

Development Bank of Zambia

Directors' Report and Financial Statements

for the year ended 31 December 2004

**Development Bank of Zambia
Financial Statements
for the year ended 31 December 2004**

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**Development Bank of Zambia
Report of the directors
for the year ended 31 December 2004**

The directors submit their report together with the audited financial statements for the year ended 31 December 2004, which disclose the state of affairs of the Development Bank of Zambia ('the Bank').

Registered office address

The Development Bank of Zambia is incorporated in Zambia under the Development Bank of Zambia Act and is domiciled in Zambia. The Bank is also licensed under the Zambia Banking and Financial Services Act 1994, (as amended) to conduct banking services. The address of its registered office is:

Development House
Katondo Street
Lusaka
Zambia

Principal activities

The principal activities of the Bank continued to be the provision of short, medium and long-term finance for development purposes.

In the opinion of the directors, all the activities of the Bank fall within the financial services sector.

Share capital

The Bank's authorised share capital is 700,000 ordinary shares of US\$ 1,000 each, while 4,080 are issued and fully paid. The changes in the issued share capital during the year were as follows:

	2004		2003	
	Number of shares	Amount K millions	Number of shares	Amount K millions
At beginning of year	2,373	11,744	1,694	8,470
Allotment of new shares for cash	<u>1,707</u>	<u>8,284</u>	<u>679</u>	<u>3,274</u>
At end of year	<u>4,080</u>	<u>20,028</u>	<u>2,373</u>	<u>11,744</u>

The new shares were issued at par to fund the Bank's lending activities.

Operating results

	Year ended 31 December 2004	Year ended 31 2003
Net interest income	<u>3,191</u>	<u>2,553</u>
Profit for the year	<u>918</u>	<u>1,906</u>

The Bank has made profits over the two-year period since the restructuring. However, the bank's profitability went down from a net profit margin of 23 % in 2003 to 12 % in 2004 due to the following:

- A significant portion of income in 2003 came from the commission from the non-performing portfolio collections. The non-performing portfolio was split in 2004. Coffee projects were moved to the Coffee Board, while the non-coffee projects remained with the bank pending

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transfer to the Ministry of Justice. However, the bank had collected most of what was collectable from the non-coffee projects in 2003.

Operating results (continued)

- Interest from cash deposits also went down due to the dramatic fall in interest rates from a range of 28-33% in 2003 to a range of 6-15% in 2004.

The net profit for the year after tax has been added to retained earnings. No dividend was declared during the year.

Average number and remuneration of employees

The total remuneration of employees during the year amounted to **K4,001 million** (2003: K3,620 million) and the average number of employees was **28** (2003: 26).

The Bank recognises its responsibility regarding the occupational health, safety, and welfare of its employees and has put in place measures to safeguard them.

Gifts and donations

During the year the Bank made donations of **K12.9 million** (2003: K16 million).

Related party transactions

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

Directors' emoluments and interests

Directors' emoluments and interests are disclosed in the financial statements in accordance with the Zambia Companies Act, 1994.

There were no directors' interests within the meaning of Section 35 of the Zambia Banking and Financial Services Act, 1994, (as amended).

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 directors approve policies to mitigate the above risks by introducing controls that are designed to safeguard the Bank's assets while allowing sufficient freedom for the normal conduct of business. The Asset/Liability Committee carry out independent reviews to ensure compliance with financial and operational controls

Know your customer and money laundering policies.

The Bank has adopted a "know your customer" (KYC) policy and money laundering policies and adheres to current legislation in these areas.

**Development Bank of Zambia
Report of the directors
for the year ended 31 December 2004**

Directors

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

Mr. Saviour H Konie	Chairman
Dr. Bwalya K E Ng'andu	Managing
Dr. Situmbeko Musokotwane	director
Dr. John Mulwila	
Mr. Johnstone F Chizinga	
Mr. Sanjeev Kumar Pawar	
Mr Parmod Kumar Bajaj	
Mr. R.M.V Raman	

Auditors

The Bank's auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, in accordance with section 171 (3) of the Companies Act, and a resolution for their reappointment will be proposed at the annual general meeting.

By order of the Board

**A M Musukwa
Bank Secretary**

Lusaka

2005

Development Bank of Zambia

Directors' responsibilities and statement

Directors' responsibilities

The directors are required to prepare financial statements for each financial year, which, give a true and fair view of the state of affairs of the Bank and of the profit or loss, and cash flows for that year. In preparing those financial statements, the directors select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent and follow International Financial Reporting Standards.

The directors are responsible for ensuring that the Bank keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement on the financial statements

The directors of Development Bank of Zambia are of the opinion that:

- (a) the profit and loss account 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;
- (b) the balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Bank at 31 December 2004; and
- (c) there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

Signed on their behalf by:

.....

Director

.....

