INVESTRUST BANK PLC

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2012

INVESTRUST BANK PLC
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2012

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INVESTRUST BANK PLC

REPORT OF THE DIRECTORS

The Directors present their report together with the financial statements for the year ended 31 December 2012, 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 public 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. 19028/9
Great East Road
P.O. Box 32344
Lusaka

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

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

RESULTS AND DIVIDENDS

	2012	2011
	ZMK'000	ZM'K'000
Net interest income	**74,141,102**	54,402,060
Profit before tax	**20,880,355**	11,292,816
Net profit for the year	**14,340,911**	5,747,654

During the year, no dividend was declared and or paid in respect of the financial year ended 31 December 2011. The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2012.

SHARE CAPITAL

The total authorised number of ordinary shares was varied to **120,000,000** with a par value of **ZMK1,000 each** (2011:5,000,000,000 shares with a par value of ZMK1 each). The issued share capital was similarly revised to 4,665,231 shares with a par value of ZMK1,000 each (2011: 4,665,230,609 shares with a par value of ZMK1 each).

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.A. Lungu	-	Non-executive

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 2012 were as follows:

	No. of shares		% Shareholding	
	2012	2011	**2012**	2011
Mr. R.L. Bvulani	**459,411**	459,933,265	**9.86**	9.86
Dr. J.B. Zulu	**248,140**	238,139,577	**5.32**	5.32

The Directors' emoluments are disclosed in notes 13 and 32 in the financial statements in accordance with the Companies Act, 1994 (as amended).

PROPERTY AND EQUIPMENT

The Bank purchased property and equipment valued at **ZMK 17.3 billion** (2011: ZMK7.9 billion) during the year.

Property and equipment with a net book value of **ZMK3 million** were disposed of during the year.

EMPLOYEES

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

January	**356**	February	**360**

EMPLOYEES (Continued)

March	**359**	April	**371**
May	**367**	June	**370**
July	**371**	August	**358**
September	**375**	October	**375**
November	**393**	December	**398**

The total amount spent on employees' remuneration and welfare during the year was **ZMK57.5 billion** (2011: ZMK39.8 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 Banking and Financial Services Act, 1994 (as amended) and International Accounting Standard number 24, related party transactions are disclosed under note 32 to the financial statements.

EXPORTS

The Bank did not make any exports 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 donations during the year amounting to **ZMK378 million** (2011: ZMK222 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 Banking and Financial Services Act, 1994 (as amended).

DEVELOPMENTS DURING THE YEAR AND FOCUS FOR 2013

During 2012 the Bank embarked on an ambitious branch expansion programme. It completed and opened the Levy Business Park branch in April 2012 and initiated works on construction of Kabwe branch (completed in January 2013), Lusaka Mumbwa Road Agency, two branches in Ndola, Choma branch and Mongu branch. The Bank also rolled out its branding programme and installed state-of-the-art signage at head office and a number of existing branches, and at all new branch locations.

The Bank also re-organised and improved on its credit function by introducing a Credit Risk Management unit alongside the Credit Control unit and strengthened its credit underwriting, review and control processes. The Corporate and Investment Banking unit was also augmented by the appointment of the Head Corporate and Investment Banking and appointment of more Relationship Managers.

The Bank introduced more products onto its portfolio and launched InvestMobile and extended the use of InvestNet to payment of DStv bills. The Bank aggressively marketed and popularised the use of its VISA Green Card and recorded massive improvement in its utilisation rate.

In 2013 and beyond the Bank will continue its systematic expansion programme and consolidation of its existing operations in all new business units to prop up levels of efficiencies and effectiveness to boost overall bank profitability.

EVENTS AFTER THE REPORTING PERIOD

The Government of the Republic of Zambia issued The Re-denomination of Currency Act No. 8 of 2012. The re-denomination of the existing currency was to be effected by dividing the nominal value of the existing currency by a multiple of one thousand so that One Thousand Kwacha would yield a face value of One Kwacha. Central Bank Circular 15 of 2012 (Changeover Date for the Rebased Currency) to commercial banks stated that the re-denominated currency would become legal tender on 01 January 2013. Consequently, the Bank of Zambia distributed the re-denominated currency to all commercial banks in the country in readiness for the launch of the new currency. On 31 December 2012, the Bank received the new re-denominated currency amounting to ZMW54,834,600.00 equivalent to the old currency of ZMK54,834,600,000.00 which amounts were maintained off-balance sheet.

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.

DATE: 13 MARCH 2013

STATEMENT ON CORPORATE GOVERNANCE

BANK'S PHILOSOPHY ON CORPORATE GOVERNANCE

At Investrust Bank Plc we have a vision "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". Corporate Governance stands at the core of our endeavour to realise this vision. To that end, we have adopted the industry's Corporate Governance guidelines and made them policy. In addition to voluntary practices, we monitor current issues in Corporate Governance and seek to pursue International Best Practice.

The Shareholders

The Bank's shareholders approve the Bank's critical and strategic matters. They have no direct powers to manage the Bank which responsibility is delegated to the Board of Directors. There is regular dialogue with individual and 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 five (5) individuals of unquestionable integrity and good character. The Chief Executive Officer is the only executive director. The directors have broad skills, experience and expertise all of which are combined in order for the Board to fulfill 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.

BANK'S PHILOSOPHY ON CORPORATE GOVERNANCE (Continued)

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.

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.A. 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 2012, 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.

BANK'S PHILOSOPHY ON CORPORATE GOVERNANCE (Continued)

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.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

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.A. 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 five times in 2012.

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 Mrs. E. Jhala, a Non-Executive Director.

The Committee comprises the following:

Mrs. E. Jhala	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. N.A. Lungu	-	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 2012, 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.

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

BOARD COMMITTEES (Continued)

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. N.A. Lungu, a Non-Executive Director of the Bank.

Mr. N.A. 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

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. C.K. Tembo	-	Legal Counsel and Company Secretary
Mr. H. Mafuta	-	Head - Corporate and Investment Banking (effective 1 February 2012)
Mr. P. Ndhlovu	-	Head - Operations
Mr. E. Mtonga	-	Head - Credit Control (effective 1 February 2012)
Mr. G. Siziya	-	Head - Credit Risk Management (effective 1 February 2012)
Mr. A. Sinkala	-	Financial Controller (effective 1 February 2012)
Mr. P. Mwale	-	Head - Treasury
Mr. N. Kakvi	-	Head - Information Technology
Mr. S. Khambete	-	Head - Risk Management and Training
Mr. S. Banda	-	Head - Internal Audit
Mr. M. Mwelwa	-	Head - Recoveries

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 Control (effective 1 February 2012)
Mr. G. Siziya	-	Head - Credit Risk Management (effective 1 February 2012)
Mr. P. Ndhlovu	-	Head - Operations
Mr. C.K. Tembo	-	Company Secretary and Legal Counsel

MANAGEMENT COMMITTEES (Continued)

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.

The Committee comprised the following:

Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R. Phiri	-	Deputy Managing Director
Mr. S. Khambete	-	Head - Risk Management and Training
Mr. A. Sinkala	-	Financial Controller (effective 1 February 2012)

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. A. Sinkala	-	Financial Controller (effective 1 February 2012)
Mr. E. Mtonga	-	Head - Credit
Mr. P. Mwale	-	Head - Treasury
Mr. S. Khambete	-	Head - Risk Management and Training

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 in these areas.

Whistle Blower Policy

The Bank has reviewed and updated the 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. A bank wide sensitisation is organised on an on-going basis to ensure effective use of the policy.

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 of 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 2012 is shown on pages 15 and 16.

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 profit of the Bank for the year ended 31 December 2012;
- 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 2012;
- 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**
)
)
)
______________________) **F.C. NDHLOVU** - **MANAGING DIRECTOR**
)

DATE: 13 MARCH 2013

INDEPENDENT AUDITORS' REPORT

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 the statement of financial position as at 31 December 2012, 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 is 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 at 31 December 2012, 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 matters: 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:

- Included in gross loans and advances to customers of **ZMK906.5 billion** are **three** non-performing loans whose principal amounts total **ZMK37.1 billion** and are more than 5% of regulatory capital as per section 64(2)(d)(ii) but for which impairment losses have been recorded in full. Our audit opinion is not qualified in respect of this matter as loan impairment charges have been recorded in full for these non-performing loans and they have no impact on the reported results for the year;

- 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: 13 MARCH 2013

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2012

	NOTES	2012 ZMK'000	2011 ZMK'000
Interest and similar income	6	**113,065,305**	81,178,204
Dividend income	7	**9,857**	7,885
Interest and similar expenses	8	**(38,934,060)**	(26,784,029)
Net interest income		**74,141,102**	54,402,060
Impairment charges for credit losses	9	**(9,264,724)**	(12,338,573)
Net interest income after impairment charges for credit losses		**64,876,378**	42,063,487
Fee and commission income	10	**50,748,209**	33,520,080
Fee and commission expense	11	**(1,747,764)**	(1,200,603)
Net fee and commission income		**49,000,445**	32,319,477
Net gains on dealings in foreign currencies		**16,200,764**	14,603,449
Other operating income		**80,557**	150,166
Other income		**16,281,321**	14,753,615
Total operating income		**130,158,144**	89,136,579
Operating expenses	12	**(109,277,789)**	(77,843,763)
Profit before tax	13	**20,880,355**	11,292,816
Income tax expense	14	**(6,539,444)**	(5,545,162)
Profit for the year		**14,340,911**	5,747,654
Other comprehensive income		**-**	-
Total comprehensive income		**14,340,911**	5,747,654
Basic and diluted earnings per share		**ZMK3,074.00**	ZMK1.23

Earnings per share is based on profit after tax of **ZMK14,341 million,** divided by the number of ordinary shares in issue at the end of the year 2012 of **4,665,231** (2011: Profit after tax of ZMK5,747 and number of shares in issue of 4,665,230,609 at end of year).

