREASE WELL BELOW AVERAGE INFLATION

FIRST CAPITAL BANK, ZAMBIA

Despite significant economic headwinds, in 2016 FCB recorded its first ever year-end profit by growing revenue two-thirds, reducing bad debts and limiting cost increases while improving service levels

From left to right:
Mathius Chikopela – *Head of Treasury;* **Malama Mushinga** – *Head of Treasury Sales;* **Michael Mulanda** – *Chief Financial Officer;* **Louis Mwaba** – *Head of Human Resources;* **Sachin Nigam** – *Chief Executive Officer;* **Pradeep Nair** – *Chief Operating Officer;* **Veronica Mwala** – *Head of Operations;* **Shashank Mehta** – *Chief Commercial Officer;* **Ephraim Chindima** – *Head of Credit and* **Judge Daka** – *Head of Internal Audit*

Strong performances by almost all areas of operation translated into First Capital Bank (FCB) recording its first net profit after tax since being acquired by FMB in 2013.

At ZMW 6.7 million, NPAT improved from the ZMW 1.6 million loss of 2015. This achievement was driven by a 67% increase in total income as against an increase in total costs of just 23% - despite a high-inflation environment.

The substantial growth in overall revenue stemmed largely from a 205% rise in non-interest income. In 2016 transaction fee income increased by some 300%, primarily on account of the growth in transactional banking business. Processing fees on loans and advances rose by 38%. Foreign exchange income recorded a pleasing turnaround, from a small loss in 2015 to a profit of ZMW 11 million.

Growth in the value of loans and advances was relatively subdued, at 22%, a reflection of low overall economic activity and high interest rates. In view of the prevailing economic climate and relatively negative overall sentiment, our lending approach remained cautious while a number of higher-cost term deposits were terminated. As a result, the increase in interest income from loans and advances amounted to a commendable but relatively modest 20%. Significantly, a strong emphasis on monitoring the health of the bank's credit portfolio saw non-performing loans declining from 11.5% of the loan book to 6.4% at the end of 2016.

In a situation of considerable surplus liquidity, in 2016 FCB doubled income from low-risk money market instruments, principally treasury bills.

This year considerable effort went into acquiring new customers, both retail and corporate. In growing our customer base and improving our service offering, a number of investments were successfully carried out. These included opening a new branch (our sixth) in the Kamwala market trading area of Lusaka and extending branch opening hours to meet the needs of local traders. In the new year the bank intends relocating its Cairo Road branch to a more prominent location so as to bring us closer to our customers' businesses.

In 2016 substantial progress was made on bedding down FCB's digital, including online banking offering. In December we partnered with the Zambia Revenue Authority to facilitate online tax payments for both retail and corporate clients. A rollout of VISA International EMV-compliant debit cards was successfully carried out in December with full implementation occurring in Q1 2017.

We are confident that investments made in 2016 in capturing new customers, broadening our transactional client base, entrenching internal controls and extending our reach and service levels have equipped FCB to exploit the opportunities expected to derive from an improved economic and investment outlook in the new year.

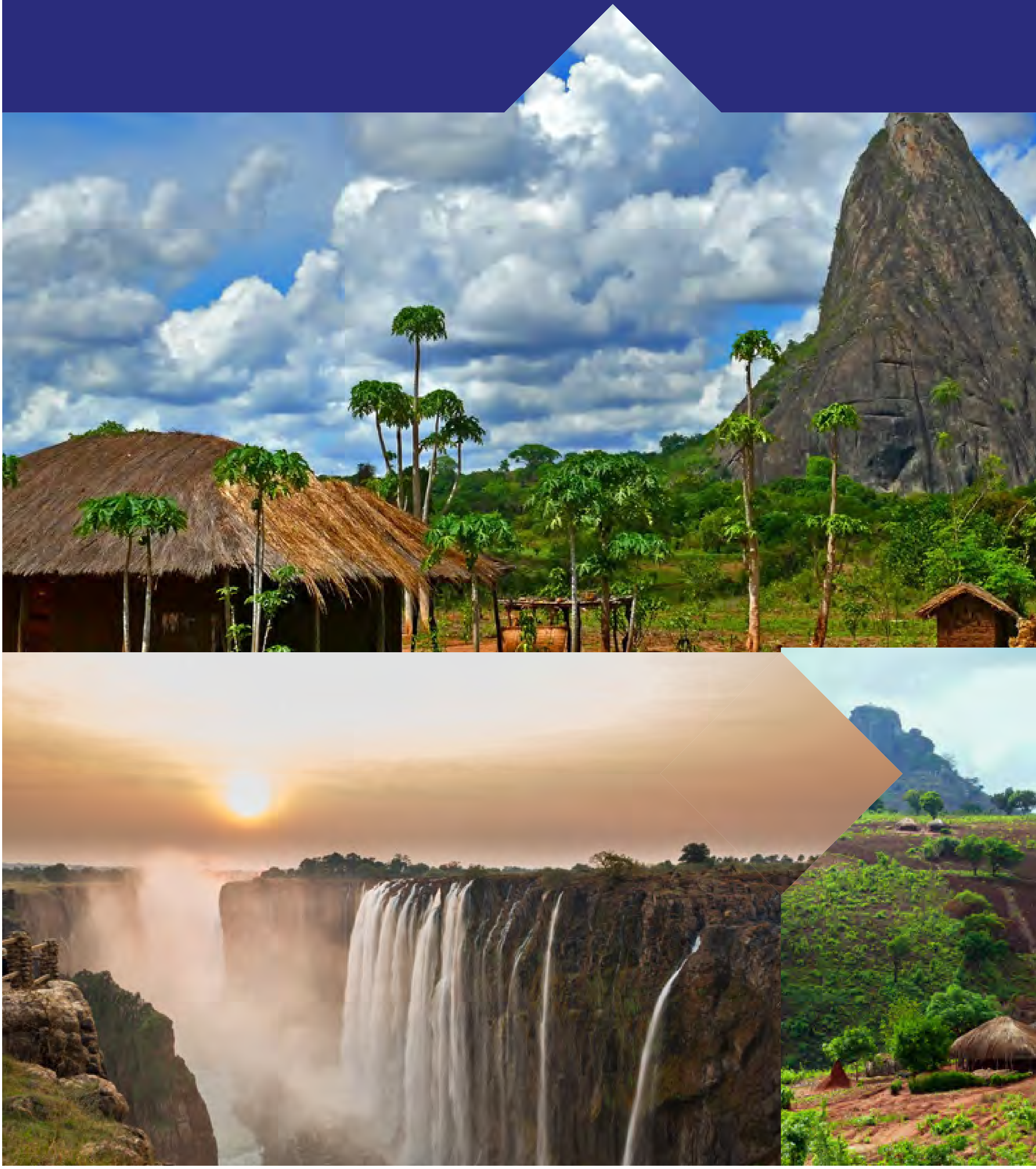
Sachin Nigam
Chief Executive Officer

TOTAL INCOME UP BY 67%

NET PROFIT ACHIEVED

NON-PERFORMING LOANS SLASHED, TO 6.4%

REVENUE FROM TRANSACTION BANKING FEES UP 300%



FMB'S CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

FMB's CSR activities encompass areas of sports, education, health and environmental issues .We have deliberately embarked on programmes that enable sustainable outcomes through collaboration and engagement of relevant stakeholders. Here are some initiatives that we have carried out over the years and 2016 in particular.

HEALTH INITIATIVES

FMB has continued to give back to the communities in which it serves by participating in various health initiatives, among them; donation of food hampers in different hospitals, donation of bicycle ambulances to assist rural communities that do not have access to proper road infrastructure, donation of theatre uniforms and other hospital equipment,construction of guardian and maternity shelters and notably blood donation drives.

Blood donation drive 2016 at Livingstone Towers

SPORTS DEVELOPMENT

In playing its role in sports development in the country, FMB took up sponsorship of the Under-20 Youth Football League in 2008 through financial commitment to help with the country's youth football development programmes at grassroots level. The league sponsorship has grown tremendously over the years. Apart from football, FMB also supports other sports disciplines like hockey since 2013, rugby for more than four years and cricket for over 10 years, as well as golf and basketball.

FMB U-20 Mangochi Launch, 2016

GO GREEN CAMPAIGN

FMB's '**Go Green**' Campaign is a tree planting initiative affiliated with Wild-life Environmental Society of Malawi (WESM) which aims to mitigate environmental degradation caused by the wanton cutting of trees. It was introduced six years ago as a nation-wide tree planting campaign. Over the years, FMB has roped in learning institutions, government institutions and utility companies to ensure everyone takes part in the initiative.

Go Green campaign event at Dzalanyama Forest Reserve, Lilongwe

TOWARDS ACADEMIC EXCELLENCE

FMB has over the years diversified in the type of aid given to educational institutions by identifying needs and making sure it plays its part to encourage learners to be the best at what they do so that they can make a difference to society. FMB steps in to create sustainable learning environments; some notable contributions are: an IT Centre at St Andrews High School Blantyre, Bore Well donations to Central High School Blantyre, "**Tools in a Box**" (a USAID primary school learning materials programme) to over 50 schools across Malawi, stationery and school bag donations to different primary school across the country, and numerous scholarships to students in secondary and tertiary institutions across the country over the years.

Chichiri and Joshua secondary schools scholarship presentation event, 2016

PROVIDING CONDUCIVE LEARNING ENVIRONMENTS

FMB's interest in promoting learners extends to early learners as well; in partnership with Bongo (an early learners' non-governmental organisation) FMB "pioneered" the sponsorship of the "**Happy Classrooms**" programme in order to make the walls of classrooms "learning tools" to create a more appealing environment that would engage and motivate children to look forward to going to school every morning.

A "happy classroom" at Blantyre Girls Primary School

We have deliberately embarked on **programmes that enable sustainable outcomes** through collaboration and engagement of relevant stakeholders.

BEYOND BORDERS

In 2016, Capital Bank Botswana staff in Gaborone assisted the (**Pabalelong Home of Love and Care**) using contributions from all staff to complete a Housing Project; a house was built for 12 children who are under the care of their three elder sisters who were living in a one-room house in Ramotswa Village South West of the capital Gaborone. The house was handed over by Lesetlhana Clinic on behalf of Capital Bank.

The old

The new

CORPORATE GOVERNANCE REPORT

FMB GROUP BOARD OF DIRECTORS

John M O'Neill

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 managing director of The Leasing and Finance Company Malawi Limited.

Modecai Msisha SC

Director

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

Rasik C. Kantaria

Director

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

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, 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.

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 positions. He has more than 23 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr. Dikshit joined FMB in 2011.

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 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 directorates in Malawi.

Dr. Elias Ngalande

Director

Dr. Ngalande holds a BSocSc from the University of Malawi, an MSc in Development Economics from Strathclyde University, an MA in Political Economy, and a PhD in Economics from Boston University. He has held postdoctoral teaching posts at leading Universities, prior to holding senior positions in government and the public sector. In 2000 he was appointed the Governor of the Reserve Bank of Malawi and 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, Finance and Social Sectors. Dr. Ngalande has served on several parastatal boards in Malawi.

FMB GROUP EXECUTIVE MANAGEMENT TEAM

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 positions. He has more than 23 years' working experience in corporate and commercial banking as well as retail banking and consumer assets. Mr. Dikshit joined FMB in 2011.

Thomas J. Kadantot

Group General Manager, Treasury and International Banking

Mr. Kadantot's holds an MBA in Finance and Accounting, and a Post Graduate Diploma in Business Administration. He also holds a Bachelor of Science degree in Physics, Mathematics and Statistics from Bombay University, and a CAIIB (1) from India Institute of Bankers. He has over 28 years work experience in various function in banking.

Kobus Louw

Group General Manager, Credit and Operations

Mr. Louw holds an MBA and a Bachelor of Economics. He is currently studying towards a Masters in Futures Studies. Mr. Louw has over 30 years' experience, having worked for two of the largest banks in South Africa in a range of capacities. His last assignment before he joined FMB was Head of Business Banking for First National Bank, Namibia. Mr. Louw joined FMB in April 2015.

Phillip Madinga

Group General Manager, Corporate and Commercial Banking

Mr. Phillip Madinga holds an MBA, a Bachelor of Business Management and Administration (Hons) and a BSocSci (Economics). He has over 23 years' experience in banking and finance. In his own capacity, Mr. Madinga is the Board Chairman of Sunbird Tourism Limited. He is also a non-executive director on the Board of Illovo Sugar Malawi Limited.

John O'Neill

Managing Director (LFC)

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 managing director of The LFC Malawi Limited.

Jaco SJ. Viljoen

CEO (Botswana)

Jaco holds an MBA from Oxford Brookes University in the UK, as well as degrees from the Universities of Stellenbosch and the Orange Free State. His 20 years' experience includes working in various African countries for The Standard Bank of South Africa and Barclays.

Jorge Stock

CEO (Mozambique)

Mr. Stock holds a BA Honours in Economics and French, Cambridge, UK. He has 24 year experience in retail and corporate banking, marketing and lean value stream leading. Mr. Stock worked for Banco BPI in Portugal and Banco de Fomento Angola.

Sachin Nigam

CEO (Zambia)

Mr. Nigam is the Chief Executive Officer of First Capital Bank, Zambia. He holds a Masters of Business Management degree and a Bachelor of Economics.

He has more than 19 years' experience in the Banking and Financial Services sector which include years served in CRISIL, HSBC and ICICI Banks in India.

Mr. Nigam serves on the Board of Directors of Zambia Electronic Clearing House Limited.

ANNUAL FINANCIAL STATEMENTS

REPORT OF THE DIRECTORS

For the year ended 31 December 2016

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 2016.

NATURE OF BUSINESS, SUBSIDIARIES AND REGISTERED OFFICE

First Merchant Bank Limited is a public limited liability company incorporated in Malawi under the Malawi Companies Act. 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 Capital Markets Limited – involved in asset management
- FMB Forex Bureau Limited – dormant
- FMB Pensions Limited – dormant
- International Commercial Bank Limited – dormant

The Group has the following subsidiaries operating outside Malawi:

- Capital Bank Limited, Mozambique – involved in corporate and retail banking (70.0% shareholding)
- First Capital Bank Zambia Limited – involved in corporate and retail banking (49.0% 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 final dividend of K467.25 million (20 tambala per share) was paid during the year. There was no interim dividend for the year 2016. The Directors propose a final dividend of K1,168.125 million (50 tambala per share) for approval at the forthcoming Annual General Meeting.

DIRECTORATE AND SECRETARY

The following Directors and Company Secretary served during the year:

Mr H N Anadkat	Chairman	Non-executive
Mr D Dikshit	Group Managing Director	Executive
Mr J M O'Neill	Director	Non-executive (Group Finance Director up to March 2016)
Mr R C Kantaria	Director	Non-executive
Mr B Jani	Director	Non-executive
Mr M Msisha	Director	Non-executive
Dr E Ngalande	Director	Non-executive
Mr K M Carpenter	Director	Non-executive
Mr O Mtokale	Company Secretary	

SHAREHOLDING ANALYSIS

Name	2016 %	2015 %
Magni Holdings Limited	**32.80**	32.80
Prime Capital and Credit Limited	**11.24**	11.24
Prime Bank Limited	**11.24**	11.24
N G Anadkat Limited	**7.15**	7.15
H N Anadkat	**4.56**	4.99
General Public	**33.01**	32.58
Total	**100.00**	100.00

Subsequent to the year-end, the board of directors were advised by three principal shareholders, collectively representing 55% of the issued capital of FMB that they intend to transfer their shares in FMB to FMB Capital Holdings Plc ("FMBCH"), a company incorporated in Mauritius, in exchange for shares in FMBCH. Subsequently, FMBCH will make an offer on the same terms to acquire the remaining 45% of the issued shares of FMB by way of an offer document complying with the MSE Listings Requirements and the Companies (Panel on Takeovers and Mergers) Rules 2016. On conclusion of the offer period, an application will be made to the Malawi Stock Exchange to list the shares of FMBCH and delist the shares of FMB.

Mr D Dikshit
Director

Mr HN Anadkat
Director

STATEMENT ON CORPORATE GOVERNANCE

For the year ended 31 December 2016

THE BOARD

The Bank has a unitary Board of Directors comprising a Non-executive Chairman, six Non-executive Directors and one Executive Director. The Board has adopted without modification the major principles of modern corporate governance as contained in the Cadbury and King II Reports, 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 2016			
Member	**23 Mar 2016**	**18 May 2016**	**16 Aug 2016**	**22 Nov 2016**
Mr HN Anadkat – Chairman	√	√	√	√
Mr D Dikshit	√	√	√	√
Mr JM O'Neill	√	√	√	√
Mr M Msisha	√	x	√	√
Mr B Jani	√	√	√	x
Dr E Ngalande	√	√	√	√
Mr KM Carpenter	√	√	√	√
Mr RC Kantaria	√	√	√	√

Key
√ = Attended
X = Apology

BOARD AND MANAGEMENT COMMITTEES

There are three permanent management committees: the Asset and Liability Management Committee, the Management Risk Committee, and the Management Credit Committee, which meet monthly. There are four permanent board committees (comprising of Directors): the Audit Committee, Credit Committee, Appointments and Remuneration Committee, and Risk Committee. Additionally, there is an informal Business Management Committee which comprises of the Group General Manager – Corporate and Commercial Banking, Head of Corporate, Head of Retail/Chief Commercial Officer, Head of Government and International Organisations and Head of Marketing. This Committee meets regularly, usually once a month, and reviews the Bank's market position relative to its peers and sets operational strategy to maintain and grow market share.

