INVESTRUST BANK PLC

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2010

INVESTRUST BANK PLC
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2010

CONTENTS

INVESTRUST BANK PLC

REPORT OF THE DIRECTORS

The Directors present their report together with the financial statements for the year ended 31 December 2010, which disclose the state of affairs of Investrust Bank Plc (the "Bank").

GENERAL INFORMATION

Investrust Bank Plc is a public limited liability company and is incorporated under the Zambian Companies Act, 1994 (as amended) as a limited company and domiciled in the Republic of Zambia. The Bank is also licensed under the Zambian Banking and Financial Services Act, 1994 (as amended) to conduct commercial banking services. The address of its registered office is as follows:

Ody's Park
Plot No. 19028
Great East Road
P.O. Box 32344
Lusaka

The Bank's activities continued to be the provision of retail, corporate banking and leasing services.

The Bank has its primary listing on the Lusaka Stock Exchange (LuSE).

RESULTS AND DIVIDENDS

	2010	2009
	K'000	K'000
Net interest income	**50,326,603**	48,106,500
(Loss) profit before tax	**(6,351,230)**	16,411,623
Net (loss) profit for the year	**(4,939,054)**	10,072,294

During the year, a dividend of ZK1.14 per share was declared and paid in respect of the financial year ended 31 December 2009. The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2010.

SHARE CAPITAL

The total authorised number of ordinary shares remained at **5,000,000,000** (2009 : 5,000,000,000) with a par value of ZK1 per share. The issued share capital remained unchanged at 2,964,000,000 shares with a par value of ZK1 per share.

DIRECTORS

The Directors who held office during the year were:

Dr. J.B. Zulu	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R.L. Bvulani	-	Non-executive
Mrs. E. Jhala	-	Non-executive
Mr. N. Lungu	-	Non-executive

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' INTERESTS AND EMOLUMENTS

Except for the Managing Director, no other Director had a service contract with the Bank. No Director had an interest in any significant contract entered into, by the Bank, during the year.

The interests of the Directors of the Bank in the issued share capital of Investrust Bank Plc according to the register at 31 December 2010 were as follows:

	No. of shares		% Shareholding	
	2010	2009	**2010**	2009
Mr. R.L. Bvulani	**497,507,900**	497,507,900	**16.79**	16.79
Dr. J.B. Zulu	**248,377,577**	245,888,000	**8.38**	8.30

The Directors emoluments are disclosed in notes 12 and 31 in the financial statements in accordance with the Companies Act, 1994 (as amended).

PROPERTY AND EQUIPMENT

The Bank purchased property and equipment amounting to **ZK13.6 billion** (2009: ZK11.7 billion) during the year.

Property and equipment with a net book value of **ZK115.4 million** were disposed of during the year.

EMPLOYEES

The average number of permanent employees for each month during the year were as follows:

January	**264**	February	**285**
March	**296**	April	**299**
May	**296**	June	**297**
July	**298**	August	**296**
September	**313**	October	**305**
November	**298**	December	**314**

The total amount spent on employees remuneration and welfare during the year was **ZK34.8 billion** (2009: ZK24.6 billion).

The Bank recognises its responsibilities for occupational health, safety and welfare of its employees and has put in place various measures to safeguard them.

RELATED PARTY TRANSACTIONS

As required by the Zambian Banking and Financial Services Act, 1994 (as amended) and International Accounting Standard 24, Related Party Transactions are disclosed under note 31 to the financial statements.

EXPORTS

The Bank did not make any exports from Zambia during the year.

RESEARCH AND DEVELOPMENT

The Bank did not conduct any research and development activities during the year.

RISK MANAGEMENT AND CONTROL

In its normal operations, the Bank is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. These are described and explained in greater detail under risk management in the notes to the financial statements.

The Directors have approved policies to mitigate the above risks by introducing controls that are designed to safeguard the Bank’s assets while allowing sufficient freedom for the normal conduct of business. The Audit, Loan Review and Risk Management Committees carry out independent reviews to ensure compliance with financial and operational controls.

GIFTS AND DONATIONS

The Bank made provisions for donations during the year amounting to **ZK888 million** (2009: ZK115 million) in order to support various socially responsible causes.

PROHIBITED BORROWINGS OR LENDING

There were no prohibited borrowings or lending as defined under Section 72 and 73 of the Zambian Banking and Financial Services Act, 1994 (as amended).

DEVELOPMENTS DURING THE YEAR AND FOCUS FOR 2011

In 2010, the Bank's focus continued to be a growth strategy, realignment of its customer service delivery by the introduction of relationship management model. The strategies saw the opening of three additional branches (namely Kafue Road, Soweto and Chirundu) and a growth in the customer deposit base to ZK476 billion.

During the year, the Bank completed and launched its Web-Banking solution as well as an account to cater for SME business called "Kantemba". In addition, the Bank's ATM network was granted full VISA acquiring capabilities.

In 2011, the Bank will focus on improving customer service, cost reduction and maximisation of fee income as well as maintaining a quality loan book by strengthening the Recoveries and Legal departments. The Bank is confident to a quick return to profitabiilty during 2011/2012 and expects to generate increased revenues. The Bank expects to see non-funded income becoming a major contributor to the bottom line.

The Bank's geographical expansion strategy will continue, though at a reduced level. Much of the expansion will be driven by the business opportunities presented in selected areas. In the first quarter, the Bank will open a branch at Manda Hill Shopping Centre and will also launch its VISA issuing service to its customers.

AUDITORS

Messrs Deloitte & Touche retire at the next Annual General Meeting. A resolution for appointing external auditors for the forthcoming year and authorising the Directors to determine the external auditors' remuneration will be proposed at the Annual General Meeting.

By order of the Board.

CUTHBERT K. TEMBO
COMPANY SECRETARY

Lusaka, Zambia

STATEMENT ON CORPORATE GOVERNANCE

BANK'S PHILOSOPHY ON CORPORATE GOVERNANCE

The vision of Investrust Bank Plc is "to be the most preferred and leading financial institution in our chosen markets, delivering customer driven financial solutions; contributing to the growth of the Zambian economy and creating wealth for all stakeholders". To achieve this vision, the Bank has established a corporate governance policy which provides direction and framework for managing and monitoring the Bank in accordance with best practices.

The Bank's corporate governance framework encompasses not only regulatory and legal requirements, such as the terms of 2005 Lusaka Stock Exchange (LuSE) Corporate Governance Code, but also includes several voluntary practices aimed at high level business ethics, effective supervision and enhancement of value for all stakeholders.

The Shareholders

The shareholders are the owners of the Bank. However, except for approving certain critical and strategic matters, the shareholders have no direct powers to manage the Bank. This responsibility is properly delegated to the Board of Directors through the Articles of Association. There is regular dialogue with individual institutional shareholders, financial analysts and brokers, which provides opportunities for Directors to hear the views of shareholders directly.

All shareholders are invited to attend the Annual General Meeting and to participate in proceedings. Notice is sent to shareholders at least twenty-one working days in advance of the meeting. At the Annual General Meeting, separate resolutions are proposed on each substantive issue.

The Board of Directors

The Board is responsible to the shareholders for formulating policies and strategic direction, monitoring management and operational performance , risk management processes, compliance and setting of authority levels as well as the selection of new Directors. The Board is also responsible for the integrity and quality of communication with stakeholders, including employees, regulators and shareholders. The Board delegates the management and day-to-day running of the Bank to the Managing Director who is also the Chief Executive Officer.

The Board is composed of individuals of unquestionable integrity and good character. The directors are five (5) in total, amongst them the Chief Executive Officer who is the only executive director. The directors have broad skills, experience and expertise all of which are combined in order for the Board to fulfil the Bank’s goals and in order that the Board discharges its responsibilities to shareholders and stakeholders effectively.

The Bank has insurance for Directors and Officers covering legal actions brought against them in the course of executing their duties.

Roles of Chairman and the Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separate and neither individual has unfettered control over decision-making. The Chairman is a Non-Executive Director appointed by the Board. The Chairman's main responsibility is to lead and manage the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. Non-Executive Directors, drawing on their breadth of knowledge and experience, discuss, monitor and approve policies and strategies recommended by the Chief Executive Officer.

Roles of Chairman and the Chief Executive Officer (Continued)

The performance of the Chief Executive Officer is appraised on an ongoing basis by the Board, which receives reports on:

- the financial performance of the Bank and the achievement of financial objectives;
- the achievements of strategic objectives;
- the succession plans, including leadership, organisational climate, organisational goals, culture, job structure and communication; and
- the outcome of contacts with strategic stakeholders in the market in an effort to mobilise and grow the business of the Bank.

The Directors who held office during the year were:

Dr. J.B. Zulu	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R.L. Bvulani	-	Non-executive
Mrs. E. Jhala	-	Non-executive
Mr. N. Lungu	-	Non-executive

Board meetings

The Board has scheduled quarterly meetings. It also has Special Meetings and Tele-Conferences depending on the exigencies of the business. The Board also passes resolutions by circulation. Resolutions passed by circulation are reconfirmed at the next scheduled Board meeting. All Board members receive regular reports from Management and members seek briefings from management on specific matters. Board members also have access to Management through the Chairman, the Chief Executive Officer or the Company Secretary at any time. In addition, there are guidelines in the Board Charter which entitle each director to seek independent professional advice at the Bank's expense, prior to the Chairman's approval.

Independence of Directors

Directors are expected to bring independent views and judgment to Board deliberations. The Board considers that all non-executive directors are independent. That is, in the year 2010, no non-executive director had any relationships that could materially interfere, or be perceived to materially interfere, with the director's unfettered and independent judgment.

Conflict of Interest

Directors are also expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of the Bank. Any director who has a material personal interest in a matter relating to the Bank's affairs must notify the other directors of that interest.

Appointment and re-appointment of Directors

Two thirds of the directors retire by rotation each year and an equal number is elected or re-elected by the members at the Annual General Meeting in accordance with the Companies Act Chapter 388 of the Laws of Zambia.

BOARD COMMITTEES

The Board discharges some of its core responsibilities through specialized committees. These are the Audit, Risk, Remuneration and Human Resources, Loans Review, and Assets and Liabilities Committees. The Terms of Reference for these committee's are incorporated in the Board Charter. Additionally, Audit and Risk Committee has specific Terms of Reference. These committees have scheduled quarterly meetings as well as special meetings depending on the exigencies of the business. The Board also has power to establish other sub-committees to address matters of specific importance.

Additionally, the Board has delegated some of its responsibilities to Management Committees which include; the Management Committee, Management Credit Committee, Management Sub-ALCO and Credit Risk Management Committee.

A description of each of the Board's core committees is given below:

Audit Committee

The Audit Committee provides direction to the audit function and monitors the quality of internal and external audit. The responsibilities of the Audit committee include overseeing the financial reporting process to ensure fairness, comprehensiveness and credibility of financial statements, review of the functioning of the Whistle Blower Policy, review of quarterly and annual financial statements before submission to the Board, review of the adequacy of internal control systems and the internal audit function, review of compliance with inspection and audit reports from both internal and external auditors and review of the findings of internal investigations.

The Committee was chaired by Mr. R.L Bvulani, a Non-Executive Director of the Bank. The Committee during the year was made up of the following:

Mr. R.L. Bvulani	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mrs. E. Jhala	-	Non-executive Director
Mr. N. Lungu	-	Non-executive Director

Meetings were held regularly throughout the year and were attended by the Internal Auditor as well as Senior Management where necessary. The Committee met four times in 2010.

Board Asset and Liabilities Committee ("ALCO")

The main purpose of the Committee is to manage the liquidity and cash flow of the Bank, capital position, asset and liability mismatches, compliance with internal limits and regulatory ratios and exposures to exchange rate and interest rate movements. The Committee was chaired by Mr. N. Lungu, a Non-Executive Director.

