First Merchant Bank Ltd.
Annual Report 2006

CONTENTS

SENIOR MANAGEMENT

HEAD OFFICE

Managing Director	*Kashinath Chaturvedi*
Deputy Managing Director	*Seetharaman Srinivasan*
Chief Manager, Operational Risk, Compliance & Security	*Ravindra Kamath*
Head, Information Technology	*E.P. Jacob*
Head, International Banking	*Thomas Kadantot*
Head of Credit	*Sriram Gade*
Senior Operations Manager	*Gayatri Kamath (Mrs)*
Senior Human Resources and Administration Manager	*Indira Sharma-Surtee (Mrs)*
Senior Manager, Central Clearing Department	*Anna Mafuleka (Mrs)*
Audit Manager	*Tiwonge Kaluwa*
Marketing Manager	*George Kamvalumvulu*
Programme Manager	*Nelson Njikho*
Acting Finance Manager	*Maxwell Banda*

BLANTYRE

Chief Manager	*Pradeep Ranade*
Operations Manager	*Bright Kadewere* (Acting)

LIMBE

Branch Manager	*Montfort Masinga*
Operations Manager	*Emily Banda (Mrs)*

LILONGWE

Chief Manager	*Prakash Kamath*
Operations Manager	*Doris Kalambo (Mrs)*

CAPITAL CITY

Branch Manager	*Mary Nkando (Ms)*
Operations Manager	*Jane Mphande (Mrs)*

MZUZU

Branch Manager	*Evance Bamusi*
Operations Officer	*Lilian Mwafulirwai (Mrs)*

FIRST CORPORATE SERVICES

Branch Manager	*Agness Jazza (Ms)*
Operations Officer	*Joyce Washoni (Mrs)*

ZOMBA

Officer In-Charge	*Wisick Sadick*
Operations Officer	*Rodney Mafunga*

AGENCY AND SUBSIDIARY MANAGEMENT

CHICHIRI MALL AGENCY

Officer-In-Charge	*Janet Kamedza (Mrs)*

CROSSROADS MALL AGENCY

Officer-In-Charge	*Hanna Kadzombe (Ms)*

DWANGWA AGENCY

Officer-In-Charge	*Changala Munyenyembe*

LIMBE AUCTION FLOOR AGENCY

Officer-In-Charge	*Grace Mtambalika (Mrs)*

KANENGO AUCTION FLOOR AGENCY

Officer-In-Charge	*Geoffrey Ng'oma*

LEASING AND FINANCE COMPANY OF MALAWI

General Manager	*Mbachazwa Lungu*
Lilongwe Branch Manager	*Bessie Nsambo*

The highlight of the year 2006 was undoubtedly the admission of the bank to the Official List of the Malawi Stock Exchange on 19 June 2006, following our highly successful initial public offering. The offer, which was two times over subscribed, attracted in excess of 2,300 new shareholders and raised net proceeds of K525 million which has been applied to augment the capital base of the bank.

We are grateful for the confidence shown in us by the investing public, including many of our customers and almost all of our employees. My board and I are conscious of our responsibility to repay that confidence and provide our new shareholders with a return on their investment commensurate with their expectations.

Economic Overview

2006 became a landmark year for the Malawi economy when, in August, the IMF and World Bank boards agreed that Malawi had reached the HIPC completion point resulting in the write off some US$3billion of the country's external debt, translating into annual savings of US$100 million in

In a year of largely positive economic developments, national output rebounded with a real GDP growth rate forecast of 8.4% largely on the back of a recovery in the agricultural sector due to favourable rains and a subsidized farm input programme for small scale farmers. After a number of years of food shortages, some chronic, the country registered a surplus of food production over the national food requirement.

Lingering concerns remain over the level of Government's domestic debt including arrears of payments to the private sector and treasury bill stock which stood at K65 billion at 31 December 2006. Nevertheless the fiscal out-turn for the 2006/2007 fiscal year is projected to be a very credible 1.2% of GDP, helped in no small measure by debt relief under the HIPC initiative.

Prudent fiscal and monetary policies and a decline in food prices as a result of the exceptional harvest have seen a fall in the rate of inflation over the year. Average inflation for 2006 was 13.9% compared to 15.4% in 2005 but by year end the inflation rate had fallen to 10.1% in a declining trend that looks set to continue into 2007.

debt service costs. Further good news followed shortly thereafter with the Paris Club grouping of creditors agreeing to reduce the debt owed to them from US$ 363million to US$ 9million. This vote of confidence by multilateral and bilateral creditors in Government's commitment to fiscal discipline and restoration of macro-economic stability should in turn send positive signals to potential investors in the country.

Reserve Bank of Malawi continued to maintain a tight monetary policy during the year with the principal objective of containing growth in money supply and stabilizing prices. Nevertheless, in February 2006 the liquidity reserve requirement for banks was reduced from 27.5% to 20% of customer deposits. In October 2006, in response to a decline in the rate of inflation the Bank Rate was reduced from 25% to 20%. In turn the banking sector reduced its average base rate from 27% to 22.5%. Yields on government paper also reduced significantly over the year commencing at 24.4% average yield for treasury bills, falling sharply to 21% in February and thereafter gradually to 19.5% before again falling sharply in October to 17.8% and continuing to decline through to year end when average yields were 15.8%.

Foreign exchange remained in short supply throughout the year, particularly in the first and fourth quarters outside of the tobacco selling season. In the earlier part of the year the Kwacha depreciated by approximately 10% against the benchmark US dollar but since May remained relatively stable in a narrow range of 138 to 140 to the US dollar in a market closely monitored by Reserve Bank of Malawi. At year end total gross foreign exchange reserves were the equivalent of 3 months of import cover of which gross official reserves were equivalent to 2.1 months cover.

Group Performance

It is pleasing to report that our first published results as a public company demonstrate continued strong growth in all areas. Key highlights of group performance are:

- deposits increased by 35% from K6.8 billion to K9.2 billion
- lending increased by 61% from K3.1 billion to K5.1 billion
- total assets increased by 47% from K9.0 billion to K13.2 billion
- profit after tax increased by 81% from K0.6 billion to K1.1 billion
- shareholders' equity increased by 87% from K1.5 billion to K2.9 billion

A 35% increase in customer deposits has been achieved in a highly competitive market with competition not only from banks but also from non bank financial institutions and government paper. Also, investors are increasingly switching from the money market into equities due to the declining interest rate environment, greater confidence in the prospects of medium term economic stability and the resultant continuing bull run on the equities market. Our subsidiary company, The Leasing and Finance Company of Malawi Limited, has been particularly successful in mobilizing term deposits during the year and registered a 100% growth in its deposit base.

Our increased capital base has enhanced our lending capacity enabling us to pursue and secure quality lending opportunities and during the year a number of new blue chip clients were added to our advances portfolio. We have also seen a decline in the level of non performing credits from 4.4% to 3.7% of the total credit portfolio helped by recoveries of K30 million of amounts provided in prior years. The bank maintains a very prudent debt provisioning policy and new provisions totalling K81 million were made during the year against accounts showing signs of weakness.

The major components of the growth in our total asset base are a K2 billlion increase in lending and an increase of K1.8 billion in cash equivalents and money market investments from K4.6 billion to K6.4 billion (almost 50% of our total assets). With such a significant percentage of our assets being low risk liquid assets, the Bank comfortably complies with all prudential requirements. At year end our capital adequacy and liquidity ratios were 22.4% and 70.1% respectively. Thus, there remains considerable scope for a future increase in the level of our higher yielding risk based assets.

Although a relatively small 6% of our asset portfolio is invested in listed equities, the yields on these investments have exceeded expectations with total income from investments in 2006 of just under K600 million. Included in this income is the increase in fair value (or market price) of investments which under Malawi company law cannot be distributed to members until realized.

Profit after taxation has increased by 81% from K610 million to K1,107 million. After factoring in the dilutory effect of the mid year capital raising, earnings per share has increased by 68% from 31 tambala to 52 tambala. Interest margins have been maintained in a highly competitive market and this has seen an increase of K325 million in net interest income on the back of an increased capital and deposit base. Our focus on diversifying our income base to rely less on balance sheet generated revenue has borne fruit with non-interest income up by 75% on last year including a more than doubling of gains from foreign exchange trading. Our cost to income ratio of 44% (2005:48%) has improved and is within our targeted range but there remains scope for further reduction through planned efficiency gains.

Our existing strong capital base has been enhanced through proceeds of our initial public offering and profit retention and at 31 December 2006 shareholders' funds totaled K2.9 billion. We trust that the continued growth in the capitalization of the bank gives confidence to our customers and investors alike.

Human Resources

At the year end our staff complement was 384 as compared to 351 at the end of 2005. Our results for the past year continue to demonstrate the returns from our considerable investment in staff training, development and welfare. FMB is an equal opportunities employer and does not discriminate on the basis of race, colour, creed or gender but rather seeks to identify, develop and reward staff members of exceptional ability and commitment to our core value of customer service. The diverse composition of our head office and senior branch management team is testimony to the success of our staff development policy.

Corporate Social Responsibility

In accordance with MSE requirements this annual report contains a separate statement on corporate governance. The Board is fully committed to ensuring that the group conducts its business affairs with integrity, maintains the highest ethical standards, complies with all legislation and regulations governing its activities, and makes a positive contribution to the welfare of the community at large. Whilst recognizing our primary duty is to provide a return to our shareholders, we also provide financial support to numerous worthy causes with a particular focus on the areas of education and health.

