



# Prospectus

Zambia National Commercial Bank Plc

Zanaco...the People's Bank!

Date of issue: 22 September 2008



**zanaco**  
Big Strong Reliable



**ZPTF**  
ZAMBIA PRIVATISATION TRUST FUND

## **INVESTMENT NOTICES**

### **ENGLISH**

If you are in any doubt as to the meaning of the contents of this Prospectus or as to what action you should take, please consult your banker, stockbroker, advocate, accountant or other professional advisor immediately.

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### **BEMBA**

Ngamuletwishika ifyakuchita nangu tamumfwikishe ifilembelwe mulici citabo calinga mwaipusha ibanki uko mubika ulupiya nangu balya abachenjela mukushitisha ububoni bwa mu twampani, ba ndubulwila ba milandu, abachenjela mukupenda ulupiya nangu abantu bambi abo mwachetekela ukuti balisambilila ifya bunonshi bwa calo kabili bachishinka.

### **CHEWA**

Ngati muli ndi chikaiko ndi nzeru imene ingakukomereni, chonde funsani thandizo ku banki lanu, akatswiri a nchito zachilungamo, asungi a ndalama, kapenanso akaswiri ena pa nchito za chuma mosataya nthawi konse.

### **KAONDE**

Inge mubena kuzhinauka nabyomwafwainwa kuba, mwakonsha shakuya ulaminako bantu bali, utala pakupotesha kwa bibese byansabe mukafoanyi, Mutonyi, Shayuka wa mali nangwa mufunjishi wba Shayuka bukiji.

### **LOZI**

Haiba mwa hakanyeha ka se mu swanela ku eza, mukupiwa kuli ona fa, muyo bonana ni ba Panga ya mina, Ba atuli ba mina, Ba babaleli ba masheleni kapa bo Caziba ba ba cuukile mwa musebezi wa ku eleza sicaba.

### **LUNDA**

Neyimona hiwunelukishiku chiwahi hajawalala, bayi wujinokaku helatuhu chantesha kuya nakuyihulamu aka yipawu, ankulun'gan'ga adizinan'gawu jamali, an'ganji, akakuhemba mali, kushilahutuhu ninaakulukayitembi, kon'gaka mwenimu chakubula nikumba mpini vei.

### **LUVALE**

Nge muchili nakuhuhwasana hachuma mwatela kulinga, twamiloko muhulise vakanyambaulu yenu, mukakumilanjisha vikumba, kuluwa mujishimbi, kuluwa mumali chipwe tuhu kuluwa kala ejiva kweulula vene oholyapwa.

### **TONGA**

Kuti na mulazumbauzya, tamuzyi cibotu cinga camungwasya. Mukutasowa ciindi amubuzye banga nkomuyobweda mali, nokuba kuli bahaahibwene mumakani amali na kuli loya wenu, nokuba kuli haabusongo mukuyobola mali nokuba kuli bamwi bahaabusongo baiya zyamakani amali.

## VISION, VALUES AND MISSION

### OUR VISION

- To be the “**People’s Bank**”, and to be the leading financial services firm in Zambia, providing sustainable financial returns and benefits to all our stakeholders

### OUR VALUES

#### What drives us?

- Proactive, results oriented and pride

#### How do we achieve our goals?

- Teamwork, accountability and competence

#### What guides us?

- Integrity, respect and professionalism

### OUR MISSION

- To consistently exceed our stakeholders’ expectations in proactively designing, selling, delivering and servicing competitively priced financial solutions for all key segments of the Zambian public, in rural and urban areas, through appropriate technology and distribution channels, with empowered and motivated staff

**Prospectus dated 29 September 2008**

Action required: If you are in doubt as to the meaning of the contents of this Prospectus or as to what action you should take, please consult your accountant, bank manager, lawyer, stockbroker or other professional advisor immediately. If you wish to apply for shares in terms of the Offer, then you must complete the procedures for application and payment set out in section XIII of this document.

Zanaco is a public company and in conformity with Part V of the Securities Act, Chapter 354 of the Laws of the Republic of Zambia ("the Securities Act"), its shares are registered with the Securities and Exchange Commission of Zambia.

**Zambia National Commercial Bank Plc**

(Registration number 5387)

(Incorporated in the Republic of Zambia)

("Zanaco" or "the Company")



**zanaco**  
Big Strong Reliable



This is an initial public offering of ordinary shares with a par value of K 10.00 each in the share capital of Zanaco ("Ordinary Shares").

The Offer consists of:

- I. **an offer for sale by the Zambia Privatisation Trust Fund ("ZPTF") of the Government of the Republic of Zambia's ("GRZ") shareholding in Zanaco, aggregating 25.8% of the share capital of Zanaco, totalling 253,968,752 Ordinary Shares at an offer price of K 470 per share ("Offer Price"), payable in full on application ("the Offer for Sale")**  
comprising
  - a preferential offer for sale of 25,396,875 existing Ordinary Shares to Zambian employees of Zanaco ("the Preferential Offer");
  - a public offer for sale of 228,571,877 existing Ordinary Shares to Zambian citizens and eligible Zambian institutions only ("the Public Offer for Sale"); and
- II. **an offer for subscription by Zanaco of an additional 44,021,250 new Ordinary Shares to the General Public at the Offer Price payable in full on application ("the Offer for Subscription")**

The Preferential Offer and the Public Offer for Sale are collectively known as the "Offer for Sale". The Offer for Sale and the Offer for Subscription are collectively known as the "Offer".

<b>Opening of the Offer</b>	<b>Monday, 29 September 2008</b>
<b>Closing of the Offer</b>	<b>Thursday, 23 October 2008</b>
<b>Anticipated date of listing and commencement of trading on the LuSE</b>	<b>Monday, 17 November 2008</b>

This Prospectus is issued in compliance with the Companies Act, Chapter 388 of the Laws of the Republic of Zambia, the Securities Act and the Harmonised Listing Rules of the Lusaka Stock Exchange ("LuSE") and the Banking and Financial Services Act Chapter 387 of the Laws of Zambia.

Prior to the Offer, there has been no active public market for the Ordinary Shares. The Securities and Exchange Commission of Zambia ("SEC") and the LuSE have granted approval for the registration and listing of the Ordinary Shares on the LuSE respectively. The Ordinary Shares will only be traded in electronic form.

**Investing in the Ordinary Shares involves risks. Potential investors are referred to the "Risk Factors" section of this Prospectus for considerations relevant to an investment in the Ordinary Shares.**

The Ordinary Shares have not been, and will not be, registered under the US Securities Act. The Ordinary Shares are being offered outside the United States in accordance with Regulation S under the US Securities Act and, subject to certain exceptions, may not be offered, sold or delivered within the United States or to, or for the benefit of, US persons.

The directors of Zanaco, whose names are given in section VI of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, that they have made all reasonable enquiries to ascertain such facts and that the Prospectus contains all information required by law.

Each of the auditor, reporting accountant, legal advisor, advisor to the Offer and the Listing, sponsoring broker, transfer agent and commercial bank has consented in writing to act in the capacities stated and to their names being stated and, where applicable, their reports being included in this Prospectus.

Lewis Nathan Advocates have confirmed to the Directors and the Trustees that the Prospectus meets all requirements of the Harmonised Listings Requirements of LuSE, the Securities Act, the Companies Act, the Banking and Financial Services Act and any other regulations and legislations, where applicable.