The Committee comprises the following:

Mr. N. Lungu	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mrs. E. Jhala	-	Non-Executive Director
Mr. R.L. Bvulani	-	Non-Executive Director

Loans Review Committee

The Loans Review Committee is chaired by Dr. J.B Zulu, a Non-Executive Director and Chairman of Investrust Bank Plc. The Loans Review Committee is constituted in accordance with the Banking and Financial Services Act, 1994, (as amended). In 2010, the Committee met four times to review the quality and collectability of the Bank's loan portfolio, including any accrued and unpaid interest. Reports of such loan reviews were made for the Board of Directors' necessary action.

Loans Review Committee - continued

The Committee comprises the following :

Dr. J.B. Zulu	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R.L. Bvulani	-	Non-executive Director

Remuneration and Conditions of Service Committee

The Remuneration and Conditions of Service Committee was chaired by Mrs. E.Jhala, a Non-Executive Director of the Bank. The Committee met quarterly to review/consider and approve and make recommendations to the Board as appropriate, on matters relating to conditions of service and remuneration for staff of Investrust Bank Plc.

During the year, the Committee was made up of the following:

Mrs. E. Jhala	-	Chairperson
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R.L. Bvulani	-	Non- Executive Director

Nominations Committee

This function has been performed by the main Board in view of the small volume of matters to be dealt with.

Board Risk Management Committee

The Risk Management Committee's role is to oversee risk management and compliance within the Bank. It reviews, on behalf of the Board, the key risks and compliance issues inherent in the business and the system of internal control necessary to manage them and presents its findings to the Board. This involves oversight of management's responsibility to assess and manage the Bank's risk profile and key risk exposures covering credit, market, funding/liquidity, operational, legal and compliance risks.

The Committee makes recommendations to the Board regarding the Bank's risk appetite and all material policies relating to the Bank's risk profile. The Committee oversaw a successful completion and approval of an Enterprise Risk Management Policy as required by the Bank of Zambia and in preparation for the implementation of BASEL II Risk Management Model.

The Committee was chaired by Mr. R.L Bvulani, a Non-Executive Director of the Bank.

Mr. R.L. Bvulani	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mrs. E. Jhala	-	Non-Executive Director
Mr. N. Lungu	-	Non-Executive Director

Details of how each risk is managed are contained in the notes to the financial statements under the risk management section.

MANAGEMENT COMMITTEES

The Board has delegated the responsibility for the day to day management of the Bank's operations to the Managing Director who is also the Chief Executive Officer. The Chief Executive Officer is supported by various Committees.

Management Committee

The Committee met every month to review the performance of the Bank for each business unit and to discuss any operational matters affecting each unit.

The Management Committee was made up of the following:

Mr. R. Phiri	-	Deputy Managing Director
Mr. E. Mtonga	-	Head - Credit
Mr. P. Ndhlovu	-	Head - Operations
Mr. H. Mafuta	-	Financial Controller
Mr. P. Mwale	-	Head - Treasury
Mr. C.K. Tembo	-	Legal Counsel and Company Secretary (appointed 1 January 2010)
Mr. N. Kakvi	-	Head - Information Technology
Mr. S. Khambete	-	Head - Risk Management and Training
Mr. S. Banda	-	Head - Internal Audit
Mr. C. Chisha	-	Head - Controls and Compliance

Management Credit Committee

In managing credit risk, the Loans Review Committee was assisted by a Management Credit Committee, which was responsible to the Board for approval and extension of advances. The Committee meets as and when required to discuss credit matters and approval, and makes recommendation for loans and advances.

The Management Credit Committee comprised the following:

Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R. Phiri	-	Deputy Managing Director
Mr. E. Mtonga	-	Head - Credit
Mr. P. Ndhlovu	-	Head - Operations
Mr. C.K. Tembo	-	Legal Counsel and Company Secretary (appointed 1 January 2010)

Credit Risk Management Committee

The Committee reported directly to the Board through the Board Risk Management Committee. The committee had been set up in compliance with the risk management guidelines issued by the Central Bank of Zambia. At minimum, it was responsible for:

- Implementing the credit risk policy and strategy approved by the Board;
- Monitoring credit risk on a bank-wide basis and ensuring compliance with limits approved by the Board;
- Recommending to the Board, for its approval, clear policies on standards for presentation of credit proposals, financial covenants, rating standards and benchmarks; and
- Recommending the delegation of credit approving powers, prudential limits on large credit exposures, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring, evaluation and control, pricing of loans, provisioning, regulatory and legal compliance, etc.

Credit Risk Management Committee - continued

The Committee comprised the following:

Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R. Phiri	-	Deputy Managing Director
Mr. S. Khambete	-	Risk Manager
Mr. H. Mafuta	-	Financial Controller

Management Sub-Asset and Liabilities Committee ("Sub -ALCO")

The main purpose of the Committee is to manage the liquidity and cash flow of the Bank, capital position, asset and liability mismatches, compliance with internal limits and regulatory ratios and exposures to exchange rate and interest rate movements on a daily basis in line with Board approved policies, procedures and limits to ensure that the Bank meets all the daily regulatory requirements.

The Committee comprised the following:

Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R. Phiri	-	Deputy Managing Director
Mr. P. Ndhlovu	-	Head - Operations
Mr. H. Mafuta	-	Financial Controller
Mr. E. Mtonga	-	Head - Credit
Mr. P. Mwale	-	Head - Treasury
Mr. S. Khambete	-	Risk Manager

OTHER MATTERS

Organisational Ethics and Business Integrity

Good governance and ethical conduct are critical to counterparty and investor perceptions of the Bank. Investrust Bank Plc strives to ensure that its integrity and professional conduct are beyond reproach. While it is probably impossible to achieve perfection, the Bank attempts to limit the incidence and cost of unethical behaviour to the stakeholders.

The Bank has adopted a code of conduct formulated by the Bankers Association of Zambia. The Code comprehensively deals with various issues including money laundering, insider trading, bribery, political activities, confidentiality and data privacy. Investrust Bank Plc has a zero tolerance approach towards inappropriate or fraudulent conduct exhibited by Management or staff at any level.

Know your customer and money laundering policies

The Bank has adopted a know your customer (KYC) policy and money laundering policies and adheres to current regulatory and legal requirements and guidelines.

Whistle Blower Policy

The Bank has formulated a whistle blower policy. In terms of this policy, employees of the Bank are duty bound to raise issues, if any, on breach of any law, statute or regulation by the Bank and on accounting policies and procedures adopted for any area or item and report them to the Audit committee through specified channels. This mechanism has been communicated to all staff.

INVESTRUST BANK PLC

STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

Section 164 (6) of the Companies Act, 1994 (as amended) requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Bank and the profit or loss for that period.

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The independent external auditors, Messrs Deloitte & Touche, have audited the financial statements and their report for the financial year ended 31 December 2010 is shown on pages 12 and 13.

The Directors are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern in the foreseeable future.

In the opinion of the Directors:

- the statement of comprehensive income is drawn up so as to give a true and fair view of the loss of the Bank for the year ended 31 December 2010;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2010;
- there are reasonable grounds to believe that the Bank will be able to meet its debts as and when they fall due; and
- The financial statements have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended).

Signed on behalf of the Board of Directors by:

______________________) **J.B. ZULU** - **CHAIRMAN**
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______________________) **F.C. NDHLOVU** - **MANAGING DIRECTOR**
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DATE: 21 FEBRUARY 2011

REPORT OF THE INDEPENDENT AUDITOR

To the members of
Investrust Bank Plc

Report on the financial statements

We have audited the accompanying financial statements of Investrust Bank Plc, which comprise of the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Investrust Bank Plc as of 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended).

Report on other legal and regulatory requirements

The Companies Act, 1994 (as amended) under section 173(3) requires that in carrying out our audit, we consider and report to you on the following matter: we confirm that, in our opinion, the accounting and other records and registers required by the Act have been properly kept in accordance with the Act.

In accordance with section 64(2) of the Banking and Financial Services Act, 1994 (as amended), we report that in our opinion:

- The Bank made available all necessary information to enable us to comply with the requirements of this Act; and

- The Bank has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act.

DELOITTE & TOUCHE
CHARTERED ACCOUNTANTS

ALICE JERE TEMBO
PARTNER

DATE: 21 FEBRUARY 2011

INVESTRUST BANK PLC

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

Kwacha '000	NOTES	2010	2009	
Interest and similar income	6	**75,335,882**	73,836,396	3,804,750
Interest and similar expenses	7	**(25,009,279)**	(25,729,896)	(1,454,956)
Net interest income		**50,326,603**	48,106,500	2,349,794
Impairment charges for credit losses	8	**(26,797,639)**	(9,566,264)	
Net interest income after impairment charges for credit losses		**23,528,964**	38,540,236	
Fee and commission income	9	**27,916,929**	18,764,697	
Fee and commission expense	10	**(797,106)**	(847,019)	
Net fee and commission income		**27,119,823**	17,917,678	
Net gains on dealings in foreign currencies		**10,037,997**	9,483,010	
Other operating income		**139,912**	86,510	
Other income		**10,177,909**	9,569,520	
Total operating income		**60,826,696**	66,027,434	
Operating expenses	11	**(67,177,926)**	(49,615,811)	(2,183,560)
(Loss) profit before tax	12	**(6,351,230)**	16,411,623	#REF!
Income tax credit (expense)	13	**1,412,176**	(6,339,329)	(26,571)
(Loss) profit for the year		**(4,939,054)**	10,072,294	#REF!
Other comprehensive income		**-**	-	
Total comprehensive (loss) income		**(4,939,054)**	10,072,294	
Basic and diluted (loss) earnings per share		**(ZK1.67)**	ZK3.39	-149%

Earnings per share is based on loss after tax of **ZK4,939 million** (2009: Profit of ZK10,072 million), divided by the number of ordinary shares in issue during the year of **2,964,000,000** (2009 : 2,964,000,000).

(1,666)

STATEMENT OF FINANCIAL POSITION
at 31 December 2010

Kwacha '000

	NOTES	2010	2009
ASSETS			
Cash and balances with Central Bank	14	**72,518,879**	62,423,883
Loans and advances to banks	15	**46,181,733**	15,441,520
Held to maturity investments	16	**80,081,198**	68,438,006
Other assets	17	**31,041,136**	29,592,024
Loans and advances to customers	18	**374,288,592**	269,539,383
Equity instruments	19	**287,398**	287,398
Current income tax asset	13	**5,794,954**	-
Property and equipment	20	**32,715,547**	23,009,858
Intangible assets	21	**2,188,832**	1,959,430
Deferred tax assets	27	**542,707**	-
Total assets		**645,640,976**	470,691,502
LIABILITIES			
Deposits from customers	22	**476,250,233**	345,948,655
Debt securities in issue	23	**44,274,000**	32,171,000
Other borrowed funds	24	**50,675,815**	20,268,731
Due to banks	15	**10,000,000**	4,500,000
Other liabilities	25	**25,133,226**	16,500,910
Finance lease payables	26	**29,968**	217,547
Current income tax liabilities	13	**-**	2,593,213
Deferred tax liabilities	27	**-**	895,698
Total liabilities		**606,363,242**	423,095,754
EQUITY			
Share capital	28	**2,964,000**	2,964,000
Share premium		**2,528,461**	2,528,461
Statutory reserves	29 (a)	**2,964,000**	2,964,000
General banking reserve	29 (b)	**4,503,952**	2,734,052
Retained earnings		**26,317,321**	36,405,235
Total equity		**39,277,734**	47,595,748
Total equity and liabilities		**645,640,976**	470,691,502

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 11. The financial statements on pages 14 to 71 were approved for issue by the Board of Directors on **21 February 2011** and were signed on its behalf by:

________________________) **DR. J.B. ZULU** - **CHAIRMAN**
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________________________) **F.C. NDHLOVU** - **MANAGING DIRECTOR**
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INVESTRUST BANK PLC