Director

2005

PricewaterhouseCoopers

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National Savings &
Credit Bank Building
North End, Cairo Road
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Lusaka, Zambia

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**Report of auditors
to the members of the Development Bank of Zambia**

We have audited the financial statements of the Development Bank of Zambia for the year ended 31 December 2004 as set out on pages 6 to 37. We report in terms of sections 64 (2) (a) (b) and (c) of the Zambia Banking and Financial Services Act, 1994 (as amended) and Section 22 of the Development Bank of Zambia (Amendment) Act 2001. The Bank has made available to us all the necessary information to enable us to comply with the requirements of these Acts.

Respective responsibilities of the directors and auditors

As described on page 5, these financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the statements included in the financial statements give a true and fair view of the financial position of the Bank as of 31 December, 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Zambia Companies Act, 1994, the Zambia Banking and Financial Services Act, 1994 (as amended), the Development Bank of Zambia (Amendment) Act 2001 and the accounting records, other records and registers required by the Companies Act have been properly kept in accordance with that Act.

Chartered Accountants

Richard Mazombwe
Partner

2005

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(all amounts are in millions of kwacha unless otherwise stated)

Profit and loss account

	Notes	2004	2003
Interest income	1	3,244	2,553
Interest expense	2	<u>(53)</u>	<u>-</u>
Net interest income		3,191	2,553
Commission income		<u>1,392</u>	<u>2,717</u>
		4,583	5,270
Dividends received		2,275	1,509
Other operating income		<u>962</u>	<u>1,642</u>
Operating income		7,820	8,421
Operating expenses	3,4	<u>(6,493)</u>	<u>(6,298)</u>
Profit before income tax		1,327	2,123
Income tax expense	5	<u>(409)</u>	<u>(217)</u>
Profit for the year		<u>918</u>	<u>1,906</u>

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Balance sheet

	Notes	2004	2003
Assets			
Cash and balances with other banks	6	1,291	1,041
Investment securities:			
- Held-to-maturity	7	9,947	19,567
- available-for-sale	7	6,545	1
Loans and advances	8	19,960	1,440
Amounts due from Government of Zambia	14	7,686	-
Property and equipment	9	21,563	4,487
Taxation recoverable	5	834	168
Other assets	11	512	925
Total assets		<u>68,338</u>	<u>27,629</u>
Liabilities			
Finance leases	12	335	557
Borrowings	13	404	4
Amounts due to the Government of Zambia	14	-	13
Government of Zambia debenture	15	9,341	9,341
Other liabilities	16	9,964	2,230
Total liabilities		<u>20,044</u>	<u>12,145</u>
Shareholders' equity			
Share capital	17	20,028	11,744
Revaluation reserve	18	20,609	3,546
Other reserves	19	7,234	-
Retained earnings		423	194
Total shareholders' equity		<u>48,294</u>	<u>15,484</u>
Total liabilities and shareholders' equity		<u>68,338</u>	<u>27,629</u>

The financial statements on pages 6 to 37 were approved for issue by the board of directors on

..... 2005 and signed on its behalf by:

.....
Director

.....
Director

.....
Director

.....
Company Secretary

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(all amounts are in millions of kwacha unless otherwise stated)

Statement of changes in equity

	Notes	Share capital	Revaluation reserve	Other reserves	Retained earnings	Total
Year ended 31 December 2003						
At start of year		8,470	3,909	-	(2,076)	10,303
Dividend written back		-	-	-	1	1
Issue of shares	17	3,274	-	-	-	3,274
Transfer of excess depreciation		-	(363)	-	363	-
Profit for the year		-	-	-	1,906	1,906
At end of year		11,744	3,546	-	194	15,484
Year ended 31 December 2004						
At start of year		11,744	3,546	-	194	15,484
Net gains from changes in fair value	19	-	-	6,545	-	6,545
Issue of share capital	17	8,284	-	-	-	8,284
Revaluation		-	17,063	-	-	17,063
Profit for the year		-	-	-	918	918
Transfer to statutory reserve	19	-	-	459	(459)	-
Transfer to reserve fund	19	-	-	230	(230)	-
At end of year		20,028	20,609	7,234	423	48,294

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Cash flow statement

	Notes	2004	2003
Cash flows from operating activities			
Profit before taxation		1,327	2,123
Depreciation		389	324
Profit on disposal of property and equipment		(42)	(269)
Lease interest billed		-	57
		<u>1,674</u>	<u>2,235</u>
Income tax paid	5	<u>(1,075)</u>	<u>(367)</u>
Cash flows from operating activities before changes in Operating assets and liabilities		599	1,868
Changes in operating assets and liabilities:			
- Investments		9,621	(12,455)
- loans and advances		(18,520)	(694)
- other assets		413	127
- other liabilities and provisions		7,734	(1,081)
Net cash used in operating activities		<u>(153)</u>	<u>(12,235)</u>
Cash flows from investing activities			
Purchase of property and equipment	9	(402)	(1,015)
Proceeds from sale of property and equipment		42	659
Net cash used in investing activities		<u>(360)</u>	<u>(356)</u>
Cash flows from financing activities			
Finance leases repayments		(222)	(186)
Issue of ordinary shares	17	8,284	3,274
Borrowings received	13	400	-
(Increase)/decrease in amounts due from Government of		(7,699)	92
Net cash from financing activities		<u>763</u>	<u>3,180</u>
Net increase/(decrease) in cash and cash equivalents		250	(9,411)
Cash and Cash equivalents at beginning of year		<u>1,041</u>	<u>10,452</u>
Cash and cash equivalents at end of year		<u><u>1,291</u></u>	<u><u>1,041</u></u>

