
DEVELOPMENT BANK OF ZAMBIA

FINANCIAL STATEMENTS
for the year ended 31 December 2003

DEVELOPMENT BANK OF ZAMBIA

FINANCIAL STATEMENTS
for the year ended 31 December 2003

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DEVELOPMENT BANK OF ZAMBIA

STATEMENT OF RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial year which give a true and fair view.

The Directors confirm that:

- h the income statement is drawn up so as to give a true and fair view of the profit of the Bank for the year ended 31 December 2003;
- h the balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2003; and
- h there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

Signed on behalf of the Board by:

_____)	S.H. KONIE	-	CHAIRMAN
)			
)			
)			
_____)	B.K.E. NG'ANDU	-	MANAGING DIRECTOR
)			
)			
)			
_____)	R.G.K.M. PHIRI	-	FINANCE DIRECTOR
)			

REPORT OF THE AUDITORS

To the members of
Development Bank of Zambia

We have examined the financial statements on pages 3 to 20 which have been prepared on the basis of the accounting policies on pages 7 to 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1, the Bank's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements

BASIS OF OPINION

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Bank's affairs at 31 December 2003 and of the profit and cashflows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards, the Development Bank of Zambia Act, 1972, the Banking and Financial Services Act, 1994 as amended and the Development Bank of Zambia Amendment Act, 2001 and that the accounting and other records and registers have been properly kept in accordance with the Acts.

DELOITTE & TOUCHE

C. CHUNGU
PARTNER

DEVELOPMENT BANK OF ZAMBIA**INCOME STATEMENT**for the year ended 31 Decemeber 2003

Kwacha million

	NOTES	Year ended 31 Decemeber 2003	1 April 2002 to 31 December 2002
INCOME			
Interest income		-	6,677
Interest suspended		-	(4,388)
		-	2,289
Interest expense		-	(5,720)
		-	(3,431)
Interest from short term deposits and investments		2,389	422
Dividends received		1,509	6
Trade finance income		164	-
		4,063	(3,003)
Other operating income	3	4,359	382
		8,421	(2,621)
OPERATING EXPENSES			
Employment expenses	4	(3,620)	(5,897)
Other operating expenses	5	(2,354)	(5,906)
Depreciation	12	(324)	(345)
Net exchange losses		-	(17,353)
		(6,298)	(29,501)
PROFIT (LOSS) BEFORE TAXATION		2,123	(32,122)
Taxation	6	(217)	(82)
PROFIT (LOSS) FOR YEAR/PERIOD		1,906	(32,204)

DEVELOPMENT BANK OF ZAMBIA**STATEMENT OF MOVEMENTS IN EQUITY**

for the year ended 31 December 2003

Kwacha million

	Share capital	Revaluation reserves	Non distributable reserves	Statutory reserves	Deficit on revenue reserves	Total
Balance at 1 April 2002	8,470	3,976	1,055	17	(214,474)	(200,956)
Loss for period	-	-	-	-	(32,204)	(32,204)
Accumulated reserves transferred to the Government of the Republic of Zambia (note 2)	-	-	(1,055)	(17)	244,535	243,463
Transfer from revaluation reserves	-	(67)	-	-	67	-
Balance at 31 December 2002	8,470	3,909	-	-	(2,076)	10,303
Issue of shares (note 18 and 19)	3,274	-	-	-	-	3,274
Profit for year	-	-	-	-	1,906	1,906
Dividend written back	-	-	-	-	1	1
Transfer from revaluation reserves	-	(363)	-	-	363	-
Balance at 31 December 2003	11,744	3,546	-	-	194	15,484

DEVELOPMENT BANK OF ZAMBIA**BALANCE SHEET**

at 31 December 2003

Kwacha million

	NOTES	2003	2002
ASSETS			
Cash and balances with other banks	7	1,041	10,495
Investments	8	19,568	7,113
Trade finance receivable	9	1,167	-
Portfolio loans	10	504	977
Other sundry debtors and prepayments	11	773	899
Taxation recoverable	6	168	18
Tangible fixed assets	12	4,487	4,186
TOTAL ASSETS		27,708	23,688
LIABILITIES			
Bank overdrafts - unsecured		-	43
Other liabilities	14	2,230	3,997
Finance leases	15	557	-
Borrowings	16	4	4
Amounts due to the Government of the Republic of Zambia	17	92	-
Government of the Republic of Zambia debenture	2	9,341	9,341
TOTAL LIABILITIES		12,224	13,385
CAPITAL AND RESERVES			
Share capital	18	11,744	8,470
Revaluation reserves		3,546	3,909
Deficit on revenue reserves		194	(2,076)
TOTAL SHAREHOLDERS' FUNDS		15,484	10,303
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		27,708	23,688