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

Kwacha '000

	Share capital	Share premium	Statutory reserves (note 28(a))	General banking reserves (note 28(b))	Retained Earnings	Total
Balance at 1 January 2009	**2,964,000**	**2,528,461**	**2,964,000**	**4,547,974**	**27,897,979**	**40,902,414**
Total comprehensive income	-	-	-	-	10,072,294	**10,072,294**
Transfer to general banking reserves	-	-	-	(1,813,922)	1,813,922	-
Dividends paid relating to 2008	-	-	-	-	(3,378,960)	**(3,378,960)**
Balance at 31 December 2009	**2,964,000**	**2,528,461**	**2,964,000**	**2,734,052**	**36,405,235**	**47,595,748**
Total comprehensive loss	-	-	-	-	(4,939,054)	**(4,939,054)**
Transfer to general banking reserves	-	-	-	1,769,900	(1,769,900)	**-**
Dividends paid relating to 2009	-	-	-	-	(3,378,960)	**(3,378,960)**
Balance at 31 December 2010	**2,964,000**	**2,528,461**	**2,964,000**	**4,503,952**	**26,317,321**	**39,277,734**

INVESTRUST BANK PLC

STATEMENT OF CASH FLOWS
for the year ended 31 December 2010

Kwacha '000

	NOTES	2010	2009
OPERATING ACTIVITIES			
(Loss) profit for the year		**(4,939,054)**	10,072,294
Adjusted for:			
Depreciation and amortisation expense	20, 21	**4,379,097**	3,712,362
Gain on disposal of property and equipment		**(64,972)**	(10,670)
Property and equipment adjustment	20	**-**	316,128
Unrealised exchange losses (gains) on debt securities in issue		**63,000**	(99,376)
Unrealised exchange losses (gains) on finance lease payables	26	**9,185**	(29,170)
Income tax (credit) expense	13	**(1,412,176)**	6,339,329
Operating (loss) profit before changes in operating funds		**(1,964,920)**	20,300,897
Decrease in held to maturity investments		**16,117,946**	10,425,709
Increase in other assets		**(1,449,112)**	(7,868,591)
Increase in loans and advances		**(104,749,209)**	(6,938,828)
Increase (decrease) in customer deposits		**130,301,578**	(691,969)
Increase in other liabilities		**8,632,316**	3,073,726
Cash generated from operations		**46,888,599**	18,300,944
Income taxes paid and suffered	13	**(8,414,396)**	(6,249,498)
Cash generated from operating activities		**38,474,203**	12,051,446
INVESTING ACTIVITIES			
Purchase of property and equipment and intangible asset	20, 21	**(14,429,631)**	(11,739,622)
Proceeds on disposal of property and equipment		**180,415**	38,328
Net cash used in investing activities		**(14,249,216)**	(11,701,294)
FINANCING ACTIVITIES			
Issue of debt securities	23	**30,040,000**	-
Redemption of debt securities	23	**(18,000,000)**	-
Other borrowings	24	**30,407,084**	6,503,295
Lease finance received	26	**-**	252,195
Lease finance repaid	26	**(196,764)**	(245,460)
Dividends paid		**(3,378,960)**	(3,378,960)
Net cash generated from financing activities		**38,871,360**	3,131,070
Net increase in cash and cash equivalents		**63,096,347**	3,481,222
Cash and cash equivalents at beginning of the year		**90,049,265**	86,568,043
Cash and cash equivalents at end of the year		**153,145,612**	90,049,265
CASH AND CASH EQUIVALENTS			
Cash and balances with Central Bank		**72,518,879**	62,423,883
Balances due from other banks		**46,181,733**	15,441,520
Balances due to other banks		**(10,000,000)**	(4,500,000)
Held to maturity investments maturing in three months		**44,445,000**	16,683,862
		153,145,612	90,049,265

1. GENERAL INFORMATION

Investrust Bank (the "Bank") is a public limited liability company and is incorporated and domiciled in the Republic of Zambia. The principal activity of the Bank is the provision of commercial, retail banking and leasing services. The address of its registered office is as follows:

Ody's Park
Plot No. 19028
Great East Road
P.O. Box 32344
Lusaka

The Bank has a primary listing on the Lusaka Stock Exchange.

The financial statements for the year ended 31 December 2010 have been approved for issue by the Board of Directors on **21 February 2011.**

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

(a) Standards, amendments and interpretations effective 1 January 2010

In the current year, the Bank has not adopted any New Standards and Interpretations which were effective for annual financial statements beginning on or after 1 January 2010.

(b) Standards, amendments and interpretations effective 1 January 2010 but not relevant

The following standards and interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2010 but is not relevant to the Bank's operations.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when an entity is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the entity will retain a non-controlling interest in the subsidiary after the sale.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

(b) Standards, amendments and interpretations effective 1 January 2010 but not relevant (Continued)

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 Transfers of Assets from Customers	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.
Improvements to IFRSs issued in 2009	Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier in section 2.1, the application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.
IFRS 3 (as revised in 2008) Business Combinations	• IFRS 3(2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING

(b) Standards, amendments and interpretations effective 1 January 2010 but not relevant (Continued)

IFRS 3 (as revised in 2008) Business Combinations	• Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss. • IFRS 3(2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between an entity and the acquiree. • IFRS 3(2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.
IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements	In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires an entity to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.
IAS 28 (as revised in 2008) Investments in Associates	The principle adopted under IAS 27(2008) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss. As part of Improvements to IFRSs issued in 2010, IAS 28(2008) has been amended to clarify that the amendments to IAS 28 regarding transactions when the investor loses significant influence over an associate should be applied prospectively.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING

(c) Standards and interpretations issued but not yet effective for the bank's operations

The Bank has not early applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRS 9 'Financial instruments part1: Classification and measurement" - IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Directors anticipate that IFRS 9 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities.

IFRS 1 First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. Effective for annual periods beginning on or after 1 July 2010.

IFRS 7
- Financial Instruments: Disclosures. The amendments to IFRS 7 are as follows: Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. Effective for annual periods beginning on or after 1 July 2011.
- The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The effective date of this amendment is annual periods beginning on or after 1 January 2011.

IAS 24 Related Party Disclosures. The disclosure exemptions introduced in IAS 24 do not affect the Bank because the Bank is not a government-related entity. Effective for annual periods beginning on or after 1 January 2011.

IAS 32 Financial Instruments: Presentation. The amendments to IAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. The Bank has not entered into any arrangements that would fall within the scope of the amendments. However, if the Bank does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues. Effective for annual periods beginning on or after 1 February 2010.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING

(c) Standards and interpretations issued but not yet effective for the bank's operations

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Bank has not entered into transactions of this nature. However, if the Bank does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011.

As part of Improvements to IFRSs issued in 2010, IFRS 3(2008) was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition (see above) is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, as part of Improvements to IFRSs issued in 2010, IFRS 3(2008) was amended to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

(d) Early adoption of standards

The Bank did not early adopt any Standards in 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Statement of compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB, the Companies Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended).

3.2 Basis of preparation

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, accounting policies and explanatory notes.

The financial statements have been prepared on a historical basis except for revaluation of certain non- current assets and financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of preparation (Continued)

These financial statements are presented in thousands of Zambian Kwacha.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

3.3 Foreign currency translation

(a) Functional and presentational currency

The financial statements of the Bank are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Bank are expressed in Zambian Kwacha ('ZK'), which is the functional currency of the Bank and the presentation currency for the financial statements.

(b) Transactions and balances

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are translated into functional currency using the rates of exchange prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

Foreign exchange differences resulting from settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3.4 Interest income and expense

Interest income and expense for all interest bearing instruments, except for those classified as held for trading or designated at fair value through profit and loss, are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method. Interest income includes coupons earned on fixed price investment and trading securities and accrued discount and premium on Treasury Bills and other discounted instruments. When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Fees and commission income

Fees and commission income are generally recognised on an accruals basis when the service has been provided.

3.6 Taxation

3.6.1 Current tax

The tax currently payable is based on taxable profits for the year. Income tax payable is based on the applicable Zambian tax law and is recognised as an expense (income) for the period except to the extent that the current tax related to items that are charged or credited to comprehensive income or directly to equity. Taxable profit differs from profit as reported in the income statement because it excludes items of income statement or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the reporting date.

Where the Bank has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance.

Where the tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. The losses carried forward are set off against deferred tax liabilities in the statement of financial position.

3.6.2 Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from the depreciation of property and equipment, revaluation of certain financial assets and liabilities and tax losses carried forward; and in relation to acquisitions, on the difference between their fair values of the net assets acquired and their tax base.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Taxation (Continued)

3.6.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.7 Employee benefits

The Bank has a contributory pension scheme for eligible employees and the benefits are payable as per terms set out in the scheme. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's contributions to the defined contribution pension plan are recognized as an employee benefit expense.

In addition, the Bank contributes according to the National Pension Scheme Authority (NAPSA) Act, which set up a defined contribution scheme. Membership to NAPSA, with the exception of expatriate employees, is compulsory and monthly contributions by both employer and employee are made.

Short-term benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Bank has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recognised in the statements of comprehensive income in staff benefit expenses.

3.8 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders and the number of basic weighted average number of shares excluding own shares held in employee benefits trusts, currently not vested. When calculating the diluted earnings per share, the profit attributable to equity holders is adjusted for the conversion of outstanding options into shares within certain subsidiary entities. The weighted average number of ordinary shares excluding own shares held in employee benefit trusts, currently not vested, is adjusted for the effects of all dilutive potential ordinary shares.

3.9 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash in had and non-restricted balances with the Bank of Zambia, treasury bills, loans and advances to banks, amounts due from other banks and short-term government securities.

3.10 Financial assets and liabilities

3.10.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets and liabilities (Continued)

3.10.2 Financial assets

The Bank allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Financial assets held for trading consists of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives.

Financial assets are designated at fair value through profit or loss when the following IAS 39 conditions are met:

- the application of fair value option reduces or eliminates an accounting mismatch that would otherwise arise or;
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or;
- the financial assets consists of debt host and an embedded derivatives that must be separated.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or as investment securities. Interest on loans is included in the income statement and is reported as ‘Interest and similar income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as ‘Loan impairment charges’.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets and liabilities (Continued)

3.10.2 Financial assets

c) Held to maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity other than:

(a) those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the Bank designates as available for sale; and

(c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Interest on held-to-maturity investments is included in the income statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains (losses) on investment securities'.

3.10.2 Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

The financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities.

a) Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets and liabilities (Continued)

a) Financial liabilities at FVTPL (Continued)

A financial liability is classified as held for trading if:

- it has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- it is a part of an identified portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

3.10.3 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished. Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

3.10.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liability simultaneously.

3.10.5 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets and liabilities (Continued)

3.10.5 Borrowing costs (Continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.11 Impairment of financial assets

a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal repayments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (a) adverse changes in the payment status of borrowers in the portfolio; and

  (b) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Impairment of financial assets (Continued)

a) Assets carried at amortised cost (Continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

b) Renegotiated loans

Loans that are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

3.12 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Sale and repurchase agreements

Investment and other securities may be lent or subject to a commitment to repurchase them ('a repo'). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the Bank, and the counterparty liability is included separately on the statement of financial position as appropriate.

Similarly, where the Bank borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the statement of financial position.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any trading liability at fair value and any subsequent gain or loss included in net trading income.

3.14 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases.

Operating leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Finance leases

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3.15 Intangible asset - Computer software

Computer software is stated at cost, less amortisation and provisions for impairment, if any.

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Bank, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Property and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at historical cost or valuation less depreciation. Revaluations of leasehold properties are carried out periodically. Historical costs include expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost down to their residual values over their estimated useful lives, as follows:

Leasehold buildings	50 years
Furniture and fixtures	10 years
Leasehold improvements	10 years or over life of the lease
Equipment and motor vehicles	4 years
Automatic Teller Machines	10 years
Generator sets	10 years
Intangible Assets	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of assets are determined by comparing proceeds with carrying amounts. These are included in the statement of comprehensive income .

Expenditure on property and equipment which are under construction is classified as work-in-progress. Work in progress is not depreciated.

3.17 Revaluation reserve

The surplus arising on revaluation of tangible assets is credited to a non-distributable reserve. Decreases that offset previous revaluations of the same asset are charged against the revaluation reserve. All other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of comprehensive income) and depreciation based on the asset’s original cost is transferred from the revaluation reserve to revenue reserves. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to revenue reserves.

