

# First Merchant Bank

## Annual Report

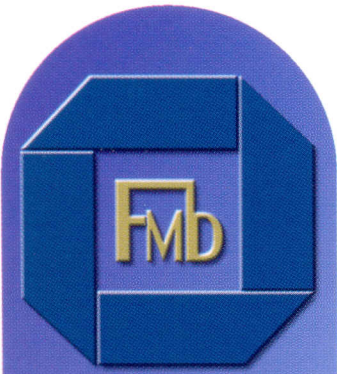
1999





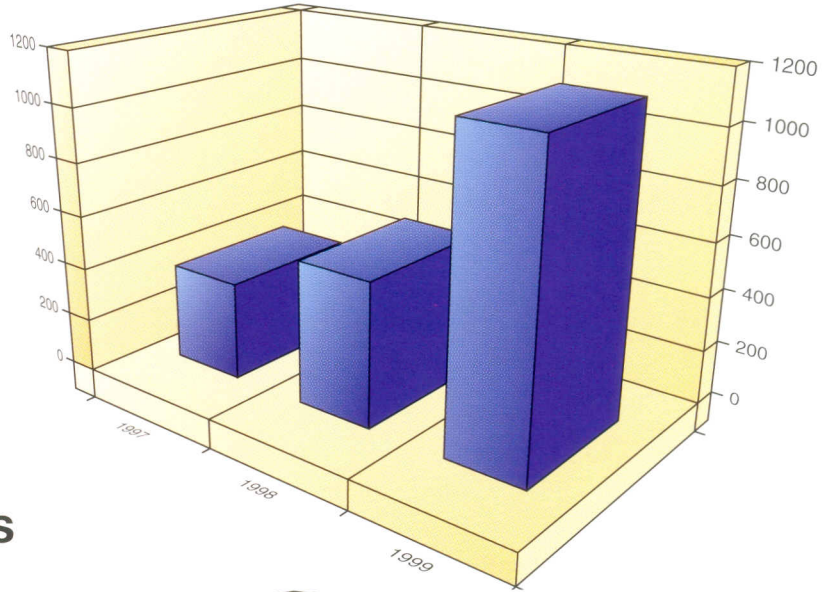
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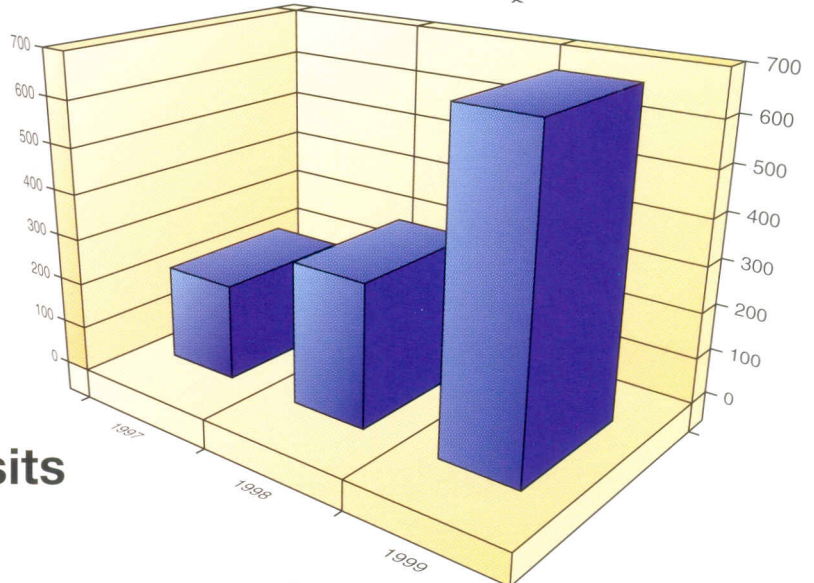


