
INVESTRUST BANK PLC

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2009

INVESTRUST BANK PLC

(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2009

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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 2009, which disclose the state of affairs of Investrust Bank Plc (the "Bank").

GENERAL INFORMATION

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

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

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

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

RESULTS AND DIVIDENDS

	2009	2008
	K'000	K'000
Net interest income	<u>48,106,500</u>	<u>40,463,329</u>
Profit before tax	<u>16,411,623</u>	<u>15,897,971</u>
Net profit for the year	<u>10,072,294</u>	<u>9,850,171</u>

During the year, a dividend of ZK1.14 per share was declared and paid in respect of the financial year ended 31 December 2008. The Directors recommend the payment of a dividend of **ZK0.85 per share** for the financial year ended 31 December 2009.

SHARE CAPITAL

The total authorised number of ordinary shares remained at **5,000,000,000** (2008 : 5,000,000,000) with a par value of ZK1 per share. The issued share capital remained unchanged at 2,964,000,000 shares with a par value of ZK1 per share.

DIRECTORS

The Directors who held office during the year were:

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

INVESTRUST BANK PLC

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' INTERESTS AND EMOLUMENTS

Except for the Managing Director, no other Director has 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 2009 were as follows:

	<u>No. of shares</u>		<u>% Shareholding</u>	
	2009	2008	2009	2008
Mr. R.L. Bvulani	497,507,900	497,507,900	16.79	16.79
Mr. J.B. Zulu	245,888,000	239,350,000	8.30	8.08
Mr. F.C. Ndhlovu	-	493,250,000	-	16.64

The Directors emoluments are disclosed in notes 5 and 30 in the financial statements in accordance with the Zambian Companies Act, 1994 (as amended).

PROPERTY AND EQUIPMENT

The Bank purchased property and equipment amounting to **ZK11.7 billion** (2008: ZK8.2 billion) during the year.

Property and equipment with a net book value of **ZK27.6 million** were disposed of during the year.

EMPLOYEES

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

January	230	February	237
March	240	April	240
May	239	June	239
July	236	August	243
September	251	October	248
November	253	December	257

The total amount spent on employees remuneration and welfare during the year was **ZK24.6 billion** (2008: ZK21.6 billion).

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

RELATED PARTY TRANSACTIONS

As required by the Zambian Banking and Financial Services Act, 1994 (as amended) and *International Accounting Standard 24, Related Party Transactions* are disclosed under note 30 to the financial statements.

INVESTRUST BANK PLC

REPORT OF THE DIRECTORS (Continued)

EXPORTS

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

RESEARCH AND DEVELOPMENT

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

RISK MANAGEMENT AND CONTROL

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

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

GIFTS AND DONATIONS

The Bank made donations during the year amounting to **ZK115 million** (2008: ZK298 million) in order to support various socially responsible causes.

PROHIBITED BORROWINGS OR LENDING

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

DEVELOPMENTS DURING THE YEAR AND FOCUS FOR 2010

In 2009, the Bank's focus continued to be a growth strategy despite the global economic slow down. The bank kicked-off the year by opening four additional branches (namely Livingstone, Lumwana, Lusaka Industrial and Ody's Head Office with one Agency at the Lusaka International Airport). The Bank also successfully launched the money transfer services through a partnership with Moneygram Africa.

Despite the increase in the competitive environment emanating from new entrants in the banking sector, the Bank maintained its competitive position and market share.

In 2010 and beyond, the Bank will refocus its strategy on enhancing its customer service delivery through various client relationship models. It will also increase its market visibility via all advertising channels so as to provide its customers with latest information on the bank's products, services, performance and strategic direction. The bank has already started the process of upgrading and rebranding its corporate image.

New e-banking products will be launched in the first half of 2010 include the long awaited VISA project which was started in 2008, web-banking solutions and mobile banking solutions. The ATM expansion project will also continue and the focus for 2010 will be to install in-store ATMs and stand alone ATMs at various service stations and shopping centres so that our clients can have easy access to cash at any time conveniently.

