
INVESTRUST BANK PLC
(formerly Investrust Bank Limited)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2004

INVESTRUST BANK PLC
(formerly Investrust Bank Limited)
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2004

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INVESTRUST BANK PLC
(formerly Investrust Bank Limited)

REPORT OF THE DIRECTORS

The Directors present their report and the financial statements for the year ended 31 December 2004.

In the previous period, the Bank changed its accounting reference date from the previous 31 March to 31 December with approval from the respective statutory bodies. Accordingly, the comparative figures in these financial statements cover a nine month period from 1 April 2003 to 31 December 2003.

On 6 April 2004, the Bank changed its status from a limited company to a PLC and hence changed its name from Investrust Bank Limited to Investrust Bank PLC. This resulted in the Bank quoting 24.45% of the issued shares on the Lusaka Stock Exchange (LuSE).

ACTIVITIES

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

RESULTS AND DIVIDENDS

The profit after taxation for the year amounted to **K1.95 billion** (nine months to 31 December 2003 – K1.53 billion).

During the year, a dividend of K2.5 billion was declared and paid in respect of the financial period ended 31 December 2003. The directors recommended the payment of a dividend of K0.4 billion for the financial year ended 31 December 2004.

REVIEW OF OPERATIONS

The Bank recorded a growth of 27% in profits after tax of K1.95 billion (9 months to December 2003 – K1.53 billion).

In April 2004, the Bank introduced a new product for personal loans, which has since been well received in the market. This product made a significant contribution to interest income which increased by 78%. In the same month, the Bank opened one more branch in Chipata on the Eastern province.

The first half of 2004 was characterized by a drop in both Treasury bill interest rates and Government Bond yield rates which were well below the inflation rate. This put pressure for the Bank to reduce its lending base from 35% to 30%. Despite this, the Bank recorded the highest growth in the Banking sector in terms of its deposit base. The deposit base increased by 153% with most of the growth occurring in time deposits, current accounts, Cheque Savers & Savings accounts. This was as a result of aggressive marketing effort in various business sectors.

Total assets also increased by 123% compared to a growth of 11% recorded in 2003. Major increases were in Loans and advances, Leases and Government Securities.

THE BOARD OF DIRECTORS AND COMMITTEES

The details of board members and the various board committees are as follows;

Directors

The Directors who held office during the period were:

Dr. J.B. Zulu	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director
Mr. R.L. Bvulani	-	Non-executive
Mr. M.M. McNie	-	Non-executive
Mr. J.M. Mwanakatwe, S.C.	-	Non-executive (retired February 2004)

INVESTRUST BANK PLC
(formerly Investrust Bank Limited)

REPORT OF THE DIRECTORS (CONT'D)

Directors (Cont'd)

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

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

	<u>No. of shares</u>		<u>% Shareholding</u>	
	2004	2003	2004	2003
Mr. F.C. Ndhlovu	657,666,667	493,250,000	22.19	16.64
Mr. R.L. Bvulani	663,343,867	497,507,900	22.38	16.79
Mr. J.B. Zulu	297,333,333	223,000,000	10.03	7.52

Audit committee

The Audit Committee during the year was made up of the following:

Mr. R.L. Bvulani	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director
Mr. J.M. Mwanakatwe, S.C.	-	Retired February 2004
Mr. A. Kalikiti	-	Company Secretary
Mr. M.C. McNie	-	Appointed November 2004

The Audit Committee includes non Executive Directors of the Bank in accordance with the Banking and Financial Services Act, 1994, (as amended). The Committee meets every quarter to review the Bank's operations, Internal Audit Department findings, compliance reports, and reports on the effectiveness of the Bank's systems of internal control.

