



# FIRST MERCHANT BANK LIMITED

(Registered Commercial Bank)

## RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2006

### Auditor's Report to the members of First Merchant Bank Limited

We have audited the consolidated financial statements of First Merchant Bank Limited (the Group) for the year ended 31 December 2006 from which the accompanying summarised financial statements were derived in accordance with International Standards on Auditing. In our report dated 24<sup>th</sup> February 2007 we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

In our opinion, the 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 financial position and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which they were derived and our full audit report thereon

**KPMG**  
Public Accountants  
Blantyre, Malawi

### Review of the year

Following a successful initial public offering of shares, the company was admitted to the Official List of the Malawi Stock Exchange in June 2006. In addition to welcoming in excess of 2000 new shareholders, the bank augmented its capital base by K525 million, being the net proceeds of the offer

2006 was another year of strong growth for the bank. The group profit after tax of K1.107 million is 81% higher than that achieved in the prior year.

Our focus on increasing our advances portfolio through aggressively pursuing quality lending opportunities has yielded improved interest margins. Profits on foreign exchange dealing have also increased significantly. Gains from the appreciation of our equity investment portfolio are much better than anticipated.

### Outlook

A declining interest rate environment and continued foreign exchange shortages may adversely affect profitability in 2007 but we expect that the effects thereof will be more than compensated by growth in both our deposits and advances. Overall we anticipate continued growth in earnings.

### Dividend

A first interim dividend of 12 tambala per share was paid in August 2006. A second interim dividend of 6 tambala per share has been declared by the directors, payable on 23 March 2007 to shareholders whose names appear in the register on 16 March 2007. The register of members will be closed from 19 March 2007 to 23 March 2007 both days inclusive

**N. G. Anadkat**  
Director

**K. N. Chaturvedi**  
Director

	GROUP		COMPANY	
	31/12/06	31/12/05 Restated*	31/12/06	31/12/05 Restated*
	K'000	K'000	K'000	K'000
<b>INCOME STATEMENTS</b>				
Interest income	1,612,812	1,151,250	1,327,168	934,044
Interest expense	(501,285)	(364,693)	(351,176)	(256,318)
Net interest income	1,111,527	786,557	975,992	677,726
Other income	1,365,915	783,654	1,360,260	775,128
Total income	2,477,442	1,570,211	2,336,252	1,452,854
Operating expenses	(1,080,748)	(750,923)	(1,032,527)	(718,351)
Profit before provision for doubtful advances	1,396,694	819,288	1,303,725	734,503
Provision for doubtful advances	(31,022)	(97,138)	(35,812)	(97,774)
Profit before taxation	1,365,672	722,150	1,267,913	636,729
Taxation	(258,333)	(111,858)	(228,368)	(85,860)
Net profit after taxation	1,107,339	610,292	1,039,545	550,869
Basic and diluted Earnings per share (Tambala)	52	31		
<b>BALANCE SHEETS</b>				
<b>Equity and Liabilities</b>				
Share capital	111,250	100,000	111,250	100,000
Share Premium	514,035		514,035	-
Property revaluation reserve	148,154	140,653	134,247	128,398
Investment revaluation reserve	711,359	226,386	711,359	226,386
Loan loss reserve	66,606	66,606	57,034	57,034
Retained profit	1,307,497	991,833	1,119,677	871,807
Total Equity	2,858,901	1,525,478	2,647,602	1,383,625
Amount due to depositors	9,186,041	6,822,335	7,573,125	6,015,425
Other liabilities	1,233,475	684,902	1,688,829	641,171
<b>Total equity and liabilities</b>	<b>13,278,417</b>	<b>9,032,715</b>	<b>11,909,556</b>	<b>8,040,221</b>
<b>Assets</b>				
Cash and cash equivalents	3,657,421	3,261,027	3,657,374	3,260,592
Investments	3,505,129	1,755,309	2,975,617	1,354,137
Advances and loans to customers net of provisions for doubtful advances	4,326,337	2,553,142	4,341,884	2,520,280
Finance leases	812,780	524,020	-	-
Other assets	102,304	94,011	101,601	91,662
Fixed assets	874,446	845,206	833,080	813,550
<b>Total assets</b>	<b>13,278,417</b>	<b>9,032,715</b>	<b>11,909,556</b>	<b>8,040,221</b>
<b>STATEMENT OF CHANGES IN EQUITY</b>				
<b>As at the beginning of period</b>	1,525,478	1,032,444	1,383,625	962,269
Net profit for period	1,107,339	610,292	1,039,545	550,869
Dividends paid	(306,702)	(200,000)	(306,702)	(200,000)
Revaluation Surplus		85,086		69,216
Issue of Share Capital	525,285		525,285	
Other movements	7,501	(2,344)	5,849	1,271
	2,858,901	1,525,478	2,647,602	1,383,625
<b>STATEMENTS OF CASH FLOWS</b>				
<b>Operating activities</b>				
Interest and fees received	2,368,598	1,636,096	2,078,364	1,409,522
Interest paid	(499,786)	(368,883)	(349,677)	(255,495)
Cash paid to suppliers and employees	(703,666)	(637,344)	(663,011)	(609,978)
	1,165,146	629,869	1,065,676	544,049
Increase/(decrease) in net customer balances	568,718	(388,693)	488,258	(460,748)
Cash generated from operations	1,733,864	241,176	1,553,934	83,301
Income taxes paid	(244,886)	(148,866)	(204,835)	(133,354)
Cash flows from operating activities	1,488,978	92,310	1,349,099	(50,053)
<b>Investing activities</b>				
Net (purchases)/maturities of money market investments	(1,371,821)	193,352	(1,243,481)	338,013
Proceeds from sale shares and other investments	183,486	162,776	179,632	162,776
Proceeds from sale of equipment	4,195	3,301	4,195	15
Acquisition of property and equipment	(156,694)	(204,096)	(140,913)	(202,894)
Gross dividend received	57,595	36,311	57,595	36,311
Purchase of shares in listed companies	(27,928)	(21,992)	(27,928)	(21,992)
Cash flows from investing activities	(1,311,167)	169,652	(1,170,900)	312,229
<b>Financing activities</b>				
Net proceeds of issue of shares	525,285	-	525,285	-
Dividends paid	(306,702)	(200,000)	(306,702)	(200,000)
Cash flows from financing activities	218,583	(200,000)	218,583	(200,000)
Net increase in cash and cash equivalents	396,394	61,962	396,782	62,176
Cash and cash equivalents at 1 January	3,261,027	3,199,065	3,260,592	3,198,416
<b>Cash and cash equivalents at 31 December</b>	<b>3,657,421</b>	<b>3,261,027</b>	<b>3,657,374</b>	<b>3,260,592</b>

\* The presentation of prior year's figures is adjusted due to changes in classification of revenue and expense line items. However, this has not affected the reported net profit for the previous year.