INVESTRUST BANK PLC

STATEMENT OF FINANCIAL POSITION
at 31 December 2012

	NOTES	2012 ZMK'000	2011 ZMK'000
ASSETS			
Cash and balances with Central Bank	15	**181,343,807**	60,406,849
Loans and advances to banks	16	**46,520,093**	51,801,936
Held to maturity investments	17	**242,699,851**	323,689,450
Other assets	18	**19,776,331**	24,455,395
Loans and advances to customers	19	**733,340,852**	402,516,820
Equity investments	20	**688,935**	287,398
Current tax assets	14	**6,526,926**	3,850,739
Property and equipment	21	**39,461,321**	32,324,929
Intangible assets	22	**6,345,467**	4,777,868
Total assets		**1,276,703,583**	904,111,384
LIABILITIES			
Deposits from customers	23	**1,049,198,997**	710,883,566
Debt securities in issue	24	**29,360,000**	44,400,000
Other borrowed funds	25	**42,226,279**	58,032,850
Due to banks	16	**44,398,205**	4,188,081
Other liabilities	26	**30,105,473**	19,836,678
Deferred tax liabilities	28	**355,748**	52,239
Total liabilities		**1,195,644,702**	837,393,414
EQUITY			
Share capital	29	**4,665,231**	4,665,231
Share premium		**26,726,530**	26,726,530
Statutory reserves	30 (a)	**4,665,231**	4,665,231
General banking reserve	30 (b)	**6,025,391**	3,853,106
Retained earnings		**38,976,498**	26,807,872
Total equity		**81,058,881**	66,717,970
Total equity and liabilities		**1,276,703,583**	904,111,384

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 14. The financial statements on pages 17 to 88 were approved for issue by the Board of Directors on **13 March 2013** and were signed on its behalf by:

________________________) **DR. J.B. ZULU - CHAIRMAN**
)
)
)
)
________________________) **F.C. NDHLOVU - MANAGING DIRCTOR**
)

INVESTRUST BANK PLC

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	Share capital	Share premium	Statutory reserves (note 30(a))	General banking reserves (note 30(b))	Retained earnings	Total
	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000
Balance at 1 January 2011	**2,964,000**	**2,528,461**	**2,964,000**	**4,503,952**	**24,462,582**	**37,422,995**
Total comprehensive income	-	-	-	-	5,747,654	**5,747,654**
Utilisation of general banking reserves for bad debts write-off	-	-	-	(2,351,979)		**(2,351,979)**
Issue of share capital	1,701,231	24,198,069	-	-	-	**25,899,300**
Transfer to general banking reserve	-	-	-	1,701,133	(1,701,133)	**-**
Transfer to statutory reserves	-	-	1,701,231	-	(1,701,231)	**-**
Balance at 31 December 2011	**4,665,231**	**26,726,530**	**4,665,231**	**3,853,106**	**26,807,872**	**66,717,970**
Total comprehensive income	-	-	-	-	14,340,911	**14,340,911**
Transfer to general banking reserve	-	-	-	2,172,285	(2,172,285)	**-**
Balance at 31 December 2012	**4,665,231**	**26,726,530**	**4,665,231**	**6,025,391**	**38,976,498**	**81,058,881**

INVESTRUST BANK PLC

STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	NOTES	2012 ZMK'000	2011 ZMK'000
OPERATING ACTIVITIES			
Profit for the year		**14,340,911**	5,747,654
Adjusted for:			
Depreciation and amortisation expense	21, 22	**8,510,060**	5,864,565
Gain on disposal of property and equipment		**(1,717)**	(74,826)
Property and equipment adjustment	21	**83,136**	(62,250)
Unrealised exchange losses on debt securities in issue		**(10,000)**	126,000
Unrealised exchange (gains) losses on finance lease payables	27	**-**	(26,388)
Mispost to retained earnings (remove!)		**-**	
Utilisation of general banking reserve		**-**	(2,351,979)
Income tax expense	14	**6,539,444**	5,545,162
Operating profit before changes in operating funds		**29,461,834**	14,767,938
Decrease (increase) in held to maturity investments		**95,496,887**	(246,120,539)
Decrease in other assets		**4,679,064**	4,731,002
Increase in loans and advances		**(330,824,032)**	(28,228,228)
Increase in customer deposits		**338,315,431**	234,633,333
Increase (decrease) in other liabilities		**10,268,795**	(5,296,548)
Cash generated from (used in) operations		**147,397,978**	(25,513,042)
Income taxes paid and suffered	14	**(8,912,122)**	(3,006,001)
Cash generated from (used in) operating activities		**138,485,856**	(28,519,043)
INVESTING ACTIVITIES			
Purchase of property and equipment and intangible asset	21, 22	**(17,298,470)**	(8,163,290)
Proceeds on disposal of property and equipment		**3,000**	237,383
Net cash used in investing activities		**(17,295,470)**	(7,925,907)
FINANCING ACTIVITIES			
Issue of debt securities	24	**-**	-
Redemption of debt securities	24	**(15,030,000)**	-
Other borrowings received	25		14,284,320
Repayments of other borrowings	25	**(15,806,571)**	(6,927,285)
Lease finance repaid	27	**-**	(3,580)
Net proceeds from issue of shares	29	**-**	25,899,300
Investment in shares	20	**(401,537)**	-
Dividends paid		**-**	-
Net cash (used in) generated from financing activities		**(31,238,108)**	33,252,755
Net increase (decrease) in cash and cash equivalents		**89,952,278**	(3,192,195)
Cash and cash equivalents at beginning of the year		**149,953,417**	153,145,612
Cash and cash equivalents at end of the year		**239,905,695**	149,953,417
CASH AND CASH EQUIVALENTS			
Cash and balances with Central Bank	15	**181,343,807**	60,406,849
Balances due from other banks	16	**46,520,093**	51,801,936
Balances due to other banks	16	**(44,398,205)**	(4,188,081)
Held to maturity investments maturing in three months	17	**56,440,000**	41,932,713
		239,905,695	149,953,417

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 banking, retail banking and leasing services. The address of its registered office is as follows:

Ody's Park
Plot No. 19028/9
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 2012 have been approved for issue by the Board of Directors on **13 March 2013.**

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

(a) Standards, amendments and interpretations effective 1 January 2012

In the current year, the Bank has adopted amendments to IAS 1 and 12 which were effective for annual financial statements beginning on or after 1 January 2012.

(b) Standards, amendments and interpretations effective 1 January 2012 but not relevant

The following Standards and Interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2012 but are not relevant to the Bank's operations.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Removal of fixed dates and severe hyper inflation	These amendments include two changes to IFRS 1, First time adoption of IFRS. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to sever hyperinflation. Retrospective application is required for both amendments.

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

(b) Standards, amendments and interpretations effective 1 January 2012 but not relevant (Continued)

Amendments to IFRS 7, 'Financial instruments: Disclosures' on derecognition	This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Earlier application subject to EU endorsement is permitted.

(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.

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

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

- 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.

- IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for) financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

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 with the additions for financial liability accounting will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities.

Amendment to IAS 19, ‘Employee benefits’	These amendments change the accounting for defined benefit plans and terminal benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach permitted under the previous version of IAS19 and accelerate the recognition of pas service costs.

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

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

	The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of the financial position to reflect the full value of the plan deficit or surplus.
IFRS 10, 'Consolidated financial statements'	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.
IFRS 11, 'Joint arrangements'	IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

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

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

IFRS 12, 'Disclosures of interests in other entities'	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
IFRS 13, 'Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (as revised in 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011).
IAS 28 (revised 2011), 'Associates and joint ventures'	IAS 28 (as revised in 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 10, IFRS 11, IFRS 12 and IAS 27 (as revised in 2011).
Amendments to IAS 32 - Financial Instruments Presentation : Offsetting financial Assets and financial liabilities	IAS 32 (as revised in 2011) provides clarifications on the application of the offsetting rules. The focus is on four main areas: • the meaning of "currently has a legally enforceable right of set-off"

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

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

- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

As part of Improvements to IFRSs issued in 2012, the following IFRS's and IAS's were amended and are effective for annual periods beginning on or after 1 January 2013.

IRFS 1:First time Adoption of IFRSs - Repeat application of IFRS 1	The amendments clarify that an entity may apply IFRS 1 if its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRS, even if the entity applied IFRS 1 in the past. An entity that does not reflect to apply IFRS 1 must apply IFRSs retrospectively as if there was no interruption. An entity should disclose: • the reason why it stopped applying IFRSs; • the reason why it is resuming the application of IFRSs; • the reason why it has not elected to apply IFRS 1, if applicable.
IRFS 1:First time Adoption of IFRSs - Borrowing costs	The amendments clarify that borrowing costs capitalised under previous GAAP before the date of transition to IFRSs may be carried forward without adjustment to the amount previously capitalised at the transition date. The borrowing costs incurred on or after the date of transition to IFRSs that relate to qualifying assets under construction at the date of transition, the amendments clarify that they should be accounted for in accordance to IAS 23 Borrowing costs.