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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 financial statements are presented in the functional currency, Zambia Kwacha (K), rounded to the nearest million, and prepared under the historical cost convention, as modified by the revaluation of certain property and the carrying of investment property and available-for-sale investments at fair values.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(b) Interest income and expense

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(c) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Zambia kwacha at rates ruling at the transaction dates. Monetary assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Zambia kwacha at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

Accounting policies (continued)

(e) Property and equipment

All categories of property and equipment are initially recorded at cost. Buildings are subsequently shown at market value, based on five-yearly valuations by external independent valuers, less subsequent depreciation. All other property and equipment is stated at historical cost less depreciation.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the profit and loss account) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on the straight line basis to write down the cost of each asset, or the revalued amounts, to its residual values over its estimated useful life as follows:

Buildings	50 years
Fixtures, fittings and equipment	5 years
Motor vehicles	4 years
Plant and machinery	10 years
Computer equipment	3 years

Land is not depreciated as it is deemed to have an indefinite life.

Property and equipment are reviewed annually for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(f) 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.

(g) Investment securities

The Bank classifies its investment securities, which include government securities into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Accounting policies (continued)

(g) Investment securities (continued)

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the profit and loss account. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income in the period in which the right to receive payment is established.

(h) Loans and advances and provisions for loan impairment

Loans and advances are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

Provisions for loan impairment are 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 are 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 deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the provision for loan losses in the profit and loss account.

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.

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Accounting policies (continued)

(i) Provisions

Provisions for restructuring are recognised in the period in which the Bank becomes legally or constructively committed to payment. Restructuring provisions comprise mainly employee termination benefits and are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and numbers of employees affected, or after individual employees have been advised of the specific terms.

Costs related to the ongoing activities of the bank are not provided in advance.

(j) Income tax

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

Deferred income tax is provided, 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. Tax rates enacted or substantially enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is charged or credited directly to equity, is subsequently recognised in the income statement together with the deferred gain or loss.

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.

(K) Dividends payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

(l) Accounting for leases

Leases of property and equipment where the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of fair value of the leased property 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. The property and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

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Notes to the financial statements

1	Interest income	2004	2003
	Loans and advances	1,619	164
	Cash and short term funds	<u>1,625</u>	<u>2,389</u>
		<u>3,244</u>	<u>2,553</u>
2	Interest expense	2004	2003
	European Union - Apex Fund	<u>53</u>	<u>-</u>
3	Operating expenses	2004	2003
	The following items are included within operating expenses:		
	Staff costs (note 4)	4,001	3,621
	Depreciation (note 9)	389	324
	Loss on sale of property and equipment	43	269
	Auditors' remuneration	<u>62</u>	<u>77</u>
4	Staff costs	2004	2003
	The following items are included within staff costs:		
	Salaries and wages	3,298	3,296
	Retirement benefit costs	670	293
	Social security costs (NAPSA)	<u>33</u>	<u>32</u>
		<u>4,001</u>	<u>3,621</u>

The number of persons employed by the Bank at the year end was 28 (2003: 26)

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Notes to the financial statements (continued)

	2004	2003
5 Income tax expense		
Current income tax	<u>409</u>	<u>217</u>

Income tax on trading activities does not arise as the company has carry forward losses of approximately K169,906 (2003: K204,414) to be offset against future taxable income. The tax expense above relates to rental and dividends income on which tax is charged separately.

The taxes losses available for set-off are as follows:

Fiscal period	Year ended	2004
1999/2000	31 March 2000	
2000/2001	31 December 2000	24,330
2001/2002	31 December 2001	40,485
2002/2003	31 December 2002	72,584
2003/2004	31 December 2003	32,017
2004/2005	31 December 2004	<u>491</u>
		<u>169,907</u>

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:

	2004	2003
Profit before income tax	<u>1,327</u>	<u>2,123</u>
Tax calculated at the statutory income tax rate of 35% (2003: 35%)	465	743
Tax effect of:		
Income taxed at a lower rate - dividends	(455)	(302)
Expenses not deductible for tax purposes	52	62
Deferred tax movement not recognised in current year (note10)	<u>347</u>	<u>(286)</u>
Income tax expense	<u>409</u>	<u>217</u>

Current income tax recoverable amount movement in the balance sheet

At start of year	168	18
Current income tax charge	(409)	(217)
Payments during year	<u>1,075</u>	<u>367</u>
At end of year	<u>834</u>	<u>168</u>

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Notes to the financial statements (continued)

Income tax assessments have been agreed with the Zambia Revenue Authority (ZRA) up to and including the year ended 31 December 2001. Income tax returns have been filed with the ZRA for the years ended 31 December 2002 and 2003. Quarterly tax payments for the year ended 31 December 2004 were made on the due dates during the year.