**A copy of this Prospectus has been delivered to the Registrar of Companies for registration. The Registrar of Companies has not checked and will not check the accuracy of statements made and accepts no responsibility for the financial soundness of the Company or the value of the Ordinary Shares and have not withdrawn their consent prior to the publication of this Prospectus.**

This Prospectus is available in English only.

**ADVISERS TO THE OFFER AND LISTING**

**Joint Lead Advisers to the Offer and Listing**



**STOCKBROKERS ZAMBIA**

**Co Lead Advisor to the Offer**



**Reporting accountant**



**Sponsoring broker**



**STOCKBROKERS ZAMBIA**

**Auditors**



**Principal legal advisor to Zanaco and the ZPTF**



**Independent legal advisor to Zanaco**



**Transfer agent**



**Share registrar**



## CORPORATE INFORMATION

### Secretary and registered office

Bank secretary  
12<sup>th</sup> Floor Zanaco Head Office Building  
Chainda Place, Cairo Road, Lusaka  
(P O Box 33611, Lusaka, Zambia)

### Joint lead Advisers to the Offer and Listing

Stockbrokers Zambia Limited  
2<sup>nd</sup> Floor, Design House  
Dar Es Salaam Place, Lusaka  
(P O Box 38956, Lusaka, Zambia)

Imara Corporate Finance  
Block A, Unit 2, Plot 117, Millennium Office Park, Kgale Hill  
Private Bag 00186, Gaborone  
(Private Bag 00186, Gaborone, Botswana)

### Co lead advisor to the Offer and Listing

Zambia National Commercial Bank Plc  
Zanaco Head Office Building  
Chainda Place, Cairo Road, Lusaka  
(P O Box 33611, Lusaka, Zambia)

### Auditor

PricewaterhouseCoopers  
7<sup>th</sup> Floor National Savings & Credit Bank Building  
North End, Cairo Road, Lusaka  
(P O Box 30942, Lusaka, Zambia)

### Receiving bank

Zambia National Commercial Bank Plc  
Zanaco Head Office Building  
Chainda Place, Cairo Road, Lusaka  
(P O Box 33611, Lusaka, Zambia)

### Receiving agents

Intermarket Securities Limited  
Central Park  
Farmers House, Lusaka  
(P O Box 35832, Lusaka, Zambia)

Stockbrokers Zambia Limited  
Second Floor, Design House  
Dar Es Salaam Place, Lusaka  
(P O Box 38956, Lusaka, Zambia)

### Transfer agent

Lewis Nathan Advocates  
87 Provident Street  
Fairview, Lusaka  
(P O Box 37268, Lusaka, Zambia)

### Reporting accountant

Deloitte & Touche Zambia  
2nd Floor, Kafue House  
1 Nairobi Place, Lusaka  
(P O Box 30030, Lusaka, Zambia)

### Sponsoring broker

Stockbrokers Zambia Limited  
Second Floor, Design House  
Dar Es Salaam Place, Lusaka  
(P O Box 38956, Lusaka, Zambia)

### Principal legal advisor to Zanaco and the ZPTF

Lewis Nathan Advocates  
87 Provident Street  
Fairview, Lusaka  
(P O Box 37268, Lusaka, Zambia)

### Independent legal advisor to Zanaco

Chibesakunda & Company  
Abacus House  
Plot 2338, Kabelenga Road, Lusaka  
(P O Box 30279, Lusaka, Zambia)

### Share Registrar

Corpserve Transfer Agents Limited  
Plot 2760  
Lubu Road, Long Acres, Lusaka  
(P O Box 38688, Lusaka, Zambia)

Pangaea Renaissance Securities Limited  
Third Floor, North Wing  
Central Park, Farmers House, Lusaka  
(P O Box 30163, Lusaka, Zambia)

Zambia Postal Services Corporation  
Zampost Headquarters  
Provident House, Ndola  
(P O Box 71857, Ndola, Zambia)

# CONTENTS

	<b>Page</b>
TABLE OF CONTENTS	7
IMPORTANT INFORMATION	8
DEFINITIONS	10
I SUMMARY	14
II RISK FACTORS	19
III SELECTED FINANCIAL AND OPERATING INFORMATION	23
IV ZAMBIAN ECONOMY, CAPITAL MARKET AND OUTLOOK	27
V INFORMATION ON ZANACO	33
VI DIRECTORS AND MANAGEMENT	41
VII CORPORATE GOVERNANCE	45
VIII SHARE CAPITAL	47
IX OTHER FINANCIAL INFORMATION	48
X BACKGROUND TO THE OFFER AND LISTING	49
XI DETAILS OF THE OFFER AND LISTING	51
XII SELLING RESTRICTIONS	54
XIII APPLICATION PROCEDURES	56
XIV MATERIAL CONTRACTS	59
XV GENERAL INFORMATION	60
XVI REGISTRATION OF PROSPECTUS	61
XVII DOCUMENTS AVAILABLE FOR INSPECTION	62
ANNEXURES	
ANNEXURE 1: QUALIFICATION, BORROWING POWERS, APPOINTMENT AND REMUNERATION OF DIRECTORS	63
ANNEXURE 2: INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE PROFIT FORECAST	64
ANNEXURE 3: INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON ZANACO	68
ANNEXURE 4: DIRECTORY OF RECEIVING AGENTS	100

## **IMPORTANT INFORMATION**

The definitions as set out in the “Definitions” section of this Prospectus apply to this section regarding important information.

The Directors, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, that they have made all reasonable enquiries to ascertain such facts and that the Prospectus contains all information required by law.

No person has been authorised by the ZPTF and/ or Zanaco to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the issue and subscription of the Ordinary Shares and, if given or made, such information or representation must not be relied upon as having been authorised by the ZPTF, Zanaco or the Joint Lead Advisers. Neither the delivery of this Prospectus nor any subscription made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of Zanaco since the date of the publication of this Prospectus, or that any other financial statement or other information supplied in connection with the Prospectus is correct at any time subsequent to the date indicated in the document containing the same.

This Prospectus and any other information supplied in connection with the Ordinary Shares is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the ZPTF, Zanaco or the Joint Lead Advisers that any recipient of this Prospectus or of any other information supplied in connection with the Ordinary Shares, should subscribe for any Ordinary Shares. Each investor contemplating purchasing any Ordinary Shares should make its own independent investigation of the financial condition and affairs and its own appraisal of Zanaco, including the merits and risks involved.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy or subscribe for any Ordinary Shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the ZPTF nor Zanaco or the Joint Lead Advisers represent that this Prospectus may be lawfully distributed, or that any Ordinary Shares may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the ZPTF, Zanaco or the Joint Lead Advisers that would permit a public offering of any Ordinary Shares or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Ordinary Shares may be offered or subscribed for, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except in compliance with any applicable laws and regulations, and the Joint Lead Advisers have represented that all offers and sales or subscriptions will be made in compliance with this prohibition. To the extent that this Prospectus may be sent to any jurisdiction in which the dissemination of this Prospectus is illegal or fails to conform to the laws of such jurisdiction, it is provided for information purposes only.

