



FIRST MERCHANT BANK LIMITED
(Registered Commercial Bank)

RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2009

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

We have audited the consolidated financial statements of First Merchant Bank Limited (the Group) for the year ended 31 December 2009 from which the accompanying summarised financial statements were derived in accordance with International Standards on Auditing. In our report dated 27 February 2010 we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the financial statements from which they were derived. For a better understanding of the Group's financial position and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which these summarised financial statements were derived and our full audit report thereon

KPMG
Public Accountants
Blantyre, Malawi

Review of the year

Although there were many challenges for the Malawi financial sector in 2009, in particular an acute foreign exchange shortage, the FMB group achieved satisfactory results, with a modest 5% growth in profit before tax. This was achieved despite a net loss of almost K200million on our listed equity portfolio compared to K350million profit in the prior year.

Net interest income grew by 37% and non interest income by 26% reflecting improved operating performance in all group companies. Our cost to income ratio has worsened marginally to 54% as a result of an aggressive expansion of our service delivery infrastructure but remains broadly in line with expectations.

Capital Bank Limited, Botswana which commenced operations in 2008 is now a modest contributor to group profits and the main driver of the growth in the group's asset base. The Leasing and Finance Company of Malawi Limited also achieved a very commendable 47% and 60% growth in deposits and profits respectively.

Outlook

We anticipate that the market will remain highly competitive in 2010. This may well place pressure on interest margins and, as the foreign exchange shortage persists, foreign exchange earnings will remain depressed. However, we are confident that our expanded geographical coverage and the planned introduction of a number of innovative products will enable us to grow our business through extending our banking outreach beyond our traditional customer base.

Capital Bank Limited is expected to make a much more significant contribution to group profits in 2010.

Dividend

A first interim dividend of 18 tambala per share was paid in August 2009.

A second interim dividend of 6 tambala per share has been declared by the directors, payable on 31 March 2010 to shareholders whose names appear in the register on 26 March 2010. The register of members will be closed from 29 March 2010 to 31 March 2010 both days inclusive.