Credit committee

The Management Credit Committee is made up of the following:

Mr. F.C. Ndhlovu	-	Managing Director
Mr. A.E.V. Jayetileke	-	Head - Corporate Relations
Mr. Z. Zimba	-	Head - Treasury
Mr. R. Phiri	-	Head - Corporate Finance and Credit
Mr. P. Msoni	-	Head - Marketing
Mr. T.N. Daka	-	Head - Operations
Mr. A.P.R. de Zoysa	-	Head - International Relations
Mr. A. Kalikiti	-	Company Secretary

The Management Credit Committee is responsible to the Board for the approval and extension of advances. The Committee meets as and when required to discuss credit issues and approval, and makes recommendation for loans and advances.

INVESTTRUST BANK PLC
(formerly Investrust Bank Limited)

REPORT OF THE DIRECTORS (CONT'D)

Loan review committee

The Loans Review committee comprises the following:

Dr. J.B. Zulu	-	Chairman
Mr. F.C. Ndhlovu	-	Managing Director
Mr. R.L. Bvulani	-	Non Executive Director
Mr. A. Kalikiti	-	Company Secretary

The Loans Review Committee which is constituted in accordance with the Banking and Financial Services Act, 1994, (as amended), meets every quarter to review the quality and collectibility of the bank's loan portfolio, including any accrued and unpaid interest. Reports of such loan reviews are made for the Board of Director's necessary action.

Asset and liabilities committee

The Committee comprises the following:

Mr. F.C. Ndhlovu	-	Managing Director
Mr. A.E.V. Jayetileke	-	Head - Corporate Relations
Mr. Z. Zimba	-	Head - Treasury
Mr. R. Phiri	-	Head - Corporate Finance and Credit
Mr. P. Msoni	-	Head - Marketing
Mr. T.N. Daka	-	Head - Operations
Mr. A.P.R. de Zoysa	-	Head - International Relations
Mr. H. Mafuta	-	Chief Accountant
Mr. A. Kalikiti	-	Company Secretary

The Committee meets on a regular basis to review and approve investment decisions and issues relating to liquidity.

Renumeration and nominations committees

The duties of these two committees have been performed by the board in view of the small number of issues to be dealt with.

INVESTMENT IN FIXED ASSETS

The Bank purchased tangible fixed assets amounting to **K2.4 billion** during the period. The assets acquired related mainly to a Branch opened in Chipata and the renovations of the Savings Centre at Head Office and Kitwe Branches.

Tangible fixed assets with a net book value of **K31 million** were disposed of in the period.

INVESTTRUST BANK PLC
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REPORT OF THE DIRECTORS (CONT'D)

EMPLOYEES

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

January	76
February	77
March	77
April	85
May	87
June	89
July	100
August	102
September	103
October	107
November	110
December	111

The total remuneration paid to the employees during the year was **K8.5 billion** (nine months to 31 December 2003: K4.8 billion).

RELATED PARTY TRANSACTIONS

As required by the Zambian Banking and Financial Services Act, 1994 (as amended) related party transactions are disclosed in the financial statements.

DONATIONS

The Bank made donations during the year amounting to **K68 million** (nine months to 31 December 2003: K30 million).

FUTURE DEVELOPMENTS

In 2005 the Bank plans to open savings centres at its Head Office and Kitwe branches.

SHARE CAPITAL

There was no change to the authorised and issued share capital of **K3 billion** during the period.
However, 741,000,000 shares previously held by one of the shareholders were sold to the remaining shareholders on a prorata basis.

AUDITORS

Messrs Deloitte & Touche's term of office comes to end at the next Annual General Meeting, a resolution proposing their re-appointment as auditors and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By order of the Board.

A. Kalikiti
SECRETARY

Lusaka, Zambia

INVESTRUST BANK PLC

(formerly Investrust Bank Limited)

STATEMENT ON CORPORATE GOVERNANCE

Investrust Bank plc is committed to the principles of openness, integrity and accountability.

Board of Directors

The board currently comprises 4 directors, including 3 independent non-executive directors. The board composition is balanced so that no one individual or small group can dominate decision taking. The depth of experience and diversity of the board ensures that robust and forthright debate on all issues of material importance to the Company occurs.

