



# First Merchant Bank Limited

ANNUAL REPORT 1997

# First Merchant Bank Limited

REGISTERED COMMERCIAL BANK

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# Chairman's

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## STATEMENT

It gives me great pleasure to present this second Annual Report of the Bank, including its audited Balance Sheet and Profit and Loss account for the 15 month period from 1st October 1996 to 31st December 1997. The figures given in this Annual Report for the two years 1996 and 1997 are comparable in that each covers a period of 15 months. From this year (1998) onwards, the Bank's annual accounting period will cover 12 months from January to December each year.

The performance of all financial institutions, including that of First Merchant Bank, is significantly affected by the state of the economy. A mixed performance is arguably the best description for the economy in 1997. The year started in encouraging manner. The tight fiscal and monetary policies of the government in the previous two years bore fruit in the form of a rapid fall in inflation and stable interest rates.

Unfortunately, the end of the year proved less encouraging. While the average rate of inflation was 9.2% in 1997 compared to 37.6% in 1996, the latter part of 1997 brought signs of a rise in the annualised rate. This was partly attributable to the depreciation of the Kwacha by about 12% during July 1997, and the general shortage of maize in the country during the last quarter of the year. As for interest rates, the Reserve Bank's Discount Rate, which dropped from 50% to 27% at the end of 1996, remained unchanged throughout the year 1997. Our Bank's Base Rate remained unchanged at 24% until 1st November 1997, when it was reduced to 23.5%. Deposit rates remained relatively stable through the year.

The end of the year saw a seasonal reduction in foreign exchange inflows into the country availability. In addition, during this time, the Reserve Bank of Malawi appears to have made a conscious decision to allow the exchange rate to be determined by market forces. This resulted in the Kwacha depreciating to MK21.04 to 1 US Dollar at the end of the year as compared to MK15.30 to 1 US Dollar at the beginning of year, an effective depreciation of 27% for the year.

This shortage of foreign exchange continued into the early part of 1998 and, unfortunately, is likely to lead to adverse macro-economic trends for at least the first half of 1998, with increases probable in both inflation and interest rates. We trust that the Government will propose strict fiscal measures during the current year to counter these threats and to stabilise the economic situation.

FMB's overall performance during the 15 month period under review was, I am happy to report, more than satisfactory. The pre-tax profit of the Bank for the period rose by 62% from MK8.08 m to MK13.12 m. After-tax profit rose by 40% from MK5.48 m to MK7.70 m.



Mr R.C Kantaria, Chairman

Although the total assets and liabilities for the same period do not at first glance show material change, the core business of the Bank grew significantly. We gained a large number of depositors, particularly low cost current account depositors, and experienced a reduction in institutional deposit levels, which partly reflected seasonal reduction in market liquidity. On the asset side, our lending portfolio grew rapidly from MK27 million in September 1996 to MK140 million, a rise of 418%, and our investment portfolio dropped from MK97 million to MK21 million. The latter change in the asset mix from Treasury bills, where yields declined, to lending, where rates remained stable, helped increase our interest

priority tasks. To these ends, the Bank has upgraded its information technology systems during the year, and embarked on a more formalised human resources development programme. The Bank has also arranged, with welcome assistance from the Malawi College of Accountancy, its own tailor-made training programmes for staff during the period under review. In addition, a number of our officers travelled overseas to attend training programmes and seminars.

In our endeavours to provide better customer service, we have been constrained by space availability in Blantyre and Limbe. I am therefore pleased that we have leased much larger premises, at a superior location in Limbe (Janoo House).

FMB will also become the first bank in Malawi to introduce a Safe Deposit Locker Service. The lockers are already in place in Lilongwe and will be available for us in early 1998. This service will also be provided at our new Limbe premises. Such lockers enable our customers to keep their valuables safe in a secure and confidential location.

