



First Merchant Bank Limited

ANNUAL REPORT 1998

Chairman's Statement

It gives me great pleasure to present this report for the third accounting period of the Bank, including its audited Balance Sheet and Profit and Loss Account for the fiscal year ended 31st December, 1998.



Mr R.C. Kantaria
Chairman of First
Merchant Bank

1998 was a difficult year for the Malawi economy with a slow down in GDP growth to an estimated 3.1% per annum from the 1997 level of 5.1%.

During the year, Money Supply (M2) increased by a dramatic 55%. This increase in the money supply introduced considerable inflationary pressure. The rate of inflation began to increase during the third quarter of 1997, and an upward trend continued throughout the subsequent year. Compared to 1997, with an inflation rate of 18.0%, the year on year inflation grew to 53% as at the end of year 1998.



Mr Alexander Chigwale, Senior Credit Officer at the Bank's Head Office



Mrs Anna Mafuleka, Customer Service Manager at the Blantyre branch



The FMB main Lilongwe branch (left) is well positioned in the city's trading hub, in the Nico Centre

The spacious new Limbe premises (below)



In response to inflationary pressures, the Reserve Bank of Malawi (RBM) increased the discount rate from 23% at the beginning of the year to 43% at the end of 1998. Our Bank's base rate moved in line with the industry and went up from 23.5% at the beginning of the year to 44% at the end of 1998. Treasury Bill weighted average yields also increased to over 50%. In real terms, however, interest rates remained negative.

A seasonal reduction in foreign exchange inflows into the country created a shortage of foreign exchange in the market during the first half of 1998. In August 1998 the Reserve Bank of Malawi adjusted their Kwacha / US Dollar reference rate in line with market conditions, resulting in a significant depreciation in the value of the Kwacha. Subsequently, the value of the Malawi Kwacha continued to decline. Over the course of the year, the Malawi Kwacha / US Dollar exchange rate depreciated from 17.31 to 45.25.

The overall performance of our Bank for the year 1998 was, I am happy to report, more than satisfactory. The pre-tax profit for the Bank for the 12 months period ended 31st December, 1998 went up to MK40.11m compared to the previous 15 months pre-tax profit figure of MK13.13m. The net profit figures after tax for the same two periods were MK24.85m and MK7.70m respectively.

I am happy to put on record that, in order to strengthen the Bank's capital base, and as a measure of the shareholders' continued commitment to FMB, the Board of Directors of the Bank has decided not to declare any dividend for the year 1998. As a direct result the capital to risk weighted assets ratio of the Bank improved to a healthy 21% as at the end of the year from 16.58% at the year end 1997. The RBM requirement is 10%.

I am also pleased to announce that the shareholders of the Bank have invested additional capital of MK10m at the beginning of 1999 which will further strengthen the Bank's capital base.

The Bank continues to gain Business Market Share. On the liability side of the Balance Sheet, interest bearing deposits at the end of year 1998 crossed the MK300m mark and stood at MK309m as compared to the previous year deposits level of MK210m - a growth of 47%. On the asset side, the total assets of the Bank during the year 1998 rose from MK281m to MK407m, a growth of 45% over the previous year. While

the loans and advances portfolio remained more or less unchanged at MK141m, there was a significant growth in the investment portfolio. This showed an increase of MK153m from MK21m to MK174m as at the end of the year 1998.

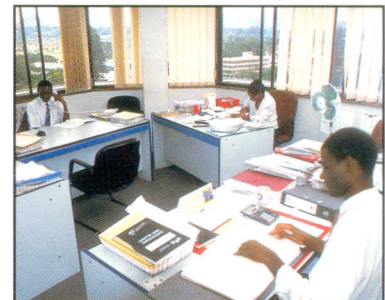
The Bank actively participated in the inter-bank money market as well as the secondary market for Treasury Bills. The establishment of a discount house in Malawi has offered money market participants an additional avenue for market activity and



Mr Andrew Mwawa of the Foreign Exchange Department has 31 years banking experience



Mrs Evelyn Malongo in the locker room at the Limbe Branch. This is a facility unique to FMB in Malawi



The Finance Department at the FMB Head Office in Blantyre



is an important step towards the broadening and deepening of the money market. FMB has taken full advantage of this development.