Asset and Liability Management Committee (ALCO)

The primary objective of the ALCO is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure etc between funds mobilised and funds deployed. The 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 the ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring that contingency funding plans are in place to avert funding crises. The ALCO comprises of the Group General Manager – Treasury and International Banking (Chairman) and nine members of management and meets regularly, usually once a month. The members of the ALCO are:

Group Managing Director

Group General Manager, Credit and Operations

Group General Manager, Treasury and International Banking

Group General Manager, Corporate and Commercial Banking

Head of Corporate Banking

Group Chief Operating Officer

Chief Finance Officer

Manager, Treasury

Risk and Compliance Manager

Management Accountant

Management Risk Committee (MRC)

MRC 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 coordination 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. The members of the MRC are:

Group Managing Director

Group General Manager – Credit and Operations

Group General Manager – Treasury and International Banking

Group General Manager – Corporate and Commercial Banking

Group Head of Information Technology

Risk and Compliance Manager

Group Chief Operations Officer

Chief Operating Officer

Chief Commercial Officer

Head of Corporate Banking

Head of Government and International Organisations

Head of Internal Audit

Head of Human Resources

Head of Alternate Channels

Company Secretary and Legal Counsel

Management Credit Committee (MCC)

MCC is chaired by the Group Managing Director and meets monthly to review management of credit risk in the Bank. The members of the MCC are:

Group Managing Director

Group General Manager – Credit and Operations

Group General Manager – Corporate and Commercial Banking

Head of Corporate Banking

Risk and Compliance Manager

Company Secretary and Legal Counsel

Audit Committee

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

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

Mr K Carpenter	Non-executive Director (Chairman)
Mr E Ngalande	Non-executive Director
Mr V Kantaria	Alternate to RC Kantaria

Members	Audit Committee meetings attendance 2016 15 Mar 2016	17 May 2016	15 Aug 2016	21 Nov 2016
Mr K Carpenter – Chairman	√	√	√	√
Dr E Ngalande	√	√	√	√
Mr V Kantaria	x	x	x	x

Key
√ = Attended
X = Apology

Credit Committee

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

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

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

Members	Credit Committee attendance 2016 22 Mar 2016	17 May 2016	16 Aug 2016	22 Nov 2016
Mr JM O'Neill – Chairman	√	√	√	√
Mr B Jani	x	√	√	x
Mr M Msisha	√	x	√	x

Key
√ = Attended
X = Apology

Appointments and Remuneration Committee

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

Mr HN 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, and comprises of three Directors, with at least one non-executive director. The chairman of the Committee is a non-executive director. The Group General Manager – Credit and Operations, Group General Manager – Treasury and International Banking, Group General Manager – Corporate and Commercial Banking, Group Chief Operations Officer, Chief Financial Officer and Risk and Compliance Manager attend all meetings. The members of the Committee are:

Mr B Jani	Non-executive Director (Chairman)
Mr D Dikshit	Group Managing Director
Mr JM O'Neill	Director (up to 30 April 2016)

Member	Risk Committee meetings attendance 2016 23 Mar 2016	17 May 2016	16 Aug 2016	24 Nov 2016
Mr B Jani – Chairman	√	√	√	x
Mr D Dikshit	√	√	√	x
Mr JM O'Neill	√	N/A	N/A	N/A

Key
√ = Attended
X = Apology
N/A = Not applicable

DIRECTORS' QUALIFICATIONS

HN Anadkat, BSc (Econ), MBA	Chairman
D Dikshit, BComm, MBA	Group Managing Director
JM O'Neill, BSc (Maths and Mgt Sc) FCA, CA (Mw)	Director
RC Kantaria, BSc (Econ)	Director
M Msisha, SC LLM (Toronto), LLB (Hons) Mw	Director
B Jani, Post Grad. (Commerce), BSc (Banking and Fin. Mgt)	Director
E Ngalande, Phd, BSoc, MA	Director
KM Carpenter, FCA, CA (Mw)	Director

ETHICAL STANDARDS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2016

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 2016 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 and the 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 maintain 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.

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 except for those entities described as dormant on page 30.

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

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 29 March 2017 and are signed on its behalf by:

By order of the Board

Mr D Dikshit
Director

Mr HN Anadkat
Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST MERCHANT BANK LIMITED

OPINION

We have audited the consolidated and separate financial statements of First Merchant Bank Limited, set out on pages 40 to 109, which comprise the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the financial position of First Merchant Bank Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Malawi Companies Act.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated and separate financial statements section of our report. We are independent of First Merchant Bank Limited in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated and separate financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters noted below relate to the financial statements.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Impairment of loans and advances (Consolidated)</td></tr>
<tr><td>Significant judgement is required by the Directors in assessing the impairment against loans and advances.

As disclosed in note 9, impairment against loans and advances amounting to K3 170 million (2015: K3 180 million) against gross loans and advances of K129 695 million (2015: K107 339 million), represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rates, and the carrying value of the advances in respect of loans and advances that exhibit indicators of impairment.

The judgements applied in determining the impairment include:
• the expected realisable value of the collateral securing the advance; and
• the probability that an advance will result in loss.

As a result of the above noted significant judgements made by the Directors, impairment against loans and advances is considered a key audit matter.</td><td>In evaluating the impairment against loans and advances, we assessed the judgements applied by the Directors and our procedures included the following:
• examining on a sample basis the appraised fair value of the collateral securing impaired advances;
• considering the qualitative factors that indicate impairment including the amount in arrears, period in arrears and the financial strength of the borrower;
• assessing the adequacy of the impairment raised based on the realisable value of collateral and the qualitative factors described above; and
• considering managements' credit control processes to identify impaired advances and testing of relevant key controls in the process.

We found that the judgements applied in determining impairment against loans and advances were appropriate and that the amount raised was reasonable.</td></tr>
<tr><td colspan="2">Consolidation of Capital Bank Botswana and First Capital Bank of Zambia (Consolidated)</td></tr>
<tr><td>As disclosed in note 4(a), the consolidated financial statements incorporate the financial statements of First Merchant Bank Limited (FMB) and its subsidiaries. In prior years, FMB consolidated all investments where > 50% shares were held.</td><td>Our procedures focused on evaluating FMB's ability to exercise effective (de facto) control over the two entities that could qualify for full consolidation. The procedures included:
• discussions with management;
• review of inter-company management agreements; and
• scrutiny of the minority shareholdings in the two entities.</td></tr>
</table>

Key audit matter	How the matter was addressed in the audit
Consolidation of Capital Bank Botswana and First Capital Bank of Zambia (Consolidated) (continued)	
Investments in First Capital Bank Limited of Zambia (49.0% equity ownership) and Capital Bank Limited of Botswana (38.6% equity ownership) were accounted for using the equity method of accounting under IAS 28 *Investments in Associates* on the grounds that FMB did not have effective control over the two entities. In determining whether control exists, IFRS 10 *Consolidated Financial Statements* requires entities to take into account all facts and circumstances, including the size of the investor's holding of voting rights relative to the size and dispersion of other vote holders and voting patterns of the other vote holders at previous shareholders' meetings. After reconsideration, the Directors have decided to consolidate the above-noted investments, as they believe that FMB has effective control over the two entities including the power to determine the appointment of key management personnel and to dictate major operating and capital decisions in the two entities. These powers signify the exercise of control as described by IFRS 10 *Consolidated Financial Statements* as "*de facto*" control (i.e. where an investor with less than 50% of the voting rights of an investee has control of the investee for reasons other than contractual arrangements and potential voting rights). Additionally, management believes that FMB held effective control in recent years and, consequently, have restated the comparative balances in the current year Group financial statements in line with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. As a result of the above decision and the related impact on the financial statements the consolidation of the two entities was considered a key audit matter.	In addition, we assessed whether FMB had control over the two entities in prior years. This involved review of any changes in the quality of involvement of FMB in the governance and operations of the two entities. The results of our procedures led us to concur with management's decision to consolidate the two entities as FMB has had the power to direct the relevant activities of the Botswana and Zambian investments over recent years.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act which we obtained prior to the date of this auditor's report and the Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the Group or business activities within the Group to express an opinion on the financial statements.

We communicate with the Directors through the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

Chartered Accountants

John Melrose
Partner

30 March 2017

STATEMENTS OF FINANCIAL POSITION

31 December 2016

		CONSOLIDATED			SEPARATE		
	Notes	2016 K'000	Restated 2015 K'000	Restated 2014 K'000	2016 K'000	Restated 2015 K'000	2014 K'000
ASSETS							
Cash and cash equivalents	7	**84 616 608**	73 221 496	54 426 309	**23 326 706**	28 565 161	24 978 112
Money market investments	8	**69 016 614**	52 258 589	18 343 566	**48 548 466**	26 991 153	6 599 188
Loans and advances to customers	9	**126 523 651**	104 158 389	78 572 880	**42 067 041**	40 285 729	29 486 492
Finance lease receivables	10	**4 783 100**	3 524 013	4 556 258	**-**	-	-
Amounts due from related parties	12	**-**	-	-	**248 533**	377 072	202 907
Derivative asset	37	**19 288 094**	5 980 005	-	**19 288 094**	5 980 005	-
Current tax assets	29(c)	**1 083 165**	922 527	259 690	**483 886**	331 530	-
Investments in listed companies	13	**3 174 501**	4 617 771	5 025 873	**3 174 501**	4 617 771	5 025 873
Investment in subsidiaries	14	**-**	-	-	**9 348 047**	7 866 938	7 075 393
Investment property	15(c)	**878 175**	-	-	**-**	-	-
Intangible assets	15(a)	**4 759 657**	4 043 692	1 264 312	**3 204 457**	2 224 273	156 960
Property and equipment	15(b)	**11 096 818**	10 329 774	10 858 815	**7 091 819**	5 902 424	6 912 930
Other assets	11	**2 193 330**	3 345 708	4 188 389	**1 345 806**	1 016 450	1 579 398
Total assets		**327 413 713**	262 401 964	177 496 092	**158 127 356**	124 158 506	82 017 253
LIABILITIES AND EQUITY							
Liabilities							
Balances due to other banks	17	**29 553 483**	23 560 642	11 017 773	**29 181 384**	14 817 952	6 222 275
Customer deposits	18	**225 238 235**	191 224 074	121 034 339	**78 516 090**	78 334 359	46 143 472
Current tax liabilities		**-**	-	409 599	**-**	-	367 144
Other payables	19	**18 008 566**	3 924 668	7 072 848	**14 586 999**	2 240 167	4 537 449
Subordinated debt	36	**9 031 122**	8 380 285	6 092 280	**7 000 000**	6 644 451	4 644 276
Deferred tax	16	**1 761 994**	1 097 134	459 403	**1 868 827**	652 801	210 624
Total liabilities		**283 593 400**	228 186 803	146 086 242	**131 153 300**	102 689 730	62 125 240
Equity							
Share capital	20(a)	**116 813**	116 813	116 813	**116 813**	116 813	116 813
Share premium	20(b)	**1 565 347**	1 565 347	1 565 347	**1 565 347**	1 565 347	1 565 347
Property revaluation reserve	21	**3 447 824**	2 634 331	2 705 248	**3 339 180**	2 550 356	2 550 356
Loan loss reserve	22	**1 260 194**	1 796 397	1 056 223	**776 191**	1 345 670	445 009
Non-distributable reserves	23	**350 000**	350 000	350 000	**-**	-	-
Translation reserve	24	**1 893 679**	1 508 298	1 363 367	**-**	-	-
Retained earnings		**23 129 420**	16 673 167	15 590 809	**21 176 525**	15 890 590	15 214 488
Total equity attributable to equity holders of the Company		**31 763 277**	24 644 353	22 747 807	**26 974 056**	21 468 776	19 892 013
Non-controlling interest	31(b)	**12 057 036**	9 570 808	8 662 043	**-**	-	-
Total equity		**43 820 313**	34 215 161	31 409 850	**26 974 056**	21 468 776	19 892 013
Total equity and liabilities		**327 413 713**	262 401 964	177 496 092	**158 127 356**	124 158 506	82 017 253

The consolidated and separate financial statements were approved for issue by the Bank's Board of Directors on 29 March 2017 and were signed on its behalf by:

Mr HN Anadkat
Director

Mr D Dikshit
Director

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

		CONSOLIDATED		SEPARATE	
	Notes	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Interest income	25	**34 001 870**	23 556 521	**19 041 104**	12 728 531
Interest expense on deposits and other accounts		**(12 955 304)**	(7 467 066)	**(6 872 063)**	(2 960 979)
Net interest income		**21 046 566**	16 089 455	**12 169 041**	9 767 552
Fees and commission income		**9 390 583**	5 796 072	**6 149 151**	2 759 419
(Loss)/income from investments	26	**(1 373 565)**	(352 563)	**(962 732)**	147 437
Gain on foreign exchange transactions		**5 235 732**	2 893 215	**2 256 583**	2 350 452
Total operating income		**34 299 316**	24 426 179	**19 612 043**	15 024 860
Staff and training costs	27	**11 297 517**	9 013 529	**5 943 962**	5 024 206
Premises and equipment costs		**3 611 027**	1 788 833	**1 750 921**	1 346 199
Depreciation and amortisation	15	**2 144 204**	1 503 014	**1 117 758**	744 304
Other expenses	28	**5 363 363**	4 940 252	**2 793 770**	2 135 019
Impairment loss on financial assets	38	**496 963**	986 778	**9 032**	164 735
Total expenses		**22 913 074**	18 232 406	**11 615 443**	9 414 463
Profit before income tax expense		**11 386 242**	6 193 773	**7 996 600**	5 610 397
Income tax expense	29	**(3 725 226)**	(1 930 566)	**(2 812 894)**	(1 697 384)
Profit for the year		**7 661 016**	4 263 207	**5 183 706**	3 913 013
Other comprehensive income					
Items that will never be classified to profit or loss					
Revaluation surplus on property		**904 317**	–	**878 244**	–
Deferred tax on revalued property		**(91 131)**	14 369	**(89 727)**	–
Deferred tax released on disposal of revalued property		**307**	–	**307**	–
		813 493	14 369	**788 824**	–
Items that are or may be classified to profit or loss					
Translation difference for foreign operations		**1 616 629**	524 752	**–**	–
Total other comprehensive income for the year		**2 430 122**	539 121	**788 824**	–
Total comprehensive income for the year		**10 091 138**	4 802 328	**5 972 530**	3 913 013
Profit or loss attributable to:					
Owners of the parent		**6 387 300**	4 073 496	**5 183 706**	3 913 013
Non-controlling interest	31(b)	**1 273 716**	189 711	**–**	–
Profit for the year		**7 661 016**	4 263 207	**5 183 706**	3 913 013
Total comprehensive income attributable to:					
Owners of the parent		**7 586 174**	4 232 796	**5 972 530**	3 913 013
Non-controlling interest		**2 504 964**	569 532	**–**	–
Total comprehensive income for the year		**10 091 138**	4 802 328	**5 972 530**	3 913 013
Basic and diluted earnings per share	30	**273**	174	**–**	–

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2016

CONSOLIDATED

	Share capital K'000	Share premium K'000	Translation reserve K'000	Property revaluation K'000
2016				
As at 1 January 2016 (as restated)	**116 813**	**1 565 347**	**1 508 298**	**2 634 331**
Profit for the year	–	–	–	–
Other comprehensive income				
Property revaluation	–	–	–	**904 317**
Deferred tax on revalued assets	–	–	–	**(91 131)**
Deferred tax released on disposal of revalued property	–	–	–	**307**
Arising on consolidation of subsidiaries	–	–	**385 381**	–
Total other comprehensive income	–	–	**385 381**	**813 493**
Total comprehensive income for the year	–	–	**385 381**	**813 493**
Transfers within reserves				
Transfer from loan loss reserve	–	–	–	–
Total transfers within reserves	–	–	–	–
Transactions with owners, recorded directly in equity				
Contribution by and distribution to owners				
Additional capital subscription	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Dividends paid to owners of the parent	–	–	–	–
Total transactions with owners	–	–	–	–
As at 31 December 2016	**116 813**	**1 565 347**	**1 893 679**	**3 447 824**
2015 (restated)				
As at 1 January 2015 (restated)	116 813	1 565 347	1 363 367	2 705 248
Profit for the year	–	–	–	–
Other comprehensive income				
Property revaluation	–	–	–	–
Deferred tax on revalued assets	–	–	–	14 369
Arising on consolidation of subsidiaries	–	–	144 931	–
Total other comprehensive income	–	–	144 931	14 369
Total comprehensive income for the year	–	–	144 931	14 369
Transfers within reserves				
Transfer of reserve on sale of property	–	–	–	(85 286)
Transfer to loan loss reserve	–	–	–	–
Total transfers within reserves	–	–	–	(85 286)
Transactions with owners, recorded directly in equity				
Contribution by and distribution to owners				
Additional capital subscription	–	–	–	–
Dividends paid	–	–	–	–
Total transactions with owners	–	–	–	–
As at 31 December 2015 (restated)	116 813	1 565 347	1 508 298	2 634 331