I think you will agree that FMB has had a very successful start. Without the support and cooperation of the business community and the general public of Malawi, it would not have been possible for a new bank like FMB to achieve such growth and such profitability within this short period. I convey my sincere thanks to all our clients and assure them that we will continue to endeavour to provide the best possible banking services.

I also place on record my gratitude to Reserve Bank of Malawi for their continued support and guidance in our efforts to place FMB on a strong footing.

Our overseas correspondent banks such as Citibank N.A., American Express Bank Ltd., ABSA Bank Ltd, and Thomas Cook and Sons, as well as financial institutions in Malawi, have all assisted FMB in its development. I take this opportunity to convey my appreciation to them.

I must also thank all our directors for their active participation in Board meetings and for the support and advice that I have received from them throughout this period.

Last but not the least, I cannot forget our professional staff who have played such a significant role in projecting the good image of FMB, not only before FMB's clients, but also to the public in general. I place on record my appreciation for their sincere efforts and hard work and assure them of a bright future in their careers with our bank.

R. C. KANTARIA  
CHAIRMAN

# Corporate

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## GOVERNANCE

The bank has established a code of corporate practices and conduct, which conforms to international guidelines. It has a unitary board of directors comprising executive and non-executive directors. The chairman of the board is a non-executive director. Non-executive directors are chosen for their business acumen and skills relevant to the bank's business. The board of directors meets regularly during the year and is involved in all decisions that are material to the business of the bank.

The directors are responsible for preparing the bank's accounts in a manner that gives a true and fair view of the state of affairs and results of the bank's operations. The external auditors are responsible for carrying out an independent examination of the accounts in accordance with international standards on auditing and reporting their findings.

The annual reports are prepared in accordance with generally accepted accounting practice. They are based on appropriate accounting policies, which have been consistently applied and are supported by reasonable and prudent judgements and estimates.

The bank has an audit committee comprised entirely of non-executive directors. The external auditors have unrestricted access to this committee, whose major responsibility is to maintain and review the bank's internal controls in the light of findings and recommendations of both internal and external auditors and the supervisory authorities, the Reserve Bank of Malawi.

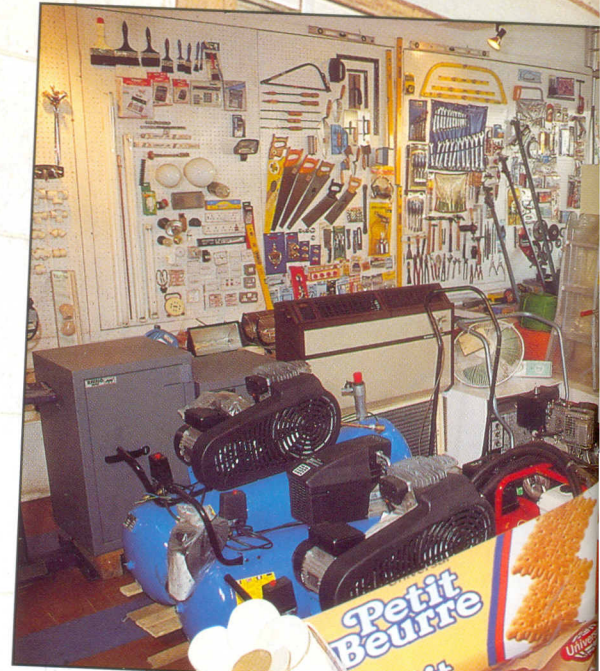
The bank maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the books of accounts of the bank, and to adequately safeguard, verify and maintain accountability for its assets. Nothing has come to the attention of the directors or the external auditors to indicate that any material breakdown in the functioning of the bank's internal controls and systems has occurred during the period under review.

Directors and staff of the bank strive to maintain the highest ethical standards ensuring that business practices are conducted in manner which, in all reasonable circumstances, is beyond reproach.

# First Merchant Bank Ltd

First Merchant Bank Limited has, since its inception in June 1995, built up an impressive client base in trading, manufacturing and service industries throughout Malawi.