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

K. N. Chaturvedi
Managing Director

M. Msisha
Director

	GROUP		COMPANY	
	31/12/09 K'000	31/12/08 K'000	31/12/09 K'000	31/12/08 K'000
<u>STATEMENT OF COMPREHENSIVE INCOME</u>				
Interest income	3,735,034	2,521,594	2,284,767	1,874,678
Interest expense	(949,130)	(497,898)	(200,847)	(230,065)
Net interest income	2,785,904	2,023,696	2,083,920	1,644,613
Income from investments	(194,265)	350,819	(194,265)	350,819
Other income	1,805,826	1,433,129	1,657,225	1,413,748
Total income	4,397,465	3,807,644	3,546,880	3,409,180
Operating expenses	(2,387,837)	(1,856,268)	(1,951,808)	(1,599,792)
Profit before impairment losses	2,009,628	1,951,376	1,595,072	1,809,388
Net impairment loss on financial assets	(15,561)	(55,831)	5,149	(28,674)
Profit before income tax expense	1,994,067	1,895,545	1,600,221	1,780,714
Income tax expense	(675,728)	(503,761)	(555,843)	(461,579)
Net profit for the year	1,318,339	1,391,784	1,044,378	1,319,135
Other comprehensive income for the year	318,311	(133,673)	206,093	6,238
Total comprehensive income for the year	1,636,650	1,258,111	1,250,471	1,325,373
Net profit for the year	1,318,339	1,391,784	1,044,378	1,319,135
Non Controlling interest	(3,370)	(45,420)	-	-
Profit attributable to shareholders	1,314,969	1,437,204	1,044,378	1,319,135
Basic and diluted earnings per share (Tambala)	56	62	-	-
<u>STATEMENT OF FINANCIAL POSITION</u>				
<u>Equity and Liabilities</u>				
Share capital	116,813	111,250	116,813	111,250
Share Premium	1,565,347	514,035	1,565,347	514,035
Property revaluation reserve	593,959	375,019	555,721	349,628
Investment revaluation reserve	1,127,626	1,400,970	1,127,626	1,400,970
Translation reserve	(26,527)	(75,846)	-	-
Non Distributable reserve	350,000	-	-	-
Loan loss reserve	33,406	27,029	16,898	16,898
Retained profit	2,636,103	3,063,062	2,318,813	2,658,717
Total Equity	6,396,727	5,415,549	5,701,218	5,051,498
Non Controlling interest	536,082	312,262	-	-
Amount due to depositors	27,895,094	17,113,667	11,607,977	11,539,513
Other liabilities	3,842,515	2,060,374	3,662,137	1,824,406
Total equity and liabilities	38,670,418	24,901,822	20,971,332	18,415,417
<u>Assets</u>				
Cash and cash equivalents	5,189,562	5,072,359	2,352,333	4,646,581
Investments	13,531,992	7,111,689	6,197,991	4,285,212
Advances and loans to customers net of impairment losses	14,583,458	8,875,037	10,483,801	8,131,407
Finance leases	2,889,213	2,153,526	-	-
Other assets	404,222	205,131	210,056	143,200
Property plant and equipment	2,071,971	1,484,080	1,727,151	1,209,017
Total assets	38,670,418	24,901,822	20,971,332	18,415,417
<u>STATEMENTS OF CHANGES IN EQUITY</u>				
As at the beginning of the year	5,415,519	4,621,645	5,051,498	4,304,625
Net profit for the year	1,314,969	1,437,204	1,044,378	1,319,135
Dividends paid	(600,751)	(578,500)	(600,751)	(578,500)
Revaluation Surplus	255,237	-	239,143	-
Issue of Share Capital	-	-	-	-
Other movements	11,753	(64,830)	(33,050)	6,238
	6,396,727	5,415,519	5,701,218	5,051,498
<u>STATEMENTS OF CASH FLOWS</u>				
<u>Cash flows from operating activities</u>				
Interest and fees received	5,539,419	3,952,450	3,940,551	3,294,370
Interest paid	(981,259)	(464,097)	(199,836)	(232,506)
Cash paid to suppliers and employees	(1,681,745)	(1,606,081)	(1,584,978)	(1,468,790)
	2,876,415	1,882,272	2,155,737	1,593,074
Increase in net customer balances	5,863,978	(838,271)	(368,321)	(2,668,663)
Cash generated from operations	8,740,393	1,044,001	1,787,416	(1,075,589)
Income taxes paid	(569,646)	(414,460)	(462,700)	(366,134)
Cash flows from operating activities	8,170,747	629,541	1,324,716	(1,441,723)
<u>Cash flows used in investing activities</u>				
Net purchases of money market investments	(6,709,984)	(449,467)	(1,965,445)	1,795,665
Proceeds from sale shares and other investments	27,177	384,684	27,177	384,684
Proceeds from sale of equipment	1,210	2,997	1,210	2,858
Acquisition of subsidiary	-	-	(237,015)	(239,678)
Acquisition of property and equipment	(617,774)	(495,468)	(521,589)	(299,521)
Gross dividend received	68,239	66,245	68,239	66,245
Purchase of shares in listed companies	-	(77,077)	-	(77,077)
Cash flows used in investing activities	(7,231,132)	(568,086)	(2,627,423)	1,633,176
<u>Cash flows to financing activities</u>				
Increase in Loans	220,500	-	220,500	-
Net proceeds of issue of shares	169,129	136,004	-	-
Dividends paid	(600,751)	(578,500)	(600,751)	(578,500)
Net cash (used in)/ from financing activities	(211,122)	(442,496)	(380,251)	(578,500)
Net increase in cash and cash equivalents	728,493	(381,041)	(1,682,958)	(387,047)
Cash and cash equivalents at 1 January	4,401,956	4,782,997	3,976,178	4,363,225
Cash and cash equivalents at 31 December	5,130,449	4,401,956	2,293,220	3,976,178