

FIRST MERCHANT BANK PLC

SUMMARY AUDITED CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

REVIEW OF THE YEAR FOR THE BANK

The bank recorded substantial growth during the reporting period with total assets increasing by 47% and profitability increasing by 47%, up from MWK5.2Bn in 2016 to MWK7.6Bn in 2017. This was partially attributable to the acquisition of Opportunity International Bank of Malawi Limited ("OIBM") in October 2017 and the merger with the Leasing and Finance Company of Malawi Limited ("LFC") in December 2017.

Total operating income grew by 29% in 2017 supported by 18% and 46% growth in net interest income and non-interest income respectively. Growth in non-interest income was bolstered by gains of MWK2.3Bn on the bank's listed investments. In contrast, 2017 was a difficult year for foreign exchange trading income which declined by 26% owing to compressed trading margins.

The bank continued to maintain a conservative balance sheet management strategy whereby gross loans and advances and money market investments grew by 6% and 68% respectively. Provisions for loans and advances increased from MWK404Mn in 2016 to MWK1.96Bn in 2017 primarily from the integration of OIBM.

The bank's deposits grew by 65% from MWK78.5Bn to MWK129.7Bn through a combination of organic growth as well as the acquisition and merger of OIBM and LFC respectively. Low cost current and savings account deposits continued to have dominant share of total deposits.

Total expenses increased by 30% primarily from increases in staff and administrative costs as well as OIBM's post acquisition operating expenses. The integration of OIBM and LFC operations was completed during the fourth quarter of 2017 and January 2018 respectively and should lead to further gains in operating efficiency in 2018.

By order of the Board

Fernando Rodrigues Chief Executive Officer	Michael Kadumbo Chief Finance Officer	Dheeraj Dikshit Director
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BASIS OF PREPARATION

The Directors have prepared the summary consolidated and separate financial statements to meet the requirements of the Financial Services Act, 2010. The Directors have considered the requirements of the Financial Services Act, 2010 and believe that the summary consolidated and separate statements of financial position, comprehensive income, changes in equity and cash flows are sufficient to meet the requirements of the users of the summary consolidated and separate financial statements. The amounts in the summary consolidated and separate financial statements are prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards. The summary consolidated and separate financial statements have been derived from the Consolidated and Separate Financial Statements which were approved by the board of directors on 23 March 2018, and are available at the registered office of the bank.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF FIRST MERCHANT BANK PLC

OPINION

The summary consolidated and separate financial statements, which comprise the summary consolidated and separate statements of financial position as at 31 December 2017, the summary consolidated and separate statements of comprehensive income, summary consolidated and separate statements of changes in equity and summary consolidated and separate statements of cash flows for the year then ended and related notes, are derived from the audited consolidated and separate financial statements of First Merchant Bank plc for the year ended 31 December 2017.

In our opinion, the accompanying summary consolidated and separate financial statements are consistent, in all material respects, with the consolidated and separate financial statements, and the basis described in the basis for preparation paragraph.

SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The summary consolidated and separate financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary consolidated and separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated and separate financial statements and the auditor's report thereon. The summary consolidated and separate financial statements and the audited consolidated and separate financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated and separate financial statements.

THE AUDITED CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated and separate financial statements in our report dated 3 April 2018. That report also includes the communication of key audit matters. Key audit matters are those matters that in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current year.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary consolidated and separate financial statements in accordance with the basis described in the basis for preparation paragraph.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated and separate financial statements are consistent, in all material respects, with the audited consolidated and separate financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Statements of Profit or Loss and other Comprehensive Income				
<i>In millions of Malawi Kwacha</i>				
	Consolidated		Separate	
	Audited 31-Dec-17	Audited 31-Dec-16	Audited 31-Dec-17	Audited 31-Dec-16
Income				
Interest income	41,932	34,002	22,394	19,041
Interest expense	(14,374)	(12,955)	(8,039)	(6,872)
Net interest income	27,558	21,047	14,355	12,169
Non-interest income	17,879	13,252	10,856	7,443
Total operating income	45,437	34,299	25,211	19,612
Total operating expenditure	(27,860)	(22,416)	(14,220)	(11,606)
Profit before impairment losses	17,577	11,883	10,991	8,006
Impairment losses	(3,138)	(497)	(882)	(9)
Operating profit	14,439	11,386	10,109	7,997
Income tax expense	(4,375)	(3,725)	(2,471)	(2,813)
Profit for the year	10,064	7,661	7,638	5,184
Other comprehensive income for the year	1,320	2,430	-	789
Total comprehensive income for the year	11,384	10,091	7,638	5,973
Profit or loss attributable to:				
Owners of the parent	8,466	6,387	7,638	5,184
Non-controlling interests	1,598	1,274	-	-
Profit for the year	10,064	7,661	7,638	5,184

