

First Merchant Bank



Annual Report

2002



The **Banker**
AWARDS 2002

FT Business
FINANCIAL TIMES

This is to certify that **THE BANKER** has awarded

First Merchant Bank

BANK OF THE YEAR 2002 for

Malawi



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Senior Management

HEAD OFFICE

Chief Executive Officer
Kashinath Chaturvedi

General Manager
Seetharaman Srinivasan

Regional Development Manager
Kersy H. Kavina

Head, International Banking
Thomas Kadantot

Head, Information Technology
E.P. Jacob

Head, Internal Audit and Inspection
P.P. Peter

Human Resources and Administration Manager
Indira Sharma-Surtee (Mrs)

Senior Finance Manager
Gayatri Kamath (Mrs)

Senior Credit Control Manager
Alex Chigwale

Finance Manager
Vilipo Munthali

BRANCHES

BLANTYRE

Chief Manager
Prakash Kamath

Operations Manager
Anna Mafuleka (Mrs)

LIMBE

Chief Manager
Ravindra Kamath

Operations Manager
Montfort Masinga

LILONGWE

Chief Manager
Friday Chalamba

Operations Manager
Evince Bamusi

CAPITAL CITY

Branch Manager
Howard Chirwa

MZUZU

Branch Manager
Evelyn Malongo

Chairman's Statement

I am happy to report that in 2002 the Bank was able to maintain its record of sustained real growth in all key areas of its operations. It is particularly pleasing that this performance was achieved in a year when overall macro-economic performance continued to disappoint.

Overview of the Economy

Following on from a 4.1% decline in real gross domestic product in 2001, the real output of the economy is estimated to remain virtually stagnant in 2002. Of particular concern is the continued contraction of the manufacturing sector, whose real output is estimated to decline by a further 11.4%. Small scale agricultural output, which is the most significant component of overall GDP, also declined marginally due to adverse climatic conditions.

Given that the population growth rate is estimated at 1.9% per annum, sustained annual economic growth of at least 6% per annum is required to reverse the present trend of declining real per capita incomes and to make any progress towards the objective of reducing poverty in Malawi.

The extent of the central government budget deficit has worsened considerably in 2002. This is largely explained by the suspension of virtually all donor support and the costs incurred in importing maize in response to food shortages in the country, but other extra-budgetary expenses have also been incurred by Government. As a result the level of domestic borrowing by Government has almost tripled over the year. In turn, the cost of servicing this debt is placing an enormous burden on the Government budget.

The Reserve Bank of Malawi maintained a tight monetary policy stance throughout the year, issuing Reserve Bank bills to mop up excess liquidity in the market. Nevertheless, money supply continued to grow at an annual rate of around 25%, largely fuelled by net government borrowing from the banking system. There was however, a modest easing in interest rates over the year.

More success was achieved in controlling inflation and the annual average inflation rate fell from 22.7% in 2001 to 14.8% in 2002. In the latter half of the year prices fell as a result of emergency food distribution by donors and the importation by Government of maize for sale at subsidised prices.

As might be expected, in view of much lower than anticipated donor inflows and the imported maize bill, there has been a decline in the level of foreign currency reserves. At 31 December 2002 overall banking system gross reserves equated to 3.9 months of import cover (2001:4.4 months) and gross reserves equated to 2.7 months of import cover (2001:3.2 months). As a result the Kwacha remained under pressure, particularly in the last quarter of the year, ending the year some 30% down in value against the United States dollar.

Performance Highlights

The Bank has continued to enjoy strong growth with total assets increasing from K3.5 billion to K5.4 billion over the year.

Although overall banking sector deposits grew by only 7% over the year, we remained able to attract deposits from a wide customer base and achieved an impressive 44% growth in the level of deposits held by the Bank.

The prevailing economic environment, especially the continued contraction of the manufacturing sector, restricts the

Chairman's Statement

(cont.)

available prudent lending opportunities. Despite this, we have, over the year, been able to grow our credit portfolio by 38% to K859 million.

The overall quality of our credit portfolio has remained good and provisioning in excess of the Reserve Bank guidelines has been maintained. In addition to specific provisions against identified doubtful advances, our policy remains to build up the level of non-specific provision to cater for any unidentified risk which may be present in our advances portfolio. A further K12m has been set aside from profits to non-specific provision which now approximates over 5 percent of our net advances portfolio.

Our capital to risk based asset ratio of 21% comfortably exceeds the prescribed minimum of 10% thus providing ample scope for increasing our credit portfolio.

Profit after tax for the year was MK261mn, an increase of 60 percent over the prior year. As at 31st December 2002, the capital base of the bank, comprising share capital and retained earnings, increased to over K400m.

Leasing and Finance Company of Malawi Limited

In July 2002, the Bank acquired a 100% shareholding in Leasing and Finance Company of Malawi Limited, a long-established financial institution engaged primarily in the provision of lease financing. This acquisition will add to the range of services available to our clients, both borrowers and depositors.

Investment Division

In keeping with the Bank's objective of continuous improvement in the level and scope of services available to our clients, the Bank is now licensed as an investment/portfolio manager by Reserve Bank of Malawi and we established, during the year, an investment division

providing asset management, corporate finance and general investment services. Notable achievements included the very successful initial public offering of shares in The National Investment Trust Limited, Malawi's first collective investment scheme. We are also responsible for the ongoing management of the trust's asset portfolio.

Bank of the Year in Malawi

In July 2002, The Banker magazine selected First Merchant Bank Limited for the award of "Bank of the year 2002 in Malawi". Winning this coveted award is testimony to the professionalism and commitment of the management and staff of the Bank.

Human Resources

The Bank remains fully committed to the welfare and development of our staff who we regard as our most important asset. We have a comprehensive in house programme of courses of various aspects of banking and sponsor staff to attend appropriate training courses. Some 30 members of staff are sponsored by the Bank to pursue correspondence courses with the Institute of Bankers in South Africa. To date 2 staff members have achieved the qualification of Certified Associate of the Institute of Bankers, South Africa.

Donations

The Bank recognises its social responsibilities and supports a number of worthy causes. During 2002 severe food shortages were experienced throughout Malawi and the Bank responded by purchasing and distributing maize to the needy in various rural areas.

Other beneficiaries included Queen Elizabeth Central Hospital, the Lions Club Charity Golf Competition, the Malawi School Sports Association and a number of needy students whose education fees



Chairman's Statement

(cont.)

are met by the Bank.

Acknowledgements

The Bank owes its success and progress achieved so far to its customers. I wish to thank all our valued customers for their support during the year and assure them that we shall continue to provide excellent service based on sound banking principles.

I take this opportunity to express my gratitude to my colleagues on the Board for their invaluable counsel throughout the year.

Our overseas correspondents and all the domestic financial institutions have supported us throughout the year and I convey my sincere thanks to them.