3.18 Share capital

a) Share issue costs

Incremental costs directly attributed to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Share capital (Continued)

b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of the statement of financial position are dealt with in accordance with note 28.

3.19 Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the statement of financial position taking into account the risk and uncertainties surrounding the obligation. Where a provision is measured using cash flows estimated to settle the present obligation, it's carrying amount is the present value of the cash flows. When some or all of the economic benefits required to settle a provision are expected to be recorded from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivables can be measured reliably.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the statement of financial position.

3.20 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the statement of comprehensive income under other operating expenses.

3.21 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

3.22 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The areas involving a higher degree of judgement or complexity, or areas where the assumptions and estimates are significant to the financial statements are disclosed below:

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in that group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Held to maturity investments

The Bank follows the guidance on IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The Directors have reviewed the Bank's held to maturity financial assets in light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold those assets to maturity.

c) Income taxes

The Bank is subject to income taxes in Zambia. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the period in which such determination is made.

d) Useful lives of property, plant and equipment

As described at 3.16 above, the Bank reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, there were no adjustments made to the useful lives of property, plant and equipment.

5. FINANCIAL RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the entity, measure these risks, manage the risk positions and determine capital allocations. The Board of Directors regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the entity's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Risk Management department under policies approved by the Board of Directors through a Board Risk Management sub-committee which identifies, evaluates and hedges financial risks in close co-operation with the concerned operating units of the bank. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, the Internal Audit department is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the bank is exposed are financial risks, which includes credit risk, liquidity risk, market risk (which are discussed below) and operational risk.

5.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the bank. Credit risk arises mainly from commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board Risk Management committee and Loans review committee once every quarter.

5.1.1 Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and by industry sector are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

5.1.1 Risk limit control and mitigation policies (Continued)

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some specific control and mitigation measures are outlined below.

a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business asset such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

In addition, in order to minimize the credit loss the bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset backed securities and similar instruments, which are secured by portfolios of financial instruments.

b) Financial covenants (for Credit-related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipment of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

5.1.2 Impairment and provisioning policies

b) Financial covenants (for Credit-related commitments and loan books) (Continued)

The internal grading system that the Bank uses focuses more on credit quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown in the statement of financial position at year end is derived from the internal grading system. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of the bank's on and off balance sheet items relating to loans and advances and the associated impairment provision for each of the bank's grading categories:

Table I - Grading	**2010**		2009	
	Loans & advances (%)	**Impairment provision (%)**	Loans & advances (%)	Impairment provision (%)
Pass	**78%**	**0%**	86%	0%
Sub-standard	**1%**	**20%**	6%	20%
Doubtful	**1%**	**50%**	2%	50%
Loss	**20%**	**100%**	6%	100%

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

Credit risk exposure relating to on-balance sheet assets are as follows:

Table 2 - credit risk exposure	**Maximum exposure**	
K'000	**2010**	2009
Held to maturity investments	**80,081,198**	71,606,861
Loans and advances to Banks	**46,181,733**	15,441,520
Loans and advances to customers		
Individual (retail customers)		
- Term loans	**54,850,252**	47,589,408
- Overdrafts	**35,990,975**	22,467,518
- Mortgages	**-**	-
Corporate entities		
- Large corporates	**262,497,484**	140,222,803
- SMEs	**120,506,579**	109,551,436
Total On-Balance Sheet Credit Risk Exposure	**600,108,221**	406,879,546

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

5.1.2 Maximum exposure to credit risk before collateral or other credit enhancements (Continued)

Credit risk exposure relating to off-balance sheet items are as follows:

Table 2 - credit risk exposure (Continued)	Maximum exposure	
K'000	**2010**	2009
Financial guarantees and bid bonds	**46,245,795**	36,901,989
	46,245,795	36,901,989
Total On and Off Balance Sheet Credit Risk Exposure	**646,354,016**	443,781,535

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For-on-balance-sheet assets, the exposures set out above are based on gross carrying amounts.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on strict adherence to the existing risk management polices and procedures.

5.1.3 Loans and advances

Loans and advances including finance leases are summarised as follows:

Table 4	31 December 2010		31 December 2009	
K'000	**Loans & advances to customers**	**Loans & advances to Banks**	Loans & advances to customers	Loans & advances to Banks
Neither past due nor impaired	**367,809,000**	**46,181,733**	251,060,165	15,441,520
Past due but not impaired	**4,372,000**	**-**	25,838,000	-
Impaired	**101,664,290**	**-**	42,933,000	-
Gross	**473,845,290**	**46,181,733**	319,831,165	15,441,520
Less: allowance for impairment	**(99,556,698)**	**-**	(50,291,782)	-
Net	**374,288,592**	**46,181,733**	269,539,383	15,441,520

Further information of the impairment allowance for loans and advances is provided in Note 8 and note 18.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

5.1.3 Loans and advances (Continued)

The fair values for the past due and impaired loan and advances are summarised below:

Table 5	2010		2009	
K'000	**Carrying amount**	**Fair values**	Carrying amount	Fair values
Past due loans	**4,372,000**	**10,144,400**	25,838,000	26,577,178
Impaired loans	**101,664,290**	**77,955,844**	42,933,000	23,784,197
	106,036,290	**88,100,244**	68,771,000	50,361,374

5.1.4 Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payment. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled **ZK32.88 billion** at 31 December 2010 (2009: ZK10.98 billion).

5.1.5 Repossessed collateral

During 2010, the Bank obtained assets by taking possession of collateral held as security, as follows:

Table 6	**K'000**
Nature of assets	**Carrying value**
Landed properties	**14,897,000**
Plant and machinery	**10,947,000**
	25,844,000

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property are not classified in the statement of financial position.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

5.2.1 Liquidity risk management process

The Bank's liquidity management process is monitored on a daily basis by the Bank's Treasury Department in consultations with the Financial Controller and the Managing Director and controlled as far as possible by ensuring that mismatches between maturing deposit liabilities and investments of these funds are kept to a minimum. Consultations includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in the money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. Table 7 and 8 shows the net liquidity gaps at 31 December 2010 and 2009 respectively.

5.2.2 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the trading portfolios.

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5.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2.3 Liquidity risk (Continued)

31 DECEMBER 2010

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2010 to the contractual maturity date.

TABLE 7	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years
FINANCIAL ASSETS							
Cash and balances with Central Bank	24,060,000	11,838,879	3,296,000	6,953,000	26,371,000	-	-
Loans and advances to banks	38,966,733	7,215,000	-	-	-	-	-
Held to maturity investments	29,370,797	16,408,239	18,430,644	9,611,771	6,116,221	143,526	-
Other assets	10,984,411	4,434,000	7,347,000	4,908,000	3,367,725		-
Loans and advances		10,458,000	5,137,000	173,649,000	163,686,000	13,606,000	7,752,592
Equity instruments	-	-	-	-	-	-	287,398
Total assets	**103,381,941**	**50,354,118**	**34,210,644**	**195,121,771**	**199,540,946**	**13,749,526**	**8,039,990**
FINANCIAL LIABILITIES							
Customer deposits	69,085,600	60,257,000	55,850,000	82,111,000	208,946,633	-	-
Debt securities in issue	-	-	-		29,264,000	15,010,000	-
Other borrowed funds	-	-	-	-	34,909,734	15,766,081	-
Due to banks	10,000,000	-	-	-	-	-	-
Other liabilities	2,314,000	4,551,000	8,013,000	10,255,226	-	-	-
Finance lease payables	-	29,968	-	-	-	-	-
Total liabilities	**81,399,600**	**64,837,968**	**63,863,000**	**92,366,226**	**273,120,367**	**30,776,081**	**-**
Net liquidity gap	**21,982,341**	**(14,483,850)**	**(29,652,356)**	**102,755,545**	**(73,579,421)**	**(17,026,555)**	**8,039,990**

Customer deposits relate to current and savings account deposits, which though classified in these bands are deemed stable and of a long-term nature .

Total
72,518,879
46,181,733
80,081,198
31,041,136
374,288,592
287,398
604,398,936
476,250,233
44,274,000
50,675,815
10,000,000
25,133,226
29,968
606,363,241
(1,964,306)

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2.4 Liquidity Risk (Continued)

31 DECEMBER 2009

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2009 to the contractual maturity date.

TABLE 8	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years
FINANCIAL ASSETS							
Cash and balances with Central Bank	35,261,790	-	-	-	27,162,093	-	-
Loans and advances to banks	-	15,441,520	-	-	-	-	-
Held to maturity investments	-	16,683,862	29,404,144	10,100,000	7,500,000	4,750,000	-
Other assets	12,171,754	748,572	3,320,644	3,441,895	9,909,159	-	-
Loans and advances	-	1,096,000	24,812,000	123,247,000	84,055,000	36,329,383	-
Equity instruments	-	-	-	-	-	-	287,398
Total assets	**47,433,544**	**33,969,954**	**57,536,788**	**136,788,895**	**128,626,252**	**41,079,383**	**287,398**
FINANCIAL LIABILITIES							
Customer deposits	29,840,101	69,424,467	44,578,154	65,895,299	136,210,634	-	-
Debt securities in issue	-	-	-	18,000,000	-	14,171,000	-
Other borrowed funds	-	-	-	775,417	-	19,493,314	-
Due to banks	4,500,000	-	-	-	-	-	-
Other liabilities	139,832	5,003,329	7,101,450	4,256,299	-	-	-
Finance lease payables	25,053	45,849	62,388	84,258	-	-	-
Total liabilities	**34,504,986**	**74,473,645**	51,741,992	89,011,273	136,210,634	33,664,314	-
Net liquidity gap	**12,928,558**	**(40,503,691)**	**5,794,796**	**47,777,623**	**(7,584,382)**	**7,415,069**	**287,398**

Customer deposits relate to current and savings account deposits, and deposits against Repurchase Agreement which though classified in these bands are deemed stable and of a

.

Total
62,423,883
15,441,520
68,438,006
29,592,024
269,539,383
287,398
445,722,214
345,948,655
32,171,000
20,268,731
4,500,000
16,500,910
217,548
419,606,843
26,115,371

ı long-term nature

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Operational Risk

All policies, procedures and limits are properly documented in the operational manual for each department within the Bank and updated every three years to take account of the changes to internal controls, procedures and limits.

5.4 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in the Treasury department and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

The Treasury Department in consultations with the Managing Director, Financial Controller and Head **-** Operations reviews the foreign exchange buying and selling rates on a daily basis and a decision is made as to whether to hold long or short positions, within the limits stipulated by Bank of Zambia.

Similarly the same composition of individuals also monitors the interest rates on a weekly basis and adjustments are made on interest chargeable on loans and advances. The monitoring process pays attention to Treasury Bill rates and base rates changes announced by other Banks.

5.5 Strategic Risk

The Bank's strategic plan is comprehensive in all aspects with particular emphasis on compliance with legal and market conditions and Senior Management effectively communicates the plan to all staff levels and allocates resources in line with the laid down objectives.

5.6 Regulatory Risk

Any risks associated with the reputation of the Bank are dealt with as soon as they are perceived. This includes matters arising from regulatory reviews such as Bank of Zambia inspections and are promptly and adequately dealt with as they arise. Customer complaints are thoroughly investigated and resolved to the satisfaction of both the Bank and the customer.

5.7 Legal Risk

The Bank ensures that all prudential requirements of the Bank of Zambia and the relevant regulations in the Laws of Zambia are complied with without exception. The risk of non-compliance could be detrimental to the operations of the Bank.

5.8 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank of Zambia sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. Table 9 and 10 summarises the Bank's exposure to foreign currency exchange rate risk at 31 December.