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 1. The financial statements on pages 3 to 20 were approved by the Board of Directors on **26 March 2004** and were signed on its behalf by:

_____)	S.H. KONIE - CHAIRMAN
_____)	
_____)	
_____)	
_____)	B.K.E. NG'ANDU - MANAGING DIRECTOR
_____)	
_____)	
_____)	R.G.K.M. PHIRI - FINANCE DIRECTOR
_____)	

DEVELOPMENT BANK OF ZAMBIA**STATEMENT OF CASH FLOWS**

for the year ended 31 Decemeber 2003

Kwacha million

	NOTES	Year ended 31 December 2003	1 April 2002 to 31 December 2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before taxation		2,123	(32,122)
Adjusted for non cash items:			
- Depreciation	12	324	345
- Profit on disposal of tangible fixed assets		(269)	(34)
- Capital work in progress transferred out		-	41
- lease interest billed	15	57	-
Net cash inflows (outflows) before changes in operating funds		2,235	(31,770)
Changes in operating assets and liabilities			
Decrease in sundry debtors and prepayments		126	1,237
Increase in trade finance receivable		(1,167)	-
Decrease in portfolio loans		473	122,289
Decrease in other liabilities		(1,767)	(1,766)
Cash (absorbed by) generated from generations		(100)	89,990
Income tax paid during the year	6	(367)	-
Net cash (outflows to) inflows from operating activities		(467)	89,990
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in investments	8	(12,455)	(7,113)
Purchase of tangible fixed assets	12	(1,015)	(37)
Proceeds on disposal of tangible fixed assets		659	51
Decrease in interest receivable		-	5,768
Net cash outflows to investing activities		(12,811)	(1,331)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in share capital	17, 18	3,274	-
Finance leases received	15	686	-
Finance lease repayments	15	(186)	-
Increase in GRZ portfllo sundries	17	92	-
Reserves transferred to Government of the Republic of Zambia	2	-	243,463
Decrease in borrowings Government of the Republic of Zambia debenture taken up		-	(239,729)
Decrease in Special funds		-	9,341
Decrease in amounts due to the Government of the Republic of Zambia		-	(1,933)
Decrease in interest payable on borrowings		-	(76,708)
Decrease in interest payable on borrowings		-	(30,172)
Net cash inflows from (outflows to) financing activities		3,866	(95,738)

DEVELOPMENT BANK OF ZAMBIA

ACCOUNTING POLICIES

The principal accounting policies of the Bank, which are set out below, have been consistently followed in all material respects and comply with International Financial Reporting Standards.

BASIS OF ACCOUNTING

The Bank's financial statements are prepared on the historical cost basis of accounting, modified to include the revaluation of leasehold land and buildings.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assume that the Bank will continue in operation for the foreseeable future.

The Bank's ability to continue as a going concern is largely dependant on the sourcing of new equity partners. Following on going negotiations with potential new equity partners and discussions with management, Directors are optimistic and consider it a

INTEREST INCOME AND EXPENSE

Interest income and expense in respect of the year are accounted for in the income statement on an accruals

Interest income, other than dividend income, is suspended when non-performing loans meet certain criteria and is excluded from interest income until received.

INVESTMENT INCOME

Investment income, other than dividends, is accounted for on an accruals basis and relates to bank interest earned, interest from staff loans and rental income.

Dividend income is accounted for on a cash basis.

TAXATION

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable.

Temporary differences arise from the recognition for tax purposes of certain items of income and expenses in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences computed b

Account is taken of the deferred taxation assets arising from unutilised taxation losses, where, in the opinion of the Directors, recovery of such losses is assured beyond reasonable doubt.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cashflow statement, cash and other cash equivalents comprise cash on hand, deposits held on or at call with banks and bank

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

Kwacha million

1. PRINCIPAL ACTIVITY

The Development Bank of Zambia ("DBZ" or the "Bank") was established by an Act of Parliament in 1972. The principal activity of the Bank was the provision of long, medium and short term finance and equity investment to promote and facilitate economic development in Zambia. In November 2001, the DBZ Amendment Act was passed, which provides amongst other things, the widening of the scope of activities of the Bank.