The distribution of this Prospectus and the offer or sale of or subscriptions for Ordinary Shares may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus or any Ordinary Shares come, must inform themselves about, and observe any such restrictions. In particular there are restrictions on the distribution of this Prospectus and the offer or sale of Ordinary Shares in the United States, the United Kingdom, and the European Union, as disclosed in the “Selling Restrictions” section of this Prospectus. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Ordinary Shares have not been and will not be registered under the US Securities Act or with any securities regulator of any state or jurisdiction of the United States. Ordinary Shares may not be offered, sold, subscribed for or delivered within the United States or to US persons except in accordance with Regulations under the US Securities Act.

### **Presentation of financial information**

The independent Reporting Accountant’s report, for the three years ended 31 December 2007, 31 December 2006 and 31 December 2005, and the six months period ended 30 June 2008, as well as financial information derived from such financial statements, have been included in this Prospectus.

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

## **Market and industry data**

Market and other statistical information used throughout this Prospectus are based on independent industry publications, government publications or other published independent sources. Although Zanaco believes these sources are reliable, the Company has not verified the information independently and cannot guarantee its accuracy and completeness.

Market data and other statistical information contained in this Prospectus that are based on BOZ publications are based on prudential accounting financial information.

## **Forward looking statements**

This Prospectus includes “forward-looking statements” which include all statements other than statements of historical facts, including, without limitation, those regarding Zanaco’s financial position, profit and revenue forecasts, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to Zanaco’s products and services) and any statement preceded by, followed by or that includes the word “projects”, “prospects”, “estimates”, “targets”, “believes”, “expects”, “aims”, “intends”, “will”, “may”, “anticipates”, “would”, “could” or “seeks” or any similar expression or the negative thereof.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other important factors beyond Zanaco’s control that could cause the actual results, performance and/or achievements of Zanaco to be materially different from future results, performance and/or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Zanaco’s present and future business performance and/or strategies and the environment in which Zanaco will operate in the future.

Even if Zanaco’s results of operations, financial condition, liquidity and the development of the industries in which Zanaco operates are consistent with the forward-looking statements contained in this Prospectus, such results, condition, liquidity or developments may not be indicative of results, condition, liquidity or developments in subsequent periods.

Important factors that could cause Zanaco’s actual results, performance and/or achievements to differ materially from those in forward-looking statements are discussed elsewhere in this document. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

These forward-looking statements speak only as of the date of this document. Zanaco and its directors expressly disclaim any obligation or undertaking to disseminate revisions to any forward-looking statements contained in this document to reflect any change in Zanaco’s expectations with regard to such statements or any change in events, conditions or circumstances on which any such statements are based, unless required to do so by applicable law or the LuSE Rules.

## DEFINITIONS

Throughout the Prospectus and the appendices hereto, unless otherwise indicated, the words in the first column have the meanings stated opposite them in the second column, words in the singular include the plural and *vice versa*, words importing one gender include the other gender and references to a person include references to a body corporate and *vice versa*:

“Allocation” or “Allotment”	means the allocation of shares to Applicants under the Offer;
“Announcement Date”	date of announcement of the results of the allocation and allotment of the Offer for Sale and the Offer for Subscription of Ordinary Shares respectively as specified in Details of the Offer;
“Applicant” or “Subscriber”	a person, including juristic persons, applying for Ordinary Shares in terms of the Offer set out in this Prospectus;
“Application Form(s)”	the forms of application attached to the back of this Prospectus, to be used by Applicants in connection with the Offer;
“Articles”	the Articles of Association of Zanaco as amended from time to time;
“ATS”	Automated Trading System;
“Bank of Zambia” or “BOZ”	the Central Bank of the Republic of Zambia;
“Bank of Zambia Act”	the Bank of Zambia Act, Chapter 360 of the laws of Zambia;
“Bankers Cheque/ Draft”	a cheque/draft issued by a licensed commercial bank;
“Banking and Financial Services Act”	the Banking and Financial Services Act, Chapter 387 of the laws of Zambia;
“Board” or “Board of Directors”	the Board of Directors of Zanaco;
“Business Day”	any day other than a Saturday, Sunday or official public holiday in the Republic of Zambia;
“the Capital Raise”	the raising of approximately K 80 billion by the Company, through the issue of 170,625,000 new Ordinary Shares at the Offer Price;
“CEE Act”	the Citizenship Economic Empowerment Act, No 9 of 2006;
“Closing Date”	being the last date and time for submission of Application Forms;
“Company” or “Zanaco”	Zambia National Commercial Bank Plc (registration number 5387), a public limited liability company duly registered and incorporated in terms of the laws of the Republic of Zambia and whose principal activity is provision of banking and financial services in Zambia;
“Companies Act”	the Companies Act, Chapter 388 of the laws of Zambia;
“Copperbelt”	the copper mining area of Zambia, which is centred around the Copperbelt province of Zambia;
“CSD”	the LuSE Central Share Depository Limited;
“Directors”	the executive and non-executive directors of the Company whose details are set out in the Prospectus;
“DPS”	dividend per share;
“Eligible Employees”	Zambian Employees of Zanaco;
“Eligible Institutions”	an entity established in Zambia that allows participation by the general public of Zambia and which, in the opinion of the trustees of the ZPTF, has been established with the primary objective of indirectly benefiting citizens of Zambia by investing its assets in equity securities effectively for the benefit of such citizens. Such an entity may include collective investment media such as unit trusts and investment companies, as

	well as pension funds, insurance companies and long-term savings institutions;
“Employees”	individuals that are pensionable employees, contractual employees, executives or Directors of the Company;
“EPS”	earnings per share;
“Euro” or “EUR” or “€”	the official currency of the European Union;
“ESOP”	Employee Share Ownership Plan for Eligible Employees based on the Preferential Offer;
“FMO”	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.;
“FSDP”	the Financial Sector Development Plan. A comprehensive strategy that has been formulated by the GRZ to address the current weaknesses in the Zambian financial system as well as guide efforts aimed at realising the vision of a financial system that is stable, sound and market-based and that would support efficient resource mobilisation necessary for economic diversification and sustainable growth;
“GDP”	Gross Domestic Product;
“the General Public”	targeted subscribers for the Offer for Subscription, which include Zambian and non Zambian investors;
“Government” or “GRZ”	the Government of the Republic of Zambia;
“IFRS”	International Financial Reporting Standards;
“Imara”	Imara Botswana Limited (Registration number 2002/2770), a company registered in Botswana;
“Joint Lead Advisers”	Imara Botswana Limited (Registration number 2002/2770), a company registered in Botswana and Stockbrokers Zambia Limited (Registration number 52224), a company registered in Zambia;
“Kwacha” or “K” or “ZMK”	the legal tender of Zambia in which all monetary amounts in this Prospectus are expressed unless otherwise indicated;
“Libor”	London Inter-bank Offered Rate;
“the Listing”	the proposed admission to listing on the LuSE of all Ordinary Shares in the share capital of Zanaco on 17 November 2008;
“the LuSE”	the Lusaka Stock Exchange Limited;
“the Minorities”	shareholders of the Company other than ZPTF, GRZ and Rabobank prior to the Offer
“Net Asset Value” or “NAV”	the result of subtracting a company’s long term and current liabilities from the sum of its fixed and current assets;
“the Offer”	collectively, the Offer for Sale and the Offer for Subscription;
“the Offer Price”	K 470 per Ordinary Share, payable in full on application, in Kwacha, upon terms and conditions set out in this Prospectus. The Ordinary Shares will be transferred to successful Applicants free of any encumbrances;
“the Offer for Sale”	the offer for sale by the ZPTF of 253,968,752 existing Ordinary Shares at the Offer Price, to Eligible Employees, Zambian citizens and Eligible Institutions, on behalf of GRZ comprising :  (a) the Preferential Offer; and  (b) the Public Offer for Sale

