

REVIEW OF OPERATIONS

2013 was, for Malawi a year of significant volatility. Following the economic liberalization measures of 2012, the period required for market forces to achieve economic equilibrium proved longer than perhaps had been originally anticipated. The major constant was the persistence of inflationary pressure throughout the year and, in response, the monetary authorities maintained policies aimed at curbing growth in money supply.

Banking sector liquidity was extremely stretched for a large part of the year but improved considerably towards year end. The shortage of liquidity manifested itself in intense competition for customer deposits with concomitant high interest rates being offered by the market.

The Kwacha lost value over the first quarter of the year, then appreciated sharply over the second and third quarters before falling back to historic lows by the year end. The mid year appreciation in value was attributed to increased foreign exchange availability as the national tobacco crop rebounded to historic levels. The fall in value in the last quarter of the year was partly due to seasonal factors but was probably exacerbated by the suspension of a large proportion of donor budgetary support following revelations of misappropriation of significant sums from central government accounts.

The FMB group completed two major corporate actions during the year. Firstly in April 2013, we enhanced our capital base through the placement of \$10million of subordinated fixed income notes with non-resident institutional investors. In June 2013, we completed the acquisition of significant equity interests in banking operations in Zambia and Mozambique, now rebranded as First Capital Bank Limited and Capital Bank Limited respectively.

Total assets of the group grew by 56% from MK\$3billion to MK\$3.6billion as a result of a combination of organic growth business acquisition and deployment of the proceeds of the subordinated debt issue. Cognisant of the volatile economic conditions, we have maintained more than 40% of this enhanced asset base in low risk cash equivalent and money market investments.

Financial performance for the year was strong with both net interest margin and non funded income growing by in excess of 70%. Increased operating expenditure reflects, in addition to inflation, our commitment to incur costs where necessary to enhance our customer service delivery. Despite this, our cost to income ratio declined to 44% from 46% in the prior year. We continue to maintain high levels of provisioning against advance accounts showing signs of weakness and a further MK1 billion impairment provision was charged against group profit for the year.

The overall outcome for the year was a group profit after taxation of approximately MK\$6 billion translating into 77% increase in earnings per share from 146 tambala to 261 tambala.

OUTLOOK

The economic outlook for Malawi, the main profit centre of the group, remains uncertain. Following generally good rainfall patterns across the country, the 2014 crop harvest looks promising. However, without the resumption of budgetary support from the CABS grouping of development partners, Government may find it increasingly difficult to contain its expenditure within its resources envelope. The inflationary consequences of financing a fiscal deficit could negate the beneficial impact on the overall inflation rate of declining food prices.

Accordingly, there is a continued risk of exchange rate volatility and unpredictable variations in the level of domestic money market liquidity. Going forward, we remain prudent and will continue to conservatively manage our balance sheet and maintain relatively high liquidity and capital buffers. We anticipate continued balance sheet growth but with some contraction in net interest income which should be compensated by an increase in all non funded income lines with the possible exception of foreign exchange trading profits. Significant planned expenditure on technology upgrades across the group will, in our opinion, be justified by the resultant economic benefits of increased operational efficiency.

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

DIVIDEND


An interim dividend for the year 2013 of MK\$34.5 million or 40 tambala per share (2012:35 tambala) was paid during the year and the Directors declared a second interim dividend of MK\$700.875 million or 3-0 tambala per share (2012: 10 tambala) and will be paid on Thursday,17 April 2014 to shareholders whose names appear in the register at the close of business on Friday, 11 April 2014. The register will be closed from Monday, 14 April 2014 to Thursday, 17 April 2014 both days inclusive.

The Directors also propose a final dividend of MK\$233.625 million or 10 tambala per share (2012: 5 tambala) for approval at the forthcoming Annual General Meeting.

OPINION

In our opinion, the summarised financial statements derived from the audited financial statements of First Merchani Bank Limited for the year ended 31st December 2013 are consistent, in all material respects, with those financial statements, in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the Financial Services Act, 2010, and the Banking Act, 2009.

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



Public Accountants and Business Advisors
Blantyre, Malawi
24th March 2014

The financial statements were approved by the board of directors on 6th March 2014.

Dheeraj Dikshit
Lucas M. Kandowe
John M. O'Neill

Group Managing Director
General Manager – Finance, Planning & Strategy
Group Finance Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME				
In millions of Malawi Kwacha				
	Group		Company	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
INCOME				
Interest Income	11,045	5,800	7,848	4,423
Interest Expense	(3,470)	(1,498)	(1,836)	(868)
Net Interest Income	7,575	4,302	6,012	3,555
Non Interest Income	8,324	4,696	8,021	4,936
Total Operating Income	15,899	8,998	14,033	8,491
Total Operating Expenditure	(6,920)	(4,171)	(5,861)	(3,954)
Profit Before Impairment Losses	8,979	4,827	8,172	4,537
Impairment Losses	(1,029)	(447)	(324)	(303)
Operating Profit	7,950	4,380	7,848	4,234
Share of Profit from Associate	234	164	-	-
Profit Before Income Tax Expense	8,184	4,544	7,848	4,234
Income Tax Expense	(2,195)	(1,128)	(2,063)	(1,062)
Profit for the Period	5,989	3,416	5,785	3,172
Other Comprehensive Income for the Year	391	1,071	267	1,033
Total Comprehensive Income for the Year	6,380	4,487	6,052	4,205
Profit Attributable to:				
Equity Holders of the Bank	6,093	3,416	5,785	3,172
Non Controlling Interests	(104)	-	-	-
Profit for the Period	5,989	3,416	5,785	3,172
Earnings Per Share (tambala)	261	146		

