

ANNUAL REPORT 2000



FIRST MERCHANT BANK



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SENIOR MANAGEMENT

HEAD OFFICE

Chief Executive Officer	Kashinath Chaturvedi
General Manager	Seetharaman Srinivasan
Regional Development Manager	Kersey H. Kavina
Head, International Banking	Thomas Kadantot
Human Resources and Administration Manager	Indira Sharma-Surtee
Senior Finance Manager	Gayatri Kamath
Credit Control Manager	Alex Chigwale
Internal Audit and Inspection Manager	Ulemu Chibwana
Finance Manager	Vilipo Munthali

BRANCHES

BLANTYRE

Chief Manager	Ravindra Kamath
Operations Manager	Anna Mafuleka (Mrs)

LIMBE

Chief Manager	Ranjit Mehta
Operations Manager	Sylvester Nkwanda

LILONGWE

Chief Manager	Jayaramachandran Gopalan
Operations Manager	Andrew Mwawa

CAPITAL CITY

Chief Manager	Friday Chalamba
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MZUZU

Acting Branch Manager	Evelyn Malongo
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CHAIRMAN'S LETTER

I am delighted to present to you our Annual Report and Financial Statements for the year ended 31st December 2000.

OVERVIEW OF THE ECONOMY

The gross domestic product declined to 3.5 per cent compared to 4.7 per cent in 1999. This decline in GDP is largely attributable to the poor performance of the tobacco sector – the mainstay of the country's economy. A slight increase in GDP to 3.8 per cent is forecast for 2001.

A prerequisite for alleviation of poverty is sustained economic growth at much higher levels. This can only be achieved by significant investment in the economy. There is therefore, an urgent need to devise appropriate policies to encourage significant direct investment.

Inflationary pressures increased during the year owing to sharply rising oil prices, depreciation of the Malawi Kwacha and higher liquidity in the economy. Average year-on-year inflation decreased to 29.9 per cent from 44.9 per cent the previous year.

The depreciation of the currency was due mainly to deteriorating terms of trade owing to falling tobacco revenue and rising oil prices. Other contributory factors for the sharp decline in value of the Malawi Kwacha were the continued volatility of the South African Rand which lost nearly 20 per cent of its value, the poor state of the Zimbabwean Economy due to the land crisis and the general belief that the Zimbabwe Dollar was over valued in relation to the currencies of its neighbours.

The Malawi Government continues to place much emphasis on the creation of macroeconomic stability by reduction of the budget deficit which is forecast to be 1 per cent of GDP in current fiscal year. In order to control inflation, the Reserve Bank of Malawi has focused on management of the money supply through treasury bill auctions. The average yields on Treasury instruments continued to remain high. The adverse effect of these very high yields has been a scarcity of capital available to the private sector. Base lending rates of Commercial Banks necessarily remained high throughout the year.

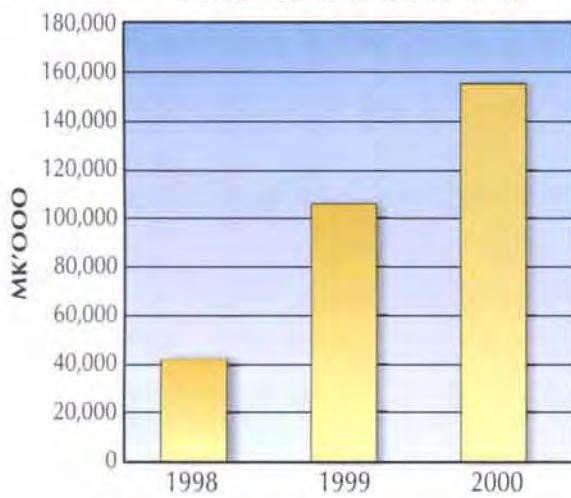
PERFORMANCE HIGHLIGHTS

The total assets of the Bank have once again increased substantially and as at the year's end were approximately MK 2 billion.

