CAVMONT CAPITAL BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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The directors submit their report together with the audited financial statements for the year ended 31 December 2009, which disclose the state of affairs of the bank.

PRINCIPAL ACTIVITIES

Cavmont Capital Bank is engaged in the business of banking and the provision of related services. The bank had 13 branches at 31 December 2009.

RESULTS AND DIVIDEND

The loss for the year of K1, 635 million has reduced retained earnings. The directors do not recommend the payment of a dividend.

	2009 K million	2008 K million
Net interest income	13,871	12,136
(Loss)/profit for the year	(1,635)	1,972

DIRECTORS

The directors who held office during the year and to the date of this report were:

Wila D Mung'omba	-	Chairman
Johannes B Minnaar	-	Managing Director (appointed 1 February 2010)
Thomas F Ryan		
Johannes Swanepoel		
Jacobus C Brandt		
Chitupa Muzariri (Mrs)		
Joseph Ngosa		
Chad Kaunda	-	(Deceased on 01 April 2010)

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees during the year amounted to K14,864 million (2008: K13,498 million) and the average number of employees was as follows:

Month	Number	Month	Number
January	140	July	145
February	143	August	144
March	145	September	145
April	144	October	145
May	145	November	145
June	146	December	147

The bank has policies and procedures to safeguard the occupational health, safety, and welfare of its employees.

RESEARCH AND DEVELOPMENT

The bank did not carry out any research and development in the year.

GIFTS AND DONATIONS

During the year the bank made donations of K23 million (2008: K35 million) to various charitable organisations and events.

PROPERTY AND EQUIPMENT

The bank purchased property and equipment amounting to K13,920 million (2008: K4,884 million) during the year. In the opinion of the directors, the carrying value of property and equipment is not more than their recoverable value.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 27 of the financial statements.

DIRECTORS' EMOLUMENTS AND INTERESTS

Directors' emoluments and interests are disclosed in Note 27 to the financial statements.

PROHIBITED BORROWINGS OR LENDING

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

RISK MANAGEMENT AND CONTROL

The bank through its normal operations is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. The bank's risk management objectives, policies and strategies are disclosed in Note 4 of the financial statements.

COMPLIANCE FUNCTION

The bank has a compliance function whose responsibility is to monitor compliance with the regulatory environment and the various internal control processes and procedures.

KNOW YOUR CUSTOMER AND MONEY LAUNDERING POLICIES

The bank has a well established 'Know Your Customer' (KYC) policy and money laundering policies and adheres to current legislation in these areas.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the annual general meeting.

By order of the Board

SECRETARY

14th MAY 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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Stand Number 2374
Thabo Mbeki Road
P O Box 30942
Lusaka, Zambia
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www.pwc.com/zm

The Zambia Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Zambia Companies Act and the Banking and Financial Services Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the bank will not remain a going concern for at least twelve months from the date of this statement.

Director

Director

14th MAY 2010

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P O Box 30942
Lusaka, Zambia
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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF CAVMONT CAPITAL BANK LIMITED

Report on the financial statements

We have audited the financial statements of Cavmont Capital Bank Limited for the year ended 31 December 2009 set out on pages 6 to 41. These financial statements comprise the balance sheet at 31 December 2009, and the profit and loss account, statement of comprehensive income, 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 to the financial statements.

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 with the requirements of the Zambia Companies Act and the Banking and Financial Services Act. This responsibility includes: designing, implementing and maintaining internal control 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 the 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 our audit to obtain reasonable assurance that 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 judgement, 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 controls 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 the accounting policies used and the reasonableness of accounting estimates made by the directors, 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 opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the bank at 31 December 2009 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Zambia Companies Act and the Banking and Financial Services Act.

A list of Partners is available from the above address

PRICEWATERHOUSECOOPERS

Report on other legal requirements

The Zambia Companies Act requires that in carrying out our audit we consider whether the company has kept the accounting records and other records and registers required by this Act. We confirm that in our opinion the accounting records and other records and registers required by the Zambia Companies Act have been kept by the bank, so far as appears from our examination of those records.

As required by the Banking and Financial Services Act, we confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) no transactions or conditions affecting the well being of the bank have come to our attention that in our opinion are not satisfactory and require rectification;

iii) we are not aware of any transaction that has not been within the powers of the bank or which was contrary to the Banking and Financial Services Act;

iv) there is no non-performing or restructured loan owing to the bank whose principal amount exceeds 5% of the regulatory capital of the bank;

v) the bank has complied with the provisions of the Banking and Financial Services Act and the regulations, guidelines and prescriptions issued under the Act.