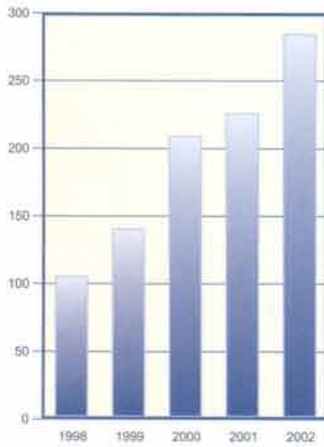
I also place on record my appreciation of the support and guidance of Reserve Bank of Malawi.

Finally, I would like to thank the management and members of staff for their continued dedication and commitment to customer service.

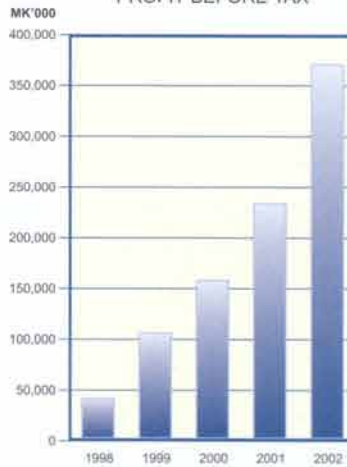
R. C. Kantaria
Chairman

Bank's Progress

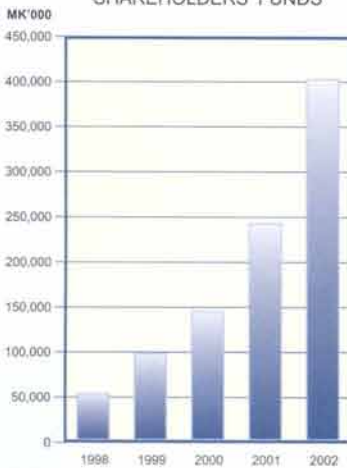
NUMBER OF EMPLOYEES



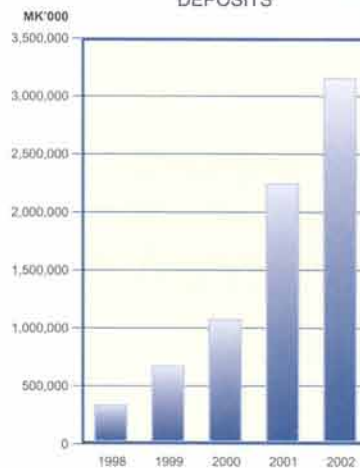
PROFIT BEFORE TAX



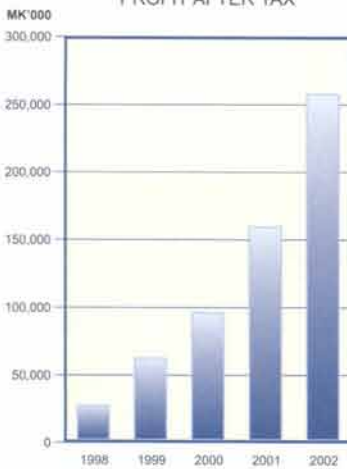
SHAREHOLDERS' FUNDS



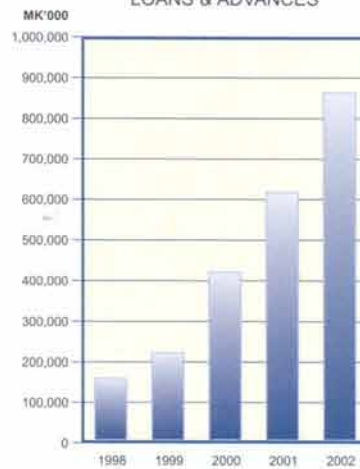
DEPOSITS



PROFIT AFTER TAX



LOANS & ADVANCES



The Banker Awards



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Malawi



ASSET MANAGEMENT



First Merchant Bank Limited

Investment Division

Corporate Finance

Asset Management

8 BUSINESS

DAILY TIMES, Tuesday, December 10, 2002

NITL share value soars upon launch



BY FRANK PHIRI

INVESTOR confidence in the National Investment Trust Limited (NITL) climbed to a new high yesterday as the company was officially launched over the counter at Stockbrokers Malawi Limited (SML) in Blantyre.

The first trading saw NITL's share value going up by 20 percent to K1.20 per share from K1.00, and stock brokers attributed the increase in the value to investor confidence which marked the initial offer of NITL's 40 million shares.

A joint statement by Stockbrokers Malawi Limited, Privatisation Commission and First Merchant Bank (FMB) released ahead of the launch of trading yesterday said the initial offer was fully subscribed, deciding the PC to issue a further 3,976,400 shares to suit demand from 599 Malawian investors. This, said the statement, represented a full subscription rate of 110 per cent.

PC's Executive Director Mazako Phiri said investor response to NITL share offer

light of the prevailing tough economic conditions, and demonstrated the confidence in the potential of the trust.

"These are extremely difficult times for the Malawi economy, but the subscribers

of his board to seek a full listing of the trust on the Malawi Stock Exchange (MSE) at the earliest possible time.

"We already have the necessary spread of shareholders to meet the

A copy of this prospectus has been delivered to and has been registered by the Registrar of Companies and the Reserve Bank of Malawi. The Registrar of Companies and the Reserve Bank of Malawi have not checked and will not check the accuracy of any statements made and they accept no responsibility therefor or for the financial soundness of The National Investment Trust Limited or the value of the securities offered. The Registrar of Companies and the Reserve Bank of Malawi registered this prospectus on 18 October 2002.

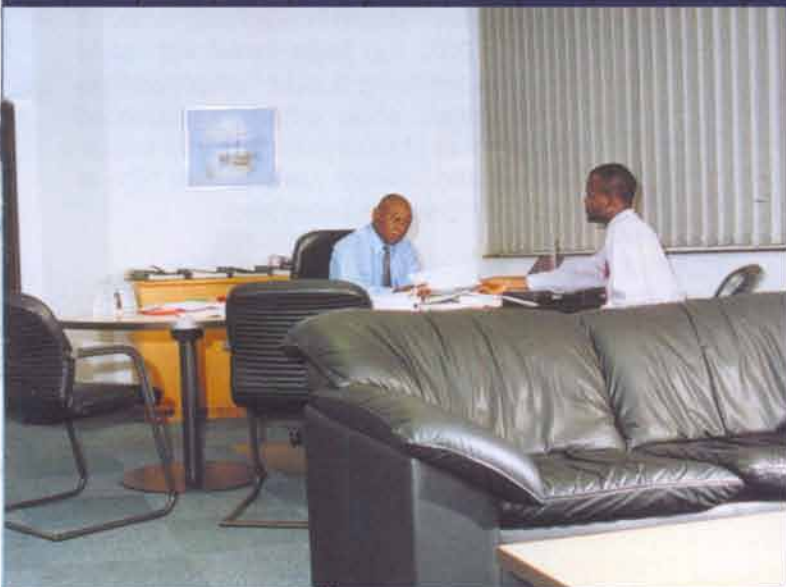
NITL

The National Investment Trust Limited

(Incorporated in Malawi on 20 September 2001 under registration number 6024)