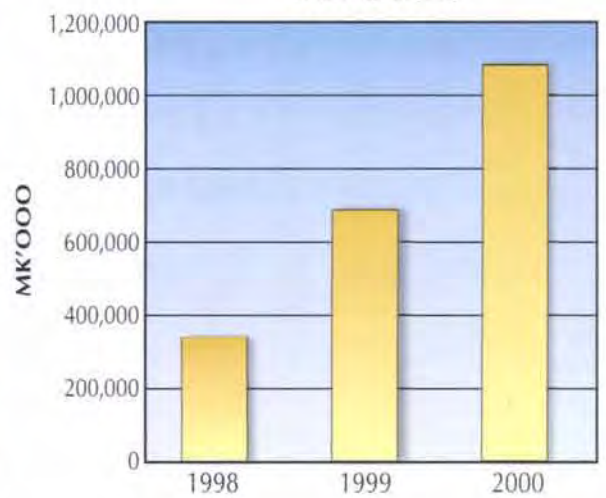
CHAIRMAN'S LETTER

(Continued)

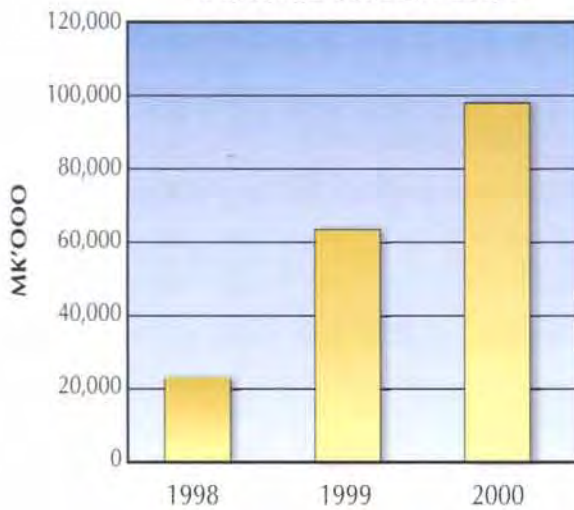
PROFIT BEFORE TAX



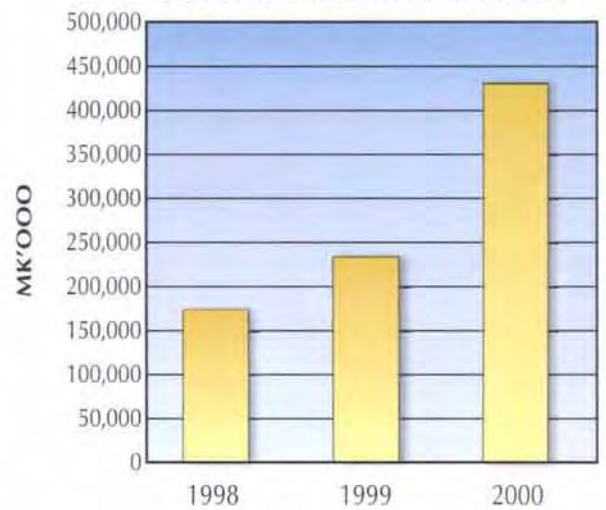
DEPOSITS



PROFIT AFTER TAX



LOANS AND ADVANCES





The Bank recorded 59 per cent growth in deposits during the year, higher than most of our competitors. The credit portfolio increased by 99 per cent. The growth in both areas has been derived from a very broad customer base. The overall quality of our advances portfolio remains sound and an appropriate level of provisioning, in conformity with the Reserve Bank's guidelines, has been maintained.

Pre-tax profit for the year increased by 47% to MK 155.6 mn and the net profit after tax was MK 98.4mn. A dividend amounting to MK 55.02 mn has been paid and the Bank has retained MK 43.4 mn thus strengthening the capital base further.

Shareholders' funds amounted to MK 158.5 mn at the year end. Our Capital to risk-based asset ratio of 24 per cent comfortably exceeds the prescribed minimum of 10 per cent thus providing ample scope for exploiting growth opportunities in the Bank's core business area, that of loans and advances.

YEAR OF EXPANSION

The Year 2000 has been one of expansion for our Bank. In June 2000, both the Head Office and Blantyre Branch relocated to First House, the Bank's own premises on the corner of Glyn Jones and Livingstone Avenue.

In August 2000 we opened the long awaited branch in Mzuzu. This Branch is situated in a prominent location on Orton Chirwa Road. The business at Capital City Agency Office, which was opened in July 1999, exceeded projections within a short period. As a result conversion of the agency into a fully-fledged branch has now become necessary. The proposed conversion will take place in the first quarter of 2001 when it will also be relocated to new and more spacious premises, thus facilitating provision of improved customer services.



CHAIRMAN'S LETTER (Continued)

NEW PRODUCTS

In March 2000, the Bank linked with Multichoice (Malawi) Limited to simplify and improve the payment of subscription for their subscribers of DSTV and Pay TV channels by installing Banking counters within Multichoice offices at Blantyre, Lilongwe and Mzuzu.