During the year under review, the Bank also participated in underwriting a part of the public issues of Commercial Bank of Malawi and Press Corporation and thus made a small beginning in its merchant banking activities. The Bank has relocated its Limbe Branch to safer and more spacious premises at Janoo House where it is able to provide better service to its Limbe customers.

The Bank has embarked upon a complete upgrade of its information technology systems and expects to be fully year 2000 compliant by the end of June 1999. During 1998, the Bank entered into negotiations leading to the purchase in early 1999 of FMB's new site at the corner of Glyn Jones Road / Livingstone Avenue, which will house our Blantyre Branch and Head Office. Quite apart from improving FMB's public profile, the move of the Blantyre Branch to our own spacious premises will ease the congestion faced at present and will result in further improvement in our customer service.



Mrs Indra Sharma Surtee is Personnel and Administration manager at the Head Office

Various important policy decisions were taken during the year in the area of the Bank's personnel management, staff welfare and training - in practical demonstration of the Bank's strong belief in human resources development and staff welfare. An experienced banker was appointed as full time training officer to conduct in-house training programmes, particularly for junior staff. Further, the Bank has nominated staff for various training programmes and seminars and certain officers were sent overseas to participate in seminars and training programmes conducted by well-known banks and training institutes.



Mr George Pemba, FMB's Training Officer clarifies a point during an induction course

There can be no doubt that FMB owes its success to the support confidence and co-operation of the business community and the general public of Malawi. I convey my sincere thanks to all of them and assure them that we will continue in our endeavour to provide efficient, friendly and value based services.

I would also like to place on record my sincere thanks and gratitude to the Reserve Bank of Malawi for their continued support and guidance in our efforts to place the Bank on a solid foundation.



Ms Mary Nkando, the bank's first management trainee, is now an executive at the Blantyre branch

As the list of our overseas correspondents has expanded during the year, it is not possible to mention their names individually but I would like to thank each one of them for their support to us. In the same way, I also appreciate the excellent cooperation received from the local banks and other financial institutions.

I would also convey my sincere thanks to all our directors for their professional



Mr Virendra Raina, (left) incoming Chief Executive in discussion with his predecessor, Mr Suresh Nighoskar and the Head of Internal Audit/Inspection, Mr Friday Chalamba

approach and their active participation in Board meetings, as well as for their support, advice and guidance, which has enabled our Bank to build a solid reputation in the financial sector.

I appreciate the management support provided by Prime Bank Ltd., who are one of our shareholders and with whom the Bank has a management agreement to provide suitable support on technical matters. The performance of the Bank is, to a large measure, due to the timely management support provided by them.

I also thank all our staff members for playing a significant role in projecting a good image of the Bank and providing efficient and friendly service to our clients. My statement will not be complete without my compliments to the top management of the Bank, who have successfully balanced the expectations of FMB's major constituents - shareholders, customers, employees and the environment - keeping in mind the basic tenets of corporate governance and transparency. However, there is no scope for complacency as the main challenge for FMB will be to meet the expectations of those new customers who are not bound by loyalty, and have sufficient market choices and alternatives.

R.C. KANTARIA
CHAIRMAN

MARCH 29, 1999

The Directors

of the First Merchant Bank



The Board of FMB, from left;

Mr H N Anadkat

Mrs R Kanyuka

Mr R C Kantaria

Mr N G Anadkat

Mr A Abdallah

Mr J M O'Neill

Mr V K Shetty

Director's Report

The directors have pleasure in submitting their report together with the annual financial statements for the year ended 31st December 1998.

Nature of business

The company is registered as a Commercial Bank under the Banking Act 1989.

Financial performance

The results and state of affairs of the company are set out in the accompanying income statement, balance sheet, cashflow statement and associated accounting policies and notes.

Dividend

The directors do not recommended the payment of any dividend (1997: K3,500,000 representing K0.18 per share).

Share capital

The authorised share capital was increased by the creation of 30 million ordinary shares of K1 each pursuant to a resolution made by the members on 12th December 1998. The authorised share capital is now K50 million.