## PERFORMANCE 1999

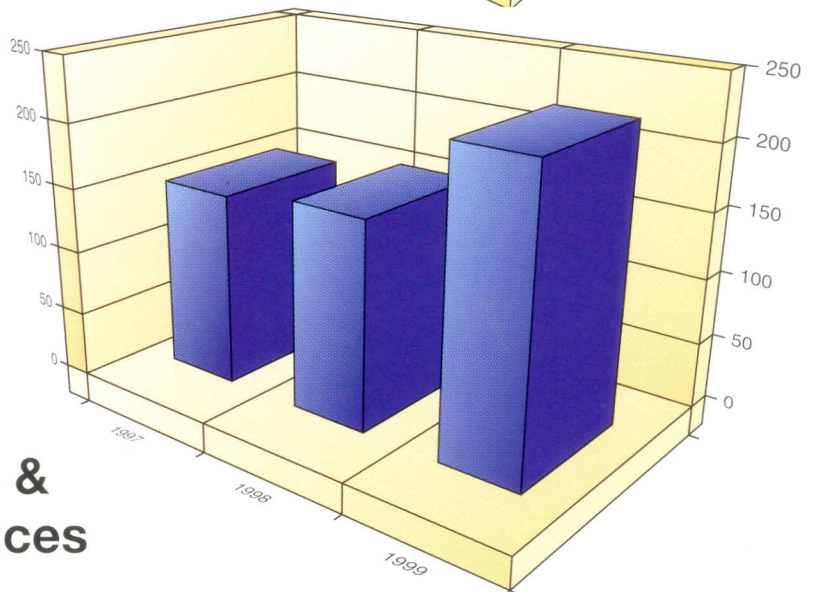
**Total Assets**



**Deposits**

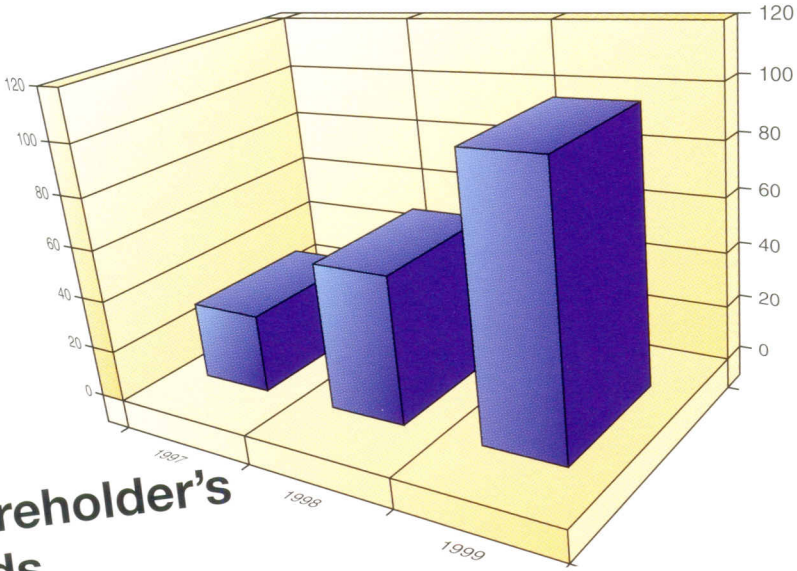


**Loans & Advances**

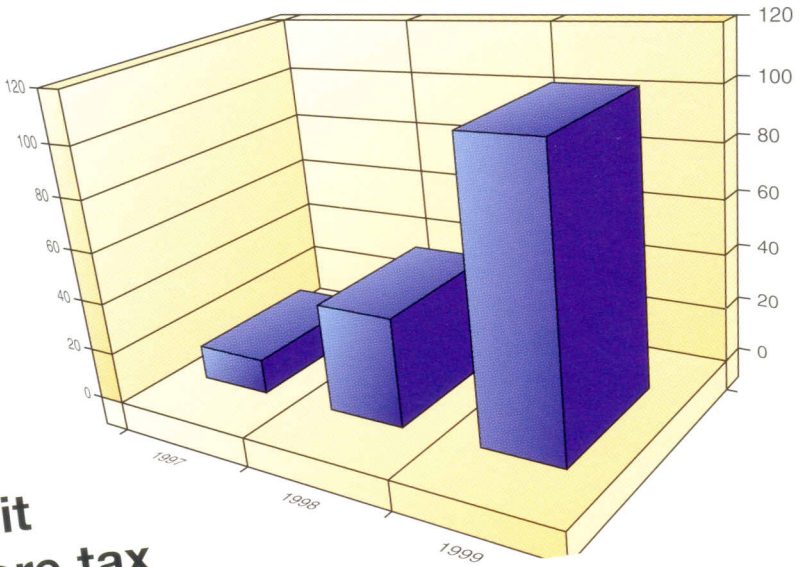




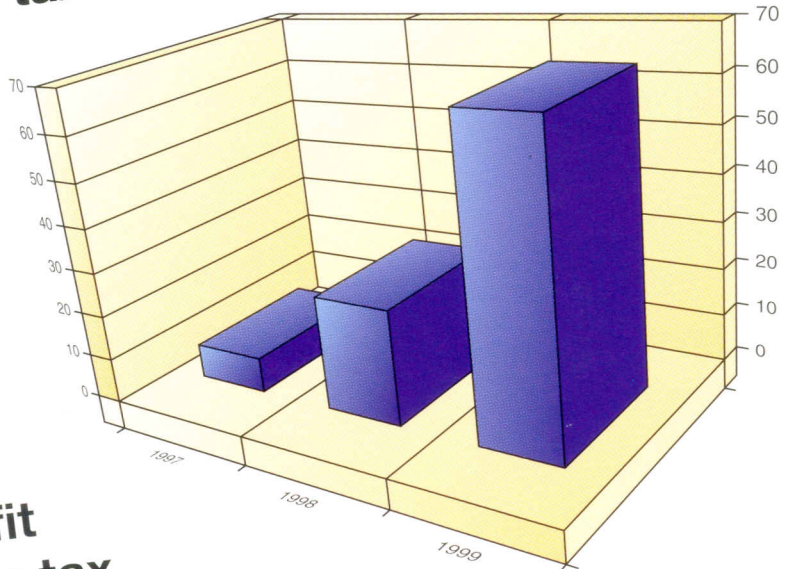
# Shareholder's funds



# Profit before tax



# Profit after tax







## SENIOR MANAGEMENT

### Head Office

General Manager

*Kashinath Chaturvedi*

Deputy General Manager

*Seetharaman Srinivasan*

Head, Internal Audit and Inspection

*Friday Chalamba*

Personnel & Administration Manager

*Indira Sharma-Surtee*

Foreign Business Manager

*Thomas Kadantot*

Finance Manager

*Gayatri Kamath*

Credit Control Manager

*Alexander Chigwale*

### Branches

#### Blantyre

Chief Manager

*Ravindra Kamath*

Operations Manager

*(Mrs) Anna Mafuleka*

#### Limbe

Chief Manager

*Ranjit Mehta*

Operations Manager

*Sylvester Nkwanda*

#### Lilongwe

Chief Manager

*Kersey Kavina*

Operations Manager

*Andrew Mwawa*

#### Capital City Sub-Branch\*

Officer-in-Charge

*Ms Emily Chinkunda*

\*Attached to Lilongwe Branch



# CHAIRMAN'S STATEMENT

FOR THE FINANCIAL YEAR

ENDED 31 - 12 - 99

The financial period which has just ended, proved to be another successful year for the Bank. While growth exceeded projections in all key areas, it is noteworthy that the growth was achieved in a difficult economic environment.

## **Overview of the economy**

In 1999 the real gross domestic product was estimated to have grown by an estimated 6.7%, which is better than the recorded 1998 increase of 3.2%. A substantial portion of the growth in GDP was attributable to an expansion in small holder agricultural production as a result of favourable climatic conditions and Government initiatives to improve the availability of agricultural inputs.

However, in order to alleviate poverty to any significant extent, sustained economic growth at a much higher level is required. This can only be achieved by significant investment in the economy. The country must revisit its strategy in order to address any negative investor perceptions of Malawi.





The inflation declined from a high of 56% in March 1999 to 28% at the close of the year. The Government's target of single digit inflation for 2000 and the following year may prove difficult to attain in the face of rising commodity prices in the world markets. The short term trends in the movement of oil prices will have a particular bearing on this target.

The Reserve Bank's success in reducing market liquidity through issues of high yielding treasury bills led to substantial reductions in the rates of inflation. The average yields on the treasury instruments continued to remain high, ranging between 39% and 51% for different maturities at the close of the year. The very high yields on Government paper has obviously resulted in a scarcity of capital available to the private sector. The lending rates, being sensitive to treasury bill yields, also increased substantially. Our Base Lending Rate at year end was 49%, very similar to those offered by other financial institutions.