6 Cash and balances with other banks

	2004	2003
Current accounts	1,289	379
Deposit accounts	-	566
Segregated funds	-	95
Cash in hand	<u>2</u>	<u>1</u>
	<u>1,291</u>	<u>1,041</u>

7 Investments securities

Securities held to maturity

	2004	2003
Term deposits	9,947	17,710
Segregated term deposits	-	1,610
Investment in Government bonds	<u>-</u>	<u>247</u>
	9,947	19,567

Securities available for sale

Equity investments	<u>6,545</u>	<u>1</u>
	<u>16,492</u>	<u>19,568</u>

Equity investments are unquoted and are valued at fair value (full kwacha amounts) as follows:

	2004	2003
Kaleya Smallholders Company Limited	6,545,000,000	250,000
Supa Oils Limited	280,000	280,000
Zambia Knitting Mills	<u>140,996</u>	<u>140,996</u>
Total securities available-for-sale	<u>6,545,420,996</u>	<u>670,996</u>

The movement in investment securities available-for-sale may be summarised as follows:

	2004	2003
At start of year	670,996	670,996
Gains from changes in fair value transferred to equity (note 19)	<u>6,544,750,000</u>	<u>-</u>
At the end of the year	<u>6,545,420,996</u>	<u>670,996</u>

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Notes to the financial statements (continued)

7. Investment securities (continued)

During the year the Bank received offers for its equity investment in Kaleya Smallholders Company limited. As a result, the bank had the security fair valued by independent valuers. The fair value has been taken to fair value reserve (See the statement of changes in equity on page 8 and note 19).

8 Loans and advances	2004	2003
Commercial loans	18,749	1,207
Staff loans and advances	<u>1,211</u>	<u>233</u>
	<u>19,960</u>	<u>1,440</u>

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

	2004	2003
	%	%
Transport and communications	22	-
Agricultural	57	100
Tourism	2	-
Agro-processing	<u>19</u>	<u>-</u>
	<u>100</u>	<u>100</u>

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Notes to the financial statements (continued)

9 Property and equipment

	Leasehold Buildings	Fixtures, fittings and equipment	Motor vehicles	Computer equipment	Total
Cost or valuation					
At start of year	4,062	428	1,423	612	6,525
Revaluation surplus	16,438	-	-	-	16,438
Additions	-	362	40	-	402
Disposals	-	-	-	-	(42)
			(42)		
At end of year	20,500	790	1,421	612	23,323
Depreciation					
At start of year	544	399	551	544	2,038
Charge for the year	81	19	245	44	389
On disposals	-	-	-	-	(42)
			(42)		
Transfer to revaluation surplus	(625)	-	-	-	(625)
At end of year	-	418	754	588	1,760
Net book amount					
At 31 December 2004	20,500	372	667	24	21,563
At 31 December 2003	3,517	100	872	-	4,487

In the opinion of the directors, there has been no impairment of property and equipment.

Leasehold buildings were revalued as at 31 December 2004, by the Government Valuation Department, registered valuer, on the basis of the open market value. The book values of the properties were adjusted to the revalued amount and the resultant surplus was credited to the revaluation reserve in shareholders' equity.

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Notes to the financial statements (continued)

9 Property, plant and equipment (continued)

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

	2004	2003
Cost	1,088	1,088
Accumulated depreciation	<u>(113)</u>	<u>(98)</u>
Net book amount	<u>975</u>	<u>990</u>

Motor vehicles include the following amounts where the Bank is a lessee under a finance lease:

	2004	2003
Cost – capitalised finance leases	636	636
Accumulated depreciation	<u>(318)</u>	<u>(159)</u>
Net book amount	<u>318</u>	<u>477</u>

10 Deferred income tax

The deferred income tax asset not recognised in these financial statements is calculated using the enacted income tax rate of 35% (2003: 35%) and consists of the following:

	Movements in year not recognised				
	1.1.2004	Adjustments to prior year balances	to equity	to profit and loss	31.12.2004
Deferred income tax liabilities					
Revaluation surplus	-	-	(5,972)	-	(5,972)
Gains from changes in fair value	-	-	(2,291)	-	(2,291)
	-	-	(8,263)	-	(8,263)
Deferred income tax assets					
Tax losses carried forward	59,295	(7,980)	-	(267)	51,048
Excess accelerated capital allowances over depreciation	134	27	-	(80)	81
Other deductible temporary differences	55	(55)	-	-	-
	<u>59,484</u>	<u>(8,008)</u>	-	<u>(347)</u>	<u>51,129</u>

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Net deferred income tax	59,484	(8,008)	(8,263)	(347)	42,866
asset					

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Notes to the financial statements (continued)