PricewaterhouseCoopers

Chartered Accountants
Lusaka

14TH MAY 2010

Mark Libakeni
Partner

Profit and loss account

	Notes	2009 K millions	2008 K millions
Interest income	5	19,930	17,115
Interest expense	6	(6,059)	(4,979)
Net interest income		13,871	12,136
Impairment losses on loans and advances	12	(1,608)	(2,172)
Net interest income after loan impairment		12,263	9,964
Fee and commission income		9,480	12,343
Foreign exchange income		4,778	6,953
Other income		680	620
Operating expenses	7	(29,910)	(26,522)
(Loss)/ profit before income tax		(2,709)	3,358
Income tax credit/ (expense)	9	1,074	(1,386)
(Loss)/ profit for the year		(1,635)	1,972

Statement of comprehensive income

	Notes	2009 K'millions	2008 K'millions
(Loss)/profit for the year		(1,635)	1,972
Other comprehensive income		-	-
Total comprehensive income for the year		(1,635)	1,972

Balance sheet

	Notes	2009	2008
		K millions	K millions
ASSETS			
Cash and balances with Bank of Zambia	10	32,660	44,485
Placements with other banks	11	14,114	32,524
Loans and advances	12	33,176	19,555
Investment securities - held-to-maturity	13	58,039	62,200
Property and equipment	14	21,230	8,679
Current income tax	9	984	11
Deferred income tax	15	2,594	1,715
Interest receivable and prepayments	16	5,673	3,341
Total assets		168,470	172,510
LIABILITIES			
Customer deposits	17	127,117	134,278
Obligation under finance lease	23	-	209
Convertible loan-Financial liability	18	8,379	8,002
Other liabilities	19	13,556	8,386
Retirement benefit obligations	26	4,599	4,927
Total liabilities		153,651	155,802
EQUITY			
Share capital	20	5,000	5,000
Share premium	20	19	19
Revaluation reserve		380	634
Regulatory -reserve	21	5,000	5,000
Retained earnings		2,106	3,741
Convertible loan-Equity	18	2,314	2,314
Total equity		14,819	16,708
Total equity and liabilities		168,470	172,510

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The financial statements on pages 6 to 41 were approved for issue by the Board of Directors on 14th MAY 2010 and signed on its behalf by:

Director

Director

Director

Secretary

Statement of changes in equity

	Notes	Share capital K millions	Share premium K millions	Revaluation reserve K millions	Regulatory reserve K millions	Retained earnings K millions	Convertible loans K millions	Total K millions
Year ended 31 December 2008								
At start of year		5,000	19	634	5,000	1,769	2,314	14,736
Profit for the year		-	-	-	-	1,972	-	1,972
At end of year		5,000	19	634	5,000	3,741	2,314	16,708
Year ended 31 December 2009								
At start of year		5,000	19	634	5,000	3,741	2,314	16,708
Deferred income tax on revaluation		-	-	(254)	-	-	-	(254)
Loss for the year		-	-	-	-	(1,635)	-	(1,635)
At end of year		5,000	19	380	5,000	2,106	2,314	14,819

Statement of cash flow

	Notes	Year ended 31 December 2009 K millions	2008 K millions
Cash flows from operating activities			
Interest receipts		19,930	17,115
Interest payments		(6,059)	(4,979)
Net fee and commission receipts		8,398	11,723
Foreign exchange receipts		4,778	6,952
Other income received		680	620
Recoveries from loans previously written off	12	1,082	502
Payments to employees and suppliers		(28,564)	(26,895)
Income tax paid	9	(1,032)	(805)
Cash flows from operating activities before changes in operating assets and liabilities		(787)	4,233
Changes in operating assets and liabilities			
Other assets		(4,863)	165
Other liabilities		5,170	316
Cash reserve requirement		5,081	(1,907)
Loans and advances		(13,621)	(4,242)
Customer deposits		(7,161)	27,135
Retirement benefit obligation		328	-
Net cash from operating activities		(15,853)	25,700
Cash flows from investing activities			
Investment in Government securities		4,161	(15,005)
Purchase of property and equipment	14	(13,920)	(4,884)
Proceeds from sale of property and equipment		81	773
Net cash used in investing activities		(9,678)	(19,116)
Cash flows from financing activities			
Convertible loan		377	316
Net cash inflow from financing activities		377	316
(Decrease) / increase in cash and cash equivalents		(25,154)	6,900
Movement in cash and cash equivalents			
At start of year		65,152	58,252
(Decrease) / increase		(25,154)	6,900
At end of year	25	39,998	65,152