“the Offer for Subscription”	the offer for subscription of 44,021,250 new Ordinary Shares at the Offer Price, to the General Public by Zanaco;
“Ordinary Shares”	Ordinary Shares with a par value of K 10.00 each in the share capital of Zanaco;
“PAT”	profit after tax;
“PBT”	profit before tax;
“PBV ratio”	price to book value ratio;
“PE ratio”	price earnings ratio;
“Proparco”	Société de Promotion et de Participation pour la Coopération Economique of France;
“Privatisation Act”	the Privatisation Act, Chapter 386 of the laws of Zambia;
“Prospectus”	this Prospectus and the appendices hereto and any application forms enclosed;
“Prospectus Directive”	Directive 2003/71/EC as amended, superseded or re-instated and includes any relevant implementing measure in each member state of the European Economic Area;
“the Preferential Offer”	the offer for sale by ZPTF of up to 25,396,875 existing Ordinary Shares, at the Offer Price to Eligible Employees;
“the Public Offer for Sale”	the public offer for sale by ZPTF of 228,571,877 existing Ordinary Shares, at the Offer Price to Zambian citizens and Eligible Institutions only;
“Rabobank”	Rabo Financial Institutions Development B.V.;
“Rabobank Group”	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., its subsidiaries and the local Rabobank banks that hold the shares of the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.;
“the Receiving Agents”	the receiving agents to the Offer;
“the Registrar of Companies”	the Zambian Registrar of Companies, established pursuant to section 366 of the Company’s Act;
“the Reporting Accountants”	the appointed reporting accountants for the Offer, being Deloitte and Touche Zambia;
“Return on Assets” or “ROA”	the result of dividing a company’s PAT by the average total assets;
“Return on Equity” or “ROE”	the result of dividing a company’s PAT by the average shareholder’s equity;
“SADC”	Southern African Development Community;
“the Securities Act”	the Securities Act, Chapter 354 of the laws of Zambia;
“the SEC”	the Securities and Exchange Commission Zambia;
“Stockbrokers Zambia”	Stockbrokers Zambia Limited (Registration number 52224), a company registered in Zambia and a member of the LuSE and licensed by the SEC as a dealer;
“the Transfer Agent”	the appointed transfer agents for the Offer;
“the Trustees”	the trustees of the ZPTF;
“Trust Deed”	the instrument establishing the ZPTF ESOP;
“USD” or “US\$”	United States Dollars;
“US Securities Act”	US Securities Act of 1933, as amended;

“Zampost”

the Zambia Postal Services Corporation;

“ZPTF”

the Zambia Privatisation Trust Fund, established under section twenty-nine of the Privatisation Act.

“ZSIC”

Zambia State Insurance Corporation Limited.

## I. SUMMARY

*This summary section highlights certain information contained in this Prospectus, which should be read in its entirety for a full appreciation of the subject matter contained herein.*

*If you are in any doubt as to its meaning, or what action to take, please consult, a licensed broker, investment advisor, accountant, lawyer or other professional advisor.*

*This section does not purport to be complete and is taken from, and is qualified by, the remainder of this Prospectus. Terms not otherwise defined in this section have the same meaning as used in the "Definitions" section of the Prospectus.*

### 1. NATURE OF BUSINESS

Zanaco is a registered commercial bank whose principal activity is to provide banking and financial services in Zambia. Zanaco is one of the top tier banks in Zambia in terms of asset size at K 2,110 billion, deposits from customers at K 1,799 billion and loans and advances to customers at K 797 billion as at 31 December 2007. The Company is a full service retail bank and currently has 55 branches/agencies, and 58 ATMs.

### 2. FINANCIAL AND OPERATING INFORMATION

In the financial year ended 31 December 2007, the total income recorded by Zanaco increased by 22% to K 295,197 million compared to K 241,650 million in 2006.

In the same period, profit before tax rose by 4.8% to K 41,924 million from K 40,018 million recorded in 2006. Profit after tax, benefited from a tax credit of K 5,365 million, and rose by 62% to K 47,289 million.

Consequently, basic earnings per share increased by 62%, from K 29.63 per share in 2006 to K 48.06 per share in 2007.

The average return on equity ("ROE") for the financial year ended 31 December 2007 was 26.4% compared to 19.8% for 2006 while the return on assets ("ROA") was 2.5% and 1.8% respectively.

The operating cost to income ratio was 78.2% in 2007, 75.8% in 2006 and 79.3% in 2005.

Net Asset Value ("NAV") increased from K 159,028 million in 2006 to K 198,855 million in 2007.

The following table(s) should be read in conjunction with the reporting accountants' report on Zanaco, contained in Annexure 3 of this Prospectus. The financial statements have been prepared in accordance with IFRS.

#### Income statements for the last 3 years ended 31 December and the 6 months period ended 30 June 2008

Kwacha millions	Period to	Years ended 31 December		
	30 June 2008	2007	2006	2005
Interest income	124,538	188,462	151,746	157,694
Interest expense	(8,790)	(13,425)	(12,059)	(11,490)
<b>NET INTEREST INCOME</b>	<b>115,748</b>	<b>175,037</b>	<b>139,687</b>	<b>146,204</b>
Fees and commission income	53,113	100,253	73,653	68,776
<b>NET FEE AND COMMISSION INCOME</b>	<b>53,113</b>	<b>100,253</b>	<b>73,653</b>	<b>68,776</b>
Net gains from dealing in foreign currencies	5,135	13,079	18,534	(8,421)
Other operating income	6,898	6,828	9,776	8,673
<b>TOTAL OPERATING INCOME</b>	<b>180,894</b>	<b>295,197</b>	<b>241,650</b>	<b>215,232</b>
Operating expenses	(141,032)	(230,890)	(183,079)	(170,725)
<b>Operating profit before provisions and tax</b>	<b>39,862</b>	<b>64,307</b>	<b>58,571</b>	<b>44,507</b>
Impairment provisions on loans and receivables	(6,203)	(22,383)	(18,553)	480
<b>Profit before tax</b>	<b>33,659</b>	<b>41,924</b>	<b>40,018</b>	<b>44,987</b>
Income tax (expense) credit	(11,854)	5,365	(10,867)	(16,154)
<b>Profit attributed to ordinary shareholders</b>	<b>21,805</b>	<b>47,289</b>	<b>29,151</b>	<b>28,833</b>
Dividends paid	-	(10,001)	(10,001)	(10,007)
Basic and diluted earnings per Share	<b>22.16</b>	<b>48.06</b>	<b>29.63</b>	<b>29.30</b>

Balance sheet as at 31 December for the last 3 years and the 6 months period ended 30 June 2008