<i>Earnings per share (tambala)</i>	362	273
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Statements of financial position				
	Consolidated		Separate	
	Audited 31-Dec-17	Audited 31-Dec-16	Audited 31-Dec-17	Audited 31-Dec-16
Liabilities and equity				
Liabilities				
Amounts due to depositors	312,008	225,238	129,713	78,516
Balances due to other banks	41,681	29,553	43,161	29,181
Other payables	19,952	19,772	16,332	16,456
Subordinated debt	10,301	9,031	7,000	7,000
Total liabilities	383,942	283,594	196,206	131,153
Equity				
Share capital	117	117	117	117
Share premium	1,565	1,565	1,565	1,565
Revaluation reserve	3,459	3,448	3,461	3,339
Loan loss reserve	1,352	1,260	964	776
Non distributable reserves	-	350	-	-
Translation reserve	2,591	1,894	-	-
Retained earnings	30,124	23,129	30,478	21,178
Equity attributable to the parent	39,208	31,763	36,585	26,975
Non-controlling interest	14,338	12,057	-	-
Total equity	53,546	43,820	36,585	26,975
Total equity and liabilities	437,488	327,414	232,791	158,128

Assets				
Cash and cash equivalents	79,515	84,617	37,631	23,327
Money market investments	116,446	69,017	81,493	48,548
Loans and advances to customers	172,706	126,524	43,147	42,067
Finance lease receivables	3,830	4,783	3,830	-
Amounts due from related parties	-	-	73	249
Derivative asset	25,194	19,288	25,194	19,288
Investment in listed companies	5,203	3,175	5,203	3,175
Investment in subsidiaries	-	-	13,692	9,348
Investment property	868	878	-	-
Property, equipment and intangible assets	22,510	15,856	17,402	10,296
Assets held for sale	218	-	218	-
Other receivables	10,998	3,276	4,908	1,830
Total assets	437,488	327,414	232,791	158,128

Statements of changes in equity attributable to parent owners				
<i>In millions of Malawi Kwacha</i>				
	Consolidated		Separate	
	Audited 31-Dec-17	Audited 31-Dec-16	Audited 31-Dec-17	Audited 31-Dec-16
As at the beginning of the year	43,820	34,215	26,975	21,469
Net profit for the year	10,064	7,661	7,638	5,184
Other comprehensive income	1,320	2,430	-	789
Comp. Income attributable to owners	55,204	44,306	34,613	27,442
Dividends paid	(1,168)	(467)	(1,168)	(467)
Other transactions with owners	(490)	(19)	3,140	-
Balance at the end of the year	53,546	43,820	36,585	26,975

Statements of Cash Flows				
<i>In millions of Malawi Kwacha</i>				
	Consolidated		Separate	
	Audited 31-Dec-17	Audited 31-Dec-16	Audited 31-Dec-17	Audited 31-Dec-16
Cash flows from operating activities				
Interest and fees received	57,716	49,412	29,689	28,120
Interest paid	(14,330)	(12,854)	(7,679)	(6,817)
Cash paid to suppliers and employees	(32,550)	(16,323)	(17,438)	(9,583)
	10,836	20,235	4,572	11,720
Net increase in customer balances	46,928	27,770	58,114	24,640
Cash generated from operations	57,764	48,005	62,686	36,360
Dividend received from listed and subsidiary companies	45	70	291	480
Income taxes paid	(3,512)	(3,092)	(1,759)	(1,839)
Net cash generated by operating activities	54,297	44,983	61,218	35,001

Cash flows from investing activities				
Purchases of money market investments	(47,430)	(16,758)	(32,945)	(21,557)
Investment in currency swaps	(5,906)	(13,308)	(5,906)	(13,308)
Net cash flows from acquisition of OIBM	1,583	-	1,583	-
Subscription of shares in subsidiary companies	-	-	(4,409)	(1,481)
Proceeds from sale of equipment	17	13	13	13
Net cash flows from merger with LFC	-	-	2,372	-
Acquisition of property and equipment	(5,816)	(3,742)	(4,783)	(2,575)
Net cash used in investing activities	(57,552)	(33,795)	(44,075)	(38,908)