The deferred tax asset of K42,866 (2003: K59,484) at the year end has not been recognised in the financial statements in accordance with accounting policy (j)

11 Other assets

	2004	2003
Accounts receivable	87	504
Prepayments	170	42
Staff loans and advances	14	-
Other	241	379
	<u>512</u>	<u>925</u>

12 Finance lease obligations

Finance lease obligations shown in the balance sheet may be analysed as follows:

	2004	2003
Finance lease liabilities – minimum lease payments:		
Not later than 1 year	310	295
Later than 1 year and not later than 5 years	147	471
	<u>457</u>	<u>766</u>
Future finance charges on finance leases	(122)	(209)
Present value of finance lease liabilities	<u>335</u>	<u>557</u>

The present value of finance lease liabilities is as follows:

Not later than 1 year	229	212
Later than 1 year and not later than 5 years	106	345
Present value of finance lease liabilities	<u>335</u>	<u>557</u>

The leases are denominated in United States dollars and are repayable in 36 equal monthly instalments at an effective rate of interest of 12% per annum.

13 Borrowings

	2004	2003
Bank of Zambia	4	4
European Union-Apex fund	400	-
	<u>404</u>	<u>4</u>

(i) Unsecured and interest free, with no fixed terms of repayment.

(ii) This is an unsecured loan repayable in one lump sum in 2007. The effective interest rate on the loan is 15 % (2003: nil)

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Notes to the financial statements (continued)

14 Amounts due from/ (to) Government of the Republic of Zambia (GRZ)

Following the enactment of the Development Bank of Zambia (Amendment) Act, 2001, all loans deemed to be non-performing at the effective date of this Act were transferred to the Government of the Republic of Zambia (GRZ). Non performing loans for this purpose were defined as: " all loans advanced by the Bank and in each case, in respect of which any payment of interest, on commencement of the Act, were in arrears in excess of one hundred and eighty days, and the amount of equity investment by the Bank in any Company or entity which, for three years or more immediately before commencement of the Act, had not made a declaration of dividend". The Bank was given the responsibility of managing this portfolio on behalf of GRZ, under the following terms and conditions:

- The Bank is responsible for the overall supervision and management of the non performing portfolio;
- The Bank is required to outsource the management of the non performing portfolio from outside specialists through a tender process and charge against the proceeds collected all the direct costs incurred in the management of the portfolio;
- The Bank earns a commission of 30% per annum on proceeds realised; and
- The proceeds collected less the Bank's commission and direct costs will require to be kept in a special account to be capitalised in favour of Government on a half yearly basis.

The movement in amounts due from/ (to) GRZ are as follows:

	2004	2003
Balance at 1 January	(13)	-
Government of Zambia portfolio collections for the year	(4,640)	(8,824)
Commissions due to the Bank	1,392	2,647
Reimbursable direct costs related to managing portfolio	2,428	1,280
Amounts claimable from Government of Zambia (note 16)	<u>7,520</u>	<u>1,610</u>
Balance before capitalisation	6,687	(3,287)
Amount capitalised into shares	<u>999</u>	<u>3,274</u>
Balance at 31 December 2004	<u>7,686</u>	<u>(13)</u>

On 1 July 2004 the bank capitalised a total of **K999,094,931** (2003: K3,274,000,000) in favour of GRZ as follows:

	2004	2003
Collections to June 2004/ December 2003	3,313	8,824
Commission due to the Bank to June 2004/ December 2003	(999)	(2,647)
Direct expenses to June 2004/ December 2003	<u>(1,315)</u>	<u>(2,903)</u>
Amount capitalised at 1 July 2004/ 31 December 2003	<u>999</u>	<u>3,274</u>

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Notes to the financial statements (continued)

15 Government of Zambia debenture

The GRZ Debenture was set up in line with the Development Bank of Zambia (Amendment) Act 2001. Sections 11A and 11B of the Act provide that the non performing portfolio and all assets, liabilities, rights and obligations of the Bank relating to the non-performing portfolio shall be transferred to the Government of the Republic of Zambia (GRZ). With effect from the commencement of the Act, the total amount paid by GRZ as a guarantor of the loans advanced to the Bank by the African Development Bank, International Bank for Reconstruction and Development, the Arab Bank for Economic Development in Africa, the Netherlands Development Finance Company and the European Investment Bank prior to the enactment of the Development Bank of Zambia (Amendment Act 2001) were converted into a long term debenture in favour of GRZ amounting to K9,341 million. The debenture carries no interest, no voting rights and has the same status as debentures under the Zambia Companies Act, 1994.