The currency remained relatively stable during the year, depreciating modestly by 3.75% against the US Dollar. This relative stability of the Malawi Kwacha has in turn led to increase in business confidence. The import cover at the year end was at a satisfactory level of four months. It is hoped that sustained efforts at controlling money supply and inflation will further enhance the stability of the exchange rates regime. Concerns, however, remain at the possibly negative impact of the vulnerability of the currency of Zimbabwe, one of our major trading partners.

### **Performance Highlights**

The Bank has been successful in increasing its market share in all its areas of operation. The total assets of the Bank have more than doubled and were in excess of MK1 billion at the end of the financial year. The growth has been derived from a very broad customer base. New business includes a large number of blue-chip corporate clients.





*The Bank contributed to several community development projects, including the DAPP Vocational School, where training in essential trades such as bricklaying is an important aspect of the tuition.*

The 100% growth in our deposit base could not be matched by a corresponding increase in our credit portfolio, which increased by 40% to around MK200m at the year-end. The prevailing economic environment and high lending rates dampened demand for good credit.

The overall quality of our advances portfolio remains good and an appropriate level of provisioning in conformity with the Reserve Bank's guidelines, has been maintained. In addition it is the Bank's policy to build up the level of non-specific debt provision in its initial years of operation. As such, MK8.119m has

been set aside from the profits to cater for any unidentified risk, which may be present in our advances portfolio.

Pre-tax profit for the year increased by 164% to stand at MK105.872m. A dividend of MK30m has been proposed and the balance of after tax profit amounting to MK35.641m is being retained, strengthening further the capital base of the Bank.

The issued share capital of the Bank was increased by MK10m in February, 1999 and together with the retention of K35.641m. out





of current year's net earnings the shareholders' funds now exceed K100m. Our capital to risk-based asset ratio of 30% comfortably exceeds the prescribed minimum of 10% thus providing ample scope for the exploitation of growth opportunities in the Bank's core business area, that of loans and advances.

### **Corporate Governance**

The Bank attaches great importance to corporate governance and has established an internationally recognised code of corporate practice. The directors and members of staff strive to maintain the highest ethical standards at all times thus ensuring that business is conducted in a manner which, under all reasonable circumstances, is beyond reproach.