The Bank was relaunched on 4 April 2003 after a restructuring process mainly due to the various provisions of the Development Bank of Zambia Amendment Act, 2001 (note 2). The relaunched Bank has increased its scope of activities to include project financing, leasing financing, trade financing, bonds and guarantees, business advisory services and equity investments.

2. DEVELOPMENT BANK OF ZAMBIA AMENDMENT ACT, 2001

On 20 November 2002, the Minister of Finance and National Planning signed Statutory Instrument number 84, of 2002 and this was Gazetted on 29 November 2002. This brought into operation the DBZ Amendment Act, 2001 (the "Act"). Contained in the Act are various amendments to the Development Bank of Zambia Act, 1972. The most significant and of consequence to the Bank's operations are Sections 11A and 11B which provide for the following:

- h) The transfer of portfolio loans deemed to be non performing to the Government of the Republic of Zambia (the "Government" or "GRZ"). Non performing loans for this purpose are 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 the commencement of the Act, had not made a declaration of dividend";

- h) The transfer of all assets, liabilities, rights and obligations of the Bank relating to the non-performing portfolio and in existence immediately before the date of the commencement of the Act. With effect from the date of commencement of the Act, the total amount of money paid by the Government as a guarantor of the loans advanced to the Bank by the African Development Bank, the International Bank for Reconstruction and Development, the Arab Bank for Economic Development in Africa, the Netherlands Development Finance Company and the European Investment Bank were converted into a long term debenture in favour of Government. The debenture carries no interest and no voting rights and has the same status as debentures under the Companies Act, 1994; and

DEVELOPMENT BANK OF ZAMBIA

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2003

2. DEVELOPMENT BANK OF ZAMBIA AMENDMENT ACT, 2001 (CONT'D)

- h The Bank was indemnified by the Government against all liabilities of the Bank which the Bank incurred before the commencement of the Act, arising from any suit or other legal proceedings and from any claim or demands in respect of any matter relating to the non performing portfolio.

In accordance with the provisions of the DBZ Amendment Act 2001, the Bank on 30 November 2002 transferred all assets, all liabilities and account balances directly related to the portfolio loans to the Government creating a debenture in favour of the Government. The debenture is denominated in Zambian Kwacha, unsecured, accrues no interest and has no specific terms of repayment. The account balances transferred were as follows:

	Balances as at 30 November 2002
Assets	
Portfolio loans	145,080
Interest receivable	6,208
Equity investments	5,641
	<hr/>
	156,929
Liabilities	
Borrowings	(283,490)
GRZ creditors	(76,708)
Interest payable on borrowings	(41,376)
Equity investment provisions	(5,641)
Special funds	(1,951)
Other creditors	(567)
	<hr/>
	(409,733)
Reserves	
Deficit on revenue reserves	244,535
Non distributable reserves	(1,055)
Statutory reserves	(17)
	<hr/>
	243,463
Net amount transferred to GRZ creating the debenture	<hr/> (9,341) <hr/>

DEVELOPMENT BANK OF ZAMBIA

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2003

3. OTHER OPERATING INCOME	2003	2002
Commission income (note 17)	2,647	-
Net exchange gains	908	-
Rental income	427	314
Profit on disposal of tangible fixed assets	269	34
Application fees	70	-
Miscellaneous income	32	-
Interest from staff loans	6	34
	<u>4,359</u>	<u>382</u>
4. EMPLOYMENT EXPENSES		
Salaries and other cash emoluments	1,980	3,050
Directors' remuneration:		
- for managerial services	988	1,039
- fees and expenses	53	5
	<u>3,021</u>	<u>4,094</u>
Retirement benefits provisions	599	1,803
	<u>3,620</u>	<u>5,897</u>
The movements in the retirement provisions account is as follows:		
At beginning of year/period	3,416	2,960
Additional provision during the year/period	599	1,803
	<u>4,015</u>	<u>4,763</u>
Payments	(3,923)	(1,347)
At end of year/period	<u>92</u>	<u>3,416</u>
5. OTHER OPERATING EXPENSES		
Other administrative expenses	2,239	1,664
Other doubtful receivables	115	37
Portfolio discounts	-	4,205
	<u>2,354</u>	<u>5,906</u>