During the year we entered into an agreement with Commercial Bank of Malawi Ltd (CBM) for the provision of ATM cash withdrawal facilities to our customers. Our customers may now withdraw cash from any of the CBM Auto-Teller machines throughout Malawi.

HUMAN RESOURCES

The total number of staff at the year end was 197. The Bank is fully committed to the welfare and development of this most important asset. To this end various training courses, workshops and activities were organized throughout the year.

DONATIONS

The Bank's Community involvement has become an integral part of our activities. During the year we continued to assist various worthy causes and donations were made to Cheshire Homes, Kachere Rehabilitation Centre, Freedom Foundation Trust, Hindu Crematorium, Malawi Against Polio, Queen Elizabeth Central Hospital and a bore hole in Chiradzulu district.



ACKNOWLEDGEMENTS

The cornerstone of the Bank's success and progress has continued to be 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 sound banking principles, first class 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. Mr. Nigel Williams joined the Board in March 2000 and I am sure his wealth of banking experience will be an asset to the Bank.

My sincere thanks to our overseas correspondent banks and all the domestic financial institutions who have supported us throughout the year.

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

I wish to thank the Management and Members of Staff on behalf of myself and other Directors as well as our shareholders for the positive way in which they have assisted the Bank in attaining its objectives.

R.C. KANTARIA

Chairman



FMB CELEBRATES

First Merchant Bank celebrated two important milestones in June. The bank celebrated the 5th Anniversary of its activities in Malawi while at the same time the modern and spacious premises at First House was officially opened by the Governor of the Reserve Bank, Dr E.E. Ngalande. Over two hundred people as well as numerous international guests attended.

The new premises is a complex of 1 300 square metres, wholly owned by the bank. The premises include the Blantyre Branch, the International Business Department and the Head Office.





DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the annual financial statements for the year ended 31st December 2000.

NATURE OF BUSINESS

The company is registered as a commercial bank under the Banking Act 1989. The physical address of the company's registered office is:

First House
Private Bag 122
Glyn Jones Road
Blantyre
Malawi

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

A dividend of K40.02 million for the year and K15.00 million in respect of the previous year were paid during the year, representing K1.33 and K0.50 per ordinary share respectively.

The directors have proposed a further dividend of K10.00 million in respect of the year (1999: K15.00 million) representing K0.33 (1999: K0.50) per ordinary share for consideration by the shareholders at the forthcoming annual general meeting.

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.

The following directors served office during the year:

Name	
Mr. R.C. Kantaria	Chairman
Mr. H.N. Anadkat	Vice Chairman
Mr. N.G. Anadkat	Director
Mr. J.M. O'Neill	Director
Mr. A. Abdallah	Director
Mr. V.K. Shetty	Director
Mrs. R. Kanyuka	Director
Mr. N. Williams	Director (from March 2000)



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 2001 financial statements.

Mr J.M. O'Neill

Director

Mr N.G. Anadkat

Director

10th February 2001

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



Public Accountants
and
Business Advisors

Office Address
Able House
Hannover Avenue
Blantyre

Mail Address
P.O. Box 508
Blantyre
Malawi

Telephone: 620 744 / 620 391
Telefax: (265) 620 575
E-mail: kpmg@malawi.net

SCOPE

We have audited the financial statements set out on pages 13-23 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 as promulgated by the International Federation of Accountants. 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 financial statements. An audit also involves assessing the accounting policies used and the significant estimates made by the directors in the preparation of the financial statements, as well as evaluating their overall presentation of the financial statements. 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 2000 and of its results for the year then ended and are properly prepared in compliance with International Accounting Standards and in accordance with the relevant provisions of the Companies Act 1984.

KPMG

Certified Public Accountants

Blantyre

10th February 2001



Member firm of
KPMG International

Blantyre
R.M. Davies
R. Harawa

Lilongwe
V.S. Venkatesh



INCOME STATEMENT FOR THE YEAR ENDED 31st DECEMBER, 2000

	Notes	2000 K'000	1999 K'000 *As restated
Interest receivable		384,580	253,548
Interest payable		(168,743)	(99,132)
Net interest		215,837	154,416
Other income		95,449	54,435
Total income		311,286	208,851
Operating costs		(149,540)	(91,719)
Profit before provision for doubtful advances	1	161,746	117,132
Provisions for doubtful advances – specific		2,114	(4,533)
– general		(8,215)	(6,727)
Profit before taxation		155,645	105,872
Taxation	2	(57,259)	(40,231)
Net profit after taxation		98,386	65,641
Dividends paid	3	(55 020)	(15 000)
Retained profit for the year		43,366	50,641
Retained profit brought forward		85,173	34,532
Retained profit carried forward		128,539	85,173
Earnings per share (K)	4	3.28	2.19
Dividend per share		1.83	0.50

* Comparative figures have been restated due to a change in the accounting policy for the recognition of dividends as adopted in Malawi and as explained in note 3. The dividend of K15 million proposed in the previous year has been added back to the 1999 retained profit.