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.9 Currency risk (Continued)

31 DECEMBER 2010

TABLE 9

	USD	GBP	EURO	RAND	PULA	KWACHA	TOTAL
FINANCIAL ASSETS							
Cash and balances with Central Bank	8,366,175	48,294	119,079	322,056	6,111	63,657,144	**72,518,859**
Loans and advances to bank	20,902,532	1,091,685	4,961,703	200,813		19,025,000	**46,181,733**
Held to maturity investments	-	-	-	-	-	80,081,198	**80,081,198**
Other assets includes stationery	5,848,262	14,860	22,407	15,960		24,304,825	**30,206,314**
Loans and advances	83,982,209	1,585	12,725			290,292,073	**374,288,592**
Equity instruments	-	-	-	-	-	287,398	**287,398**
Total assets	**119,099,178**	**1,156,424**	**5,115,914**	**538,829**	**6,111**	**477,647,638**	**603,564,094**
FINANCIAL LIABILITIES							
Customer deposits	81,725,354	1,227,927	4,768,069	317,188	-	388,211,695	**476,250,233**
Debt securities in issue	1,924,000	-	-	-	-	42,350,000	**44,274,000**
Other borrowed funds	50,675,815	-	-	-	-	-	**50,675,815**
Due to banks	-	-	-	-	-	10,000,000	**10,000,000**
Other liabilities	7,778,242	1,285	-	-	-	17,353,699	**25,133,226**
Finance lease payables	29,968	-	-	-	-	-	**29,968**
Total liabilities	142,133,379	1,229,212	4,768,069	317,188	-	457,915,394	**606,363,242**
Net on-balance sheet position	**(23,034,201)**	**(72,788)**	**347,845**	**221,641**	**6,111**	**19,732,244**	**(2,799,148)**
Off-balance sheet net notional position	-	-	-	-	-	-	-

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.10 Currency risk (Continued)

31 DECEMBER 2009

TABLE 10

	USD	GBP	EURO	RAND	PULA	KWACHA	TOTAL
FINANCIAL ASSETS							
Cash and balances with Central Bank	8,639,335	72,803	713,360	66,045	2,711	52,929,629	**62,423,883**
Loans and advances to bank	11,534,767	550,073	2,528,776	827,904	-	-	**15,441,520**
Held to maturity investments	-	-	-	-	-	68,438,006	**68,438,006**
Other assets	2,620,935	-	3,702,046	24,727	-	23,244,316	**29,592,024**
Loans and advances	60,295,782 0	1,416 0	7,526 0	61	-	209,234,598	**269,539,383**
Equity instruments	-	-	-	-	-	287,398	**287,398**
Total assets	**83,090,819**	**624,292**	**6,951,708**	**918,737**	**2,711**	**354,133,947**	**445,722,214**
FINANCIAL LIABILITIES							
Customer deposits	63,935,119	693,786	3,282,395	383,536	-	277,653,819	**345,948,655**
Debt securities in issue	1,861,000	-	-	-	-	30,310,000	**32,171,000**
Other borrowed funds	20,268,731	-	-	-	-	-	**20,268,731**
Due to banks	-	-	-	-	-	4,500,000	**4,500,000**
Other liabilities	285,659	40,249	7,196	35,892	-	16,131,914	**16,500,910**
Finance lease payables	217,547	-	-	-	-	-	**217,547**
Total liabilities	86,568,056	734,035	3,289,591	419,428	-	328,595,733	**419,606,843**
Net on-balance sheet position	**(3,477,237)**	**(109,743)**	**3,662,117**	**499,309**	**2,711**	**25,538,214**	**26,115,371**
Off-balance sheet net notional position	-	-	-	-		-	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.11 Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by Treasury department.

Table 11 and 12 summarises the Bank's exposure to interest rate risks. Included on the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2010

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5. FINANCIAL RISK MANAGEMENT (Continued)

5.12 Interest rate risk (Continued)

31 DECEMBER 2010

TABLE 11		up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	Non-interest bearing	Total
FINANCIAL ASSETS										
Cash and balances with the Central Bank		20,000,000	-	-	-	-	-	-	52,518,879	**72,518,879**
Loans and advances to bank		10,000,000	-	-	-	-	-	-	36,181,733	**46,181,733**
Held to maturity investments		-	45,779,036	18,430,643	9,527,494	6,344,025		-		**80,081,198**
Other assets		-	-	-	-			-	31,041,136	**31,041,136**
Loans and advances to customers			10,458,000	5,137,000	173,649,000	163,686,000	13,606,000	7,752,592	-	**374,288,592**
Equity instruments		-	-	-	-	-	-	-	287,398	**287,398**
Total assets		**30,000,000**	**56,237,036**	**23,567,643**	**183,176,494**	**170,030,025**	**13,606,000**	**7,752,592**	**120,029,146**	**604,398,936**
FINANCIAL LIABILITIES										
Customer deposits		69,322,000	60,257,000	55,850,000	82,111,633	32,744,000	-	-	175,965,600	**476,250,233**
Debt securities in issue		-	-	-		29,264,000	15,010,000	-	-	**44,274,000**
Other borrowed funds		-	-	-		34,909,734	15,766,081	-	-	**50,675,815**
Due to Banks		10,000,000	-	-	-	-	-	-	-	**10,000,000**
Other liabilities		-	-	-	-	-	-	-	25,133,226	**25,133,226**
Finance lease payables			29,968			-	-	-	-	**29,968**
Total liabilities		**79,322,000**	**60,286,968**	**55,850,000**	**82,111,633**	**96,917,734**	**30,776,081**	**-**	**201,098,826**	**606,363,242**
Interest sensitive gap		**(49,322,000)**	**(4,049,932)**	**(32,282,357)**	**101,064,861**	**73,112,291**	**(17,170,081)**	**7,752,592**	**(81,069,680)**	**(1,964,306)**
Impact of increase in interest rate	5.0%	(2,466,100)	(202,497)	(1,614,118)	5,053,243	3,655,615	(858,504)	387,630	-	**3,955,269**
	10.0%	(246,610)	(20,250)	(161,412)	505,324	365,561	(85,850)	775,259	-	**1,132,023**
	15.0%	(369,915)	(30,374)	(242,118)	757,986	548,342	(128,776)	1,162,889	-	**1,698,035**
Impact of decrease in interest rate	(2.5%)	61,653	5,062	40,353	(126,331)	(91,390)	21,463	(193,815)	-	**(283,006)**
	(7.5%)	184,958	15,187	121,059	(378,993)	(274,171)	64,388	(581,444)	-	**(849,017)**
	(12.5%)	308,263	25,312	201,765	(631,655)	(456,952)	107,313	(969,074)	-	**(1,415,029)**

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.13 Interest rate risk (Continued)

31 DECEMBER 2008

TABLE 12		up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	Non-interest bearing	Total
FINANCIAL ASSETS										
Cash and balances with the Central Bank		-	-	-	-	-	-	-	62,423,883	**62,423,883**
Loans and advances to bank		-	15,441,520	-	-	-	-	-	-	**15,441,520**
Held to maturity investments		-	16,683,862	29,404,144	10,100,000	7,500,000	4,750,000	-	-	**68,438,006**
Other assets		-	-	-	-	-	-	-	29,592,024	**29,592,024**
Loans and advances to customers		-	1,096,000	24,812,000	123,247,000	81,350,533	36,329,383	-	2,704,467	**269,539,383**
Equity instruments		-	-	-	-	-	-	-	287,398	**287,398**
Total assets		**-**	**33,221,382**	**54,216,144**	**133,347,000**	**88,850,533**	**41,079,383**	**-**	**95,007,772**	**445,722,214**
FINANCIAL LIABILITIES										
Customer deposits		29,840,101	69,424,467	44,578,154	65,895,299	136,210,634	-	-	-	**345,948,655**
Debt securities in issue		-	-	-	18,000,000	-	14,171,000	-	-	**32,171,000**
Other borrowed funds		-	-	-	775,417	-	19,493,314	-	-	**20,268,731**
Due to Banks		4,500,000	-	-	-	-	-	-	-	**4,500,000**
Other liabilities		-	-	-	-	-	-	-	16,500,910	**16,500,910**
Finance lease payables		25,053	45,849	62,388	84,257	-	-	-	-	**217,547**
Total liabilities		**34,365,154**	**69,470,316**	**44,640,542**	**84,754,973**	**136,210,634**	**33,664,314**	**-**	**16,500,910**	**419,606,843**
Interest sensitive gap		**(34,365,154)**	**(36,248,934)**	**9,575,602**	**48,592,027**	**(47,360,101)**	**7,415,069**	**-**	**78,506,862**	**26,115,371**
Impact of increase in interest rate	5.0%	(1,718,258)	(1,812,447)	478,780	2,429,601	(2,368,005)	370,753	-	-	**(2,619,575)**
	10.0%	(171,826)	(181,245)	47,878	242,960	(236,801)	37,075	-	-	**(261,957)**
	15.0%	(257,739)	(271,867)	71,817	364,440	(355,201)	55,613	-	-	**(392,936)**
Impact of decrease in interest rate	(2.5%)	42,956	45,311	(11,970)	(60,740)	59,200	(9,269)	-	-	**65,489**
	(7.5%)	128,869	135,934	(35,909)	(182,220)	177,600	(27,807)	-	-	**196,468**
	(12.5%)	214,782	226,556	(59,848)	(303,700)	296,001	(46,344)	-	-	**327,447**

5. FINANCIAL RISK MANAGEMENT (Continued)

5.14 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements set by the Bank of Zambia;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank has complied with all externally imposed capital requirements throughout the year.

There has been no material changes in the Bank's management of capital during the year. Table 13 shows the computation of the Bank's risk weighted assets and capital position. The minimum capital for the Bank is 10% of the Risk Weighted Assets as computed.

a) Calculation of risk weighted assets

TABLE 13

Part 1- On balance sheet obligations	**Weight (1)**	**Balance (Net of allowance for losses) (2)**	**Risk-weighted assets (1x2)**
Assets	**%**		
Notes and coins		**12,962,882**	
- Zambian notes and coins	0%	12,962,882	-
- other notes and coins	0%	-	-
Balances held with the Bank of Zambia		**59,555,997**	-
- statutory reserves	0%	30,059,267	-
- other balances	0%	29,496,730	-
Balances with commercial banks in Zambia		**19,025,000**	-
- with residual maturity of up to 12 months	20%	19,025,000	3,805,000
- with residual maturity of more than 12 months	100%	-	-
Balances with commercial banks abroad		**27,156,733**	-
- with residual maturity of up to 12 months	20%	27,156,733	5,431,347
- with residual maturity of more than 12 months	100%	-	-
Assets in transit		**0**	-
- from other commercial banks	50%	-	-
- from branches to reporting bank	20%	0	0
Investment in debt securities		**80,081,198**	-
- treasury bills	0%	68,321,451	-
- other government securities	20%	11,759,747	2,351,949
- isued by local government units	100%	-	-
- private securities	100%	-	-
Loans and advances		**374,288,592**	-
- portion secured by cash or treasury bills	0%	-	-
- loans to or guaranteed by the government of Zambia	50%	-	-

5. FINANCIAL RISK MANAGEMENT (Continued)

5.14 Capital management (Continued)

a) Calculation of risk weighted assets (cont'd)

	Weight (1)	Balance (Net of allowance for losses) (2)	Risk-weighted assets (1x2)
Loans repayable in instalments and secured by a			
- mortgage on owner- occupied residential property	50%	128,181,592	64,090,796
- loans to or guaranteed by local government units	100%	-	-
- loans to parastatals	100%	-	-
- other	100%	246,107,000	246,107,000
Inter-bank advances and loans/advances		**-**	-
- guaranteed by other banks		-	-
- with a residual maturity of 12 months	20%	-	-
- with residual maturity of more than 12 months	100%	-	-
Bank premises	100%	**13,532,302**	13,532,302
Acceptances	100%	**-**	-
Other assets	100%	**58,750,874**	58,750,874
Investment in equity of other companies	100%	**287,398**	287,398
Total risk-weighted assets (on balance sheet)		**645,640,976**	**394,356,666**

Part 2 - Off balance sheet obligations

(Under first schedule - regulations 21 and 24)

