

Summary of Audited Consolidated Results for the Year Ended 31 December 2014

REVIEW OF OPERATIONS

Malawi's GDP grew by 6.3% in 2014, largely driven by agriculture, but financial markets remained somewhat subdued. Monetary policy was contractionary to combat persistent inflationary pressures and exchange rate volatility. Average money supply growth fell from 31.3% in 2013 to 22.2% in 2014.

Nevertheless, the group continued to enjoy strong balance sheet growth with total group assets increasing by over 25% to now exceed K100 billion. In response to the inherent credit risk present in a high interest rate environment, we remained conservative in the management of our balance sheet and maintain over 40% of our total assets in cash equivalent and money market investments.

Group operating income grew by a satisfactory 12% from K16 billion to K18 billion but an increase in the group cost to income ratio from 44% to 56% impacted negatively on the bottom line. Profit attributable to shareholders of K5.457 billion translates into a 10% drop in earnings per share from 261 tambala to 234 tambala.

Expenditure increases are in part due to inflation but also emanate from costs incurred, both at holding company and subsidiary levels, in establishing the human resource and technology platforms to service future growth.

OUTLOOK

In Malawi the rate of inflation which has eased in the first quarter of 2015 is expected to trend downwards. Foreign exchange reserves also remain relatively healthy in excess of three months import cover.

However, original projected 2015 economic growth of 5.8% is unlikely to be achieved due to the impact on the agricultural sector of excessive rains suffered throughout the country. Reduced agricultural output may have negative consequences both for the country's balance of payments and its fiscal deficit. Accordingly, although interest rates may decline over the course of 2015, overall monetary policy is expected to remain contractionary.

We are optimistic that we have absorbed the initial cost burden of transforming the service capabilities of our recently acquired banking operations in Mozambique and Zambia. From 2015 onwards, the operations should begin to contribute an increasing proportion of group revenues. This, together with technology enhancements in Malawi, will lead to an increase in overall group efficiency and a return towards historic cost to income ratios.

AUDIT OPINION

Pursuant to the requirements of the Banking Act 2010, we publish the below Consolidated and Separate Statements of Profit or Loss and other Comprehensive Income, Consolidated and Separate Statements of Financial Position and Consolidated and Separate Statements of Cash flows of First Merchant Bank Limited as at 31 December 2014 together with the independent auditor's report thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST MERCHANT BANK LIMITED

We have audited the Consolidated and Separate Financial Statements of First Merchant Bank Limited for the year ended 31 December 2014 from which the summarised Financial Statements were derived, in accordance with International Standards on Auditing. In our audit report, dated 30 March 2015 we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Group's and Company's financial position and the results of its operations for the year and of the scope of our audit, the summarised financial statements should be read in conjunction with the consolidated and separate financial statements from which the summarised financial statements were derived and our audit report thereon.



Certified Public Accountants and Business Advisors
Blantyre
30 March 2015

DIVIDEND

An interim dividend for the year 2014 of **MK1,168.125 million or 50 tambala** per share (2013:40 tambala) was paid during the year and the Directors declared a second interim dividend of **MK700.875 million or 30 tambala** per share (2013: 30 tambala) which will be paid on **Friday, 24 April 2015** to shareholders whose names appear in the register at the close of business on Friday 17 April 2015. The register will be closed from **Monday, 20 April 2015** to **Friday, 24 April 2015** both days inclusive.

The Directors also propose a final dividend of **MK467.25 million or 20 tambala** per share (2013: 10 tambala) for approval at the forthcoming Annual General Meeting.

Dheeraj Dikshit **Group Managing Director**
John M. O'Neill **Group Finance Director**

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In millions of Malawi Kwacha

	Consolidated		Separate	
	Audited	Audited	Audited	Audited
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
INCOME				
Interest income	12,505	11,045	9,289	7,848
Interest paid	(3,837)	(3,470)	(2,230)	(1,836)
Net interest income	8,668	7,575	7,059	6,012
Non-interest income	9,177	8,324	8,851	8,022
Total operating income	17,845	15,899	15,910	14,034
Expenditure				
Total operating expenditure	(9,941)	(6,920)	(7,556)	(5,861)
Profit before impairment losses	7,904	8,979	8,354	8,173
Impairment losses	(516)	(1,029)	(451)	(324)
Operating profit	7,388	7,950	7,903	7,849
Share of profit from associate	122	234	-	-
Profit before income tax expense	7,510	8,184	7,903	7,849
Income tax expense	(2,313)	(2,195)	(1,965)	(2,063)
Profit for the year	5,197	5,989	5,938	5,786
Other comprehensive income for the year	824	391	788	267
Total comprehensive income for the year	6,021	6,380	6,726	6,053
Profit Attributable to:				
Equity holders of the bank	5,457	6,093	5,938	5,786
Non-controlling interest	(260)	(104)	-	-
Profit for the year	5,197	5,989	5,938	5,786
Earnings per share (tambala)	234	261	-	-

CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND EQUITY				
Liabilities				
Amounts due to depositors	64,493	53,598	46,143	40,383
Other payables	13,213	7,402	11,338	8,855
Subordinated debt	4,644	4,336	4,644	4,336
Total liabilities	82,350	65,336	62,125	53,574
Equity				
Share capital	117	117	117	117
Share premium	1,565	1,565	1,565	1,565
Revaluation reserve	2,705	1,858	2,550	1,762
Loan loss reserve	489	298	445	246
Other non-distributable reserves	350	350	-	-
Translation reserve	(55)	(39)	-	-
Retained earnings	16,158	12,995	15,215	11,579
Equity attributable to the parent	21,329	17,144	19,892	15,269
Non-controlling interest	684	468	-	-
Total equity	22,013	17,612	19,892	15,269
Total equity and liabilities	104,363	82,948	82,017	68,843
ASSETS				
Cash and cash equivalents	32,429	31,461	24,978	25,742
Money market investments	10,651	4,622	6,599	3,008
Equity investments	5,026	4,549	5,026	4,549
Investment in subsidiaries	-	-	2,778	2,269
Investment in associate	4,818	4,695	4,297	4,297
Advances and loans to customers	35,651	25,544	29,486	22,775
Finance leases	4,556	4,337	-	-
Other receivables	2,218	1,967	1,783	1,445
Property, plant and equipment	9,014	5,773	7,070	4,758
Total Assets	104,363	82,948	82,017	68,843

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY

As at the beginning of the year	17,612	12,107	15,269	10,501
Net profit for the year	5,197	5,989	5,938	5,786
Other comprehensive income	824	391	788	267
Total comprehensive income	23,633	18,487	21,995	16,554
Dividends	(2,103)	(1,285)	(2,103)	(1,285)
Other transactions with owners	483	410	-	-
Balance at the end of the year	22,013	17,612	19,892	15,269

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

In millions of Malawi Kwacha

	Consolidated		Separate	
	Audited	Audited	Audited	Audited
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
Operating Activities				
Interest and fees received	23,042	17,975	16,184	15,453
Interest paid	(3,797)	(3,435)	(2,191)	(1,802)
Cash paid to suppliers and employees	(8,532)	(4,931)	(6,525)	(4,481)
	10,713	9,609	7,468	9,170
Net increase /(decrease) in customer balances	342	8,252	(1,402)	7,923
Cash generated from operations	11,055	17,861	6,066	17,093
Dividend received from listed and subsidiary companies	266	203	1,066	203
Income taxes paid	(2,318)	(2,235)	(2,097)	(2,087)
Net cash from operating activities	9,003	15,829	5,035	15,209
Investing Activities				
(Purchases)/maturities of money market investments	(6,027)	(1,744)	(3,585)	(336)
Proceeds from sale of shares and other investments	-	28	-	28
Purchase of shares in associate companies	-	(3,393)	-	(3,393)
Cash acquired less consideration paid on acquisition of subsidiary companies	-	3,583	-	(3,309)
Capital infusion in subsidiary companies	-	-	(1,185)	-
Acquisition of property and equipment	(2,865)	(1,854)	(1,886)	(1,101)
Net cash used in investing activities	(8,892)	(3,380)	(6,654)	(8,111)
Financing Activities				
Dividend paid	(2,103)	(1,285)	(2,103)	(1,285)
Repayment of loans from foreign banks	(411)	-	(411)	-
Proceeds from new credit lines from foreign banks	3,109	-	3,109	-
Proceeds from subordinated debt issuance	-	4,092	-	4,092
Net cash from financing activities	595	2,807	595	2,807
Net increase/(decrease) in cash and cash equivalents	706	15,256	(1,026)	9,905
Effects of changes in exchange rates	262	243	262	243
Cash and cash equivalents at 1st January	31,461	15,962	25,742	15,594
Cash and cash equivalents at 31 December	32,429	31,461	24,978	25,742