Universal Industries is Malawi's leading manufacturer of confectionery products. Galaxy Travels is a major Blantyre travel agency. Deekay Supplies are important distributors of building supplies throughout Malawi.

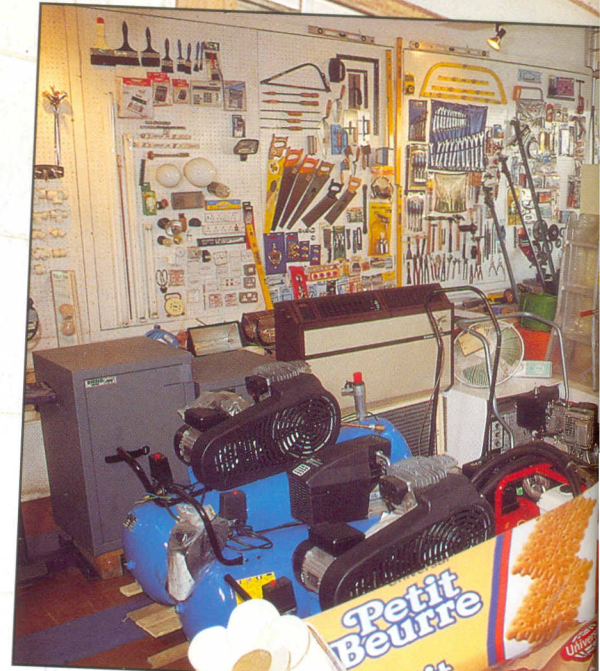
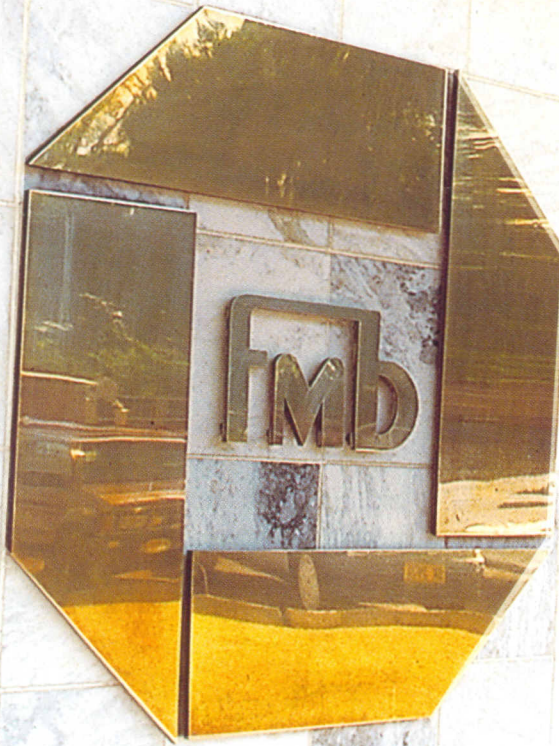




# First Merchant Bank Ltd

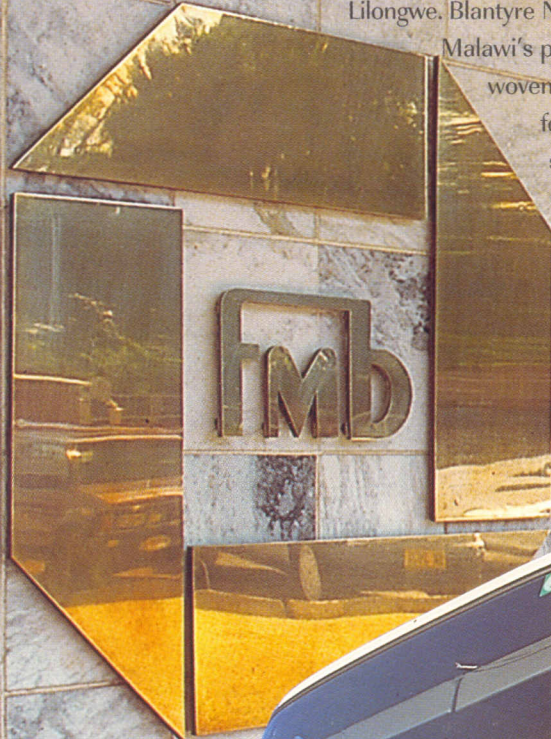
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National Seed Company, a subsidiary of Cargill Inc., has main warehouse facilities in both Blantyre and Lilongwe. Blantyre Netting Company is Malawi's principal supplier of woven polythene sacking for the packaging of sugar and fertiliser. Ninkawa Transport is a successful Blantyre-based international trucking company.