Kwacha millions	Period to	Years ended 31 December		
	30 June 2008	2007	2006	2005
<b>Assets</b>				
Cash in hand	48,222	45,071	37,791	24,678
Balances with Bank of Zambia	315,649	421,675	398,680	415,084
Loans and advances to banks	57,567	160,221	116,717	115,090
Loans and advances to customers	879,925	796,737	488,736	288,817
Held to maturity investments	302,089	312,971	268,003	331,087
Available for sale investments	261,648	229,138	269,900	232,969
Property and equipment	111,449	106,074	66,104	66,303
Investment properties	13,610	8,832	4,740	4,645
Deferred tax assets	-	-	1,000	5,357
Current tax recoverable	7,108	17,333	17,741	17,482
Other assets	21,867	12,275	36,256	23,400
<b>TOTAL ASSETS</b>	<b>2,019,134</b>	<b>2,110,327</b>	<b>1,705,668</b>	<b>1,524,912</b>
<b>Liabilities</b>				
Deposits from banks	1,774	31,595	29,506	54,444
Deposits from customers	1,710,926	1,798,545	1,493,855	1,303,220
Other payables	62,794	55,415	23,279	32,377
Deferred tax liabilities	39,214	25,917	-	-
<b>Total liabilities</b>	<b>1,814,708</b>	<b>1,911,472</b>	<b>1,546,640</b>	<b>1,390,041</b>
<b>Shareholders' equity</b>				
Share capital	9,844	9,844	9,844	9,844
Statutory reserves	9,844	9,844	9,844	9,844
General banking reserve	40,569	37,623	12,193	-
Revaluation reserves	50,972	51,538	50,241	44,208
Retained earnings	93,197	90,006	76,906	70,975
<b>Total shareholders' equity</b>	<b>204,426</b>	<b>198,855</b>	<b>159,028</b>	<b>134,871</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,019,134</b>	<b>2,110,327</b>	<b>1,705,668</b>	<b>1,524,912</b>

Salient ratios as at 31 December for the last 3 years and the 6 months period ended 30 June 2008

Kwacha millions	Period to	Years ended 31 December		
	30 June 2008 <sup>1</sup>	2007	2006	2005
<b>Performance</b>				
Operating costs to income	78.0%	78.2%	75.8%	79.3%
Net margin	6.2%	9.2%	8.6%	10.0%
Return on assets	1.2%	2.5%	1.8%	2.0%
Return on equity	12.5%	26.4%	19.8%	25.4%
Loan to Deposits ratio	51.4%	44.3%	32.7%	22.2%
<b>Growth</b>				
Interest income growth	NA	24.0%	-3.8%	54.1%
Net interest income growth	NA	25.3%	-4.5%	65.8%
Fee and commission income growth	NA	36.1%	7.1%	6.5%

Note

1. These ratios are calculated using the audited Kwacha amounts for 30 June 2008 as disclosed in the Reporting Accountant's Report on Zanaco (Annexure 3)

**Profit forecast**

Zanaco expects total operating income and net profit for the year ending 31 December 2008 to be approximately K 384,703 million and K 49,551 million respectively. Potential investors are referred to Annexure 2 of this Prospectus for the independent reporting accountants report on the profit forecast.

**Dividend policy**

The table below shows the dividend the Company has declared and paid out in the last 3 financial years.

Kwacha millions	2007	2006	2005
Dividends paid	10,001	10,001	10,007

Following the listing on the LuSE, the Company will follow a policy of declaring dividends out of the net profit of the Company as the Directors may deem prudent from time to time. Over the next few years, Zanaco will retain a significant part of its earnings which allows the Company to invest in the ongoing restructuring and repositioning of the business and its growth ambitions. After this, Zanaco expects to increase its dividend pay-out ratio.

### 3. THE OFFER

The Offer consists of a combined offer of existing and new Ordinary Shares, namely the Offer for Sale by the ZPTF and the Offer for Subscription by Zanaco, as follows:-

#### 3.1 ZPTF Offer for Sale

This is a public offer for sale by the ZPTF of 228,571,877 existing Ordinary Shares to Zambian citizens and Eligible Institutions only and a preferential offer for sale of up to 25,396,875 existing Ordinary Shares to Eligible Employees, at the Offer Price.

#### 3.2 Zanaco Offer for Subscription

Simultaneous to the Offer for Sale, Zanaco is raising new capital, through the issue of 170,625,000 new Ordinary Shares to existing shareholders of the Company at the Offer Price (the "Capital Raise") and pro-rata to their existing shareholding. The ZPTF has elected not to subscribe for the new Ordinary Shares under the Capital Raise. The 44,021,250 Ordinary Shares offered to the General Public at the Offer Price under the Offer for Subscription are the new Ordinary Shares not taken-up by the ZPTF. In case other existing shareholders of the Company will not take up the new Ordinary Shares offered under the Capital Raise pro rata to their existing holdings, these Ordinary Shares will also be offered in the Offer for Subscription.

#### 3.3 Purpose of the Offer and the Listing

The main purposes of the Offer and the Listing are to:

- enable the Zambian public and the employees of Zanaco to own shares of Zanaco and to encourage wider ownership of shares in general in line with GRZ policy and ZPTF objective of economic empowerment of Zambian citizens;
- provide a ready and transparent basis for valuation of Zanaco's shares, and hence, the market value of the Company;
- provide a market for shareholders to realise their investment in Zanaco through trading of their shares on the LuSE;
- enhance the public image and profile of Zanaco;
- promote and strengthen the Zambian capital market and the emergence of a dynamic and active private sector led economy in Zambia;
- obtain the necessary spread of shareholders to enable the listing of Zanaco shares on the LuSE;
- enable Zanaco to increase its capital base (Tier 1 capital); and
- enable Zanaco to fund restructuring and investments for future expansion and growth.

#### 3.4 Offer valuation

Net Asset Value ("NAV") per share (pre-issue) on 2007 <sup>1</sup>	K 202
Price to Book Value ("PBV") ratio (pre-issue) on 2007 <sup>1</sup>	2.33
Price Earnings ("PE") ratio (pre-issue) on 2007 <sup>1</sup>	9.79

**Note**

1. These ratios are calculated using the audited Kwacha amounts for 31 December 2007 as disclosed in the Reporting Accountant's Report on Zanaco (Annexure 3)

### 3.5 Summary shareholding before and after the Offer for Sale and the Capital Raise

Shareholder	Current shareholding prior to the Offer for Sale and the Capital Raise		Effect of ZPTF Offer for Sale		Effect of the Capital Raise		Final shareholding after the Offer for Sale and the Capital Raise	
	No. of Shares	% Holding	No. of Shares	% Holding	No. of Shares	% Holding	No. of Shares	% Holding
<b>RABOBANK</b>	482,343,754	49.0	482,343,754	49.0	83,606,250	49.0	565,950,004	49.0
<b>GRZ</b>	246,401,376	25.0	246,401,376	25.0	42,709,571	25.0	289,110,947	25.0
<b>ZPTF</b>	253,968,752	25.8	0	0.0	0	0.0	0	0.0
<b>MINORITIES</b>	1,661,127	0.2	1,661,127	0.2	287,929	0.2	0	0.0
<b>PUBLIC<sup>1</sup></b>	0	0.0	253,968,752	25.8	44,021,250	25.8	299,939,058	26.0
<b>TOTAL</b>	<b>984,375,009</b>	<b>100.0</b>	<b>984,375,009</b>	<b>100.0</b>	<b>170,625,000</b>	<b>100.0</b>	<b>1,155,000,009</b>	<b>100.0</b>

Note

1. After the ZPTF Offer for Sale and the Capital Raise, the minorities' shareholding is categorised under public

### 3.6 Use of proceeds

- The net proceeds from the Offer for Sale will accrue to the GRZ.
- The net proceeds from the Capital Raise will accrue to the Company and will be applied towards the restructuring, expansion and growth of Zanaco.