	Weight (1)	Balance (Net of allowance for losses) (2)	Risk-weighted assets (1x2)
Assets			
Letters of credit		**-**	
- sight import letters of credit	20%	-	-
- portion secured by cash/treasury bills	0%	-	-
- standby letters of credit	100%	-	-
- portion secured by cash/treasury bills	0%	-	-
- export letters of credit confirmed	20%	-	-
Guarantees and Indemnities		**46,245,795**	-
- guarantees for loans, trade and securities	100%	-	-
- portion secured by cash/treasury bills	0%	-	-
- performance bonds	50%	46,245,795	23,122,898
- portion secured by cash/treasury bills	0%	-	-
- securities purchased under resale agreement	100%	-	-
- other contingent liabilities	100%	-	-
- net open position in foreign currencies	100%	-	-
Total risk-weighted assets (off balance sheet)		**46,245,795**	23,122,898
Total risk-weighted assets (on and off balance sheet)		**691,886,771**	**417,479,564**

5. FINANCIAL RISK MANAGEMENT (Continued)

5.14 Capital management (Continued)

b) Computation of capital postion

TABLE 14

	2010	2009
I Primary (Tier 1) Capital		
(a) Paid-up common shares	**2,964,000**	2,964,000
(b) Eligible preferred shares	**-**	-
(c) Contributed surplus	**2,528,461**	2,528,461
(d) Retained earnings	**26,317,321**	36,405,235
(e) General reserves	**4,503,952**	2,734,052
(f) Statutory reserves	**2,964,000**	2,964,000
(g) Minority interests (common shareholders' equity)		
(h) Sub-total	**39,277,734**	47,595,748
LESS:		
(i) Goodwill and other intangible assets		
(j) Investments in unconsolidated subsidiaries and associates	**-**	-
(k) Lending of a capital nature to subsidiaries and associates	**-**	-
(l) Holding of other banks' or financial institutions' capital instruments	**-**	-
(m) Assets pledged to secure liabilities	**-**	-
Sub-total (A) (items i to m)	**-**	-
Other adjustments		
Provisions	**-**	-
Assets of little or no realizable value - specify details or use separate list if necessary:	**-**	-
Other adjustments (specify)	**-**	-
(n) Sub-total (B) - (Sub-total A above + Other adjustments)	**-**	-
(o) Total primary capital (h - n)	**39,277,734**	47,595,748
II Secondary (Tier 2) Capital		
(a) Eligible preferred shares (Regulations 13 and 17)	**-**	-
(b) Eligible subordinated term debt (Regulation 17 (b))	**20,703,600**	8,502,600
(c) Eligible loan stock/capital (Regulation 17(b))	**-**	-
(d) Revaluation reserves (Regulation 17 (a)). Maximum is 40% of revaluation res.	**-**	-
(e) Other (Regulation (17 ©). Specify		
(f) Total secondary capital	**20,703,600**	8,502,600

5. FINANCIAL RISK MANAGEMENT (Continued)

5.14 Capital management (Continued)

b) Computation of capital postion (cont'd)

		2010	2009
III	**Eligible secondary capital**		
	(the maximum amount of secondary capital is limited to 100% of primary capital)	**20,703,600**	8,502,600
IV	Eligible total capital (I(o) + III) (Regulatory capital)	**59,981,334**	56,098,348
V	**Minimum total capital requirement:**		
	(10% of total on and off balance sheet risk-weighted assets as established	**41,747,956**	24,509,433
VI	**Excess (deficiency) (IV minus V)**	**18,233,378**	31,588,915

6. INTEREST AND SIMILAR INCOME

	2010	2009
Arising on:		
Loans and advances to:		
- banks	**613,353**	670,073
- customers	**64,305,863**	61,282,800
	64,919,216	61,952,873
Held to maturity investments	**7,871,231**	9,248,284
Open market operations placements	**1,013,366**	1,101,735
Leasing	**1,532,069**	1,533,504
	75,335,882	73,836,396

7. INTEREST AND SIMILAR EXPENSE

	2010	2009
Arising on:		
Deposits due to customers	**16,724,666**	17,918,946
Deposits from banks	**272,759**	791,241
	16,997,425	18,710,187
Debt securities in issue	**5,912,958**	5,804,926
Other borrowed funds	**2,098,896**	1,214,783
	25,009,279	25,729,896

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8. IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2010	2009
At beginning of the year	**50,291,782**	29,784,175
Increase in impairment	**22,712,971**	10,704,594
Amounts written off as uncollectible	**(533,485)**	(2,527,833)
Interest suspended during the year	**27,085,430**	12,330,846
At end of the year (note 18)	**99,556,698**	50,291,782

Amounts charged to the income statement are made up as follows:

	2010	2009
Identified impairment charge for credit losses	**22,712,971**	10,704,594
Bad debt recoveries	**-**	(1,148,537)
Bad debts written off in the year	**4,084,668**	10,207
	26,797,639	9,566,264

9. FEE AND COMMISSION INCOME

	2010	2009
Other transaction fees and commissions	**13,293,124**	9,629,215
Ledger fees	**5,978,847**	5,288,812
Credit related fees and commissions	**8,495,319**	3,773,976
Asset management fees	**149,639**	72,694
	27,916,929	18,764,697

10. FEE AND COMMISSION EXPENSE

	2010	2009
Bank charges and medical levy	**611,585**	597,313
Handling fees on Government securities	**168,325**	168,356
Other	**17,196**	81,350
	797,106	847,019

11. OPERATING EXPENSES

	2010	2009
Personnel expenses		
Salaries and other staff benefit costs	**31,619,975**	21,969,780
Pension costs - defined contribution plan	**1,584,256**	1,134,012
Staff medical	**904,995**	580,918
Staff training	**488,542**	465,117
Staff Insurance	**217,668**	362,282
Social security costs	**82,383**	74,161
	34,897,819	24,586,270
Administrative expenses		
Occupancy	**3,517,571**	3,820,144
Motor vehicle costs	**4,038,945**	2,578,460
Telecommunication and postage	**3,022,502**	2,567,598
Office and security expenses	**2,666,287**	1,967,654
	13,245,305	10,933,856

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11. OPERATING EXPENSES (Continued)

	2010	2009
Other operating expenses		
Depreciation and amortisation (note 20 and note 21)	**4,411,028**	3,712,362
Travel expenses	**2,676,222**	2,472,786
Marketing and public relations	**2,911,023**	2,457,839
Other expenses	**4,249,030**	1,914,760
Professional and legal fees	**2,024,174**	1,800,987
Printing and stationery	**1,677,490**	1,255,982
Repairs and maintenance	**1,085,835**	480,969
	19,034,802	14,095,685
	67,177,926	49,615,811

12. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax is stated after crediting:

	2010	2009
Interest receivable from other banks	**613,353**	670,073
Rental income	**74,940**	75,840
Gain on disposal of property and equipment	**64,972**	10,670

and after charging:

	2010	2009
Depreciation and amortisation	**4,379,097**	3,712,362
Directors emoluments:		
- for managerial services	**1,762,500**	1,527,500
- fees and expenses	**403,282**	394,404
Pension costs - Bank contributions	**1,584,256**	1,134,012
Interest payable to other banks	**272,759**	791,241
Donations	**887,665**	115,064

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13. INCOME TAX EXPENSE

Income tax is charged at 35% on the first ZK250 million profit and at 40% on profits in excess of ZK250 million. Withholding tax on Government Bond interest and Treasury bills is 15%. All non banking profits are taxed at 35%.

	2010	2009
Current tax		
Based on banking profits	**-**	7,001,371
Based on non banking profits	**26,229**	30,336
	26,229	7,031,707
Less:overprovision in prior years	**-**	(961,402)
Deferred tax (note 27)	**(1,438,405)**	269,024
	(1,412,176)	6,339,329

The taxation payable has been derived as follows:

	2010	2009
Payable in respect of the year	**26,229**	6,070,305
Payable in respect of previous years	**2,593,213**	2,772,406
	2,619,442	8,842,711
Income tax payments made	**(1,676,316)**	(4,942,467)
Withholding tax suffered during the year	**(6,738,080)**	(1,307,031)
Total paid and suffered	**(8,414,396)**	(6,249,498)
Current tax (recoverable) payable	**(5,794,954)**	2,593,213

The tax on the Bank's profits before tax differs from the theoretical amount that would arise using the basic tax rates as follows:

Reconciliation of the tax charge:

	2010	2009
(Loss) profit before tax	**(6,351,230)**	16,411,623
Tax at the applicable rate of 40%	**(2,540,492)**	6,564,649
- Permanent differences	**1,128,316**	(494,344)
- Timing differences	**-**	269,024
	(1,412,176)	6,339,329

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14. CASH AND BALANCES WITH CENTRAL BANK

	2010	2009
Balances with Central Bank		
Statutory deposits	**30,059,267**	27,162,093
Open Market Operations ("OMO") deposits	**20,000,000**	-
Current account	**9,496,730**	20,770,674
	59,555,997	47,932,767
Cash on hand	**12,962,882**	14,491,116
	72,518,879	62,423,883

From time to time the Central Bank prescribes the minimum required statutory deposit ratio as a means of protecting customers' deposits. The statutory deposits are restricted and not available for use in the Bank's day-to-day operations and are non-interest bearing. Cash on hand and current account balances are non-interest bearing. Open Market Operation ("OMO") deposits are fixed rate assets.

15. LOANS AND ADVANCES TO/FROM BANKS

	2010	2009
Amounts due from other banks	**46,181,733**	15,441,520
Amounts due to other banks	**10,000,000**	4,500,000

The amounts due to and from other banks relate to short term placements and borrowings. These amounts are all current in nature.

16. HELD TO MATURITY INVESTMENTS

	2010	2009
Treasury bills	**68,321,451**	51,572,562
Government bonds	**11,759,747**	16,865,444
	80,081,198	68,438,006
Current	**73,821,451**	57,172,562
Non-current	**6,259,747**	11,265,444

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16. HELD TO MATURITY INVESTMENTS (Continued)

	2010	2009
Treasury Bills		
Face value		
Maturity period		
0 - 91 days	**44,445,000**	16,683,862
92 - 182 days	**15,000,000**	32,572,999
183 - 273 days	**-**	4,500,000
274 - 364 days	**10,000,000**	-
	69,445,000	53,756,861
Less: unearned discount	**(1,123,549)**	(2,184,299)
	68,321,451	51,572,562
Government Bonds		
Face value		
Maturity period		
0 - 365 days	**5,500,000**	5,600,000
366 - 730 days	**2,000,000**	5,500,000
731 - 1095 days	**4,500,000**	2,000,000
1096 - 1826 days	**250,000**	4,500,000
1827 - 3650 days		250,000
	12,250,000	17,850,000
Less: unearned discount	**(490,253)**	(984,556)
	11,759,747	16,865,444
Maturity analysis:		
Due within one year	**5,500,000**	5,600,000
Due after more than one year	**6,750,000**	12,250,000
	12,250,000	17,850,000

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17. OTHER ASSETS

	2010	2009
Other receivables and prepayments	**31,041,136**	29,062,847
Items in course of collection	**-**	529,177
	31,041,136	29,592,024
Current	**27,609,384**	19,682,865
Non-current	**3,431,752**	9,909,159
	31,041,136	29,592,024

The analysis of other receivables and prepayments is as follows:

	2010	2009
Sundry and interest receivable	**20,055,504**	19,363,739
Suspense clearing accounts	**8,973,940**	6,649,274
Prepayments	**1,671,659**	2,830,439
Stationery and cheque books	**340,033**	219,395
	31,041,136	29,062,847

18. LOANS AND ADVANCES TO CUSTOMERS

	2010	2009
Loans and advances to customers	**473,845,290**	319,831,165
Less: impaired loans and advances (note 8)	**(99,556,698)**	(50,291,782)
	374,288,592	269,539,383

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18. LOANS AND ADVANCES (Continued)

Included in loans and advances is an amount relating to advances made to staff of **ZK11,833 million** (31 December 2009: ZK5,858 million).