16 Other liabilities and provisions

	2004	2003
Accrued interest	53	-
Provision and accruals	247	167
Payroll liabilities	526	392
Amount due to third party (see below)	9,138	1,671
	<u>9,964</u>	<u>2,230</u>

The amount due to third party relates to a provision made for a claim made to the Bank of US\$ 1.9 million (2003 US\$ 0.3 million) equivalent to K 8,860million (2003: 1,610 million) relating to a guarantee provided by the Bank. As this claim relates to a guarantee provided prior to the enactment of the Development Bank of Zambia (Amendment) Act, 2001, the Bank has recourse to the Government of the Republic of Zambia and consequently a receivable of the equivalent amount has been recognised in these financial statements (note 14). The movement on the provision was as follows:

	2004	2003
Opening balance	1,671	-
Provision made during the year (with recourse to GRZ - note 14)	7,520	1,610
Exchange (gain)/ loss	(53)	61
Closing balance	9,138	1,671

17 Share capital

	Class A	
	Number of shares	Ordinary shares K'millions
Class A shares:		
At start of year	2,369	11,725
Issue of shares	<u>306</u>	<u>1,486</u>
At end of year	<u>2,675</u>	<u>13,211</u>

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Notes to the financial statements (continued)

17 Share capital (continued)

		Class B
	Number of shares	Ordinary shares (K million)
Class B shares:		
At start of year	3	15
Issue of shares	<u>1,401</u>	<u>6,798</u>
At end of year	<u>1,404</u>	<u>6,813</u>
Golden share	<u>1</u>	<u>4</u>
Total issued shares	<u><u>4,080</u></u>	<u><u>20,028</u></u>

Class A and B shares have equal voting rights. Class A shares are issued to the Government of the Republic of Zambia and other Government institutions. Class B shares are issued to private institutions and individuals.

The golden share is issued to the Government of the Republic of Zambia. This share accords the Government with the final authority on any motions of winding up the bank, substantial alteration of its business as sale or transfer of substantial assets.

In accordance with the provisions of the Development Bank of Zambia (Amendment) Act, 2001, the Bank's authorised number of ordinary shares is 700,000 with a par value of US\$1,000 per share. The Kwacha value of the shares is determined using the exchange rate ruling at the date of issue of the shares. All issued shares are fully paid.

18 Revaluation reserves

The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable.

19 Other reserves

	Statutory reserve	Reserve fund	Revaluation reserve - available-for-sale investments	Total
At start of year	-	-	-	-
Net gains from changes in fair value	-	-	6,545	6,545
Transfer to statutory reserve	459	-	-	459
Transfer to reserve fund	-	230	-	230
At end of year	<u><u>459</u></u>	<u><u>230</u></u>	<u><u>6,545</u></u>	<u><u>7,234</u></u>

Notes to the financial statements (continued)

19 Other reserves (continued)

Statutory reserve

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

Reserve fund

The reserve fund is established in accordance with Section 21 of the Development Bank of Zambia (Amendment) Act, 2001 that requires the Bank to provide against any anticipated losses by establishing and maintaining a reserve fund. Current regulation stipulates that a bank shall transfer to its reserve fund:

- a) 25% of the net profit of each year until the total sum standing to the credit of such reserve fund equals the paid up share capital of the Bank; or
- b) 12.5% of the net profit of each year if the total sum standing to the credit of the reserve fund equals or exceeds the paid up share capital of the Bank.

20 Interest rate risk

The Bank is exposed 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 re-pricing that may be undertaken, which is monitored monthly.

The table below summarises the 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.

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Notes to the financial statements (continued)

20 Interest rate risk (continued)

At 31 December 2004	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interesting bearing	Total
Assets						
Deposits and balances with banking institutions	1,289	-	-	-	-	1,289
Cash on hand	-	-	-	-	2	2
Loans and advances	2,894	2,281	9,973	4,812	-	19,960
Investments	3,411	6,536	-	-	6,545	16,492
Current income tax recoverable	-	-	-	-	834	834
Property and equipment	-	-	-	-	21,563	21,563
Amounts due from GRZ	-	-	-	-	7,686	7,686
Other assets	-	-	-	-	512	512
Total assets	7,594	8,817	9,973	4,812	37,142	68,338
Liabilities and shareholders' funds						
Finance leases	-	-	252	83	-	335
Borrowings	-	-	-	400	4	404
Government of the Republic of Zambia debenture	-	-	-	-	9,341	9,341
Other liabilities	-	-	-	-	9,964	9,964
Shareholders' funds	-	-	-	-	48,294	48,294
Total liabilities and shareholders' funds	-	-	252	483	67,603	68,338
Interest sensitivity gap	7,594	8,817	9,721	4,329	(30,461)	-
At 31 December 2003						
Total assets	7,793	10,023	4,024	75	5,714	27,629
Total liabilities and shareholders' funds	-	-	252	305	27,072	27,629
Interest sensitivity gap	7,793	10,023	3,772	(230)	(21,358)	-

21 Liquidity risk

The Bank is exposed to weekly calls on its available cash resources from suppliers, debt servicing and other operational needs. The Bank does not maintain cash resources to meet all of these needs as experience shows cash outflows can be predicted with a high level of certainty. The Board sets limits on the minimum and maximum liquidity ceiling at any point in time.

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2004 to the contractual maturity date.