The roles of Chairman and CEO are separate and no individual has unfettered control over decision-making. The chairman is an independent non-executive director appointment by the board.

The board is responsible to shareholders for setting of strategy direction, monitoring of operational performance and management, risk management processes and policies, compliance and setting of authority levels as well 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 has adopted risk management framework and is responsible for the review of risk management processes in the Bank and ensures that board policies and decisions on risk are properly implemented.

The Investrust board meets at least quarterly. During the past financial year it met three times, and held several additional telephonic meetings.

BOARD COMMITTEES

The Board is assisted in the discharge of its responsibilities by a number of sub-committees. These committees are accountable to the board, with the exception of the management committee which reports to the CEO. Minutes of sub-committee meetings are circulated and reported on at the following board meeting. Senior management staff are invited to attend meetings where appropriate.

Audit Committee

The Audit committee is chaired by Mr. R.L Bvulani, a non-executive director of Investrust Bank plc. It assists the Board in the discharge of its duties relating to financial reporting to all stakeholders, compliance, risk management and the effectiveness of accounting and management information systems. For practical reasons, the Board has decided that the members of the Audit committee will also discharge the functions of the Board Risk Committee, as opposed to having a separate Board Risk Committee.

Meetings are held regularly throughout the year and are attended by the internal auditors as well as senior management where necessary. The committee met three times in 2004. Issues addressed include the review of accounting policies, internal and external audit functions, IT risks, business continuity plans, financial reporting, operational risks, risk management, compliance and the adequacy of management information.

INVESTRUST BANK PLC

(formerly Investrust Bank Limited)

STATEMENT ON CORPORATE GOVERNANCE - CONT'D

Loans Review Committee

The Loans Review Committee is chaired by Mr. 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 2004, the committee met three times to review the quality and collectibility of the Bank's loan portfolio, including any accrued and unpaid interest. Reports of such loan reviews are made for the Board of Director's necessary action.

Organisational Ethics and Business Integrity

The issue of good governance and ethical conduct is critical to counterparty and investor perceptions of a banking group particularly in Africa. Investrust Bank plc strives to ensure that our integrity and professional conduct is beyond reproach at all times. 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 any inappropriate or fraudulent behaviour of management or staff at any level.

INVESTRUST BANK PLC

(formerly Investrust Bank Limited)

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Section 164 (6) of the Companies Act, 1994 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 annual financial statements and their unqualified report appears on page 9.

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 period under review.

The annual financial statements are prepared on going concern basis. Nothing has come to the attention of the Directors to indicate that the Company 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 2004;
- 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 2004; and
- there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

Signed on behalf of the Board by:

_____)	DR. J.B. ZULU	-	CHAIRMAN
_____)			
_____)			
_____)	R.L. BVULANI	-	DIRECTOR
_____)			

REPORT OF THE AUDITORS

To the members of
Investrust Bank Plc
(formerly Investrust Bank Limited)

We have examined the financial statements on pages 10 to 31 which have been prepared on the basis of accounting policies on pages 14 to 18.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 8, the Bank's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed. We consider that our audit procedures were appropriate in the circumstances to support our opinion presented below.

OPINION

We have examined the financial statements on pages 10 to 31 which have been prepared in accordance with International Financial Reporting Standards, and report in terms of Section 64 (2) of the Banking and Financial Services Act, 1994 (as amended) that:

- We have obtained all the information and explanations that we considered necessary for the purpose of our audit;
- The balance sheet and income statement of the Bank are in agreement with the books of account and returns; and
- In our opinion, according to the information and explanations given to us, the financial statements present fairly the state of affairs of the Bank at 31 December 2004 and of the profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act, 1994 and the Banking and Financial Services Act, 1994 (as amended) and that the accounting and other records and registers have been properly kept in accordance with the Acts.