### **Human Resources**

The total number of staff at year-end was 140. The Bank is fully committed to the welfare and development of its human resources as its most important asset. During the year, the Bank organised 30 training courses in-house and a number of nominated members of staff attended external training programmes and seminars. In addition, certain officers were sent overseas to participate in various seminars and training programmes conducted by internationally reputed banks and training institutions.

### **Donations**

The Bank is sensitive to its responsibilities to the larger community and has readily assisted various worthy causes. During the year donations were made to Mulanje Hospital, Lilongwe Maternity Hospital, Yamikani House for orphans, St Mary's School for the Deaf and DAPP Vocational School (above).

## **Acknowledgements**

There can be no doubt that the Bank owes its success to its customers. I wish to thank all our esteemed customers for their patronage and support during the year and to assure them of our continued commitment to efficient customer service and financial support. I take this opportunity to express my gratitude to my colleagues on the Board for their invaluable guidance and support throughout the year.

Our overseas correspondent banks and all the domestic financial institutions have supported us throughout the year and my sincere thanks to them are also in order.

I must place on record my gratitude to the Reserve Bank of Malawi for their support and guidance.

All members of staff through their hard work and dedication, were, in no small measure, instrumental in the success of the Bank. They deserve my congratulations and I urge them to redouble their efforts so that the Bank progresses to even greater levels of success and prosperity.

R.C. Kantaria

Chairman

February 15th 2000



## CLIENT PROFILES

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.



Peoples Trading Centres (PTC's) are now well-known landmarks in cities, towns and villages throughout Malawi. The outlets are of varying size ranging from small country stores serving the needs of a rural population, to suburban and peri-urban Kwiksave Superettes to the latest and biggest Hyperstores, the largest supermarket style shops in the country. The chain of over 100 such stores is one of the most successful subsidiaries in the PCL (Press) stable. It has recently expanded, by way of joint ventures, into Zambia and other regional markets are now being carefully assessed for similar growth opportunities. PTC is a FMB client.





## Supreme Furnishers

Supreme Furnishers Limited, part of the Africa-wide Profurn Group, opened its doors in Malawi in August 1999. Supreme is a furnishing chain with 100 stores all over Africa dealing in household furniture and electrical goods and hopes soon to start stocking office furniture. The chain, which presently has two branches in Malawi, in Blantyre and Limbe, representing an initial investment in the country of MK35m, specialises in credit sales offering customers up to 17 months credit.

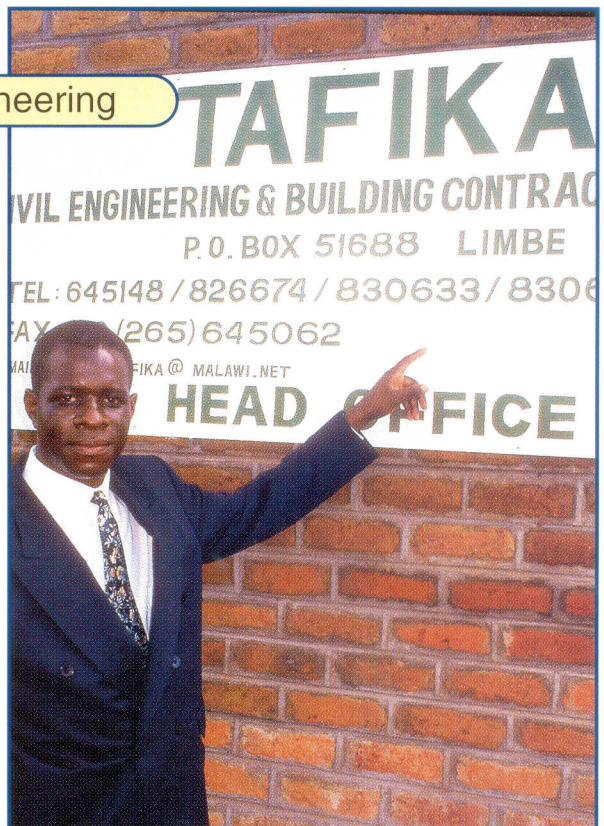
Supreme is to open three more shops in Lilongwe, Mzuzu and Zomba before the end of the year 2000 - bringing its total investment in Malawi to well over MK100m and further increasing the numbers of Malawians employed to over 100.

## Tafika Civil Engineering

Tafika Civil Engineering and Building Contractors Limited is arguably the biggest Malawian owned construction company in the country. Launched by Managing Director and co-owner Edward Misomali (right) in 1989, it now employs at its Limbe headquarters over 800 employees. This includes a professional team of engineers and quantity surveyors.

Tafika has built seven schools in the past ten years and tenders enthusiastically and competitively for donor funded education and health construction projects. Another major turnover source is remedial and rehabilitation work on Malawi's climate threatened road network. In the past three years the company has, as prime contractor, completed ten such contracts nation-wide and could claim to have contributed significantly to the qualitative improvement in the road network in the past eighteen months.

Tafika banks with FMB and finds the FMB managers both sympathetic to the often unusual cash flow needs of a contractor and first to lend an ear when the further development of the company is discussed.