### 3.7 Zambian citizens, Eligible Institutions and Eligible Employees

Pursuant to section 29 of the Privatisation Act, 1992, the Minister of Finance of the Government of Zambia established the ZPTF for the purpose of holding shares in selected state owned enterprises in trust for the citizens of Zambia and qualifying Zambian institutions, for subsequent divestiture. The ZPTF is governed by a trust deed. This trust deed stipulates that the ZPTF may hold shares in previously state-owned enterprises for subsequent sale at such times and on such terms as its trustees may determine in order to achieve a wide distribution among citizens of Zambia and obtain a level of sale proceeds which is reasonable in the circumstances then prevailing.

In accordance with its mandate, the ZPTF is now offering for sale to Zambian citizens, Eligible Institutions and Eligible Employees, the 253,968,752 existing Ordinary Shares that it holds in Zanaco at the Offer Price under the terms and conditions outlined in this Prospectus.

### 3.8 General Public

A total of 44,021,250 new Ordinary Shares are hereby offered by Zanaco to the General Public to subscribe for at the Offer Price. The General Public are referred to the section XI "Details of the Offer and Listing" and section XIII "Application Procedures" of this Prospectus and to the Application Form attached to the back of this Prospectus.

### 3.9 Allocation and allotment criteria

The ZPTF for the Offer for Sale, and the Company for the Offer for Subscription, reserve the right to accept or refuse any application, either in whole or in part, or to accept some applications in full and others in part in such manner as they may, in their sole and absolute discretion determine.

The allocation and allotment of the Ordinary Shares under the Offer will be subject to the following criteria:

- In the Preferential Offer, Ordinary Shares will be allotted to Eligible Employees based on prior agreed criteria that take into account employee capacity to pay, length of service and salary.
- In the allotment of the Public Offer for Sale, preference will be given to Zambian citizens first, followed by Eligible Institutions.
- In the allotment of the Offer for Subscription, preference will be given to Zambian citizens first, followed by Employees, then Eligible Institutions and lastly, other investors.
- Ordinary Shares not applied for in the Preferential Offer will be offered in the Public Offer for Sale.
- New Ordinary Shares not applied for in the Capital Raise by existing shareholders will be offered in the Offer for Subscription.
- Multiple applications are not permitted

### 3.10 Minimum subscription

Applications for Ordinary Shares pursuant to the Offer must be for a minimum of 1,000 Ordinary Shares and in multiples of 100 Ordinary Shares thereafter.

### 3.11 Applications and completion of application forms

In relation to the Preferential Offer, the Director of Human Resources and Training at Zanaco will coordinate applications by Eligible Employees. Eligible Employees will be provided with forms containing full details and application instructions. Eligible Employees, who wish to participate in the Preferential Offer, should follow the application instructions contained within the form. Completed Application Forms should be lodged with the Director of Human Resources and Training in accordance with internal arrangements made by Zanaco by no later than 17:00 hrs on 23 October 2008.

In relation to the Offer, a completed application form (attached to this Prospectus), together with the relevant funds should be lodged no later than 17:00 hrs on 23 October 2008 with any of the authorised Receiving Agents set out in Annexure 4 of this Prospectus. This applies to any prospective Applicant other than for Eligible Employees.

Postal applications will only be accepted if they are accompanied by relevant funds in the form of a bank certified cheque and sent by registered mail and received on or before 23 October 2008 to the addresses below.

**Attention: ZANACO IPO Manager**

Stockbrokers Zambia Limited  
2<sup>nd</sup> Floor, Design House  
Dar Es Salaam Place  
P O Box 38956  
Lusaka, Zambia

**Attention: ZANACO IPO Manager**

Zambia National Commercial Bank Plc  
9<sup>th</sup> Floor, Zanaco Head Office Building  
Chainda Place, Cairo Road  
P O Box 33611  
Lusaka, Zambia

*Applications will only be considered if received by 17:00 hrs on 23 October 2008 by any of the Receiving Agents.*

*Accordingly, neither the Trustees nor the Company accept responsibility for any applications of the Offer that are, or may be, misdirected or lost or that are accepted by the Receiving Agents after the closing time and date of the Offer. Applications of the Offer must be in the form of a completed Application Form as attached to this Prospectus and completed in accordance with the instructions as set out in section XIII "Application Procedures" of this Prospectus. Only original completed Application Forms will be accepted.*

### 3.12 Listing and trading

The SEC has registered all the authorised Ordinary Shares of Zanaco. The LuSE has approved the Listing of all the issued Ordinary Shares as of the date of this Prospectus. The target listing date is 17 November 2008.

### 3.13 Company abbreviation, share code and ISIN code

Company abbreviation : ZANACO  
Share code : ZANACO  
ISIN code : ZM0000000250

### 3.14 Further copies of the Prospectus

Further copies of this Prospectus may be obtained during normal business hours from 29 September 2008 to 23 October 2008 from the offices of the following:

- Intermarket Securities Limited;
- Pangaea Renaissance Securities Limited;
- Stockbrokers Zambia Limited;
- Zanaco branches;
- Zampost branches.

## 4 IMPORTANT DATES AND TIMES

Opening date of the Offer (08:00 hrs)	29 September 2008
Closing date of the Offer (17:00 hrs)	23 October 2008
Announcement of allocations	17 November 2008
Confirmations of entitlement to shares mailed to Applicants	17 November 2008

## II. RISK FACTORS

*Prior to making an investment decision, potential investors should carefully consider the risk factors set out below in addition to other information contained in this Prospectus.*

### 1. COUNTRY AND INDUSTRY RELATED RISKS

#### 1.1 Foreign exchange risk

The Company is generally exposed to foreign exchange risk arising from transactions in foreign currency. The exchange rate between the Kwacha and various foreign currencies may go up or down resulting in either exchange gains or losses.

The Bank of Zambia (“BOZ”) sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The primary source of currency risk for a commercial bank is the related exposure arising from temporary mismatches between deposits or other liabilities mobilized in one currency and advances to customers or investments in other assets in another.

#### 1.2 Political and civil unrest risk

The political stability and social environment in Zambia in the recent years has been good. However Zambia's internal stability has often been in sharp contrast with the upheaval and civil unrest in many of its neighbouring countries. A decline of the political and social stability in Zambia could have a negative impact on investments in Zambian companies.

#### 1.3 Citizenship Economic Empowerment Act

The CEE Act was established with a view to setting out a legislative framework for the economic participation of Zambian citizens and companies in the Zambian economy. This was to be through policies on employment opportunities, grants of licences and concessions in various sectors, award of public tenders and contracts. Companies with certain levels of citizen participation may in the future be entitled to economic participation in various sectors which have not yet been identified in the CEE.

The Citizenship Empowerment Commission established under the CEE is required to set out codes or guidelines for the various sectors and monitor compliance. A Financial Sector Charter is intended to guide the implementation of certain CEE regulations and guidelines in the financial sector in general, and among banks specifically. At the date of the Prospectus the Financial Sector Charter has not been finalized.

#### 1.4 Regulatory risk

The BOZ, or other regulators which supervise the financial markets or have a direct or indirect influence on the financial markets could impose new regulations or change existing requirements. Such changes may impact provisioning policies, liquidity and capital adequacy requirements or other factors that may have an impact on banks.