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Notes to the financial statements (continued)

21 Liquidity risk (continued)

At 31 December 2004	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Deposits and balances with banking institutions	1,289	-	-	-	-	1,289
Cash on hand	2	-	-	-	-	2
Loans and advances	2,894	2,281	9,973	4,725	87	19,960
Investments	3,411	6,536	-	-	6,545	16,492
Current income tax recoverable	-	-	-	834	-	834
Property and equipment	-	-	-	1,063	20,500	21,563
Amounts due to the GRZ	-	-	-	7,686	-	7,686
Other assets	-	-	425	87-	-	512
Total assets	7,596	8,817	10,398	14,395	27,132	68,338
Liabilities and shareholders' equity						
Finance leases	-	-	252	83	-	335
Borrowings	-	-	-	404	-	404
GRZ debenture	-	-	-	-	9,341	9,341
Other liabilities	-	-	774	9,190	-	9,964
Shareholders' equity	-	-	-	-	48,294	48,294
Total liabilities and shareholders' equity	-	-	1,026	9,677	57,635	68,338
Net liquidity gap	7,596	8,817	9,372	4,718	(30,503)	-
At 31 December 2003						
Total assets	7,794	10,023	4,024	2,349	3,439	27,629
Total liabilities and shareholders' equity	-	-	252	305	27,072	27,629
Net liquidity gap	7,794	10,023	3,772	2,044	(23,633)	-

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Notes to the financial statements (continued)

22 Liquidity 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 the ability to re-invest at an acceptable return interest bearing assets as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

23 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. 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 revolving basis and subject to annual or more frequent review.

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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

24 Currency risk

The Bank takes on exposure to 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 through:

- the matched funding policy
- restriction of net exposure
- restriction in types of businesses the bank lends to

These are monitored daily.

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Financial Statements
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Notes to the financial statements (continued)

24 Currency risk (continued)

The table below summarises the Bank's exposure to currency as at 31 December 2004, categorised by currency.

At 31 December 2004	US dollar	Kwacha	Total
Deposits and balances with banking institutions	96	1,193	1,289
Cash on hand	-	2	2
Loans and advances	7,809	12,151	19,960
Investments	1,614	14,878	16,492
Current income tax recoverable	-	834	834
Property and equipment	-	21,563	21,563
Account receivable	-	87	87
Amounts due to the GRZ	-	7,686	7,686
Other assets	-	512	512
Total assets	9,519	41,756	68,338
Liabilities and shareholders' equity			
Finance leases	335	-	335
Borrowings	-	404	404
GRZ debenture	-	9,341	9,341
Other liabilities	9,138	826	9,964
Shareholders' equity	-	48,294	48,294
Total liabilities and shareholders' equity	9,473	58,865	68,338
Net on balance sheet position	(46)	(46)	-
Net off balance sheet position	-	-	-
Overall net position	(46)	(46)	-
At 31 December 2003			
Total assets	1,619	26,010	27,629
Total liabilities and shareholders' equity	463	27,166	27,629
Net on balance sheet position	1,156	(1,156)	-
Net off balance sheet position	-	-	-
Overall net position	1,156	(1,156)	-

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Financial Statements
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Notes to the financial statements (continued)

25 Fair values and effective interest rates of financial assets and liabilities

In the opinion of the directors, the fair values of the Bank's 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 in note 20. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Bank at the balance sheet date.

The effective interest rates for the principal financial assets and liabilities at 31 December 2004 and 2003 were in the following ranges:

	2004		2003	
	In K	In US\$	In K	In US\$
	%	%	%	%
Assets				
Deposits and balances with banking institutions	7 - 14	2 - 5	25 - 36	2 - 3
Loans and advances	21 - 22	8	28 - 31	8
Liabilities				
Borrowings	15	-	15	-
Other liabilities	<u>=</u>	<u>7 - 15</u>	<u>=</u>	<u>7 - 15</u>

26 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Contingent liabilities

There were no contingent liabilities in the year under review. (2003: Nil)

Nature of guarantee and performance bonds

Guarantees are generally written by a bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

(b) Legal proceedings

The bank is a party to a number of litigation cases arising largely from the non performing loan portfolio that was transferred to the Government of the Republic of Zambia. As explained in notes 14 and 15, the Government assumed full responsibility for these loans. Consequently apart from the provision referred to in note 16, relating to an exposure to a third party, no other provision have been made.

Development Bank of Zambia
Financial Statements
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Notes to the financial statements (continued)

26 Off balance sheet financial instruments, contingent liabilities and commitments (continued)

	2004	2003
Commitments		
Purchase of property and equipment	<u>876</u>	<u> </u>
	<u>876</u>	<u> </u>

27 Related party transactions

The Bank is controlled by the Government of the Republic of Zambia. There are other companies which are related to Development Bank of Zambia through common shareholdings or common directorships.

i) Transactions and balances with shareholders

Transactions and balances with the National Pension Scheme Authority (NAPSA) and GRZ are disclosed in notes 4 and 14 respectively.