Loan loss reserve K'000	Non-distributable reserve K'000	Retained earnings K'000	Equity attributable to owners K'000	Non- controlling interest K'000	Total equity K'000
1 796 397	**350 000**	**16 673 167**	**24 644 353**	**9 570 808**	**34 215 161**
–	**–**	**6 387 300**	**6 387 300**	**1 273 716**	**7 661 016**
–	**–**		**904 317**	**–**	**904 317**
–	**–**		**(91 131)**	**–**	**(91 131)**
–	**–**		**307**	**–**	**307**
–	**–**	**–**	**385 381**	**1 231 248**	**1 616 629**
–	**–**		**1 198 874**	**1 231 248**	**2 430 122**
–	**–**	**6 387 300**	**7 586 174**	**2 504 964**	**10 091 138**
(536 203)	**–**	**536 203**	**–**	**–**	**–**
(536 203)	**–**	**536 203**	**–**	**–**	**–**
–	**–**		**–**	**634 761**	**634 761**
–	**–**		**–**	**(653 497)**	**(653 497)**
–	**–**	**(467 250)**	**(467 250)**	**–**	**(467 250)**
–	**–**	**(467 250)**	**(467 250)**	**(18 736)**	**(485 986)**
1 260 194	**350 000**	**23 129 420**	**31 763 277**	**12 057 036**	**43 820 313**
1 056 223	350 000	15 590 809	22 747 807	8 662 043	31 409 850
–	–	4 073 496	4 073 496	189 711	4 263 207
–	–	–	–	–	–
–	–	–	14 369	–	14 369
–	–	–	144 931	379 821	524 752
–	–	–	159 300	379 821	539 121
–	–	4 073 496	4 232 796	569 532	4 802 328
–	–	85 286	–	–	–
740 174	–	(740 174)	–	–	–
740 174	–	(654 888)	–	–	–
–	–	–	–	339 233	339 233
–	–	(2 336 250)	(2 336 250)	–	(2 336 250)
–	–	(2 336 250)	(2 336 250)	339 233	(1 997 017)
1 796 397	350 000	16 673 167	24 644 353	9 570 808	34 215 161

STATEMENTS OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2016

SEPARATE

	Share capital K'000	Share premium K'000	Property revaluation K'000	Loan loss reserve K'000	Retained earnings K'000	Total equity K'000
2016						
As at beginning of the year	**116 813**	**1 565 347**	**2 550 356**	**1 345 670**	**15 890 590**	**21 468 776**
Profit for the year	**–**	**–**	**–**	**–**	**5 183 706**	**5 183 706**
Other comprehensive income						
Property revaluation	**–**	**–**	**878 244**	**–**	**–**	**878 244**
Deferred tax released on disposal of revalued property	**–**	**–**	**307**	**–**	**–**	**307**
Deferred tax on revalued assets	**–**	**–**	**(89 727)**	**–**	**–**	**(89 727)**
Total comprehensive income for the year	**–**	**–**	**788 824**	**–**	**5 183 706**	**5 972 530**
Transfers between reserves						
Transfer from loan loss reserve	**–**	**–**	**–**	**(569 479)**	**569 479**	**–**
Total transfers between reserves	**–**	**–**	**–**	**(569 479)**	**569 479**	**–**
Transactions with owners, recorded directly in equity						
Contribution by and distribution to owners						
Dividends paid	**–**	**–**	**–**	**–**	**(467 250)**	**(467 250)**
As at 31 December 2016	**116 813**	**1 565 347**	**3 339 180**	**776 191**	**21 176 525**	**26 974 056**
2015						
As at beginning of the year	116 813	1 565 347	2 550 356	445 009	15 214 488	19 892 013
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)	–
Transactions with owners, recorded directly in equity						
Contribution by and distribution to owners						
Dividends paid	–	–	–	–	(2 336 250)	(2 336 250)
As at 31 December 2015	116 813	1 565 347	2 550 356	1 345 670	15 890 590	21 468 776

Restatement of current year consolidated comparatives – consolidation of subsidiaries

In prior years, FMB consolidated all investments where > 50% shares were held. Investments in First Capital Bank Limited of Zambia (49.0% equity ownership) and Capital Bank Limited of Botswana (38.6% equity ownership) were accounted for using the equity method of accounting under IAS 28 *Investments in Associates* on the grounds that FMB did not have effective control over the two entities.

After reconsideration, management have decided to consolidate the above-noted investments, as they believe they have effective control over the two entities including the power to determine the appointment of key management personnel and to dictate major operating and capital decisions in the two entities. These powers signify the exercise of control as described by IFRS 10 *Consolidated Financial Statements* as *"de facto"* control (i.e. where an investor with less than 50% of the voting rights of an investee has control of the investee for reasons other than contractual arrangements and potential voting rights). Management also believes that FMB had effective control in recent years and, consequently, have restated the comparative balances in the current year consolidated financial statements in line with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Restatement of current year consolidated and separate financial statement comparatives – currency swaps

During 2015, FMB entered into currency swap deals whereby FMB sold Dollars (USD) for Malawi Kwacha (MWK) at a predetermined spot rate. FMB then bought back the USD at predetermined future rates assumed from the interest rates and tenors of the individual transactions.

FMB retained substantially all the risks and rewards of ownership of the USD amounts sold and, accordingly, should have continued to recognise the USD amount as an asset in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. A liability should also have been recognised for the consideration received in accordance with the principles of IAS 39. However, the deal was valued as a derivative instrument contrary to the nature of the transaction. Therefore, the prior year balances have been restated to recognise these balances on the statement of financial position to comply with the requirements of IAS 39.

Impact of restatement of comparatives

	CONSOLIDATED 2015 K'000	SEPARATE 2015 K'000
Profit for the year per the 2015 financial statements	3 860 814	3 913 013
Restatement adjustments		
Interest income	6 443 993	–
Interest expense on deposits and other accounts	(2 387 677)	–
Fees and commission income	1 364 123	–
Gain on foreign exchange transactions	519 389	–
Staff and training costs	(2 464 396)	–
Premises and equipment costs	(442 249)	–
Depreciation expense	(521 649)	–
Other expenses	(1 634 893)	–
Share of profit from associate	(236 550)	–
Impairment loss on financial assets	(311 847)	–
Income tax expense	74 149	–
Restated profit for the year	4 263 207	3 913 013
Total comprehensive income per prior year financial statements	4 092 277	3 913 013
Net adjustment to 2015 profit	402 393	–
Adjustment to translation difference for foreign operations	307 658	–
Restated total comprehensive income for the year	4 802 328	3 913 013

STATEMENTS OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2016

Impact of restatement of comparatives (continued)

	CONSOLIDATED		SEPARATE
	2015 K'000	2014 K'000	2015 K'000
Assets			
Cash and cash equivalents	37 454 933	21 996 878	–
Money market investments	18 028 099	7 692 564	–
Loans and advances to customers	51 624 606	42 922 263	–
Finance lease receivables	227 516	–	–
Amounts due from related parties	(263 197)	(2 218 403)	–
Derivative asset	5 436 632	–	5 436 632
Current tax assets	350 028	259 690	–
Investment property	–	(4 817 483)	–
Investment in associated companies	(5 054 032)	–	–
Property and equipment	2 757 169	10 858 815	–
Intangible assets	1 196 948	428 561	–
Other assets	1 594 229	(3 989 640)	–
Total adjustment to assets	113 352 931	73 133 245	5 436 632
Liabilities and equity			
Balances due to other banks	11 826 936	(53 475 554)	5 436 632
Customer deposits	88 064 957	113 693 139	–
Other payables	1 443 903	1 963 857	–
Subordinated debt	7 458 073	5 740 348	–
Deferred tax liabilities	(5 547 317)	(4 184 873)	–
Loan loss reserve	208 314	567 628	–
Translation reserve	1 411 630	1 418 664	–
Retained earnings	(208 312)	(567 629)	–
Non-controlling interest	8 694 747	7 977 665	–
Total adjustment to liabilities and equity	113 352 931	73 133 245	5 436 632

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2016

		CONSOLIDATED		SEPARATE	
	Notes	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest and fees received		**49 411 884**	35 042 681	**28 120 022**	17 958 310
Interest paid		**(12 854 287)**	(7 120 417)	**(6 817 301)**	(3 147 335)
Cash paid to suppliers and employees		**(16 323 393)**	(18 507 711)	**(9 584 137)**	(10 232 443)
		20 234 204	9 414 553	**11 719 484**	4 578 532
Net increase in net customer balances		**14 462 311**	50 620 440	**11 331 432**	21 226 915
Cash generated from operations		**34 696 515**	60 034 993	**23 050 916**	25 805 447
Dividend received from listed and subsidiary companies		**69 705**	161 272	**480 538**	661 272
Income taxes paid	29c	**(3 091 690)**	(2 276 860)	**(1 838 951)**	(1 953 881)
Cash flows from operating activities		**31 674 530**	57 919 405	**21 692 503**	24 512 838
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of money market investments	8	**(16 758 025)**	(33 915 023)	**(21 557 313)**	(20 391 965)
Subscription of shares in subsidiary companies	14	**–**	–	**(1 481 109)**	(791 545)
Proceeds from sale of equipment		**13 230**	7 212	**13 230**	7 212
Acquisition of property and equipment	15	**(3 741 849)**	(4 336 263)	**(2 574 825)**	(1 901 967)
Net cash flow from investing activities		**(20 486 644)**	(38 244 074)	**(25 600 017)**	(23 078 265)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to the owners of the parent	32	**(467 250)**	(2 336 250)	**(467 250)**	(2 336 250)
Capital subscription by non-controlling interests	14	**634 761**	339 233	**–**	–
Dividends paid to non-controlling interests		**(653 497)**	–	**–**	–
Repayment of long-term borrowings		**(7 923 416)**	(603 880)	**(7 923 417)**	(764 393)
Proceeds from long-term borrowings		**7 000 000**	1 196 001	**7 000 000**	1 196 001
Net cash flow from financing activities		**(1 409 402)**	(1 404 896)	**(1 390 667)**	(1 904 642)
Net increase in cash and cash equivalents		**9 778 483**	18 270 435	**(5 298 181)**	(470 069)
Cash and cash equivalents at 1 January		**73 221 496**	54 426 309	**28 565 161**	24 978 112
Effect of changes in exchange rates		**1 616 629**	524 752	**59 726**	4 057 118
Cash and cash equivalents at 31 December	7	**84 616 608**	73 221 496	**23 326 706**	28 565 161

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 Companies Act, 2013, and the Banking Act, 2010.

(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 to fair value; and
- financial instruments at fair value through profit or loss.

(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 and 38 – Loans and advances to customers – Impairment
- Notes 4(c)(v), 10 and 38 – Finance leases receivables – Impairment
- Notes 6 and 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 17, customer deposits as disclosed in note 18, other payables as disclosed in note 19 and subordinated debt as disclosed under note 36.

(vi) *Comparatives*

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Standards and interpretations affecting amounts reported and/or disclosed in the financial statements

In the current year, the Group has adopted those new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2016.

The adoption of these new and revised standards and interpretations did not have a significant impact on these financial statements.

3.2 Standards and interpretations in issue, not yet effective

At the date of authorisation of these financial statements, the following relevant standards and interpretations were in issue but not yet effective:

Effective date	**Standard, amendment or interpretation**
Annual periods beginning on or after 1 January 2018	IFRS 9 *Financial Instruments* IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.
Annual periods beginning on or after 1 January 2018	IFRS 15 *Revenue from Contracts with Customers* IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
Annual periods beginning on or after 1 January 2019	IFRS 16 *Leases* IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
Annual periods beginning on or after 1 January 2017	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) Amends IAS 12 *Income Taxes* to clarify the following aspects: • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; • The carrying amount of an asset does not limit the estimation of probable future taxable profits; • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
Annual periods beginning on or after 1 January 2017	Disclosure Initiative (Amendments to IAS 7) Amends IAS 7 *Statement of Cash Flows* to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

3.2 Standards and interpretations in issue, not yet effective (continued)

Effective date	Standard, amendment or interpretation
Effective for annual periods beginning on or after 1 January 2018	Transfers of Investment Property (Amendments to IAS 40) The amendments to IAS 40 *Investment Property*: • Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use; and • The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.
The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017	Annual Improvements to IFRS Standards 2014 – 2016 Cycle Makes amendments to the following standards: • IFRS 1 – Deletes the short-term exemptions in paragraphs E3 – E7 of IFRS 1, because they have now served their intended purpose; • IFRS 12 – Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10 – B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and • IAS 28 – Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
Annual reporting periods beginning on or after 1 January 2018	IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. The Interpretations Committee came to the following conclusion: • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability; and • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The Directors anticipate that other than IFRS 9, 15 and 16, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group. IFRS 9 will impact the measurement of financial instruments while IFRS 15 will affect recognition of revenue and IFRS 16 will impact recognition, measurement, presentation and disclosure of leases.

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), International Commercial Bank Limited (Malawi), First Capital Bank Zambia Limited 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.

(i) Subsidiaries

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

(ii) Loss of control

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

(iii) Funds management

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

(iv) Transactions eliminated on consolidation

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

(v) Interest in equity-accounted investees

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

Interest in associates 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency (continued)

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 differences 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, 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; and
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 (c).

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

(h) Investments in subsidiaries

Investments in subsidiaries are recognised at cost in the separate financial statements less any impairment losses. The investments are fully eliminated on consolidation.

(i) Investments in associates

Investments in associates are recognised at fair value 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 4(l).

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%

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property and equipment (continued)

(v) 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 property 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 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.

(ii) Defined contribution plan

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

(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 rewards 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; and
- interest on held to maturity investments.

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

(r) Leases

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

(i) Finance lease – The Group as a lessor

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

(ii) Operating leases – The Group as a lessee

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

(s) Fees and commission income

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

(x) Fair value measurement

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

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

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

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

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

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

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

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

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 note 4 (c) (iv).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Derivative financial instruments (continued)

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.

(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.

(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.

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.

(c) Board subcommittees

(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, Chief Finance Officer 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; and
- 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.

(iii) 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.

(d) Management

(i) The Group Managing Director

The Group Managing Director is appointed by the Board to manage the Group'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.

5. RISK MANAGEMENT (continued)

(d) Management (continued)

(iii) Asset and Liability Management Committee (ALCO)

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

- Group General Manager – Treasury and International Banking (Chairman);
- Group Managing Director;
- Group General Manager – Credit and Operations;
- Group General Manager – Corporate and Commercial Banking;
- Group Chief Operating Officer;
- Risk and Compliance Manager;
- Treasury Manager;
- Chief Finance Officer;
- Management Accountant; and
- Head of Corporate Banking.

(iv) Management Risk Committee (MRC)

The Management Risk Committee (MRC) comprises:

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

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

(v) Management Credit Committee (MCC)

The Management Credit Committee (MCC) comprises:

- Group Managing Director (Chairman);
- Group General Manager – Credit and Operations;
- Group General Manager – Treasury and International Banking;
- Group General Manager – Corporate and Commercial Banking;
- Head of Corporate Banking;
- Risk and Compliance Manager; and
- Company Secretary and Legal Counsel.

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

(e) Risk management philosophy

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

3 Lines of Defence Concept

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

1st Line of Defence:

Comprises of business units and Head Office departments.

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

2nd Line of Defence:

Comprises of Risk Management and Compliance function and Credit Risk Management and Underwriting function in Head office.

Responsibilities of Risk Management and Compliance function include:

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

Responsibilities of Credit Risk Management and Underwriting function include:

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

3rd Line of Defence:

Comprises of Internal Audit function

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

(f) Risk appetite

Risk appetite is the level of risk that the bank is willing to accept in achieving its strategic objectives. The Group'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 Group 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 Group 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 Group has reached the minimum limit. Amber serves as a warning that the Group is approaching minimum limits. Green indicates that the Group is operating with buffer and is far from reaching the minimum levels. When the Group 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. RISK MANAGEMENT (continued)

(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, the Companies Act, the Listing Requirements of The Malawi Stock Exchange, 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 and a risk management report is published twice a year.