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

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

IAS 1: Presentation of Financial Statements - Clarification in the requirement for comparative information	The amendments to IAS 1 clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third statement of financial position and that the related notes are note required to accompany the third statement of financial position. The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements. Presenting additional comparative information voluntarily would no longer trigger a requirement to provide a complete set of financial statements.
IAS 16 - Property, Plant and Equipment : Classification of Servicing equipment	The amendments clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.
IAS 32 - Financial Instruments : Presentation - Tax effect of distribution to holders of equity Instruments	The amendments clarify that income tax distributions to holders of an equity instrument and on transaction costs of an equity transaction should be accounted for in accordance with IAS 12.

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

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

IAS 32 - Interim Financial Reporting : Interim financial reporting and segment information for total assets and liabilities	The amendments clarify that the total assets and the total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when amounts are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for the reportable segment.

(d) Early adoption of Standards

The Bank did not early adopt any Standards in 2012.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.5 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Taxation (Continued)

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.

3.6.3 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.10.2 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets and liabilities (Continued)

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'.

3.10.2 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets and liabilities (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial assets and liabilities (Continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Impairment of financial assets (Continued)

a) Assets carried at amortised cost (Continued)

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Impairment of financial assets (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Leases (Continued)

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.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

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	5 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Dividend income

Dividends are recognised in the statement of comprehensive income in "Dividend Income" when the Bank's rights to receive payment is established.

3.20 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Provisions (Continued)

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.

3.21 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.

3.22 Acceptances and letters of credit

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

3.23 Comparatives

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

3.24 Interests in Joint Ventures

A joint venture is a contractual arrangement whereby the Bank and other parties undertake an economic activity that is subject to joint control (i.e when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Interests in Joint Ventures (Continued)

The Bank recognises its share of profits from the joint venture through its income statement and accounts for its investments in the balance sheet using the equity method.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

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 fulfill 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

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

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.

5.1.2 Impairment and provisioning policies

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	**2012**		**2011**	
	Loans & advances (%)	**Impairment provision (%)**	Loans & advances (%)	Impairment provision (%)
Pass	**68%**	**0%**	67%	0%
Sub-standard	**1%**	**20%**	2%	20%
Doubtful	**1%**	**50%**	2%	50%
Loss	**30%**	**100%**	29%	100%

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

5.1.2 Impairment and provisioning policies (Continued)

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	
	2012	2011
	ZMK'000	ZMK'000
Held to maturity investments	**242,699,851**	323,689,450
Loans and advances to Banks	**46,520,093**	51,801,936
Loans and advances to customers		
Individual (retail customers)		
- Term loans	**143,471,474**	120,025,401
- Overdrafts	**11,879,120**	10,717,545
- Mortgages	**-**	-
Corporate entities		
- Large corporates	**647,025,533**	253,604,917
- SMEs	**104,157,120**	147,467,330
Total On-Balance Sheet Credit Risk Exposure	**1,195,753,191**	907,306,578

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

Table 2 - credit risk exposure (Continued)	Maximum exposure	
	2012	2011
	ZMK'000	ZMK'000
Financial guarantees and bid bonds	**58,107,381**	44,555,120
	58,107,381	44,555,120
Total On and Off Balance Sheet Credit Risk Exposure	**1,253,860,572**	951,861,698

The above table represents a worse case scenario of credit risk exposure to the Bank at **31 December 2012** and 2011, 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

5.1.2 Impairment and provisioning policies (Continued)

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 f

Table 4	**31 December 2012**		31 December 2011	
	Loans and advances to customers	**Loans and advances to Banks**	Loans and advances to customers	Loans and advances to Banks
	ZMK'000	**ZMK'000**	ZMK'000	ZMK'000
Neither past due nor impaired	**661,962,299**	**46,520,093**	311,339,381	51,801,936
Past due but not impaired	**19,155,121**	**-**	10,742,000	-
Impaired	**225,415,827**	**-**	209,733,811	-
Gross	**906,533,247**	**46,520,093**	531,815,192	51,801,936
Less: allowance for impairment	**(173,192,395)**	**-**	(129,298,372)	-
Net	**733,340,852**	**46,520,093**	402,516,820	51,801,936

Further information of the impairment allowance for loans and advances is provided in Note 9 and note 19.

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

Table 5	**2012**		2011	
	Carrying amount	**Fair values**	Carrying amount	Fair values
	ZMK'000	**ZMK'000**	ZMK'000	ZMK'000
Past due loans	**-**	**11,187,387**	10,742,000	9,566,400
Impaired loans	**-**	**196,119,325**	209,733,811	160,823,198
	-	**207,306,712**	220,475,811	170,389,598

5. FINANCIAL RISK MANAGEMENT (Continued)

5.1 Credit risk (Continued)

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 totalled **ZK18.87 billion** at 31 December 2012 (2011: ZK30.96 billion).

5.1.5 Repossessed collateral

During 2011, the Bank obtained assets by taking possession of collateral held as security, as follows:

Table 6	**ZMK'000**
Nature of assets	**Carrying value**
Landed properties	**24,585,000**
Plant and machinery	**-**
	24,585,000

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.

5.2 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 fulfill 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. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Liquidity risk (Continued)

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 2012 and 2011 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.

5.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2.3 Liquidity risk (Continued)

31 DECEMBER 2012

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 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**	**Total**
FINANCIAL ASSETS	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000
Cash and balances with Central Bank	119,754,974	27,564,053	-	34,024,780		-	-	**181,343,807**
Loans and advances to banks		46,520,093	-	-	-	-	-	**46,520,093**
Held to maturity investments	41,294,824	15,809,585	55,475,447	112,767,610	16,726,800	625,585	-	**242,699,851**
Other assets	3,245,649	10,110,380	6,420,302				-	**19,776,331**
Loans and advances	-	21,412,140	16,140,136	39,123,852	591,491,741	34,128,110	31,044,873	**733,340,852**
Equity instruments	-	-	-	-	-	-	688,935	**688,935**
Total assets	**164,295,447**	**121,416,251**	**78,035,885**	**185,916,242**	**608,218,541**	**34,753,695**	**31,733,808**	**1,224,369,869**
FINANCIAL LIABILITIES								
Customer deposits	152,415,122	130,054,712	93,873,503	103,667,633	310,102,482	259,085,545	-	**1,049,198,997**
Debt securities in issue	-	-	-	14,350,000	15,010,000		-	**29,360,000**
Other borrowed funds	612,178	4,867,214	2,792,786	8,272,178	22,310,223	3,371,700	-	**42,226,279**
Due to banks	29,098,205	15,300,000	-	-	-	-	-	**44,398,205**
Other liabilities	12,323,959	8,829,555	1,399,083	5,948,099	-	-	-	**28,500,696**
Total liabilities	**194,449,464**	**159,051,481**	**98,065,372**	**132,237,910**	**347,422,705**	**262,457,245**	**-**	**1,193,684,176**
Net liquidity gap	**(30,154,017)**	**(37,635,230)**	**(20,029,487)**	**53,678,332**	**260,795,836**	**(227,703,550)**	**31,733,808**	**30,685,692**

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

5.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2.3 Liquidity risk (Continued)

31 DECEMBER 2011

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 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	Total
FINANCIAL ASSETS	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000
Cash and balances with Central Bank	8,094,571	26,390,613	-	25,921,665		-	-	**60,406,849**
Loans and advances to banks		51,801,936	-	-	-	-	-	**51,801,936**
Held to maturity investments	30,036,269	11,865,343	33,182,495	207,905,938	40,108,345	591,060	-	**323,689,450**
Other assets	17,353,211	2,298,708	4,803,476				-	**24,455,395**
Loans and advances	-	7,813,454	9,161,170	44,170,045	275,749,294	38,413,952	27,208,904	**402,516,820**
Equity instruments	-	-	-	-	-	-	287,398	**287,398**
Total assets	**55,484,051**	**100,170,054**	**47,147,141**	**277,997,648**	**315,857,639**	**39,005,012**	**27,496,302**	**863,157,848**
FINANCIAL LIABILITIES								
Customer deposits	80,734,002	50,210,240	27,686,071	50,049,146	336,947,832	165,256,275	-	**710,883,566**
Debt securities in issue	-	-	-	15,030,000	29,370,000		-	**44,400,000**
Other borrowed funds	134,394	3,845,224	1,364,120	4,970,427	12,171,875	35,546,810	-	**58,032,850**
Due to banks	4,188,081	-	-	-	-	-	-	**4,188,081**
Other liabilities	3,244,301	9,911,446	1,208,706	5,472,225	-	-	-	**19,836,678**
Total liabilities	**88,300,778**	**63,966,910**	**30,258,897**	**75,521,798**	**378,489,707**	**200,803,085**	**-**	**837,341,174**
Net liquidity gap	**(32,816,727)**	**36,203,144**	**16,888,244**	**202,475,850**	**(62,632,068)**	**(161,798,073)**	**27,496,302**	**25,816,673**