The Bank received K2,275 (2003: K1,509) from Kaleya Smallholders Company Limited in the form of dividends.

ii) Loans to employees

Loans to employees at 31 December 2004 amounted to K1, 211 (2003: K 233). Loans to employees are repayable monthly over a period of between 3 and 15 years and attract interest at rates of between 5% and 12.5%.

	2004	2003
Interest income earned	<u>44</u>	<u>-</u>

No provisions have been recognised in respect of loans given to employees. (2003: nil). These loans have been fair valued in accordance with accounting policy (i).

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Notes to the financial statements (continued)

25 Related party transactions (continued)

vi) Directors' remuneration

	2004	2003
- fees for services as a director	92	
- other emoluments		50
	<hr/> 92	<hr/> 50
	<hr/>	<hr/>

Development Bank of Zambia
Capital adequacy computation
at 31 December 2004

(all amounts are in millions of kwacha unless otherwise stated)

Computation of Risk weighted assets
As at 31 December 2004

	Risk weight %	Balance (net of allowance for losses)	Risk-weighted assets (1* 2)
Notes and coin			
-Zambian notes and coin	0	2	-
-Other notes and coin	0	-	-
Balances held with Bank of Zambia			
-statutory reserves	0	-	-
-other balances	0	-	-
Balances held with commercial banks:			
a) in Zambia			
-with residual maturity of up to 12 months	20	11,236	2,248
With residual maturity of more than 12 months	100	-	-
b) abroad			
-with residual maturity of up to 12 months	20	-	-
-with residual maturity of more than 12 months	100	-	-
Assets in transit			
- from other commercial banks	50	-	-
-from branches of reporting bank	20	-	-
Investments in debt securities			
-treasury bills	0	-	-
-other government securities	20	-	-
-issued by Local Government Units	100	-	-
-private securities	100	-	-
Bills of Exchange			
-portion secured by cash or treasury bills	0	-	-
-others	100	-	-
Loans and advances			
-portion secured by cash or treasury bills	0	-	-
-loans to or guaranteed by the Government of Zambia	50	-	-
-loans repayable in instalments and secured by a mortgage on owner-occupied residential property	50	-	-
-loans to or guaranteed by local government units	100	-	-
-loans to parastatals	100	-	-
-other	100	19,960	19,960
Interbank advances and loans/advances guaranteed by other banks:			
-with residual maturity of 12 months	20	-	-
-with a residual maturity of more than 12 months	100	-	-
Bank premises	100	20,500	21,563
Acceptances	100	-	-
Other assets	100	10,095	9,032
Investment in equity of other companies	100	6,545	6,545
TOTAL RISK WEIGHTED ASSETS (on-balance sheet)		<u>68,338</u>	<u>59,348</u>

Development Bank of Zambia
Capital adequacy computation
at 31 December 2004

(all amounts are in millions of kwacha unless otherwise stated)

Part 2 - Off balance sheet obligations

(Under first schedule - regulations 21 and 24)

	(1) Risk Weight %	(2) Balance (net of allowance for losses)	(3) Risk- weighted assets (1 x 2)
Letters of credit			
- sight import letters of credit	20		
- portion secured by cash/treasury bills	0		
- standby letters of credit	100		
- portion secured by cash/treasury bills	0		
- export letters of credit confirmed	20		
Guarantees and Indemnities			
- guarantees for loans, trade and securities	100		
- portion secured by cash/treasury bills	0		
- performance bonds	50		
- portion secured by cash/treasury bills	0		
- securities purchased under resale agreement	100		
- other contingent liabilities	100		
- net open position in foreign currencies	100	-	-
Total risk-weighted assets (off balance sheet)		-	-
Total risk-weighted assets (on and off balance sheet)		<u>68,338</u>	<u>59,348</u>

Development Bank of Zambia
Capital adequacy computation
at 31 December 2004

(all amounts are in millions of kwacha unless otherwise stated)

Computation of Capital Position
As at 31 December 2004

	K' Million
Primary (tier 1) capital	
(a) Paid-up Class A capital	13,134
(b) Primary shares Class "B"	6,894
(c) Contributed surplus	-
(d) Retained earnings	423
(e) Revenue reserves	6,775
(f) Statutory reserves	459
(g) Minority interests (common shareholders' equity)	-
(h) Sub-total	<u>27,685</u>
Less	
Other adjustments:	
Goodwill and other intangible assets	-
Investments in unconsolidated subsidiaries and associates	-
Lending of capital nature to subsidiaries and associates	-
Holding of other bank's or financial institution's capital instruments	-
Assets pledged to secure liabilities	-
Subtotal (A)	-
Other adjustments (specify) – loans and advances	-
Provision: allowances for loan losses	-
Reconciliation items	-
(n) Sub-total (B)	
(Sub-total A above + other adjustments)	-
(o) Total primary capital (h-n)	<u>27,685</u>
Minimum required	
(10% of risk weighted assets)	<u>5,935</u>
SURPLUS/(DEFICIENCY)	<u>21,730</u>