The accounting policies on pages 16 and 17 and the notes on pages 18 to 23 form part of these financial statements.

The auditor's report is on page 12.

BALANCE SHEET

AT 31st DECEMBER, 2000

	Notes	2000 K'000	1999 K'000 *As restated
LIABILITIES			
Liabilities to customers			
Current accounts		479,151	396,187
Foreign currency accounts		53,686	17,457
Savings accounts		78,028	60,389
Term deposits		479,794	212,062
Total liabilities to customers	5	1,090,659	686,095
Cheques in the course of collection		(102,800)	(1,966)
		987,859	684,129
Balances due to other financial institutions	9	10,000	70,000
		997,859	754,129
Taxation		11,103	10,473
Other liabilities	6	270,092	73,919
Total liabilities		1,279,054	838,521
CAPITAL AND RESERVES			
Share capital	7	30,000	30,000
Retained profit		128,539	85,173
Total shareholders' funds		158,539	115,173
Shareholders' interests and liabilities		1,437,593	953,694
Deferred taxation	2	3,192	-
Liabilities on acceptances, guarantees, indemnities and credits	14	529,702	175,023
TOTAL LIABILITIES, CAPITAL AND RESERVES		1,970,487	1,128,717
ASSETS			
Cash and cash equivalents	8	782,635	623,080
Balances with banks abroad		130,356	84,419
Investments	10	47,000	2,000
Advances and loans to customers	11	392,784	197,096
Other assets	12	11,606	5,957
		1,364,381	912,552
Fixed assets	13	76,404	41,142
		1,440,785	953,694
Customers' liabilities on acceptances, guarantees, indemnities and credits	14	529,702	175,023
TOTAL ASSETS		1,970,487	1,128,717

These financial statements were approved by the Board of Directors on 10th February 2001 and were signed on its behalf by:

..... **Mr J.M. O'Neill** Director

..... **Mr N.G. Anadkat** Director

The accounting policies on pages 16 and 17 and the notes on pages 18 to 23 form part of these financial statements.

The auditor's report is on page 12.



SOURCE AND APPLICATION OF FUNDS (CASH FLOW STATEMENT) FOR THE YEAR ENDED 31st DECEMBER, 2000

	2000 K'000	1999 K'000 <small>*As restated</small>
CASH GENERATED BY OPERATING ACTIVITIES		
Profit before taxation	✓ 155,645	105,872
Items not affecting the flow of funds		
Depreciation	12,914 ✓	6,655
Profit on disposal of fixed assets	(1,539) ✓	(358)
	11,375	6,297
Net cash flow from operating activities	167,020	112,169
MOVEMENT IN OPERATING ASSETS AND LIABILITIES:		
(Increase)/decrease in local registered government stocks	✓ (45,000)	1,224
Increase in balances due from banks abroad	✓ (45,937)	(40,595)
Increase in loans and advances	/ (195,688)	(56,285)
Increase in other assets	✓ (3,841)	(5,085)
Increase in liabilities to customers and other financial institutions	/ 243,730	460,992
Increase in other liabilities	194,365	21,884
	147,629	382,135
CASH GENERATED BY OPERATIONS		
Taxation paid	✓ (53,437)	(34,797)
Dividend paid	✓ (55,020)	(15,000)
	206,192	444,507
CASH EFFECTS OF INVESTING ACTIVITIES		
Purchase of fixed assets	✓ (51,384)	(36,563)
Proceeds from sale of fixed assets	/ 4,747	3,920
Proceeds from issue of shares	-	10,000
Increase in cash and cash equivalents	159,555	421,864
Cash and cash equivalents beginning of year	623,080	201,216
Cash and cash equivalents end of the year	782,635	623,080
ADDITIONAL STATUTORY INFORMATION		
Movement in net working capital	11,296	21,445

The accounting policies on pages 16 and 17 and the notes on pages 18 to 23 form part of these financial statements.

The auditor's report is on page 12.