DELOITTE & TOUCHE

2 March 2005

G.R. WHITE

PARTNER

INVESTRUST BANK PLC
(formerly Investrust Bank Limited)

INCOME STATEMENT

for the year ended 31 December 2004

Kwacha '000	NOTES	Year ended 31 December 2004	1 April 2003 to 31 December 2003
INTEREST INCOME			
Interest income	3	13,649,486	7,729,947
Interest expense	4	(4,893,645)	<u>(4,025,026)</u>
Net interest income		8,755,841	3,704,921
Other operating income			
Gains from foreign currency dealings		6,932,720	6,060,077
Fees and commissions receivable		2,764,279	1,044,869
Other operating income		1,321,556	511,245
Gains on Government Securities		-	<u>767,772</u>
Net interest income and other operating income		19,774,396	<u>12,088,884</u>
OPERATING EXPENSES			
Staff expenses		(8,550,883)	(4,805,213)
Depreciation	18	(559,092)	(518,323)
Other operating expenses		(6,489,594)	<u>(4,122,721)</u>
		(15,599,569)	<u>(9,446,257)</u>
Operating income before finance charges and provisions		4,174,827	2,642,627
Finance lease charges	22	-	(1,367)
Loan loss provision	5	(1,026,121)	<u>(899,708)</u>
Profit before exceptional item and taxation		3,148,706	1,741,552
Exceptional item	6	-	<u>380,281</u>
Profit before taxation		3,148,706	2,121,833
Taxation	7	(1,202,525)	<u>(590,313)</u>
PROFIT FOR THE PERIOD		1,946,181	<u>1,531,520</u>
Earnings per share		K0.66	<u>K0.52</u>

Earnings per share is based on earnings after taxation of **K 1,946 billion**, (2003 : K1,531 billion), divided by the number of ordinary shares in issue during the period of **2,964,000,000** (2003: 2,964,000,000)

INVESTRUST BANK PLC

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STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004

Kwacha '000	Share capital	Share premium	Statutory reserves	General banking reserves	Revaluation reserves	Revenue reserves	Dividend reserves	Total
Balance at 1 April 2003	2,964,000	2,528,461	1,543,284	-	1,341,074	311,329	-	8,688,148
Profit for the period	-	-	-	-	-	1,531,520	-	1,531,520
Transfer from revaluation reserves	-	-	-	-	(2,192,031)	2,192,031	-	-
Transfer from revenue reserves	-	-	306,304	200,603	-	(506,907)	-	-
Deferred taxation (note 8)	-	-	-	-	1,013,537	-	-	1,013,537
Balance at 31 December 2003	2,964,000	2,528,461	1,849,588	200,603	162,580	3,527,973	-	11,233,205
Profit for the period	-	-	-	-	-	1,946,181	-	1,946,181
Transfer from revaluation reserves	-	-	-	-	(6,071)	6,071	-	-
Transfer to revenue reserves	-	-	-	(200,603)	-	200,603	-	-
Transfer from revenue reserves	-	-	389,236	-	-	(389,236)	-	-
Deferred taxation (note 8)	-	-	-	-	2,785	-	-	2,785
Dividends proposed and declared	-	-	-	-	-	(2,930,729)	2,930,729	-
Dividends paid	-	-	-	-	-	-	-	-
- in respect of previous year	-	-	-	-	-	-	(2,456,489)	(2,456,489)
- in respect of current year	-	-	-	-	-	-	-	-
Balance at 31 December 2004	2,964,000	2,528,461	2,238,824	-	159,294	2,360,863	474,240	10,725,682

STATUTORY RESERVES

The Banking and Financial Services Act, 1994 prescribes that an amount should be transferred annually from retained earnings to statutory reserves before the declaration of dividends until the statutory reserves equate to the share capital.