## Carlsberg

Carlsberg Malawi was established in 1968 as the first Carlsberg brewery outside of Denmark.

Carlsberg Malawi Brewery is the only manufacturer of Carlsberg beer in Africa. Carlsberg Malawi has over 85% of the clear beer market in Malawi and is sold through over 12,500 outlets throughout the country. The company produces four types of beer all marketed under the Carlsberg brand name: green label, a lager; brown label, a darker lager; a stout and Special Brew, a stronger lager. Carlsberg's associate company, Southern Bottlers, also distributes a non-alcoholic malt drink called "Mighty Malta".

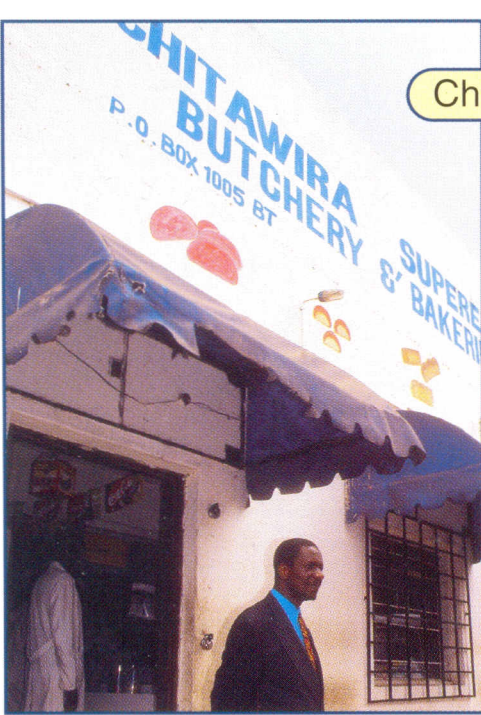
## St Andrew's School

St Andrews International Primary School was founded in 1938 within the old Blantyre Mission with only 14 pupils and moved to its present idyllic Sunnyside location, just a mile from the city centre, in the 1950s. There are currently 370 pupils aged 5 to 11 using purpose-built classrooms, a large hall, library, computer room, a new swimming pool and hostel. Boarding facilities are offered for 48 pupils. Teaching staff are qualified expatriates with degrees from Universities / Colleges in the UK, USA and SA. FMB is proud to be the banker for St Andrews and to be associated with this dynamic school as it continues to strive for excellence in primary education in Malawi.





## Chitawira Superettes



Lington M Phekani of Chitawira Superettes is now one of Malawi's most successful independent retailers. After a thorough business grounding in retail butcheries and produce export, he had gained sufficient start-up capital to launch Chitawira Superettes at the very beginning of the nineties. By trying very hard to give his customers "the good things of life", Lington Phekani has, in a decade of steady growth, created a very loyal customer base drawn from all over Blantyre for what, among other attractions, he describes as "the best bread and meat in town". Plans for the future include expansion into his own structure where all his retail interests can be served under one roof. Lington and Chitawira Superettes bank with FMB's Limbe branch. He describes his bankers as having an excellent understanding of trading cash flow needs and being commendably flexible in their attitudes.



BNC

The Blantyre Netting Company (BNC) was incorporated in 1959. It is one of the oldest manufacturing companies in Malawi with a high degree of name recognition and can claim "blue chip" status among the companies in the country. BNC started off as a fish net, fishing twine and sports net business and remained so until 1982. In that year it diversified into the plastics business by manufacturing polypropylene woven bags (mainly 50 and 90kg), strapping, vegetable netting, ropes and similar products.

The company is the sole manufacturer of fishing nets and sports nets in Malawi and distributes its products through wholesalers and sales vans. BNC exports regionally and employs over 400 staff.



Tobacco

Malawi is heavily economically dependent on the growth and export of tobacco (*fodya*). Huge numbers are employed and vast sums of money have been deployed in the development of the industry.

The industry is under severe attack in worldwide campaigns which, if successful, would pose enormous threats to the Malawian economy. First Merchant Bank is proud to have as clients major players in the industry and is very supportive of all effort toward the achievement of acceptable crop diversification.



# DIRECTORS' REPORT



The directors have pleasure in submitting their report together with the annual financial statements for the year ended 31st December 1999.



## 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

Dividend of K15,000,000 representing K0.50 per ordinary share was paid during the year. The directors have proposed a further K15,000,000 representing K0.50 per ordinary share, to be paid

following adoption of the financial statements by the shareholders.

## Directorate

In accordance with the Company's Articles of Association, all directors retiring at the forthcoming

## Board of Directors

Chairman  
*R C Kantaria*

Vice Chairman  
*H N Anadkat*

## Members

*N G Anadkat*  
*A Abdallah*  
*R Kanyuka (Mrs)*  
*V K Shetty*  
*J M O'Neill*



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; and
- made judgements and estimates that are reasonable and prudent; and
- stated that applicable accounting standards have been followed; and
- 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 2000 financial statements.

February 10 2000

  
.....

DIRECTOR

  
.....