	2010		2009	
Industry analysis				
Wholesale and retail trade	**156,368,833**	**33%**	23,539,574	7%
Other sectors	**104,245,889**	**22%**	116,802,342	37%
Financial	**75,815,192**	**16%**	21,748,519	7%
Service industries	**47,384,495**	**10%**	25,554,510	8%
Agriculture	**37,907,596**	**8%**	34,989,529	11%
Construction, mining and quarrying	**33,169,487**	**7%**	74,968,425	23%
Manufacturing	**18,953,798**	**4%**	22,228,266	7%
	473,845,290	**100%**	319,831,165	100%
Less: impaired loans and advances (note 8)	**(99,556,698)**		(50,291,782)	
	374,288,592		269,539,383	
Sector analysis				
Private corporations	**381,799,602**	**81%**	268,355,628	84%
Individuals	**79,030,054**	**17%**	47,338,537	15%
Related parties	**13,015,634**	**3%**	4,137,000	1%
	473,845,290	**100%**	319,831,165	100%
Less: impaired loans and advances (note 8)	**(99,556,698)**		(50,291,782)	
	374,288,592		269,539,383	

Contracts with Directors and related parties

Included in the loans and advances balances are amounts due from Directors and other related parties. The aggregate amount outstanding with persons who are Directors of the Bank and related companies is shown under Note 31.

Finance lease receivables

Included in loans and advances are finance lease receivables with a net investment value of **ZK13.7 billion** (31 December 2009: ZK9.0 billion).

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18. LOANS AND ADVANCES (Continued)

Finance lease receivables (Continued)

	2010	2009
The movement for the year is as follows:		
At the beginning of the year	**11,323,085**	11,757,417
Additions during the year	**9,977,223**	4,368,642
Repayments during the year	**(4,526,206)**	(4,746,315)
Unrealised exchange (losses) gains	**-**	(56,659)
Gross investment in finance leases	**16,774,102**	11,323,085
Less: Unearned future finance income on finance leases	**(3,092,751)**	(2,302,507)
Net investment in finance leases	**13,681,351**	9,020,578

The gross investment in finance leases may be analysed as follows:

	2010	2009
- Not later than 1 year	**8,577,186**	7,210,363
- Later than one year and no later than 5 years	**8,196,916**	4,112,722
	16,774,102	11,323,085

Industry analysis	2010	%	2009	%
Other sectors	**5,366,290**	**32%**	56,615	0%
Construction, mining and quarrying	**4,353,915**	**26%**	3,815,880	34%
Manufacturing	**3,386,298**	**20%**	373,662	3%
Service industries	**2,800,839**	**17%**	6,510,774	58%
Wholesale and retail	**404,298**	**2%**	498,216	4%
Agriculture	**349,864**	**2%**	-	0%
Financial	**112,598**	**1%**	67,938	1%
	16,774,102	**100%**	11,323,085	100%

Sector analysis	2010	%	2009	%
Private corporations	**16,284,679**	**97%**	11,198,614	99%
Non banking financial institutions	**112,598**	**1%**	69,825	1%
Individuals	**376,825**	**2%**	54,646	0%
	16,774,102	**100%**	11,323,085	100%

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18. LOANS AND ADVANCES (Continued)

	2010	2009

Finance lease receivables (Continued)

The Bank enters into finance leasing arrangements. The average term of finance leases entered into is 2 years. Unguaranteed residual dues of assets leased under the finance leases at the balance sheet date are estimated at ZK137 million (2009: ZK170 million).

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted is approximately 11% for US Dollar denominated and 20% for Kwacha denominated leases.

The Directors consider that the fair value of the leases is at least equal to their carrying values as reflected in the balance sheet.

19. EQUITY INVESTMENT

	2010	2009
Prima Reinsurance Zambia Plc	**200,000**	200,000
Zambia Electronic Clearing House Limited	**87,398**	87,398
	287,398	287,398

The Bank holds 1.67% shares in Prima Reinsurance Zambia Plc. The investment is carried at cost as the company is not yet listed in order to facilitate trading in its shares.

The Bank also holds 1.96% shares in Zambia Electronic Clearing House Limited ("ZECHL"). All banks in Zambia which participate in clearing are required to hold shares in ZECHL. The shares have been issued to this value in the name of the Bank. This investment represents the cost of the issued share capital of ZECHL. The investment is carried at cost as there is no market for this investment that provide a reliable measure of fair value.

No dividends are expected from these investment in the foreseeable future and consequently there are no determinable future cash inflows. It is not possible to determine a possible range of estimates within which the fair value of this investment is likely to be.

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20. PROPERTY AND EQUIPMENT

The movement in the property and equipment were as follows:

	Leasehold buildings	Leasehold improvements	Furniture and fixtures	Motor vehicles and equipment	Capital work in progress
At 1 January 2009					
Cost or valuation	3,288,189	2,830,360	1,764,754	9,914,715	5,040,137
Accumulated depreciation	206,788	1,061,634	717,016	5,809,853	-
Net book value	**3,081,401**	**1,768,726**	**1,047,738**	**4,104,862**	**5,040,137**
Year ended 31 December 2009					
Opening net book value	3,081,401	1,768,726	1,047,738	4,104,862	5,040,137
Additions	-	83,327	380,670	2,953,316	7,964,581
Reclassification	-	3,210,444	632,032	2,587,774	(6,430,250)
Disposals	-	-	-	(27,658)	-
Depreciation charge	(22,439)	(504,886)	(156,242)	(2,411,127)	-
Adjustments	-	-	3,148	20,432	(316,128)
Closing net book value	**3,058,962**	**4,557,611**	**1,907,346**	**7,227,599**	**6,258,340**
At 31 December 2009					
Cost or valuation	3,288,189	6,124,131	2,780,604	14,850,638	6,258,340
Accumulated depreciation	229,227	1,566,520	873,258	7,623,039	-
Net book value	**3,058,962**	**4,557,611**	**1,907,346**	**7,227,599**	**6,258,340**
Year ended 31 December 2010					
Opening net book value	3,058,962	4,557,611	1,907,346	7,227,599	6,258,340
Additions	20,231	810,084	362,707	2,780,173	9,724,801
Reclassification	-	5,610,754	695,275	2,558,465	(8,864,494)
Disposals	-	-	-	(115,443)	-
Depreciation charge	(23,582)	(501,758)	(332,358)	(3,019,166)	-
Closing net book value	**3,055,611**	**10,476,691**	**2,632,970**	**9,431,628**	**7,118,647**
At 31 December 2010					
Cost or valuation	3,308,420	12,816,859	3,838,586	19,688,258	7,118,647
Accumulated depreciation	252,809	2,340,168	1,205,616	10,256,630	-
Net book value	**3,055,611**	**10,476,691**	**2,632,970**	**9,431,628**	**7,118,647**

Leasehold buildings were revalued on the basis of open market for existing use at 31 December 2007 by indepen Valuation Surveyors. The carrying amount and the revalued amount were substantially the same, hence no recorded. There is a property classified under leasehold improvement with improvement costs of ZK45 million fo deeds are available. This property is on land owned by the Agricultural and Commercial Show Society.

Included in motor vehicles and equipment are motor vehicles secured against finance lease whose net book value is (2009: ZK350 million).

In accordance with Section 193 of the Companies Act, 1994 the Register of Land and Buildings is available fo members and their duly authorised agents at the Registered Records Office of the Bank.

Total
22,838,155
7,795,291
15,042,864
15,042,864
11,381,894
-
(27,658)
(3,094,694)
(292,548)
23,009,858
33,301,902
10,292,044
23,009,858
23,009,858
13,697,996
-
(115,443)
(3,876,864)
32,715,547
46,770,770
14,055,223
32,715,547

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revaluation was
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21. INTANGIBLE ASSETS

	Software development costs	Total
Cost		
At beginning of the year	**2,688,480**	**2,688,480**
Additions	**731,635**	**731,635**
At end of year	**3,420,115**	**3,420,115**
Amortisation		
At beginning of the year	**729,050**	**729,050**
Amortisation for the year	**502,233**	**502,233**
At end of year	**1,231,283**	**1,231,283**
Net book amount at end of year	**2,188,832**	**2,188,832**
Net book amount at beginning of year	1,959,430	1,959,430

22. DEPOSITS FROM CUSTOMERS

	2010	2009
Current accounts	**183,359,212**	114,893,489
Deposit accounts	**170,085,910**	145,786,588
Savings accounts	**62,693,980**	41,977,890
Cheque savers' accounts	**60,111,131**	43,290,688
	476,250,233	345,948,655

All deposits accounts have fixed interest rates. The customer accounts are split as follows:

	2010	2009
Retail customers		
- Savings accounts	**58,373,956**	39,010,427
- Cheque Saver accounts	**12,262,976**	9,485,775
- Current accounts	**10,029,021**	17,014,991
- Deposit accounts	**4,591,803**	20,579,696
Corporate customers		
- Current accounts	**173,566,591**	97,878,498
- Deposit accounts	**165,494,107**	125,206,892
- Cheque Saver accounts	**47,848,155**	33,804,913
- Savings accounts	**4,320,024**	2,967,463
	476,486,633	345,948,655

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22. DEPOSITS FROM CUSTOMERS (CONTINUED)

The maturity analysis for the deposit accounts is as follows:

Period	2010	2009
0 - 30 days	**7,387,538**	29,840,101
31 - 60 days	**22,840,491**	20,703,195
61 - 90 days	**19,880,245**	48,721,272
91 - 365 days	**43,983,068**	46,522,020
Above 365 days	**75,994,568**	-
	170,085,910	145,786,588

Increase (decrease) in amounts due to depositors:

	2010	2009
Current accounts	**68,702,123**	(14,166,449)
Deposit accounts	**24,299,322**	42,270,349
Savings accounts	**20,716,090**	3,130,581
Cheque savers' accounts	**16,820,443**	(31,926,450)
	130,537,978	(691,969)

23. DEBT SECURITIES IN ISSUE

	2010	2009
Kwacha Medium Term Notes due 2010	**-**	18,000,000
Kwacha Medium Term Notes due 2012	**15,030,000**	-
Kwacha Medium Term Notes due 2013	**12,310,000**	12,310,000
USD Medium Term Notes due 2013	**1,924,000**	1,861,000
Kwacha Medium Term Notes due 2015	**15,010,000**	-
	44,274,000	32,171,000
Current	**-**	18,000,000
Non-current	**44,274,000**	14,171,000

The debt securities are repayable only on maturity. None of the debt securities are secured. The Bank has not had any defaults on interest amounts during the year.

The annual effective interest rate on the debt securities in 2010 was **14%** (2009: 18%).

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24. OTHER BORROWED FUNDS

	2010	2009
African Development Bank (ADB)	**16,835,000**	-
Zambia Enterprise Development Project ("ZEDP")	**15,766,081**	775,417
Norsad Fund	**12,062,234**	13,677,689
European Investment Bank ("EIB")	**6,012,500**	5,815,625
	50,675,815	20,268,731
Current liability payable within one year	**(5,711,875)**	(775,417)
Non-current liability	**44,963,940**	19,493,314

African Development Bank

This is the Line of Credit with the African Development Bank (ADB) to be utilised for meduim term lending to the underserved local Small and Meduim sized Enterprises. The project targets growth oriented SMEs operating in capital intensive sectors. The total loan is for US$3.5 million repayable within 5 years.

The ADB loan bears floating interest at the rate of LIBOR + 2.3% per annum and repayable in five years with a grace period of one year.

The annual weighted average effective interest rate was **2.8%** per annum in 2010.

Norsad Fund borrowing

Norsad Fund is a joint Nordic and Southern African Development Community (SADC) development finance institution established to contribute to the economic and industrial development of the participating SADC member states by extending foreign exchange loans, lines of credit and guarantees on commercial terms for the current operations of viable enterprises in the SADC region.

The Norsad loan bears interest at a fixed rate of 7.5% per annum and repayable in five years with a grace period of one year.

The annual weighted average effective interest rate was **8.7%** per annum in 2010 (2009: 8.7%)

The European Investment Bank facility ("EIB")

The EIB facility is part of the Global Facility under the Partnership agreement between the members of the African, Carribean and Pacific (ACP) Group of States on one hand and the European Community and its member states on the other hand to grant credit to financial institutions acceptable to the Bank. The facility is to be used for financing of small and medium sized investment projects to be carried out in Zambia by private enterprises.

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24. OTHER BORROWED FUNDS (Continued)

The European Investment Bank facility ("EIB")(Continued)

The EIB loan bears interest at a fixed rate of 8% per annum and repayable in ten years with a grace period of three years.