In 1997 First Merchant Bank operated from three main branches, in Blantyre, Limbe and Lilongwe. A heavy emphasis has been placed on the provision of the best possible customer service.



# The Directors

OF THE FIRST MERCHANT BANK

R.C. Kantaria	Chairman
S.V. Nighoskar	Managing Director
N.G. Anadkat	Director
H. N. Anadkat	Director
A. Abdallah	Director
G.H. Bhatt	Director
J.M. O'Neill	Director
(Ms) R. Kanyuka	Director

## Directors'

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REPORT

FOR THE FIFTEEN MONTHS ENDED 31ST DECEMBER 1997

The directors have pleasure in submitting their report together with the annual financial statements for the period ended 31st December 1997.

### **Dividend**

The directors recommend a dividend of K3,500,000 (1996: Nil) representing K0.18 (1996: Nil) per share.

### **Directorate**

In accordance with the Company's Articles of Association, all directors retiring at the forthcoming annual general meeting, but, being eligible for re-appointment, offer themselves for re-election.

### **Directors responsibility for the financial statements**

The Malawi Companies Act 1984 requires the directors to ensure that for each accounting period accounts are prepared which show a true and fair view of the state of affairs of the company and of its results for that period, and which are properly prepared in accordance with the relevant provisions of the Companies Act 1984.

The directors also accept responsibility on behalf of the company for the maintenance of proper accounting records sufficient for this purpose. Accordingly the directors have:-

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated that applicable accounting standards have been followed;
- prepared the accounts on a going concern basis having determined that the company has adequate resources to continue in operational existence for the foreseeable future.

The directors are also responsible for establishing controls to prevent the falsification of entries in the books of account and to facilitate the detection of inaccuracies therein.

### **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 1998 financial statements.

INDEPENDENT

# Auditor's

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## REPORT

TO THE SHAREHOLDERS OF FIRST MERCHANT BANK LIMITED



Public Accountants

Office Address

Able House

Hannover Avenue

Blantyre

Mail Address

P.O. Box 508

Blantyre

Malawi

Telephone 620 744/620 391

Telefax (265) 620 575

### Scope

We have audited the financial statements set out on pages 3 to 11 which have been prepared under the historical cost convention.

### Respective responsibilities of directors and auditors

These financial statements are the responsibility of the directors of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also involves assessing the accounting policies used and the significant estimates made by the directors in the preparation of the accounts, as well as evaluating their overall presentation. We believe that our audit provides a reasonable basis for our opinion.

INDEPENDENT

# Auditor's

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# Income

## STATEMENT

FOR THE FIFTEEN MONTHS ENDED 31ST DECEMBER 1997

	Notes	1997 K'000	15 month period to 30th September 1996 K'000
Profit before movement in provision for doubtful advances	1	17,113	8,898
Provision for doubtful advances	9	<u>(3,986)</u>	<u>(816)</u>
Profit before taxation		13,127	8,082
Taxation	2	<u>(5,425)</u>	<u>(2,605)</u>
Net profit after taxation		7,702	5,477
Dividend proposed		<u>(3,500)</u>	<u>-</u>
Retained profit for the year		4,202	5,477
Retained profit carried forward		<u>5,477</u>	<u>-</u>
Retained profit brought forward		<u>9,679</u>	<u>5,477</u>
Earnings per share (K)	3	<u>0.39</u>	<u>0.27</u>
Dividend per share (K)		<u>0.18</u>	<u>-</u>

The accounting policies on page 15 and the notes on pages 16 to 20 form part of these financial statements.