PROSPECTUS

Offer for sale by The Privatisation Commission of 40,000,000 ordinary shares of nominal value of 2 tumbala each in the ordinary share capital of the National Investment Trust Limited at an offer price of 100 tumbala per share



Economic Review

For the year ended 31 December 2002

Economic Review

Following a weak 2001, the anticipated recovery in the world economy did not occur in 2002 with the real growth in world gross domestic product estimated to be a disappointing 2.7%. Currency crises in South America, debt issues in Asia, falling output in Europe and accounting scandals in the United States of America have collectively strained the global economy. Global stock markets continued the decline which commenced in 2001, leaving many individual and corporate investors looking for alternative investment opportunities. The level of foreign direct investment worldwide remains healthy but cautious.

United States of America

The USA economy began the year strongly on the back of gains in industrial production and robust domestic sales but struggled as the year wound to a close. Along with the stock market, the economy faltered as investors reacted to accounting scandals and disclosures of executive malfeasance. Nevertheless, the annualised gain in GDP over the first three quarters of 2002 was a respectable 3%. Inflation levels remain very tame and, although most analysts consider it unlikely, the risk of deflation remains a nagging worry.

Europe

Real economic output in Europe is estimated to have grown by a negligible 1% in 2002. Unemployment rates continued to rise throughout most of Europe reflecting the sluggish economic growth which is particularly evident in the high tech. and manufacturing sectors. Consumer confidence remains relatively high which has assisted to keep the economy moving forward. Except for a few countries where high inflation has caused some concern, inflation has remained at a reasonable level throughout Europe and interest rates have remained steady.

Asia Pacific

The average real GDP growth in the region in 2002 was 4.7%. There are, however, wide variations as the economies of the countries of the region range from developing to highly developed. In general terms, the transition or developing economies showed stronger GDP growth than the developed economies which produced sluggish growth in line with general global trends.

South America

Faced by a myriad of challenges including the weak global economy, political instability and severe recession in many economies of the region, real GDP growth in the South American region was below 4%. High unemployment remains a concern in most countries and expect for Argentina and Venezuela inflation rates are high throughout the region.

Africa

Political risk, corruption and poor governance are key issues in many African nations. Many markets are primarily domestic demand driven while exports rely heavily on natural resources. Oil rich and gold exporting countries have benefited from the high global prices for these commodities. Growth in economic output in Africa in 2002 has been varied with some countries achieving double digit percentage growth rates while others experienced stagnation or shrinkage in economic output. Inflation and interest rates remain high in many sub-Saharan countries.

The Domestic Economy

Latest estimates indicate that the real output of the economy has not recovered from the 4% decline in real GDP in 2001 and virtually zero growth is forecast for 2002. Although large scale agriculture,

Economic Review

(cont.)

financial and professional services, utilities, construction and distribution all recovered lost ground, manufacturing sector output continues to shrink (by an estimated 11.4% in 2002) and small scale agriculture continued to face difficulties and output of this sector is expected to decline marginally by 0.4% in real terms.

The Government have been unable to reach agreement with The International Monetary Fund to enable the resumption of IMF support to the economy. Other donors have also suspended budgetary support until the IMF programme is back on track.

The Government has been obliged to import significant quantities of maize to counter severe food shortages in the country, following successive poor harvests of this staple food. These two factors are the main contributors to a widening budget deficit which has been financed by Government domestic borrowing, which has risen over the course of the year from K9 billion to K25 billion.

Foreign Currency Market

The suspension of donor support and the imported maize bill have impacted negatively on the country's foreign exchange reserves. As at the end of 2002 gross official reserves of US\$162 million equate to 2.6 months of import cover compared with 3.2 months of import cover at the end of 2001.

As result the Kwacha came under pressure, particularly in the last quarter of the year, and closed the year some 23% down in value against the U.S. dollar. Amongst our major trading currencies, the most marked movement was a depreciation over the year of in excess of 40% in the value of the Kwacha against the South African Rand as the Rand appreciated by significantly against major international currencies. At the official exchange rate, the Zimbabwe dollar strengthened against the Kwacha but the parallel market value of the Zimbabwe dollar is presently one thirtieth of its official value.

Inflation

During 2002 money supply continued to grow at an annual rate of around 25%, with monetary expansion being largely due to net government borrowing from the banking system.

Despite this monetary expansion, the overall rate of inflation fell from 22.1% at the beginning of the year to 11.5% at year end. The main reason is a drop in food prices due to emergency food distribution by donors and Government subsidisation of the price of imported maize. Over the course of the year the rate of non-food inflation rose from 10% to 16%, whereas, by December 2002, food inflation had abated to 8.2%.

Interest rates

There a gradual but slight easing in interest rates over the course of 2002. The Bank Rate which was 46.8% at the beginning of the year was reduced to 43% in July and then 40% in October. Similarly, average yields on treasury bills and RBM bills decreased over the year falling from 46% into a range of 36% to 38.5% by year end.

Nevertheless Malawi continues to face very high real interest rates reflecting a high element of country risk premium and the market distortions created by the soaring public sector borrowing requirement.

Stock Market

The Malawi Stock Exchange remains a small and illiquid market and its performance is badly hampered by large market overhangs in certain listed counters and the high returns available from competing money market investment opportunities. Overall the Malawi All Share Index lost over 30% in the year and the exchange ratings remain on average the least demanding in Africa. Volume of trading was significantly down in 2002 with a total of 31.6 million shares traded for a total turnover of K259 million. In 2001 182.9 million shares were traded for a total

Economic Review

(cont.)

turnover of K1,453 million.

On the positive side, the number of listed counters increased to 9 with the admission to listing of Sunbird Tourism Limited and Sucoma successfully undertook the market's first capital raising by way of rights issue. A second stockbroker was admitted to the exchange which has resulted in the establishment of an improved price discovery mechanism through a call over system between the brokers.

Performance by Economic Sector

Agriculture

Although large scale agriculture recovered from the slump experienced in 2001 and registered a very respectable 12.8% growth in real output, small scale agricultural sector output declined marginally and overall sector growth was 2.2%. The major manifestation of low small scale sector output was the poor maize crop which proved insufficient to meet the country's staple food needs, necessitating the importation of 250,000 tonnes of maize by Government.

Tobacco auction sales volumes increased by 10.8% to 138 million kilogrammes, prices firmed slightly to an average of US118 cents per kg. and total realised increased by 13.4% to US\$163 million.