Outlook

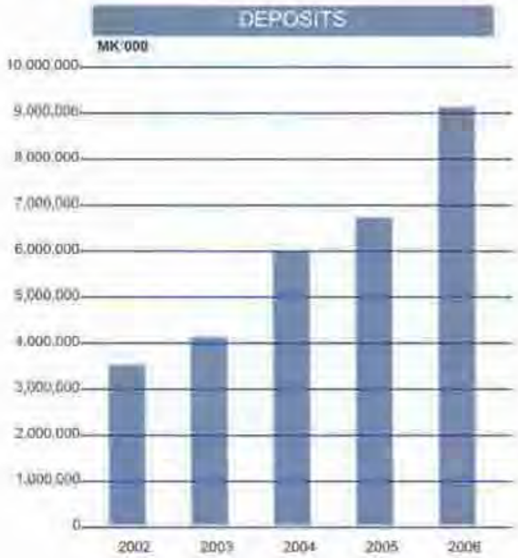
To a certain degree bank performance can be affected by the prevailing macro-economic situation in the country. On the economic front, another exceptional maize crop is forecast for 2007 and, although tobacco yields may be adversely affected by excessive rains, it is anticipated that overall increased agricultural production should underpin another year of economic growth. The Government's commitment to fiscal discipline should enable it to take advantage of the savings from debt relief to contain the fiscal out turn within an acceptable range. This, together with continuing low prices for the staple food maize, should see the rate of inflation falling in 2007. A declining interest rate environment can therefore be expected.

Declining interest rates and the persistence of foreign exchange shortages through at least the early part of 2007 could be expected to adversely affect profitability but we anticipate that this will be more than offset by continued growth in both our deposits and advances. We continue to be alert to commercial opportunities, in Malawi and regionally, to further diversify our income base and are investigating the feasibility of introducing a number of new products to increase the scope and outreach of our banking services.

Acknowledgements

Our customers are the foundation on which the bank's success is built and I wish, firstly, to thank them all for their valued support. My thanks go also to our colleagues in the industry, both the domestic financial institutions and our overseas correspondents, for their continued co-operation. I also wish to record my appreciation of the support and guidance of Reserve Bank of Malawi. Finally, I express my gratitude to fellow directors, management and staff for their co-operation, hard work and dedication throughout the year.

R. C. Kantaria
Chairman


DEPOSITS
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9,000,000
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
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2002
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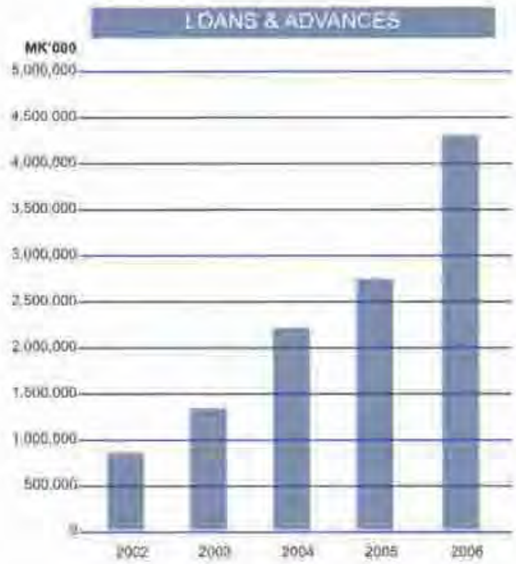
2004
2005
2006


LOANS & ADVANCES
MK'000
5,000,000
4,500,000
4,000,000
3,500,000
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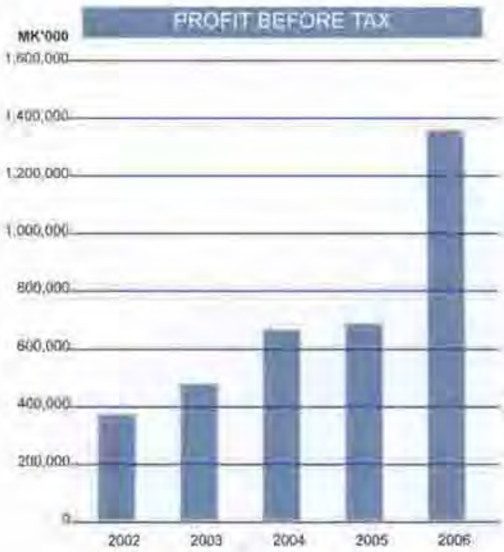
2002
2003
2004
2005
2006


PROFIT BEFORE TAX
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1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
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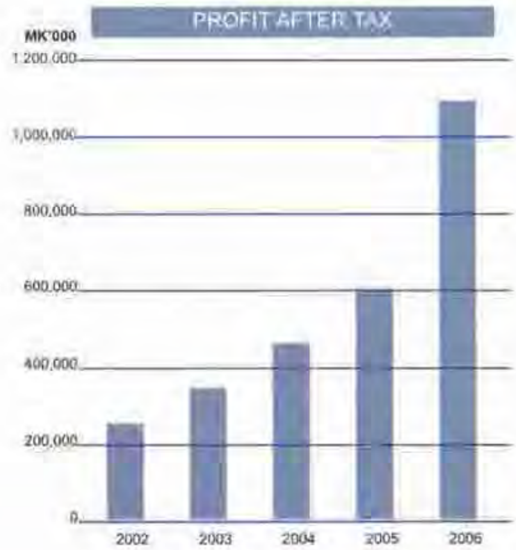
2002
2003
2004
2005
2006


PROFIT AFTER TAX
MK'000
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800,000
600,000
400,000
200,000
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2002
2003
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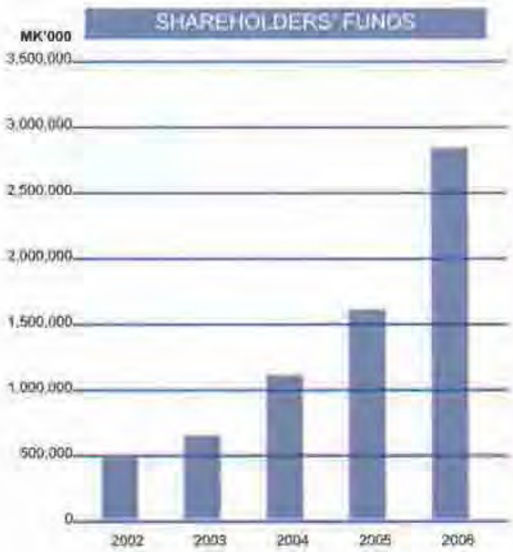
2005
2006


SHAREHOLDERS' FUNDS
MK'000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2002
2003
2004
2005
2006

Above: Mr. N. G. Anadkat, a senior director of FMB cutting a ribbon to mark the listing of FMB on the Malawi Stock Exchange. Looking on is Mr. Krishna Savjani, Chairman of Malawi Stock Exchange. On the right is Dr. Wilson Banda, General Manager, Reserve Bank of Malawi. On the far right is Mr. John Kamanga, Operations Manager at Malawi Stock Exchange.

Above: Guests to the listing ceremony included The Governor of The Reserve Bank of Malawi, Mr. Victor Mbewe. Also in the picture are Mr. Uka, senior partner at Deloitte and Mr. John Kamanga, Operations Manager at Malawi Stock Exchange.

Right: Minister of Finance, Hon. Goodall Gondwe, speaking at the launch of the Makwacha Card ceremony at FMB Lilongwe Branch.

Above: Minister of Health, Hon. Marjorie Ngaunje, speaking at a Malawi Blood Transfusion Service function held at the bank's premises.

Above: Some invited guests to the pre-listing party held at the bank's premises.

GALLERY

Left: Students from Chichiri Secondary School are some of the beneficiaries of FMB scholarships.

Above: Members of The Malawi Cricket Association receiving a cheque from FMB for development of the sport.

Left: Some student nurses at Kamuzu College of Nursing were assisted with tuition fees.

Above: Malawi Writers Union is one of the beneficiaries of FMB social awards. In the picture, Professor Timpuza Mvula, third from left, is seen addressing the audience at the 2006 Awards ceremony.

Above: Some members of staff at the 2006 Christmas party.

Left: First Merchant Bank supports the development of squash in the country. In the picture, Gordon Benbow, Chairman of Squash Malawi, is seen accepting a cheque from the bank.

DIRECTORS' REPORT

For the year ended 31 December 2006

The directors have pleasure in submitting their report together with the group financial statements of First Merchant Bank Limited for the year ended 31st December 2006.

Nature of business

First Merchant Bank Limited is a public limited company incorporated in Malawi under the Malawi Companies Act, 1984. It is listed on the Malawi Stock Exchange and is registered as a commercial bank under the Banking Act 1989. Its wholly owned subsidiary, The Leasing and Finance Company of Malawi Limited is engaged in the provision of lease finance.

The physical address of the holding company's registered office is:-

Livingstone Towers
Private Bag 122
Glyn Jones Road
Blantyre
Malawi

Financial performance

The results and state of affairs of the group and company are set out in the accompanying consolidated income statements, statements of changes in equity, balance sheets, statements of cash flows and associated accounting policies and notes.

Dividends

Last year's final dividend of MK40 million and an interim dividend for this year of MK267 million were paid during the year. Subsequent to the year end, on 24th February 2007, the directors declared a second interim dividend of MK133.50 million. No final dividend is proposed.

Directorate and Secretary

The following directors and secretary served during the year:

Mr. R.C. Kantaria	Chairman
Mr. H.N. Anadkat	Vice Chairman
Mr. K. N. Chaturvedi	Managing Director
Mr. N.G. Anadkat	Director
Mr. J.M. O'Neill	Director
Mr. A. Abdallah	Director
Mr. V.K.Shetty	Director Member of Audit Committee
Mr. M. Msisha	Director Chairman of Audit Committee
Mr. S. Srinivasan	Secretary (Deputy Managing Director)

In accordance with the company's Articles of Association, Messrs. N.G. Anadkat, J.M. O'Neill and M. Msisha retire by rotation at the forthcoming Annual General Meeting, but being eligible for re-appointment, offer themselves for re-election.

Auditors

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint KPMG, Certified Public Accountants (Malawi) as auditors in respect of the company's 31st December 2007 financial statements.

K.N. Chaturvedi	N.G. Anadkat
DIRECTOR	DIRECTOR

24th February 2007

For the year ended 31 December 2006

The company has a unitary board of directors comprising a Non-Executive Chairman, 5 Non-Executive Directors and 3 Executive Directors.