INVESTRUST BANK PLC

REPORT OF THE DIRECTORS (Continued)

DEVELOPMENTS DURING THE YEAR AND FOCUS FOR 2010 (CONT'D)

The branch expansion programme will also continue aimed at providing the bank's services and products to all Zambia's provincial and district centres. Feasibility studies have been conducted to open branches in Ndola, Mongu, Kasama, Kabwe, Mansa, Chirundu and Kasumbalesa border posts.

AUDITORS

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

By order of the Board.

CUTHBERT K. TEMBO
COMPANY SECRETARY

Lusaka, Zambia

INVESTRUST BANK PLC

STATEMENT ON CORPORATE GOVERNANCE

BANK'S PHILOSOPHY ON CORPORATE GOVERNANCE

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

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

The Shareholders

The shareholders are the owners of the Bank. However, except for approving certain critical strategic matters, the Shareholders have no direct powers to manage it in any way but delegate this responsibility to the Board of Directors through the Articles of Association. There is regular dialogue with individual institutional shareholders, financial analysts and brokers which provide 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 substantially separate issue.

The Board of Directors

The Board is responsible to the shareholders for formulating policies and strategy 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 currently comprises five Directors, of which four are Non-Executive Directors. The Board composition is balanced so that no one individual or small group can dominate decision making. The depth of experience and diversity of the Board ensure that robust and forthright debate on all issues of material importance to the Bank occurs.

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

Roles of Chairman and the Chief Executive Officer

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

INVESTRUST BANK PLC

STATEMENT ON CORPORATE GOVERNANCE (Continued)

The performance of the Chief Executive Officer is currently 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; and
- capability study measures, including leadership, organisational climate, organisational goals, culture, job structure and communication.

The Directors who held office during the year were:

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

Board meetings

The Investrust Board meets at least quarterly. During the past financial year, the Board met four times, and held several additional telephonic meetings. The resolutions of the Board are passed either during the meetings or by circulation.

BOARD COMMITTEES

The Board functions either as a full Board or through various sub-committees constituted to oversee specified operational areas. These sub-committees are accountable to the Board, with the exception of the Executive Committee (EXCO), Management Committee and Credit Risk Management Committee and Management sub-ALCO, who report to the Chief Executive Officer. Minutes of sub-committee meetings are circulated and reported on at the following Board meeting.

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, sufficiency 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 and reports of statutory auditors and review of the findings of internal investigations.

The committee is 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	-	Chairperson
Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mrs. E. Jhala	-	Non-executive Director
Mr. N. Lungu	-	Non-executive Director

Meetings are held regularly throughout the year and are attended by the Internal Auditor as well as Senior Management where necessary. The Committee met four times in 2009.

INVESTTRUST BANK PLC

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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 is chaired by Mr. N. Lungu, a Non-Executive director.

The Committee comprises the following:

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

Loans Review Committee

The Loans Review Committee is chaired by Dr. J.B Zulu, a Non-Executive Director and Chairman of Investrust Bank Plc. The Loans Review Committee is constituted in accordance with the Banking and Financial Services Act, 1994, (as amended). In 2009, 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 are made for the Board of Directors' necessary action.

The Committee comprises the following :

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

Remuneration and Conditions of Service Committee

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

INVESTRUST BANK PLC

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Risk Management Committee

The Board Risk Management Committee reviews the Bank's risk management policies in relation to various risks (portfolio, liquidity, interest rate, off balance sheet and operational risks), investment policies and strategy and regulatory and compliance issues in relation thereto. The Committee also reviews key risk indicators covering areas such as credit risk, interest rate risk, liquidity risk, foreign exchange risk and internal audit.

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

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

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

MANAGEMENT COMMITTEES

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

Executive Management Committee ("EXCO")

The Committee meets every fortnight to develop strategies and policies for recommendation to the Board and to implement the strategy approved by the Board. The Executive Management Committee comprises the following:

Mr. F.C. Ndhlovu	- Managing Director and Chief Executive Officer
Mr. R. Phiri	- Deputy Managing Director (appointed 1 February 2009)
Mr. P. Ndhlovu	- Head - Operations
Mr. H. Mafuta	- Financial Controller
Mr. E. Mtonga	- Head - Credit (appointed 1 January 2009)
Mr. J. Kapesa	- Head - Corporate and Retail Banking
Mr. P. Mwale	- Head - Treasury (appointed 1 May 2009)
Mr. A. Kalikiti	- Legal Counsel (resigned 30 August 2009)