Good rainfall in the last quarter of 2002 has contributed to an increase in tea production from 36.8 million kgs. to 39.1 million kgs. in the current year. Prices were slightly firmer averaging US91 cents per kg. against US81 cents average for 2001.

Sugar production for 2002 was 260.6 million Kgs, some 21% up on 2001 production levels. This increase is largely attributable to increased production efficiency at the Dwangwa and Nchalo factories. A pick up in regional demand has enabled sugar exports to be increased to 103.5 million Kgs from 89 million Kgs in

2001.

Manufacturing

Output of the manufacturing sector continues to decline with an estimated contraction of 11.4% following on from a 14.2% contraction in 2001. The sector faces many problems including a drop in consumer purchasing power, cheap competing imports from the region, high interest rates and high taxes.

Other sectors

Other sectors of the economy registered some recovery from the declines experienced in 2001. Financial and professional services grew 3.3% against a 3.3% decline in 2001, construction grew 10.4% after recording a drop of 4.7% in 2001 and the utilities sector grew 4.8% to recover some of its 7.0% decline in 2001.

Outlook

We anticipate modest real growth in GDP in 2003 driven largely by a recovery in agricultural sector output. The latest estimate of maize production is comfortably in excess of annual consumption. Excess rains experienced in certain areas may negatively impact burley tobacco production but increased flue-cure tobacco plantings should compensate, especially if anticipated firmer prices are achieved. The sugar sector should continue to benefit from increased production efficiencies but the tea sector will continue to be affected by depressed global prices. Unfortunately, the manufacturing sector is expected to contract yet further in 2003.

Modest improvements are forecast for other sectors.

Overall macro-economic stability is, however, largely dependent on control of government expenditure and the resumption of donor inflows.

We anticipate monetary policy to remain tight in order to control inflation and support the stability of the Kwacha though much will

On 1st July 2002, First Merchant Bank acquired Leasing and Finance Company of Malawi Limited (LFC).

LFC is in the business of vehicle and equipment leasing, factory and insurance premium financing.



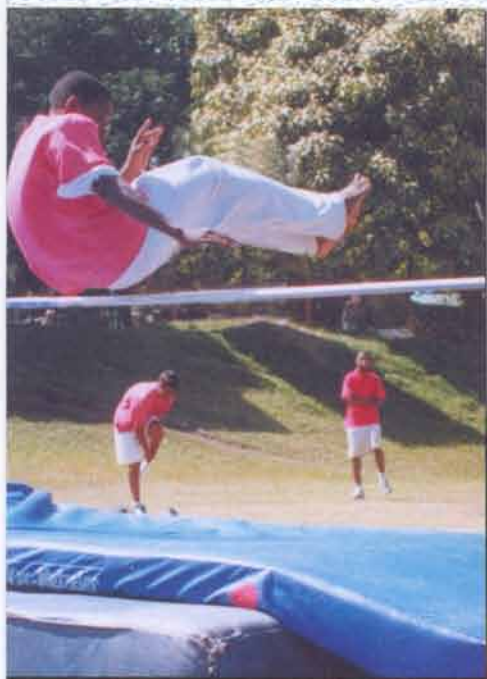
LFC



Donations



During the past year, the bank has been involved in the donation of maize to many areas of Malawi affected by drought including Muona, Lower Shire and Chipini, Lunzu



The bank was involved in giving to a number of educational projects including sponsorship of Malawi Schools Sports Association (MASSA) and assistance with tuition fees. Mr. Stephen Chanunkha (*far right*) of Nkhawatoto Orphan Care Centre co-ordinated the disbursement of tuition fees.

Directors' Report

For the year ended 31 December 2002

depend on whether there is any further escalation in the level of Government domestic debt.

The directors have pleasure in submitting their report together with the group financial statements of First Merchant Bank Limited for the year ended 31st December 2002.

Nature of business

First Merchant 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. Its wholly owned subsidiary, Leasing and Finance Company of Malawi Limited, which was acquired during the year, is engaged in the provision of lease finance.

The physical address of the holding 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 statements, statements of changes in equity, balance sheets, statements of cash flows and associated accounting policies and notes.

The major trading currencies of the bank are United States Dollar, British Pound and South Africa Rand. The exchange rates were K87.16, K67.23 and K80.06 for the United States Dollar, K139.56, K97.56 and K120.63 for the British Pound and K9.97, K6.61 and K9.70 for South Africa Rand as at 31st December 2002, 2001 and 2000 respectively.

Annual inflation is estimated at 14.8%, 22.1% and 35.4% as at 31st December

2002, 2001 and 2000 respectively.

Dividend

A dividend of MK100 million was paid during the year, representing 100 tambala per ordinary share.

Directorate and Secretary

The following directors and secretary served during the year:

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
Mr. S. Srinivasan	Secretary

In accordance with the company's Articles of Association, all directors are retiring at the forthcoming Annual General Meeting, but being eligible for re-appointment, offer themselves for re-election.

Board Committees

Board Committees were established to ensure that the board discharges its duties effectively, in accordance with principles of good corporate governance. All board committees have terms of reference and report to the main board.

Audit Committee

The Audit Committee is responsible for reviewing the reports of both internal and external auditors, as well as the adequacy and effectiveness of internal and accounting controls. The committee consists of three non-executive directors. Both internal and external auditors have unlimited access to the Audit Committee.

Standing Committee on

Directors' Report

(cont.)

Loans and Advances

The committee approves all applications for loans and advances that are above the Chief Executive's discretionary limits. This committee consists of four non-executive directors.

Appointments and Remunerations Committee

The committee is appointed by the Board to review the terms and conditions of service and the salaries of staff members. The committee consists of all local directors.

Directors' responsibility for the financial statements

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

The directors 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 responsible for establishing controls to prevent the falsification of entries in the books of

accounts 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 2003 financial statements.

H. N. Anadkat
Director

J. M. O'Neill
Director

14th February 2003

Auditor's Report



Public Accountants
and
Business Advisors

Office Address
Able House
Hannover Avenue
Blantyre

Mail Address
P.O. Box 508
Blantyre
Malawi

Telephone: (265) 01 620 744 / 01 620 391
Telefax: (265) 01 620 575
E-mail: kpmg@malawi.net

INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF FIRST MERCHANT BANK LIMITED

Scope

We have audited the consolidated financial statements of First Merchant Bank Limited set out on pages 18 to 35 for the year ended 31 December 2002.

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, of evidence supporting the amounts and disclosures in the financial statements; assessing the accounting policies used and the significant estimates made by the directors in the preparation of the financial statements, and evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the consolidated financial statements are properly drawn up in accordance with the provisions of the Companies Act 1984 and International Financial Reporting Standards so as to give, in all material respects, a true and fair view of the financial position of the Group and Company at 31st December 2002 and of the results of their operations and cash flows for the year then ended, as far as concerns the members of the Company.