The Board has adopted without modification the major principles of modern corporate governance as contained in the Cadbury and King reports.

The Board meets at least 3 times a year. Adequate and efficient communication and monitoring systems are in place to ensure that the Directors receive all relevant, accurate information to guide them in making necessary strategic decisions, and providing effective leadership, control and strategic direction over the company's operations, and in ensuring that the company fully complies with relevant legal, ethical and regulatory requirements.

Board and Management Committees

There is one permanent management committee namely the Asset and Liability Management ("ALCO") Committee and three permanent board committees, the Audit Committee, Credit Committee and the Appointments and Remuneration Committee. Additionally, there is an informal business promotion committee which comprises branch managers, senior management, 2 non-executive directors and 3 executive directors. This committee meets regularly, usually once a month, and reviews the bank's market position relative to its peers and sets operational strategy to maintain and grow market share.

Asset and Liability Management Committee

The primary objective of the ALCO committee is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure etc. between funds mobilized and funds deployed. The ALCO Committee seeks to manage risks in order to minimize the volatility of net interest income and protect the long term economic value of the bank. The committee also monitors the capital adequacy of the bank.

Key functions of the ALCO Committee include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring contingency funding plans are in place to avert funding crises.

The ALCO committee is composed of 2 executive directors and 3 members of management and meets regularly, usually once a month. The members of the ALCO Committee are:

Mr S. Srinivasan	Deputy Managing Director (Chairman)
Mr K. Chaturvedi	Managing Director
Mr S. Gade	Head of Credit
Mrs G. Kamath	Senior Operations Manager
Mr M. Banda	Acting Finance Manager

Audit Committee

The Audit Committee assists the board in discharging its duties in relation to financial reporting, asset management, risk management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions. The bank's external auditors and internal auditors report to the committee in independent private meetings to discuss risk exposure areas. Where the committee's monitoring and review activities reveal causes for concern or scope for improvement, it makes recommendations to the board on required remedial actions.

For the year ended 31 December 2006

The Audit Committee comprises 2 non-executive directors, 1 of whom acts as chairman and the bank's Internal Audit Manager. The committee meets at least 4 times a year. The members of the Audit Committee are:

Mr M. Msisha	Non-Executive Director (Chairman)
Mr V. K. Shetty	Non-Executive Director
Mr T. Kaluwa	Internal Audit Manager

Credit Committee

The Credit Committee comprises 3 local directors with a good knowledge of the Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the bank's credit portfolio (including advances, guarantees and other facilities). Specific responsibilities include:

- Ratification of terms and conditions of all facilities granted by management under its discretionary powers;
- Approval of all credit facilities above the discretionary limits set for management save for those facilities requiring full board approval in accordance with Reserve Bank of Malawi directives and:
- Review of non performing facilities and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required.

The Managing Director, Deputy Managing Director , Head of Credit and Branch Managers attend all Credit Committee meetings in a non-voting capacity.

The Credit Committee meets regularly, usually once a month and comprises the following members:

Mr H. N. Anadkat	Non-Executive Vice Chairman (Chairman)
Mr N. G. Anadkat	Non-Executive Director
Mr J. M. O'Neill	Executive Director

Appointments and Remuneration Committee

The Appointments and Remuneration Committee nominates persons to be appointed directors (subject to shareholders' approval) and recommends to the Board, executive and non-executive director and senior management remuneration. The committee also approves overall human resource and remuneration policies and strategies.

The Appointments and Remuneration Committee meets twice a year and comprises the following members

Mr H. N. Anadkat	Non-Executive Vice Chairman (Chairman)
Mr N. G. Anadkat	Non-Executive Director
Mr M. Msisha	Non-Executive Director

Ethical Standards

The Board is fully committed to ensuring the Group's affairs are conducted with integrity and that the highest ethical standards are maintained. All employees of the Group are required to abide by a code of conduct containing detailed guidelines governing ethics and integrity in the workplace.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31st December 2006

The Companies Act, 1984, requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year.

The Act also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act, 1984.

In preparing the financial statements, the directors accept responsibility for the following:

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements, subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and group and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

Nothing has come to the attention of the directors to indicate that the company and group will not remain a going concern for at least the next twelve months from the date of this statement.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and group and of their operating results.

Director: K.N. Chaturvedi

Director: N.G. Anadkat

Date: **24th February 2007**

KPMG
Public Accountants and Business Advisors
MASM House, Lower Sclater Road
P.O. Box 508
Blantyre, Malawi

Telephone: (265) 01 620 744 / 01 620 391
Fax: (265) 01 620 575
E-mail: kpmg@kpmg.mw.com

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

Report on the financial statements

We have audited the accompanying financial statements of First Merchant Bank Limited, which comprise the balance sheet as at 31st December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements give a true and fair view of the consolidated and separate financial position of First Merchant Bank Limited at 31st December 2006, and of its consolidated and separate financial performance and its consolidated and separate cashflows for the year then ended in accordance with International Financial Reporting Standards and are in compliance with the provisions of the Malawi Companies Act 1984.

KPMG

KPMG
Certified Public Accountants
Blantyre

24th February 2007

KPMG Malawi is a member firm of KPMG International, a Swiss cooperative. A list of names of the partners is available for inspection at the office address.

CONSOLIDATED INCOME STATEMENTS

For the year ended 31st December 2006

In thousands of Malawi Kwacha

	Note	GROUP		COMPANY	
		2006	2005*	**2006**	2005*
REVENUE					
Interest income	5	**1,612,812**	1,151,250	**1,327,168**	934,044
Interest expense on deposits and other accounts		**(501,285)**	(364,693)	**(351,176)**	(256,318)
Net interest income		**1,111,527**	786,557	**975,992**	677,726
Fees and commissions		**329,039**	261,591	**324,651**	257,541
Income from investments	6	**596,845**	298,500	**596,845**	298,500
Gain on foreign exchange transactions		**402,577**	196,590	**402,577**	196,590
Net trading income		**2,439,988**	1,543,238	**2,300,065**	1,430,357
Other operating income	7	**37,454**	26,973	**36,187**	22,497
Total operating income		**2,477,442**	1,570,211	**2,336,252**	1,452,854
Staff and training costs	8	**518,463**	320,110	**491,827**	303,593
Premises and equipment costs		**154,528**	88,364	**150,003**	88,364
Depreciation	20	**121,057**	89,499	**117,775**	86,859
Other costs	9	**286,700**	252,950	**272,922**	239,535
Total expenses		**1,080,748**	750,923	**1,032,527**	718,351
Profit before impairment loss		**1,396,694**	819,288	**1,303,725**	734,503
Net impairment loss on financial assets		**(31,022)**	(97,138)	**(35,812)**	(97,774)
Profit before income tax expense		**1,365,672**	722,150	**1,267,913**	636,729
Income tax expense	10	**(258,333)**	(111,858)	**(228,368)**	(85,860)
NET PROFIT FOR THE YEAR		**1,107,339**	610,292	**1,039,545**	550,869
ATTRIBUTABLE TO:					
Equity holders of the bank		**1,107,339**	610,292	**1,039,545**	550,869
Minority interest		-	-	-	-
Basic and diluted earnings per share (tambala)	11	**52**	31		

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

The financial statements are to be read in conjunction with the notes from pages 22 to 48.

The auditor's report is on page 16

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31st December 2006

In thousands of Malawi Kwacha

GROUP

	Share Capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1st January 2005	100,000	-	57,911	59,964	47,193	767,376	1,032,444
Surplus on property revaluation	-	-	85,086	-	-	-	85,086
Deferred tax on property revaluation	-	-	(1,585)	-	-	-	(1,585)
Change in deferred tax on opening revaluation	-	-	(759)	-	-	-	(759)
Income and expense recognised directly in equity	-	-	**82,742**	-	-	-	**82,742**
Profit for the year	-	-	-	-	-	610,292	610,292
Total recognised income and expense	-	-	**82,742**	-	-	**610,292**	**693,034**
Transfer to investment revaluation reserve	-	-	-	142,316	-	(142,316)	-
Deferred tax on investment revaluation surplus	-	-	-	24,106	-	(24,106)	-
Transfer to loan loss reserve	-	-	-	-	19,413	(19,413)	-
Dividends paid	-	-	-	-	-	(200,000)	(200,000)
Balance at 31st December 2005	**100,000**	-	**140,653**	**226,386**	**66,606**	**991,833**	**1,525,478**
Balance at 1st January 2006	100,000	-	140,653	226,386	66,606	991,833	1,525,478
Change in deferred tax on opening revaluation	-	-	7,501	-	-	-	7,501
Income and expense recognised directly in equity	-	-	**7,501**	-	-	-	**7,501**
Profit for the year	-	-	-	-	-	1,107,339	1,107,339
Total recognised income and expense	-	-	**7,501**	-	-	**1,107,339**	**1,114,840**
Transfer to investment revaluation reserve	-	-	-	488,057	-	(488,057)	-
Deferred tax on investment revaluation surplus	-	-	-	(3,084)	-	3,084	-
Dividends paid	-	-	-	-	-	(306,702)	(306,702)
Issue of Share capital	11,250	514,035	-	-	-	-	525,285
Balance at 31st December 2006	**111,250**	**514,035**	**148,154**	**711,359**	**66,606**	**1,307,497**	**2,858,901**

The financial statements are to be read in conjunction with the notes from pages 22 to 48

The auditor's report is on page 16.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31st December 2006