Management Committee

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

INVESTTRUST BANK PLC

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Management Committee (cont'd)

The Management Committee is made up of the following:

Mr. R. Phiri	- Deputy Managing Director (appointed 1 February 2009)
Mr. E. Mtonga	- Head - Credit (appointed 1 January 2009)
Mr. P. Ndhlovu	- Head - Operations
Mr. H. Mafuta	- Financial Controller
Mr. J. Kapesa	- Head - Corporate and Retail Banking
Mr. P. Mwale	- Head - Treasury (appointed 1 May 2009)
Mr. A. Kalikiti	- Legal Counsel (resigned 30 August 2009)
Mr. N. Kakvi	- Information Technology Manager
Mr. S. Khambete	- Risk Manager
Mr. S. Banda	- Head - Internal Audit (appointed 1 November 2009)
Mr. C. Chisha	- Head - Internal Audit up to 1 November 2009

Management Credit Committee

In managing credit risk, the Loans Review Committee is assisted by a Management Credit Committee, which is 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 is made up of the following:

Mr. F.C. Ndhlovu	- Managing Director and Chief Executive Officer
Mr. R. Phiri	- Deputy Managing Director (appointed 1 February 2009)
Mr. E. Mtonga	- Head - Credit (appointed 1 January 2009)
Mr. P. Ndhlovu	- Head - Operations
Mr. J. Kapesa	- Head - Corporate and Retail Banking
Mr. A. Kalikiti	- Legal Counsel (resigned 30 August 2009)

Credit Risk Management Committee

The Committee reports directly to the Board through the Board Risk Management Committee. The committee was set up in compliance with the risk management guidelines issued by the Central Bank of Zambia. At minimum, it is 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
- 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.

INVESTRUST BANK PLC

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Credit Risk Management Committee (cont'd)

The Committee comprises the following:

Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R. Phiri	-	Deputy Managing Director (appointed 1 February 2009)
Mr. S. Khambete	-	Risk Manager
Mr. H. Mafuta	-	Financial Controller

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

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

The Committee comprises the following:

Mr. F.C. Ndhlovu	-	Managing Director and Chief Executive Officer
Mr. R. Phiri	-	Deputy Managing Director (appointed 1 February 2009)
Mr. P. Ndhlovu	-	Head - Operations
Mr. H. Mafuta	-	Financial Controller
Mr. E. Mtonga	-	Head - Credit (appointed 1 January 2009)
Mr. J. Kapesa	-	Head - Corporate and Retail Banking
Mr. P. Mwale	-	Head - Treasury (appointed 1 May 2009)
Mr. S. Khambete	-	Risk Manager

OTHER MATTERS

Organisational Ethics and Business Integrity

Good governance and ethical conduct is critical to counterparty and investor perceptions of the Bank, particularly in Africa. Investrust Bank Plc strives to ensure that our integrity and professional conduct is beyond reproach. While it is probably impossible to achieve a perfect result, we attempt to limit the cost of unethical behaviour to our stakeholders.

The Bank has adopted a code of conduct formulated by the Bankers Association of Zambia. The Code comprehensively deals with issues such as money laundering, insider trading, bribery, political activities, confidentiality and data privacy. Investrust Bank Plc has a firm approach in dealing with 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 legislation in these areas.

Whistle Blower Policy

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

INVESTRUST BANK PLC

STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

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

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The independent external auditors, Deloitte & Touche, have audited the financial statements and their report is shown on pages 11 and 12.

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 income statement is drawn up so as to give a true and fair view of the profit of the Bank for the year ended 31 December 2009;
- the balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2009;
- there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due; and
- The Bank has complied with International Financial Reporting Standards, the Companies Act, 1994 (as amended) and the Zambian Banking and Financial Services Act, 1994 (as amended).

Signed on behalf of the Board of Directors by:

_____) **J.B. ZULU** - **CHAIRMAN**
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_____) **F.C. NDHLOVU** - **MANAGING DIRECTOR**
)

REPORT OF THE INDEPENDENT AUDITOR

To the members of
Investrust Bank Plc

Report on the financial statements

We have audited the accompanying financial statements of Investrust Bank plc, which comprise of the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 compliance with the Companies Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Investrust Bank Plc as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended).