#### 1.5 Monetary policy

Decline in interest rates on Government securities due to a gradual relaxation of the monetary policy and the issuance of longer dated Government paper has the effect of reducing interest income on Government securities as well as the lending rates of the banking sector, thus potentially decreasing revenues.

#### 1.6 The tax system

The Zambian tax system is well established and generally quite clear, however certain provisions of the tax legislation have not been clarified judicially and an element of uncertainty or lack of clarity may arise when dealing with the Zambia Revenue Authority. This uncertainty or lack of clarity coupled with high penalties for non-compliance could result in tax risks. Banking income taxes are higher than general corporate income taxes. A discount to income tax is granted to companies listed on the LuSE in the first year. Income tax rates maybe reviewed upwards or downwards which may result in a tax risk.

#### 1.7 Market risk

Market risk is the risk that changes in financial market prices like interest rates, foreign exchange rates, market volatilities and correlations, and liquidity will impact the financial condition of a company adversely.

Market risk exists wherever a company has trading, banking or investment positions. These exposures arise from proprietary positions and from customer driven business.

### **1.8 Interest rate risk**

Interest rate risk is the exposure of the financial condition of a company to adverse movements in the level of interest rates. Financial institutions are typically more exposed to downward trends in interest rates, as a decline in rates may result in reduced interest margins. There is a broad public pressure for market interest rates to come down and possible future regulatory intervention may contribute to such downward trend.

### **1.9 Funding and liquidity risk**

Liquidity risk is the risk that lending operations cannot be funded and financial commitments cannot be met in a timely and cost effective manner. The monitoring of liquidity risk is facilitated by the adoption of a series of limits that are in line with guidelines issued by the Bank Supervision Department of the BOZ.

## **2. COMPANY RELATED RISKS**

### **2.1 Competition and business risk**

The market for financial and banking services in Zambia has become increasingly competitive over the years. Competitors may seek to increase market share more aggressively, which could result in an adverse effect on the Company's lending revenues, fees and commissions. In addition, the Company's business may be affected by varying general economic and external events beyond the Company's control. Unfavourable financial or economic conditions may impact negatively on the Company's operations, particularly credit applications, the level of loan disbursements and the demand for other financial services, which could decrease significantly as a result. The Company's current trading position and future prospects are to a certain extent, dependent upon the overall political, social and economic situation in Zambia. Deterioration in any of those external factors may result in a material loss of revenue, which could affect the Company's overall operations.

### **2.2 Credit risk**

The Company's cash flow is subject to risks from non-performance by its customers of their loan repayment obligations. Existing or future customers may default on their loan obligations to the Company due to bankruptcy, lack of liquidity, operational failure or other factors that are beyond the Company's control. The foregoing could adversely impact the Company's operations.

### **2.3 Risk of inaccurately pricing of products and services**

The results of operations and financial condition of the Company depend, among other things, on its ability to set rates and prices accurately. In the past loans have been provided and in the future loans may be provided to customers at interest rates that are or could be below market rates. If the Company fails to establish adequate rates and prices for its products and services, its revenues could decline while its expenses increase resulting in proportionately greater losses. A risk of regulations governing a bank's ability to set, and change prices for services provided may also adversely impact the Company's revenues.

### **2.4 Operational risk**

The Company faces operational risk, including IT risk, arising from errors in the processing of transactions, frauds related to unauthorised payments or disbursements and failure to properly record, account and evaluate transactions. No assurance can be given that such exposure will not result in losses and/or cause a disruption in the Company's business, resulting in a negative impact on net revenue.

### **2.5 Employee risk**

The Company faces the risk of losing key members of staff to other banks and financial institutions. Although the Company makes every effort to ensure that all members of staff are remunerated in conformity with the market, people employed in the industry are known to move to competitors in the market. The employees fall into two main categories, namely non-unionised and unionised staff. Unionised staff members are employed under annually negotiated conditions of service agreement with the Zambia Union of Financial Institutions and Allied Workers ("ZUFIAW"). The inability to achieve an agreement, or accepted terms that are not perceived as satisfactory may impact staff morale and may result in staff action that may adversely impact the Company's revenues.

## **2.6 Strategic risk**

The Company's strategy may be inappropriate to support long-term corporate goals (e.g. sustainable growth) due to an inadequate strategic planning and/ or decision making process, or inadequate implementation of such strategies. This includes the risk of having a strategy that is unclear, or clear but not viable, or clear, viable but implemented inadequately. It also includes the risk of having an otherwise effective strategy fail as a result of unexpected circumstances.

## **2.7 Compliance risk**

The Company faces the risk of not being compliant with any statutory requirements of central or local government, including regulations imposed by the BOZ, the SEC and the LuSE. The Company's lead regulator is the Bank Supervision Department of the BOZ. A policy of constructive engagement is followed with all regulators and the BOZ Bank Supervision Department, in particular, is regarded as a key stakeholder.

## **2.8 Fraud risk**

Fraudulent practices by employees and customers can adversely affect the operations of the Company.

## **2.9 Litigation risk**

At present the Company faces several legal actions, including but not limited to claims from former Employees, claims on mortgage actions and claims from retention of title deeds. Provisions have been made for the outcome of these actions based on current estimate of the Company's financial exposure and in accordance with the Company's accounting principles, but it cannot be ruled out that the actual exposure is higher and the Company continues to adjust the provisions included in the accounts if necessary on the basis of further developments. Potential investors are referred to the "Litigation Statement" section of the prospectus for the actual provisions that have been made. This can also be the result of unexpectedly adverse court decisions on existing cases, new adverse developments on known and existing litigations or of new litigations on events preceding the partial privatisation through the sale of 49% to Rabobank. In addition, the Company may be subject to legal actions in the future, which may have an adverse effect on the Company's financial condition and results of operations.

## **2.10 Further restructuring costs**

Further costs need to be taken to restructure the Company's business and operations. The Company may not be able to realize the benefits that are expected to result from the ongoing restructuring programs to improve financial and operational performance, and these programs may involve additional costs and expenses. Furthermore, these programs may take longer than anticipated. Each of these eventualities may have an adverse effect on the Company's business, financial condition and results of operations.

## **2.11 Risk of dependence on relationship with Rabobank**

Rabobank, through Rabo International Advisory Services B.V., provides substantial management and technical services to the Company pursuant to a Management Services Agreement and a Technical Assistance Agreement. These services cover activities from management of the Company to technical assistance. The unavailability or discontinuation of such services for any reason or a significant change in the availability of such services could have an adverse effect on the Company's business, financial condition and results of operations.

## **2.12 Risk of pension shortfalls**

The Company may be required to make additional contributions to fund its pension plan. The Company currently provides a defined benefit pension plan for its employees. The Company's pension plan is a fully funded system, meaning the Company needs to make payments into the pension fund to satisfy the contractual pension entitlements of participants in the pension plan. These payments can be larger than foreseen, which could have an adverse effect on the Company's financial condition and/or results of operations. Management is exploring the possibility of migrating to a defined contribution plan, the financial impact of which cannot be quantified at this stage.

## **2.13 Risk of dependency on key customers**

The Company generates a significant proportion of its revenues from key customers, including the Government. The loss of all or a substantial portion of the business provided by these key customers or a

failure to secure future business could have a adverse effect on the Company's business, financial condition and results of operations.