KPMG
Certified Public Accountants (Malawi)
Blantyre

14th February 2003



Member firm of
KPMG International

Blantyre
R.M. Davies
R. Harawa

Lilongwe
V.S. Venkatesh



Income Statement

For the year ended 31 December 2002

In thousands of Malawi Kwacha

	Note	GROUP 2002	COMPANY 2002 2001	
INCOME				
Interest on loans and advances		294,034	290,355	216,424
Interest on placements with other banks		82,946	79,544	38,313
Income from treasury bills		379,158	351,662	299,857
Income from lease financing		64,225	-	-
Income from investments		20,636	17,565	17,565
Interest payable on deposits and other accounts		(357,013)	(289,825)	(262,486)
Net interest income		<u>483,986</u>	<u>449,301</u>	<u>309,673</u>
Fees and commissions receivable		54,695	54,695	32,853
Profit on foreign exchange transactions		177,959	177,959	147,351
Other income	2	6,063	3,561	8,068
Total net income		<u>722,703</u>	<u>685,516</u>	<u>497,945</u>
EXPENDITURE				
Staff and training costs	3	143,434	138,664	104,701
Recurrent expenditure on premises and equipment		31,552	30,305	30,940
Depreciation		36,747	35,175	25,413
Other operating costs	4	113,224	97,925	75,793
Total expenditure		<u>324,957</u>	<u>302,069</u>	<u>236,847</u>
Profit before provision for doubtful debts		397,746	383,447	261,098
Provision for doubtful debts - Specific		(5,197)	695	(15,429)
- General		(11,698)	(12,000)	(12,000)
Profit before income tax expense		<u>380,851</u>	<u>372,142</u>	<u>233,669</u>
Income tax expense	5	(111,672)	(111,622)	(69,450)
Net profit for the year		<u>269,179</u>	<u>260,520</u>	<u>164,219</u>
Basic earnings per share (MK)	6	<u>2.69</u>		

Statement of Changes in Equity

For the year ended 31 December 2002

In thousands of Malawi Kwacha

	Share capital	Retained earnings	Total
GROUP			
Balance at 1 January 2001	30,000	128,539	158,539
Profit for the year 2001	-	164,219	164,219
Dividends to shareholders	-	(80,000)	(80,000)
Balance at 1 January 2002	30,000	212,758	242,758
Bonus shares issued	70,000	(70,000)	-
Profit for the year 2002	-	269,179	269,179
Dividends to shareholders	-	(100,000)	(100,000)
Balance at 31 December 2002	<u>100,000</u>	<u>311,937</u>	<u>411,937</u>
COMPANY			
Balance at 1 January 2001	30,000	128,539	158,539
Profit for the year 2001	-	164,219	164,219
Dividends to shareholders	-	(80,000)	(80,000)
Balance at 1 January 2002	30,000	212,758	242,758
Bonus shares issued	70,000	(70,000)	-
Profit for the year 2002	-	260,520	260,520
Dividends to shareholders	-	(100,000)	(100,000)
Balance at 31 December 2002	<u>100,000</u>	<u>303,278</u>	<u>403,278</u>

The financial statements are to be read in conjunction with the accounting policies on pages 22 to 26 and notes on pages 27 to 35.

The auditor's report is on page 17.

Balance Sheet

At 31st December 2002

In thousands of Malawi Kwacha

	Note	GROUP 2002	COMPANY 2002 2001	
LIABILITIES AND EQUITY				
Liabilities				
Current and savings accounts		1,425,391	1,425,604	1,094,910
Foreign currency accounts		958,549	958,549	547,665
Term deposits accounts		<u>1,159,308</u>	<u>836,057</u>	<u>590,190</u>
Total liabilities to customers	7	3,543,248	3,220,210	2,232,765
Income tax payable		51,941	53,077	21,829
Other liabilities	8	<u>413,009</u>	<u>385,821</u>	<u>333,464</u>
		<u>4,008,198</u>	<u>3,659,108</u>	<u>2,588,058</u>
Equity				
Issued capital	9	100,000	100,000	30,000
Retained earnings		<u>311,937</u>	<u>303,278</u>	<u>212,758</u>
Total equity		<u>411,937</u>	<u>403,278</u>	<u>242,758</u>
Shareholders' interests and liabilities				
Acceptances, guarantees, indemnities and credits for accounts of customers	18	<u>956,946</u>	<u>956,946</u>	<u>684,056</u>
Total equity and liabilities		<u>5,377,081</u>	<u>5,019,332</u>	<u>3,514,872</u>
ASSETS				
Cash and cash equivalents	11	3,144,323	3,005,023	1,986,739
Remittances in transit		18,772	18,772	63,453
Other assets	12	55,439	52,062	102,033
Loans and advances to customers	13	803,504	770,697	548,258
Finance leases	14	215,981	-	-
Other investments	15	63,375	47,000	47,000
Investment in subsidiary	16	-	<u>65,911</u>	-
		4,301,394	3,959,465	2,747,483
Deferred tax assets	10	10,658	10,658	4,261
Property and equipment	17	<u>108,083</u>	<u>92,263</u>	<u>79,072</u>
		4,420,135	4,062,386	2,830,816
Acceptances, guarantees, indemnities and credits for accounts of customers	18	<u>956,946</u>	<u>956,946</u>	<u>684,056</u>
Total assets		<u>5,377,081</u>	<u>5,019,332</u>	<u>3,514,872</u>

The financial statements of the company were approved for issue by the Board of Directors on 14th February 2003 and were signed on its behalf by:

H. N. Anadkat
Director

J. M. O'Neill
Director



Statement of Cash Flows

For the year ended 31 December 2002

In thousands of Malawi Kwacha

	<u>GROUP</u>	<u>COMPANY</u>	
Note	2002	2002	2001
OPERATING ACTIVITIES			
Interest and fees received	1,073,677	971,557	761,721
Interest paid	(355,913)	(289,189)	(260,779)
Cash paid to suppliers and employees	<u>(233,696)</u>	<u>(221,312)</u>	<u>(191,871)</u>
	484,068	461,056	309,071
Increase in net customer balances	<u>951,336</u>	<u>851,659</u>	<u>952,986</u>
Cash generated from operations	1,435,404	1,312,715	1,262,057
Income taxes paid	<u>(87,957)</u>	<u>(86,771)</u>	<u>(66,177)</u>
Cash flows from operating activities	<u>1,347,447</u>	<u>1,225,944</u>	<u>1,195,880</u>
INVESTING ACTIVITIES			
Proceeds from sale of equipment	3,108	2,883	1,019
Acquisition of property and equipment	17 (47,060)	(44,632)	(33,151)
Acquisition of subsidiary	16 (45,911)	(45,911)	-
Purchase of additional shares in the subsidiary	-	<u>(20,000)</u>	-
Cash outflows from investing activities	<u>(89,863)</u>	<u>(107,660)</u>	<u>(32,132)</u>
FINANCING ACTIVITIES			
Dividend paid	<u>(100,000)</u>	<u>(100,000)</u>	<u>(80,000)</u>
Cash flows from financing activities	<u>(100,000)</u>	<u>(100,000)</u>	<u>(80,000)</u>
Net increase in cash and cash equivalents	1,157,584	1,018,284	1,083,748
Cash and cash equivalents at 1 January	<u>1,986,739</u>	<u>1,986,739</u>	<u>902,991</u>
Cash and cash equivalents at 31 December	11 <u>3,144,323</u>	<u>3,005,023</u>	<u>1,986,739</u>
ADDITIONAL STATUTORY INFORMATION			
Increase in net working capital	<u>133,771</u>	<u>140,932</u>	<u>69,740</u>