Report on other legal and regulatory requirements

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

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

- The Bank made available all necessary information to enable us to comply with the requirements of this Act; and
- The Bank has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act.

DELOITTE & TOUCHE
CHARTERED ACCOUNTANTS

ALICE JERE TEMBO
PARTNER

DATE: 9 MARCH 2009

INVESTRUST BANK PLC**INCOME STATEMENT**

for the year ended 31 December 2009

Kwacha '000	NOTES	2009	2008
Interest and similar income	7	73,836,396	61,262,449
Interest and similar expenses	8	(25,729,896)	(20,799,120)
NET INTEREST INCOME		48,106,500	40,463,329
Loan impairment charges	9	(9,566,264)	(7,663,521)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		38,540,236	32,799,808
Fee and commission income	10	18,764,697	14,020,198
Fee and commission expense	11	(847,019)	(986,066)
NET FEE AND COMMISSION INCOME		17,917,678	13,034,132
Net gains on dealings in foreign currencies		9,483,010	9,928,423
Other operating income		86,510	75,840
OTHER INCOME		9,569,520	10,004,263
TOTAL OPERATING INCOME		66,027,434	55,838,203
Operating expenses	12	(49,615,811)	(39,940,232)
PROFIT BEFORE INCOME TAX		16,411,623	15,897,971
Income tax expense	13	(6,339,329)	(6,047,800)
PROFIT FOR THE YEAR		10,072,294	9,850,171
Basic and diluted earnings per share		ZK3.39	ZK3.32

Earnings per share is based on earnings after tax of **ZK10,072 million** (2008 : ZK9,850 million), divided by the number of ordinary shares in issue during the year of **2,964,000,000** (2008 : 2,964,000,000).

INVESTRUST BANK PLC

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

Kwacha '000

	NOTES	2009	2008
PROFIT FOR THE YEAR		10,072,294	9,850,171
Net exchange gains on available for sale financial assets		-	-
Cash flow hedges		-	-
Other comprehensive income for the year, net of tax		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>10,072,294</u>	<u>9,850,171</u>

INVESTRUST BANK PLC**STATEMENT OF FINANCIAL POSITION**

at 31 December 2009

Kwacha '000	NOTES	2009	2008
ASSETS			
Cash and balances with Central Bank	14	62,423,883	54,725,125
Loans and advances to banks	15	15,441,520	32,129,036
Held to maturity investments	16	68,438,006	66,384,201
Other assets	17	29,592,024	21,723,433
Loans and advances to customers	18	269,539,383	262,600,555
Equity instruments	19	287,398	287,398
Property and equipment	20	23,009,858	15,042,864
Intangible assets	21	1,959,430	2,242,950
Total assets		<u>470,691,502</u>	<u>455,135,562</u>
LIABILITIES			
Deposits from customers	22	345,948,655	346,640,624
Debt securities in issue	23	32,171,000	32,270,376
Other borrowed funds	24	20,268,731	13,765,436
Due to banks		4,500,000	4,490,466
Other liabilities	25	16,500,910	13,427,184
Finance lease payables	26	217,547	239,982
Current income tax liabilities	13	2,593,213	2,772,406
Deferred income tax liabilities	27	895,698	626,674
Total liabilities		<u>423,095,754</u>	<u>414,233,148</u>
EQUITY			
Share capital	28	2,964,000	2,964,000
Share premium		2,528,461	2,528,461
Statutory reserves	29 (a)	2,964,000	2,964,000
General banking reserve	29 (b)	2,734,052	4,547,974
Retained Earnings		36,405,235	27,897,979
Total equity		<u>47,595,748</u>	<u>40,902,414</u>
Total equity and liabilities		<u>470,691,502</u>	<u>455,135,562</u>

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 11. The financial statements on pages 14 to 71 were approved for issue by the Board of Directors on **9 March 2010** and were signed on its behalf by:

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Share capital	Share premium	Statutory reserves (note 29(a))	General banking reserves (note 29(b))	Retained Earnings	Total
Balance at 31 December 2007	2,964,000	2,528,461	2,964,000	-	25,974,742	34,431,203
Net exchange gains on available for sale financial assets	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-
Profit for the year	-	-	-	-	9,850,171	9,850,171
Total comprehensive income	-	-	-	-	9,850,171	9,850,171
Transfer to general banking reserves	-	-	-	4,547,974	(4,547,974)	-
Dividends relating to 2007	-	-	-	-	(3,378,960)	(3,378,960)
Balance at 31 December 2008	2,964,000	2,528,461	2,964,000	4,547,974	27,897,979	40,902,414
Net exchange gains on available for sale financial assets	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-
Profit for the year	-	-	-	-	10,072,294	10,072,294
Total comprehensive income	-	-	-	-	10,072,294	10,072,294
Transfer from general banking reserves	-	-	-	(1,813,922)	1,813,922	-
Dividends paid relating to 2008	-	-	-	-	(3,378,960)	(3,378,960)
Balance at 31 December 2009	2,964,000	2,528,461	2,964,000	2,734,052	36,405,235	47,595,748

INVESTRUST BANK PLC**STATEMENT OF CASH FLOWS**
for the year ended 31 December 2009

Kwacha '000	NOTES	2009
OPERATING ACTIVITIES		
Profit for the year		10,072,294
Adjusted for:		
Depreciation expense	19,20	3,735,942
(Gain) loss on disposal of property and equipment		(10,670)
Property and equipment adjustment	19	292,548
Unrealised exchange gains on debt securities in issue		(99,376)
Unrealised exchange losses (gains) on finance lease payables	25	(29,170)
Income tax expense	12	6,339,329
Operating profit before changes in operating funds		20,300,897
Decrease (increase) in held to maturity investments		10,425,709
Increase in other assets		(7,868,591)
Increase in loans and advances		(6,938,828)
Increase in customer deposits		(691,969)
(Decrease) increase in other liabilities		3,073,726
Cash generated from (used in) operations		18,300,944
Income taxes paid and suffered	13	(6,249,498)
Cash generated from (used in) operating activities		12,051,446
INVESTING ACTIVITIES		
Acquisition of equity investment	18	-
Purchase of property and equipment	19,20	(11,739,622)
Proceeds on disposal of property and equipment		38,328
Net cash used in investing activities		(11,701,294)
FINANCING ACTIVITIES		
Other borrowings	23	6,503,295
Lease finance received	25	252,195
Lease finance repaid	25	(245,460)
Dividends paid		(3,378,960)
Net cash generated from financing activities		3,131,070
Net increase (decrease) in cash and cash equivalents		3,481,222
Cash and cash equivalents at beginning of the year		86,568,043
Cash and cash equivalents at end of the year		90,049,265
CASH AND CASH EQUIVALENTS		
Cash and balances at Bank of Zambia		62,423,883
Balances due from other banks		15,441,520
Balances due to other banks		(4,500,000)
Held to maturity investments maturing in three months		16,683,862
		90,049,265

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2008
9,850,171
2,171,992
27,405
357,147
410,698
25,131
<u>6,047,800</u>
18,890,344
6,160,773
(6,701,649)
(74,743,766)
18,030,748
<u>(390,669)</u>
(38,754,219)
<u>(6,088,635)</u>
<u>(44,842,854)</u>
(200,000)
(8,252,219)
111,347
<u>(8,340,872)</u>
10,694,766
99,820
(221,973)
<u>(3,378,960)</u>
7,193,653
(45,990,073)
<u>132,558,116</u>
<u>86,568,043</u>
54,725,125
32,129,036
(4,490,466)
4,204,348
<u>86,568,043</u>
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INVESTTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

1. GENERAL INFORMATION

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

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

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

The financial statements for the year ended 31 December 2009 have been approved for issue by the Board of Directors on **XXXXXX 2010**. Neither the entity's owners nor others have the power to amend the financial statements after issue.

2. 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.

2.1 Statement of compliance

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

2.2 Basis of preparation

The financial statements comprise the income statement and statement of comprehensive income showing as two statements, the statement of financial positions, the statement of changes in equity, the cash flow statement and the notes.