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION				
In millions of Malawi Kwacha				
	Group		Company	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
LIABILITIES AND EQUITY				
Liabilities				
Amounts due to Depositors	53,598	36,390	40,383	32,388
Other Payables	7,402	4,527	8,855	4,380
Subordinated Debt	4,336	-	4,336	-
Total Liabilities	65,336	40,917	53,574	36,768
Equity				
Share Capital	117	117	117	117
Share Premium	1,565	1,565	1,565	1,565
Revaluation Reserve	1,858	3,442	1,762	3,207
Loan Loss Reserve	298	240	246	206
Other non Distributable Reserves	350	350	-	-
Translation Reserve	(39)		-	
Retained Earnings	12,995	6,392	11,579	5,406
Equity Attributable to the Parent	17,144	12,106	15,269	10,501
Non Controlling Interest	468			-
Total Equity	17,612	12,106	15,269	10,501
Total Equity and Liabilities	82,948	53,023	68,843	47,269
ASSETS				
Cash and Cash Equivalents	31,461	15,962	25,742	15,594
Money Market Investments	4,622	2,878	3,008	2,675
Equity Investments	4,549	2,488	4,549	2,488
Investment in Subsidiaries	-	-	2,269	76
Investment in Associate	4,695	1,068	4,297	904
Advances and Loans to Customers (net)	25,544	20,326	22,775	20,567
Finance Leases	4,337	5,355	-	-
Other Receivables	1,967	635	1,445	816
Property, Plant and Equipment	5,773	4,312	4,758	4,149
Total Assets	82,948	53,024	68,843	47,269

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY				
In millions of Malawi Kwacha				
	Group		Company	
	Attributable to owners of the parent	Non Controlling Interest	Total	Total
Balance at 1 January 2013	12,106	-	12,106	10,501
Profit for the year	6,093	(104)	5,989	5,785
Other comprehensive income	355	36	391	268
Total comprehensive income for the year	6,448	(68)	6,380	6,053
Arising on consolidation	(125)	536	411	-
Dividends to owners of the parent	(1,285)	-	(1,285)	(1,285)
Total transactions with owners	(1,410)	536	(874)	(1,285)
Balance as at December 2013	17,144	468	17,612	15,269

CONSOLIDATED STATEMENTS OF CASH FLOW				
In millions of Malawi Kwacha				
	Group		Company	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Operating Activities				
Interest and Fees Received	16,193	9,906	15,453	8,510
Interest Paid	(3,568)	(1,463)	(1,802)	(833)
Cash Paid to Suppliers and Employees	(3,630)	(3,617)	(4,982)	(3,494)
	8,995	4,826	8,669	4,183
Decrease in Customer Balances	16,192	(972)	8,663	7,438
Cash Generated From Operations	25,187	3,854	17,332	11,621
Income Taxes Paid	(2,239)	(883)	(2,087)	(695)
Cash Flows From Operating Activities	22,948	2,971	15,245	10,926
Investing Activities				
Acquisition of Property and Equipment	(2,022)	(646)	(1,101)	(642)
Gross Dividend Received	203	70	203	220
(Purchases)//Maturities of Money Market Investments	(1,735)	667	(333)	(325)
Purchase of Shares in other Companies	(6,702)	(58)	(6,673)	(58)
Cash Outflows Applied to Investing Activities	(10,256)	33	(7,904)	(805)
Financing Activities				
Proceeds from Subordinated Debt Issuance	4,092	-	4,092	-
Dividend Paid	(1,285)	(981)	(1,285)	(981)
Cash Flows from Financing Activities	2,807	(981)	2,807	(981)
Increase in Net Cash and Cash Equivalents	15,499	2,023	10,148	9,140
Cash and Cash Equivalents at 1st January	15,962	13,939	15,594	6,453
Cash and Cash Equivalents at 31 December	31,461	15,962	25,742	15,593