DEVELOPMENT BANK OF ZAMBIA

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2003

12. TANGIBLE FIXED ASSETS

	Leasehold land and buildings	Motor vehicles	Machinery, furniture and fittings	Computer equipment	Total
COST OR VALUATION					
At beginning of year	4,417	1,125	566	568	6,677
Additions	-	946	5	64	1,015
Disposals	(355)	(648)	(144)	(20)	(1,167)
At end of year	4,062	1,423	427	612	6,525
Cost or valuation at 31 December 2003 is represented by:					
Valuation - 1996	3,329	-	-	-	3,329
Cost	733	1,423	427	612	3,196
At end of year	4,062	1,423	427	612	6,525
DEPRECIATION					
At beginning of year	511	949	525	506	2,491
Charge for year	83	167	18	56	324
Eliminated on disposals	(50)	(565)	(144)	(18)	(777)
At end of year	544	551	399	544	2,038
NET BOOK VALUE					
At end of year	3,518	872	28	68	4,487
At beginning of year	3,906	176	41	62	4,186

On 31 March 1996, the leasehold land and buildings were revalued at open market value for existing use by an independent firm of valuers. The Directors consider that the fair values of the leasehold land and buildings exceed their carrying values as reflected in the balance sheet.

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

DEVELOPMENT BANK OF ZAMBIA

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2003

13. CAPITAL COMMITMENTS **2003** 2002

There were no capital commitments as at 31 December 2003 and 2002.

14. OTHER LIABILITIES

Sundry creditors	1,671	26
Staff creditors	392	3,697
Provisions and accruals	167	163
Portfolio sundries	-	110
Dividend payable	-	1
	<u>2,230</u>	<u>3,997</u>

15. FINANCE LEASE

At beginning of year	-	-
Additions during year	686	-
Repayments during year	(186)	-
Lease interest billed	57	-
	<u>557</u>	<u>-</u>

At end of year 557 -

Amounts falling due within one year	252	-
Amounts falling due after one year	305	-
	<u>557</u>	<u>-</u>

Finance leases, denominated in US Dollars, are repayable in 36 equal monthly instalments. The effective annual rate of interest is 12% per annum.

16. BORROWINGS

Unsecured borrowings:

Bank of Zambia (BOZ)	<u>4</u>	<u>4</u>
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The borrowings outstanding as at 31 December 2003 are due to Bank of Zambia and are Kwacha denominated. The amounts are due within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2003

17. AMOUNTS DUE TO THE GOVERNMENT OF THE REPUBLIC OF ZAMBIA	2003	2002
Total GRZ Portfolio Collections during the year	8,824	-
Commissions due to the Bank (note 3)	(2,647)	-
Management expenses	(1,280)	-
Amounts due to third party (note 8)	(1,610)	-
	<hr/>	<hr/>
Net GRZ Portfolio Collections during the year	3,287	-
Commissions receivable (note 11)	79	-
Amounts capitalised into shares (note 18)	(3,274)	-
	<hr/>	<hr/>
	92	-
	<hr/> <hr/>	<hr/> <hr/>

On 18 February 2003 the Minister of Finance and National Planning gave directives and conditions to the Board for Management on the management of the non-performing loans in line with the Development Bank of Zambia Amendment Act, 2001. The conditions are as follows:

- h The Bank shall be responsible for the overall supervision and management of the non-performing portfolio;
- h 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;
- h The Bank earns a commission of 30% of proceeds realised; and
- h The proceeds collected less the Bank 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 .

Accordingly, the Bank capitalised a total amount of K3,274,000,000 in favour of GRZ during the year.

18. SHARE CAPITAL**Authorised**

Ordinary shares of US\$1,000 (2002: K10,000) each

279,999 (2002: 900,000) class 'A' shares	1,343,995	9,000
420,000 (2002: 600,000) class 'B' shares	2,016,000	6,000
1 (2002: Nil) Golden share	-	-
	<hr/>	<hr/>
	3,359,995	15,000
	<hr/> <hr/>	<hr/> <hr/>

Issued and fully paid

2,372 (2002: 839,955) class 'A' shares	11,740	8,399
1 (2002: 7,040) class 'B' shares	4	71
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the year ended 31 December 2003

18. SHARE CAPITAL (CONT'D)

The Kwacha value of the shares is determined using the exchange rate ruling at the date of issue of the shares.