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 year accounts are prepared which show a true and fair view of the state of affairs of the company and of its results for that year, 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 1999 financial statements.


.....
DIRECTOR

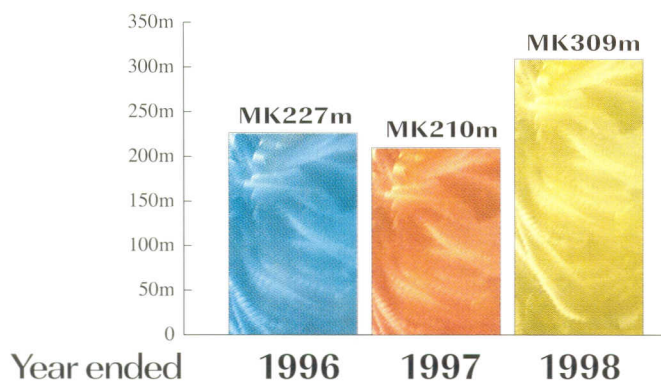

.....
DIRECTOR

29 March 1999

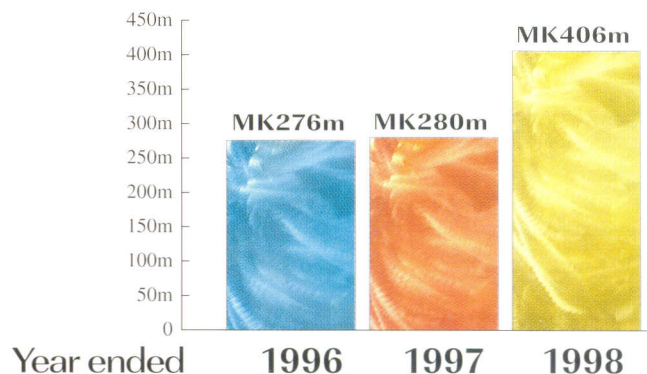
Performance '98

at a glance

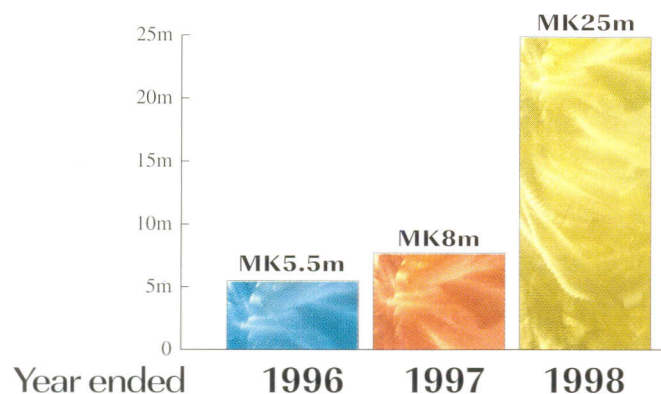
Total Deposits



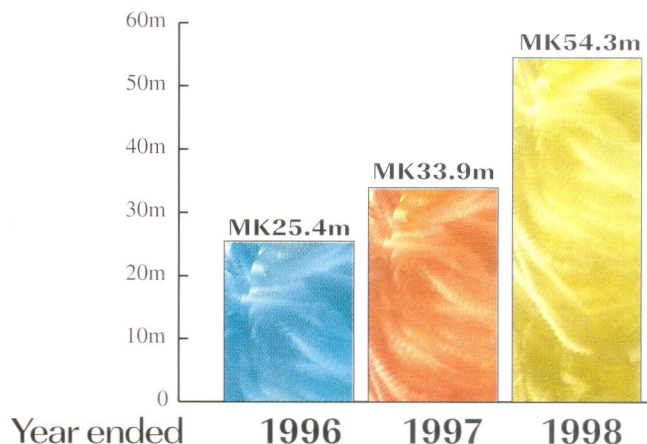
Total Assets



Net Profit



Shareholders' Funds



Staff

	1996	1997	1998
Male	23	47	69
Female	14	28	41
	<u>37</u>	<u>75</u>	<u>110</u>

Corporate Governance

FMB attaches great importance to corporate governance.