Customer deposits relate to current and savings account deposits, which though classified in these bands are deemed stable and of a 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. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.9 Currency risk (Continued)

31 DECEMBER 2012

TABLE 9

	USD	GBP	EURO	RAND	PULA	KWACHA	TOTAL
FINANCIAL ASSETS	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000
Cash and balances with Central Bank	8,686,229	176,698	488,107	899,506	2,111	171,091,156	**181,343,807**
Loans and advances to banks	33,187,136	392,079	12,891,312	49,566			**46,520,093**
Held to maturity investments	-	-	-	-	-	242,699,851	**242,699,851**
Other assets includes stationery	154,529	41,102		300,405		19,280,295	**19,776,331**
Loans and advances	125,163,804		218	752		608,176,077	**733,340,851**
Equity instruments	-	-	-	-	-	287,398	**688,935**
Total assets	**167,191,698**	**609,879**	**13,379,637**	**1,250,229**	**2,111**	**1,041,534,777**	**1,224,369,868**
FINANCIAL LIABILITIES							
Customer deposits	139,657,275	327,531	12,621,895	473,120	-	896,119,176	**1,049,198,997**
Debt securities in issue	2,040,000	-	-	-	-	27,320,000	**29,360,000**
Other borrowed funds	42,226,279	-	-	-	-	-	**42,226,279**
Due to banks	15,300,000	-	-	670,705	-	28,427,500	**44,398,205**
Other liabilities	6,311,866	68,567	10,569	344,365	-	23,370,106	**30,105,473**
Finance lease payables		-	-	-	-	-	**-**
Total liabilities	205,535,420	396,098	12,632,464	1,488,190	-	975,236,782	**1,195,288,954**
Net on-balance sheet position	**(38,343,722)**	**213,781**	**747,173**	**(237,961)**	**2,111**	**66,297,995**	**29,080,914**
Off-balance sheet net notional position	-	-	-	-	-	-	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.9 Currency risk (Continued)

31 DECEMBER 2011

TABLE 10

	USD	GBP	EURO	RAND	PULA	KWACHA	TOTAL
FINANCIAL ASSETS	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000
Cash and balances with Central Bank	13,082,121	180,729	402,089	648,716	2,078	46,091,116	**60,406,849**
Loans and advances to banks	38,920,721	73,625	12,730,760	76,830			**51,801,936**
Held to maturity investments	-	-	-	-	-	323,689,450	**323,689,450**
Other assets includes stationery	2,599,870	23,698		78		21,831,749	**24,455,395**
Loans and advances	110,479,877		80			292,036,863	**402,516,820**
Equity instruments	-	-	-	-	-	287,398	**287,398**
Total assets	**165,082,589**	**278,052**	**13,132,929**	**725,624**	**2,078**	**683,936,576**	**863,157,848**
FINANCIAL LIABILITIES							
Customer deposits	86,495,392	250,565	12,877,248	525,456		610,734,905	**710,883,566**
Debt securities in issue	2,050,000	-	-	-	-	42,350,000	**44,400,000**
Other borrowed funds	58,032,850	-	-	-	-	-	**58,032,850**
Due to banks	-	-	-	188,081	-	4,000,000	**4,188,081**
Other liabilities	798,295	56,354	33,117	22,398	(1,434)	18,927,948	**19,836,678**
Finance lease payables		-	-	-	-	-	**-**
Total liabilities	147,376,537	306,919	12,910,365	735,935	(1,434)	676,012,853	**837,341,175**
Net on-balance sheet position	**17,706,052**	**(28,867)**	**222,564**	**(10,311)**	**3,512**	**7,923,723**	**25,816,673**
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.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.12 Interest rate risk (Continued)

31 DECEMBER 2012

TABLE 11

FINANCIAL ASSETS	**up to 1 month** ZMK'000	**1 - 3 months** ZMK'000	**3 - 6 months** ZMK'000	**6 - 12 months** ZMK'000	**1 - 3 years** ZMK'000	**3 - 5 years** ZMK'000	**Over 5 years** ZMK'000	**Non-interest bearing** ZMK'000	**Total** ZMK'000
Cash and balances with the Central Bank	-	-	-	-	-	-	-	181,343,807	**181,343,807**
Loans and advances to bank	46,520,093	-	-	-	-	-	-	-	**46,520,093**
Held to maturity investments	41,294,824	15,809,585	55,475,447	112,767,610	16,726,800	625,585	-		**242,699,851**
Other assets	-	-	-	-			-	19,776,331	**19,776,331**
Loans and advances to customers	-	15,456,871	987,146	4,734,123	610,250,165	58,947,047	42,965,499	-	**733,340,851**
Equity instruments	-	-	-	-	-	-	-	688,935	**688,935**
Total assets	**87,814,917**	**31,266,456**	**56,462,593**	**117,501,733**	**626,976,965**	**59,572,632**	**42,965,499**	**201,809,073**	**1,224,369,868**
FINANCIAL LIABILITIES									
Customer deposits	152,415,122	130,054,712	93,873,503	103,667,633	51,016,937	-	-	518,171,090	**1,049,198,997**
Debt securities in issue	-	-	-	14,350,000	15,010,000	-	-	-	**29,360,000**
Other borrowed funds	612,178	4,867,214	2,792,786	8,272,178	22,310,223	3,371,700	-	-	**42,226,279**
Due to Banks	29,098,205	15,300,000	-	-	-	-	-		**44,398,205**
Other liabilities	-	-	-	-	-	-	-	30,105,473	**30,105,473**
Finance lease payables	-	-	-	-	-	-	-	-	**-**
Total liabilities	**182,125,505**	**150,221,926**	**96,666,289**	**126,289,811**	**88,337,160**	**3,371,700**	**-**	**548,276,563**	**1,195,288,954**
Interest sensitive gap	**(94,310,588)**	**(118,955,470)**	**(40,203,696)**	**(8,788,078)**	**538,639,805**	**56,200,932**	**42,965,499**	**(346,467,490)**	**29,080,914**
Impact of increase in interest rate	(4,715,529)	(5,947,774)	(2,010,185)	(439,404)	26,931,990	2,810,047	2,148,275	-	**18,777,420**
	(471,553)	(594,777)	(201,018)	(43,940)	2,693,199	281,005	4,296,550	-	**5,959,464**
	(707,329)	(892,166)	(301,528)	(65,911)	4,039,799	421,507	6,444,825	-	**8,939,197**
Impact of decrease in interest rate	117,888	148,694	50,255	10,985	(673,300)	(70,251)	(1,074,137)	-	**(1,489,866)**
	353,665	446,083	150,764	32,955	(2,019,899)	(210,753)	(3,222,412)	-	**(4,469,598)**
	589,441	743,472	251,273	54,925	(3,366,499)	(351,256)	(5,370,687)	-	**(7,449,331)**

5. FINANCIAL RISK MANAGEMENT (Continued)

5.12 Interest rate risk (Continued)

31 DECEMBER 2011

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		ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000
Cash and balances with the Central Bank		-	-	-	-	-	-	-	60,406,849	**60,406,849**
Loans and advances to bank		51,801,936	-	-	-	-	-	-	-	**51,801,936**
Held to maturity investments		30,036,269	11,865,343	33,182,495	207,905,938	40,108,345	591,060	-		**323,689,450**
Other assets		-	-	-	-			-	24,455,395	**24,455,395**
Loans and advances to customers		-	10,606,674	1,291,277	2,236,986	287,987,005	37,380,493	63,014,385	-	**402,516,820**
Equity instruments		-	-	-	-	-	-	-	287,398	**287,398**
Total assets		**81,838,205**	**22,472,017**	**34,473,772**	**210,142,924**	**328,095,350**	**37,971,553**	**63,014,385**	**85,149,642**	**863,157,848**
FINANCIAL LIABILITIES										
Customer deposits		80,734,002	50,210,240	27,686,071	50,049,146	171,691,557	-	-	330,512,550	**710,883,566**
Debt securities in issue		-	-	-	15,030,000	29,370,000	-	-	-	**44,400,000**
Other borrowed funds		134,394	3,471,913	1,364,120	4,970,427	12,545,186	35,546,810	-	-	**58,032,850**
Due to Banks		4,000,000	-	-	-	-	-	-	188,081	**4,188,081**
Other liabilities		-	-	-	-	-	-	-	19,836,678	**19,836,678**
Total liabilities		**84,868,396**	**53,682,153**	**29,050,191**	**70,049,573**	**213,606,743**	**35,546,810**	**-**	**350,537,309**	**837,341,175**
Interest sensitive gap		**(3,030,191)**	**(31,210,136)**	**5,423,581**	**140,093,351**	**114,488,607**	**2,424,743**	**63,014,385**	**(265,387,667)**	**25,816,673**
Impact of increase in interest rate		(151,510)	(1,560,507)	271,179	7,004,668	5,724,430	121,237	3,150,719	-	**14,560,217**
		(15,151)	(156,051)	27,118	700,467	572,443	12,124	6,301,439	-	**7,442,388**
		(22,726)	(234,076)	40,677	1,050,700	858,665	18,186	9,452,158	-	**11,163,582**
Impact of decrease in interest rate	(2.5%)	3,788	39,013	(6,779)	(175,117)	(143,111)	(3,031)	(1,575,360)	-	**(1,860,597)**
	(7.5%)	11,363	117,038	(20,338)	(525,350)	(429,332)	(9,093)	(4,726,079)	-	**(5,581,791)**
	(12.5%)	18,939	195,063	(33,897)	(875,583)	(715,554)	(15,155)	(7,876,798)	-	**(9,302,985)**