INVESTRUST BANK PLC
(formerly Investrust Bank Limited)

BALANCE SHEET
at 31 December 2004

Kwacha '000	NOTES	31 December 2004	31 December 2003
ASSETS			
Cash and balances at Bank of Zambia	9	21,775,714	14,611,558
Balances with other Banks, all due within one year		32,919,935	13,605,081
Held to maturity investments	10	37,250,198	20,933,783
Other assets	14	5,514,870	3,553,689
Originated loans and advances	15	41,886,676	7,627,177
Finance lease receivables	16	11,419,560	6,146,722
Taxation recoverable	7	880,643	584,583
Available for sale asset	17	87,398	87,398
Tangible fixed assets	18	4,302,570	2,518,689
Total assets		<u>156,037,564</u>	<u>69,668,680</u>
LIABILITIES			
Customer deposits	20	119,223,702	47,183,974
Other liabilities	21	24,157,649	10,210,612
Finance lease payables	22	8,093	19,127
Deferred taxation	8	1,922,438	1,021,762
		<u>145,311,882</u>	<u>58,435,475</u>
SHAREHOLDERS' FUNDS			
Share capital	23	2,964,000	2,964,000
Share premium		2,528,461	2,528,461
Statutory reserves		2,238,824	1,849,588
General banking reserves		-	200,603
Revaluation reserves		159,294	162,580
Dividend reserves		474,240	
Revenue reserves		2,360,863	3,527,973
Total shareholders' funds		<u>10,725,682</u>	<u>11,233,205</u>
Total shareholders' funds and liabilities		<u>156,037,564</u>	<u>69,668,680</u>

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 8. The financial statements on pages 10 to 31 were approved by the Board of Directors on **2 March 2005** and were signed on its behalf by:

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

INVESTRUST BANK PLC
(formerly Investrust Bank Limited)

STATEMENT OF CASH FLOWS
for the year ended 31 December 2004

Kwacha '000	NOTES	Year ended 31 December 2004	1 31 De
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		3,148,706	
Adjusted for:			
Depreciation	18	559,092	
Loss (profit) on disposal of tangible fixed assets		10,228	
Unrealised exchange (gains) losses on investments		(20,498)	
Finance lease charges	22	-	
Unrealised exchange losses (gains) on finance lease payab	22	521	
Operating profit before changes in operating funds		3,698,049	
Increase in held to maturity investments		(16,439,107)	
Redemption of investments		143,190	
(Increase) decrease in other assets		(1,961,181)	
Increase in originated loans		(34,259,499)	
Increase in finance lease receivables		(5,272,838)	
Increase in customer deposits		72,039,728	
Increase (decrease) in other liabilities		13,947,037	
Cash generated from operations		31,895,379	
Income tax paid and suffered during period	7	(595,124)	
Cash generated from operating activities		31,300,255	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets	18	(2,374,475)	
Proceeds on disposal of tangible fixed assets		21,274	
Net cash outflows to investing activities		(2,353,201)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease finance repaid	22	(11,555)	
Dividends paid		(2,456,489)	
Net cash outflows from financing activities		(2,468,044)	
Net increase in cash and cash equivalents		26,479,010	
Cash and cash equivalents at beginning of period		28,216,639	
Cash and cash equivalents at end of period		54,695,649	
CASH AND CASH EQUIVALENTS			
Cash and balances at Bank of Zambia		21,775,714	
Balances due from other banks		32,919,935	
		54,695,649	

April 2003 to
December 2003

2,121,833

518,323

(405,486)

67,500

1,367

(4,213)

2,299,324

(6,812,797)

144,000

929,392

(1,850,549)

(873,554)

13,314,677

(5,375,448)

1,775,045

(510,304)

1,264,741

(1,442,633)

4,026,523

2,583,890

(38,969)

-

(38,969)

3,809,662

24,406,977

28,216,639

14,611,558

13,605,081

28,216,639

INVESTRUST BANK PLC
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ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Bank's financial statements are prepared on the historical cost basis of accounting, modified to include the revaluation of certain tangible fixed assets, and comply with operative International Financial Reporting Standards.