Equal voting rights are assigned to the class A and B shares. Class A shares are shares held by GRZ and other Government institutions and Class B shares are shares held by private institutions.

Section 9 and 10 of the DBZ Amendment Act, 2001 provides for the reduction in the number of authorised ordinary shares from 1,500,000 to 700,000 and the increase in the par value of each share to US\$1,000 per share from K10,000 per share. This increases t

The Bank effected these changes during the year in consultation with the various shareholders.

The increase in the value of issued and fully paid shares is due to the capitalisation of net proceeds on GRZ collections on the non-performing loans that the Bank is managing (note 17).

19. CONTINGENT LIABILITIES AND ASSETS

The Bank is involved in various claims and lawsuits incidental to its business.

As noted in note 2, the Bank is indemnified by GRZ for all liabilities incurred prior to November 2001. The existing suits and other legal proceedings all relate to periods prior to November 2001, including the Norsad Fund.

In the opinion of the Directors, these claims and lawsuits in aggregate will not have an adverse effect on the financial statements as each potential liability has a corresponding asset from GRZ and the Bank's results will not be affected.

DEVELOPMENT BANK OF ZAMBIA**DETAILED OPERATING STATEMENT**

for the year ended 31 December 2003

Kwacha million	Year ended 31 December 2003	1 April 2002 to 31 December 2002
INCOME		
Interest from portfolio loans	-	6,677
Interest suspended on portfolio loans	-	(4,388)
	-	2,289
Interest expense	-	(5,720)
	-	(3,431)
Interest from short term deposits and investments	2,389	422
Dividends received	1,509	6
Trade finance income	164	-
	4,063	(3,003)
OTHER OPERATING INCOME		
Commission income	2,647	-
Net exchange gains	908	-
Rental income	427	314
Profit on disposal of tangible fixed assets	269	34
Application fees	70	-
Miscellaneous income	32	-
Interest from staff loans	6	34
	4,359	382
	8,421	(2,621)
EXPENDITURE		
Employment costs	3,021	4,094
Administrative expenses	2,141	1,521
Provision for retirement benefits	599	1,803
Depreciation	324	345
Other doubtful receivables	115	37
Finance lease charges	57	-
Bank charges	25	47
Donations	16	3
Net exchange losses	-	17,353
Portfolio discounts	-	4,205
Rent payable	-	93
	6,298	29,501
PROFIT (LOSS) BEFORE TAXATION	2,123	(32,122)

DEVELOPMENT BANK OF ZAMBIA

TEN YEAR FINANCIAL RECORD

Kwacha millions	1995	1996	1997	1998	1999	2000	2001	31 March 2002	31 December 2002	31 December 2003
Loan amounts approved	14,418	14,952	14,629	1,015	-	-	-	-	-	2,500
Equity/investments approved	-	594	5,828	-	-	-	-	-	-	-
Number of projects approved	39	21	24	3	-	-	-	-	-	1
Disbursements	2,723	13,054	32,550	20,397	17,303	508	21,378	-	-	2,167
Portfolio loans outstanding	40,923	59,920	81,948	120,960	168,669	177,997	192,135	240,566	977	504
Local currency	1,459	1,804	2,516	2,292	1,848	1,369	1,108	1,026	977	504
Foreign currency	39,463	58,116	79,432	118,668	166,821	176,628	191,027	239,540	-	-
Portfolio loans repayment	2,306	2,482	7,792	5,871	7,344	5,162	1,949	883	-	-
Local currency	227	197	7,399	543	376	187	1,562	109	52	473
Foreign currency	2,079	2,285	22,507	5,328	6,968	4,975	387	774	2,433	-
Profit (loss) before taxation	2,531	956	1,578	(8,789)	(38,279)	(23,750)	(40,982)	(30,131)	(32,122)	2,123
Total shareholders funds	3,449	7,270	8,242	(666)	(71,508)	(95,368)	(136,466)	(209,426)	10,303	15,484
Paid up share capital	4,827	6,302	7,925	8,246	8,470	8,470	8,470	8,470	8,470	11,744
Long term borrowings outstanding	30,484	52,212	79,109	109,150	153,237	170,741	183,168	239,096	4	4
Local currency	103	103	92	102	102	102	102	102	4	4
Foreign currency	30,380	52,108	79,017	109,048	153,135	170,639	183,270	238,994	-	-