



As in the issue of new Notes or Bonds, prospectus, conversion forms and application forms are sent to potential investors. When allotting, customers with a holding in the converted Note or Bond are given priority in terms of the conversion rights but are treated *pari-pasu* in terms of a new application.

If Government decides to redeem the Notes or Bonds, the holders are notified of the intention at least a month before maturity of the security and are advised to surrender their certificates. On maturity date the investors are paid the nominal value (principal) of the Note or Bond plus final semi-annual interest.

SAMPLE OF PROSPECTUS

The List of applications will be opened and closed on 31 January 2005
GOVERNMENT OF MALAWI



25.5% Fixed Coupon Rate Treasury Note January 2008

PROSPECTUS

OF AN ISSUE OF

K500,000,000.00 TREASURY NOTE

(Issued under the provisions of the Public Finance Management Act)

Issue Price: K100 per cent

Payable in Full on Application

THE RESERVE BANK OF MALAWI are authorized to receive applications for the above issue of the Treasury Note.

1. PURPOSE OF ISSUE

The proceeds of this issue will be used for the repayment of a maturing debt.

2. INTEREST

Interest will be payable at the Reserve Bank of Malawi, Lilongwe, half-yearly on 31 July and 31 January by interest cheque posted to the address of the Treasury Note holder or by remittance to the credit of a banking account.

The first payment will be made on 31 July 2005, on the amount of the Treasury Note allotted.

Interest on this Treasury Note in the hands of residents of Malawi will be subject to Withholding Tax.

3. REDEMPTION OF TREASURY NOTE

The Treasury Note will be redeemed at par in the currency of Malawi at the Reserve Bank of Malawi, Lilongwe, on 31 January 2008.

4. SECURITY

The Treasury Note and interest thereon is a charge upon and payable from the consolidated Fund of the Government of Malawi.



5. REGISTRATION

Transfers of the Treasury Note, which may be for a minimum of K100,000.00 and multiples of K10,000.00 thereafter, will be effected in the books of the Reserve Bank of Malawi, Lilongwe, who have been appointed Registrars of the Treasury Note. Transfers will be free of stamp duty and will be effected without registration fee.

The Treasury Note register will be closed for a period of 14 days immediately prior to the dates on which interest is payable.

6. APPLICATIONS AND GENERAL ARRANGEMENTS

The subscription list will be opened on 31 January 2005 at 8 a.m. and will be closed at 1 p.m. on the same day. Applications must be for not less than K100,000.00 nominal value of Treasury Note or multiples of K10,000.00 thereafter. No allotment will be made for less than K100,000.00 of the Treasury Note.

Subscriptions will be accepted free of bank commission and exchange. The full payment of K100 percent must be made on application for the Treasury Note.

Applications for Treasury Note of this issue must be made on Form "A" provided with this Prospectus and should be sent to the General Manager, Economic Services, Reserve Bank of Malawi, P.O. Box 30063, Capital City, Lilongwe 3.

Prospectuses and application forms may be obtained from the Reserve Bank of Malawi, Lilongwe or Blantyre.

Reserve Bank of Malawi

P.O. Box 30063

Capital City

Lilongwe 3

December 2004

Any Enquires should be directed to:

The Director
Financial Market
Operations
P O Box 30063

Phone: 01 770600

Fax: 01 772301 or 01



**RESERVE BANK OF
MALAWI**



*Guide to Investing in
Malawi Government
Treasury Notes and
Treasury Bonds*

APRIL 2005



Treasury Notes and Treasury Bonds

Historical Background

Malawi Government Treasury Bonds or Treasury Notes were once called Malawi Government Local Registered Stocks. The Reserve Bank of Malawi Issued the first Malawi Government Local Registered Stock in August 1965 pursuant to Section 45 of the Finance and Audit Act, 1963.

Definitions

Treasury Notes: Securities issued by, or on behalf of, Treasury, with over one year but up to ten years maturity.

Treasury Bonds: Securities issued by, or on behalf of, Treasury, with more than ten years maturity.

Issue of Treasury Notes and Bonds

In accordance with Government borrowing programme, the Secretary to the Treasury is authorized by the Minister of Finance to borrow for and on behalf of Government sums of money by issue of the Notes or Bonds. The Treasury Notes or Bonds are issued in order to finance development projects such as roads, schools and hospitals and also for repayment of maturing debt.

Currently the Notes and Bonds are issued in the minimum amount of K100,000 and multiples of K10,000 thereafter. When a Bond or Note is due to be issued, the Local Debt Section of Financial Market Operations sends Press Releases to the local Newspapers to alert prospective investors of the impending issue.



Copies of Notes and Bonds prospectuses and application forms are sent on request to the prospective investors.

Payment for the Notes and Bonds allotted to investors has in the past been through cash, postal orders and bank certified cheques. This however has been phased out and settlement for the Notes and Bonds is done through investors accounts at commercial banks.

After allotment of the Notes and Bonds to the customers, Reserve Bank as an issuing agent of the Treasury sends certificates of the Notes and Bonds to the successful investors who have their holdings in the issued security.

Interest rates for the Notes and Bonds are based on the Notes and Bonds yield pattern whose benchmark is the Bank Rate. Interest is received semi-annually for the life of the Notes or Bonds and upon maturity the Note or Bondholder receives the principal amount that he/she invested and also the final interest payment. Notes or Bonds can either be issued with a flexible or fixed coupon interest rate. The flexible coupon rate is adjusted when the Bank rate is adjusted while the fixed rate remains constant.

Interest Calculation

Interest on Notes and Bonds is calculated using the following Formula:

$$[P \cdot T \cdot R / 100] / 2$$

Where:

P=Principal

T=Time

R=Coupon Rate of Interest

It should be noted that any interest in excess of K10,000 attracts withholding tax (WHT) which is currently at 20 percent.



Example:

An investor intends to invest K500,000 in a Treasury Note of 3 years at a coupon interest rate of 25.0 percent. Thus, semi-annual interest will be:

$$=[K500,000 \cdot 1 \cdot 25 / 100] / 2$$

$$=K125,000 / 2$$

$$=K62,500$$

Thus, K62,500 will be given as interest semi-annually for a period of three years.

Note

20 percent WHT will be levied on the interest in excess of K10,000 i.e.:

$$20\% \text{ WHT} = [K62,500 - 10,000] \cdot 20\%$$

$$=K10,500$$

Semi-annual net interest will therefore be:

$$=K62,500 - K10,500$$

$$=K52,000$$

Secondary Market

Stockbrokers Malawi Limited (SML) is the institution that facilitates the buying and selling of the Notes and Bonds in the secondary market. Prospective investors may obtain further information about Notes and Bonds that are available for purchase from SML. Similarly, investors wishing to sell their holdings of Notes and Bonds may do so through SML.

Conversion/Redemption of Notes and Bonds

Depending on the fiscal position, Government will decide to convert or redeem the Notes and Bonds and will communicate its intention to the customers who have holdings in the Notes and Bonds through Reserve Bank of Malawi.

Customers are given a choice to redeem or convert part of their total holdings. Customers are also advised to surrender old certificates for conversion/redemption process.