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31st DECEMBER, 2000

(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**

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 properties	2.5%
Motor vehicles	25% - 50%
Furniture, fittings, equipment and leasehold improvements	25% - 100%

(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) **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprises of liquidity reserve deposits, treasury bills and cash and balances with banks in Malawi. Treasury bills redeemable at fixed dates are stated in the financial statements at book value which is the nominal value less unearned interest from the balance sheet date to maturity date.

(vi) **INVESTMENTS**

Investments in local registered stocks are stated in the financial statements at cost.



(vii) DEFERRED TAXATION

Full provision is made for deferred tax using the liability method. Tax which would arise if revalued assets and investments were sold at their enhanced carrying value, is transferred from the related reserves to the deferred tax provision as a balance sheet movement. Deferred tax assets are only recognised where there is reasonable expectation of realisation in the foreseeable future.

(viii) 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.

(ix) DIVIDENDS

Ordinary dividends are recognised as a liability in the period in which they are declared.

(x) 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.

Details of the pension scheme are given in note 19.

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER, 2000

	2000 K'000	1999 K'000
1. PROFIT BEFORE PROVISIONS FOR DOUBTFUL ADVANCES		
The profit before provisions for doubtful advances is arrived at in the following manner:		
Income		
Interest receivable – Customer loans and advances	164,742	93,151
– Treasury bills	174,026	124,525
– Financial Institutions	39,497	35,182
– Local Registered Government Stocks	6,315	690
	384,580	253,548
Less: Interest payable on – customer accounts and deposits	(133,009)	(73,924)
– financial institutions	(35,734)	(25,208)
Net interest income	215,837	154,416
Revenue from fees	25,671	14,757
Profit on foreign exchange transactions	61,200	35,031
Profit on disposal of fixed assets	1,539	358
Sundry income	7,039	4,289
Total income	311,286	208,851
Expenditure		
Staff costs	64,415	36,593
Recurrent expenditure on premises and equipment	25,766	20,787
Depreciation	12,914	6,655
Other costs	45,342	26,828
Auditor's remuneration	1,100	700
Cash shortages	3	156
Total expenditure	149,540	91,719
Total profit before provisions for doubtful advances	161,746	117,132
2. TAXATION		
(i) Income tax		
Income tax at 35% (1999:38%) based on the results for the year	54,067	40,231
Deferred tax	3,192	–
	57,259	40,231
	Provided	Unprovided
	K'000	K'000
(ii) Deferred taxation		
Differences between capital allowances and accumulated depreciation	185	(1,087)
Arising on accrued interest income and provisions	3,007	2,040
	3,192	953



	2000 K'000	1999 K'000
3. DIVIDENDS		
Proposed dividend for prior year paid during the year	15,000	-
Dividend paid for the year	40,020	15,000
	<u>55,020</u>	<u>15,000</u>
<p>The directors have proposed a final dividend of K10.0 million (1999: K15.0 million) which has not been provided in the accounts in accordance with the accounting policy on dividends which complies with International Accounting Standards.</p>		
4. EARNINGS PER SHARE		
Profit after tax for the year (MK'000)	98,386	65,641
Ordinary shares in issue throughout the year ('000)	30,000	30,000
Earnings per share (K)	3.28	<u>2.19</u>
5. LIABILITIES TO CUSTOMERS		
Interest bearing deposits	1,090,659	686,095
Liabilities to customers are payable as follows:		
Within three months	364,701	657,960
Between four months and one year	725,958	28,135
	<u>1,090,659</u>	<u>686,095</u>
6. OTHER LIABILITIES		
Interest payable	12,661	5,779
Bankers cheques issued and uncleared	16,637	13,298
Credit clearance vouchers	145,417	18,726
Interbranch balances	47,060	(1,808)
Sundry creditors	48,317	37,924
	<u>270,092</u>	<u>73,919</u>
7. SHARE CAPITAL		
Authorised:		
50 million ordinary shares of K1 each	50,000	50,000
Issued and fully paid:		
30 million ordinary shares of K1 each	30,000	30,000

NOTES ON THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31st DECEMBER, 2000