These financial statements are presented in Zambian Kwacha in units of thousands of Kwacha.

INCOME

Interest income and commissions receivable are accounted for in the period in which they arise. Interest income is suspended when non-performing loans meet certain criteria as set out per the Banking and Financial Services Act, 1994, as amended, and is excluded from interest income until received.

TRANSLATION OF FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into Zambian Kwacha at the rates of exchange ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are translated into Kwacha at the exchange rates ruling at the balance sheet date. Gains and losses arising on translation are included in the income statement in the period in which they arise.

TAXATION

The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowable. Temporary differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of temporary differences computed by applying enacted statutory tax rates to differences between the financial statements carrying amounts and the tax bases of existing assets and liabilities are recognised as a deferred tax asset or liability in the financial statements. A deferred tax asset is only recognised when it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks and amounts due from other banks.

INVESTMENTS

Held to maturity investments

Held to maturity investments are trading investments of the Bank and include Treasury bills, Government bonds and other loans such as debentures. These are stated at cost as adjusted for the amortisation of premiums or discounts on purchase over the period to maturity. A reduction in market value is not taken into account until it is considered to be permanent.

Available for sale assets

Available for sale assets are stated at fair value, but are written down to their estimated realisable value if there has been a permanent diminution in their value. Income from investments is included in the financial statements when amounts are received.

ACCOUNTING POLICIES (CONT'D)

ORIGINATED LOANS AND ADVANCES

Loans originated by the Bank by providing money directly to the borrower are categorised as originated loans and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan, are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairment; subsequent recoveries are credited to the provision for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

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.

FINANCE LEASE RECEIVABLES

Finance lease receivables are stated at cost of the asset less amounts charged to date. Net leasing income under finance leases is credited to the income statement so as to produce a constant periodic rate of return of the net investment outstanding.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated in the balance sheet at cost or valuation less depreciation. Revaluations of leasehold properties are carried out periodically. Gains and losses on disposal of fixed assets are determined by reference to their carrying amounts.

Depreciation is charged to write off the cost or valuation of tangible fixed assets over their expected useful lives on a straight line basis, at the following annual rates:

Leasehold land and buildings	2%
Furniture and fixtures	10%
Leasehold land improvements	20%
Motor vehicles	25%
Office equipment	25%

INVESTRUST BANK PLC

(formerly Investrust Bank Limited)

ACCOUNTING POLICIES (CONT'D)

TANGIBLE FIXED ASSETS AND DEPRECIATION (CONT'D)

Leasehold improvements are written off over the shorter of the period of the lease or the economic life of the asset.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Material profits or losses on disposal of tangible fixed assets are determined by preference to their carrying amount and are taken into account in determining operating profit.

Expenditure on fixed assets which are under construction is classified as work-in-progress.

LEASED ASSETS

Tangible fixed assets held under finance leases are capitalised and depreciated in accordance with the Bank's normal depreciation policy. The lease payments are apportioned between reduction of the outstanding liability and interest in such a way as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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 retained earnings.

RETIREMENT 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's contributions to the defined contribution pension plan are charged to the income statement in the period in which they arise.

PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events. In addition it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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 balance sheet date.

INVESTRUST BANK PLC
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ACCOUNTING POLICIES (CONT'D)

COMPARATIVES

Where necessary, minor adjustments have been made to comparative figures to conform with changes in presentation in the current period.

RISK MANAGEMENT POLICIES

From time to time the Board reviews the risk management policies. The following is the current position:

i. **Credit Risk**

Lending is restricted to a percentage of deposit liabilities which is computed on a weekly basis, in order to ensure that no fresh loans and advances are approved when the existing advances exceed the above limit.

Proper appraisals are carried out for all requests for loans and advances and adequately documented before being forwarded for approval.

ii. **Liquidity Risk**

This is monitored on a daily basis by the Treasurer in consultations with the Chief Accountant 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.