DIRECTOR



# INDEPENDENT AUDITOR'S 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 13 to 23 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 1999 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.

February 10 2000



Member firm of  
KPMG International

Blantyre  
F. Sacranie  
B. Sacranie  
R.L. Ovington  
V. Venkatesh

Lilongwe  
C.M. Lovatt



# INCOME STATEMENT

for the year ended 31st December 1999

	Notes	1999	1998
		K'000	K'000
Interest receivable		253,548	70,908
Interest payable		<u>(99,132)</u>	<u>(26,340)</u>
Net interest		154,416	44,568
Other income		<u>54,435</u>	<u>43,371</u>
Total income		208,851	87,939
Operating costs		<u>(91,719)</u>	<u>(45,109)</u>
Profit before provision for doubtful advances	1	117,132	42,830
Provisions for doubtful advances			
- Specific		(4,533)	(1,634)
- General		<u>(6,727)</u>	<u>(1,084)</u>
Profit before taxation		105,872	40,112
Taxation	2	<u>(40,231)</u>	<u>(15,259)</u>
Net profit after taxation		65,641	24,853
Dividends paid and proposed	9	<u>(30,000)</u>	-
Retained profit for the year		35,641	24,853
Retained profit brought forward		<u>34,532</u>	<u>9,679</u>
Retained profit carried forward		<u>70,173</u>	<u>34,532</u>
Earnings per share (K)	3	<u>2.19</u>	<u>1.24</u>
Dividend per share (K)		<u>1.00</u>	-





# BALANCE SHEET

at 31st December 1999

	Notes	1999 K'000	1998 K'000
<b>LIABILITIES</b>			
Liabilities to customers			
Current accounts		396,187	208,976
Foreign currency accounts		17,457	3,280
Savings accounts		60,389	35,210
Term deposits		<u>212,062</u>	<u>61,656</u>
Total liabilities to customers	4	686,095	309,122
Cheques in the course of collection		<u>(1,966)</u>	<u>(16,797)</u>
		684,129	292,325
Balances due to other financial institutions	8	<u>70,000</u>	<u>812</u>
		754,129	293,137
Taxation		10,473	5,039
Dividend payable		15,000	-
Other liabilities	5	<u>75,727</u>	<u>53,843</u>
Total liabilities		<u>855,329</u>	<u>352,019</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	6	30,000	20,000
Retained profit		<u>70,173</u>	<u>34,532</u>
Total shareholders' funds		<u>100,173</u>	<u>54,532</u>
Shareholders' interests and liabilities		955,502	406,551
Liabilities on acceptances, guarantees, indemnities and credits	14	<u>175,023</u>	<u>126,447</u>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<u>1,130,525</u>	<u>532,998</u>
<b>ASSETS</b>			
Liquidity reserve deposits	7	249,490	116,938
Cash and balances with banks in Malawi		29,985	23,406
Balances with banks abroad		84,419	43,824
Investments	10	345,605	64,096
Advances and loans to customers	11	197,096	140,811
Other assets	12	<u>7,765</u>	<u>2,680</u>
		914,360	391,755
Fixed assets	13	<u>41,142</u>	<u>14,796</u>
		955,502	406,551
Customers' liabilities on acceptances, guarantees, indemnities and credits	14	<u>175,023</u>	<u>126,447</u>
		<u>1,130,525</u>	<u>532,998</u>

These financial statements were approved by the Board of Directors on February 10th 2000 and were signed on its behalf by:

Director *J. M. M. M. M.* ..... Director *M. A. A. A. A.* .....



# SOURCE AND APPLICATION OF FUNDS

(CASH FLOW STATEMENT)

for the year ended 31st December 1999

	1999	1998
	K'000	K'000
CASH GENERATED BY OPERATING ACTIVITIES		
Profit before taxation	105,872	40,112
Items not affecting the flow of funds		
Depreciation	6,655	3,396
Profit on disposal of fixed assets	<u>(358)</u>	<u>(148)</u>
	<u>6,297</u>	<u>3,248</u>
Net cash flow from operating activities	112,169	43,360
MOVEMENT IN OPERATING ASSETS AND LIABILITIES:		
Increase in treasury bills	(282,733)	(43,603)
Decrease in local registered government stocks	1,224	1,027
Increase in balances due from abroad	(40,595)	(31,913)
Increase in loans and advances	(56,285)	(529)
(Increase)/decrease in other assets	(5,085)	1,416
Increase in liabilities to customers and other financial institutions	460,992	69,061
Increase in other liabilities	<u>21,884</u>	<u>33,410</u>
	<u>99,402</u>	<u>28,869</u>
CASH GENERATED BY OPERATIONS		
Taxation paid	(34,797)	(13,477)
Dividend paid	<u>(15,000)</u>	<u>(3,500)</u>
	161,774	55,252
CASH EFFECTS OF INVESTING ACTIVITIES		
Purchase of fixed assets	(36,563)	(5,269)
Proceeds from sale of fixed assets	3,920	-
Proceeds from issue of shares	<u>10,000</u>	<u>-</u>
Increase in cash and cash equivalents	139,131	49,983
Cash and cash equivalents beginning of year	<u>140,344</u>	<u>90,361</u>
Cash and cash equivalents end of the year	<u>279,475</u>	<u>140,344</u>
ADDITIONAL STATUTORY INFORMATION		
Increase in net working capital	<u>21,445</u>	<u>22,832</u>





# ACCOUNTING POLICIES

for the year ended 31st December 1999

## (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. Provision is made against advances where recovery is considered doubtful.