Notes to the financial statements

1 General information

The bank is incorporated in Zambia under the Zambia Companies Act as a limited liability company, and is domiciled in Zambia. The bank is registered as a commercial bank under the Banking and Financial Services Act. The address of its registered office is:

Mezzanine Floor, Anchor House
Sapele Road
P O Box 38474
Lusaka, Zambia.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS).The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Zambian Kwacha (K), rounded to the nearest million.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Bank

IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment only results in additional disclosures

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(b) Amendments to existing standards effective in 2009 but not relevant

In 2009, the following amendments to existing standards became effective but are not relevant to the Bank's operations.

IAS 23 (amendment), 'Borrowing costs' - effective from 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset.

IFRS 2 (amendment), 'Share-based payment' - effective from 1 January 2009. It clarifies that vesting conditions are service conditions and performance conditions only. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment

IFRS 8, 'Operating segments' – effective 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The Directors have assessed the relevance of the new standards, interpretations, and amendments to existing standards with respect to the Bank's operations and concluded that they will not have a significant impact on the Bank's financial statements.

c*) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank.*

Two revised standards (IFRS 3 – Business combinations and IAS 27 – Consolidated and separate financial statements) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Bank's accounting periods beginning on or after 1 January 2010, but the Bank has not early adopted any of them.

The Directors have assessed the relevance of the new standards, interpretations, and amendments to existing standards with respect to the Bank's operations and concluded that they will not have a significant impact on the Bank's financial statements.

(b) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the 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 instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(c) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(d) Translation of foreign currencies

Transactions are recorded on initial recognition in Zambia Kwacha, being the currency of the primary economic environment in which the bank operates (the functional currency). Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(e) Financial assets

The bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale assets. Management determines the appropriate classification of its financial assets at initial recognition.

(i) 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 acquired principally for the purpose of selling in the short term. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces or eliminates a measurement inconsistency; or
- they form part of a group of financial assets that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

(ii) Loans, advances and receivables
Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(iii) Held-to maturity
Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Regular way purchases and sales of financial assets held-to-maturity and available-for-sale are recognised on trade-date – the date on which the bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the profit and loss account.

(f) Impairment of financial assets

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a 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 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 asset or group of financial assets that can be reliably estimated. The criteria that the bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

(i) Assets carried at amortised cost

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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Impairment of financial assets(continued)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, 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 instrument'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 profit and loss account. If a loan or held-to-maturity asset 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. on the basis of the bank's grading process that considers 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.

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 exist currently.

When a loan is uncollectible, it is written off against the related provision 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. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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 statements.

(ii) 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 renegotiated terms apply in determining whether the asset is considered to be past due.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(g) Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets .

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account.

Depreciation on other assets is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	50 years
Fixtures, fittings and equipment	4 - 5 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The bank assesses at each reporting date whether there is any indication that any item of property, plant and equipment is impaired. If any such indication exists, the bank estimates the recoverable amount of the relevant assets. 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 flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(h) Income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Tax is recognised in the profit and loss account unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Zambian Income Tax Act.

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(i) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

(i) With the bank as lessee

Leases of property and equipment where the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying 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 non-current liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. Property and equipment acquired under finance leases is depreciated over the estimated useful life of the asset.

(ii) With the bank as lessor

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Bank of Zambia, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Zambia.

(k) Employee benefits

(i) Retirement benefit obligations

Since 31 December 2006 the Bank operates a defined contribution pension plan for all its employees. Benefits from this plan only relates to service subsequent to 31 December 2006. The bank and all its employees also contribute to the National Pension Scheme, which is defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the bank pays fixed contributions into a separate entity. 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 assets of the defined contribution plans are held in separate trustee administered funds, which are funded by contributions from both the bank and employees.

The bank's contributions to the defined contribution schemes are charged to the profit and loss account in the year in which they fall due.

The bank also has a statutory obligation in terms of the Minimum Wages and Conditions of Employment Act.No.276 as amended by SI No.2 of 2004 to pay retirement benefits in respect of years of service rendered by employees prior to the establishment of the defined contribution plan on 31 December 2006 .The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(l) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) 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 recognised in the income statement over the period of the borrowings using the effective interest method.