Significant Accounting Policies

First Merchant Bank Limited is a private limited company incorporated in Malawi. The consolidated financial statements for the year ended 31st December 2002 comprise the bank and its subsidiary, Leasing and Finance Company of Malawi Limited, (together referred to as the "Group")

(a) Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

(b) Basis of preparation

The financial statements are presented in Malawi Kwacha, rounded to the nearest thousand. They are prepared on the historical cost basis except for investments held for trading which are stated at their fair value. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is being hedged.

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary, Leasing and Finance Company of Malawi Limited. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Consolidation is based on 31st December 2002 audited financial statements. Inter-group balances and transactions and any unrealised gains arising from intra-group transactions other than arm's length transactions in the normal course of business are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Malawi Kwacha at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Malawi Kwacha at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Malawi Kwacha at foreign exchange rates ruling at the dates the values were determined.

(e) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer accounting policy (i).)

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Significant Accounting Policies

(cont.)

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Generally, costs associated with information technology are recognised as an expense when incurred.

However, information technology development costs of a strategic nature are capitalised as part of computer equipment.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. Land is not depreciated. The following depreciation rates are in use:

• freehold properties	2.5%
• motor vehicles	25% - 50%
• furniture, fixtures and fittings computers, office equipment and leasehold improvements	25%-100%

(f) Investments

(i) Investments in debt and equity securities

The fair value of investments held for trading is their quoted bid price at the balance sheet date.

Investments in equity are recognised at cost.

Investments held for trading are recognised/derecognised by the Group on the date it commits to purchase/sell the investments. Investments held-to-maturity are recognised/derecognised on the day they are transferred to/by the Group.

(ii) Finance leases

Lease and instalment sale contracts are regarded as financing transactions and rentals and instalments receivable there under, less unearned finance charges, are not capitalised as fixed assets, but are shown as lease debtors at amounts equal to the net investment in the leases.

Known bad debts are written off and specific provision made for those considered to be doubtful.

(g) Other receivables

Other receivables comprise interbranch accounts, interest receivables, prepayments, staff advances and office assets and are stated at their cost less impairment losses (refer accounting policy i).

Significant Accounting Policies

(cont.)

(h) Cash and cash equivalents

Cash and cash equivalents comprise coin and bank notes, balances with Reserve Bank, balances with other banks, registered discount houses and treasury bills.

(i) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(j) Provisions for credit losses

Advances and other assets are stated in the balance sheet after the deduction of provisions for credit losses

Appropriate provisions are made against advances based upon the directors assessment of the quality of the portfolio.

Specific provisions, covering identified doubtful debts, are based on specific evaluations of advances and take account of past loss experience, economic conditions and changes in the nature and level of risk exposure.

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.

The amounts required to fund the assessed level of provision for credit losses are charged to the income statement.

Interest on advances is accrued to income until such times as reasonable doubt exists with regards to recovery, thereafter further interest is not included in income.

Advances are written off once the probability of recovery becomes remote.

(k) Provisions and other liabilities

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(l) Pension Scheme and other post retirement benefits

The bank operates a Defined Contribution Pension Scheme administered by the National Insurance Company Limited, the assets of which are held in separate trustee administered fund. Contributions to this fund which are based on pensionable earnings are charged to income statement as they fall due.

Significant Accounting Policies

(cont.)

(m) Revenue recognition

(i) Net interest income

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis, using the effective yield method. Interest income is suspended when the collection of loans becomes doubtful. Such income is excluded from income until received.

(ii) Other non-interest income

Other non-interest income includes, fees and commissions from customers, other banks and related transactions, net income from exchange and securities dealing and net gains on the sale of assets.

Fees and commissions are recognised when the related service is performed.

(iii) Lease income

Income from leases is accounted for on the actuarial method so as to produce a constant periodic rate of return on the net investment outstanding. Income on Government of Malawi leases is only recognised when actual rentals are received.

(n) Expenses

(i) Terminal benefits

The actual amounts paid as pension and retirement gratuities to those employees who are not covered by the Pension Fund are charged to income statement.

(ii) Off balance sheet transactions

The bank enters into off -balance sheet transactions such as forward exchange contracts and currency swaps. At the year end, unrealised gains and losses are dealt with through the income statement.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Significant Accounting Policies

(cont.)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Dividends

Dividends are recognised in the income statement in the period paid.

(q) Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant, to a single plan and which represents a separate major line of business or geographical area of operations.

(r) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is written off in the year of acquisition.

(s) Earnings per share

Earnings per share is calculated by dividing net profit attributable to ordinary shareholders by the number of ordinary shares outstanding at year end.

Notes to the Financial Statements

For the year ended 31 December 2002

1. Acquisition of subsidiary

On 1st July 2002, the company acquired all the shares in Leasing and Finance Company of Malawi Limited for K45.911 million, satisfied in cash. The company is engaged in the provision of lease finance. The acquisition was accounted for using the purchase method of consolidation.

In the six months to 31st December 2002, the subsidiary contributed net profit of K15.774 million to the consolidated net profit for the year. The purchase consideration exceeded the net assets acquired by K7.115 million and this has been written off to income statement in line with the Group's accounting policy (r)

2. Other income

	GROUP 2002	COMPANY 2002	2001
Profit on disposal of fixed assets	2,484	2,259	307
Other sundry income	3,579	1,302	7,761
	<u>6,063</u>	<u>3,561</u>	<u>8,068</u>

3. Staff and training costs

	GROUP 2002	COMPANY 2002	2001
Salaries, wages and training costs	138,260	135,612	102,349
Contributions to defined contribution plans	5,174	3,052	2,352
	<u>143,434</u>	<u>138,664</u>	<u>104,701</u>

The number of employees of the group at 31 December 2002 was 304 (2001: 222).