5. FINANCIAL RISK MANAGEMENT (Continued)

5.14 Fair value of financial instruments

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

ZMK'000	**12/31/2012**		12/31/2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	**733,340,852**	733,340,852	402,516,820	402,516,820
Held to maturity investments	**242,699,851**	242,699,851	323,689,450	323,689,450
Loans and advances to Banks	**46,520,093**	46,520,093	51,801,936	51,801,936
Equity investments	**688,935**	688,935	287,298	287,298
Financial liabilities				
Other borrowed funds	**42,226,279**	42,226,279	58,032,850	58,032,850
Debt securities in issue	**29,360,000**	29,360,000	44,400,000	44,400,000
Loans and advances from Banks	**44,398,205**	44,398,205	4,188,081	4,188,081

The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

5.15 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 the higher of 10% of the Risk Weighted Assets as computed or ZK12 billion.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.15 Capital management (Continued)

a) Calculation of risk weighted assets

TABLE 13

Part 1- On balance sheet obligations	**Weight (1)**	**ZMK'000 Balance (Net of allowance for losses) (2)**	**ZMK'000 Risk-weighted assets (1x2)**
Assets	**%**		
Notes and coins		**27,564,053**	
- Zambian notes and coins	0%	27,564,053	-
- other notes and coins	0%	-	-
Balances held with the Bank of Zambia		**153,779,754**	-
- statutory reserves	0%	34,024,780	-
- other balances	0%	119,754,974	-
Balances with commercial banks in Zambia		**-**	-
- with residual maturity of up to 12 months	20%	-	-
- with residual maturity of more than 12	100%	-	-
Balances with commercial banks abroad		**46,520,093**	-
- with residual maturity of up to 12 months	20%	46,520,093	9,304,019
- with residual maturity of more than 12	100%	-	-
Assets in transit		**-**	-
- from other commercial banks	50%	-	-
- from branches to reporting bank	20%	-	-
Investment in debt securities		**242,699,851**	-
- treasury bills	0%	183,424,473	-
- other government securities	20%	59,275,378	11,855,076
- issued by local government units	100%	-	-
- private securities	100%	-	-
Loans and advances		**733,340,852**	-
- portion secured by cash or treasury bills	0%		-
- loans to or guaranteed by the government of	50%	285,000,000	142,500,000

5. FINANCIAL RISK MANAGEMENT (Continued)

5.15 Capital management (Continued)

a) Calculation of risk weighted assets (continued)

	Weight (1)	ZMK'000 Balance (Net of allowance for losses) (2)	ZMK'000 Risk-weighted assets (1x2)
Loans repayable in instalments and secured by a			
- mortgage on owner- occupied residential	50%	231,169,000	115,584,500
- loans to or guaranteed by local government	100%	-	-
- loans to parastatals	100%	-	-
- other	100%	217,171,852	217,171,852
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	100%	-	-
Bank premises	100%	**15,055,091**	15,055,091
Acceptances	100%	**-**	-
Other assets	100%	**57,054,954**	57,054,954
Investment in equity of other companies	100%	**688,935**	688,935
Total risk-weighted assets (on balance		**1,276,703,583**	**569,214,426**

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		-	-
- guarantees for loans, trade and securities	100%	-	-
- portion secured by cash/treasury bills	0%	-	-
- performance bonds	50%	58,107,381	29,053,691
- 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)		**58,107,381**	29,053,691
Total risk-weighted assets (on and off balance sheet)		**1,334,810,964**	**598,268,117**

5. FINANCIAL RISK MANAGEMENT (Continued)

5.15 Capital management (Continued)

b) Computation of capital position

TABLE 14

	2012	2011
I Primary (Tier 1) Capital	**ZMK'000**	ZMK'000
(a) Paid-up common shares	**4,665,231**	4,665,231
(b) Eligible preferred shares	**-**	-
(c) Contributed surplus	**26,726,530**	26,726,530
(d) Retained earnings	**38,976,498**	26,807,872
(e) General reserves	**6,025,391**	3,853,106
(f) Statutory reserves	**4,665,231**	4,665,231
(g) Minority interests (common shareholders' equity)		
(h) Sub-total	**81,058,881**	66,717,970
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)	**81,058,881**	66,717,970
II Secondary (Tier 2) Capital		
(a) Eligible preferred shares (Regulations 13 and 17)	**-**	-
(b) Eligible subordinated term debt (Regulation 17 (b))	**9,006,000**	14,880,000
(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	**9,006,000**	14,880,000

5. FINANCIAL RISK MANAGEMENT (Continued)

5.15 Capital management (Continued)

b) Computation of capital position (cont'd)	2012 ZMK'000	2011 ZMK'000
III Eligible secondary capital capital is limited to 100% of primary capital)	**9,006,000**	14,880,000
IV Eligible total capital (I(o) + III) (Regulatory capital)	**90,064,881**	81,597,970
V Minimum total capital requirement: (10% of total on and off balance sheet risk-weighted assets as established	**59,826,812**	**43,474,760**
VI Excess (deficiency) (IV minus V)	**30,238,069**	38,123,210

Regulatory ratios

	2012	2011
Tier 1 capital as a percentage of total risk weighted assets	**14%**	15%
Tier 1 and Tier 2 capital as a percentage of total risk weighted assets	**15%**	19%

6. INTEREST AND SIMILAR INCOME

	2012 ZMK'000	2011 ZMK'000
Arising on:		
Loans and advances to:		
- banks	**2,379,158**	1,165,631
- customers	**65,021,522**	62,147,353
	67,400,680	63,312,984
Held to maturity investments	**39,530,955**	15,456,475
Open market operations placements	**1,898,942**	338,895
Leasing	**4,234,728**	2,069,850
	113,065,305	81,178,204

7. DIVIDEND INCOME

	2012	2011
Equity Investments held at cost	**9,857**	7,885

8. INTEREST AND SIMILAR EXPENSE

	2012	2011
Arising on:		
Deposits due to customers	**27,377,444**	18,973,224
Deposits from banks	**2,869,979**	543,328
	30,247,423	19,516,552
Debt securities in issue	**5,987,517**	4,919,972
Other borrowed funds	**2,699,120**	2,347,505

38,934,060	26,784,029

9. IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2012 ZMK'000	2011 ZMK'000
At beginning of the year	**129,298,372**	99,556,698
Increase in impairment	**16,679,450**	13,072,767
Amounts written off as uncollectible/recoveries	**(13,143,953)**	(6,125,620)
Interest suspended during the year	**40,358,526**	22,794,527
At end of the year (note 19)	**173,192,395**	129,298,372

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

	2012 ZMK'000	2011 ZMK'000
Identified impairment charge for credit losses	**15,988,011**	13,072,767
Bad debt recoveries	**(6,850,391)**	(2,957,589)
Bad debts written off in the year	**127,104**	2,223,395
	9,264,724	12,338,573

10. FEE AND COMMISSION INCOME

	2012 ZMK'000	2011 ZMK'000
Other transaction fees and commissions	**24,867,998**	18,784,266
Ledger fees	**11,577,383**	6,796,649
Credit related fees and commissions	**13,917,873**	7,696,012
Asset management fees	**384,955**	243,153
	50,748,209	33,520,080

11. FEE AND COMMISSION EXPENSE

	2012 ZMK'000	2011 ZMK'000
Bank charges and medical levy	**1,014,224**	910,128
Handling fees on Government securities	**733,540**	290,475
Other	**-**	-
	1,747,764	1,200,603

12. OPERATING EXPENSES

	2012	2011
	ZMK'000	ZMK'000
Personnel expenses		
Salaries and other staff benefit costs	**51,799,602**	35,564,935
Pension costs - defined contribution plan	**2,325,560**	1,942,206
Staff medical	**1,903,522**	1,144,550
Staff training	**798,287**	618,854
Staff insurance	**398,861**	373,580
Social security costs	**223,298**	99,688
	57,449,130	39,743,813
Administrative expenses		
Occupancy	**6,007,848**	4,703,965
Motor vehicle costs	**5,551,811**	4,487,153
Telecommunication and postage	**7,498,694**	3,942,107
Office and security expenses	**3,035,094**	2,903,292
	22,093,447	16,036,517
Other operating expenses		
Depreciation and amortisation (note 21 and note 22)	**8,510,311**	5,865,596
Other expenses	**5,692,176**	4,930,270
Marketing and public relations	**4,640,952**	3,353,385
Travel expenses	**5,065,224**	3,269,801
Professional and legal fees	**2,436,701**	1,899,031
Printing and stationery	**1,967,151**	1,438,238
Repairs and maintenance	**1,422,697**	1,307,112
	29,735,212	22,063,433
	109,277,789	77,843,763

13. PROFIT BEFORE TAX

	2012 ZMK'000	2011 ZMK'000
Profit before tax is stated after crediting:		
Interest receivable from other banks	**2,379,158**	1,165,631
Rental income	**78,840**	75,340
Gain on disposal of property and equipment	**1,717**	74,826
Dividend income	**9,857**	7,885
and after charging:		
Depreciation and amortisation	**8,510,311**	5,865,596
Pension costs - Bank contributions	**2,325,560**	1,942,206
Directors emoluments:		
- for managerial services	**1,762,500**	1,762,500
- fees and expenses	**1,030,048**	437,818
Interest payable to other banks	**2,869,979**	543,328
Donations	**378,196**	221,929

14. INCOME TAX EXPENSE

Income tax is charged at 35% on banking profits in 2012 (2011 : 35% on the first ZMK250 million profit and 40% on profits in excess of ZMK250 million). Withholding tax on Government Bond interest and Treasury bills discount is 15%. All non banking profits are taxed at 35% in 2012 (2011 : 40%).