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

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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Standards, amendments and interpretations effective 1 January 2009

In the current year, the Bank has adopted the following Standard and Interpretations which were effective for annual financial statements beginning on or after 1 January 2009:

IFRS 7	Improving disclosures about financial instruments'
IAS 1	Presentation of financial statements'
IAS 23	Borrowing costs'

The Directors have assessed the relevance of the above amendments and new interpretations with respect to the bank's operations and in their considered view, there is no impact on the bank's financial statements.

(b) Standards, amendments and interpretations effective 1 January 2009 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2009 but is not relevant to the bank's operations.

IFRS 2	Share-based payment - Vesting conditions and cancellations'
IFRS 8	Operating segments'
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation'
IFRIC 16	Hedges of a net investment in a foreign operation'
IFRIC 13	Customer loyalty programmes'

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

The following standards and interpretations have been issued and are mandatory for accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the bank's operations:

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: <ul style="list-style-type: none">• 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.
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INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

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

IFRS 1 and IAS 27	Cost of an investments in a subsidiary, jointly-controlled entity or associate".
IFRS 3	'Business combinations'
IAS 27	'Consolidated and separate financial statements
IAS 39	'Financial instruments: Recognition and measurement - eligible hedged items'
IFRIC 17	'Distribution of non-cash items to owners'
IFRIC 18	'Transfer of assets from customers'

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Early adoption of standards

The Bank did not early adopt any standards in 2009.

2.3 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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 income statement.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 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 income statement 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.

2.5 Fees and commission income

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

2.6 Income tax

2.6.1 Current income tax

Income tax payable (receivable), based on the applicable Zambian tax law, 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 balance sheet 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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Income tax (cont'd)

2.6.2 Deferred income 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 income 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.

2.7 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 income statements in staff benefit expenses.

2.8 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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash in hand 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.

2.10 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities have to be included in the statement of financial position and measured in accordance with their assigned category.

2.10.1 Financial assets

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

a) *Financial assets at fair value through profit or loss*

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

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

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

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

b) *Loans and receivables*

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

INVESTTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial assets and liabilities (Cont'd)

2.10.1 Financial assets (Cont'd)

b) Loans and receivables (Cont'd)

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'.

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 Group 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 reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'.

d) Available for sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial assets and liabilities (Cont'd)

2.10.2 Financial liabilities

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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial assets and liabilities (Cont'd)

2.10.2 Financial liabilities (Cont'd)

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.

2.10.3 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~~

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.

2.10.4 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.

2.11 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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Impairment of financial assets (cont'd)

a) Assets carried at amortised cost (cont'd)

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

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the 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 income statement. 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.

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

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Impairment of financial assets (cont'd)

a) *Assets carried at amortised cost (cont'd)*

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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 income statement.

b) *Assets classified as available for sale*

The Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

c) *Renegotiated loans*

Loans that are either subject to collective impairment assessment or 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.

INVESTTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Impairment of non financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2009.

2.13 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.

2.14 Leases

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

a) *The Bank as a lessee*

Operating leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement 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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Leases (cont'd)

a) *The Bank as a lessee (cont'd)*

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 income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.15 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.

2.16 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

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.

INVESTTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.16 Property and equipment (Cont'd)

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

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

2.17 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 income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) 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.

2.18 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 29.

2.19 Provisions

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

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

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Financial guarantee contracts

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

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

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

2.21 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.22 Acceptances and letters of credit

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

2.23 Comparatives

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

3. 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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

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

a) *Impairment losses on loans and advances*

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

b) *Held to maturity investments*

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

c) *Income taxes*

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

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

4. 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 forgone, which may be caused by internal or external factors.

Risk management is carried out by the management Assets and Liabilities Committee (ALCO) under policies approved by the Board of Directors through a Board sub-ALCO. Management ALCO 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, Internal Audit and the Risk Management departments are 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.

4.1 Credit Risk

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

4.1.1 Credit risk measurement

a) Loans and advances (incl. loan commitments and guarantees)

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank considers three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2009

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Credit Risk (cont'd)

4.1.1 Credit risk measurement (cont')

a) Loans and advances (incl. loan commitments and guarantees)

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses.