4. Other operating costs

	GROUP 2002	COMPANY 2002	2001
Auditor's remuneration			
-current audit fees (before surtax)	2,838	1,800	1,500
Directors' fees	8,848	8,848	5,143
Computer costs	13,608	13,608	15,271
Goodwill written off	7,115	-	-
Telephone/telex/fax/postage	12,279	11,545	8,546
Printing and stationery	14,562	13,889	7,425
Others	56,019	48,235	37,908
	<u>113,224</u>	<u>97,925</u>	<u>75,793</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

5. Income tax expense

Recognised in the income statement

Current tax expense
Current year at 30%(2001: 30%)
based on profits

Deferred tax credit
Origination and reversal of timing
differences

Total income tax expense in
income statement

	<u>GROUP</u>	<u>COMPANY</u>	
	2002	2002	2001
	118,069	118,019	76,903
	<u>(6,397)</u>	<u>(6,397)</u>	<u>(7,453)</u>
	<u>111,672</u>	<u>111,622</u>	<u>69,450</u>

6. Earnings per share

The calculation of basic earnings per share at 31 December 2002 was based on the consolidated net profit attributable to ordinary shareholders of MK269 million and number of ordinary shares outstanding as at 31 December 2002 of 100 million calculated as follows:

Net profit attributable to ordinary shareholders (K'000)

Number of ordinary shares ('000)

Issued ordinary shares at 1st January
Shares issued in March 2002

Number of ordinary shares at 31st December

Basic earnings per share (MK)

<u>GROUP</u>
2002
<u>269,179</u>
30,000
70,000
<u>100,000</u>
<u>2.69</u>

7. Liabilities to customers

Interest bearing deposits

Payable as follows:

Maturing within 3 months

Maturing between 3 and 12 months

	<u>GROUP</u>	<u>COMPANY</u>	
	2002	2002	2001
	<u>3,543,248</u>	<u>3,220,210</u>	<u>2,232,765</u>
	2,925,577	2,633,508	1,428,519
	<u>617,671</u>	<u>586,702</u>	<u>804,246</u>
	<u>3,543,461</u>	<u>3,220,210</u>	<u>2,232,765</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

8. Other liabilities

	<u>GROUP</u>	<u>COMPANY</u>	
	2002	2002	2001
Interest payable	15,004	15,004	14,368
Bankers cheques issued and uncleared	35,789	35,789	15,943
Credit clearance vouchers	31,266	31,266	48,030
Margins on letters of credit and forward contracts	258,559	258,559	228,576
Others	72,391	45,203	26,547
	<u>413,009</u>	<u>385,821</u>	<u>333,464</u>

9. Share capital

In thousands

In issue at 1 January
 Issued during the year
 In issue at 31st December – fully paid

	<u>Ordinary shares</u>	
	2002	2001
	30,000	30,000
	<u>70,000</u>	-
	<u>100,000</u>	<u>30,000</u>

At 31 December 2002 the authorised share capital comprised 100,000,000 (2001: 50,000,000) ordinary shares of K1 each and the issued and fully paid share capital totalled 100,000,000 (2001: 30,000,000) ordinary shares of K1 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

10. Deferred tax assets and liabilities

(i) GROUP

Property and equipment
 Accrued income
 General provisions
 Tax (assets)/liabilities

	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
	2002	2002	2002
	(7,835)	-	(7,835)
	-	9,277	9,277
	<u>(12,100)</u>	-	<u>(12,100)</u>
	<u>(19,935)</u>	<u>9,277</u>	<u>(10,658)</u>

(ii) COMPANY

Property and equipment
 Accrued income
 General provisions
 Tax (assets)/liabilities

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	2002	2001	2002	2001	2002	2001
	(7,835)	(2,361)	-	-	(7,835)	(2,361)
	-	-	9,277	6,600	9,277	6,600
	<u>(12,100)</u>	<u>(8,500)</u>	-	-	<u>(12,100)</u>	<u>(8,500)</u>
	<u>(19,935)</u>	<u>(10,861)</u>	<u>9,277</u>	<u>6,600</u>	<u>(10,658)</u>	<u>(4,261)</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

	<u>GROUP</u>	<u>COMPANY</u>	
	2002	2002	2001
11. Cash and cash equivalents			
Liquidity Reserve Deposits			
- Reserve Bank of Malawi	457,591	457,591	364,878
- Registered discount houses	<u>161,250</u>	<u>161,250</u>	<u>116,000</u>
	618,841	618,841	480,878
Balances with banks abroad	235,581	235,581	977,206
Malawi Government treasury bills	1,550,049	1,411,397	243,531
Reserve Bank of Malawi bills	-	-	179,363
Commercial Paper	-	-	18,749
Cash and bank balances	<u>739,852</u>	<u>739,204</u>	<u>87,012</u>
Cash and cash equivalents	<u><u>3,144,323</u></u>	<u><u>3,005,023</u></u>	<u><u>1,986,739</u></u>
12. Other assets			
Items in transit	31,317	31,317	87,214
Interest receivable	10,003	7,943	6,418
Prepayments	11,320	10,003	6,961
Others	<u>2,799</u>	<u>2,799</u>	<u>1,440</u>
	<u>55,439</u>	<u>52,062</u>	<u>102,033</u>
13. Loans and advances to customers			
Maturing within 3 months	791,471	756,644	526,539
Maturing between 3 and 12 months	<u>102,724</u>	<u>102,724</u>	<u>93,383</u>
	<u>894,195</u>	<u>859,368</u>	<u>619,922</u>
Provision for losses:			
Specific Provision - At 1 January	(19,216)	(19,216)	(6,807)
Write offs	472	472	3,020
New provision	(12,461)	(10,441)	(26,829)
Recoveries	<u>10,664</u>	<u>10,664</u>	<u>11,400</u>
-At 31 December	<u>(20,541)</u>	<u>(18,521)</u>	<u>(19,216)</u>
Interest in suspense: At 1 January	(24,114)	(24,114)	(15,067)
New provision	<u>(5,702)</u>	<u>(5,702)</u>	<u>(9,047)</u>
At 31 December	<u>(29,816)</u>	<u>(29,816)</u>	<u>(24,114)</u>
General provision: At 1 January	(28,334)	(28,334)	(16,334)
New provision	<u>(12,000)</u>	<u>(12,000)</u>	<u>(12,000)</u>
At 31 December	<u>(40,334)</u>	<u>(40,334)</u>	<u>(28,334)</u>
Net advances and loans to customers	<u><u>803,504</u></u>	<u><u>770,697</u></u>	<u><u>548,258</u></u>

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

14. Finance leases

	<u>GROUP</u> 2002
Maturing within 3 months	68,655
Maturing between 3 and 12 months	126,393
Maturing after 12 months	<u>127,185</u>
	<u>322,233</u>
Specific provision at 1 July	(19,519)
New provision	(3,872)
At 31 December	<u>(23,391)</u>
Interest in suspense at 1 July	(17,302)
New provision	4,086
At 31 December	<u>(13,216)</u>
General provision at 1 July	(3,187)
New provision	302
At 31 December	<u>(2,885)</u>
Interest on overdue debts at 1 July	-
New provision	(6,160)
At 31 December	<u>(6,160)</u>
Unearned income at 1 July	(108,317)
Movement	47,717
At 31 December	<u>(60,600)</u>
Net finance leases	<u>215,981</u>

15. Other Investments

	<u>GROUP</u> 2002	<u>COMPANY</u> 2002	2001
Local registered Government stocks (at cost)	<u>63,375</u>	<u>47,000</u>	47,000

Accrued interest has been included under other receivables.