(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.

(i) Significant risks

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

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

(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's, 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 Group Managing Director and other members of senior management. The ICAAP is validated by internal auditors before it is presented to the Board of Directors for approval. ICAAP is a continuous process and is revised and updated whenever there are significant changes in the business/strategic plan. The objective of ICAAP is to ensure that the Group is adequately capitalised and that, where there are potential capital shortages, the Board and senior management ensure that the gaps are met. The Group promotes efficient use of capital by aligning business strategy, risk appetite and expected returns with capital requirements.

(iii) ***Capital adequacy ratios***

The following minimum capital adequacy ratios have been determined by 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 2016***

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

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
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	**23 129 420**	16 673 167	**21 176 525**	15 890 590
Investments in unconsolidated entities	**–**	–	**(4 674 024)**	(3 933 469)
Deferred tax asset	**(758 720)**	(710 631)	**(305 374)**	(701 561)
Non-controlling interest	**8 893 895**	7 518 395		–
Total Tier 1 Capital	**33 296 755**	**25 513 091**	**17 879 288**	**12 937 720**
Tier 2 Capital				
Translation reserve	**1 893 679**	1 508 298	**–**	–
Property revaluation reserve	**3 447 824**	2 634 331	**3 339 180**	2 550 356
Loan loss reserve	**1 260 194**	1 796 397	**776 191**	1 345 670
Investments in unconsolidated entities	**–**	–	**(4 674 024)**	(3 933 469)
Non-controlling interest	**1 555 728**	1 273 275	**–**	–
Eligible subordinated debt	**9 031 122**	8 380 285	**7 000 000**	6 644 451
Tier 2 Capital	**17 188 547**	**15 592 586**	**6 441 347**	**6 607 008**
Total qualifying capital	**50 485 302**	**41 105 677**	**24 320 635**	**19 544 728**
Total risk weighted assets	**239 414 864**	**203 258 180**	**104 326 972**	**101 877 047**
Tier 1 risk based capital ratio (minimum 10%)	**13.9%**	12.6%	**17.1%**	12.7%
Total risk-weighted capital ratio (minimum 15%)	**21.1%**	20.2%	**23.3%**	19.2%

(k) Credit risk

(i) ***Credit risk management***

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

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

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

5. RISK MANAGEMENT (continued)

(k) Credit risk (continued)

(ii) Role of Risk and Compliance function

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

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

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

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

(iii) Credit policies

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

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

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

A stress testing framework covers credit risk stress testing procedures.

(iv) Stress testing

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

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

(v) Assessment of credit risk exposures

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

a. Loans and overdraft in local currency

The Bank has centralised approval of loans and overdrafts. Branches refer all new proposals and renewal of existing facilities to Head Office for approval. Head Office also grants credit in excess of agreed overdraft limits and marks the limits in the system. Depending on the set thresholds and type of customer, some credit facilities have to be approved by the Credit Committee and/or the full Board.

b. Leases

The Leasing and Finance Company of Malawi 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.

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. RISK MANAGEMENT (continued)

(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 2016, these were as follows:

CONSOLIDATED		LOANS AND ADVANCES TO CUSTOMERS		FINANCE LEASE RECEIVABLES		MONEY MARKET INVESTMENTS	
	Notes	2016 K'000	Restated 2015 K'000	2016 K'000	Restated 2015 K'000	2016 K'000	Restated 2015 K'000
Carrying amount	8,9,10	**126 523 651**	104 158 389	**4 783 100**	3 524 013	**69 016 614**	52 258 589
Standard (fully performing)		**113 176 667**	89 402 217	**3 994 240**	2 510 797	**69 016 614**	52 258 589
Past due but not impaired		**8 460 123**	8 424 676	**446 439**	229 435	**-**	-
Impaired		**8 057 730**	9 170 108	**833 457**	1 780 244	**-**	-
Gross receivable		**129 694 520**	**106 997 001**	**5 274 136**	**4 520 476**	**69 016 614**	**52 258 589**
Past due but not impaired assets							
30 – 60 days		**6 936 674**	6 792 536	**248 753**	221 610	**-**	-
61 – 90 days		**1 523 449**	1 632 140	**197 686**	7 825	**-**	-
		8 460 123	8 424 676	**446 439**	229 435	**-**	-
An estimate of the fair value of collateral held							
Against individually impaired							
Property		**62 337 897**	50 005 920	**1 209 600**	1 661 100	**-**	-
Others		**14 561 841**	696 703	**434 466**	438 254	**-**	-
		76 899 738	50 702 623	**1 644 066**	2 099 354	**-**	-
Against past due but not impaired							
Property		**8 567 399**	5 761 949	**460 700**	526 500	**-**	-
Others		**2 941 039**	915 073	**102 800**	39 700	**-**	-
		11 508 438	6 677 022	**563 500**	566 200	**-**	-

SEPARATE		LOANS AND ADVANCES TO CUSTOMERS		FINANCE LEASE RECEIVABLES		MONEY MARKET INVESTMENTS	
	Notes	2016 K'000	2015 K'000	2016 K'000	2015 K'000	2016 K'000	2015 K'000
Carrying amount	8,9,10	**42 067 041**	40 285 729	**–**	–	**48 548 466**	26 991 153
Standard (fully performing)		**38 741 687**	32 788 620	**–**	–	**48 548 466**	26 991 153
Past due but not impaired		**2 660 332**	5 889 141	**–**	–	**–**	–
Impaired		**1 983 934**	3 405 399	**–**	–	**–**	–
Gross receivable		**43 385 953**	42 083 160	**–**	–	**48 548 466**	26 991 153
Past due but not impaired assets							
30 – 60 days		**2 383 502**	5 613 921	**–**	–	**–**	–
61 – 90 days		**276 830**	275 220	**–**	–	**–**	–
		2 660 332	5 889 141	**–**	–	**–**	–
An estimate of the fair value of collateral held							
Against individually impaired							
Property		**2 660 791**	6 155 062	**–**	–	**–**	–
Others		**333 934**	195 076	**–**	–	**–**	–
		2 994 725	6 350 138	**–**	–	**–**	–
Against past due but not impaired							
Property		**7 797 320**	3 480 231	**–**	–	**–**	–
Others		**1 362 484**	820 335	**–**	–	**–**	–
		9 159 804	4 300 566	**–**	–	**–**	–

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

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

(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.

(iii) 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.

5. RISK MANAGEMENT (continued)

(l) IFRS disclosures on credit risk (continued)

(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 2016 were as follows:

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Agriculture	**15 788 570**	12 555 826	**14 676 182**	12 114 668
Mining	**32 834**	26 208	**32 834**	26 208
Financial services	**2 424 671**	1 897 601	**2 420 448**	1 840 058
Construction	**4 796 450**	4 271 703	**1 139 133**	1 582 604
Energy/electricity/gas/water	**501 015**	41 155	**471 967**	12 071
Manufacturing	**13 824 207**	17 089 435	**7 790 820**	9 231 803
Wholesale and retail	**65 626 002**	50 244 651	**11 355 275**	11 298 168
Individual/households	**7 731 272**	5 873 159	**393 797**	1 468 033
Real estate	**74 257**	99 327	**74 257**	99 327
Tourism and leisure	**775 921**	615 942	**679 846**	465 651
Transport and communication	**5 143 732**	5 084 754	**2 634 753**	2 906 503
Others	**18 249 725**	14 059 418	**1 716 641**	1 038 066
	134 968 656	111 859 179	**43 385 953**	42 083 160
Split into:				
Loans and advances (note 9)	**129 694 520**	106 338 703	**43 385 953**	42 083 160
Finance leases (note 10)	**5 274 136**	4 520 476	**-**	-
	134 968 656	111 859 179	**43 385 953**	42 083 160

(m) Credit quality per class of financial assets

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

		CONSOLIDATED		SEPARATE	
	Notes	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Gross maximum exposure					
Balances with central banks	7	**18 803 266**	14 617 507	**5 849 519**	7 601 018
Balances with other banks	7	**55 450 617**	52 321 431	**12 156 377**	17 021 669
Money market investments	8	**69 016 614**	52 258 589	**48 548 466**	26 991 153
Cheques in the course of clearing	7	**688 273**	158 963	**231 058**	84 070
Derivative asset	37	**19 288 094**	5 980 005	**19 288 094**	5 980 005
Investment in finance leases	10	**5 274 136**	4 520 476	**-**	-
Loans and advances	9	**129 694 520**	107 338 703	**43 385 953**	42 083 160
Total recognised financial assets		**298 215 520**	237 195 674	**129 459 467**	99 761 075
Letters of credit	34	**16 982 273**	27 315 858	**15 511 819**	26 117 340
Financial guarantees	34	**29 141 027**	26 862 656	**16 273 796**	13 209 783
Total unrecognised financial assets		**46 123 300**	54 178 514	**31 785 615**	39 327 123
Total credit risk exposure		**344 338 820**	291 374 188	**161 245 082**	139 088 198

(n) Market risk

Market risk management

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

Senior management and ALCO are mandated to manage market risk. Apart from the requirement to set aside capital for market risk under Basel II – Pillar I, the Group has internal procedures for identifying, measuring, monitoring and controlling market risk. The Group is exposed to foreign exchange risk, interest rate risk and equity risk. All these risks are properly managed as follows:

Foreign exchange risk

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

The Group is exposed to foreign exchange risk in the trading book and the banking book. The policy for trading book exposure is that the position should be almost square. In the banking book, assets and liabilities mismatch is minimised. Most of the foreign currency borrowings by the Group are hedged by foreign currency loans to customers, to minimise risk exposure.

Interest rate risk

The Group does not usually offer fixed rate loans and advances to its customers. This minimises interest rate risk because the Group is able to adjust base lending rates of its entities whenever there is a significant change in the market. Lending to other banks at a fixed rate is usually on short-term tenors, so interest rate risk exposure on these assets is minimal.

The Group is exposed to interest rate risk on its liabilities, especially term deposits and subordinated debt. However, the risk exposure is minimised through limiting the proportion of fixed rate term deposit in its 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.

5. RISK MANAGEMENT (continued)

(n) Market risk (continued)

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. Investments in equities are at fair value and marked to market with any revaluation gains or losses immediately recognised in the profit or loss.

(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; and
- categorisation of assets into trading book and banking book.

(p) Assessment of market risk

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

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

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

In 2016, market risk was properly managed and the Group operated within limits.

(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%.

(r) Exposure to market risk

Foreign exchange exposures were as follows:

CONSOLIDATED

	2016				2015			
Currency	Assets (K'm)	Liabilities (K'm)	Net (K'm)	Sensitivity	Assets (K'm)	Liabilities (K'm)	Net (K'm)	Sensitivity
USD	65 622	66 307	(685)	(6.85)	41 225	37 721	3 504	35.04
GBP	6 527	6 507	20	0.20	6 956	6 895	61	0.61
EUR	3 314	3 610	(296)	(2.96)	5 255	4 918	337	3.37
ZAR	1 147	1 104	43	0.43	1 346	565	781	7.81
INR	52	-	52	0.52	29	-	29	0.29
JPY	30	-	30	0.30	37	-	37	0.37
BWP	104 657	93 327	11 330	113.30	71 570	62 706	8 864	88.64
MT	134 024	102 209	31 815	318.15	25 612	25 568	44	0.44
ZMK	4	4	-	0.00	22 622	21 934	688	6.88

SEPARATE

	2016				2015			
Currency	Assets (K'm)	Liabilities (K'm)	Net (K'm)	Sensitivity	Assets (K'm)	Liabilities (K'm)	Net (K'm)	Sensitivity
USD	42 894	42 527	367	3.67	31 817	29 445	2 372	23.72
GBP	5 926	5 894	32	0.32	6 351	6 287	64	0.64
EUR	2 488	2 432	56	0.56	4 693	4 447	246	2.46
ZAR	372	195	177	1.77	196	53	143	1.43
INR	49	-	49	0.49	27	-	27	0.27
JPY	14	-	14	0.14	22	-	22	0.22

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)

(r) Exposure to market risk (continued)

Interest rate gap analysis

The tables below summarises 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

2016			FIXED RATE					
	Zero rate	Floating rate	0 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	Over 12 months	Total
Total assets	**53 469 860**	**42 454 867**	**124 347 949**	**16 446 628**	**13 912 000**	**22 053 024**	**54 729 385**	**327 413 713**
Total liabilities and equity	**63 590 873**	**135 088 514**	**72 012 753**	**34 576 176**	**14 785 492**	**–**	**7 359 905**	**327 413 713**
Interest sensitivity gap	**(10 121 013)**	**(92 633 647)**	**52 335 196**	**(18 129 548)**	**(873 492)**	**22 053 024**	**47 369 480**	**–**
2015								
Total assets	44 301 824	65 160 631	91 706 669	11 689 438	15 890 532	9 135 874	24 516 996	262 401 964
Total liabilities and equity	39 236 963	116 838 685	48 165 365	22 055 822	15 985 608	7 515 625	12 603 896	262 401 964
Interest sensitivity gap	5 064 861	(51 678 054)	43 541 304	(10 366 384)	(95 076)	1 620 249	11 913 100	–

SEPARATE

2016			FIXED RATE					
	Zero rate	Floating rate	0 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	Over 12 months	Total
Total assets	**36 104 357**	**38 885 133**	**37 618 772**	**12 757 428**	**8 964 898**	**16 387 893**	**7 408 875**	**158 127 356**
Total liabilities and equity	**43 429 882**	**72 108 179**	**18 111 072**	**16 960 631**	**1 127 445**	**–**	**6 390 147**	**158 127 356**
Interest sensitivity gap	**(7 325 525)**	**(33 223 046)**	**19 507 700**	**(4 203 203)**	**7 837 453**	**16 387 893**	**1 018 728**	**–**
2015								
Total assets	33 896 353	23 407 515	28 816 772	6 642 151	8 756 045	8 460 285	14 179 385	124 158 506
Total liabilities and equity	24 361 744	63 920 436	22 009 412	4 645 754	1 279 686	5 381 426	2 560 048	124 158 506
Interest sensitivity gap	9 534 609	(40 512 921)	6 807 360	1 996 397	7 476 359	3 078 859	11 619 337	–

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

	2016 %	2015 %
Assets		
Government securities	**26 - 29**	27
Deposits with banking institutions	**25 - 26**	20
Loans and advances to customers (base rate)	**33**	35
Liabilities		
Customer deposits	**0.15 - 10**	0.15 - 25

Equity risk

The value of investments in listed companies as at 31 December 2016 and 2015 were as follows:

	2016 K'000	2015 K'000
Cost of investments in listed companies	**739 679**	739 679
Fair value of investments in listed companies	**3 174 501**	4 617 771
Net decrease in fair value of investments in listed companies	**(1 443 270)**	(408 102)
Impact on profit and equity of:		
• increase of share price by 10%	**317 450**	461 777
• decrease of share price by 10%	**(317 450)**	(461 777)

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, the 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

At 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.