The annual weighted average effective interest rate was **4.9%** per annum in 2010 (2009: 4.9%)

The Zambia Enterprise Development Project ("ZEDP")

The ZEDP facility is part of the International Development Agency Support Programme to the Government of the Republic of Zambia and is managed through the Bank of Zambia and participating financial intermediaries. The amount represents the principal amount due to Bank of Zambia.

The amounts are borrowed by the Bank for on-lending to customers under lease arrangements in certain sectors of the economy.

The ZEDP loans bear interest at the rate of 6.3%. The Bank has not had any defaults of principal, interest or redemption amounts during the period (2009: Nil).

The annual weighted average effective interest rate was **1.9%** per annum in 2010 (2009: 1.9%)

25. OTHER LIABILITIES

	2010	2009
Sundry payables	**15,757,467**	8,101,176
Bankers cheques payable	**4,266,960**	2,845,151
Interest payable	**2,981,331**	5,414,752
Interest payable on borrowings	**2,127,468**	139,831
	25,133,226	16,500,910

Sundry payables

This can be analysed as follows:

	2010	2009
Other creditors and accruals	**7,251,160**	(15,945)
Payroll related liabilities	**5,709,400**	4,670,782
Sundry creditors	**2,168,722**	3,174,694
Unpresented drafts	**628,185**	271,645
	15,757,467	8,101,176

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26. FINANCE LEASE PAYABLES

	2010	2009
At the beginning of the year	**217,547**	239,982
Additions during the year	**-**	252,195
Repayments during the year	**(196,764)**	(245,460)
Unrealised exchange losses (gains)	**9,185**	(29,170)
At end of the year	**29,968**	217,547
Maturity analysis		
Current	**29,968**	217,547

Finance leases are repayable in 36 equal monthly instalments. The effective annual rate of interest during 2010 was **14%** per annum (2009: 14% per annum). The finance leases are secured on the leased assets whose net book value is shown in Note 20.

27. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of **40%** (2009: 40%).

Tax effect of timing differences due to:

	2010	2009
Temporary differences on property, and equipment	**1,388,238**	895,698
Tax losses	**(1,930,945)**	-
Deferred tax (assets) liabilities	**(542,707)**	895,698

The following are the major deferred tax liabilities recognised by the Bank and their movements in the year:

	Tax losses	**Accerelated capital allowances**	**Total**
At 1 January 2009	**-**	**626,674**	**626,674**
Arising in the year	-	269,024	269,024
At 31 December 2009	**-**	**895,698**	**895,698**
Arising in the year	(1,930,945)	492,540	(1,438,405)
At 31 December 2010	**(1,930,945)**	**1,388,238**	**(542,707)**

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28. SHARE CAPITAL

	2010	2009
Authorised		
The total authorised share capital at year end was **5,000,000,000** shares (2009 - 5,000,000,000 shares) with a par value of ZK1 per share (2009 - ZK1 per share).		
Issued and fully paid up		
2,964,000,000 ordinary shares of **ZK1** each	**2,964,000**	2,964,000

29. (a) STATUTORY RESERVES

The statutory reserve is established in accordance with Chapter VI Section 69 of the Banking and Financial Services Act, 1994 (as amended). Current regulation stipulates that a bank shall maintain a reserve account and before declaring any dividend, shall transfer to its reserve account, 20% to 50% of the net profit of each year after due provision has been made for tax, to a maximum of the issued share capital.

(b) GENERAL BANKING RESERVES

The Bank has charged the impairment loss on loans and advances in accordance with IAS 39. The difference of the charge for impairment on loans and advances based on Bank of Zambia regulatory requirements under Statutory Instrument No. 142 and the charge based on the Bank policy which follows the guidance of IFRS (IAS 39) has been transferred from revenue reserves to the general banking reserve.

(c) DIVIDENDS

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting held on 21 April 2010, a dividend in respect of 2009 of ZK1.14 per share (2008: ZK1.14 per share) amounting to a total of ZK3.37 billion (2008: ZK3.37 billion) was approved and paid.

No dividend in respect of 2010 is to be proposed at the Annual General Meeting to be held on 1 April 2011.

Kwacha '000

30. CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2010. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise.

b) Loan commitments, guarantees and other financial facilities

At 31 December the Bank off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2010	2009
Guarantees and performance bonds	**46,245,795**	36,901,989

c) Assets pledged

Assets are pledged as collateral under repurchase agreements with other Banks and for security deposits relating to Real Time Gross Settlements and Zambia Electronic Clearing House Limited memberships. Mandatory reserve deposits are also held with local Central Bank in accordance with statutory requirements. These deposits are not available to finance the Bank's day to day operations.

d) Capital commitments

	2010	2009
At 31 December 2010, the Bank had capital commitments in respect of property and equipment purchases. The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.	**7,992,000**	23,371,639

Kwacha '000

31. RELATED PARTY TRANSACTIONS

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The Bank had related party transactions during the year with the following associated companies:

Name	**Nature of relationship**
AFE Limited	Common shareholding
Revays Florist	Related to shareholders
Matula Investments	Common shareholding
Hortex Limited	Common shareholding

The volumes of related party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

a) Loans and advances to related parties

	Directors and other key management personnel **		Associated companies	
	2010	2009	**2010**	2009
Loans outstanding at 1 January	**-**	-	**4,137,183**	2,831,270
Loans issued during the year	**-**	-	**12,223,705**	5,753,247
Interest charges	**-**	-	**1,534,113**	761,283
Loan repayments during the year	**-**	-	**(666,047)**	(5,207,617)
Loans outstanding at 31 December	**-**	-	**17,228,954**	4,138,183
Interest income earned	**-**	-	**1,534,113**	761,283

The amounts on connected entities arise on:

- Loan facilities; and
- Rentals of office premises

** The loans issued to other key management personnel during the year are governed by the general conditions of service for management staff.

The loans and advances to associated companies are secured by Directors personal guarantees supported by a mortgage and are repayable on demand.

The entities are related to the Bank through common Directorship and shareholdings.

Kwacha '000

31. RELATED PARTY TRANSACTIONS (Continued)

b) Other transactions with related parties

	Directors and other key management personnel		Related companies	
	2010	2009	**2010**	2009
Rental income	**-**	**-**	**70,440**	70,440
Cost of office floral arrangement	**-**	-	**(182,432)**	(173,010)

Directors' remuneration and key management personnel compensation

A list of the members of the Board of Directors is shown on page 1 of the financial statements under the Report of the Directors.

	2010	2009
Post employment benefits	**6,168,750**	5,287,500
Salaries	**1,762,500**	1,527,500
Directors fees and expenses	**403,282**	394,404
Other long term benefits	**741,718**	264,375
	9,076,250	7,473,779

32. EVENTS AFTER THE REPORTING DATE

There are no events after the reporting date which would require disclosure in or adjustments to these financial statements.

INVESTRUST BANK PLC

APPENDIX I - FIVE YEAR FINANCIAL SUMMARY

TREND ANALYSIS (OPERATING RESULTS) - AUDITED FINANCIAL STATEMENTS

K'000

	2010	2009	2008	2007	2006
INCOME					
Interest on loans and advances	**66,451,285**	63,486,377	48,559,686	41,654,062	30,439,919
Profit on foreign exchange trading	**10,037,997**	9,483,010	9,928,423	8,571,625	5,614,844
Income on held to maturity investments	**8,884,597**	10,350,019	9,673,574	6,593,263	9,278,177
Net fees and commissions	**27,119,823**	17,917,678	16,139,161	17,197,965	7,956,759
	112,493,702	101,237,084	84,300,844	74,016,915	53,289,699
EXPENDITURE					
Interest payable	**25,009,279**	25,729,896	20,799,120	18,804,218	14,136,251
Staff benefit costs	**33,992,825**	24,586,270	21,962,865	18,763,987	13,513,514
Administration and other operating expenses	**33,045,189**	24,943,031	17,977,467	14,383,459	10,651,017
Provision for loan losses and bad debts	**26,797,639**	9,566,264	7,663,521	5,873,512	2,919,322
	118,844,932	84,825,461	68,402,973	57,825,176	41,220,104
(Loss) profit before tax	**(6,351,230)**	16,411,623	15,897,871	16,191,739	12,069,595
Income tax credit (expense)	**1,412,176**	(6,339,329)	(6,047,800)	(2,627,465)	(2,951,339)
(Loss) profit after tax	**(4,939,054)**	10,072,294	9,850,071	13,564,274	9,118,256

INVESTRUST BANK PLC

APPENDIX II - FIVE YEAR FINANCIAL SUMMARY (CONTINUED)

STATEMENT OF FINANCIAL POSITION TREND ANALYSIS - AUDITED FINANCIAL STATEMENTS

K'000	2010	2009	2008	2007	2006
ASSETS					
Cash, balances with Bank of Zambia and other banks	**118,700,612**	77,865,403	86,854,161	129,173,777	72,793,916
Held to maturity investments	**80,081,198**	68,438,006	66,384,201	75,004,465	56,922,544
Loans and advances (net of provisions)	**374,288,592**	269,539,383	262,600,555	187,856,789	140,593,802
Other assets	**72,570,574**	54,848,710	39,296,645	26,810,669	16,616,705
Total Assets	**645,640,976**	470,691,502	455,135,562	418,845,700	286,926,967
LIABILITIES					
Customer deposits	**476,250,233**	345,948,655	346,640,624	328,609,876	243,283,266
Other borrowed funds	**50,675,815**	20,268,731	13,765,436	3,070,670	3,399,263
Subordinated debt	**44,274,000**	31,171,000	32,270,376	31,859,676	-
Other liabilities	**35,163,194**	25,707,368	21,556,712	20,874,275	17,095,229
	606,363,242	423,095,754	414,233,148	384,414,497	263,777,758
Shareholders funds	**39,277,734**	47,595,748	40,902,414	34,431,203	23,149,209
Total liabilities and shareholders funds	**645,640,976**	470,691,502	455,135,562	418,845,700	286,926,967

INVESTRUST BANK PLC

APPENDIX II - DETAILED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

Kwacha '000	2010	2009
NET INTEREST INCOME		
Interest income	**75,335,882**	73,836,396
Interest expense	**(25,009,279)**	(25,729,896)
Net interest income	**50,326,603**	48,106,500
OTHER OPERATING INCOME		
Fees and commissions	**21,938,082**	13,475,885
Gains from dealings in foreign currencies	**10,037,997**	9,483,010
Ledger fees	**5,978,847**	5,288,812
Rental income	**74,940**	75,840
Gain on disposal of property and equipment	**64,972**	10,670
	38,094,838	28,334,217
TOTAL INCOME	**88,421,441**	76,440,717
OPERATING EXPENSES AND BAD DEBTS		
Employee benefit expenses	**33,992,825**	24,005,352
Impairment charge for credit losses	**22,712,971**	9,556,057
Depreciation expense	**4,379,097**	3,712,362
Bad debts written off	**4,084,668**	10,207
Motor vehicle expenses	**4,038,945**	2,578,460
Rent and rates	**3,517,571**	3,820,144
Postage and communication costs	**3,022,502**	2,567,597
Advertising	**2,911,023**	2,457,839
Travel expenses	**2,676,222**	2,472,786
Office and security expenses	**2,666,287**	1,967,654
Professional and legal fees	**2,024,174**	1,488,987
Printing and stationery	**1,677,490**	1,255,982
Repairs and maintenance	**1,085,835**	480,969
Other miscellanous expenses	**983,968**	(1,896)
Medical expenses	**904,995**	580,918
Donations	**887,665**	115,064
Fee and commission expense	**797,106**	847,019
Computer expenses	**567,494**	574,827
Directors fees and expenses	**403,282**	394,404
Water and electricity	**358,952**	206,544
Insurance	**333,967**	217,153
Entertainment	**279,151**	146,575
Subscriptions	**256,481**	262,090
Auditors remuneration	**210,000**	312,000
TOTAL EXPENDITURE	**94,772,671**	60,029,094
PROFIT BEFORE TAX	**(6,351,230)**	16,411,623