16. Investments in subsidiary (at cost)

	Shareholding	<u>COMPANY</u>
Leasing and Finance Company of Malawi Limited	100%	45,911
Acquired on 1st July 2002		<u>20,000</u>
Additional shares issued in October 2002		<u>65,911</u>

Leasing and Finance Company of Malawi Limited, a company incorporated in Malawi, was acquired by the bank on 1st July 2002 and the subsidiary's share capital was increased by K20 million in October 2002.

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

17. Property and equipment

		Freehold property	Leasehold improvements	Motor Vehicles	Equipment Fixture & fittings	Total
GROUP						
Cost or valuation						
Balance at 1 January 2002		34,927	1,385	10,659	87,636	134,607
Acquisition through business combinations	1	10,190	-	9,947	13,724	33,861
Additions		-	-	11,087	35,973	47,060
Disposals		(701)	-	(1,199)	(18)	(1,918)
Balance at 31 December 2002		<u>44,416</u>	<u>1,385</u>	<u>30,494</u>	<u>137,315</u>	<u>213,610</u>
Depreciation and impairment losses						
Balance at 1 January 2002		1,402	1,310	7,316	41,149	51,177
Arising from business combinations	1	-	-	7,940	10,957	18,897
Charge for the year		971	-	3,754	32,022	36,747
Released on disposal		(113)	-	(1,164)	(17)	(1,294)
Balance at 31 December 2002		<u>2,260</u>	<u>1,310</u>	<u>17,846</u>	<u>84,111</u>	<u>105,527</u>
Carrying amount						
At 31 December 2002		<u>42,156</u>	<u>75</u>	<u>12,648</u>	<u>53,204</u>	<u>108,083</u>
At 31 December 2001		<u>34,399</u>	<u>951</u>	<u>4,397</u>	<u>32,299</u>	<u>79,072</u>
COMPANY						
Cost or valuation						
Balance at 1 January 2002		34,927	1,385	10,659	87,636	134,607
Additions		-	-	9,469	35,163	44,632
Disposals		(701)	-	(274)	(18)	(993)
Balance at 31 December 2002		<u>34,226</u>	<u>1,385</u>	<u>19,854</u>	<u>122,781</u>	<u>178,246</u>
Depreciation and impairment losses						
Balance at 1 January 2002		1,402	1,310	7,316	41,149	51,177
Charge for the year		857	-	3,024	31,294	35,175
Released on disposal		(113)	-	(239)	(17)	(369)
Balance at 31 December 2002		<u>2,146</u>	<u>1,310</u>	<u>10,101</u>	<u>72,426</u>	<u>85,983</u>
Carrying amount						
At 31 December 2002		<u>32,080</u>	<u>75</u>	<u>9,753</u>	<u>50,355</u>	<u>92,263</u>
At 31 December 2001		<u>34,399</u>	<u>951</u>	<u>4,397</u>	<u>32,299</u>	<u>79,072</u>

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

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

18. Contingent Assets/Liabilities	GROUP	COMPANY	
	2002	2002	2001
Letters of credit	286,033	286,033	194,889
Guarantees	250,354	250,354	161,090
Travellers cheques	311,602	311,602	111,603
Foreign bills lodged	108,957	108,957	77,860
Forward sale contracts	-	-	138,614
	<u>956,946</u>	<u>956,946</u>	<u>684,056</u>

19. Employee benefits

Expense recognised in the income statement

Pension contributions	<u>5,174</u>	<u>3,052</u>	<u>2,352</u>
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This is recognised under staff costs in the income statement.

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 with effect from 1st April 1999. The company and employees contribute to a Deposit Fund established thereunder.

The subsidiary company's pension scheme is The Leasing and Finance Company of Malawi Limited Pension Fund covering all employees in the permanent service of the company. The trustees of this scheme have effected a deposit administration contract with Old Mutual Life Assurance Company Limited with effect from 1 March 1987. The company and employees contribute to a Deposit Fund established thereunder.

20. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the group's business. Financial instruments are used to reduce exposure to fluctuations in foreign exchange rates and interest rates. While these are subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Investments are allowed only in liquid securities and only with well known counterparties.

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

On the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Throughout the year the bank complied with the Reserve Bank of Malawi directive on credit concentration.

Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Malawi Kwacha. The currencies giving rise to this risk are primarily Pounds Sterling, US Dollars, and South African Rand.

All the transactions entered into during the year were within the foreign currency exposure and foreign currency lending directives of Reserve Bank of Malawi.

21. Related parties

The bank transacts part of its business on an arms length basis with companies affiliated to the shareholders. As at 31st December 2002 the total loans and advances to related parties amounted to K 5.8 million which is 0.65% of the total advances. (2001: K5.6 million which was 0.90% of the total advances). Of this total, K 3.8 million (2001: K2.9 million) was fully secured by fixed and/or floating charges. All advances to related parties carry interest above the bank's base lending rate.

22. 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:

(i) Liquidity Reserve Requirement

The Bank is required to maintain liquidity reserve ratio, calculated on a weekly average basis, of not less than 30 percent of the preceding weeks total deposit liabilities. In the last week of December 2002, the liquidity reserve was 33% (2001: 31.8%) of total customer deposits.

(ii) 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 31 December 2002, the Bank's available capital was 28% (2001: 21%) of its risk bearing assets and contingent liabilities

23. Prudential Aspects of Bank Liquidity

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

- Liquidity Ratio 1: Net liquidity (total liquid assets less suspense account in foreign currency divided by total deposits must be at least 30%.
- Liquidity Ratio 2 : 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 31 December 2002, the Bank's Liquidity Ratio 1 was 95% (2001: 94%) and Liquidity Ratio 2 was 94% (2001: 91%)

Notes to the Financial Statements

For the year ended 31 December 2002 (cont.)

24. Comparative figures

Group figures do not have any comparatives for 2001 as the subsidiary was acquired in July 2002.

25. Incorporation

First Merchant Bank Limited is a private company incorporated in Malawi under the Malawi Companies Act 1984 and is registered as a financial institution under the Banking Act 1989.

26. Subsequent events

Subsequent to the Balance Sheet date no events have occurred necessitating adjustments to or disclosures in the financial statements.

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