5. RISK MANAGEMENT (continued)

(r) Exposure to market risk (continued)

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 maturity gap analysis as at 31 December 2016 is given below:

CONSOLIDATED

	Carrying amount K'000	Gross nominal amount K'000	Up to 1 month K'000	1 - 3 months K'000	3 - 6 months K'000	6 - 12 months K'000	1 - 3 years K'000	Over 3 years K'000
Assets								
Cash and cash equivalents	84 616 608	84 616 608	84 616 608	-	-	-	-	-
Money market investments	69 016 614	69 016 614	7 573 091	20 589 290	12 167 617	28 637 460	49 156	-
Loans, advances and leases	131 306 751	134 968 656	29 361 422	14 875 941	13 568 372	12 729 891	36 170 963	28 262 067
Investments in listed companies	3 174 501	3 174 501	634 900	634 900	634 900	634 900	634 901	-
Other financial assets	21 448 638	21 448 638	2 160 544	19 288 094	-	-	-	-
Total assets	309 563 112	313 225 017	124 346 565	55 388 225	26 370 889	42 002 251	36 855 020	28 262 067
Liabilities								
Liabilities to customers	225 238 235	225 238 235	140 571 884	52 141 122	17 897 468	13 658 023	969 738	-
Due to other banks	29 553 483	29 553 483	890 248	4 352 115	16 793 526	1 127 445	4 090 369	2 299 780
Subordinated debt	9 031 122	9 031 122	-	-	-	-	-	9 031 122
Other liabilities	16 016 569	16 016 569	16 016 569	-	-	-	-	-
Total liabilities	279 839 409	279 839 409	157 478 701	56 493 237	34 690 994	14 785 468	5 060 107	11 330 902
Net liquidity gap	29 723 703	33 385 608	(33 132 136)	(1 105 012)	(8 320 105)	27 216 783	31 794 913	16 931 165
Cumulative liquidity gap	29 723 703	33 385 608	(33 132 136)	(34 237 148)	(42 557 253)	(15 340 470)	16 454 443	33 385 608

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

CONSOLIDATED (RESTATED)

	Carrying amount K'000	Gross nominal amount K'000	Up to 1 month K'000	1 - 3 months K'000	3 - 6 months K'000	6 - 12 months K'000	1 - 3 years K'000	Over 3 years K'000
Assets								
Cash and cash equivalents	73 221 496	73 221 496	73 221 496	–	–	–	–	–
Money market investments	52 258 589	52 258 589	10 466 600	10 657 578	10 292 059	16 779 033	4 063 319	–
Loans, advances and leases	107 682 402	111 859 180	31 006 888	18 608 490	4 505 099	9 181 564	28 135 651	20 421 486
Investments in listed companies	4 617 771	4 617 771	923 554	923 554	923 554	923 554	923 555	–
Other financial assets	8 543 925	8 543 925	2 563 920	–	–	–	5 980 005	–
Total assets	**246 324 183**	**250 500 961**	**118 182 458**	**30 189 622**	**15 720 712**	**26 884 151**	**39 102 530**	**20 421 486**
Liabilities								
Liabilities to customers	191 224 074	191 224 074	122 570 248	38 435 329	17 296 186	9 519 939	3 402 372	–
Due to other banks	23 560 642	23 560 642	38 316	2 684 609	108 727	12 787 516	5 381 426	2 560 048
Subordinated debt	8 380 285	8 380 285	–	–	–	–	–	8 380 285
Other liabilities	2 349 912	2 349 912	2 349 912	–	–	–	–	–
Total liabilities	**225 514 913**	**225 514 913**	**124 958 476**	**41 119 938**	**17 404 913**	**22 307 455**	**8 783 798**	**10 940 333**
Net liquidity gap	**20 809 270**	**24 986 048**	**(6 776 018)**	**(10 930 316)**	**(1 684 201)**	**4 576 696**	**30 318 732**	**9 481 153**
Cumulative liquidity gap	**20 809 270**	**24 986 048**	**(6 776 018)**	**(17 706 334)**	**(19 390 535)**	**(14 813 839)**	**15 504 893**	**24 986 048**

5. RISK MANAGEMENT (continued)

(r) Exposure to market risk (continued)

Liquidity risk

The maturity gap analysis as at 31 December 2016 is given below:

SEPARATE

	Carrying amount K'000	Gross nominal amount K'000	Up to 1 month K'000	1 - 3 months K'000	3 - 6 months K'000	6 - 12 months K'000	1 - 3 years K'000	Over 3 years K'000
Assets								
Cash and cash equivalents	23 326 706	23 326 706	23 326 706	-	-	-	-	-
Money market investments	48 548 466	48 548 466	3 654 232	11 618 984	11 029 809	22 245 441	-	-
Loans, advances and leases	42 067 041	43 385 953	7 317 725	1 885 903	12 961 096	7 982 707	11 225 771	2 012 751
Investments in listed companies	3 174 501	3 174 501	634 900	634 900	634 900	634 900	634 901	-
Other financial assets	20 302 658	20 302 658	1 014 564	19 288 094	-	-	-	-
Total assets	137 419 372	138 738 284	35 948 127	33 427 881	24 625 805	30 863 048	11 860 672	2 012 751
Liabilities								
Liabilities to customers	78 516 090	78 516 090	72 342 624	6 006 361	167 105	-	-	-
Due to other banks	29 181 384	29 181 384	518 149	4 352 115	16 793 526	1 127 445	4 090 369	2 299 780
Subordinated debt	7 000 000	7 000 000	-	-	-	-	-	7 000 000
Other liabilities	13 457 493	13 457 493	13 457 493	-	-	-	-	-
Total liabilities	128 154 967	128 154 967	86 318 266	10 358 476	16 960 631	1 127 445	4 090 369	9 299 780
Net liquidity gap	9 264 405	10 583 317	(50 370 139)	23 069 405	7 665 174	29 735 603	7 770 303	(7 287 029)
Cumulative liquidity gap	9 264 405	10 583 317	(50 370 139)	(27 300 734)	(19 635 560)	10 100 043	17 870 346	10 583 317

Liquidity risk

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

SEPARATE (RESTATED)

	Carrying amount K'000	Gross nominal amount K'000	Up to 1 month K'000	1 – 3 months K'000	3 – 6 months K'000	6 – 12 months K'000	1 – 3 years K'000	Over 3 years K'000
Assets								
Cash and cash equivalents	28 565 161	28 565 161	28 565 161	–	–	–	–	–
Money market investments	26 991 153	26 991 153	493 820	5 761 809	8 645 083	8 460 285	3 630 156	–
Loans, advances and leases	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	4 617 771	4 617 771	923 554	923 554	923 554	923 554	923 555	–
Other financial assets	6 748 095	6 748 095	768 090	5 980 005	–	–	–	–
Total assets	107 207 909	109 005 340	45 062 469	20 798 325	11 873 918	12 008 881	12 885 779	6 375 968
Liabilities								
Liabilities to customers	78 334 359	78 334 359	70 409 261	7 599 491	6 501	319 106	–	–
Due to other banks	14 817 952	14 817 952	38 316	5 768 857	108 727	960 580	5 381 426	2 560 046
Subordinated debt	6 644 451	6 644 451	–	–	–	–	–	6 644 451
Other liabilities	1 182 803	1 182 803	1 182 803	–	–	–	–	–
Total liabilities	100 979 565	100 979 565	71 630 380	13 368 348	115 228	1 279 686	5 381 426	9 204 497
Net liquidity gap	6 228 344	8 025 775	(26 567 911)	7 429 977	11 758 690	10 729 195	7 504 353	(2 828 529)
Cumulative liquidity gap	6 228 344	8 025 775	(26 567 911)	(19 137 934)	(7 379 244)	3 349 951	10 854 304	8 025 775

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.

5. RISK MANAGEMENT (continued)

(r) Exposure to market risk (continued)

Operational risk management

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

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

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

Processes

The Group has policies, operational manuals, guidelines and structures to manage its processes.

At bank level, the Bank has a Chief Operating Officer who heads the Operations department and oversees Administration, IT, Central Clearing, Card Centre, Regional Processing Centres, Quality Control department, Branch Supervision and Head Office Operations department. All these departments have departmental heads at senior or middle management levels.

All customer service back office processes are centralised. The centralised processes are handled at the central processing centre (CPC). This was done with the aim of minimising operational risk and improving efficiency. The CPC manager reports to the Chief Operating Officer. Work done by CPC 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.

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

Other specialised departments like Credit, Treasury, Risk, Compliance, Legal, Finance, Human Resources, Internal Audit report directly to the General Manager or the Group 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 realises that its human capital is one of its most important resources. The Group has policies and guidelines on operations to ensure that employees are motivated and perform their duties at high standards at all times. The Group has a Learning and Development Centre (L&D) under Human Resources Department. All new staff go through induction training. L&D organises training throughout the year for staff at all levels. Timely communication is made to staff on the Group's plans, new products and other developments. The Group recruits qualified staff and police clearance is sought for all new staff.

Assessment of operational risk

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

Each entity in the Group has a 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.

The bank has an Operational Risk Management System (ORMS) for recording all operational risk incidents and losses.

Stress testing

Stress testing is done 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 other relevant 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.

5. RISK MANAGEMENT (continued)

(r) Exposure to market risk (continued)

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.

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

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

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

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

6. FINANCIAL ASSETS AND LIABILITIES

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.

CONSOLIDATED

31 December 2016	Notes	Held for trading K'000	Designated at fair value K'000	Held to maturity K'000	Loans and receivables K'000	Other amortised cost K'000	Carrying value K'000
Financial assets							
Cash and cash equivalents	7	–	–	–	84 616 608	–	84 616 608
Money market investments	8	–	–	69 016 614	–	–	69 016 614
Loans and advances to customers	9	–	–	–	126 523 651	–	126 523 651
Finance lease receivables	10	–	–	–	4 783 100	–	4 783 100
Derivative asset	37	19 288 094	–	–	–	–	19 288 094
Investments in listed companies	13	–	3 174 501	–	–	–	3 174 501
		19 288 094	3 174 501	69 016 614	215 923 359	–	307 402 568
Financial liabilities							
Balances due to other banks	17	–	–	–	–	29 553 483	29 553 483
Customer deposits	18	–	–	–	–	225 238 235	225 238 235
Subordinated debt	36	–	–	–	–	9 031 122	9 031 122
		–	–	–	–	263 822 840	263 822 840
31 December 2015 (restated)							
Financial assets							
Cash and cash equivalents	7	–	–	–	73 221 496	–	73 221 496
Money market investments	8	–	–	52 258 589	–	–	52 258 589
Loans and advances to customers	9	–	–	–	104 158 389	–	104 158 389
Finance lease receivables	10	–	–	–	3 524 013	–	3 524 013
Derivative asset	37	5 980 005	–	–	–	–	5 980 005
Investments in listed companies	13	–	4 617 771	–	–	–	4 617 771
		5 980 005	4 617 771	52 258 589	180 903 898	–	243 760 263
Financial liabilities							
Balances due to other banks	17	–	–	–	–	23 560 642	23 560 642
Customer deposits	18	–	–	–	–	191 224 074	191 224 074
Subordinated debt	36	–	–	–	–	8 380 285	8 380 285
		–	–	–	–	223 165 001	223 165 001

6. FINANCIAL ASSETS AND LIABILITIES (continued)

Classification of financial assets and financial liabilities (continued)

SEPARATE

31 December 2016	Notes	Held for trading K'000	Designated at fair value K'000	Held to maturity K'000	Loans and receivables K'000	Other amortised cost K'000	Carrying value K'000
Financial assets							
Cash and cash equivalents	7	–	–	–	23 326 706	–	23 326 706
Money market investments	8	–	–	48 548 466	–	–	48 548 466
Loans and advances to customers	9	–	–	–	42 067 041	–	42 067 041
Amounts due from related parties	12	–	–	–	248 533	–	248 533
Derivative asset	37	19 288 094	–	–	–	–	19 288 094
Investments in listed companies	13	–	3 174 501	–	–	–	3 174 501
Investment in subsidiaries	14	–	–	–	–	9 348 047	9 348 047
		19 288 094	3 174 501	48 548 466	65 642 280	9 348 047	146 001 388
Financial liabilities							
Balances due to other banks	17	–	–	–	–	29 181 384	29 181 384
Customer deposits	18	–	–	–	–	78 516 090	78 516 090
Subordinated debt	36	–	–	–	–	7 000 000	7 000 000
		–	–	–	–	114 697 474	114 697 474
31 December 2015 (restated)							
Financial assets							
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 asset	37	5 980 005	–	–	–	–	5 980 005
Investments in listed companies	13	–	4 617 771	–	–	–	4 617 771
Investment in subsidiaries	14	–	–	–	–	7 866 938	7 866 938
		5 980 005	4 617 771	26 991 153	69 227 962	7 866 938	114 683 829
Financial liabilities							
Balances due to other banks	17	–	–	–	–	14 817 952	14 817 952
Customer deposits	18	–	–	–	–	78 334 359	78 334 359
Subordinated debt	37	–	–	–	–	6 644 451	6 644 451
		–	–	–	–	99 796 762	99 796 762

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, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates and credit spreads 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.

Financial instruments measured at fair value – Fair value hierarchy

			2016 (K'000)			2015 (K'000)	
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Consolidated							
Money market investments	8	–	69 016 614	–	–	52 258 589	–
Loans and advances to customers	9	–	126 523 651	–	–	104 158 389	–
Finance lease receivables	10	–	4 783 100	–	–	3 524 013	–
Investments in listed companies	13	3 174 501	–	–	4 617 771	–	–
		3 174 501	200 323 365	–	4 617 771	159 940 991	–
Separate							
Money market investments	8	–	48 548 466	–	–	26 991 153	–
Loans and advances to customers	9	–	42 067 041	–	–	40 285 729	–
Investments in listed companies	13	3 174 501	–	–	4 617 771	–	–
		3 174 501	90 615 507	–	4 617 771	67 276 882	–

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Liquidity reserve deposits: Central Banks	**18 803 266**	14 617 507	**5 849 519**	7 601 018
Placements with other banks	**55 450 617**	52 321 431	**12 156 377**	17 021 669
Cheques in course of clearing	**688 273**	158 963	**231 058**	84 070
Cash balances	**9 674 452**	6 123 595	**5 089 752**	3 858 404
Total cash and cash equivalents	**84 616 608**	73 221 496	**23 326 706**	28 565 161

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 8 – 29% (2015: 4 – 25%).

8. MONEY MARKET INVESTMENTS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Promissory notes	**9 861 748**	16 348 538	**6 273 605**	11 936 398
Treasury bills	**59 112 954**	35 546 458	**42 274 861**	15 054 755
Corporate bonds	**41 912**	–	**–**	–
Local registered government stocks	**–**	363 593	**–**	–
Total money market investments	**69 016 614**	52 258 589	**48 548 466**	26 991 153
Movement during the year as follows:				
As at 1 January	**52 258 589**	18 343 566	**26 991 153**	6 599 188
Net movement	**16 758 025**	33 915 023	**21 557 313**	20 391 965
As at 31 December	**69 016 614**	52 258 589	**48 548 466**	26 991 153

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

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Loans and advances at amortised cost are receivable as follows:				
Maturing within three months	**42 881 207**	48 190 055	**9 203 628**	22 444 801
Maturing between three and 12 months	**25 581 716**	12 955 647	**20 943 803**	4 930 323
Maturing after 12 months	**61 231 597**	46 193 001	**13 238 522**	14 708 036
	129 694 520	107 338 703	**43 385 953**	42 083 160
Specific impairment allowances				
Balance at 1 January	**(1 333 904)**	(2 829 981)	**(521 943)**	(1 383 174)
(Charge)/recoveries for the year (note 38)	**(329 796)**	(794 567)	**944**	(116 213)
Provision increase offset against fees and commission income	**(268 027)**	(813 722)	**(268 027)**	(813 722)
Write-offs	**684 942**	3 104 366	**443 813**	1 791 166
Balance at 31 December	**(1 246 785)**	(1 333 904)	**(345 213)**	(521 943)
Collective impairment allowance				
Balance at 1 January	**(390 224)**	(306 341)	**(48 522)**	–
Charge for the year (note 38)	**(135 001)**	(83 883)	**(9 976)**	(48 522)
Balance at 31 December	**(525 225)**	(390 224)	**(58 498)**	(48 522)
Interest in suspense				
Balance at 1 January	**(1 456 186)**	(1 811 182)	**(1 226 966)**	(1 540 266)
Interest suspended for the year	**57 327**	354 996	**311 765**	313 300
Balance at 31 December	**(1 398 859)**	(1 456 186)	**(915 201)**	(1 226 966)
Net loans and advances to customers	**126 523 651**	104 158 389	**42 067 041**	40 285 729

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 38.

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

Effective base interest rates for loans and advances have been disclosed in note 40.

10. FINANCE LEASE RECEIVABLES

	CONSOLIDATED	
	2016 K'000	Restated 2015 K'000
Investment in leases at amortised cost are receivable as follows:		
Less than one year	**2 730 273**	2 161 072
Maturing between one and five years	**2 385 958**	2 232 351
Maturing after more than five years	**157 905**	127 053
	5 274 136	4 520 476
Specific impairment allowances		
Balance at 1 January	**(257 452)**	(671 787)
Charge for the year (note 38)	**(7 152)**	(76 940)
Transfer	**137 720**	–
Write-offs	**94 424**	491 275
Balance at 31 December	**(32 460)**	(257 452)
Collective impairment allowance		
Balance at 1 January	**(31 388)**	–
Charge for the year (note 38)	**(25 014)**	(31 388)
Balance at 31 December	**(56 402)**	(31 388)
Interest in suspense:		
Balance at 1 January	**(707 623)**	(1 391 299)
Interest suspended for the year	**443 169**	683 676
Transfer	**(137 720)**	–
Balance at 31 December	**(402 174)**	(707 623)
Net finance lease receivables	**4 783 100**	3 524 013

11. OTHER ASSETS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Cheques in course of collection	**–**	1 228	**–**	1 228
Prepayments	**923 285**	1 388 570	**613 613**	334 701
Dividend receivable	**3 450**	3 450	**3 450**	3 450
Stock of stationery	**100 449**	127 767	**100 449**	116 556
Stock of computer spares and other items	**112 261**	128 633	**101 066**	128 633
Assets held for sale	**7 045**	59 345	**–**	–
Available-for-sale financial assets	**27 089**	–	**–**	–
Other receivables	**1 019 751**	1 636 715	**527 228**	431 882
Total other assets	**2 193 330**	3 345 708	**1 345 806**	1 016 450

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

Prepayments consists of expenses paid in advance including rentals paid for retail outlets, annual maintenance contracts and software licence fees for several items of software and hardware used in the day-to-day operations of the bank

The Group grants loans to its employees at interest rates lower than market rates. Included in Other receivables is K354 million (2015: K302 million) representing the difference between the amount advanced and fair value of these loans using market rates. The difference has been recognised as an employee benefit in compliance with IAS 19 *Employee Benefits*.