IMPAIRMENT LOSSES/NON PERFORMING CREDIT FACILITIES AND PROVISIONS FOR LOSSES BY INDUSTRY

In thousands of Malawi Kwacha

Industry Sector	31-Dec-14			31-Dec-13		
	Outstanding Amount	Impairment Losses	Specific Provision	Outstanding Amount	Impairment Losses	Specific Provision
Agriculture	8,741,167	212,336	2,141	5,512,432	8,596	3,682
Manufacturing	4,461,991	22,338	5,066	3,038,078	16,801	9,852
Mining	43,189	882	160	2,938	460	66
Construction	1,302,545	201,374	98,472	3,237,492	289,015	47,976
Energy/Electricity/Gas /Water	51,696	-	-	93,730	7,081	3,079
Transport & Communication	2,042,556	131,781	31,421	2,865,485	107,809	17,804
Financial Services	2,593,931	299,730	79,342	2,251,272	258,199	115,698
Wholesale and Retail	10,752,655	2,175,344	646,510	5,074,449	1,062,640	449,455
Individual/Households	1,391,955	319,944	185,855	1,333,631	195,830	100,001
Real Estate	134,198	57,955	575	107,879	7,144	910
Tourism	442,553	22,673	9,868	607,029	1,660	7,003
Others	451,496	58,410	5,339	500,052	36,223	10,332
Total	32,409,932	3,502,767	1,383,174	24,624,467	2,009,458	765,858

CREDIT CONCENTRATIONS

In thousands of Malawi Kwacha

Sector of Borrower	31-Dec-14	% of Core Capital	31-Dec-13	% of Core Capital
Construction	1,127,306	11%	1,890,653	28%
Energy / Electricity / Gas / Water	2,439,151	23%	4,128,713	60%
Agriculture	4,437,854	42%	-	-
Manufacturing	-	-	-	-
Financial	-	-	-	-
Transport & Communications	-	-	-	-

LOANS TO DIRECTORS, SENIOR MANAGEMENT AND OTHER RELATED PARTIES

In thousands of Malawi Kwacha

	31-Dec-14	31-Dec-13
Corporate Bodies Directly or Indirectly Related to Directors **		
Balance at the beginning of the year	2,264,506	2,018,774
Loans granted during the year	15,316	1,168,964
Repayments	(532,256)	(923,232)
Balance at the end of the year	1,747,566	2,264,506
Subsidiary Companies:		
Balance at the beginning of the year	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at the end of the Period	-	-
Senior Management:		
Balance at the beginning of the year	138,136	226,615
Loans granted during the year	66,103	69,068
Repayments	(6,012)	(157,547)
Balance at the end of the year	198,227	138,136

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

INVESTMENT IN SUBSIDIARIES/ASSOCIATES

Subsidiary	Number of Shares ('000)	Percentage Holding	31 Dec 2014 (MK'000)	31 Dec 2013 (MK'000)
Leasing and Finance Company of Malawi Limited	18,343	100.00%	65,911	65,911
Capital Bank Limited -Botswana	31,588	38.60%	903,854	903,854
FMB forex bureau limited	10,000	100.00%	10,000	10,000
Capital Bank - Mozambique	1,291,920	70.00%	2,503,586	1,375,210
First Capital Bank - Zambia	32,900	49.00%	3,393,253	3,393,253
FMB Pensions Limited	1,000	100.00%	-	-
International Commercial Bank Limited	-	100.00%	148,794	816,943
FMB Capital Markets Limited	1,500	100.00%	50,000	-

BASE LENDING RATE

	31-Dec-14	31-Dec-13
Base Lending Rate (Local Currency Loans)	38.00%	38.00%
Maximum Applicable Range (Percentage Points)	54.00	52.00
Base Lending Rate (Foreign Currency Loans)	0.00	0.00
Maximum Applicable Range (Percentage Points)	9.50	9.50
Bank Rate	25.00%	25.00%

DIRECTOR'S REMUNERATION AND BONUSES

	31 Dec 2014 (MK'000)	31-Dec-13 (MK'000)
Director's remuneration	128,280	95,319
Total bonuses paid by licenced institution **	120,000	50,000
Management fees	-	-

**Total bonuses represent an amount accrued during the year

DEPOSIT RATES

	31-Dec-14	31-Dec-13
Savings Accounts	10.00%	12.00%
Fast Accounts (Balances above K5,000)	8.00%	6.00%
Call Accounts	-	-
7 day call	8.00%	10.00%
30 day call	10.00%	13.00%
Fixed Deposits	-	-
1 Month	10.00%	15.00%
2 Months	14.00%	16.50%
3 Months	13.00%	17.00%
6 Months	Negotiable	Negotiable
Above 6 Months	Negotiable	Negotiable
Current Account (Balances above K500,000)	0.15%	0.75%