	2012 ZMK'000	2011 ZMK'000
Current tax		
Based on banking profits	**8,322,150**	4,920,080
Based on non banking profits	**31,536**	30,136
	8,353,686	4,950,216
Prior period over provisioning on banking profits	**(2,117,751)**	-
Deferred tax (note 28)	**303,509**	594,946
	6,539,444	5,545,162

14. INCOME TAX EXPENSE (Continued)

	2012 ZMK'000	2011 ZMK'000
The taxation recoverable has been derived as follows:		
Payable in respect of the year	**6,235,935**	4,950,216
(Recoverable) Payable in respect of previous years	**(3,850,739)**	(5,794,954)
	2,385,196	(844,738)
Income tax payments made	**(3,358,951)**	(2,168,886)
Withholding tax suffered during the year	**(5,553,171)**	(837,115)
Total paid and suffered	**(8,912,122)**	(3,006,001)
Current tax recoverable	**(6,526,926)**	(3,850,739)

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:

	2012 ZMK'000	2011 ZMK'000
Profit before tax	**20,880,355**	11,292,816
Tax at the applicable rate of **35%** (2011: 40%)	**7,308,124**	4,517,126
- Rate differential	**(1,971)**	
- Prior period over provisioning on banking profits	**(2,117,751)**	
- Permanent differences	**1,351,042**	1,028,036
	6,539,444	5,545,162

15. CASH AND BALANCES WITH CENTRAL BANK

	2012 ZMK'000	2011 ZMK'000
Balances with Central Bank		
Statutory deposits	34,024,780	25,921,665
Open Market Operations ("OMO") deposits	-	-
Current account	119,754,974	8,094,571
	153,779,754	34,016,236
Cash on hand	27,564,053	26,390,613
	181,343,807	60,406,849

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.

16. LOANS AND ADVANCES TO/FROM BANKS

	2012 ZMK'000	2011 ZMK'000
Amounts due from other banks	46,520,093	51,801,936
Amounts due to other banks	44,398,205	4,188,081

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

17. HELD TO MATURITY INVESTMENTS (Continued)

	2012 ZMK'000	2011 ZMK'000
Treasury bills	**183,424,473**	280,860,372
Government bonds	**59,275,378**	42,829,078
	242,699,851	323,689,450
Current	**225,347,467**	282,663,800
Non-current	**17,352,384**	40,862,527

Treasury Bills

Face value

Maturity period		
0 - 91 days	**56,440,000**	41,932,713
92 - 182 days	**49,000,000**	34,000,000
183 - 273 days	**85,076,438**	107,000,000
274 - 364 days	**-**	120,000,000
	190,516,438	302,932,713
Less: unearned discount	**(7,091,965)**	(22,072,341)
	183,424,473	280,860,372

Government Bonds

Face value

Maturity period		
0 - 365 days	**43,500,000**	2,000,000
366 - 730 days	**6,850,000**	43,500,000
731 - 1095 days	**10,500,000**	920,000
1096 - 1826 days	**670,000**	-
	61,520,000	46,420,000
Less: unearned discount	**(2,244,622)**	(3,590,922)
	59,275,378	42,829,078

Maturity analysis:		
Due within one year	**43,500,000**	2,000,000
Due after more than one year	**18,020,000**	44,420,000
	61,520,000	46,420,000

18. OTHER ASSETS

	2012 ZMK'000	2011 ZMK'000
Other receivables and prepayments	**19,776,331**	24,455,395
Current	**19,776,331**	24,455,395
Non-current	**-**	-
	19,776,331	24,455,395

The analysis of other receivables and prepayments is as follows:

	2012 ZMK'000	2011 ZMK'000
Sundry and interest receivable	**12,312,505**	10,083,124
Suspense clearing accounts	**4,043,306**	11,559,119
Prepayments	**3,266,709**	2,595,073
Stationery and cheque books	**153,811**	218,079
	19,776,331	24,455,395

19. LOANS AND ADVANCES TO CUSTOMERS

	2012 ZMK'000	2011 ZMK'000
Loans and advances to customers	**906,533,247**	531,815,192
Less: impaired loans and advances (note 9)	**(173,192,395)**	(129,298,372)
	733,340,852	402,516,820

19. LOANS AND ADVANCES (Continued)

	2012 ZMK'000		2011 ZMK'000	
Included in loans and advances on 31 December 2012 is an amount relating to advances made to staff of **ZMK 20,044 million** (31 December 2011 : ZMK18,560 million).				
Industry analysis				
Wholesale and retail trade	**46,780,940**	**5%**	44,628,806	8%
Other sectors	**258,218,037**	**28%**	180,705,640	34%
Financial	**7,775,479**	**1%**	8,749,282	2%
Service industries	**173,993,969**	**19%**	149,192,575	28%
Agriculture	**304,051,123**	**34%**	29,784,948	6%
Construction, mining and quarrying	**83,450,543**	**9%**	76,868,121	14%
Manufacturing	**32,263,156**	**4%**	42,636,440	8%
	906,533,247	**100%**	532,565,811	100%
Less: impaired loans and advances (note 9)	**(173,192,395)**		(129,298,372)	
	733,340,852		403,267,439	
Sector analysis				
Private corporations	**701,433,943**	**77%**	403,829,213	76%
Individuals	**189,452,148**	**21%**	106,640,922	20%
Related parties	**15,647,156**	**2%**	22,095,676	4%
	906,533,247	**100%**	532,565,811	100%
Less: impaired loans and advances (note 9)	**(173,192,395)**		(129,298,372)	
	733,340,852		403,267,439	

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 32.

Finance lease receivables

Included in loans and advances are finance lease receivables with a net investment value of **ZMK34.7billion** (31 December 2011: ZMK25.9 billion).

19. LOANS AND ADVANCES (Continued)

	2012 ZMK'000		2011 ZMK'000	
Finance lease receivables (Continued)				
The movement for the year is as follows:				
At the beginning of the year	**30,693,717**		16,774,102	
Additions during the year	**25,342,798**		18,250,030	
Repayments during the year	**(17,481,727)**		(6,072,589)	
Unrealised exchange (losses) gains	**1,910,123**		1,742,174	
Gross investment in finance leases	**40,464,911**		30,693,717	
Less: Unearned future finance income on finance leases	**(5,775,404)**		(4,779,427)	
Net investment in finance leases	**34,689,507**		25,914,290	
The gross investment in finance leases may be analysed as follows:				
- Not later than 1 year	**2,146,140**		1,641,317	
- Later than one year and no later than 5 years	**38,318,771**		29,052,400	
	40,464,911		30,693,717	
Industry analysis				
Other sectors	**15,904,092**	**39%**	14,645,967	48%
Construction, mining and quarrying	**18,627,608**	**46%**	9,542,074	31%
Manufacturing	**1,985,136**	**5%**	3,986,028	13%
Service industries	**2,624,833**	**6%**	2,283,556	7%
Wholesale and retail	**1,067,892**	**3%**	55,374	0%
Agriculture	**87,097**	**0%**	156,774	1%
Financial	**168,253**	**0%**	23,945	0%
	40,464,911	**100%**	30,693,717	100%
Sector analysis				
Private corporations	**39,937,093**	**99%**	30,448,699	99%
Non banking financial institutions	**306,745**	**1%**	23,945	0%
Individuals	**221,073**	**0%**	221,073	1%
	40,464,911	**100%**	30,693,717	100%

19. LOANS AND ADVANCES (Continued)	2012 ZMK'000	2011 ZMK'000

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 **ZMK306 million** (2011: ZMK137 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 13% for US Dollar denominated and 23% 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.

20. EQUITY INVESTMENT

	2012 ZMK'000	2011 ZMK'000
Zambian Home Loans Limited	**275,000**	-
Prima Reinsurance Zambia Plc	**200,000**	200,000
Swift International Share Subscription	**126,537**	-
Zambia Electronic Clearing House Limited	**87,398**	87,398
	688,935	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.

Kwacha '000

20. EQUITY INVESTMENT (Continued)

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.

The Bank subscribed to a mandatory offer for purchase of shares from Swift International in 2012. SWIFT reallocates its shareholding at least every three years to members in live operation on the basis of the financial contribution from network-based services invoiced in the previous year. The Bank gained entitlement for allocation of 6 SWIFT shares in 2012 and thus became a shareholder after purchasing the allocated shares.