Any unforeseen mismatches that arise would result in the Bank borrowing on the interbank market either on a clean basis or with collateral for a short period.

iii. **Operational Risk**

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

iv. **Market Risk**

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

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

v. **Strategic Risk**

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

ACCOUNTING POLICIES (CONT'D)

RISK MANAGEMENT POLICIES (CONT'D)

vi. Regulatory Risk

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

vii. Legal Risk

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

viii. Foreign Exchange Risk

The Bank is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, British Pound, EURO and South African Rand. Treasury is responsible for hedging the net position in each currency by using currency borrowings and derivatives.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank of Zambia sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. A table in the appendices summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

ix. Interest Rate Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

INVESTRUST BANK PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2004

Kwacha'000

5 LOAN LOSS PROVISION

	2004	2003
At beginning of the period	6,059,748	4,492,604
Charge for the period	959,999	846,903
Amounts written off in the period against provisions	(6,096,693)	(897,476)
Interest suspended during the period	1,715,997	1,814,338
Recoveries in the period	(136,926)	(196,621)
At end of the period (note 15)	<u>2,502,125</u>	<u>6,059,748</u>

Loan loss provision in the income statement is made up as follows:

Provision for the period	959,999	846,903
Amounts written off in the period	66,122	52,805
	<u>1,026,121</u>	<u>899,708</u>

6 EXCEPTIONAL ITEM

In the previous period, the exceptional item related to the disposal of head office premises to a third party. The movement on the account was as follows:

Revalued amount	-	3,848,485
Accumulated depreciation	-	(228,766)
Net book value at time of disposal	-	3,619,719
Disposal proceeds	-	(4,000,000)
Profit on disposal	-	(380,281)

This building was previously revalued in 1999 and 2001 resulting in a combined revaluation surplus of K2.76 billion. A transfer of K1 billion was effected from revaluation reserves to the revenue reserves on account of this disposal.

During 2003, prior to its disposal, the building was revalued by Knight Frank Zambia Limited, a firm of independent property valuers at K3.95 billion. The Directors considered K4 billion to be the fair value of the property and thus consider the full recognition of the profit arising on disposal to be appropriate.

The Bank however continues to occupy the premises for a period of five years during which they will pay the purchaser an economic rent based on prevailing market prices.

INVESTRUST BANK PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2004

Kwacha'000

7 TAXATION

	2004	2003
Income tax		
Based on interest on Government bonds	285,705	244,704
Based on non banking profits	13,359	11,134
	299,064	255,838
Deferred taxation (note 8)	903,461	334,475
	1,202,525	590,313

Income tax is charged at 35% on the first K250 million profit and at 45% on profits in excess of K250 million. Final tax on Government bonds is 15%. All non banking profits are taxed at 35%.

The taxation recoverable has been derived as follows:

Payable in respect of period	299,064	255,838
Recoverable in respect of previous periods	(584,583)	(330,117)
	(285,519)	(74,279)
Income tax payments made	(299,917)	(247,415)
Withholding tax suffered during period	(295,207)	(262,889)
Total paid	(595,124)	(510,304)
Taxation recoverable	(880,643)	(584,583)

Subject to agreement with the Zambia Revenue Authority, the Bank has tax losses amounting to approximately **K3.59 billion** (as at 31 December 2003: K3.25 billion) available to be carried forward for a period of not more than 5 years from the year in which they are incurred for set off against future taxable profits from the same source. These losses will expire as follows:

31 December 2004 tax losses to expire on 31 December 2009	337,687	-
31 December 2003 tax losses to expire on 31 December 2008	902,875	902,875
31 March 2003 tax losses to expire on 31 March 2008	2,354,000	2,354,000
	3,594,562	3,256,875

INVESTRUST BANK PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2004

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7 TAXATION (CONT'D)