Cash flows from financing activities				
Repayment of long term borrowings	(5,016)	(7,923)	(5,016)	(7,924)
Proceeds from long term borrowings	3,443	7,000	2,173	7,000
Subscription of new capital by non-controlling interests	-	635	-	-
Dividends paid to owners of the parent	(1,168)	(467)	(1,168)	(467)
Dividends paid to non-controlling interests	(423)	(653)	-	-
Net cash used in financing activities	(3,164)	(1,408)	(4,011)	(1,391)

Net (decrease)/increase in cash and cash equivalents	(6,419)	9,780	13,132	(5,298)
Cash and cash equivalents at 1st January	84,617	73,221	23,327	28,565
Effects of changes in exchange rates	1,317	1,616	1,172	60
Cash and Cash Equivalents at 31 December	79,515	84,617	37,631	23,327

Impairment Losses/Non Performing Credit Facilities And Provisions For Losses By Industry (FMB only)

<i>In thousands of Malawi Kwacha</i>						
	31-Dec-17			31-Dec-16		
Industry Sector	Outstanding Amount	Impaired Amount	Specific Provision	Outstanding Amount	Impaired Amount	Specific Provision
Agriculture	11,269,328	434,034	280,748	14,676,182	216,091	98,080
Mining	1,419	-	-	32,834	-	-
Financial Services	1,603,618	21,877	18,080	2,420,448	-	-
Construction	1,565,775	192,248	9,985	1,139,133	471,611	121,026
Energy/Electricity/Gas /Water	6,905,958	89,252	9,315	471,967	-	-
Manufacturing	6,983,499	279,151	46,290	7,790,820	39,789	8,584
Wholesale and Retail	12,053,934	1,774,735	916,910	11,355,275	820,631	325,979
Individual/Households	2,444,752	144,965	72,627	393,797	12,898	4,507
Real Estate	100,268	-	-	74,257	-	-
Tourism & Leisure	507,351	10,829	3,831	679,846	9,158	1,087
Transport & Communication	3,568,163	59,155	-	2,634,753	42,119	9,338
Others	3,393,281	1,167,659	831,065	1,716,641	371,637	208,346
Total	50,397,346	4,173,905	2,188,851	43,385,953	1,983,934	776,947

Credit Concentrations

<i>In thousands of Malawi Kwacha</i>				
Sector of Borrower	31-Dec-17	% of Core Capital	31-Dec-16	% of Core Capital
Electricity, gas, water and energy	7,604,075	40.0%	14,078,819	68.0%
Wholesale and Retail	5,245,055	28.0%	5,451,436	26.0%

Note: Credit concentration represents total credit facilities including guarantees, acceptances, and other similar commitments extended to any one customer or group of related customers where amounts exceed 25% of core capital

Loans to directors, senior management and other related parties

In thousands of Malawi Kwacha

	31-Dec-17	31-Dec-16
Corporate bodies directly or indirectly related to directors *		
Balance at the beginning of the year	767,433	1,029,742
Loans granted during the year	5,157,417	1,062,068
Repayments	(3,747,410)	(1,324,377)
Balance at the end of the year	2,177,440	767,433

Subsidiary companies:		
Balance at the beginning of the year	0	0
Loans granted during the year	0	599,697
Repayments	0	(599,697)
Balance at the end of the year	0	0

Senior management:		
Balance at the beginning of the year	261,882	189,566
Loans granted during the year	159,838	184,754
Repayments	(157,741)	(112,468)
Balance at the end of the year	263,979	261,882

** 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.*

Deposit Rates

	31-Dec-17	31-Dec-16
Savings Accounts (Balances above K10,000)	7.50%	7.00%
Fast Accounts (Balances above K10,000)	7.00%	5.00%
Call Accounts		
7 day call	5.00%	6.00%
30 day call	6.00%	8.00%
Fixed Deposits (Balances above K25,000)		
1 Month	13.00%	8.00%
2 Months	14.00%	10.00%
3 Months	14.00%	9.00%
Above 3 Months	Negotiable	Negotiable
Current Account (Balances above K500,000)	0.15%	0.15%

Investment in subsidiaries				
Institution	Number of Shares	Percentage	31 Dec 2017	31 Dec 2016
	('000)	Holding	(MK'000)	(MK'000)
Leasing and Finance Company of Malawi Limited *	18,343	100.0%	-	65,911
Capital Bank Limited - Mozambique **	6,955	80.0%	9,185,640	4,776,240
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
Capital Bank Limited - Botswana	31,588	38.6%	903,854	903,854
First Capital Bank Limited - Zambia	50,960	49.0%	3,393,251	3,393,251
FMB Pensions Limited	1,000	100.0%	-	-
			13,691,536	9,348,047