In thousands of Malawi Kwacha

COMPANY

	Share Capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Loan loss reserve	Retained earnings	Total
Balance at 1st January 2005	100,000		57,911	59,964	45,034	699,360	962,269
Surplus on property revaluation	-		69,216	-	-		69,216
Deferred tax on property revaluation	-	-	1,271	-	-	-	1,271
Income and expense recognised directly in equity	**-**	**-**	**70,487**	**-**	**-**	**-**	**70,487**
Profit for the year	-	-	-	-	-	550,869	550,869
Total recognised income and expense	**-**	**-**	**70,487**	**-**	**-**	**550,869**	**621,356**
Transfer to investment revaluation	-	-	-	142,316	-	(142,316)	-
Deferred tax on investment revaluation surplus	-	-	-	24,106	-	(24,106)	-
Transfer to loan loss reserve	-	-	-	-	12,000	(12,000)	-
Dividends paid	-	-	-	-	-	(200,000)	(200,000)
Balance at 31st December 2005	**100,000**	**-**	**128,398**	**226,386**	**57,034**	**871,807**	**1,383,625**
Balance at 1st January 2006	100,000	-	128,398	226,386	57,034	871,807	1,383,625
Change in deferred tax on opening revaluation	-	-	5,849	-	-	-	5,849
Income and expense recognised directly in equity	**-**	**-**	**5,849**	**-**	**-**	**-**	**5,849**
Profit for the year	-	-	-	-	-	1,039,545	1,039,545
Total recognised income and expense	**-**	**-**	**5,849**	**-**	**-**	**1,039,545**	**1,045,394**
Transfer to investment revaluation	-	-	-	488,057	-	(488,057)	-
Deferred tax on investment revaluation surplus	-	-	-	(3,084)	-	3,084	-
Dividends paid	-	-	-	-	-	(306,702)	(306,702)
Issue of Share Capital	11,250	514,035	-	-	-	-	525,285
Balance at 31st December 2006	**111,250**	**514,035**	**134,247**	**711,359**	**57,034**	**1,119,677**	**2,647,602**

The financial statements are to be read in conjunction with the notes from pages 22 to 48

The auditor's report is on page 16.

CONSOLIDATED BALANCE SHEETS

At 31st December 2006

In thousands of Malawi Kwacha

	Note	GROUP 2006	GROUP 2005	COMPANY 2006	COMPANY 2005
ASSETS					
Cash and cash equivalents	13	**3,657,421**	3,261,027	**3,657,374**	3,260,592
Money market investments	14	**2,734,689**	1,362,868	**2,139,266**	895,785
Loans and advances to customers	15	**4,326,337**	2,553,142	**4,341,884**	2,520,280
Finance lease receivables	16	**812,780**	524,020	-	-
Other assets	17	**102,304**	94,011	**101,601**	91,662
Investments in listed companies	18	**770,440**	392,441	**770,440**	392,441
Investment in subsidiary	19	-	-	**65,911**	65,911
Property, plant and equipment	20	**874,446**	845,206	**833,080**	813,550
Total assets		**13,278,417**	9,032,715	**11,909,556**	8,040,221
LIABILITIES AND EQUITY					
Liabilities					
Current and savings accounts		**3,807,377**	3,950,141	**4,011,582**	3,956,945
Foreign currency accounts		**2,355,021**	1,006,120	**2,355,021**	1,006,120
Term deposit accounts		**3,023,643**	1,866,074	**1,206,522**	1,052,360
Total liabilities to customers	21	9,186,041	6,822,335	**7,573,125**	6,015,425
Income tax payable		**93,388**	83,489	**84,655**	66,029
Deposits from other banks		**83,837**	128,000	**574,837**	128,000
Other payables	22	**971,485**	429,351	**960,420**	416,157
Provisions	23	**44,656**	-	**38,874**	-
Deferred tax liabilities	24	**40,109**	44,062	**30,043**	30,985
Total liabilities		**10,419,516**	7,507,237	**9,261,954**	6,656,596
Equity					
Issued capital	25	**111,250**	100,000	**111,250**	100,000
Share Premium	25	**514,035**	-	**514,035**	-
Property revaluation reserve	26	**148,154**	140,653	**134,247**	128,398
Investment revaluation reserve	27	**711,359**	226,386	**711,359**	226,386
Loan loss reserve	28	**66,606**	66,606	**57,034**	57,034
Retained earnings		**1,307,497**	991,833	**1,119,677**	871,807
Total equity		**2,858,901**	1,525,478	**2,647,602**	1,383,625
Total equity and liabilities		**13,278,417**	9,032,715	**11,909,556**	8,040,221

The financial statements of the company were approved for issue by the Board of Directors on 24th February 2007 and were signed on its behalf by:

K.N. Chaturvedi Director

N.G. Anadkat Director

The financial statements are to be read in conjunction with the notes from pages 22 to 48.

The auditor's report is on page 16.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31st December 2006
In thousands of Malawi Kwacha

	Note	GROUP 2006	GROUP 2005	COMPANY 2006	COMPANY 2005
CASH FLOWS FROM OPERATING ACTIVITIES					
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)
Net cash generated from/(used in) operating activities		**1,488,978**	92,310	**1,349,099**	(50,053)
CASH FLOWS FROM INVESTING ACTIVITIES					
Net purchases/maturities of money market investments		**(1,371,821)**	193,352	**(1,243,481)**	338,013
Proceeds from sale of 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	20	**(156,694)**	(204,096)	**(140,913)**	(202,894)
Dividend received		**57,595**	36,311	**57,595**	36,311
Purchase of shares in listed companies	18	**(27,928)**	(21,992)	**(27,928)**	(21,992)
Net cash generated from (used in) investing activities		**(1,311,167)**	169,652	**(1,170,900)**	312,229
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds of issue of shares		**525,285**	-	**525,285**	-
Dividend paid		**(306,702)**	(200,000)	**(306,702)**	(200,000)
Net cash generated from (used in) 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 beginning of the period		**3,261,027**	3,199,065	**3,260,592**	3,198,416
Cash and cash equivalents at end of the period	13	**3,657,421**	3,261,027	**3,657,374**	3,260,592

The financial statements are to be read in conjunction with the notes from pages 22 to 48.

The auditor's report is on page 16

For the year ended 31st December 2006

1. Reporting Entity

First Merchant Bank Limited is a public limited company incorporated in Malawi and is listed on the Malawi Stock Exchange. The consolidated financial statements for the year ended 31st December 2006 comprise the bank and its subsidiary, The Leasing and Finance Company of Malawi Limited, (together referred to as the "Group")

2. Basis of preparation

(i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

In the current year, the Group has adopted all of the new and revised IFRSs and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has not resulted in material changes to the group's accounting policies.

(ii) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the following:

- land and buildings which are revalued;
- financial instruments at fair value through profit or loss are measured at fair value ;
- available-for-sale financial assets are measured at fair value;

(iii) Functional and presentation currency

These consolidated financial statements are presented in Malawi Kwacha, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Malawi Kwacha, has been rounded to the nearest thousand.

(iv) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes.

- Note 23 - provisions
- Note 18 - valuation of financial instruments

For the year ended 31st December 2006

3. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31st December 2006, and have not been applied in preparing these consolidated financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

- IFRIC 7, 8 and 9 will become mandatory for the group's 2007 financial statements. Because IFRIC 7, 8 and 9 are not applicable for the group they will not have a material impact on the consolidated financial statements.

- IFRIC 10 interim Financial Reporting and impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1st January 2004). The adoption of IFRIC 10 is not expected to have a material impact on the consolidated financial statements.

4. Significant accounting policies

The accounting policies have been consistently applied by the group and are consistent with those used in the previous year.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary, The Leasing and Finance Company of Malawi Limited (together referred to as 'the Group').

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Funds management

The Group manages and administers assets held in investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

For the year ended 31st December 2006

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Malawi Kwacha at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Malawi Kwacha at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Malawi Kwacha at foreign exchange rates ruling at the dates the fair values were determined.

(c) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group also derecognises certain assets when they are deemed to be uncollectible.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions within the Group's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method applied to the difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

The value produced by a model or other valuation technique is adjusted to allow for a number of

(c) **Financial assets and liabilities (cont'd.)**

participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

(vi) Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows from the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment (if applicable) the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For the year ended 31st December 2006

(c) Financial assets and liabilities (cont'd.)

(viii)Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Investments in quoted companies (see note 18) have been designated at fair value through profit or loss.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortised cost in the balance sheet.

(e) Other receivables

Other receivables are subsequently measured at amortised cost using the effective interest rate method less impairment losses.

Other receivables comprise interbranch accounts, interest receivables, prepayments, staff advances and office assets.

(f) Loans and advances and finance lease receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a borrowing from or a loan to the other party, and the underlying asset is not recognised in the Group's financial statements.

Loans and advances are initially measured at fair value, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (c).

(g) Investments

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available- for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

For the year ended 31st December 2006

(g) Investments (cont'd.)

(ii) Fair value through profit or loss

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (c).

(iii) Available for sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(h) Investment in subsidiary

The investment in subsidiary is recognised at cost in the company accounts.

(i) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost except for freehold property and leasehold improvements which are stated at latest valuation less accumulated depreciation and impairment losses as described in accounting policy (k).

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

All properties are subject to revaluation every two years, with surpluses on revaluation being transferred to a non-distributable fixed asset revaluation reserve. On disposal of the asset, the appropriate portion of the non-distributable reserve is transferred to retained earnings.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iii) Depreciation

Fixed assets are depreciated on the straight-line basis at rates that would reduce book amounts to residual values, estimated at purchase, over the initially anticipated useful lives of the assets. The group re-assesses both the useful lives and the residual values of the assets annually. Any changes in either useful lives or estimated residual values is accounted for prospectively as a change in accounting estimate in accordance with IAS 16 Property, Plant and Equipment (revised).

Depreciation is recognised in profit or loss.

The depreciation rates for the current period are:

• leasehold properties	2.5% (or period of lease if shorter)
• freehold properties	2.5%
• motor vehicles	25%
• furniture, fixtures and fittings, computers, office equipment	20%

Land is not depreciated.

(j) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is four to six years.

(k) Impairment

(i) Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups of assets. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only

For the year ended 31st December 2006

(k) Impairment (cont'd.)

to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss is recognised in profit or loss unless it concerns property carried at revalued amount in which case it is treated as a revaluation decrease. If the impairment loss exceeds the revaluation reserve in respect of the impaired asset, the excess is recognised in profit or loss.