	2004	2003
Reconciliation of the tax charge:		
Profit before taxation	<u>3,148,706</u>	<u>2,121,833</u>
Taxation at current rates on accounting profit	1,416,918	954,825
Permanent differences:		
Disallowable expenses	412,535	153,739
Interest on Government Bonds	(571,410)	(489,408)
Rental	(3,817)	(3,181)
Difference arising on differentials in rates	(25,001)	(25,001)
Other opening adjustments	188,955	
Temporary differences:		
Capital allowances and depreciation	(352,105)	(61,765)
Taxation loss	179,243	406,092
Finance lease repayments	51,054	29,837
Finance lease receivables	(901,263)	(805,345)
Other provisions	<u>(96,045)</u>	<u>96,045</u>
Actual tax	<u>299,064</u>	<u>255,838</u>

8 DEFERRED TAXATION

Tax effect of timing differences due to:

Temporary differences on fixed assets	234,479	125,313
Finance lease receivables	3,141,235	2,239,972
Finance lease payables	27,775	78,829
Tax losses carried forward	(1,617,553)	(1,465,594)
Other provisions	<u>-</u>	<u>(96,045)</u>
	1,785,936	882,475
Revaluation surplus	<u>136,502</u>	<u>139,287</u>
Total potential liability provided	<u>1,922,438</u>	<u>1,021,762</u>

The movement in the deferred tax balance has been accounted for as follows:

On other differences charged to the income tax for the period	<u>903,461</u>	<u>334,475</u>
On revaluation surplus credited charged to the revaluation reserve	<u>(2,785)</u>	<u>(1,013,537)</u>

INVESTRUST BANK PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2004

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9 CASH AND BALANCES AT BANK OF ZAMBIA

	2004	2003
Balances at Bank of Zambia:		
Statutory deposit	12,541,345	3,577,271
Current account	3,654,502	3,443,802
	16,195,847	7,021,073
Cash on hand	5,579,867	7,590,485
	21,775,714	14,611,558

From time to time Bank of Zambia prescribes the minimum required statutory deposit ratio as a means of protecting customers' deposits. The statutory deposits are not available for the Bank's day-to-day operations.

10 HELD TO MATURITY INVESTMENT

Treasury bills (note 11)	24,994,845	13,484,198
Government bonds (note 12)	11,401,545	6,473,085
Other loans (note 13)	853,808	976,500
	37,250,198	20,933,783

11 TREASURY BILLS

Face value

Maturity period		
29 - 91 days	4,850,000	11,500,000
183 - 273 days	20,810,000	2,500,000
	25,660,000	14,000,000
Less: unearned discount	(665,155)	(515,802)
	24,994,845	13,484,198

A total of **K11.6 billion** was sold to customers under Repurchase Agreements as at 31 December 2004 (31 December 2003 – K14 billion).

INVESTRUST BANK PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
for the year ended 31 December 2004

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12 GOVERNMENT BONDS

	2004	2003
Face value		
Maturity period		
0 - 365 days	4,250,000	370,000
366 - 547 days	5,750,000	2,000,000
548 - 730 days	1,500,000	4,638,090
	11,500,000	7,008,090
Less: unearned discount	(98,455)	(535,005)
	11,401,545	6,473,085

A total of **K10 billion** was sold to customers under Repurchase Agreements as at 31 December 2004 (31 December 2003 - K5.2 billion).

Maturity analysis:

Due within one year	8,151,545	4,828,090
Due after more than one year	3,250,000	1,644,995
	11,401,545	6,473,085

13 OTHER LOANS

At cost:

At the beginning of the period	976,500	1,188,000
Unrealised exchange gains (losses)	20,498	(67,500)
Repayments during the period	(143,190)	(144,000)
At end of the period	853,808	976,500

The Bank has invested in different classes of debentures denominated in US Dollars. The debentures bear a 5% coupon rate per annum and are carried at cost, equivalent to their fair value. The debentures are non-convertible and are secured by a fixed and floating charge over all the assets of the borrower. They are redeemable as follows:

	US\$
2005 June	30,000
2006 June	150,000
Total	180,000