12. AMOUNTS DUE FROM RELATED PARTIES

	CONSOLIDATED		SEPARATE	
	2016 K'000	2015 K'000	2016 K'000	2015 K'000
FMB Pensions Limited	–	–	–	34 282
Capital Bank Limited Mozambique	–	–	–	62 811
The Leasing and Finance Company of Malawi Limited	–	–	–	16 782
FMB Capital Markets Limited	–	–	271	–
Capital Bank Limited Botswana	–	–	193 971	152 003
First Capital Bank Limited Zambia	–	–	54 291	111 194
Total amounts due to related parties	–	–	248 533	377 072

Balances due from related parties have no fixed repayment terms, are unsecured and are interest free.

13. INVESTMENTS IN LISTED COMPANIES

	CONSOLIDATED		SEPARATE	
	2016 K'000	2015 K'000	2016 K'000	2015 K'000
Change in fair value				
Balance at 1 January	4 617 771	5 025 873	4 617 771	5 025 873
Movement in fair value (note 26)	(1 443 270)	(408 102)	(1 443 270)	(408 102)
Balance at 31 December	3 174 501	4 617 771	3 174 501	4 617 771

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

At year-end, the Group's portfolio of investments in listed companies comprised:

	CONSOLIDATED		SEPARATE	
	2016 K'000	2015 K'000	2016 K'000	2015 K'000
Shares held				
Illovo Sugar (Malawi) Limited	12 915 541	12 915 541	12 915 541	12 915 541
National Investment Trust Limited	25 766 628	25 766 628	25 766 628	25 766 628
Telekom Networks Malawi Limited	38 338 700	38 338 700	38 338 700	38 338 700
Share price (Kwacha)				
Illovo Sugar (Malawi) Limited	160.00	230.00	160.00	230.00
National Investment Trust Limited	34.00	55.00	34.00	55.00
Telekom Networks Malawi Limited	6.05	6.00	6.05	6.00
Market value (K'000)				
Illovo Sugar (Malawi) Limited	2 066 487	2 970 574	2 066 487	2 970 574
National Investment Trust Limited	876 065	1 417 165	876 065	1 417 165
Telekom Networks Malawi Limited	231 949	230 032	231 949	230 032
	3 174 501	4 617 771	3 174 501	4 617 771

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

14. INVESTMENTS IN SUBSIDIARIES

	Shares ('000)	Shareholding	2016 K'000	2015 K'000
Investment in subsidiaries				
The Leasing and Finance Company of Malawi Limited	18 343	100.0%	65 911	65 911
Capital Bank Limited – Mozambique	4 057	70.0%	4 776 240	3 295 131
ICB Malawi Limited	7 149	100.0%	148 791	148 791
FMB Capital Markets Limited	500	100.0%	50 000	50 000
FMB Forex Bureau Limited	10 000	100.0%	10 000	10 000
FMB Pensions Limited	1 000	100.0%	–	–
Capital Bank Limited – Botswana	31 588	38.6%	903 854	903 854
First Capital Bank Zambia Limited	50 960	49.0%	3 393 251	3 393 251
			9 348 047	7 866 938
Movement during the year was as follows:				
As at 1 January			7 866 938	7 075 393
Additions during the year			1 481 109	791 545
As at 31 December			9 348 047	7 866 938
Subscription in shares in subsidiaries were as follows:				
First Merchant Bank's contribution:				
Capital Bank Limited – Mozambique (70%)			1 481 109	791 545
non-controlling interest's contribution:				
Capital Bank Limited – Mozambique (30%)			634 761	339 233

15. (A) INTANGIBLE ASSETS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Cost				
As at 1 January	**5 842 613**	2 413 936	**2 964 998**	631 546
Transfer	**–**	1 780 007	**–**	1 511 551
Disposals	**(27 453)**	–	**–**	–
Effects of changes in exchange rates	**(319 493)**	(6 250)	**–**	–
Additions	**1 864 592**	1 654 920	**1 414 264**	821 901
As at 31 December	**7 360 259**	5 842 613	**4 379 262**	2 964 998
Accumulated amortisation				
As at 1 January	**1 798 921**	1 216 056	**740 725**	474 587
Effects of changes in exchange rates	**(21 517)**	(6 251)		
Charge for the year	**823 198**	589 116	**434 080**	266 138
As at 31 December	**2 600 602**	1 798 921	**1 174 805**	740 725
Carrying amount	**4 759 657**	4 043 692	**3 204 457**	2 224 273

Intangible assets relate to computer software and are measured at cost incurred in the acquisition and development of computer software, including website development costs.

15. (B) PROPERTY AND EQUIPMENT

CONSOLIDATED

	Freehold property K'000	Leasehold improve-ments K'000	Motor vehicles K'000	Motor vehicles - operating lease K'000	Equipment, fixtures and fittings K'000	Capital work in progress K'000	Total K'000
Cost or valuation							
Balance at 1 January 2016	4 092 676	3 466 387	860 971	459 223	6 215 445	444 215	15 538 917
Additions	–	54 010	495 968	217 639	783 746	325 894	1 877 257
Effects of changes in exchange rates	187 130	(50 582)	(32 996)	–	133 953	18 233	255 738
Revaluation surplus	456 508	245 811	–	–	–	–	702 319
Disposals	(19 660)	–	(88 726)	–	(12 299)	(146 555)	(267 240)
Transfers	(490 487)	202 670	–	–	(90 826)	(111 844)	(490 487)
Balance at 31 December 2016	4 226 167	3 918 296	1 235 217	676 862	7 030 019	529 943	17 616 504
Accumulated depreciation							
Balance at 1 January 2016	220 194	510 034	478 737	28 800	3 971 378	–	5 209 143
Charge for the year	112 953	252 078	188 603	–	767 372	–	1 321 006
Released on disposal	(483)	–	(84 196)	–	(12 299)	–	(96 978)
Effects of changes in exchange rates	24 852	(40)	(19 849)	–	144 535	–	149 498
Charge on operating lease	–	–	–	139 015	–	–	139 015
Eliminated on revaluation	(143 827)	(58 171)	–	–	–	–	(201 998)
Balance at 31 December 2016	213 689	703 901	563 295	167 815	4 870 986	–	6 519 686
Cost or valuation							
Balance at 1 January 2015	3 504 452	2 687 264	675 779	–	4 823 995	3 202 345	14 893 835
Additions	360 068	588 200	212 507	459 223	598 849	462 496	2 681 343
Effects of exchange rate changes	84 109	(112 123)	4 093	–	177 931	(16 873)	137 137
Disposals	(86 000)	–	(46 865)	–	(39 178)	(99 525)	(271 568)
Transfers	230 047	303 046	15 457	–	653 848	(3 104 228)	(1 901 830)
Balance at 31 December 2015	4 092 676	3 466 387	860 971	459 223	6 215 445	444 215	15 538 917
Accumulated depreciation							
Balance at 1 January 2015	97 821	339 374	360 921	–	3 236 906	–	4 035 022
Charge for the year	100 186	151 250	115 014	–	547 448	–	913 898
Released on disposal	(850)	–	(27 039)	–	(37 847)	–	(65 736)
Effects of exchange rate changes	23 037	19 410	29 841	–	224 871	–	297 159
Charge on operating lease	–	–	–	28 800	–	–	28 800
Balance at 31 December 2015	220 194	510 034	478 737	28 800	3 971 378	–	5 209 143
Carrying amount							
At 31 December 2016	4 012 478	3 214 395	671 922	509 047	2 159 033	529 943	11 096 818
At 31 December 2015	3 872 482	2 956 353	382 234	430 423	2 244 067	444 215	10 329 774

15. (B) PROPERTY AND EQUIPMENT (continued)

SEPARATE

	Freehold property K'000	Leasehold improve-ments K'000	Motor vehicles K'000	Equipment, fixtures and fittings K'000	Capital work in progress K'000	Total K'000
Cost or valuation						
Balance at 1 January 2016	**2 387 571**	**1 928 610**	**349 522**	**3 400 621**	**319 451**	**8 385 775**
Additions	**–**	**50 852**	**485 241**	**624 468**	**–**	**1 160 561**
Revaluation surplus	**433 355**	**245 811**	**–**	**–**	**–**	**679 166**
Disposals	**(19 660)**	**–**	**(8 491)**	**(11 909)**	**(146 555)**	**(186 615)**
Transfers	**–**	**51 364**	**–**	**–**	**–**	**(51 364)**
Balance at 31 December 2016	**2 801 266**	**2 276 637**	**826 272**	**4 013 180**	**121 532**	**10 038 887**
Accumulated depreciation						
Balance at 1 January 2016	**77 449**	**54 699**	**260 239**	**2 090 964**	**–**	**2 483 351**
Charge for the year	**80 108**	**45 136**	**102 682**	**455 752**	**–**	**683 678**
Released on disposal	**(483)**	**–**	**(8 491)**	**(11 909)**	**–**	**(20 883)**
Eliminated on revaluation	**(140 907)**	**(58 171)**	**–**	**–**	**–**	**(199 078)**
Balance at 31 December 2016	**16 167**	**41 664**	**354 430**	**2 534 807**	**–**	**2 947 068**
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						
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
Carrying amount						
At 31 December 2016	**2 785 099**	**2 234 973**	**471 842**	**1 478 373**	**121 532**	**7 091 819**
At 31 December 2015	2 310 122	1 873 911	89 283	1 309 657	319 451	5 902 424

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

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 2016 by Don Whayo BSc; MRICS; MSIM of Knight Frank Malawi Limited, independent valuers, on an open market value basis. The resultant surplus was credited to revaluation reserve in 2016. 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.

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 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 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 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.

15. (C) INVESTMENT PROPERTY

	CONSOLIDATED	
	2016	2015
Balance at 1 January	–	–
Reclassification from property and equipment (note 15b)	490 487	–
Change in fair value	387 688	–
Balance at 31 December	878 175	–

Investment property relates to land held by First Capital Bank Zambia Limited for capital appreciation rather than for administrative purposes as a bank.

16. DEFERRED TAX

Movements in temporary differences during the year

CONSOLIDATED

2016	Opening balance K'000	Recognised in profit or loss K'000	Recognised in other comprehensive income K'000	Effect of changes in exchange rate K'000	Closing balance K'000
Property and equipment	567 511	369 665	–	(105 344)	831 832
Accrued income	964 890	418 555	–	–	1 383 445
Revaluation of property	214 306	–	91 131	–	305 437
Tax losses	–	(343 756)	–	(18 163)	(361 919)
Gratuity and severance pay liabilities	(105 028)	(192 284)	–	–	(297 312)
Subordinated debt revaluation	(605 603)	605 603	–	–	–
Other temporary differences	61 058	(63 609)	–	(96 938)	(99 489)
	1 097 134	794 174	91 131	(220 445)	1 761 994
2015					
Property and equipment	32 252	576 503	–	(41 244)	567 511
Accrued income	295 942	668 948	–	–	964 890
Revaluation of property	228 675	–	(14 369)	–	214 306
Tax losses	(2 736)	2 736	–	–	–
Gratuity and severance pay liabilities	(50 860)	(54 168)	–	–	(105 028)
Subordinated debt revaluation	(92 506)	(513 097)	–	–	(605 603)
Other temporary differences	48 636	45 220	–	(32 798)	61 058
	459 403	726 142	(14 369)	(74 042)	1 097 134

16. DEFERRED TAX (continued)

SEPARATE

2016	Opening balance K'000	Recognised in profit or loss K'000	Recognised in other comprehensive income K'000	Closing balance K'000
Property and equipment	**412 510**	**256 113**	**–**	**668 623**
Accrued income	**728 248**	**473 999**	**–**	**1 202 247**
Revaluation of property	**213 604**	**–**	**89 727**	**303 331**
Gratuity and severance pay liabilities	**(95 958)**	**(190 915)**	**–**	**(286 873)**
Subordinated debt revaluation	**(605 603)**	**605 603**	**–**	**–**
Other temporary differences	**–**	**(18 501)**	**–**	**(18 501)**
	652 801	**1 126 299**	**89 727**	**1 868 827**
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

17. BALANCES DUE TO OTHER BANKS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Local banks	**20 908 445**	14 179 322	**20 536 346**	5 436 632
European Investment Bank	**8 645 038**	9 343 004	**8 645 038**	9 343 004
Norsad Agency	**–**	38 316	**–**	38 316
Total balance due to other banks	**29 553 483**	23 560 642	**29 181 384**	14 817 952
Payable as follows:				
Due within one year	**23 163 334**	15 496 031	**22 791 235**	6 753 341
Due between two and five years	**6 390 149**	8 064 611	**6 390 149**	8 064 611
	29 553 483	23 560 642	**29 181 384**	14 817 952

All balances due to other banks are stated at amortised cost. Balances due to local banks represent short-term borrowings by the Group and a Currency Swap liability which First Merchant Bank Limited entered into with Reserve Bank of Malawi (RBM) in which the bank received Malawi Kwacha from RBM. The liability outstanding as at year-end was K20.1 billion (2015: K5.4 billion). The corresponding asset under the arrangement has been disclosed under note 37.

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 was denominated in US dollars, carried interest at 7% and was fully repaid during the year.

18. CUSTOMER DEPOSITS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Current and savings accounts	**78 207 309**	62 330 063	**43 730 973**	34 981 682
Foreign currency accounts	**54 850 083**	44 609 301	**28 377 206**	28 938 754
Term deposit accounts	**92 180 843**	84 284 710	**6 407 911**	14 413 923
Total customer deposits	**225 238 235**	191 224 074	**78 516 090**	78 334 359
Payable as follows:				
Maturing within three months	**192 713 006**	161 005 577	**78 348 985**	78 008 752
Maturing after three months	**32 525 229**	30 218 497	**167 105**	325 607
	225 238 235	191 224 074	**78 516 090**	78 334 359

19. OTHER PAYABLES

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Accrued expenses	**1 991 997**	1 574 756	**1 129 506**	1 057 364
Bankers cheques issued and uncleared	**874 799**	622 884	**589 733**	403 662
Bills payable	**1 262 106**	228 873	**227 514**	170 005
Interest payable	**586 739**	485 722	**380 191**	325 429
Margins on letters of credit and other instruments	**11 186 741**	108 819	**11 186 741**	108 819
Trade payables	**2 031 731**	828 387	**998 861**	99 661
Other employee benefits	**74 453**	75 227	**74 453**	75 227
Total payables	**18 008 566**	3 924 668	**14 586 999**	2 240 167

Margins on letters of credit and other instruments are fully cash collateralised.

20. SHARE CAPITAL

		CONSOLIDATED		SEPARATE	
		2016 K'000	2015 K'000	2016 K'000	2015 K'000
(a)	Share capital	**116 813**	116 813	**116 813**	116 813

Share capital represent authorised, issued and fully paid up 2 336 250 000 ordinary shares at 5 tambala each.

		CONSOLIDATED		SEPARATE	
		2016 K'000	2015 K'000	2016 K'000	2015 K'000
(b)	Share premium	**1 565 347**	1 565 347	**1 565 347**	1 565 347

On 19 June 2006, following an offer to the public, 225 000 000 ordinary shares of 5 tambala each were allotted at a premium of 245 tambala per share.

The resultant premium on issue of K551.25 million less offer expenses of K37.215 million was credited to share premium account. In 2009, the company issued by way of bonus issue from retained earnings, 111 250 000 ordinary shares of 5 tambala each at 950 tambala per share giving rise to a share premium of K1.051 billion which was also credited to the share premium account.

21. PROPERTY REVALUATION RESERVE

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Property revaluation reserve	**3 447 824**	2 634 331	**3 339 180**	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.

22. LOAN LOSS RESERVE

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Loan loss reserve	**1 260 194**	1 796 397	**776 191**	1 345 670

Loans loss reserve

In order to comply with asset classification directives by central banks, the directors have made a transfer to the loan loss reserve in addition to provisions charged to profit or loss in accordance with International Financial Reporting Standards.

23. NON-DISTRIBUTABLE RESERVES

	CONSOLIDATED		SEPARATE	
	2016 K'000	2015 K'000	2016 K'000	2015 K'000
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.