The Bank has established a code of corporate practice, which conforms to the highest international standards. The Bank has a unitary Board of Directors, both executive and non-executive. The Chairman of the Board is a non-executive Director. Non-executive Directors are chosen for their business acumen and skills relative to the accounting, legal and banking fields - all directly relevant to the prudent conduct of the Bank's business.

The Board of Directors meets regularly to set policy guidelines for the execution of the Bank's business and for the implementation of these policies.

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 the results of the Bank's operations. The statutory auditors are responsible for carrying out an independent examination of the accounts in accordance with international auditing standards and reporting their findings.

The Internal Audit Department of the Bank reports directly to the Audit Committee. The Audit Committee comprises only non-executive directors. The main responsibility of the Audit Committee 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 ultimate supervisory authority, the Reserve Bank of Malawi.

FMB's Annual Report is prepared in accordance with the Banking Act 1989 and generally accepted accounting practise, with full disclosure of the accounting policies adopted, which have been consistently applied and are supported by reasonable and prudent judgement and estimates.

The Asset Liability Committee of the bank is responsible for the adequacy of risk management practices and procedures in the Bank. The Committee is headed by a Director of the Bank and meets regularly to review these issues. The minutes of all such meetings are submitted to the Board of Directors.

The Bank maintains internal controls and systems designed to provide reasonable assurance as to the integrity of the books of account of the Bank, and to 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.

The Directors and Staff of the Bank strive to maintain the highest ethical standards at all times ensuring that business is conducted in a manner which, in all reasonable circumstances, is beyond reproach.



FMB is currently headquartered in Chayamba Building in Blantyre's Victoria Avenue

Independent

Auditor's Report

TO THE SHAREHOLDERS OF FIRST MERCHANT BANK LIMITED



Public Accountants

Office Address
Able House
Hannover Avenue
BlantyreMail Address
P.O. Box 508
Blantyre
MalawiTelephone 620 744/620 391
Telefax (265) 620 575

Scope

We have audited the financial statements set out on pages 11 to 19 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.

Audit opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company as at 31st December 1998 and of its results for the year then ended and are properly prepared in compliance with International Accounting Standards as adopted in Malawi and in accordance with the relevant provisions of the Companies Act 1984.

A handwritten signature in blue ink that reads 'KPMG'. The signature is stylized and appears to be written over a printed or stamped version of the firm's name.

29 March 1999

Income Statement

for the year ended 31st December 1998

	Notes	1998 K'000	15 months ended 31st December 1997 K'000
Interest receivable		70,908	53,208
Interest payable		(26,340)	(24,805)
Net interest		44,568	28,403
Other income		43,371	20,071
Total income		87,939	48,474
Operating costs		(45,109)	(31,361)
Profit before movement in provision for doubtful advances	1	42,830	17,113
Provision for doubtful advances	9	(2,718)	(3,986)
Profit before taxation		40,112	13,127
Taxation	2	(15,259)	(5,425)
Net profit after taxation		24,853	7,702
Dividend proposed		-	(3,500)
Retained profit for the year		24,853	4,202
Retained profit brought forward		9,679	5,477
Retained profit carried forward		34,532	9,679
Earnings per share (K)	3	1.24	0.39
Dividend per share (K)		-	0.18

The accounting policies on page 14 and the notes on pages 15 to 19 form part of these financial statements.
The auditor's report is on page 10.