The Bank holds 50% of the equity shares in Zambian Home Loans Limited, jointly owned with Sofala Capital that also holds 50% of the equity shares. Zambian Home Loans Limited is thus a jointly controlled entity between the Bank and Sofala Capital. The investment is carried at cost as the company is not yet approved by the Central Bank for it to begin operations. The Bank is entitled to proportionate share of any returns on this investment and bears a proportionate share of the outgoings. Zambian Home Loans Limited had no income or expenses during the year ended 31 December 2012. There were no foreseeable further capital commitments on Investrust Bank Plc as at 31 December 2012.

21. PROPERTY AND EQUIPMENT

The movement in the property and equipment were as follows:

	Leasehold buildings ZMK'000	Leasehold mprovements ZMK'000	Furniture and fixtures ZMK'000	Motor vehicles and equipment ZMK'000	Capital work in progress ZMK'000	Total ZMK'000
At 1 January 2011						
Cost or valuation	3,308,420	12,816,859	3,838,586	19,688,258	7,118,647	**46,770,770**
Accumulated depreciation	252,809	2,340,168	1,205,616	10,256,630	-	14,055,223
Net book value	**3,055,611**	**10,476,691**	**2,632,970**	**9,431,628**	**7,118,647**	**32,715,547**
Year ended 31 December 2011						
Opening net book value	3,055,611	10,476,691	2,632,970	9,431,628	7,118,647	32,715,547
Additions	-	143,957	692,928	2,503,208	4,561,254	7,901,347
Reclassification	-	1,762,948	500,420	1,057,635	(6,398,889)	(3,077,886)
Disposals	-	-	(5,524)	(32,533)	-	(38,057)
Depreciation charge	(65,952)	(1,234,865)	(374,601)	(3,438,354)	-	(5,113,772)
Depreciation charge		(52,842)		(4,909)	(4,499)	(62,250)
Closing net book value	**2,989,659**	**11,095,889**	**3,446,193**	**9,516,675**	**5,276,513**	**32,324,929**
At 31 December 2011						
Cost or valuation	3,308,420	14,670,922	5,013,296	22,495,145	5,276,513	**50,764,296**
Accumulated depreciation	318,761	3,575,033	1,567,103	12,978,470	-	18,439,367
Net book value	**2,989,659**	**11,095,889**	**3,446,193**	**9,516,675**	**5,276,513**	**32,324,929**
Year ended 31 December 2012						
Opening net book value	2,989,659	11,095,889	3,446,193	9,516,675	5,276,513	32,324,929
Additions	32,957	933,269	410,294	5,506,729	9,464,703	16,347,952
Reclassification	-	1,561,606	356,249	2,322,802	(6,764,813)	(2,524,156)
Disposals	-	-	-	(1,283)	-	(1,283)
Depreciation charge	(66,353)	(1,491,936)	(496,463)	(4,548,233)	-	(6,602,985)
Adjustments	-	-	-	(500)	(82,636)	(83,136)
Closing net book value	**2,956,263**	**12,098,828**	**3,716,273**	**12,796,190**	**7,893,767**	**39,461,321**
At 31 December 2012						
Cost or valuation	3,341,377	17,165,797	5,779,839	30,317,826	7,893,767	**64,498,606**
Accumulated depreciation	385,114	5,066,969	2,063,566	17,521,636	-	25,037,285
Net book value	**2,956,263**	**12,098,828**	**3,716,273**	**12,796,190**	**7,893,767**	**39,461,321**

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

In 2012 capital work in progress of ZK2,524 million was reclassified to intangible assets as shown in Note 22.

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

22. INTANGIBLE ASSETS

Cost	Software development costs ZMK'000	Total ZMK'000
At beginning of the year	6,759,944	6,759,944
Additions	950,520	950,520
Reclassifications	2,524,154	2,524,154
At end of year	10,234,618	10,234,618
Amortisation		
At beginning of the year	1,982,076	1,982,076
Amortisation for the year	1,907,075	1,907,075
At end of year	**3,889,151**	**3,889,151**
Net book amount at end of year	**6,345,467**	**6,345,467**
Net book amount at beginning of year	4,777,868	4,777,868

23. DEPOSITS FROM CUSTOMERS

Current accounts	**505,986,686**	325,089,147
Deposit accounts	**291,143,223**	210,616,486
Savings accounts	**130,293,943**	88,208,408
Cheque savers' accounts	**109,590,741**	81,546,122
SME accounts	**12,184,404**	5,423,403
	1,049,198,997	710,883,566

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

Retail customers		
- Savings accounts	**125,732,093**	83,876,512
- Cheque Saver accounts	**26,009,908**	14,120,745
- Current accounts	**204,587**	9,629,115
- Deposit accounts	**6,145,737**	6,738,140
Corporate customers		
- Current accounts	**517,966,503**	320,883,435
- Deposit accounts	**284,997,486**	203,878,346
- Cheque Saver accounts	**83,580,833**	67,425,377
- Savings accounts	**4,561,850**	4,331,896
	1,049,198,997	710,883,566

23. DEPOSITS FROM CUSTOMERS (CONTINUED)

The maturity analysis for the deposit accounts is as follows:

Period	2012 ZMK'000	2011 ZMK'000
0 - 30 days	**104,438,186**	64,268,505
31 - 60 days	**55,001,092**	41,380,900
61 - 90 days	**27,076,683**	13,237,169
91 - 365 days	**101,587,262**	91,079,745
Above 365 days	**3,040,000**	650,167
	291,143,223	210,616,486

Increase in amounts due to depositors:

	2012 ZMK'000	2011 ZMK'000
Current accounts	**180,897,539**	147,153,338
Deposit accounts	**80,526,737**	40,530,576
Savings accounts	**42,085,535**	25,514,428
Cheque savers' accounts	**28,044,619**	21,434,991
SME accounts	**6,761,001**	-
	338,315,431	234,633,333

24. DEBT SECURITIES IN ISSUE

	2012 ZMK'000	2011 ZMK'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	**2,040,000**	2,050,000
Kwacha Medium Term Notes due 2015	**15,010,000**	15,010,000
	29,360,000	44,400,000
Current	**14,350,000**	15,030,000
Non-current	**15,010,000**	29,370,000

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 2012 was **11.57%** (2011: 11%).

25. OTHER BORROWED FUNDS

	2012 ZMK'000	2011 ZMK'000
African Development Bank (ADB)	**8,925,000**	13,453,125
Zambia Enterprise Development Project ("ZEDP")	**23,133,341**	30,050,401
Norsad Fund	**4,248,295**	8,123,074
European Investment Bank ("EIB")	**5,919,643**	6,406,250
	42,226,279	58,032,850
Current liability payable within one year	**(16,544,387)**	(8,156,254)
Non-current liability	**25,681,892**	49,503,285

African Development

This is the Line of Credit with the African Development Bank (ADB) to be utilised for medium term lending to the underserved local Small and Medium 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 **3.5%** per annum in 2012 (2011 - 2.3%).

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.

25. OTHER BORROWED FUNDS (Continued)	**2012**	2011
	ZMK'000	ZMK'000

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 **12.2%** per annum in 2012 (2011: 4.8%).

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, Caribbean 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.

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 **5.42%** per annum in 2012 (2011: 4.93%)

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.

25. OTHER BORROWED FUNDS (Continued)

	2012	2011
	ZMK'000	ZMK'000

The ZEDP loans bear interest at the rate of 5%. The Bank has not had any defaults of principal, interest or redemption amounts during the period (2011: Nil).

The annual weighted average effective interest rate was **5.78%** per annum in 2012 (2011: 3.68%).

26. OTHER LIABILITIES

	2012	2011
Sundry payables	**18,932,413**	9,595,630
Bankers cheques payable	**1,726,799**	4,056,661
Interest payable on deposits	**8,078,370**	4,679,785
Interest payable on borrowings	**1,367,891**	1,504,602
	30,105,473	19,836,678

Sundry payables

This can be analysed as follows:

	2012	2011
Other creditors and accruals	**7,346,820**	1,276,645
Payroll related liabilities	**9,381,279**	7,163,929
Sundry creditors	**1,009,203**	371,321
Unpresented drafts	**1,195,111**	783,735
	18,932,413	9,595,630

27. FINANCE LEASE PAYABLES

	2012	2011
At the beginning of the year	**-**	29,968
Additions during the year	**-**	-
Repayments during the year	**-**	(3,580)
Unrealised exchange (gains) losses	**-**	(26,388)
At end of the year	**-**	-

Maturity analysis

	2012	2011
Current	**-**	-

27. FINANCE LEASE PAYABLES

	2012	2011
	ZMK'000	ZMK'000

Finance leases are repayable in 36 equal monthly instalments. The effective annual rate of interest during 2012 was **0%** per annum (2011: 0% per annum). The finance leases are secured on the leased assets whose net book value is shown in Note 21.

28. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 35**%** (2011: 40%).