24. TRANSLATION RESERVE

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Translation reserve	**1 893 679**	1 508 298	**–**	–

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

25. INTEREST INCOME

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Loans and advances	**20 780 113**	16 139 911	**11 318 991**	9 640 398
Finance leases	**1 429 742**	1 469 485	**–**	–
Treasury bills	**7 161 339**	4 372 437	**5 196 174**	2 629 396
Local registered stocks	**–**	159 068	**–**	6 375
Promissory notes	**2 655 926**	405 367	**2 281 398**	343 318
Placements with other banks	**1 974 750**	1 010 253	**244 541**	109 044
Total interest income	**34 001 870**	23 556 521	**19 041 104**	12 728 531

26. (LOSS)/INCOME FROM INVESTMENTS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Dividend income	**69 705**	55 539	**480 538**	555 539
Movement in fair value of investments	**(1 443 270)**	(408 102)	**(1 443 270)**	(408 102)
Total (loss)/income from investments	**(1 373 565)**	(352 563)	**(962 732)**	147 437

27. STAFF AND TRAINING COSTS

Salaries and wages	**7 737 668**	6 018 913	**3 553 091**	2 801 545
Training and other staff costs	**3 130 129**	2 707 320	**2 134 337**	2 018 174
Contributions to defined contribution pension plans	**429 720**	287 296	**256 534**	204 487
Total staff and training costs	**11 297 517**	9 013 529	**5 943 962**	5 024 206

28. OTHER EXPENSES

Administration expenses	**562 835**	532 690	**160 206**	90 983
Auditor's remuneration	**316 319**	156 704	**72 112**	58 124
Bank charges	**528 056**	343 654	**140 862**	90 522
Non-executive directors' remuneration	**390 242**	268 889	**258 264**	169 779
Insurance	**170 423**	187 531	**97 590**	95 506
Legal and consultancy fees	**274 098**	299 920	**145 857**	99 117
Marketing costs	**524 023**	697 196	**355 040**	361 984
Motor vehicle running costs	**197 201**	146 307	**153 300**	145 319
Repairs and maintenance	**215 175**	510 973	**130 240**	97 771
Operational losses	**397 614**	226 283	**38 531**	36 564
Postage	**156 644**	124 194	**128 346**	97 155
Printing and stationery	**560 322**	485 069	**402 065**	283 951
Professional subscriptions	**70 748**	50 939	**62 421**	47 056
Telephone expenses	**259 262**	203 799	**117 491**	128 750
Travel expenses	**434 281**	387 491	**302 675**	183 733
Utilities	**306 120**	318 613	**228 770**	148 705
Total other expenses	**5 363 363**	4 940 252	**2 793 770**	2 135 019

29. INCOME TAX EXPENSE

Recognised in the statement of comprehensive income

		CONSOLIDATED		SEPARATE	
		2016	Restated 2015	2016	2015
(a)	***Current tax expense***				
	Current year at 30% (2015: 30%) based on profits	**2 931 052**	1 204 424	**1 686 595**	1 255 207
	Origination and reversal of temporary differences	**794 174**	726 142	**1 126 299**	442 177
		3 725 226	1 930 566	**2 812 894**	1 697 384
(b)	***Reconciliation of effective tax rate***				
	Profit before income tax expense	**11 386 242**	6 193 773	**7 996 600**	5 610 397
	Tax using the domestic tax rate 30% (2015: 30%)	**3 415 873**	1 858 132	**2 398 980**	1 683 119
	Non-deductible expenses	**143 783**	39 057	**125 094**	58 496
	Losses of subsidiary companies not tax deductible	**–**	212 682	**–**	–
	Prior year adjustment in a subsidiary	**–**	(73 536)	**–**	–
	Tax exempt income	**165 570**	(105 769)	**288 820**	(44 231)
		3 725 226	1 930 566	**2 812 894**	1 697 384
(c)	***Income tax (recoverable)/payable***				
	As at 1 January	**(922 527)**	149 909	**(331 530)**	367 144
	Charges for the year	**2 931 052**	1 204 424	**1 686 595**	1 255 207
	Paid during the year	**(3 091 690)**	(2 276 860)	**(1 838 951)**	(1 953 881)
	As at 31 December	**(1 083 165)**	(922 527)	**(483 886)**	(331 530)

30. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 31 December 2016 was based on profit attributable to ordinary shareholders of K6 387 300 000 (2015: K4 073 496 000) and a weighted average number of ordinary shares outstanding of 2 336 250 000 (2015: 2 336 250 000) calculated as follows:

	CONSOLIDATED	
	2016	Restated 2015
Profit attributable to ordinary shareholders (thousands)	**6 387 300**	4 073 496
Weighted average number of ordinary shares in issue (thousands)	**2 336 250**	2 336 250
Basic and diluted earnings per share (tambala)	**273**	174

31. GROUP SUBSIDIARIES

(a) List of subsidiaries

The table below provides details of the subsidiaries of the Group.

Company name	Principal place of business	Ownership interest 2016	Ownership interest 2015
The Leasing and Finance Company of Malawi Limited	Malawi	100.0%	100.0%
Capital Bank Limited	Mozambique	70.0%	70.0%
FMB Capital Markets Limited	Malawi	100.0%	100.0%
Capital Bank Limited	Botswana	38.6%	38.6%
First Capital Bank Zambia Limited	Zambia	49.0%	49.0%
FMB Forex Bureau Limited (dormant)	Malawi	100.0%	100.0%
International Commercial Bank Limited (dormant)	Malawi	100.0%	100.0%
FMB Pensions Limited (dormant)	Malawi	100.0%	100.0%

(b) Non-controlling interest in subsidiaries

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

NCI percentage and voting rights	30%	30%	61.40%	61.40%	51%	51%		
	Capital Bank Limited – Mozambique		Capital Bank Limited – Botswana		First Capital Bank Zambia Limited		Total	
	2016 K'000	2015 K'000	2016 K'000	2015 K'000	2016 K'000	2015 K'000	2016 K'000	2015 K'000
Assets								
Cash and cash equivalents	6 558 679	6 095 876	42 758 602	23 244 461	10 872 551	14 282 419	60 189 832	43 622 756
Money market investments	577 808	1 755 238	10 265 753	15 089 632	4 861 649	2 905 290	15 705 210	19 750 160
Loans and advances to customers	8 263 715	11 799 722	55 663 900	37 906 656	19 834 542	14 170 556	83 762 157	63 876 934
Other assets	136 089	173 868	389 321	570 946	180 022	198 528	705 432	943 342
Current tax asset	323 837	377 405	–	66 699	411 511	283 329	735 348	727 433
Intangible assets	306 968	619 345	657 475	621 080	588 882	575 872	1 553 325	1 816 297
Investment property	–	–	–	–	878 175	–	878 175	–
Property and equipment	635 217	1 030 193	1 606 100	1 381 690	986 374	1 375 478	3 227 691	3 787 361
Total assets	6 802 313	21 851 647	111 341 151	78 881 164	38 613 706	33 791 472	166 757 170	134 524 283
Liabilities								
Customer deposits	12 394 628	16 338 857	96 567 061	66 476 462	29 642 794	21 595 094	138 604 483	104 410 413
Balances due to other financial institutions	–	2 352 386	–	–	372 099	3 994 221	372 099	6 346 607
Other payables	317 028	240 207	1 185 941	1 234 926	1 486 626	2 863 757	2 989 595	4 338 890
Income tax payable	–	–	41 906	–	–	–	41 906	–
Deferred tax liabilities	–	–	227 085	174 923	(532 882)	(562 994)	(305 797)	(388 071)
Subordinated debt	–	–	2 031 122	1 735 834	–	–	2 031 122	1 735 834
Total liabilities	12 711 656	18 931 450	100 053 115	69 622 145	30 968 637	27 890 078	143 733 408	116 443 673
Net assets	4 090 657	2 920 197	11 288 036	9 259 019	7 645 069	5 901 394	23 023 762	18 080 610
Net assets attributable to NCI	1 227 197	876 059	6 930 854	5 685 038	3 898 985	3 009 711	12 057 036	9 570 808
Carrying amount of NCI	1 227 197	876 059	6 930 854	5 685 038	3 898 985	3 009 711	12 057 036	9 570 808

31. GROUP SUBSIDIARIES (continued)

(b) Non-controlling interest in subsidiaries (continued)

	Capital Bank Limited – Mozambique		Capital Bank Limited – Botswana		First Capital Bank Zambia Limited		Total	
	2016 K'000	2015 K'000	**2016 K'000**	2015 K'000	**2016 K'000**	2015 K'000	**2016 K'000**	2015 K'000
Interest income	**2 412 444**	1 417 899	**5 517 139**	3 945 517	**4 018 652**	2 498 475	**11 948 235**	7 861 891
Interest expense on deposits and other accounts	**(1 006 277)**	(550 909)	**(1 367 669)**	(1 473 942)	**(1 844 726)**	(913 735)	**(4 218 672)**	(2 938 586)
Fees and commissions	**335 505**	334 128	**1 429 596**	788 418	**1 244 320**	576 106	**3 009 421**	1 698 652
Gain on foreign exchange transactions	**1 505 830**	1 116 843	**692 706**	528 631	**780 613**	(9 640)	**2 979 149**	1 635 834
Total income	**3 247 502**	2 317 961	**6 271 772**	3 788 624	**4 198 859**	2 151 206	**13 718 133**	8 257 791
Staff and training costs	**1 368 571**	1 338 297	**2 113 191**	1 394 191	**1 590 707**	1 169 121	**5 072 469**	3 901 609
Premises and equipment costs	**757 602**	586 220	**469 579**	378 871	**620 902**	419 376	**1 848 083**	1 384 467
Depreciation expense	**288 387**	218 081	**362 015**	263 199	**348 865**	258 450	**999 267**	739 730
Other expenses	**406 446**	468 557	**1 055 091**	603 860	**965 614**	576 120	**2 427 151**	1 648 537
Impairment loss on loans and advances	**185 252**	415 747	**201 953**	203 971	**68 560**	107 876	**455 765**	727 594
Total expenses	**3 006 258**	3 026 902	**4 201 829**	2 844 092	**3 594 648**	2 530 943	**10 802 735**	8 401 937
Income tax expense	**-**	-	**491 684**	208 647	**148 736**	(282 795)	**640 420**	(74 148)
Operating profit/(loss)	**241 244**	(708 941)	**1 578 259**	735 885	**455 475**	(96 942)	**2 274 978**	(69 998)
Other comprehensive income	**-**	-	**-**	-	**-**	-	**-**	-
Total comprehensive income	**241 244**	(708 941)	**1 578 259**	735 885	**455 475**	(96 942)	**2 274 978**	(69 998)
Profit/(loss) allocated to NCI	**72 373**	(212 682)	**969 051**	451 833	**232 292**	(49 440)	**1 273 716**	189 711

32. DIVIDENDS

Last year's final dividend of K467.25 million (20 tambala per share) was paid during the year. There was no interim dividend for the year 2016. The directors propose a final dividend of K 1 168 125 million (50 tambala per share) for approval at the forthcoming Annual General Meeting.

33. RELATED PARTY TRANSACTIONS

The Bank 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 Bank are set out below:

Loans to directors, senior management and other related parties

	CONSOLIDATED		SEPARATE	
	2016 (K'000)	2015 (K'000)	**2016 (K'000)**	2015 (K'000)
Corporate bodies directly or indirectly related to directors*				
Balance at the beginning of the year	**1 086 275**	1 763 488	**1 029 742**	1 747 566
Loans granted during the year	**1 083 765**	58 203	**1 062 068**	–
Repayments	**(1 379 080)**	(735 416)	**(1 324 377)**	(717 824)
Balance at the end of the year	**790 960**	1 086 275	**767 433**	1 029 742
Subsidiary companies				
Balance at the beginning of the year	**–**	–	**–**	–
Loans granted during the year	**599 697**	–	**599 697**	–
Repayments	**(599 697)**	–	**(599 697)**	–
Balance at the end of the year	**–**	–	**–**	–
Senior management				
Balance at the beginning of the year	**427 530**	374 065	**189 566**	198 227
Loans granted during the year	**459 594**	225 160	**184 784**	124 026
Repayments	**(433 893)**	(171 695)	**(112 468)**	(132 687)
Balance at the end of the year	**453 231**	427 530	**261 882**	189 566

Advances to directors and parties related thereto are in the normal course of business. All loans are secured and, other than staff loans to senior management in the ordinary course of business as part of employment practices, are made on an arms' length basis. They are approved on terms no more favourable than those, which would be offered under prevailing conditions to persons other than related parties. Other than staff loans in the ordinary course of business, credit decisions on loans to related parties are made only by the board of directors exclusive of the relevant related parties.

Included in loans to corporate bodies directly or indirectly related to directors is an overdraft facility for Telekom Networks Malawi Limited (a related party through common directors). The balance at year-end was K722 million (2015: K1 billion).

Loans to senior management, like all other staff loans are approved by Credit executive and/or the Managing Director. Advances to employees include K36.9 million (2015: K16.6 million) of interest free advances and K1.1 billion (2015: K774 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.

There were no non-performing loans and overdrafts to related parties.

33. RELATED PARTY TRANSACTIONS (continued)

Details of related party transactions and balances between the Bank and its subsidiaries, The Leasing and Finance Company of Malawi Limited, FMB Forex Bureau Limited, FMB Pensions Limited, FMB Capital Markets Limited, First Capital Bank Zambia Limited and Capital Bank Botswana which have been eliminated on consolidation are as follows:

	2016 K'000	2015 K'000
Loans and overdrafts	**200 815**	220 815
Deposits	**400 912**	309 766
Fees and commissions received	**10 420**	10 362
Net interest income	**26 141**	56 635
Dividends received	**410 833**	500 000
First Capital Bank Zambia Limited	**54 291**	111 194
Capital Bank Limited Botswana	**193 971**	152 003
FMB Capital Markets Limited	**271**	-

During the year, the bank obtained US$15 million from Capital Bank Botswana through three separate deals of US$7 million, US$5 million and US$3 million at 6% interest rate. The amount was fully repaid as at year-end.

Compensation for First Merchant Bank's key personnel is as follows:

	CONSOLIDATED		SEPARATE	
	2016 K'000	2015 K'000	2016 K'000	2015 K'000
Executive directors				
Salaries	**253 332**	220 201	**253 332**	220 201
Bonuses	**85 000**	135 000	**85 000**	135 000
Non-executive directors				
Fees	**390 242**	268 889	**258 264**	169 779
	728 574	624 090	**596 596**	524 980

In addition to their salaries, First Merchant Bank also provides non-cash benefits to executive directors. The estimated value of total non-cash benefits to directors amounts to K20.2 million (2015: K5.6 million).

Any director who performs services which are outside the scope of the ordinary duties of a director, are paid extra remuneration determined by other directors and approved by the general meeting. These payments have been included as part of remuneration for non-executive directors.

Other related parties

First Merchant Bank has three separate agreements with Livingstone Exports Limited, in which FMB director, Mr HN Anadkat, is beneficially interested:

	Agreement date	2016 K'000	2015 K'000
Chief M'Mbelwa Building	7 June 2003	**80 000**	80 000
Livingstone Towers	3 October 2003	**142 900**	142 900
Livingstone Car Park	26 June 2014	**151 774**	151 774
		231 774	231 774

- **Chief M'Mbelwa Building**

  On 7 June 2003, FMB entered into a debenture agreement which has no fixed term with Livingstone Exports Limited. The agreement required FMB to loan K80 million to Livingstone Exports Limited secured by way of the registered debenture giving FMB a proportionate share of office space in Chief M'Mbelwa Building. FMB uses the office space determined in the debenture agreement on a peppercorn rental basis. Total expenditure to convert and renovate the proportionate share of the premises for use by FMB was K138.1 million and was capitalised in 2004. This office space currently houses FMB's Capital City Branch and Leasing and Finance Company of Malawi Limited head office.

- **Livingstone Towers Building**

  On 3 October 2003, FMB entered into a 99-year (expiring 30 June 2102) lease agreement with Livingstone Exports Limited. FMB paid a single lease premium of K9 million and erected at its cost and expense office space. Total expenditure incurred of K142.9 million was capitalised in 2004. This office space within Livingstone Towers currently houses FMB's head office, First Corporate Service Branch, International Banking Department and Leasing and Finance Company of Malawi Limited.

- **Livingstone Car Park**

  On 26 June 2014, FMB entered into a debenture agreement which has no fixed term with Livingstone Exports Limited. The agreement required FMB to loan K151.7 million to Livingstone Exports Limited secured by way of the registered debenture for development of a car park opposite Livingstone Towers. FMB was given a proportionate (68.85%) share in the property comprising 42 vehicle parking spaces used by FMB. The parking spaces are used by the FMB on a peppercorn rental basis.