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Balance Sheet

AT 31ST DECEMBER 1998

	Notes	1998 K'000	1997 K'000
<u>LIABILITIES</u>			
Liabilities to customers:			
Current accounts		208,976	109,387
Foreign currency accounts		3,280	1,568
Savings accounts		35,210	38,550
Term deposits		<u>61,656</u>	<u>60,571</u>
Total liabilities to customers	4	309,122	210,076
Cheques in the course of collection		<u>(16,797)</u>	<u>(13,000)</u>
		292,325	197,076
Balances due to other financial institutions		<u>812</u>	<u>27,000</u>
		293,137	224,076
Taxation		5,039	3,257
Dividend		-	3,500
Other liabilities	5	<u>53,843</u>	<u>20,433</u>
Total liabilities		<u>352,019</u>	<u>251,266</u>
<u>CAPITAL AND RESERVES</u>			
Share capital	6	20,000	20,000
Retained profit		<u>34,532</u>	<u>9,679</u>
Total shareholders' funds		<u>54,532</u>	<u>29,679</u>
Shareholders' interests and liabilities		406,551	280,945
Liabilities on acceptances, guarantees, indemnities and credits	12	<u>126,447</u>	<u>85,281</u>
<u>Total liabilities, capital and reserves</u>		532,998	366,226
<u>Assets</u>			
Cash and funds with Reserve Bank of Malawi	7	28,281	90,351
Balances with banks abroad		43,824	11,911
Balances with banks in Malawi		1,563	10
Investments	8	174,596	21,520
Advances and loans to customers net of provision for doubtful advances	9	140,811	140,282
Other assets	10	<u>2,680</u>	<u>4,096</u>
		391,755	268,170
Fixed assets	11	<u>14,796</u>	<u>12,775</u>
		406,551	280,945
Customers' liabilities on acceptances, guarantees, indemnities and credits	12	<u>126,447</u>	<u>85,281</u>
		<u>532,998</u>	<u>366,226</u>

These financial statements were approved by the Board of Directors on March 29, 1999 and were signed on its behalf by:

.....  Director  Director

The accounting policies on page 14 and the notes on pages 15 to 19 form part of these financial statements. The auditor's report is on page 10.

Source and application of funds

Cash Flow Statement

for the year ended 31st December 1998

	1998 K'000	15 months ended 31st December 1997 K'000
<u>CASH GENERATED BY OPERATING ACTIVITIES</u>		
Profit before taxation	40,112	13,127
Items not affecting the flow of funds		
Depreciation	3,396	3,829
Less: Disposal adjustment	(147)	(114)
	<u>3,249</u>	<u>3,715</u>
Net cash flow from operating activities	43,361	16,842
<u>MOVEMENT IN OPERATING ASSETS AND LIABILITIES:</u>		
(Increase)/decrease in Treasury Bills	(43,603)	69,501
Decrease in local registered government stocks	1,027	6,457
Increase in other investments	(110,500)	-
Increase in loans and advances	(552)	(113,521)
Decrease in other assets	1,416	19,518
Increase/(decrease) in deposits	69,061	(7,237)
Increase in other liabilities	<u>33,410</u>	<u>2,731</u>
	<u>(49,741)</u>	<u>(22,551)</u>
Cash generated by operations	(6,380)	(5,709)
Taxation paid	(13,477)	(4,023)
Dividend paid	(3,500)	-
<u>CASH EFFECTS OF INVESTING ACTIVITIES</u>		
Purchase of fixed assets	(5,564)	(3,758)
Decrease in cash and cash equivalents	(28,921)	(13,490)
Cash and cash equivalents beginning of year	<u>102,272</u>	<u>115,762</u>
Cash and cash equivalents end of the year	<u>73,351</u>	<u>102,272</u>
<u>ADDITIONAL STATUTORY INFORMATION</u>		
Increase in net working capital	<u>22,832</u>	<u>4,159</u>

The accounting policies on page 14 and the notes on pages 15 to 19 form part of these financial statements.
The auditor's report is on page 10.

Accounting Policies

for the year ended 31st December 1998

(i) Basis of preparation

The financial statements are prepared in accordance with Malawi Accounting Standards which are International Accounting Standards modified to conform to Malawi law, and the Malawi Companies Act 1984.

The financial statements have been prepared under the historical cost convention. No adjustments have been made in respect of the impact of inflation.

The significant accounting policies used in the preparation of these accounts are set out below. These policies have been consistently applied in all material respects.

(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

Investments 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 the 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 year by the weighted number of ordinary shares in issue throughout the year.