(m) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(n) Share capital

Ordinary shares are classified as ‘share capital’ in equity. Any premium received over and above the par value of the shares is classified as ‘share premium’ in equity.

(o) Fiduciary activities

The bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the bank.

(p) Acceptances and letters of credit

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

3 Critical accounting estimates and judgements in applying accounting policies

The Banks make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit and loss account, 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 the 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 national or local economic conditions that correlate with defaults on assets in the group.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Impairment losses on loans and advances (continued)

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 its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Held-to-maturity financial assets

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold such assets to maturity. If the bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale.

4 Financial risk management

The bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the bank's business, and the financial risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the Treasury department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. 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, credit risk, use of derivative and non-derivative financial instruments.

(a) Credit risk

The bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the bank by failing to pay amounts in full when due. Credit risk is the most important risk for the bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the credit risk management team in the Advances/credit department, which reports regularly to the Board of Directors.

Risk limit control and mitigation policies

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to annual or more frequent review.

Notes to the financial statements (continued)

4 Financial risk management (continued)

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

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 advanced, 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 assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.
Collateral held as security for financial assets other than loans and advances depends on 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.

Credit related commitments:

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, 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 authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations 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.

Notes to the financial statements (continued)

4 Financial risk management (continued)

Maximum exposure to credit risk before collateral held

	2009		2008	
	K millions	%	K millions	%
Balances with Bank of Zambia	25,884	19.6%	34,559	23.1%
Placements with other banks	14,114	10.7%	32,524	21.8%
Loans and advances to customers	33,176	25.2%	19,555	13.1%
Investment securities: held-to-maturity	58,039	44%	62,200	41.6%
Credit risk exposures relating to off-balance sheet items:				
- Guarantee and performance bonds	636	0.5%	683	0.5%
	131,848	100.0%	149,521	100.0%

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 exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 25.2% of the total maximum exposure is derived from loans and advances to banks and customers (2008: 13.1%). 44% represents investments in Government debt securities (2008: 41.6%).

Loans and advances to customers are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees

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 the following:

- the bank exercises stringent controls over the granting of new loans
- 78% of the loans and advances portfolio are neither past due nor impaired
- 95% of the loans and advances portfolio are backed by collateral
- 100% of the investments in debt securities are government securities.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Financial assets

Financial assets are summarised as follows:

	2009 K millions	2008 K millions
Neither past due nor impaired	28,342	20,819
Past due but not impaired	5,175	630
Individually impaired	3,076	1,104
Gross	36,593	22,553
Less: allowance for impairment (Note 12)	(3,417)	(2,998)
Net	33,176	19,555

Loans and advances past due but not impaired

Loans and advances less than 180 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2009 K millions	2008 K millions
Past due up to 30 days	-	246
Past due 31 – 60 days	-	148
Past due 61 – 90 days	923	197
Past due 91 – 180 days	4,252	39
Total	5,175	630

Loans and advances individually impaired

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

	2009 K millions	2008 K millions
Personal loans	3,076	1,104

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Concentrations of risk

Economic sector risk concentrations within the customer loan portfolio were as follows:

Loans and advances	2009 %	2008 %
Manufacturing	3	6
Wholesale and retail trade	4	13
Transport and communications	18	3
Financial services	1	1
Agricultural	4	2
Restaurant and hotels	2	2
Community, social and personal	3	8
Personal	12	25
Construction	40	26
Other	13	14
	100	100

The Bank had no repossessed collateral as at 31st December 2009 (Nil, 2008).

(c) Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank of Zambia requires that the bank maintain a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Liquidity risk (continued)

The table below presents the undiscounted cash flows payable by the bank under financial Liabilities by remaining contractual maturities at the balance sheet date and from financial assets by expected maturity dates. All figures are in millions of Zambia Kwacha.

At 31 December 2009	Up to 1 month K millions	1-3 months K millions	3-12 months K millions	1-5 years K millions	Total K millions
Liabilities					
Customer deposits	75,163	26,717	27,213	-	129,093
Convertible loan	92	175	818	12,082	13,167
Total financial liabilities (Contractual maturity dates)	75,255	26,892	28,031	12,082	142,260
Assets					
Cash and bank balances with Bank of Zambia	32,660		-	-	32,660
Placements with other banks	8,443	-	-	5,671	14,114
Loans and advances to customers	15,773	1,138	6,522	14,724	38,157
Investment securities		2,374	19,636	36,029	58,039
Total financial assets (expected maturity dates)	56,876	3,512	26,158	56,424	142,970