The auditor's report is on page 11.

# Balance

## SHEET

AT 31ST DECEMBER 1997

	Notes	1997 K'000	30th September 1996 K'000
<b>Liabilities</b>			
<b>Liabilities to customers</b>			
Current accounts		109,387	99,048
Foreign currency accounts		1,568	549
Savings accounts		38,550	23,211
Term deposits		<u>60,571</u>	<u>103,818</u>
Total liabilities to customers	4	210,076	226,626
Cheques in the course of collection		<u>(13,000)</u>	<u>(8,474)</u>
		197,076	218,152
Balances due to other financial institutions		<u>27,000</u>	<u>13,161</u>
		224,076	231,313
Taxation		3,257	1,855
Dividend		3,500	-
Other liabilities	5	<u>20,433</u>	<u>17,702</u>
Total liabilities		<u>251,266</u>	<u>250,870</u>
<b>Capital and Reserves</b>			
Share capital	6	20,000	20,000
Retained profit		<u>9,679</u>	<u>5,477</u>
Total shareholders' funds		<u>29,679</u>	<u>25,477</u>
		280,945	276,347
Liabilities on acceptances, guarantees, indemnities and credits	12	<u>85,281</u>	<u>58,628</u>
		366,226	334,975
<b>Total Liabilities, Capital and Reserves</b>			
<b>Assets</b>			
Cash and funds with Reserve Bank of Malawi	7	90,351	111,397
Balances with banks abroad		11,911	4,304
Balances with banks in Malawi		10	61
Investments	8	21,520	97,478
Advances and loans to customers net of provision for doubtful advances	9	140,282	26,761
Other assets	10	<u>4,096</u>	<u>23,614</u>
		268,170	263,615
Fixed assets	11	<u>12,775</u>	<u>12,732</u>
		280,945	276,347
Customers' liabilities on acceptances, guarantees, indemnities and credits	12	<u>85,281</u>	<u>58,628</u>
		<u>366,226</u>	<u>334,975</u>

These financial statements were approved by the Board of Directors on 18th May 1998 and were signed on its behalf by:

..... Director ..... Director

The accounting policies on page 15 and the notes on pages 16 to 20 form part of these financial statements.

The auditor's report is on page 11.

# Cash Flow

## STATEMENT

FOR THE FIFTEEN MONTHS ENDED 31ST DECEMBER 1997

	1997 K'000	15 month period to 30th September 1996 K'000
<b><u>Cash generated by Operating Activities</u></b>		
Profit before taxation	13,127	8,082
<b>Items not affecting the flow of funds</b>		
Depreciation	3,829	1,859
Less: Disposal adjustment	<u>(114)</u>	<u>-</u>
	3,715	1,859
Loss on disposal of fixed assets	-	19
Increase in general provision	<u>1,084</u>	<u>816</u>
Net cash flow from operating activities	17,926	10,776
<b><u>Movement in Operating Assets and Liabilities</u></b>		
Decrease/(increase) in treasury bills	69,501	(86,770)
Decrease/(increase) in local registered government stocks	6,457	(10,708)
Increase in loans and advances	(114,605)	(27,577)
Decrease/(increase) in other assets	19,518	(32,088)
(Decrease)/increase in deposits	(7,237)	239,787
Increase in other liabilities	<u>2,731</u>	<u>17,702</u>
	(23,635)	100,346
Cash generated by Operations	(5,709)	111,122
Taxation paid	(4,023)	(750)
<b><u>Cash effects of Investing Activities</u></b>		
Purchase of fixed assets	(3,758)	(14,786)
Proceeds from sale of fixed assets	<u>-</u>	<u>176</u>
	(3,758)	(14,610)
<b><u>Cash effects of Financing Activities</u></b>		
Proceeds on issue of shares	<u>-</u>	<u>20,000</u>
(Decrease)/increase in cash and cash equivalents	(13,490)	115,762
Cash and cash equivalents beginning of year	115,762	-
Cash and cash equivalents end of the year	<u>102,272</u>	<u>115,762</u>
<b><u>Additional Statutory Information</u></b>		
Increase in net working capital	<u>4,159</u>	<u>12,745</u>