Tax effect of timing differences due to:

	2012 ZMK'000	2011 ZMK'000
Temporary differences on property, and equipment	**382,240**	1,967,517
Other provisions	**(78,731)**	(1,915,278)
Tax losses	**-**	-
Deferred tax liabilities (assets)	**303,509**	52,239

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

	Other provisions ZMK'000	**Tax losses ZMK'000**	**Accelerated capital allowances ZMK'000**	**Total ZMK'000**
At 1 January 2011	**-**	**(1,930,945)**	**1,388,238**	**(542,707)**
Arising in the year	**(1,915,278)**	1,930,945	579,279	594,946
At 31 December 2011	**(1,915,278)**	**-**	**1,967,517**	**52,239**
Arising in the year	**(78,731)**		382,240	303,509
At 31 December 2012	**(1,994,009)**	**-**	**2,349,757**	**355,748**

29. SHARE CAPITAL

	2012	2011
	ZMK'000	ZMK'000
Authorised		
The total authorised share capital at year end was **120,000,000** shares with a par value of **ZK1,000** each (2011: 5,000,000,000 shares with a par value of ZK1 each).		
Issued and fully paid up		
4,665,231 ordinary shares of **ZK1,000** each (2011: 4,665,230,609 shares of K1 each)	**4,665,231**	4,665,231

The Bank increased its nominal share capital from 5,000,000,000 shares of par value K1 each to 120,000,000,000 shares of par value K1 each on 30 July 2012. The Bank later varied its nominal share capital from 120,000,000,000 shares of ZK1 each to 120,000,000 shares of ZK1,000 each effective 11 December 2012.

30. (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.

	2012	2011
30. (c) DIVIDENDS	**ZMK'000**	ZMK'000

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting held on 30 March 2012, no dividend was proposed in respect of 2011.

No dividend in respect of 2012 is to be proposed at the Annual General Meeting to be held on **10 April 2013**.

31. CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2012. 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:

	2012 ZMK'000	2011 ZMK'000
Guarantees and performance bonds	**58,107,381**	44,555,120

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.

Kwacha '000

	2012	2011
31. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)	**ZMK'000**	ZMK'000
d) Capital commitments		
At 31 December 2012, 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.	**53,090,250**	46,011,460

32. 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	
	2012	2011	**2012**	2011
	ZMK'000	ZMK'000	**ZMK'000**	ZMK'000
Loans outstanding at 1 January	**1,746,098**	-	**22,095,677**	17,228,954
Loans issued during the year	**700,000**	1,619,723	**-**	2,845,000
Interest charges	**125,161**	183,210	**4,077,209**	2,235,000
Loan repayments during the year	**(48,125)**	(56,835)	**(10,525,729)**	(213,278)
Loans outstanding at 31 December	**2,523,134**	1,746,098	**15,647,157**	22,095,676
Interest income earned	**125,161**	183,210	**4,077,209**	2,235,000

The amounts on connected entities arise on:

- Loan facilities; and
- Rentals of office premises

32. RELATED PARTY TRANSACTIONS (Continued)

	2012 ZMK'000	2011 ZMK'000

a) Loans and advances to related parties

** 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.

b) Other transactions with related parties

	Directors and other key management personnel		Related companies	
	2012 ZMK'000	2011 ZMK'000	**2012 ZMK'000**	2011 ZMK'000
Rental income	**-**	**-**	**70,440**	70,440
Cost of office floral arrangement	**-**	-	**(232,361)**	(232,361)

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.

	2012 ZMK'000	2011 ZMK'000
Post employment benefits	**-**	2,056,250
Salaries	**2,532,125**	1,762,500
Directors fees and expenses	**1,030,048**	437,818
Other long term benefits	**3,231,250**	892,646
	6,793,423	5,149,214

33. EVENTS AFTER THE REPORTING DATE

The Government of the Republic of Zambia issued The Re-denomination of Currency Act No. 8 of 2012. The re-denomination of the existing currency was to be effected by dividing the nominal value of the existing currency by a multiple of one thousand so that One Thousand Kwacha would yield a face value of One Kwacha. Central Bank Circular 15 of 2012 (Changeover Date for the Rebased Currency) to commercial banks stated that the re-denominated currency would become legal tender on 01 January 2013. Consequently, the Bank of Zambia distributed the re-denominated currency to all commercial banks in the country in readiness for the launch of the new currency. On 31 December 2012, the Bank received the new re-denominated currency amounting to ZMW54,834,600.00 equivalent to the old currency of ZMK54,834,600,000.00 which amounts were maintained off-balance sheet.

INVESTRUST BANK PLC

APPENDIX I - FIVE YEAR FINANCIAL SUMMARY

TREND ANALYSIS (OPERATING RESULTS)

	2012	2011	2010	2009	2008
INCOME	**ZMK'000**	ZMK'000	ZMK'000	ZMK'000	ZMK'000
Interest on loans and advances	**73,534,350**	65,729,614	66,451,285	63,486,377	48,559,686
Profit on foreign exchange trading	**16,200,764**	14,603,449	10,037,997	9,483,010	9,928,423
Income on held to maturity investments	**39,530,955**	15,456,475	8,884,597	10,350,019	9,673,574
Net fees and commissions	**49,090,859**	32,319,477	27,119,823	17,917,678	16,139,161
	178,356,928	128,109,015	112,493,702	101,237,084	84,300,844
EXPENDITURE					
Interest payable	**38,934,060**	26,784,029	25,009,279	25,729,896	20,799,120
Staff benefit costs	**57,449,130**	39,743,813	33,992,825	24,586,270	21,962,865
Administration and other operating expenses	**51,828,659**	37,949,784	33,045,189	24,943,031	17,977,467
Provision for loan losses and bad debts	**9,264,724**	12,338,573	26,797,639	9,566,264	7,663,521
	157,476,573	116,816,199	118,844,932	84,825,461	68,402,973
(Loss) profit before tax	**20,880,355**	11,292,816	(6,351,230)	16,411,623	15,897,871
Income tax credit (expense)	**(6,539,444)**	(5,545,162)	1,412,176	(6,339,329)	(6,047,800)
(Loss) profit after tax	**14,340,911**	5,747,654	(4,939,054)	10,072,294	9,850,071

INVESTRUST BANK PLC

APPENDIX II - FIVE YEAR FINANCIAL SUMMARY (CONTINUED)

STATEMENT OF FINANCIAL POSITION TREND ANALYSIS

	2012	2011	2010	2009	2008
	ZMK'000	ZMK'000	ZMK'000	ZMK'000	ZMK'000
ASSETS					
Cash, balances with Bank of Zambia and other banks	**227,863,900**	112,208,785	118,700,612	77,865,403	86,854,161
Held to maturity investments	**242,699,851**	323,689,450	80,081,198	68,438,006	66,384,201
Loans and advances (net of provisions)	**733,340,852**	402,516,820	374,288,592	269,539,383	262,600,555
Other assets	**72,798,980**	65,696,329	72,570,574	54,848,710	39,296,645
Total Assets	**1,276,703,583**	904,111,384	645,640,976	470,691,502	455,135,562
LIABILITIES					
Customer deposits	**1,049,198,997**	710,883,566	476,250,233	345,948,655	346,640,624
Other borrowed funds	**86,624,484**	58,032,850	50,675,815	20,268,731	13,765,436
Subordinated debt	**29,360,000**	44,400,000	44,274,000	31,171,000	32,270,376
Other liabilities	**30,461,221**	24,076,998	35,163,194	25,707,368	21,556,712
	1,195,644,702	837,393,414	606,363,242	423,095,754	414,233,148
Shareholders funds	**81,058,881**	66,717,970	39,277,734	47,595,748	40,902,414
Total liabilities and shareholders funds	**1,276,703,583**	904,111,384	645,640,976	470,691,502	455,135,562

INVESTRUST BANK PLC

APPENDIX II - DETAILED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	2012 ZMK'000	2011 ZMK'000
NET INTEREST INCOME		
Interest income	**113,065,305**	81,178,204
Dividend income	**9,857**	7,885
Interest expense	**(38,934,060)**	(26,784,029)
Net interest income	**74,141,102**	54,402,060
OTHER OPERATING INCOME		
Fees and commissions	**39,170,826**	26,723,431
Gains from dealings in foreign currencies	**16,200,764**	14,603,449
Ledger fees	**11,577,383**	6,796,649
Rental income	**78,840**	75,340
Gain on disposal of property and equipment	**1,717**	74,826
	67,029,530	48,273,695
TOTAL INCOME	**141,170,632**	102,675,755
OPERATING EXPENSES AND BAD DEBTS		
Employee benefit expenses	**55,545,608**	38,599,263
Impairment charge for credit losses	**9,137,622**	10,115,178
Depreciation expense	**8,510,311**	5,865,596
Postage and communication costs	**7,498,694**	3,942,107
Rent and rates	**6,007,848**	4,703,965
Motor vehicle expenses	**5,551,811**	4,487,153
Travel expenses	**5,065,224**	3,269,801
Advertising	**4,640,952**	3,353,385
Office and security expenses	**3,035,094**	2,500,042
Professional and legal fees	**2,436,701**	1,599,031
Printing and stationery	**1,967,151**	1,438,238
Medical expenses	**1,903,522**	1,144,550
Fee and commission expense	**1,747,764**	1,200,603
Repairs and maintenance	**1,422,697**	1,307,112
Computer expenses	**1,256,030**	722,718
Other miscellaneous expenses	**1,160,228**	2,572,549
Directors fees and expenses	**1,030,048**	437,818
Subscriptions	**631,884**	375,604
Insurance	**413,128**	416,218
Donations	**378,196**	221,929
Auditors remuneration	**360,000**	300,000
Water and electricity	**281,090**	403,250
Entertainment	**181,570**	183,434
Bad debts written off	**127,104**	2,223,395
TOTAL EXPENDITURE	**120,290,277**	91,382,939
PROFIT BEFORE TAX	**20,880,355**	11,292,816