At 31 December 2008	Up to 1 month K millions	1-3 months K millions	3-12 months K millions	1-5 years K millions	Total K millions
Liabilities					
Customer deposits	85,683	27,242	22,386	-	135,311
Convertible loan	92	175	818	13,260	14,345
Total financial liabilities (Contractual maturity dates)	85,775	27,417	23,204	13,260	149,656
Assets					
Cash and bank balances with Bank of Zambia	21,783	22,702	-	-	44,485
Placements with other banks	32,524	-	-	-	32,524
Loans and advances to customers	16,799	560	5,517	-	22,876
Investment securities	9,027	10,500	12,305	30,368	62,200
Total financial assets (expected maturity dates)	80,133	33,762	17,822	30,368	162,085

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

Currency risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the bank's financial instruments, categorised by currency (all amounts expressed in millions of Zambia Kwacha)

At 31 December 2009	**USD**	**GBP**	**EURO**	**ZAR**	**Total**
	K'million	K'million	K'million	K'million	K'million
Assets					
Cash and balances with Bank of Zambia	8,899	142	8	540	9,589
Placements with other banks	11,574	942	265	243	13,023
Loans and advances to customers	3,469	-	-	-	3,469
Other	2,162	4	265	(6)	2,425
Total assets	26,104	1,088	538	777	28,507
Liabilities					
Customer deposits	21,910	865	57	187	23,019
Other liabilities	1,971	170	285	534	2960
Total liabilities	23,881	1,035	342	721	25,978
Net on-balance sheet position	2,223	53	196	56	2,529
Net off-balance sheet position	-	-	-	-	-
Overall open position	2,223	53	196	56	2,529
At 31 December 2008					
Total assets	27,536	837	1,706		30,079
Total liabilities	29,547	882	1,616		32,045
Net on-balance sheet position	(2,011)	(45)	90		(1,966)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Market risk

Interest rate risk

The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The table below summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The bank does not bear any interest rate risk on off balance sheet items. All figures are in millions of Kwacha.

At 31 December 2009	**Up to 1 month K'million**	**1-3 Months K'million**	**3-12 months K'million**	**Over 1 year K'million**	**Non-Interest bearing K'million**	**Total K'million**
Assets						
Cash and balances with Bank of Zambia					32,660	32,660
Placements with other banks	8,443			5,671	-	14,114
Loans and advances to customers	15,773	1,060	5,017	11,326	-	33,176
Investment securities		2,374	19,636	36,029	-	58,039
Total financial assets	24,216	3,434	24,653	53,026	32,660	137,989
LIABILITIES						
Customer deposits		62,542			64,575	127,117
Borrowings				8,379		8,379
Total financial liabilities		62,542		8,379	64,575	135,496
Interest re-pricing gap	24,216	(59,108)	24,653	44,647	(31,915)	2,493
At 31 December 2008						
Total financial assets	23,387	33,681	17,021	30,368	54,307	158,764
Total financial liabilities		26,804	21,791	8,002	85,683	142,280

Interest re-pricing gap	23,387	6,877	(4,770)	22,366	(31,376)	16,484

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Market risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

(e) Fair values of financial assets and liabilities

The fair value of held-to-maturity investment securities at 31 December 2009 is estimated at K 58,039 million (2008: K 62,200 million) .The fair values of the bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the bank at the balance sheet date.

(f) Capital management

The bank’s objectives when managing capital, which is a broader concept than the ‘equity’ on the balance sheets, are:

- to comply with the capital requirements set by the Banking and Financial Services Act;
- to safeguard the bank’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Zambia for supervisory purposes. The required information is filed with the Bank of Zambia on a monthly basis.

The Bank of Zambia requires each bank to:

(a) hold the minimum level of regulatory capital of K12,000 million;

(b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the ‘Basel ratio’) at or above the required minimum of 10%;

(c) maintain primary or tier 1 capital of not less than 5% of total risk weighted assets; and

(d) maintain total capital of not less than 10% of risk- weighted assets plus risk-weighted off-balance sheet items.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(f) Capital management (continued)

The bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (primary capital): common shareholders' equity, qualifying preferred shares and minority interests in the equity of subsidiaries that are less than wholly owned.
- Tier 2 capital (secondary capital): qualifying preferred shares, 40% of revaluation reserves, subordinated term debt or loan stock with a minimum original term of maturity of over five years (subject to a straight-line amortisation during the last five years leaving no more than 20% of the original amount outstanding in the final year before redemption) and other capital instruments which the Bank of Zambia may allow. The maximum amount of secondary capital is limited to 100% of primary capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the company at 31 December:

	2009 Kmillions	2008 Kmillions
Tier 1 capital	14,878	21,103
Tier 1 + Tier 2 capital	23,029	23,671
Risk-weighted assets		
On-balance sheet	168,470	172,510
Off-balance sheet	636	683
Total risk-weighted assets	169,106	173,193
Basel ratio		
Tier 1 (Regulatory minimum – 5%)	9%	12%
Tier 1+ Tier 2 (Regulatory minimum – 10%)	14%	14%

5 Interest income

	2009 K millions	2008 K millions
Loans and advances	8,334	7,208
Government securities	10,262	6,786
Cash and short term funds	1,334	3,121
	19,930	17,115

Notes to the financial statements (continued)

6 Interest expense

	2009 K millions	2008 K millions
Customer deposits	4,023	3,396
Related parties provisions and advances (Note 27)	1,462	1,404
Others	574	179
	6,059	4,979

7 Expenses by nature

The following items are included within operating expenses

	2009 K millions	2008 K millions
Employee benefits expense (Note 8)	14,864	13,498
Depreciation of property and equipment (Note 14)	1,346	1,433
Profit on sale of property and equipment	(58)	(27)
Operating lease rentals	849	70
Auditors' remuneration	461	272
Other operating expenses	12,448	11,276
	29,910	26,522

8 Employee benefits expense

	2009 K millions	2008 K millions
The following items are included within employee benefits expense:		
Wages and salaries	13,882	12,701
CCBL pension scheme contributions	590	478
National Pension Scheme Authority	392	319
	14,864	13,498

9 Income tax expense

	2009 K millions	2008 K millions
Current income tax	59	1,958
Deferred income tax (Note 15)	(1,133)	(572)
Expense for the year	(1,074)	1,386

The tax on the bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2009 K millions	2008 K millions
(Loss)/profit before income tax	(2,709)	3,358
Tax calculated at the statutory income tax rate of 40% (2008: 40%)	(985)	1,343
Tax effect of:		
Expenses not deductible for tax purposes	65	43
Effect of income taxed at 35%	59	-
Overprovision of deferred tax in previous year	(213)	-
Income tax expense	(1,074)	1,386

Notes to the financial statements (continued)

9 Income tax expense (continued)

Current income tax movement in the balance sheet

	2009 K millions	2008 K millions
At start of year	(11)	(1,164)
Expense for the year	59	1,958
Payments during the year	(1,032)	(805)
At end of year	(984)	(11)

10 Cash and balances with Bank of Zambia

	2009 K millions	2008 K millions
Cash in hand	6,776	9,926
Other money market placements	-	22,702
Balances with Bank of Zambia	25,884	11,857
	32,660	44,485

11 Placements with other banks

	2009 K millions	2008 K millions
Items in course of collection (Placements)	14,114	32,524

12 Loans and advances

	2009 K millions	2008 K millions
Overdrafts	23,794	15,696
Personal loans	10,426	6,281
Staff loans	2,373	576
Gross loans and advances	36,593	22,553
Less: Provision for impairment of loans and advances		
- Individually assessed	(3,076)	(1,104)
- Collectively assessed	(341)	(1,894)
	33,176	19,555

Notes to the financial statements (continued)

12 Loans and advances (continued)

Movements in provisions for impairment of loans and advances are as follows:

Loans and advances		
At start of year	2,998	2,481
Provision for loan impairment	1,608	2,172
Amounts recovered during year	(1,082)	(502)
Amounts written off	(107)	(1,153)
At end of year	3,417	2,998

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2009 was K2,731 million (2008: K1,104 million).

13 Investment securities

	2009 K millions	2008 K millions
Securities held-to-maturity		
Government securities – at amortised cost		
- Maturing within 90 days of the date of acquisition	2,374	9,027
- Maturing after 90 days of the date of acquisition	55,665	53,173
	58,039	62,200

Notes to the financial statements (continued)