The accounting policies on page 15 and the notes on pages 16 to 20 form part of these financial statements.

The auditor's report is on page 11.

# Accounting

## POLICIES

FOR THE FIFTEEN MONTHS ENDED 31ST DECEMBER 1997

**(i) Basis of preparation**

The financial statements are prepared in accordance with the historical cost convention.

**(ii) Provision for losses on advances and loans**

Appropriate provisions are made against advances based upon the directors' assessment of the quality of the portfolio. Advances where recovery is considered doubtful are fully provided for and the recognition of interest income is suspended.

In addition, a general provision is also made to cover potential losses which, although not specifically identified, may be present in any portfolio of loans and advances.

**(iii) Depreciation**

Freehold land is not depreciated. Other fixed assets are depreciated on a straight line basis at rates estimated to reduce them to their anticipated residual values over their expected useful lives as follows:

Freehold buildings	2.5%
Motor vehicles, furniture, fittings, equipment and leasehold improvements	20%

**(iv) Foreign currencies**

Foreign currency assets and liabilities are translated into Malawi Kwacha at the rates of exchange ruling at the balance sheet date. Exchange profits and losses are dealt with in the income statement.

**(v) Investments**

Investment of the Bank in securities redeemable at fixed dates are stated in the financial statements at cost.

**(vi) Deferred taxation**

Provision for deferred taxation has been made using the liability

method for all timing differences except those which, in the opinion of directors, are not expected to reverse in the foreseeable future.

No provision has been made for deferred taxation because, in the opinion of directors, all timing differences are not expected to reverse in the foreseeable future.

**(vii) Earnings per share**

Earnings per share is calculated by dividing the profit after tax for the period by the weighted number of ordinary shares in issue throughout the year.

# Notes on the

## FINANCIAL STATEMENTS

FOR THE FIFTEEN MONTHS ENDED 31ST DECEMBER 1997

	1997	15 months period to 30th September 1996
	K'000	K'000
<b><u>1. Profit before taxation</u></b>		
The profit before movement in provisions for doubtful advances is arrived at in the following manner:		
<b>Income</b>		
Interest receivable		
- Customer loans and advances	35,301	10,734
- Treasury bills	14,345	57,521
- Financial Institutions	644	1,252
- Local Registered Government Stocks	<u>2,918</u>	<u>366</u>
	53,208	69,873
Less: Interest payable on		
- customer accounts and deposits	(20,836)	(34,823)
- financial institutions	<u>(3,969)</u>	<u>(6,145)</u>
Net interest income	28,403	28,905
Revenue from fees	8,101	1,722
Profit on foreign exchange transactions	10,389	2,022
Sundry income	<u>1,581</u>	<u>551</u>
Total income	<u>48,474</u>	<u>33,200</u>
<b>Expenditure</b>		
Staff costs including pension fund contributions	10,217	6,097
Recurrent expenditure on premises and equipment	3,313	4,349
Depreciation	3,829	1,859
Other costs	12,670	11,878
Auditors' remuneration	200	100
Cash shortages and provision for losses		1,132
-		
Loss on disposal of fixed assets	<u>-</u>	<u>19</u>
Total expenditure	<u>31,361</u>	<u>24,302</u>
Total profit before movement in provisions for doubtful advances	<u>17,113</u>	<u>8,898</u>