A reversal of an impairment loss is recognised in profit or loss , unless it concerns property carried at revalued amounts, in which case the reversal of the impairment loss is treated as a revaluation increase.

(l) Liabilities to customers and other banks

Liabilities to customers and other banks are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(n) Other payables

Other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(o) Share capital and reserves

(i) Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(ii) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the

For the year ended 31st December 2006

(o) Share capital and reserves (cont'd.)

weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(r) Net interest income

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis
- interest on available-for-sale investment securities on an effective interest rate basis.

Interest income is suspended and hence not included in net interest income when the collection of loans becomes doubtful.

Income from leasing is included in net interest income as further described in accounting policy (s).

For the year ended 31st December 2006

(s) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) The group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

(ii) The group as a lessee

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(t) Fees and commissions income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

(u) Income from investments

Income from investments includes dividend income and increase in fair value of investments.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

Increase in fair value of investments designated at fair value through profit or loss includes all realised and unrealised fair value changes.

(v) Other income

Other income includes rentals receivable and net gains on the sale of assets and is recognised on the accruals basis.

(w) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for all temporary differences. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

For the year ended 31st December 2006

(x) Financial guarantees

Financial guarantee contracts require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

These financial guarantee contracts are classified as insurance contracts as defined in IFRS 4 Insurance Contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the balance sheet date. Where the effect of discounting is material, the liability is discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Group performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liabilities is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all expected contractual cash flows and compares this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made.

For the year ended 31st December 2006
In thousands of Malawi Kwacha

		Group		Company	
5.	**Interest income**	**2006**	2005	**2006**	2005
	Loans and advances	**922,485**	615,932	**910,695**	610,309
	Lease finance	**173,838**	129,837	**-**	-
	Treasury bills	**403,453**	296,920	**306,548**	217,360
	Local registered stocks	**15,075**	18,000	**15,075**	18,000
	Placements with other banks	**97,961**	90,561	**94,850**	88,375
	Total interest income	**1,612,812**	1,151,250	**1,327,168**	934,044
6.	**Income from investments**				
	Profit on sale of shares	**41,646**	-	**41,646**	-
	Dividend income	**67,142**	42,791	**67,142**	42,791
	Increase in fair value of investments	**488,057**	255,709	**488,057**	255,709
		596,845	298,500	596,845	298,500
7.	**Other operating income**				
	Profit on disposal of motor vehicles and equipment	**1,652**	3,287	**587**	15
	Rent receivable	**35,600**	23,686	**35,600**	22,482
	Other	**202**	-	**-**	-
		37,454	26,973	**36,187**	22,497
8.	**Staff and training costs**				
	Salaries and wages	**455,525**	298,886	**443,184**	288,832
	Training costs and other staff costs	**51,902**	12,546	**38,460**	6,681
	Contributions to defined contribution plans	**11,036**	8,678	**10,183**	8,080
		518,463	320,110	**491,827**	303,593

The Group Pension Scheme is First Merchant Bank Limited Group Pension and Life Assurance Scheme covering all employees in the permanent service of the group. The company, its subsidiary and employees contribute to a Deposit Fund established there under.

For the year ended 31st December 2006

In thousands of Malawi Kwacha

9. **Other costs**	Group **2006**	Group 2005	Company **2006**	Company 2005
Other costs include:				
Auditor's remuneration -Current audit fees	**10,200**	5,798	**7,400**	3,500
-Underprovision in previous year	**2,500**	113	**2,500**	-
- Other services and VAT	**4,463**	1,035	**3,959**	613
Director's remuneration	**73,983**	58,886	**73,853**	58,700

10. Income tax expense

Recognised in the income statement

	Group **2006**	Group 2005	Company **2006**	Company 2005
Current tax expense				
Current year at 30% (2005: 30%) based on profits	**238,260**	163,472	**206,936**	134,333
Prior periods under provision	**9,116**	-	**9,116**	-
Dividend tax expense	**7,409**	1,934	**7,409**	1,934
Deferred tax (credit)/expense				
Origination and reversal of temporary differences (Note 24)	**3,548**	(53,548)	**4,907**	(50,407)
Total income tax expense in income statement	**258,333**	111,858	**228,368**	85,860
Reconciliation of effective tax rate				
Profit before income tax	**1,365,672**	722,150	**1,267,913**	636,729
Income tax using the domestic corporation tax rate (30%)	**409,702**	216,645	**380,374**	191,019
Non-deductible expenses	**8,842**	6,994	**8,163**	6,622
Tax exempt income	**(175,933)**	(113,656)	**(175,933)**	(113,656)
Tax incentives	**(803)**	(59)	**(761)**	(59)
Dividend tax	**7,409**	1,934	**7,409**	1,934
Underprovided in prior years	**9,116**	-	**9,116**	-
Total income tax expense in income statement	**258,333**	111,858	**228,3688**	5,860

11. Earnings per share

	Group **2006**	Group 2005
Profit attributable to ordinary shareholders (K'000)	**1,107,339**	610,292
Weighted average number of ordinary shares in issue	**2,120,821,918**	2,000,000,000
Basic earnings per share (tambala)	**52**	31
Diluted earnings per share (tambala)	**52**	31

The weighted average number of ordinary shares in issue in the prior period has been adjusted retrospectively to reflect the effects of the share split on 19th May 2006

The weighted average number of ordinary shares in issue in the current period includes the time weighted effect of the issue of 225 million new ordinary shares on 19th June 2006.

There are no dilutive potential ordinary shares.

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12. Dividends

Last year's final dividend of MK40 million and an interim dividend for this year of MK267 million were declared and paid during the year.

13. Cash and cash equivalents

	Group		Company	
	2006	2005	**2006**	2005
Liquidity Reserve Deposits:				
- Reserve Bank of Malawi	**369,987**	328,079	**369,987**	328,079
- Registered discount houses	**105,000**	187,000	**105,000**	187,000
	474,987	515,079	**474,987**	515,079
Placements with other banks	**124,000**	1,200,000	**124,000**	1,200,000
Balances with banks abroad	**2,544,246**	1,096,777	**2,544,246**	1,096,777
Balances with local banks	**671**	3,181	**671**	2,746
Cheques in course of clearing	**66,770**	80,600	**66,770**	80,600
Cash balances	**446,747**	365,390	**446,700**	365,390
Cash and cash equivalents	**3,657,421**	3,261,027	**3,657,374**	3,260,592

14. Money market investments

Malawi Government treasury bills	2,689,389	1,114,603	2,094,266	647,820
Reserve Bank of Malawi Bills	-	202,965	-	202,965
Local registered stocks	45,300	45,300	45,000	45,000
	2,734,689	1,362,868	2,139,266	895,785

The interest rate on the local registered stock approximates the market interest rate and hence the cost value equals the fair value. All money market investments are maturing between 2 and 12 months except for the local registered stock which matures after 12 months.

15. Loans and advances to customers

	Group		Company	
	2006	2005	**2006**	2005
Loans and advances are receivable as follows:				
Maturing within 3 months	**290,739**	834,945	**296,306**	821,936
Maturing between 3 and 12 months	**4,331,093**	1,767,885	**4,309,545**	1,749,003
Maturing after 12 months	**14,738**	169,820	**46,266**	168,849
	4,636,570	2,772,650	**4,652,117**	2,739,788
Segmental analysis by industry:				
Agriculture	**175,386**	209,358	**175,386**	209,358
Mining	**44,797**	32,979	**44,797**	32,979
Finance and insurance	**86,528**	20,850	**104,819**	31,091
Construction	**435,338**	141,123	**434,675**	130,446
Manufacturing	**1,324,719**	713,572	**1,311,885**	702,450
Wholesale and retail	**2,185,731**	1,350,371	**2,209,573**	1,349,730
Tourism and leisure	**18,781**	20,266	**41,003**	20,246
Transport	**122,449**	29,102	**119,888**	28,649
Others	**242,841**	255,029	**210,091**	234,839
	4,636,570	2,772,650	**4,652,117**	2,739,788

For the year ended 31st December 2006

In thousands of Malawi Kwacha

	Group		Company	
	2006	2005	**2006**	2005
Specific allowances for impairment:				
Balance at 1st January	**(120,278)**	(22,504)	**(120,278)**	(22,504)
Charge for the year	**(78,519)**	(105,296)	**(78,519)**	(105,296)
Write offs	**3,369**	-	**3,369**	-
Recoveries	**42,707**	7,522	**42,707**	7,522
Balance at 31st December	**(152,721)**	(120,278)	**(152,721)**	(120,278)
Interest in suspense:				
Balance at 1st January	**(99,230)**	(48,968)	**(99,230)**	(48,968)
Charge for the year	**(58,282)**	(50,262)	**(58,282)**	(50,262)
Balance at 31st December	**(157,512)**	(99,230)	**(157,512)**	(99,230)
Net loans and advances	**4,326,337**	2,553,142	**4,341,884**	2,520,280

The directors consider that the carrying amount of loans and advances approximates to their fair value.

Information on interest rates is disclosed in note 30.

16. FINANCE LEASES

	Group		Company	
	2006	2005	**2006**	2005
Investment in finance leases, receivable:				
Less than one year	**270,614**	184,607	-	-
Between one and five years	**552,557**	372,859	-	-
More than five years	**11,835**	-	-	-
Balance at 31st December	**835,006**	557,466	-	-
Specific allowances for impairment:				
Balance at 1st January	**(23,418)**	(27,568)	-	-
Charge for the year	**(2,595)**	-	-	-
Write offs	**3,638**	3,514	-	-
Recoveries	**7,385**	636	-	-
Balance at 31st December	**(14,990)**	(23,418)	-	-
Interest in suspense:				
Balance at 1st January	**(10,028)**	(15,776)	-	-
Charge for the year /recoveries	**2,792**	5,748	-	-
Balance at 31st December	**(7,236)**	(10,028)	-	-
Net finance lease receivables	**812,780**	524,020	-	-

The directors consider that the carrying amount of lease receivables approximates to their fair value.