IMPAIRMENT LOSSES/NON PERFORMING CREDIT FACILITIES AND PROVISIONS FOR LOSSES BY INDUSTRY						
In thousands of Malawi Kwacha						
	31-Dec-13			31-Dec-12		
Industry Sector	Outstanding Amount	Impairment Losses	Specific Provision	Outstanding Amount	Impairment Losses	Specific Provision
Agriculture	5,512,432	3,081	3,682	3,772,375	468	42,819
Manufacturing	3,038,078	8,170	9,852	3,626,499	2,713	3,448
Mining	2,938	66	66	16,999	-	-
Construction	3,237,492	38,065	47,976	3,182,135	13,253	29,031
Energy/Electricity/Gas /Water	93,730	3,079	3,079	89,585	9	258
Transport & Communication	2,865,485	16,492	17,804	3,135,764	16,301	21,982
Financial Services	2,251,272	97,342	115,698	1,838,213	1,212	1,212
Wholesale and Retail	5,074,449	438,334	449,455	3,335,918	46,495	251,205
Individual/Households	1,333,631	74,801	100,001	1,546,262	204,207	221,414
Real Estate	107,879	653	910	67,694	232	335
Tourism	607,029	2,961	7,003	561,506	1,813	2,179
Others	108,052	8,468	10,332	337,883	10,482	72,399
Total	24,232,467	691,512	765,858	21,510,833	297,185	646,282

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY				
In millions of Malawi Kwacha				
	Group		Company	
	Attributable to owners of the parent	Non Controlling Interest	Total	Total
Balance at 1 January 2013	12 107	-	12 107	10 501
Profit for the year	6 093	(104)	5 989	5 785
Other comprehensive income	9	37	46	-
Total comprehensive income for the year	6 179	68	6 247	5 786
Arising on consolidation	(125)	536	411	-
Reduction in deferred tax on property revaluation	268	-	268	268
Dividends to owners of the parent	(1 285)	-	(1 285)	(1 285)
Total transactions with owners	(1 142)	536	(606)	(1 018)
Balance as at December 2013	17 144	468	17 612	15 269

CREDIT CONCENTRATIONS				
In thousands of Malawi Kwacha				
Sector of Borrower	31-Dec-13	% of Core Capital	31-Dec-12	% of Core Capital
Agriculture	5,512,432	77%	3,772,375	71%
Wholesale & Retail	5,074,449	71%	3,335,764	63%
Construction	3,237,492	45%	3,182,135	60%
Manufacturing	3,038,078	43%	3,626,499	68%
Transport & Communications	2,865,485	40%	3,135,764	59%
Financial Services	2,251,272	32%	1,838,213	34%
Individuals/Households	1,333,631	19%	1,546,262	29%

INVESTMENT IN SUBSIDIARIES/ASSOCIATES				
Subsidiary	Number of Shares (MK'000)	Percentage Holding	31 Dec 2013 (MK'000)	31 Dec 2012 (MK'000)
Leasing and Finance Company of Malawi Limited	18,343	100%	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
First Capital Bank - Mozambique	1,298	70.00%	1,375,210	-
First Capital Bank - Zambia	32,900	49.00%	3,393,253	-
FMB Pensions Limited	1,000	100.00%	1	1

BASE LENDING RATE		
Base Lending rate		
	31-Dec-13	31-Dec-12
Base Lending Rates:		
Local Currency Loans	38.00%	41.00%
Foreign Currency Loans	0.00%	0.00%
Maximum Applicable Range (Percentage Points)		
Local Currency Loans	52.00 %	55.00%
Foreign Currency Loans	9.50%	9.50%
Bank Rate	25.00%	25.00%

LOANS TO DIRECTORS, SENIOR MANAGEMENT AND OTHER RELATED PARTIES

In thousands of Malawi Kwacha

	31-Dec-13	31-Dec-12
Corporate Bodies Directly or Indirectly Related to Directors *:		
Balance at the Beginning of the Period	2,018,774	1,116,183
Loans granted during the year	1,168,964	1,315,986
Repayments	(923,232)	(413,395)
Balance at the end of the Period	2,264,506	2,018,774
Subsidiary Companies:		
Balance at the Beginning of the Period	-	39,682
Loans granted during the year	-	960,318
Repayments	-	(1,000,000)
Balance at the end of the Period	-	-
Senior Management:		
Balance at the Beginning of the Period	226,615	162,301
Loans granted during the year	69,068	173,645
Repayments	(157,547)	(109,331)
Balance at the end of the Period	138,136	226,615

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

	31 Dec 2013	31 Dec 2012
Savings Accounts	12.00%	12.00%
Fast Accounts (Balances above K5,000)	6.00%	8.00%
Call Accounts		
7 day call	10.00%	10.00%
30 day call	13.00%	12.00%
Fixed Deposits		
1 Month	15.00%	12.00%
2 Months	16.50%	15.00%
3 Months	17.00%	18.00%
6 Months	Negotiable	23.00%
Above 6 Months	Negotiable	Negotiable
Current Account (Balances above K250,000)	0.75%	1.00%

DIRECTOR'S REMUNERATION AND BONUSES

In thousands of Malawi Kwacha

	31 Dec 2013 (MK'000)	31 Dec 2012 (MK'000)
Director's Remuneration	169,000	118,000
Total Bonuses	120,000	93,000