**2. Taxation**

	<b>1997</b>	<b>1996</b>
	<b>K'000</b>	<b>K'000</b>
Company tax at 38% (1996:38%) based on the results for the period	8,015	2,605
Prior year overprovision	<u>(2,590)</u>	<u>-</u>
	<u>5,425</u>	<u>2,605</u>

**Deferred taxation**

	<b>1997</b>		<b>1996</b>	
	<b>Provided</b>	<b>Unprovided</b>	<b>Provided</b>	<b>Unprovided</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Differences between capital allowances and accumulated depreciation	<u>-</u>	<u>395</u>	<u>-</u>	<u>470</u>

**3. Earnings per share**

	<b>1997</b>	<b>1996</b>
	<b>K'000</b>	<b>K'000</b>
Profit after tax for the period (MK'000)	7,702	5,477
Ordinary shares in issue throughout the period (000)	20,000	20,000
Earnings per share (K)	<u>0.39</u>	<u>0.27</u>

**4. Liabilities to customers**

	<b>1997</b>	<b>1996</b>
	<b>K'000</b>	<b>K'000</b>
Interest bearing deposits	<u>210,076</u>	<u>226,626</u>
Liabilities to customers are payable as follows:		
Within three months	183,979	205,642
Between four months and one year	<u>26,097</u>	<u>20,984</u>
	<u>210,076</u>	<u>226,626</u>

**5. Other liabilities**

	<b>1997</b>	<b>1996</b>
	<b>K'000</b>	<b>K'000</b>
Interest payable	1,142	3,929
Bankers cheques issued and uncleared	11,841	7,083
Credit clearance vouchers	1,551	1,033
Sundry creditors	<u>5,899</u>	<u>5,657</u>
	<u>20,433</u>	<u>17,702</u>

**6. Share capital**

	<b>1997</b>	<b>1996</b>
	<b>K'000</b>	<b>K'000</b>
Authorised, issued and fully paid:		
20 million ordinary shares of K1.00 each	<u>20,000</u>	<u>20,000</u>

NOTES ON THE FINANCIAL STATEMENTS CONTINUED  
FOR THE FIFTEEN MONTHS ENDED 31ST DECEMBER 1997

<b>8. Investments</b>	<b>1997</b>	<b>1996</b>
	<b>K'000</b>	<b>K'000</b>
<b>a) Treasury Bills</b>		
Nominal value	16,991	111,558
Rebate/(unearned interest)	<u>278</u>	<u>(5,328)</u>
	17,269	106,230
Accrued interest	<u>-</u>	<u>(19,460)</u>
Cost	<u>17,269</u>	<u>86,770</u>
Accrued interest has been included under other assets.		
 <b>b) Local Registered Government Stock</b>		
Nominal value	4,429	10,488
Discount	<u>(731)</u>	<u>(497)</u>
	3,698	9,991
Premium	<u>553</u>	<u>717</u>
Book value	<u>4,251</u>	<u>10,708</u>
 Total	 <u>21,520</u>	 <u>97,478</u>
 <b>9. Advances and loans to customers</b>	 <b>1997</b>	 <b>1996</b>
<b>Net of provision for doubtful advances</b>	<b>K'000</b>	<b>K'000</b>
Gross advances and loans	148,909	28,357
Specific provisions	<u>(3,448)</u>	<u>(546)</u>
	145,461	27,811
General provision	<u>(1,354)</u>	<u>(270)</u>
	144,107	27,541
Interest in suspense	<u>(3,825)</u>	<u>(780)</u>
	<u>140,282</u>	<u>26,761</u>
These advances and loans are due to mature as follows:		
Within three months	75,462	25,643
Between four months and one year	<u>64,820</u>	<u>1,118</u>
	<u>140,282</u>	<u>26,761</u>
Movement on provisions:		
At the beginning of the period	816	-
Charge against profits for the period	<u>3,986</u>	<u>816</u>
At the end of the period	<u>4,802</u>	<u>816</u>