For the year ended 31st December 2006
In thousands of Malawi Kwacha

17. Other assets

	Group 2006	Group 2005	Company 2006	Company 2005
Dividends receivable	**23,587**	14,040	**23,587**	14,040
Items in transit	**424**	19,479	**424**	19,479
Interest receivable	**24,861**	11,172	**24,829**	11,172
Prepayments	**3,987**	5,286	**3,987**	2,969
Stock of stationery	**11,491**	6,413	**11,491**	6,413
Others	**37,954**	37,621	**37,283**	37,589
	102,304	94,011	**101,601**	91,662

18. Investments in listed companies

	Group 2006		Group 2005		Company 2006		Company 2005	
	Valuation	**Cost**	Valuation	Cost	**Valuation**	**Cost**	Valuation	Cost
Investments in listed companies	**770,440**	**147,515**	392,441	164,462	**770,440**	**147,515**	392,441	164,462

All investments in quoted companies are held for trading. The increase in fair value is taken to income statement.

Movement during the year	Group Valuation	Group Cost	Company Valuation	Company Cost
Balance at 1st January 2006	392,441	164,462	392,441	164,462
Shares bought during the year	27,928	27,928	27,928	27,928
Increase in fair value	488,057	-	488,057	-
Shares disposed of during the year	(137,986)	(44,875)	(137,986)	(44,875)
Balance at 31st December 2006	**770,440**	**147,515**	**770,440**	**147,515**

19. Investment in subsidiary (At cost)

	Shareholding 2006	Shareholding 2005	Company 2006	Company 2005
The Leasing and Finance Company of Malawi Limited	**100%**	100%	**65,911**	65,911

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20. Property, plant and equipment

GROUP	Freehold property	Leasehold improvements	Motor vehicles	Equipment fixtures & fittings	Capital work in progress	**Total**
Cost or valuation						
Balance at 1st January 2005	233,668	145,808	30,138	303,627	121,691	**834,932**
Additions	5,146	29,723	14,939	153,200	1,088	**204,096**
Transfers	11,089	90,808	-	16,353	(118,250)	-
Revaluation surplus	36,562	28,375	-	-	-	64,937
Disposals	-	-	(2,752)	(495)	(3,441)	**(6,688)**
Balance at 31st December 2005	**286,465**	**294,714**	**42,325**	**472,685**	**1,088**	**1,097,277**
Cost or valuation						
Balance at 1st January 2006	286,465	294,714	42,325	472,685	1,088	**1,097,277**
Additions		958	19,461	112,448	23,827	**156,694**
Transfers				6,297	(6,297)	-
Disposals	-	-	(4,778)	(24,098)	(3,593)	**(32,469)**
Balance at 31st December 2006	**286,465**	**295,672**	**57,008**	**567,332**	**15,025**	**1,221,502**
Depreciation and impairment losses						
Balance at 1st January 2005	7,113	2,513	18,536	157,791	-	**185,953**
Charge for the year	6,712	3,836	5,685	73,266	-	**89,499**
Elimination on revaluation	(13,825)	(6,324)	-	-	-	**(20,149)**
Realised on disposals	-	-	(2,752)	(480)	-	**(3,232)**
Balance at 31st December 2005	**-**	**25**	**21,469**	**230,577**	**-**	**252,071**
Depreciation and impairment losses						
Balance at 1st January 2006	-	25	21,469	230,577	-	**252,071**
Charge for the year	6,019	7,205	9,941	97,892	-	**121,057**
Realised on disposals	-	-	(3,021)	(23,051)	-	**(26,072)**
Balance at 31st December 2006	**6,019**	**7,230**	**28,389**	**305,418**	**-**	**347,056**
Carrying amount						
At 31st December 2006	**280,446**	**288,442**	**28,619**	**261,914**	**15,025**	**874,446**
At 31st December 2005	286,465	294,689	20,856	242,108	1,088	**845,206**

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20. Property, plant and equipment (Continued)

COMPANY	Freehold property	Leasehold improvements	Motor Vehicles	Equipment Fixture & fittings	Capital work in Progress	**Total**
Cost or valuation						
Balance at 1st January 2005	223,478	145,808	23,463	286,077	121,691	**800,517**
Additions	5,146	29,723	14,939	151,998	1,088	**202,894**
Transfers	11,089	90,808	-	16,353	(118,250)	-
Revaluation surplus	21,482	28,375	-	-	-	**49,857**
Disposals	-	-	-	(39)	(3,441)	**(3,480)**
Balance at 31st December 2005	**261,195**	**294,714**	**38,402**	**454,389**	**1,088**	**1,049,788**
Cost or valuation						
Balance at 1st January 2006	261,195	294,714	38,402	454,389	1,088	1,049,788
Additions	-	958	11,430	104,698	23,827	140,913
Transfers	-	-	-	6,297	(6,297)	-
Disposals	-	-	(1,189)	(12,916)	(3,593)	(17,698)
Balance at 31st December 2006	**261,195**	**295,672**	**48,643**	**552,468**	**15,025**	**1,173,003**
Depreciation and impairment losses						
Balance at 1st January 2005	6,548	2,513	14,762	144,953	-	168,776
Charge for the year	6,487	3,836	4,875	71,661	-	86,859
Elimination on revaluation	(13,035)	(6,324)	-	-	-	(19,359)
Realised on disposals	-	-	-	(38)	-	(38)
Balance at 31st December 2005	**-**	**25**	**19,637**	**216,576**	**-**	**236,238**
Depreciation and impairment losses						
Balance at 1st January 2006	-	25	19,637	216,576	-	236,238
Charge for the year	5,567	7,205	8,994	96,009	-	117,775
Realised on disposal	-	-	(1,188)	(12,902)	-	(14,090)
Balance at 31st December 2006	**5,567**	**7,230**	**27,443**	**299,683**	**-**	**339,923**
Carrying amount						
At 31st December 2006	**255,628**	**288,442**	**21,200**	**252,785**	**15,025**	**833,080**
At 31st December 2005	261,195	294,689	18,765	237,813	1,088	813,550

Registers of land and building giving details as required under the Companies Act 1984, Schedule 3, Section 16 are maintained at the registered office of the company and are open for inspection by members or their duly authorised agents.

The freehold properties and leasehold improvements were last revalued on 31st December 2005 by Don Whayo BSc MRICS MSIM of Knight Frank Malawi Limited, independent valuers, not connected with the group, on a market value basis. The resultant surplus of K84.546 million for the group and K69.217 million for the company were credited to revaluation reserve. The valuations were prepared in accordance with RICS Appraisal and Valuation Standards.

Capital work in progress represents development costs on the bank's various branches.

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	Group		Company	
21. Liabilities to customers	**2006**	2005	**2006**	2005
Interest bearing deposits	**9,186,041**	6,822,335	**7,573,125**	6,015,425
Payable as follows:				
Maturing within 3 months	**8,481,449**	6,657,769	**7,540,266**	5,987,035
Maturing between 3 and 12 months	**704,592**	164,566	**32,859**	28,390
	9,186,041	6,822,335	**7,573,125**	6,015,425

Information on interest rates is disclosed in note 30.

22. Other payables

Interest payable	**12,016**	10,517	**12,016**	10,517
Bankers cheques issued and uncleared	**39,590**	33,871	**37,604**	33,871
Margins on letters of credit and forward contracts	**446,302**	142,735	**446,302**	142,735
Bills payable	**41,310**	24,576	**41,310**	24,576
Creditors	**374,371**	156,276	**374,371**	156,276
Accrued expenses	**54,955**	49,802	**47,962**	37,579
Others	**2,941**	11,574	**855**	10,603
	971,485	429,351	**960,420**	416,157

23. Provisions

Severance allowance	44,656	-	38,874	-

In terms of the current interpretation by the courts of Employment Act, severance allowance is payable in full to employees on termination of employment by mutual agreement, death, retirement, voluntary retirement, retrenchment or redundancy without allowing any set off of employer's pension scheme contributions against severance allowance due.

In preparing the financial statements, the directors have considered the matter and have prepared these financial statements on the basis of the existing interpretation of the law.

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24. Deferred tax liabilities

	Assets		Liabilies		Net	
	2006	2005	2006	2005	2006	2005
(i) **GROUP**						
Property and equipment	(5,549)	(3,586)	-	-	(5,549)	(3,586)
Accrued income	-	-	34,085	15,031	34,085	15,031
Revaluation of property	-	-	20,293	23,547	20,293	23,547
Revaluation on investments	-	-	4,677	1,593	4,677	1,593
Gratuity and severance pay provisions	(13,397)	(1,553)	-	9,030	(13,397)	7,477
Tax (assets)/liabilities	(18,946)	(5,139)	59,055	49,201	40,109	44,062
(ii) **COMPANY**						
Property and equipment	(7,183)	(3,387)	-	-	(7,183)	(3,387)
Accrued income	-	-	26,513	10,785	26,513	10,785
Revaluation of property	-	-	17,698	23,547	17,698	23,547
Revaluation of investments	-	-	4,677	1,593	4,677	1,593
Gratuity and severance pay provisions	(11,662)	(1,553)	-	-	(11,662)	(1,553)
Tax (assets)/liabilities	(18,845)	(4,940)	48,888	35,925	30,043	30,985

Movements in temporary differences during the year

GROUP

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
2006				
Property and equipment	(3,586)	(1,963)	-	(5,549)
Accrued income	19,814	14,271	-	34,085
Revaluation of property	27,794	-	(7,501)	20,293
Revaluation of investments	1,593	3,084	-	4,677
Gratuity and severance pay provisions	(1,553)	(11,844)	-	(13,397)
	44,062	3,548	(7,501)	40,109

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
2005				
Property and equipment	(9,342)	5,756	-	(3,586)
Accrued income	55,427	(35,613)	-	19,814
Revaluation of property	25,450	-	2,344	27,794
Revaluation of investments	25,699	(24,106)	-	1,593
Gratuity and severance pay provisions	(1,968)	415	-	(1,553)
	95,266	(53,548)	2,344	44,062