Notes on the Financial Statements

for the year ended 31st December 1998

	1998 K'000	15 months ended 31st December 1997 K'000
1. PROFIT BEFORE TAXATION		
The profit before movement in provisions for doubtful advances is arrived at in the following manner:		
Income		
Interest receivable		
- Customer loans and advances	52,774	35,301
- Treasury bills	12,204	14,345
- Financial Institutions	5,319	644
- Local Registered Government Stocks	<u>611</u>	<u>2,918</u>
	70,908	53,208
Less: Interest payable on - customer accounts and deposits	(19,696)	(20,836)
- financial institutions	<u>(6,644)</u>	<u>(3,969)</u>
Net interest income	44,568	28,403
Revenue from fees	7,144	8,101
Profit on foreign exchange transactions	33,371	10,389
Sundry income	<u>2,856</u>	<u>1,581</u>
Total income	<u>87,939</u>	<u>48,474</u>
Expenditure		
Staff costs including pension fund contributions	19,652	10,217
Recurrent expenditure on premises and equipment	4,986	3,313
Depreciation	3,396	3,829
Other costs	16,234	12,670
Auditor's remuneration	400	200
Cash shortages and provision for losses	<u>441</u>	<u>1,132</u>
Total expenditure	<u>45,109</u>	<u>31,361</u>
Total profit before movement in provisions for doubtful advances	<u>42,830</u>	<u>17,113</u>
2. TAXATION		
Company tax at 38% (1997, 38%) based on the results for the year	15,259	8,015
Prior year overprovision	<u>-</u>	<u>(2,590)</u>
	<u>15,259</u>	<u>5,425</u>
Deferred taxation (unprovided)		
Differences between capital allowances and accumulated depreciation	498	395
Other timing differences	<u>490</u>	<u>-</u>
	<u>948</u>	<u>395</u>

Deferred tax is not provided for as the timing differences are likely to persist for the foreseeable future.

Notes on the Financial Statements

for the year ended 31st December 1998

	1998 K'000	1997 K'000
<u>3. EARNINGS PER SHARE</u>		
Profit after tax for the year (MK'000)	24,853	7,702
Ordinary shares in issue throughout the year ('000)	20,000	20,000
Earnings per share (K)	<u>1.24</u>	<u>0.39</u>
<u>4. LIABILITIES TO CUSTOMERS</u>		
Interest bearing deposits	<u>309,122</u>	<u>210,076</u>
Liabilities to customers are payable as follows:		
Within three months	299,016	183,979
Between four months and one year	<u>10,106</u>	<u>26,097</u>
	<u>309,122</u>	<u>210,076</u>
<u>5. OTHER LIABILITIES</u>		
Interest payable	2,692	1,142
Bankers cheques issued and uncleared	8,164	11,841
Credit clearance vouchers	10,135	1,551
Sundry creditors	<u>32,852</u>	<u>5,899</u>
	<u>53,843</u>	<u>20,433</u>
<u>6. SHARE CAPITAL</u>		
Authorised:		
50 million (1997, 20 million) ordinary shares of K1 each	50,000	20,000
Issued and fully paid:		
20 million ordinary shares of K1.00 each	<u>20,000</u>	<u>20,000</u>
The authorised share capital was increased by K30 million by a special resolution passed by the shareholders on 12th December 1998.		
<u>7. CASH AND FUNDS WITH THE RESERVE BANK OF MALAWI</u>		
Cash	6,843	6,399
Funds with Reserve Bank of Malawi	<u>21,438</u>	<u>83,952</u>
	<u>28,281</u>	<u>90,351</u>

Notes on the Financial Statements

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Notes on the Financial Statements