	2000 K'000	1999 K'000
8. CASH AND CASH EQUIVALENTS		
Liquidity reserve deposits		
– Reserve Bank of Malawi	109,194	19,490
– Continental Discount House Limited	<u>64,000</u>	<u>230,000</u>
	173,194	249,940
Treasury bills	544,892	343,605
Cash and balances with banks in Malawi	<u>64,549</u>	<u>29,985</u>
	<u>782,635</u>	<u>623,080</u>
Funds with Continental Discount House Limited are secured by Treasury Bills endorsed in favour of the bank.		
9. BALANCES DUE TO OTHER FINANCIAL INSTITUTIONS		
This represents an overnight borrowing at year end from Continental Discount House Limited.		
10. INVESTMENTS		
Local registered Government stocks		
Cost	47,000	2,000
Accrued interest has been included under other assets.		
11. ADVANCES AND LOANS TO CUSTOMERS		
Gross advances and loans	430,992	223,648
Specific provisions	<u>(6,807)</u>	<u>(9,426)</u>
	424,185	214,222
General provision	<u>(16,334)</u>	<u>(8,119)</u>
	407,851	206,103
Interest in suspense	<u>(15,067)</u>	<u>(9,007)</u>
	<u>392,784</u>	<u>197,096</u>
These advances and loans are due to mature as follows:		
Within three months	349,199	194,997
Between four months and one year	<u>43,585</u>	<u>2,099</u>
	<u>392,784</u>	<u>197,096</u>
Movement on provisions:		
At the beginning of the year	17,545	7,520
Advances written off during the year	<u>(505)</u>	<u>(1,235)</u>
	17,040	6,285
Charge against profits for the year	<u>6,101</u>	<u>11,260</u>
At the end of the year	<u>23,141</u>	<u>17,545</u>



	2000 K'000	1999 K'000
12. OTHER ASSETS		
Income receivable	8,085	159
Prepayments	1,540	4,892
Sundry debtors	1,981	906
	11,606	5,957

13. FIXED ASSETS	Freehold property K'000	Leasehold improve- ments K'000	Motor vehicles K'000	Furniture, fittings and equipment K'000	Capital work in progress K'000	Total K'000
Cost						
At 1st January 2000	26,591	2,668	7,756	19,099	–	56,114
Additions	9,701	–	3,882	33,443	4,358	51,384
Disposals	(1,365)	–	(2,325)	(534)	–	(4,224)
At 31st December 2000	34,927	2,668	9,313	52,008	4,358	103,274
Depreciation						
At 1st January 2000	184	1,113	2,540	11,135	–	14,972
Charge for the year	431	604	2,794	9,085	–	12,914
Eliminated on disposal	(87)	–	(418)	(511)	–	(1,016)
At 31st December 2000	528	1,717	4,916	19,709	–	26,870
Net book value						
At 31st December 2000	34,399	951	4,397	32,299	4,358	76,404
At 31st December 1999	26,407	1,555	5,216	7,964	–	41,142

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.

NOTES ON THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31st DECEMBER, 2000

	2000 K'000	1999 K'000
14. CONTINGENT ASSETS/LIABILITIES		
Letters of Credit	61,159	24,387
Guarantees	100,534	26,128
Travellers cheques	237,465	44,573
Foreign bills lodged	130,433	79,935
Forward sale contracts	111	-
	529,702	175,023

15. 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 2000, the total loans and advances to related parties amounted to K1,144 million (1999: K3,788 million). Of this, K0.944 million (1999: K3.590 million) was fully covered by fixed and/or floating charges. All advances to related parties carry interest above the bank's base lending rate.

	2000 K'000	1999 K'000
16. CAPITAL COMMITMENTS		
Authorised and contracted for	20,000	17,000

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 of 30% of its preceding month's total deposit liabilities including Government deposits. This 30% shall be maintained as a simple weekly average. In the last week of December 2000, the liquidity reserve was 31.8% (as at 31st December 1999: 36%) of total customers' and Government 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 2000 the Bank's available capital was 23% (1999: 30%) 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 2000, the Bank's Liquidity Ratio I was 97% (1999: 94%) and Liquidity Ratio II was 87% (1999: 93%).

19. 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 employers contribute to a Deposit Fund established thereunder.
2. Contributions charged to the income statement are K1,049,307 (1999: K392,496).

20. 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.

ECONOMIC REVIEW

THE WORLD ECONOMY – YEAR 2000

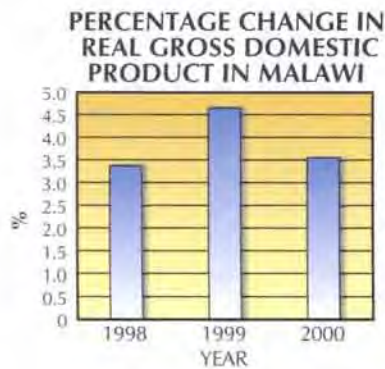
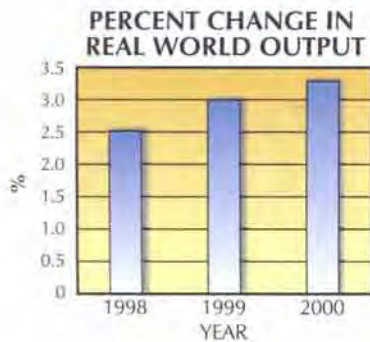
In 2000 economic and financial conditions reflected a significant improvement over the previous two years owing to continued economic growth in the United States and successful policy reforms in emerging markets. Accordingly world economic growth – at 3.3 per cent exceeded expectations.