## 10. Other assets

	1997	1996
	K'000	K'000
Income receivable	949	20,527
Prepayments	1,747	2,971
Sundry debtors	<u>1,400</u>	<u>116</u>
	<u>4,096</u>	<u>23,614</u>

## 11. Fixed assets

	Freehold property	Leasehold improvements	Motor vehicles	Furniture, fittings and equipment	Total
Cost	K'000	K'000	K'000	K'000	K'000
At 30th September 1996	1,338	1,155	10,513	14,567	
Additions	<u>506</u>	<u>83</u>	<u>700</u>	<u>2,469</u>	<u>3,758</u>
At 31st December 1997	<u>2,067</u>	<u>1,421</u>	<u>1,855</u>	<u>12,982</u>	<u>18,325</u>
<b>Depreciation</b>					
At 30th September 1996	42	202	186	1,405	1,835
Charge for the period	49	391	363	3,026	3,829
Disposal/adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(114)</u>	<u>(114)</u>
At 31st December 1997	<u>91</u>	<u>593</u>	<u>549</u>	<u>4,317</u>	<u>5,550</u>
<b>Net book value</b>					
At 31st December 1997	<u>1,976</u>	<u>828</u>	<u>1,306</u>	<u>8,665</u>	<u>12,775</u>
At 30th September 1996	<u>1,519</u>	<u>1,136</u>	<u>969</u>	<u>9,108</u>	<u>12,732</u>

## 12. Contingent assets/liabilities

	1997	1996
	K'000	K'000
Letters of Credit	4,416	14,656
Guarantees	3,090	4,765
Travellers cheques	14,537	1,762
Foreign bills lodged	<u>63,238</u>	<u>37,445</u>
	<u>85,281</u>	<u>58,628</u>

## 13. Related party transactions

The bank transacts part of its business on an arms length basis with companies affiliated to the shareholders.

## 14. 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:

- **Liquidity requirement:** the Bank is required to maintain a liquidity reserve with Reserve Bank of Malawi, equivalent to 35% of total customer deposits. At 31st December 1997 the liquidity reserve was 43% (1996: 47%) of total customer deposits.

- **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 1997 the Bank's available capital was 16.58% (1996: 23%) of its risk bearing assets and contingent liabilities.



## NOTES ON THE FINANCIAL STATEMENTS CONTINUED FOR THE FIFTEEN MONTHS ENDED 31ST DECEMBER 1997

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### 15. 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 11 - 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 1997, the Bank's liquidity Ratio 1 was 52% (1996: 89%) and Liquidity Ratio 11 was 55% (1996: 94%).

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### 16. Incorporation

The Bank is a private limited company incorporated in Malawi under the Malawi Companies Act 1984 and is registered as a Commercial Bank under the Banking Act 1989.

The Bank was incorporated on 13th November 1994 and commenced banking operations on 25 June 1995.

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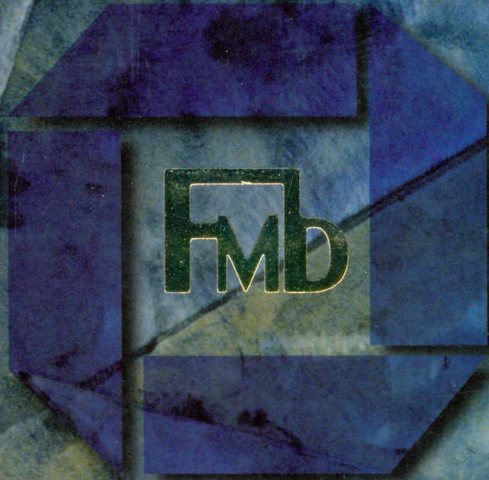
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