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24. Deferred tax liabilities (Cont'd)

COMPANY

	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
2006				
Property and equipment	**(3,387)**	**(3,796)**	**-**	**(7,183)**
Accrued income	**10,785**	**15,728**	**-**	**26,513**
Revaluation of property	**23,547**	**-**	**(5,849)**	**17,698**
Revaluation of investments	**1,593**	**3,084**	**-**	**4,677**
Gratuity and severance pay provisions	**(1,553)**	**(10,109)**	**-**	**(11,662)**
Tax (assets)/liabilities	**30,985**	**4,907**	**(5,849)**	**30,043**
2005				
Property and equipment	(8,994)	5,607	-	(3,387)
Accrued income	43,108	(32,323)	-	10,785
Revaluation of property	24,818	-	(1,271)	23,547
Revaluation of investments	25,699	(24,106)	-	1,593
Gratuity and severance pay provisions	(1,968)	415	-	(1,553)
Tax (assets)/liabilities	82,663	(50,407)	(1,271)	30,985

25. Share capital

	2006	2005
Authorised, issued and fully paid 2,225,000,000 (2005:100,000,000) ordinary shares of 5 tambala (2005: 100 tambala) each	**111,250**	100,000

On 15th May 2006 the authorised share capital of the company was restructured by converting each existing authorised and issued ordinary share of 100 tambala each into 20 ordinary shares of 5 tambala each and increasing the authorised capital by the creation of a further 225,000,000 ordinary shares of 5 tambala each.

On 19th June 2006, following an offer to the public, 225,000,000 ordinary shares of 5 tambala each were allotted at a premium of 245 tambala per share.

The resultant premium on issue of MK551,250,000 less offer expenses of 37,215,000 was credited to share premium account.

26. Property revaluation reserve

This represents the increase in fair value of property, plant and equipment and is not available for distribution to the Bank's shareholders.

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27. Investment revaluation reserve

This represents the unrealized increase in fair value of investments at fair value through profit and loss and is not available for distribution to the Bank's shareholders.

28. Loan loss reserve

Arising from the changes to IAS 39: Financial Instruments: Recognition and Measurement, the 1% general provision against risk assets as required by the Reserve Bank of Malawi may no longer be offset against the gross value of the assets.

In order to comply with Reserve Bank of Malawi capital adequacy requirements, a statutory loan loss reserve has been created. The portion of the loan loss reserve which relates to this statutory requirement and is non distributable amounts to K51.4 million as at 31st December 2006. The remaining balance of the loan loss reserve should be regarded as distributable.

29. Contingencies

	Group		Company	
	2006	2005	**2006**	2005
Letters of credit	**917,537**	343,411	**917,537**	343,411
Guarantees and performance bonds	**1,486,536**	1,073,631	**1,486,536**	1,073,631
	2,404,073	1,417,042	**2,404,073**	1,417,042

Contingencies in respect of letters of credit will only crystallise into an asset and a liability when bills are presented in accordance with the terms and conditions of payment of the individual letters of credit.

Contingencies in respect of guarantees and performance bonds issued will only crystallise into an asset and a liability in the event of default by the relevant counterparty.

30. Financial instruments

The group has a formal credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers.

Investments are allowed only in liquid securities and only with well known counterparties.

Exposure to credit, interest rate and currency risk arises in the normal course of the group's business.

Credit risk

The group's credit risk is primarily attributed to its loans and advances and lease receivables. The amounts presented in the balance sheets are net of impairment loss. The specific impairment is estimated by management based on a review of objective evidence indicating an impairment of individual loans and advances and lease assets, taking into account prior experience and the current economic environment.

There is no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers. Throughout the year the group complied with the Reserve Bank of Malawi directive on credit concentration.

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In thousands of Malawi Kwacha

30. Financial instruments (Cont'd)

Foreign exchange risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Malawi Kwacha. The currencies giving rise to this risk are primarily Pounds Sterling, US Dollars, South African Rand and Euro. All the transactions entered into during the year were within the foreign currency exposure and foreign currency lending directives of Reserve Bank of Malawi.

The Group's foreign currency positions expressed in the relevant foreign currency were as follows:

	US Dollar '000	GBP '000	Euro '000	Rand '000	INR '000
31st December 2006					
Assets					
Balances with banks abroad	3,232	59	2,528	4,415	1,022
Loans and advances to customers	10,861	3	-	359	-
Total assets	14,093	62	2,528	4,774	1,022
Liabilities					
Customer deposits	12,365	1,592	1,275	1,506	-
Net assets/(liabilities)	1,728	(1,530)	1,253	3,268	1,022
31st December 2005					
Assets					
Balances with banks abroad	1,688	270	993	1,845	-
Loans and advances to customers	2,965	2	-	2	-
	4,653	272	993	1,847	-
Liabilities					
Customer deposits	4,126	635	1,908	47	-
Net assets/(liabilities)	527	(363)	(915)	1,800	-

Liquidity risk

Liquidity risk arises where the operations of the Bank cannot be funded due to mismatches in the cash flow of assets and liabilities within the balance sheet. The Bank has an Asset and Liability Committee (ALCO) which reviews the potential for these mismatches and takes measures to alter certain maturity profiles where necessary with a view to minimising the impact of such mismatches.

Interest rate risk

Interest rate risk is generally referred to as the exposure of the Bank's net interest income to adverse movements in interest rates as a result of assets and liabilities re-pricing at different times and using different bases. The risk therefore has a direct impact on the Bank's net interest margin. The Bank's ALCO reviews the re-pricing gap periodically and appropriate action is taken to reduce the effect of the risk.

For the year ended 31st December 2006

In thousands of Malawi Kwacha

30. Financial instruments (Cont'd)

Operational risk

This is the risk of losses arising from the operations of the Bank. Losses can occur due to system malfunctioning or failure to follow procedures. Operational risk manifests itself in losses, customer complaints and claims. To mitigate the risk, management continuously reviews the controls and procedures in place. Internal audit department, periodically reviews and determines whether the controls in place are complied with and are commensurate with the risk involved.

Fair values and effective interest rates of financial assets and liabilities

In the opinion of directors, the fair values of the group's financial assets and liabilities approximate the respective carrying amounts, due to the generally short period to contractual repricing or maturity dates. Fair values are based on discounted cashflows using a discount rate based upon the borrowing rate that directors expect would be available to the group at the balance sheet date.

The effective interest rates for the principal financial assets and liabilities at 31st December 2006 and 2005 were in the following ranges:-

	2006	2005
	%	%
Assets:		
Government securities	**18-21**	24-26
Deposits with banking institutions	**0.75-6**	0.5-6
Loans and advances to customers (base rate)	**22.5**	27
Liabilities:		
Customer deposits	**1.5-15**	2.5-13

31. Related party transactions

The Group transacts part of its business with related parties including directors and parties related to or under the control of the directors. Detail of related party transactions of the Group are set out below:

	Directors and their related parties	Employees	FMB Pension Fund	Total
2006				
Advances	**19,448**	**86,232**	**-**	**105,680**
Deposits	**(51,510)**	**(16,804)**	**(11,436)**	**(79,750)**
Net balances	**(32,062)**	**69,428**	**(11,436)**	**25,930**
Interest received	**4,175**	**7,032**	**-**	**11,207**
Fees and commission received	**260**	**64**	**-**	**324**
Interest paid	**(2,128)**	**(215)**	**(2,004)**	**(4,347)**
Operating expenditure	**(2,137)**	**-**	**-**	**(2,137)**
Capital expenditure	**(912)**	**-**	**-**	**(912)**

For the year ended 31st December 2006
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31. Related party transactions

	Directors and their related parties	Employees	FMB Pension Fund	Total
2005				
Advances	5,607	38,996	-	44,603
Deposits	(46,558)	(8,832)	(4,379)	(59,769)
Net balances	(40,951)	30,164	(4,379)	(15,166)
Interest received	600	1,579	-	2,179
Fees and commission received	206	52	-	258
Interest paid	(2,856)	(165)	(985)	(4,006)
Operating expenditure	(5,139)	-	-	(5,139)
Capital expenditure	(6,443)	-	-	(6,443)

Advances to directors and parties related thereto are considered to be adequately secured.

Advances to employees include **MK2,975,000** (2005: MK3,480,000) of interest free advances and **MK73,065,000** (2005: MK35,516,000) of advances which carry interest at one quarter of the prevailing prime lending rate of the Bank. All other transactions with related parties are carried out on an arms length basis on normal commercial terms.

In accordance with the Group's accounting policy, advances to related parties at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged by the Bank on similar loans to non-related parties. As a result an allowance for impairment losses of **MK23,851,000** (2005: MK911,000) has been made against concessionary advances to related parties. No other impairment losses have been recorded against loans to related parties.

Details of related party transactions between the Bank and its wholly owned subsidiary, The Leasing and Finance Company of Malawi Limited, which have been eliminated on consolidation, are as follows:

	2006 MK'000	2005 MK'000
Deposits by LFC with FMB	**4,744**	7,368
Loan syndications	**49,894**	10,241
Fees and commissions received	**1,684**	483
Interest received	**2,289**	3,066
Interest paid	**(32,273)**	(1,947)

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31. Related party transactions

Key management personnel compensation:

	Executive Directors		Non-Executive Directors	
	2006	2005	2006	2005
	MK'000	MK'000	MK'000	MK'000
Salaries	32,535	27,800	-	-
Bonuses	24,500	16,700	-	-
Gratuity payments	6,318	-	-	-
Fees	-	-	10,500	14,200
Total employee benefits	63,353	44,500	10,500	14,200

In addition to their salaries, the Group also provides non-cash benefits to executive directors. The estimated value of total non-cash benefits to directors amounts to MK6.6 million (2005: MK 5.0 million).