for the year ended 31st December 1998

	1998 K'000	1997 K'000
8. INVESTMENTS		
a) Treasury Bills		
Nominal value	69,022	16,991
Rebate/(unearned interest)	<u>(8,150)</u>	<u>278</u>
Cost	60,872	17,269
Accrued interest has been included under other assets.		
b) Local Registered Government Stock		
Nominal value	3,540	4,429
Discount	<u>(316)</u>	<u>(731)</u>
	3,224	3,698
Premium	<u>-</u>	<u>553</u>
Book value	<u>3,224</u>	<u>4,251</u>
(c) Financial institutions:		
Secured by endorsement of Treasury Bills	100,500	-
Unsecured	<u>10,000</u>	-
	110,500	-
Total	<u>174,596</u>	<u>21,520</u>
9. ADVANCES AND LOANS TO CUSTOMERS		
Net of Provision for doubtful advances:		
Gross advances and loans	158,497	148,909
Specific provisions	<u>(6,128)</u>	<u>(3,448)</u>
	152,369	145,461
General provision	<u>(1,392)</u>	<u>(1,354)</u>
	150,977	144,107
Interest in suspense	<u>(10,166)</u>	<u>(3,825)</u>
	140,811	140,282
These advances and loans are due to mature as follows:		
Within three months	135,038	75,462
Between four months and one year	<u>5,773</u>	<u>64,820</u>
	<u>140,811</u>	<u>140,282</u>
Movement on provisions:		
At the beginning of the year	4,802	816
Charge against profits for the year	<u>2,718</u>	<u>3,986</u>
At the end of the year	<u>7,520</u>	<u>4,802</u>

Notes on the Financial Statements

for the year ended 31st December 1998

10. OTHER ASSETS

	1998 K'000	1997 K'000
Income receivable	431	949
Prepayments	19	1,747
Sundry debtors	<u>2,230</u>	<u>1,400</u>
	<u>2,680</u>	<u>4,096</u>

11. FIXED ASSETS

Cost	Freehold property K'000	Leasehold improvements K'000	Motor vehicles K'000	Furniture, fittings and equipment K'000	Total K'000
At 1st January 1998	2,067	1,421	1,855	12,982	18,325
Additions	-	2,322	890	2,352	5,564
Disposals	<u>-</u>	<u>-</u>	<u>(295)</u>	<u>-</u>	<u>(295)</u>
At 31st December 1998	<u>2,067</u>	<u>3,743</u>	<u>2,450</u>	<u>15,334</u>	<u>23,594</u>
Depreciation					
At 1st January 1998	91	593	549	4,317	5,550
Charge for the year	41	250	353	2,752	3,396
Eliminated on disposal	<u>-</u>	<u>-</u>	<u>(148)</u>	<u>-</u>	<u>(148)</u>
At 31st December 1998	<u>132</u>	<u>843</u>	<u>754</u>	<u>7,069</u>	<u>8,798</u>
Net book value					
At 31st December 1998	1,935	2,900	1,696	8,265	14,796
At 31st December 1997	1,976	828	1,306	8,665	12,775

12. CONTINGENT ASSETS/LIABILITIES

	1998 K'000	1997 K'000
Letters of Credit	27,475	4,416
Guarantees	8,221	3,090
Travellers cheques	14,093	14,537
Foreign bills lodged	<u>76,658</u>	<u>63,238</u>
	<u>126,447</u>	<u>85,281</u>

13. RELATED PARTY TRANSACTIONS

The Bank transacts part of its business on an arm's length basis with companies affiliated to the shareholders. As at 31st December 1998 the total loans and advances to related parties amounted to K 5.001 million (1997, 3.978 million). Of this total, K4.987 million (1997, 3.866 million) was fully secured by fixed and/or floating charges. All advances to related parties carry interest above the bank's base lending rate.

Notes on the Financial Statements

for the year ended 31st December 1998

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Notes on the Financial Statements

for the year ended 31st December 1998

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 or with Continental Discount House Limited, equivalent to 35% of total customer deposits. At 31st December 1998 the liquidity reserve was 39% (1997: 43%) 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 1998 the Bank's available capital was 21% (1997: 23%) of its risk bearing assets and contingent liabilities.

15. PRUDENTIAL ASPECTS OF BANK LIQUIDITY

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

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

Liquidity Ratio II - 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 1998, the Bank's liquidity Ratio I was 80% (1997: 52%) and Liquidity Ratio II was 81% (1997: 55%).

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).

FMB prides itself on the accessibility of its offices and branches - in the heart of the business centres of Blantyre, Limbe and Lilongwe. This year initial planning was completed for a move, early in the year 2000, of the main Blantyre branch, presently in Victoria Avenue, and of the Head Office, presently in Chayamba Building, Victoria Avenue. Both are to be accommodated in the Bank customised, and substantially rebuilt premises on the corner of Glynn Jones Road and Livingstone Avenue





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