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	25% - 50%
Furniture, fittings, equipment and leasehold improvements	25%

## (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 with the accrued portion of interest.



# ACCOUNTING POLICIES

for the year ended 31st December 1999

## **(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 year by the weighted number of ordinary shares in issue throughout the year.

## **(viii) Pension Fund**

The company contributes to a defined contribution pension scheme administered by the National Insurance Company Limited. Contributions to the scheme are charged to profit and loss account as they fall due and at rates which based on actuarial advice, are designed to cover retirement benefits based on projected salaries. Any deficiencies in the funding of the scheme are provided for by increased contributions over periods recommended by the actuaries.

Details of the pension scheme are given in Note 20.



# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31st December 1999

## 1. PROFIT BEFORE PROVISIONS FOR DOUBTFUL ADVANCES

	1999	1998
	K'000	K'000
The profit before provisions for doubtful advances is arrived at in the following manner:		
<b>Income</b>		
Interest receivable		
- Customer loans and advances	93,151	52,774
- Treasury bills	124,525	12,204
- Financial Institutions	35,182	5,319
- Local Registered Government Stocks	<u>690</u>	<u>611</u>
	253,548	70,908
Less: Interest payable on:		
- customer accounts and deposits	(73,924)	(19,696)
- financial institutions	<u>(25,208)</u>	<u>(6,644)</u>
Net interest income	154,416	44,568
Revenue from fees	14,757	7,144
Profit on foreign exchange transactions	35,031	33,371
Profit on disposal of fixed assets	358	148
Sundry income	<u>4,289</u>	<u>2,708</u>
Total income	<u>208,851</u>	<u>87,939</u>
<b>Expenditure</b>		
Staff costs including pension fund contributions	36,593	19,652
Recurrent expenditure on premises and equipment	20,787	4,986
Depreciation	6,655	3,396
Other costs	26,828	16,234
Auditor's remuneration	700	400
Cash shortages and provision for losses	<u>156</u>	<u>441</u>
Total expenditure	<u>91,719</u>	<u>45,109</u>
Total profit before provisions for doubtful advances	<u>117,132</u>	<u>42,830</u>

## 2. TAXATION

Company tax at 38% (1998:38%) based on the results for the year

	<u>40,231</u>	<u>15,259</u>
Deferred taxation (unprovided)		
Differences between capital allowances and accumulated depreciation	(1,087)	281
Other timing differences	<u>2,040</u>	<u>490</u>
	<u>953</u>	<u>771</u>

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

# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31st December 1999

## 3. EARNINGS PER SHARE

	1999	1998
	K'000	K'000
Profit after tax for the year (MK'000)	65,641	24,853
Ordinary shares in issue throughout the year ('000)	30,000	20,000
Earnings per share (K)	<u>2.19</u>	<u>1.24</u>

## 4. LIABILITIES TO CUSTOMERS

Interest bearing deposits	<u>686,095</u>	<u>309,122</u>
Liabilities to customers are payable as follows:		
Within three months	657,960	299,016
Between four months and one year	<u>28,135</u>	<u>10,106</u>
	<u>686,095</u>	<u>309,122</u>

## 5. OTHER LIABILITIES

Interest payable	5,779	2,692
Bankers cheques issued and uncleared	13,298	8,164
Credit clearance vouchers	18,726	10,135
Sundry creditors	<u>37,924</u>	<u>32,852</u>
	<u>75,727</u>	<u>53,843</u>

## 6. SHARE CAPITAL

Authorised:		
50 million ordinary shares of K1 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
30 million (1998: 20 million) ordinary shares of K1.00 each	<u>30,000</u>	<u>20,000</u>

A further 10 million ordinary shares of K1.00 each were issued in February 1999.

## 7. LIQUIDITY RESERVE DEPOSITS

Funds with Reserve Bank of Malawi	19,490	21,438
Funds with Continental Discount House Limited	<u>230,000</u>	<u>95,500</u>
	<u>249,490</u>	<u>116,938</u>

Funds with Continental Discount House Limited are secured by Treasury Bills.

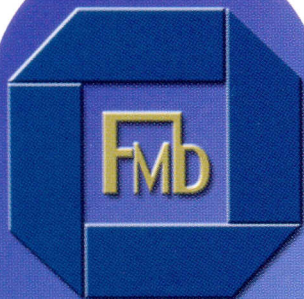
## 8. BALANCES DUE TO OTHER BANKS

This represents an overnight borrowing at year end with Finance Bank of Malawi.



# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31st December 1999



## 9. DIVIDENDS

	1999 K'000	1998 K'000
Paid during the year	15,000	-
Proposed	<u>15,000</u>	<u>-</u>
	<u>30,000</u>	<u>-</u>

## 10. INVESTMENTS

a) Treasury Bills		
Nominal value	396,039	69,022
Unearned interest	<u>(52,434)</u>	<u>(8,150)</u>
Cost	<u>343,605</u>	<u>60,872</u>
b) Local Registered Government Stock		
Nominal value	2,000	3,540
Discount	<u>-</u>	<u>(316)</u>
Book value	<u>2,000</u>	<u>3,224</u>
Total	<u>345,605</u>	<u>64,096</u>

## 11. ADVANCES AND LOANS TO CUSTOMERS

Gross advances and loans	223,648	158,497
Specific provisions	<u>(9,426)</u>	<u>(6,128)</u>
	214,222	152,369
General provision	<u>(8,119)</u>	<u>(1,392)</u>
	206,103	150,977
Interest in suspense	<u>(9,007)</u>	<u>(10,166)</u>
	<u>197,096</u>	<u>140,811</u>

These advances and loans are due to mature as follows:

Within three months	194,997	135,038
Between four months and one year	<u>2,099</u>	<u>5,773</u>
	<u>197,096</u>	<u>140,811</u>

Movement on provisions:

At the beginning of the year	7,520	4,802
Advances written off during the year	<u>(1,235)</u>	<u>-</u>
Charge against profits for the year	<u>11,260</u>	<u>2,718</u>
At the end of the year	<u>17,545</u>	<u>7,520</u>

# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31st December 1999

## 12. OTHER ASSETS

	1999 K'000	1998 K'000
Income receivable	159	431
Prepayments	4,892	19
Sundry debtors	<u>2,714</u>	<u>2,230</u>
	<u>7,765</u>	<u>2,680</u>

## 13. FIXED ASSETS

	Freehold property K'000	Leasehold - improvements K'000	Motor vehicles K'000	Furniture, fittings and equipment K'000	Total K'000
Cost					
At 1st January 1999	2,067	3,743	2,450	15,334	23,594
Additions	24,524	1,283	5,881	4,875	36,563
Disposals	<u>-</u>	<u>(2,358)</u>	<u>(575)</u>	<u>(1,110)</u>	<u>(4,043)</u>
At 31st December 1999	<u>26,591</u>	<u>2,668</u>	<u>7,756</u>	<u>19,099</u>	<u>56,114</u>
Depreciation					
At 1st January 1999	132	843	754	7,069	8,798
Charge for the year	52	270	2,267	4,066	6,655
Eliminated on disposal	<u>-</u>	<u>-</u>	<u>(481)</u>	<u>-</u>	<u>(481)</u>
At 31st December 1999	<u>184</u>	<u>1,113</u>	<u>2,540</u>	<u>11,135</u>	<u>14,972</u>
Net book value					
At 31st December 1999	<u>26,407</u>	<u>1,555</u>	<u>5,216</u>	<u>7,964</u>	<u>41,142</u>
At 31st December 1998	<u>1,935</u>	<u>2,900</u>	<u>1,696</u>	<u>8,265</u>	<u>14,796</u>

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

## 14. CONTINGENT ASSETS/LIABILITIES

	1999 K'000	1998 K'000
Letters of Credit	24,387	27,475
Guarantees	26,128	8,221
Travellers cheques	44,573	14,093
Foreign bills lodged	<u>79,935</u>	<u>76,658</u>
	<u>175,023</u>	<u>126,447</u>

## 15. RELATED PARTY TRANSACTIONS



# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31st December 1999

## 16. CAPITAL COMMITMENTS

	1999 K'000	1998 K'000
Authorised and contracted for	<u>17,000</u>	-

These commitments are to be funded out of internal resources.

## 17. 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 1999 the liquidity reserve was 36% (1998: 39%) 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 1999 the Bank's available capital was 30% (1998: 21%) of its risk bearing assets and contingent liabilities.

## 18. 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 1999, the Bank's Liquidity Ratio I was 94% (1998: 80%) and Liquidity Ratio II was 93% (1998: 81%).



# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31st December 1999

## 16. CAPITAL COMMITMENTS

	1999	1998
	K'000	K'000
Authorised and contracted for	<u>17,000</u>	—

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# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31st December 1999

## 19. 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.

## 20. PENSION COMMITMENTS

1. The company pension scheme is First Merchant Bank Limited Group Pension and Life Assurance Scheme covering all employees in the permanent service of the company.

The Trustees of this scheme have effected a Deposit Administration Contract with National Insurance Company Limited (NICO) with effect from 1st April 1999. Members' and employer's contribute to a Deposit Fund established thereunder.

2. Contributions charged to the income statement are K392,496 (1998: Nil).

3. Actuarial valuation is required to be carried out every three years.

4. No actuarial valuation has been carried out yet as the scheme has just started in April 1999.

# First Merchant Bank Limited

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