- i) The Bank assesses the probability of default of individual counterparties using an internal grading system tailored to the various categories of counterparty. The grading system has been developed internally and relies on credit officers' judgment. Clients of the bank are segmented into various grading classes.
- ii) Exposure at default is based on the amounts the bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.
- iii) Loss given default or loss severity represents the bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

b) Debt securities and other bills

For debt securities and other bills external rating such as Standard & Poor's rating or their equivalents are used by bank's Treasury department for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Credit Risk (cont'd)

4.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries.

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.

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.

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Credit Risk (cont'd)

4.1.2 Risk limit control and mitigation policies (cont'd)

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

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

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

4.1.3 Impairment and provisioning policies

The internal grading system described in Note 4.1.1(a)(i) focus 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 balance sheet date based on objective evidence of impairment (Note 2.11 (a)). 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

	2009		2008	
	Loans & advances (%)	Impairment provision (%)	Loans & advances (%)	Impairment provision (%)
Pass	86%	0%	93%	0%
Sub-standard	6%	20%	1%	20%
Doubtful	2%	50%	2%	50%
Loss	6%	100%	4%	100%

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

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Credit Risk (cont'd)

4.1.4 Maximum exposure to credit risk before collateral or other credit enhancements

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

<u>Table 2 - credit risk exposure</u> <u>K'000</u>	<u>Maximum exposure</u>	
	<u>2009</u>	<u>2008</u>
Held to maturity investments	71,606,861	94,098,490
Loans and advances to Banks	15,441,520	56,000,000
<u>Loans and advances to customers</u>		
Individual (retail customers)		
- Term loans	47,589,408	53,631,000
- Overdrafts	7,379,983	394,000
- Mortgages	-	1,984,000
Corporate entities		
- Large corporates	105,018,556	118,096,000
- SMEs	147,136,844	104,458,000
Equity investments		
Other assets	-	
	<u>394,173,172</u>	<u>428,661,490</u>

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

Financial guarantees and bid bonds	36,901,989	28,542,911
Loan commitments and other credit related obligations	-	-
	<u>36,901,989</u>	<u>28,542,911</u>
	<u>431,075,161</u>	<u>457,204,401</u>

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

5. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Credit Risk (cont'd)

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For-on-balance-sheet assets, the exposure set out above are based on gross carrying amounts.

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

4.1.5 Loans and advances

Loans and advances including finance leases are summarised as follows:

Table 4	31 December 2009		31 December 2008	
	Loans & advances to customers	Loans & advances to Banks	Loans & advances to customers	Loans & advances to Banks
K'000				
Neither past due nor impaired	251,060,165	15,441,520	259,489,555	32,129,036
Past due but not impaired	25,838,000	-	3,111,000	-
Impaired	42,933,000	-	29,784,175	-
Gross	319,831,165	15,441,520	292,384,730	32,129,036
Less: allowance for impairment	(50,291,782)	-	(29,784,175)	-
Net	269,539,383	15,441,520	262,600,555	32,129,036

The total impairment charge for loans and advances represents individually impaired loans and there was no portfolio provision made. Further information of the impairment allowance for loans and advances is provided in Note 8 and note 17.

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

Table 5	2009		2008	
	Carrying amount	Fair values	Carrying amount	Fair values
K'000				
Past due loans	25,838,000	26,577,178	3,111,000	3,200,000
Impaired loans	42,933,000	23,784,197	29,784,175	16,499,957
	68,771,000	50,361,374	32,895,175	19,699,957

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2009

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Credit Risk (cont'd)

4.1.6 Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payment. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled **ZK10.98 billion** at 31 December 2008 (2008: ZK7.97 billion).

4.1.7 Repossessed collateral

During 2009, the bank obtained assets by taking possession of collateral held as security, as follows:

Table 6	K'000
Nature of assets	Carrying value
Landed properties	13,930,000
Plant and machinery	825,000
Specialised equipment	809,000
Motor vehicles	110,000
Other	
	15,674,000

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.

4.2 Liquidity Risk

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

INVESTRUST BANK PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2009

4. FINANCIAL RISK MANAGEMENT (CONT'D)

4.2.1 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 2008 and 2007 respectively.

4.2.2 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.