Global trade showed a strong recovery and commodity prices firmed.

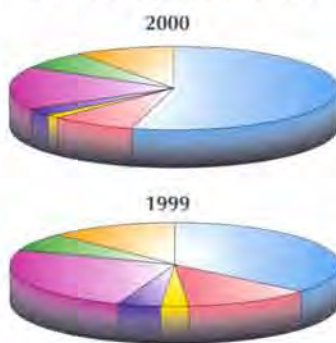
The challenge now is to maintain this growth in all regions, and whilst continued progress is evident, several obstacles remain:

- In Africa particularly, advances have struggled to keep pace with poverty, as the birth rate continues to grow, conflicts persist and HIV/AIDS ravages the working age group.
- In East Asia recovery exceeded expectations, however an overhang of residual domestic bad debts remains; whilst in South Asia poverty and local conflicts are a drain on public resources.
- Europe is facing challenges of poverty and inequality which were unknown a decade ago, whilst similar conditions prevail in the South American and Caribbean block – exacerbated by natural disasters, which occurred throughout the year.

It is hoped that the initial signs of recession in the United States do not spread to other regions thereby negating the progress that has been achieved over the past few years.



PERCENTAGE SHARE OF GDP BY ECONOMIC SECTOR



- Agriculture
- Manufacturing
- Construction
- Transport & Communications
- Distribution
- Financial & Professional Services
- Other

THE DOMESTIC ECONOMY (MALAWI)

In the year 2000, real Gross Domestic Product (GDP) is estimated to have grown by 3.5 per cent compared to the recorded increase of 4.7 per cent in 1999. The decrease in GDP growth is in the main attributable to the poor performance of the tobacco sector. Tobacco is by far the major export earner and production had increased during the year 2000, however, due to poor quality, price yields were low and the total revenue from sales declined by 15 per cent.

PERFORMANCE BY ECONOMIC SECTOR IN YEAR 2000

Agriculture

Smallholder production accounts for the largest share of agricultural output, with the emphasis being placed mainly on subsistence crops particularly maize.

In 1999 production was boosted by the distribution to smallholders of free 'starter packs' (which included fertilizer and seeds) inducing a maize surplus in 2000 which helped stabilize prices.

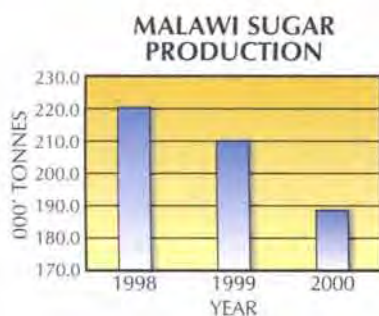
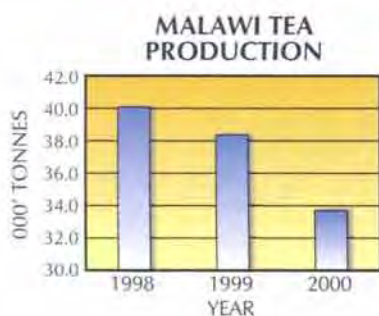
Estate production continues to be dominated by three main export crops i.e. tobacco, tea and sugar.

Tobacco (which is responsible for over 70 per cent of export income) sales amounted to 158.9 million kgs in volume terms (134.4 million kgs in 1999) which reflects an 18.8 per cent increase, however quality and therefore prices were down. This resulted in an annual income of only US\$ 163.4 million against US\$187.4 million the previous year – a 12.7 per cent decline.

The outlook for tobacco is uncertain given the vagaries of the weather, world over-supply and the efforts of the anti-smoking lobby. It is therefore imperative that Malawi gradually diversifies into other export crops and lessens its dependence on tobacco. Given the traditional nature of this crop and the capital infrastructure already in place such diversification would take several years to implement.

Tea production fell by 12.8 per cent in the year 2000 owing to unfavourable climatic conditions, however an 11.1 per cent floor increase boosted total proceeds to US\$13.9 million (US\$9.9 million in 1999). The continual introduction of clonal tea is expected to further boost income in this sector.

