



FIRST MERCHANT BANK LIMITED

(Registered Commercial Bank)

RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2007

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 2007 from which the accompanying summarised financial statements were derived in accordance with International Standards on Auditing. In our report dated 22 February 2008 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 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 these summarised financial statements were derived and our full audit report thereon

KPMG
Public Accountants
Blantyre, Malawi

Review of the year

2007 was another year of exceptional growth for the group which achieved an 80% increase in profit after tax. The performance of our equity investment portfolio exceeded expectations contributing K1.3 billion (2006:K0.6 billion) to the group pre-tax profit of K2.3 billion (2006: K1.4 billion).

The group's deposit base grew by 51% over the year, counteracting the impact of a significant reduction in money market yields and a marginal narrowing in interest margins. Profits on foreign exchange dealing grew by 19% in a difficult market characterised by sporadic foreign exchange shortages. Other fee and commission income increased by 44%.

Expenses include an exceptional provision for severance pay of K55 million based on the current interpretation of the Employment Act and some K20 million of pre-operating costs of our Botswana banking subsidiary. Nevertheless, the group's cost to income ratio has been reduced from 42% to 37%.

Outlook

Although a further narrowing in interest margins can be expected, we anticipate continued growth in both our deposits and advances portfolio with the overall result that our core banking operations are expected to show continued growth in profitability. Our Botswana banking subsidiary will commence banking operations in 2008 but is not anticipated to have a significant impact on group earnings for the year. Gains from the appreciation of our equity investment portfolio are likely to be more modest than in 2007 as there are signs that the three year bull run on the MSE may be slowing.

Dividend

A first interim dividend of 15 tambala per share was paid in August 2007.

A second interim dividend of 6 tambala per share has been declared by the directors, payable on 14 March 2008 to shareholders whose names appear in the register on 7 March 2008. The register of members will be closed from 10 March 2008 to 14 March 2008 both days inclusive.

The directors also propose a final dividend of 2 tambala per share for declaration at the forthcoming annual general meeting.