Directors' interests

As at 31 December 2016, 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	
	2016	2015
HN Anadkat	**1 071 163 931**	1 071 354 449
RC Kantaria	**525 000 000**	525 000 000
D Dikshit	**12 000 000**	2 000 000
JM O'Neill	**1 309 391**	1 309 391
M Msisha	**1 050 000**	1 050 000

34. 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	
	2016 K'000	Restated 2015 K'000	**2016 K'000**	2015 K'000
Contingent liabilities				
Acceptances and letters of credit	**16 982 273**	27 315 858	**15 511 819**	26 117 340
Financial guarantees	**29 141 027**	26 862 656	**16 273 796**	13 209 783
	46 123 300	54 178 514	**31 785 615**	39 327 123
Other contingent liabilities				
Legal claims	**219 000**	15 000	**89 000**	89 000

34. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

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

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

Capital commitments

	CONSOLIDATED		SEPARATE	
	2016 K'000	2015 K'000	**2016 K'000**	2015 K'000
Capital expenditure				
Authorised but not contracted	**1 694 500**	474 000	**1 600 000**	694 360

35. 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% (2015: 7.5%) of the preceding weeks total deposit liabilities. In the last two weeks of December 2016, the liquidity reserve was 7.99% (2015: 9.91%) 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 unconsolidated financial institutions; and
2. Tier 2 capital, which includes subordinated debt, asset revaluation reserves, translation reserves, loan loss reserves and non-controlling interests.

As at 31 December 2016, the Group's Tier 1 capital ratio of its risk bearing assets and Total capital ratio were as follows:

	CONSOLIDATED		SEPARATE	
	2016 %	Restated 2015 %	**2016 %**	2015 %
Tier 1 risk based capital ratio (minimum 10%)	**13.9**	12.6	**17.1**	12.7
Total risk-weighted capital ratio (minimum 15%)	**21.1**	20.2	**23.3**	19.2

36. SUBORDINATED DEBT

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Carrying amount	**9 031 122**	8 380 285	**7 000 000**	6 644 451
Movement during the year:				
As at 1 January	**8 380 285**	6 092 280	**6 644 451**	4 644 276
Additions	**7 000 000**	–	**7 000 000**	–
Repayments	**(7 225 451)**	–	**(7 225 451)**	–
Unamortised issue cost	**(3 099)**	(18 569)	**–**	–
Effects of changes in exchange rates	**879 387**	2 306 574	**581 000**	2 000 175
As at 31 December	**9 031 122**	8 380 285	**7 000 000**	6 644 451

(a) On 5 April 2013, FMB issued a fixed interest note of US$10 million bearing interest at 10.6% per annum payable quarterly in arrears with maturity date of 5 April 2019. In accordance with relevant provisions within the Placement Document of the note, the bank opted for early redemption of the note on 4 July 2016.

(b) On 3 June 2016, FMB issued through private placement K7 billion, fixed-term unsecured floating rate subordinated note and will mature in its entirety on 3 June 2023. This debt was a replacement of the US Dollar-denominated placement which was redeemed on 4 July 2016. Interest is referenced against the published average yield for 91-day Treasury Bills for auctions preceding repricing dates and is payable quarterly in arrears.

(c) Capital Bank Botswana issued P30 million floating rates notes maturing on 18 January 2022 which earn interest at 70 basis points below the bank rate.

(d) The subordinated debt notes constitute direct, subordinated and unsecured obligations of First Merchant Bank Limited and Capital Bank Botswana, respectively. The notes rank *pari passu* among themselves and are subordinated to general creditors and claims of depositors.

37. DERIVATIVE ASSET

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	Restated 2015 K'000
Currency swaps	**19 288 094**	5 980 005	**19 288 094**	5 980 005
Movement during the year was as follows:				
As at 1 January	**5 980 005**	–	**5 980 005**	–
Additions	**19 288 094**	5 980 005	**19 288 094**	5 980 005
Maturities	**(5 980 005)**	–	**(5 980 005)**	–
As at 31 December	**19 288 094**	5 980 005	**19 288 094**	5 980 005

37. DERIVATIVE ASSET (continued)

FUNDS UNDER CURRENCY SWAP

	Trade date	Maturity date	K'000	Spot/Forward Rate (MK)
31 December 2015				
US$5.0 million	27 Nov 2015	27 May 2016	3 322 225	592.56/635.59
US$2.5 million	8 Dec 2015	7 Jun 2016	1 661 113	619.51/664.50
US$1.5 million	29 Dec 2015	29 Mar 2016	996 667	660.67/684.95
			5 980 005	
31 December 2016				
US$5.0 million	**27 May 2016**	**1 Mar 2017**	**3 616 553**	**708.35/785.90**
US$2.5 million	**12 Jun 206**	**4 Apr 2017**	**1 808 277**	**709.44/791.95**
US$7.0 million	**16 Jun 2016**	**16 Jun 2017**	**5 183 535**	**710.04/810.93**
US$5.0 million	**19 Aug 2016**	**17 Feb 2017**	**3 616 554**	**720.98/773.33**
US$7.0 million	**20 Oct 2016**	**20 Apr 2017**	**5 063 175**	**720.87/773.22**
			19 288 094	

The bank entered into a Currency Swap arrangement with Reserve Bank of Malawi (RBM) in which the bank sold US Dollars to RBM. The deals are listed above. The corresponding liability under the arrangement has been disclosed as note 17.

38. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	CONSOLIDATED		SEPARATE	
	2016 K'000	Restated 2015 K'000	2016 K'000	2015 K'000
Impairment allowance on loans and advances				
Credit impairments charge	**1 789 356**	3 290 596	**1 182 666**	2 378 081
Recoveries	**(1 324 559)**	(2 412 146)	**(1 173 634)**	(2 213 346)
	464 797	878 450	**9 032**	164 735
Impairment allowance on finance leases				
Credit impairment charge	**73 057**	189 659	**–**	–
Recoveries	**(40 891)**	(81 331)	**–**	–
	32 166	108 328	**–**	–
Comprising:				
Impairment allowance on loans and advances (note 9)				
Net specific credit impairment charges	**329 796**	794 567	**(944)**	116 213
Collective credit impairment charges	**135 001**	83 883	**9 976**	48 522
	464 797	878 450	**9 032**	164 735
Impairment allowance on finance leases				
Net specific credit impairments charges	**7 152**	76 940	**–**	–
Collective credit impairment charges	**25 014**	31 388	**–**	–
	32 166	108 328	**–**	–

39. EXCHANGE RATES AND INFLATION

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

Exchange rates	2016 Kwacha	2015 Kwacha
Malawi Kwacha/GBP	**894.3**	989.8
Malawi Kwacha/Rand	**53.6**	43.4
Malawi Kwacha/US Dollar	**723.3**	664.4
Malawi Kwacha/Euro	**763.6**	729.5
Malawi Kwacha/Pula	**67.8**	58.4
Malawi Kwacha/Meticais	**10.1**	14.5
Malawi Kwacha/Zambia Kwacha	**73.5**	60.4
Inflation rate %	**20.0**	24.9
As at the date of approval of the financial statements, the above noted exchange rates had moved as follows:		
Malawi Kwacha/GBP	**901.5**	966.1
Malawi Kwacha/Rand	**56.0**	44.9
Malawi Kwacha/US Dollar	**724.3**	682.9
Malawi Kwacha/Euro	**784.4**	762.3
Malawi Kwacha/Pula	**70.0**	60.6
Malawi Kwacha/Meticais	**10.9**	13.7
Malawi Kwacha/Zambia Kwacha	**77.1**	60.7

40. EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES

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

Assets	
Government securities	26 – 29%
Deposits with banking institutions	25 – 26%
Loans and advances to customers (base rate)	33 – 38%
Liabilities	
Customer deposits	0.15 – 10%

41. SEGMENTAL REPORTING

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

- First Merchant Bank Limited – corporate and retail banking in Malawi
- The Leasing and Finance Company of Malawi Limited – deposit taking and asset finance in Malawi
- FMB Forex Bureau Limited – dormant
- FMB Pensions Limited – dormant
- Capital Bank Limited – corporate and retail banking in Botswana
- First Capital Bank Zambia Limited – corporate and retail banking in Zambia
- Capital Bank Limited Mozambique – corporate and retail banking in Mozambique
- FMB Capital Markets Limited – asset management in Malawi
- International Commercial Bank Limited – dormant

41. SEGMENTAL REPORTING (continued)

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.

	MALAWI			
	Corporate and Retail Banking K'000	Asset Finance K'000	Others K'000	Subtotal K'000
Interest income – external	19 041 104	3 024 458	14 214	22 079 776
Interest expense – external	(6 872 063)	(1 890 711)	–	(8 762 774)
Net interest income	12 169 041	1 133 747	14 214	13 317 002
Fees and commissions	6 149 151	209 387	33 045	6 391 583
Loss from investments	(962 732)	–	–	(962 732)
Gain on foreign exchange transactions	2 256 583	–	–	2 256 583
Total operating income	19 612 043	1 343 134	47 259	21 002 436
Staff and training costs	(5 943 962)	(281 086)	–	(6 225 048)
Premises and equipment	(1 750 921)	(10 224)	(1 798)	(1 762 943)
Depreciation	(1 117 758)	(25 930)	(1 250)	(1 144 938)
Other expenses	(2 793 770)	(132 945)	(19 917)	(2 946 632)
Impairment of financial assets	(9 032)	(32 167)	–	(41 199)
Total expenditure	(11 615 443)	(482 352)	(22 965)	(12 120 760)
Profit before income tax expense	7 996 600	860 782	24 294	8 881 676
Income tax expense	(2 812 894)	(262 447)	(9 464)	(3 084 805)
Profit for the year	5 183 706	598 335	14 830	6 796 871
Other comprehensive income				
Revaluation surplus on property	878 244	26 073	–	904 317
Deferred tax on revalued property	(89 727)	(1 405)	–	(91 131)
Other movements	307	–	–	307
Total other comprehensive income for the period	788 824	24 668	–	813 492
Total comprehensive income for the period	5 972 530	623 003	14 830	6 610 363
Total segment assets	158 127 350	11 657 686	981 942	170 098 842
Total segment liabilities	131 153 300	9 018 888	4 652	139 508 704

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 K70.96 million (2015: K13.01 million). All other revenues are attributable to the country in which the respective operating segment is domiciled.

During the year the Bank earned K5.2 billion (2015: K2.6 billion) interest on Government of Malawi treasury bills and K95 million (2015: K350 million) interest on loans and advances to enterprises controlled by Government of Malawi.

Included in income from investments for the Bank is K411 million (2015: nil) dividend received during the year from Capital Bank Limited – Botswana. In 2016 nil (2015: K500 million) dividend was received from The Leasing and Finance Company of Malawi Limited. These have been eliminated on consolidation.

MOZAMBIQUE	BOTSWANA	ZAMBIA			
Corporate and Retail Banking K'000	Corporate and Retail Banking K'000	Corporate and Retail Banking K'000	Total before adjustments K'000	Consolidation adjustments K'000	Total K'000
2 412 444	5 517 139	4 018 652	34 028 011	(26 141)	34 001 870
(1 006 277)	(1 367 668)	(1 844 726)	(12 981 445)	26 141	(12 955 304)
1 406 167	4 149 471	2 173 926	21 046 566	–	21 046 566
335 505	1 429 595	1 244 320	9 401 003	(10 420)	9 390 583
–	–	–	(962 732)	(410 833)	(1 373 565)
1 505 830	692 706	780 613	5 235 732	–	5 235 732
3 247 502	6 271 772	4 198 859	34 720 569	(421 253)	34 299 316
(1 368 571)	(2 113 191)	(1 590 707)	(11 297 517)	–	(11 297 517)
(757 602)	(469 579)	(620 902)	(3 611 026)	–	(3 611 027)
(288 387)	(362 014)	(348 865)	(2 144 204)	–	(2 144 204)
(406 446)	(1 055 091)	(965 614)	(5 373 783)	10 420	(5 363 363)
(185 252)	(201 953)	(68 560)	(496 964)	–	(496 963)
(3 006 258)	(4 201 828)	(3 594 648)	(22 923 494)	10 420	(22 913 074)
241 244	2 069 944	604 211	11 797 075	(410 833)	11 386 242
–	(491 685)	(148 736)	(3 725 226)	–	(3 725 226)
41 244	1 578 259	455 475	8 071 849	(410 833)	7 661 016
–	–	–	904 317	–	904 317
–	–	–	(91 131)	–	(91 131)
1 515 089	(1 186 660)	1 288 200	1 616 936	–	1 616 936
1 515 089	(1 186 660)	1 288 200	2 430 122	–	2 430 122
1 756 333	391 599	1 743 675	10 501 971	(410 833)	10 091 138
16 802 313	111 341 151	39 087 343	337 329 649	(10 584 072)	327 413 713
12 711 664	100 053 115	31 442 275	283 715 758	(790 494)	283 593 400

SHAREHOLDER INFORMATION

As at 31 December 2016

Industry	Holders	Holder %	Total shares	Shares %
Foreign companies	14	0.79	1 736 921 426	74.35
Local companies	59	3.33	211 222 034	9.04
Citizen resident individuals	1 475	83.19	110 394 602	4.73
Other resident individuals	7	0.39	109 303 283	4.68
Investment companies and trusts	25	1.41	94 726 133	4.05
Pension funds	33	1.86	47 496 614	2.03
Insurance companies	6	0.34	7 901 843	0.34
Banks	5	0.28	4 852 790	0.21
Non-residents	27	1.52	3 986 239	0.17
Nominees local	25	1.35	3 395 551	0.15
Financials	1	0.06	1 912 000	0.08
Employees	76	4.29	1 389 675	0.06
Other organisations	6	0.34	1 162 271	0.05
Permanent resident	1	0.06	534 152	0.02
Non-resident citizens	5	0.28	526 317	0.02
Holding company	2	0.11	419 720	0.02
Leasing and finance	5	0.28	101 150	0.00
Deceased estates	1	0.06	4 200	0.00
Grand total of holders total	1 773	Grand total of Shares	2 336 250 000	

Range	Shares	Total shares %	Holders	Total holders %
1 - 5 000	1 112 679	0.05	474	26.73
5 001 - 10 000	1 760 670	0.08	259	14.61
10 001 - 25 000	6 069 261	0.26	391	22.05
25 001 - 50 000	6 243 275	0.27	165	9.31
50 001 - 100 001	8 169 091	0.35	119	6.71
100 001 - 200 000	16 273 672	0.70	133	7.50
200 001 - 500 000	41 071 750	1.76	141	7.95
500 001 - 1 000 000	29 842 080	1.28	41	2.31
1 000 001 and above	2 225 707 522	95.27	50	2.82
Total shares	2 336 250 000	Total shares	1 773	

Country	Holders	Holders %	Total shares	Total shares %
Botswana	1	0.06	10 500	0.00
Cayman Islands	1	0.06	990	0.00
Channel Islands	1	0.06	766 266 044	32.80
Kenya	3	0.17	525 002 750	22.47
Malawi	1 696	95.77	509 531 843	21.81
Portugal	8	0.45	2 335 200	0.10
South Africa	4	0.23	135 015	0.01
United Kingdom	10	0.56	530 857 896	22.72
USA	6	0.34	665 268	0.03
Warrant not presentable	40	2.26	1 022 855	0.04
Zimbabwe	3	0.17	421 639	0.02
Totals	1 773	100.11	2 336 250 000	100.00

CONTACTS

FIRST MERCHANT BANK LIMITED

Blantyre, Malawi **Head Office** Livingstone Towers Glyn Jones Road Private Bag 122 Blantyre	Tel: + (265) 1 821 955 Tel: + (265) 1 821 942 Tel: + (265) 1 821 943 Fax: + (265) 1 821 978	info@fmbmalawi.com www.fmbmalawi.com

Gaborone, Botswana **Head Office** Capital House, Plot 17954 Old Lobatse P O Box 5548, Gaborone, Botswana	Tel: + (267) 3907801	info@capitalbank.co.bw www.capitalbank.co.bw

Maputo, Mozambique **Head Office** Av. 25 de Setembro, Aterro do Maxaquene Edifício Maryah, 7º andar Gaborone, Botswana	Tel: + (258) 2 132 0751/3/4 Tel: + (258) 2 132 0760 Cell: + (258) 82 317 2760 Cell: + (258) 84 311 7680 Fax: + (258) 2 131 4797	supporte.cliente@capitalbank.co.mz www.capitalbank.co.mz

Lusaka, Zambia **Head Office** Kwacha Pension House, Ground Floor, Plot No. 4604 Tito Road, Lusaka, Zambia	Tel: + (260) 211 36 8750 Tel: + (260) 211 36 8768	info@firstcapitalbank.co.zm www.firstcapitalbank.co.zm

Friends with money

The Leasing and Finance Company of Malawi Limited Corner Glyn Jones Road / St David Street P O Box 1963 Blantyre	Tel: + (265) 820 233/148 Fax + (265) 820 275	lfc@lfcmalawi.com www.fmbmalawi.com/leasing-financecompany/

www.fmbmalawi.com