14 Property and equipment

	Buildings K millions	Leasehold Improve-ments K millions	Motor vehicles K millions	Fixtures, fittings & equipment K millions	Capital work in progress K millions	Total K millions
Year ended 31 December 2008						
Net book value						
At start of year	2,492	427	1,237	1,613	205	5,974
Additions	66	57	795	1,430	2,536	4,884
Transfers	35	-	-	-	(35)	-
Disposals	-	-	(746)	-	-	(746)
Depreciation charge	(51)	(108)	(205)	(1,069)	-	(1,433)
At end of year	2,542	376	1,081	1,974	2,706	8,679
At 31 December 2008						
Cost or valuation	2,687	1,402	2,508	7,389	2,706	16,692
Accumulated depreciation	(145)	(1,026)	(1,426)	(5,415)	-	(8,012)
Net book amount	2,542	376	1,081	1,974	2,706	8,679
Year ended 31 December 2009						
Net book value						
At start of year	2,542	376	1,081	1,974	2,706	8,679
Additions	76	11		490	13,343	13,920
Transfers		-	-	-		-
Disposals	-	-		(23)	-	(23)
Depreciation charge	(54)	(238)	(347)	(707)	-	(1,346)
At end of year	2,564	149	734	1,734	16,049	21,230
At 31 December 2009						
Cost or valuation	2,763	1,413	2,508	7,856	16,049	30,591
Accumulated depreciation	(199)	(1,264)	(1,774)	(6,122)	-	(9,359)
Net book amount	2,564	149	734	1,734	16,049	21,230

Notes to the financial statements (continued)

14 Property and equipment (continued)

Buildings were last revalued during 2007 by FM Fumbeshi and Company Valuators and property consultants. Valuations were made on the basis of open market value. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred income tax was credited to the revalution surplus in shareholders' equity.

If the buildings were stated on the historical cost basis,the amounts would be as follows.

	2009 K millions	2008 K millions
Cost	1,648	1,648
Accumulated depreciation	(178)	(145)
Net book value	1,470	1,503

15 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 40% (2008: 40%). The movement on the deferred income tax account is as follows:

	2009 K millions	2008 K millions
At start of year	(1,715)	(1,143)
Income statement credit (Note 9)	(1,133)	(572)
Charge to equity	254	-
At end of year	(2,594)	(1,715)

Notes to the financial statements (continued)

15 Deferred income tax (continued)

The deferred income tax asset, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

	1.1.2009 K millions	Charged/ (credited) to P/L K millions	Charged/ (credited) to Equity	31.12.2009 K millions
Year ended 31 December 2009				
Property and equipment	256	(148)	254	362
Retirement benefit obligation	(1,971)	131	-	(1,840)
Provisions – Final tax on bonds	-	(150)	-	(150)
Tax loss carried forward	-	(966)	-	(966)
Net deferred income tax asset	(1,715)	(1,133)	254	(2,594)

	1.1.2008 K millions	Charged/ (credited) to P/L K millions	Charged/ (credited) to Equity	31.12.2008 K millions
Year ended 31 December 2008				
Property and equipment	462	(206)	-	256
Retirement benefit obligation	(1,605)	(366)	-	(1,971)
Net deferred income tax asset	(1,143)	(572)	-	(1,715)

16 Interest receivable and prepayments

	2009 K millions	2008 K millions
Office accounts	2,848	2,125
Recoverable deposits	527	552
Other receivables	2,298	664
	5,673	3,341

Notes to the financial statements (continued)

17 Customer deposits

	2009 K millions	2008 K millions
Current and demand deposits	70,333	81,287
Savings accounts	26,521	26,804
Fixed deposit accounts	25,433	21,791
Call accounts	4,830	4,396
	127,117	134,278

18 Convertible loan

On 31 December 2007, the bank obtained a convertible loan of K10 billion from Cavmont Capital Holdings Zambia (CCHZ) Plc. The loan attracts interest at a rate of 10.8543% per annum until 31 December 2012 and thereafter at a rate, agreed every five years, equal to the 5-year Government Bond rate.

The loan is subordinated to all obligations of the bank including its deposit obligations. It is either repayable on every 5th anniversary of its provision at the option and sole discretion of the bank or convertible into ordinary shares with a par value of K1 million each at a premium of K9 million per share at the option of CCHZ Plc.

The loan is a compound instrument and has therefore been split into a financial liability, and attracts an effective interest rate of 17.9% and an equity element.

	2009 K millions	2008 K millions
Convertible loan-Financial liability	8,379	8,002
Convertible loan-Equity	2,314	2,314
	10,694	10,316

19 Other liabilities

	2009 K millions	2008 K millions
Bills payable	-	2,981
Amounts due to group companies (Note 27)	1,786	-
Other payables and accrued expenses	11,770	5,405
	13,556	8,386

Notes to the financial statements (continued)

20 Share capital

	Number of shares (millions)	Ordinary shares K millions	Share premium K millions
At 31 December 2008 and 31 December 2009	5,000	5,000	19

The total authorise number of shares is 5,700.