K. N. Chaturvedi
Director

J. M. O'Neill
Director

| | GROUP | | COMPANY | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 31/12/07 | 31/12/06 | 31/12/07 | 31/12/06 |
| | K'000 | K'000 | K'000 | K'000 |
| INCOME STATEMENTS | | | | |
| Interest income | 1,972,093 | 1,612,812 | 1,534,635 | 1,327,168 |
| Interest expense | (493,978) | (501,285) | (295,737) | (351,176) |
| Net interest income | 1,478,115 | 1,111,527 | 1,238,898 | 975,992 |
| Income from investments | 1,358,326 | 596,845 | 1,358,326 | 596,845 |
| Other income | 956,892 | 733,470 | 945,999 | 727,815 |
| Total income | 3,793,333 | 2,441,842 | 3,543,223 | 2,300,652 |
| Operating expenses | (1,398,864) | (1,045,148) | (1,300,549) | (996,927) |
| Profit before impairment losses | 2,394,469 | 1,396,694 | 2,242,674 | 1,303,725 |
| Net impairment loss on financial assets | (79,586) | (31,022) | (73,331) | (35,812) |
| Profit before income tax expense | 2,314,883 | 1,365,672 | 2,169,343 | 1,267,913 |
| Income tax expense | (321,926) | (258,333) | (275,006) | (228,368) |
| Net profit for the year | 1,992,957 | 1,107,339 | 1,894,337 | 1,039,545 |
| Minority interest | 355 | - | - | - |
| Profit attributable to shareholders | 1,992,602 | 1,107,339 | - | - |
| Basic and diluted earnings per share (Tambala) | 90 | 52 | - | - |
| BALANCE SHEETS | | | | |
| Equity and Liabilities | | | | |
| Share capital | 111,250 | 111,250 | 111,250 | 111,250 |
| Share Premium | 514,035 | 514,035 | 514,035 | 514,035 |
| Property revaluation reserve | 389,906 | 148,154 | 364,183 | 134,247 |
| Investment revaluation reserve | 1,489,897 | 711,359 | 1,002,192 | 711,359 |
| Translation reserve | (4,635) | - | - | - |
| Loan loss reserve | 66,606 | 66,606 | 57,034 | 57,034 |
| Retained profit | 2,054,886 | 1,307,497 | 2,255,931 | 1,119,677 |
| Total Equity | 4,621,645 | 2,858,901 | 4,304,625 | 2,647,602 |
| Minority interest | 229,721 | - | - | - |
| Amount due to depositors | 13,888,493 | 9,186,041 | 11,779,006 | 7,573,125 |
| Other liabilities | 1,158,661 | 1,233,475 | 1,096,227 | 1,688,829 |
| Total equity and liabilities | 19,898,520 | 13,278,417 | 17,179,858 | 11,909,556 |
| Assets | | | | |
| Cash and cash equivalents | 4,782,997 | 3,657,421 | 4,363,225 | 3,657,374 |
| Investments | 6,685,255 | 3,505,129 | 5,864,232 | 2,975,617 |
| Advances and loans to customers net of impairment losses | 5,826,047 | 4,326,337 | 5,754,910 | 4,341,884 |
| Finance leases | 1,301,092 | 812,780 | - | - |
| Other assets | 87,231 | 102,304 | 81,819 | 101,601 |
| Property plant and equipment | 1,215,898 | 874,446 | 1,115,672 | 833,080 |
| Total assets | 19,898,520 | 13,278,417 | 17,179,858 | 11,909,556 |
| STATEMENT OF CHANGES IN EQUITY | | | | |
| As at the beginning of period | 2,858,901 | 1,525,478 | 2,647,602 | 1,383,625 |
| Net profit for period | 1,992,602 | 1,107,339 | 1,894,337 | 1,039,545 |
| Dividends paid | (467,250) | (306,702) | (467,250) | (306,702) |
| Revaluation Surplus | 242,027 | - | 229,936 | - |
| Issue of Share Capital | - | 525,285 | - | 525,285 |
| Other movements | (4,635) | 7,501 | - | 5,849 |
| | 4,621,645 | 2,858,901 | 4,304,625 | 2,647,602 |
| STATEMENTS OF CASH FLOWS | | | | |
| Operating activities | | | | |
| Interest and fees received | 2,973,442 | 2,368,598 | 2,528,750 | 2,078,364 |
| Interest paid | (498,490) | (499,786) | (300,249) | (349,677) |
| Cash paid to suppliers and employees | (1,303,037) | (703,666) | (1,224,636) | (663,011) |
| | 1,171,915 | 1,165,146 | 1,003,865 | 1,065,676 |
| Increase in net customer balances | 2,537,588 | 568,718 | 2,132,320 | 488,258 |
| Cash generated from operations | 3,709,503 | 1,733,864 | 3,136,185 | 1,553,934 |
| Income taxes paid | (316,254) | (244,886) | (278,660) | (204,835) |
| Cash flows from operating activities | 3,393,249 | 1,488,978 | 2,857,525 | 1,349,099 |
| Investing activities | | | | |
| Net purchases of money market investments | (2,324,883) | (1,371,821) | (1,790,008) | (1,243,481) |
| Proceeds from sale shares and other investments | 506,007 | 183,486 | 506,007 | 179,632 |
| Proceeds from sale of equipment | 1,562 | 4,195 | 895 | 4,195 |
| Acquisition of subsidiary | - | - | (243,364) | - |
| Acquisition of property and equipment | (228,503) | (156,694) | (178,617) | (140,913) |
| Gross dividend received | 82,214 | 57,595 | 82,214 | 57,595 |
| Purchase of shares in listed companies | (61,551) | (27,928) | (61,551) | (27,928) |
| Cash flows used in investing activities | (2,025,154) | (1,311,167) | (1,684,424) | (1,170,900) |
| Financing activities | | | | |
| Net proceeds of issue of shares | 224,731 | 525,285 | - | 525,285 |
| Dividends paid | (467,250) | (306,702) | (467,250) | (306,702) |
| Net cash (used in)/ from financing activities | (242,519) | 218,583 | (467,250) | 218,583 |
| Net increase in cash and cash equivalents | 1,125,576 | 396,394 | 705,851 | 396,782 |
| Cash and cash equivalents at 1 January | 3,657,421 | 3,261,027 | 3,657,374 | 3,260,592 |
| Cash and cash equivalents at 31 December | 4,782,997 | 3,657,421 | 4,363,225 | 3,657,374 |