Directors' interests

As at 31st December 2006, the total direct and indirect interests of the directors and parties related thereto in the issued share capital of the company were as follows:

R. C. Kantaria	1,000,000,000 ordinary shares
H. N. and N. G. Anadkat	1,000,000,000 ordinary shares
K. N. Chaturvedi	2,328,000 ordinary shares
J. M. O'Neill	4,000,000 ordinary shares
S. Srinivasan	2,000,000 ordinary shares

32. Capital commitments	Group		Company	
	2006	2005	2006	2005
Capital expenditure				
Authorised and contracted	31,335	22,707	31,335	22,707
Authorised but not contracted	4,250	1,000	-	-
	35,585	23,707	31,335	22,707

33. Statutory requirements

In accordance with Section 27 of the Banking Act 1989, the Reserve Bank of Malawi has established the following requirements as at the balance sheet date:

(i) Liquidity Reserve Requirement

The Bank is required to maintain a liquidity ratio as defined by the Reserve Bank of Malawi, calculated on a weekly average basis, of not less than **20.0%** (2005: 27.5%) of the preceding weeks total deposit liabilities. In the last week of December 2006, the liquidity reserve was **20.0%** (2005: 28%) of total customer deposits.

(ii) Capital Adequacy Requirement

The Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At 31st December 2006, the Bank's available capital was **22.4%** (2005:

For the year ended 31st December 2006

34. Prudential aspects of bank liquidity

The Reserve Bank of Malawi has issued the following guidelines on the management of liquidity:

- Liquidity Ratio 1: Net liquidity (total liquid assets less suspense account in foreign currency) divided by total deposits must be at least 30%.

- Liquidity Ratio 2: Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

As at 31st December 2006, the Bank's Liquidity Ratio 1 was **70.12%** (2005: 89%) and Liquidity Ratio 2 was **68.95%** (2005: 87%).

35. Exchange rates and inflation

The average of the year-end buying and selling rates of the major foreign currencies most affecting the performance of the group are stated below, together with the increase in the National Consumer Price Index, which represent an official measure of inflation.

Exchange rates	2006 MK	2005 MK	2004 MK
Kwacha/GBP	**279.8**	215.9	210.6
Kwacha/Rand	**20.5**	19.8	19.9
Kwacha/US Dollar	**139.3**	123.8	108.9
Kwacha/Euro	**186.6**	148.4	148.8
Inflation rate %	**13.9**	15.4	11.5

At the time of signing these financial statements the exchange rates had moved to:

Kwacha/GBP	**278.7**
Kwacha/Rand	**20.2**
Kwacha/US Dollar	**139.3**
Kwacha/Euro	**186.6**

36. Business segments

The primary business of the Group is retail and corporate banking including the acceptance of current, savings and term deposits and the provision of loans, overdrafts and lease finance. The Group's treasury activities include trading in financial instruments and dealing in foreign currency are considered to be an integral part of the Group's retail and corporate banking operations. Other operations of the Group which include fund management and corporate advisory services are not significant in the context of the Group's operations as a whole.

37. Subsequent events

Subsequent to the Balance Sheet date no events have occurred necessitating adjustments to or disclosures in the financial statements.

31 December 2006

BY CATEGORY	Ordinary Shares		Shareholders	
	Number	%	Number	%
INVESTMENT COMPANIES & TRUSTS	1,003,392,192	45.10%	16	0.73%
RESIDENT COMPANIES	524,158,136	23.56%	63	2.86%
NON-RESIDENT COMPANIES	500,000,000	22.47%	2	0.09%
RESIDENT INDIVIDUALS	134,068,052	6.03%	1,787	81.08%
EMPLOYEES	24,271,000	1.09%	272	12.34%
PENSION FUNDS	13,098,525	0.59%	13	0.59%
INSURANCE COMPANIES	11,833,068	0.53%	7	0.32%
NON RESIDENT INDIVIDUALS	7,003,006	0.31%	20	0.91%
DIRECTORS	4,328,000	0.19%	2	0.09%
NOMINEES AND OTHERS	2,848,021	0.13%	22	0.99%
TOTAL	**2,225,000,000**	**100.00%**	**2,204**	**100.00%**

BY COUNTRIES OF RESIDENCE:

MALAWI	1,718,051,994	77.22%	2,183	99.05%
KENYA	501,105,881	22.52%	3	0.14%
PORTUGAL	2,224,000	0.10%	8	0.37%
UNITED KINGDOM	1,927,139	0.09%	4	0.18%
U.S.A.	605,775	0.03%	3	0.14%
EASTERN EUROPE	556,000	0.02%	1	0.04%
UNITED ARAB EMIRATES	413,738	0.01%	1	0.04%
BOTSWANA	115,473	0.01%	1	0.04%
TOTALS	**2,225,000,000**	**100.00%**	**2,204**	**100.00%**

SHARE HOLDING DISTRIBUTION:

1 - 5000	1,406,120	0.06%	350	15.88%
5001 - 10000	3,111,376	0.14%	356	16.15%
10001 - 25000	7,755,688	0.35%	433	19.65%
25001 - 50000	14,011,540	0.63%	345	15.65%
50001 - 100000	22,911,606	1.03%	271	12.30%
100001 - 200000	32,261,919	1.45%	187	8.48%
200001 - 500000	62,994,898	2.83%	196	8.89%
500000 - 1000000	23,659,761	1.06%	38	1.72%
1000000 and over	2,056,887,092	92.45%	28	1.28%
	2,225,000,000	**100.00%**	**2,204**	**100.00%**

ADDRESSES

HEAD OFFICE

Livingstone Towers, Glyn Jones Road,
Private Bag 122, Blantyre, Malawi
Tel: +265 01 821 955/ 01 821 942/
01 821 943/01 824 840/ 01 824 889
Fax: +265 01 821 978
Telex: 45313 FMBMALAWI
e-mail: **fmb.headoffice@fmbmalawi.com**

MZUZU BRANCH

Old Malawi Savings Bank Building,
Orton Chirwa Avenue, Private Bag 158,
Mzuzu, Malawi
Tel: +265 01 334 214/ 01 334 455/
01 334 817
Fax: 265 01 333 891
Telex: 44615 FMBMALAWI
e-mail: **fmb.mzuzu@fmbmalawi.com**

BLANTYRE BRANCH

First House, Glyn Jones Road,
Private Bag 122, Blantyre, Malawi
Tel: +265 01 824 594/ 01 822 648/
01 822 759/ 01 822 686
Fax: +265 01 822 737
Telex: 43170 FMBMALAWI
e-mail: **fmb.blantyre@fmbmalawi.com**

CAPITAL CITY BRANCH

Chief M'mbelwa Building, Robert Mugabe
Crescent,
P O Box 30890, Capital City, Lilongwe 3,
Malawi
Tel: +265 01 775 081/ 01 775 082/
01 772 606/ 01 772 693
Fax: 265 01 774 490
e-mail: **fmb.capitalcity@fmbmalawi.net**

LIMBE BRANCH

First Merchant Bank Building, Churchill Road,
P.O. Box 51938, Limbe, Malawi
Tel: +265 01 842 324/ 01 842 418
01 842 396/ 01 842 425
Fax: 265 01 842 458
e-mail: **fmb.limbe@fmbmalawi.com**

FIRST CORPORATE SERVICES BRANCH

Livingstone Towers, Glyn Jones Road,
Private Bag 122, Blantyre,
Malawi
Tel: +265 01 822 949/01 823 084
Fax: +265 01 822 218
E-mail: **fcs.blantyre@fmbmalawi.com**

LILONGWE BRANCH

Old Kandodo Building, Kamuzu Procession Road,
Private Bag 85, Lilongwe, Malawi
Tel: +265 01 755 388/ 01 755 851
01 753 570/ 01 753 470/ 01 753 668
Fax: 265 01 753 830
Telex: 43099 FMBMALAWI
e-mail: **fmb.lilongwe@fmbmalawi.com**

ZOMBA BRANCH

Kamuzu Highway,
P.O. Box 314, Zomba,
Malawi
Tel: +265 01 527 268
Fax: +265 01 527 288

E-mail address: **fmb.zomba@fmbmalawi.com**

CHICHIRI MALL AGENCY

Chichiri Shopping Mall, Chipembere Highway,
Private Bag 122, Blantyre, Malawi
Tel: +265 01 6874 281
Fax: +265 01 874 348
E-mail address: fmb.limbe@fmbmalawi.com

CROSSROADS MALL AGENCY

Crossroads Mall, Kamuzu Procession Road,
P. O. Box 85, Lilongwe, Malawi.
Tel: +265 01 752 090
Fax: +265 01 751 660
E-mail address: fmb.lilongwe@fmbmalawi.com

LIMBE AUCTION FLOORS AGENCY

Auction Floors
P.O. Box 51938, Limbe
Tel/Fax: +265 01 840 676
E-mail address: fmb.limbe@fmbmalawi.com

KANENGO AGENCY

Auction Floors, P.O. Box 30890,
Capital City, Lilongwe 3
Tel/Fax: +265 01 710 349
E-mail address: fmb.capitalcity@fmbmalawi.com

DWANGWA AGENCY

P.O. Box 19,
Dwangwa
Tel: +265 01 295 309/ 01 295 300
Fax.+265 01 295 300

INTERNATIONAL BANKING DEPARTMENT

Livingstone Towers, Glyn Jones Road,
Private Bag 122, Blantyre, Malawi
Tel: +265 01 822 949/ 01 823 188/ 01 823 325
Fax: +265 01 821 332
e-mail: fmb.headoffice@fmbmalawi.com

LEASING AND FINANCE COMPANY OF MALAWI

Blantyre
Livingstone Towers, Glyn Jones Road
P.O. Box 1963, Blantyre.
Tel: +265 01 820757/ 01 820233
Fax: +265 01 820275
e- mail: lfc@lfcmalawi.com

Lilongwe
Chief M'mbelwa House,
P.O. Box 31083, Capital City,
Lilongwe
Tel:+265 01 773777/ 01 773567
Fax : +265 01 771567

e-mail: lilolfc@malawi.net


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