21 Regulatory reserve

	2009 K millions	2008 K millions
At 31 December 2009 and 31 December 2009	5,000	5,000

The regulatory reserve represents an appropriation from retained earnings to comply with the Bank of Zambia's Prudential Regulations. The reserve is not distributable.

22 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

Contingent liabilities	2009 K millions	2008 K millions
Guarantees and performance bonds	636	683

Contingent Assets	2009 K millions	2008 K millions
Legal cases	346	-

The bank had 2 cases in its favour in which the bank is supposed to dispose off some assets which will realise K346 million.

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

Notes to the financial statements (continued)

23 Finance lease commitments

	2009 K millions	2008 K millions
Minimum future lease payments	209	241
Future finance charges on finance leases	(209)	(32)
	-	209
Present value of minimum future lease payments		
Analysed as follows		
Not later than one year	-	209
Later than 1 year and not later than 5 years	-	-
	-	209

24 Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2009	2008
Not later than one year	630	432
Later than 1 year and not later than 5 years	590	376
	1,220	808

25 Analysis of cash and cash equivalents as shown in the cash flow statement

	2009 K millions	2008 K millions
Cash and balances with Bank of Zambia (Note 10)	32,660	44,485
Less: cash reserve requirement (see below)	(6,776)	(11,857)
Placements with other banks (Note 11)	14,114	32,524
	39,998	65,152

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the central bank, Treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Zambia

Banks are required to maintain a prescribed minimum cash balance with the Bank of Zambia that is not available to finance the bank's day-to-day activities. The amount is determined as 10% of the average outstanding customer deposits over a cash reserve cycle period of one month.

Notes to the financial statements (continued)

26 Retirement benefit obligations

	2009 K millions	2008 K millions
The amounts recognised in the balance sheet are determined as follows:		
Present value of unfunded obligations	4,599	4,927

The movement in the defined benefit obligation over the year was as follows:

	2009 K millions	2008 K millions
At start of year	4,927	4,012
Current service cost	(328)	915
At end of year	4,599	4,927

These obligations are unfunded and relate to retirement benefits in respect of all employees in employment of the bank until December 2006.

The amounts recognised in the profit and loss account are determined as follows;

	2009 K millions	2008 K millions
Current service cost	(328)	915

The principal assumptions used were as follows;

	2009	2008
- discount rate	12%	19%
- future salary increases	16.5%	16.5%

Three year summary:	2009 K millions	2008 K millions	2007 K millions
Present value of unfunded defined benefit obligation	4,599	4,927	4,012

Notes to the financial statements (continued)

27 Related party transactions

The Company is controlled by Cavmont Capital Holdings Limited incorporated in Zambia. There are other companies which are related to Cavmont Capital Bank Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are shown below:

	2009 K millions	2008 K millions
Amounts due to:		
Parent company	8,379	8,002
Other related companies	1,786	-
	10,165	8,002
Interest expense incurred on the above	1,462	1,404

Other group companies include Cyan ES,Bank Windhoek and Capricorn Investment Holdings and these are provisions for services rendered to Cavmont Capital Bank which have not yet been paid.

Advances to customers at 31 December 2009 include loans to directors, loans to companies controlled by directors or their families, and loans to employees as follows:

	2009 K millions	2008 K millions
Loans to directors		
At start of year	260	320
Raised during the year	1,760	(60)
At end of year	2,020	260

At 31 December 2009 advances to companies controlled by directors or their families amounted to K2,020 million (2008: K260 million).

At 31 December 2009 advances to employees amounted to K2,731million (2008: K576 million).

Notes to the financial statements (continued)

Related party transactions (continued)

	2009 K millions	2008 K millions
Interest income earned	-	119

No provisions have been recognised in respect of loans given to related parties (2008: nil).

	2009 K millions	2008 K millions
Deposits by directors		
At start of year	101	297
Received during the year	1,064	1,611
Repaid during the year	(1,131)	(1,807)
At end of year	34	101
Interest expense incurred	1	1

	2009 K millions	2008 K millions
Key management compensation		
Salaries and other short-term employment benefits	4,181	4,185
Termination benefits-Gratuity	-	100
	4,181	4,285

Directors' remuneration	2009 K millions	2008 K millions
fees for services as a director	455	615

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