Production of sugar amounted to 75,510 tonnes and reflected a 24.7 per cent reduction over the previous year as a result of adverse climatic conditions.



Manufacturing

Value added to Real Gross Domestic product in this sector increased by 4.1 per cent in the year 2000. Whilst this is encouraging, this improvement comes from a relatively small base as manufacturers continue to struggle against low cost imports.

Construction

Value added in this sector increased by 4.8 per cent in 2000 (2.6 per cent in 1999) as Government and privately funded projects reflected a small but encouraging revival.

ECONOMIC REVIEW (Continued)

Distribution

Real Gross Domestic Product increased by 1.6 per cent in the year 2000, compared to 2.2 per cent in 1999. This performance was a reflection of both the anti-inflationary monetary measures adopted by the Authorities and a shortage of foreign exchange which resulted in a noticeable decline in import volume – a yardstick of economic activity.

Transport and Communication

Value added in this sector rose by 5.5 per cent, compared to a 2.2 per cent increase in 1999 – major contributory factors being the explosion of minibuses throughout the country and the small but encouraging increase in middle income earners who can afford a motor vehicle.

The increased utilization of the Nacala railroad might well induce a slight reduction of cross-border road haulage costs.

Mining and Quarrying

Although only forming a small portion of the economy to date, the growth in this sector is highly encouraging. A number of private companies engaged in the exploration of various minerals under conditions of an Exclusive Prospecting Licence (EPL) have increased growth by 19.3 per cent (3.5 per cent in 1999) and mineral deposits of graphite in Lilongwe, diamonds in Livingstonia and Mangochi, coal in Ntcheu and iron sulphide in Dowa are currently being explored.

Currency Stability

The Malawi Kwacha ended the year at K80.60 : US\$1. A gradual decline in the Kwacha accelerated in September and October culminating in an eventual depreciation of 30 per cent for the year. This decline was halted in November as monetary policies eventually took effect and demand for foreign exchange fell. The Kwacha remains stable to date and a slight revaluation is now evident.

The significant devaluation to October 2000 was largely due to the negative effects of lower export proceeds (mainly tobacco), higher fuel prices, delayed donor support and budget deficits. External factors were the sharp depreciation in the currencies of both South Africa and Zimbabwe, which are Malawi's main trading partners. In Zimbabwe the on-going land reforms are expected to place further pressure on that country's currency.

Inflation

The official rate of inflation (as measured by the year on year percentage changes in the retail price index) closed



at 35.4 per cent for the month of December. This figure is 7.10 points higher than that of the previous year (28.30 per cent) and is in the main attributable to the devaluation of the Kwacha and fuel price increases. However the national average annual inflation rate for the year 2000 reflected an encouraging improvement to 29.5 per cent against 44.9 per cent in 1999 as maize prices stabilized following a bumper crop.

Stock Market

Despite the unfavourable macroeconomic condition prevalent throughout most of the year 2000, the fledgling Malawi Stock Market has shown considerable growth as evidenced by the upward trend in volume of shares traded on the secondary market. A total volume of 109,385,588 shares were traded in the year (total turnover – K1.328 bn) against the previous year's volume of 50,577,679 (total turnover of K290.731 mn). This represents a 116.27 per cent increase and is the result of a combination of factors which include the listing of National Bank of Malawi (Malawi's largest Bank) in June 2000, high volume on National Insurance Company (NICO) shares as Press Corporation relinquished control and a growing awareness of the functions and benefits of the Stock Market to local investors.

Outlook for 2001

We anticipate real GDP growth to be in the region of 3.5 per cent in 2001 which falls well short of the World Bank targeted growth of 6 per cent which is necessary if the country is to make a noticeable impact in the reduction of poverty.

The performance of the tobacco sector will continue to be the main determinant of the economic growth and climatic conditions have to date proved favourable. However, it is not clear whether current world demand is sufficient to induce a reasonable price increase.

The average rate of inflation is projected at 25-30 per cent and on the foreign exchange front depreciation of the Malawi Kwacha is expected to slow – especially in the first half of the year.

The Authorities are expected to maintain a tight fiscal policy although interest rates are projected to fall from the highs of late 2000.

It is anticipated that the current account deficit will decline from US\$207 million (11.9 per cent of GDP) in 2000 to US\$138 million in 2001 as a result of forecast growth in the agricultural sector.

BLANTYRE

6th March 2001



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