### **3. MARKET RELATED RISKS**

#### **3.1 No prior market for the Ordinary Shares**

The LuSE is a relatively small market which can experience extremely limited liquidity from time to time. As the Ordinary Shares have not been traded previously it is not possible to provide any assurance in terms of the ability to trade the Ordinary Shares once Listed. The Ordinary Shares could trade at prices that may be higher or lower than the Offer Price.

#### **3.2 LuSE liquidity**

As at 30 June 2008, the aggregate market capitalisation of the LuSE was approximately USD 7.98 billion and there were 12 listed companies with a market capitalisation greater than USD 100 million. The approximate value of the total shares traded in the period January to the end of June 2008 amounted to USD 78.5 million, with approximately 1.3 billion shares changing hands. 4,508 trades were completed on the LuSE during this period. Potential investors are cautioned that they may encounter lower liquidity levels on the LuSE than that experienced in larger capital markets.

#### **3.3 Trading of the Ordinary Shares may be restricted in certain jurisdictions**

The Ordinary Shares have not been and will not be registered under the US Securities Act or the securities laws of any other jurisdiction and, subject to certain exceptions, the Ordinary Shares may not be offered, sold or delivered in any jurisdiction where such registration may be required. Potential investors are referred to the "Selling Restrictions" section of this Prospectus for further information in this regard.

#### **3.4 Volatility of the market**

The securities markets from time to time experience significant price and volume fluctuations, often not related to the operating performance of companies. These market fluctuations may also materially and adversely affect the market price of the Ordinary Shares.

#### **3.5 Dividend risk**

The Company does not have a formally approved dividend policy in place. Furthermore the Company may not be able to pay dividends in the future. The Company's results may fluctuate and the ability to pay dividends is dependent on the Company achieving adequate profits and on the business judgement of the Board of Directors as it relates to the appropriateness of the payment of dividends. The Company may not pay dividends if in the opinion of the Board this would cause the Company to be less than adequately capitalised. The payment of dividends is further subject to regulatory, legal and financial restrictions.

### III. SELECTED FINANCIAL AND OPERATING INFORMATION

#### 1. HISTORICAL FINANCIAL INFORMATION

The following tables set out selected financial information for the three years ended 31 December 2007, 2006 and 2005 and the six months period ended 30 June 2008 from the independent Reporting Accountant's report in Annexure 3 of this Prospectus. The independent Reporting Accountant's report on Zanaco has been prepared with reference to the financial statements audited by PriceWaterhouseCoopers. The financial statements have been prepared in accordance with IFRS.

##### Reporting accountants' reports

The reporting accountant's report on Zanaco is contained in Annexure 3 of this Prospectus.

##### Income statement for the preceding three years and the 6 months period ended 30 June 2008

The following table should be read in conjunction with the reporting accountants' report on Zanaco, contained in Annexure 3 of this Prospectus.

Kwacha millions	Period to 30 June 2008	Years ended 31 December		
		2007	2006	2005
Interest income	124,538	188,462	151,746	157,694
Interest expense	(8,790)	(13,425)	(12,059)	(11,490)
<b>NET INTEREST INCOME</b>	<b>115,748</b>	<b>175,037</b>	<b>139,687</b>	<b>146,204</b>
Fees and commission income	53,113	100,253	73,653	68,776
<b>NET FEE AND COMMISSION INCOME</b>	<b>53,113</b>	<b>100,253</b>	<b>73,653</b>	<b>68,776</b>
Net gains from dealing in foreign currencies	5,135	13,079	18,534	(8,421)
Other operating income	6,898	6,828	9,776	8,673
<b>TOTAL OPERATING INCOME</b>	<b>120,033</b>	<b>19,907</b>	<b>28,310</b>	<b>252</b>
Operating expenses	(141,032)	(230,890)	(183,079)	(170,725)
<b>Operating profit before provisions and tax</b>	<b>39,862</b>	<b>64,307</b>	<b>58,571</b>	<b>44,507</b>
Impairment provisions on loans and receivables	(6,203)	(22,383)	(18,553)	480
<b>Profit before tax</b>	<b>33,659</b>	<b>41,924</b>	<b>40,018</b>	<b>44,987</b>
Income tax (expense) credit	(11,854)	5,365	(10,867)	(16,154)
<b>Profit attributed to ordinary shareholders</b>	<b>21,805</b>	<b>47,289</b>	<b>29,151</b>	<b>28,833</b>
Dividends paid	-	(10,001)	(10,001)	(10,007)
Basic and diluted earnings per Share	<b>22.16</b>	<b>48.06</b>	<b>29.63</b>	<b>29.30</b>

Balance sheet as at 31 December for the last 3 years and the 6 month period ended 30 June 2008

Kwacha millions	Period to	Years ended 31 December		
	30 June 2008	2007	2006	2005
<b>Assets</b>				
Cash in hand	48,222	45,071	37,791	24,678
Balances with Bank of Zambia	315,649	421,675	398,680	415,084
Loans and advances to banks	57,567	160,221	116,717	115,090
Loans and advances to customers	879,925	796,737	488,736	288,817
Held to maturity investments	302,089	312,971	268,003	331,087
Available for sale investments	261,648	229,138	269,900	232,969
Property and equipment	111,449	106,074	66,104	66,303
Investment properties	13,610	8,832	4,740	4,645
Deferred tax assets	-	-	1,000	5,357
Current tax recoverable	7,108	17,333	17,741	17,482
Other assets	21,867	12,275	36,256	23,400
<b>TOTAL ASSETS</b>	<b>2,019,134</b>	<b>2,110,327</b>	<b>1,705,668</b>	<b>1,524,912</b>
<b>Liabilities</b>				
Deposits from banks	1,774	31,595	29,506	54,444
Deposits from customers	1,710,926	1,798,545	1,493,855	1,303,220
Other payables	62,794	55,415	23,279	32,377
Deferred tax liabilities	39,214	25,917	-	-
<b>Total liabilities</b>	<b>1,814,708</b>	<b>1,911,472</b>	<b>1,546,640</b>	<b>1,390,041</b>
<b>Shareholders' equity</b>				
Share capital	9,844	9,844	9,844	9,844
Statutory reserves	9,844	9,844	9,844	9,844
General banking reserve	40,569	37,623	12,193	-
Revaluation reserves	50,972	51,538	50,241	44,208
Retained earnings	93,197	90,006	76,906	70,975
<b>Total shareholders' equity</b>	<b>204,426</b>	<b>198,855</b>	<b>159,028</b>	<b>134,871</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,019,134</b>	<b>2,110,327</b>	<b>1,705,668</b>	<b>1,524,912</b>

2. MANAGEMENT COMMENTARY ON FINANCIAL RESULTS

Comparison of the year ended 31 December 2007 to the year ended 31 December 2006.

2.1 Net interest income

Interest income grew by 24.2% in 2007 as compared to 2006, in spite of decreasing interest rates. This was mainly due to the high growth of the loan portfolio which was driven by growth of consumer loans.

Interest expense increased by 11.3% in 2007 compared to 2006. The relative low increase in interest expenses was mainly due to the Company's large retail funding position.

2.2 Fees and commission income

Fees and commission income grew by 36.12% in 2007 as compared to 2006, mainly due to increased transaction volumes at ATMs, and other transaction based services, as well as improved collection of transaction income through the automation of the collection process.

2.3 Operating costs

Operating costs, as a percentage of income, increased from 75.8% of income in 2006 to 78.2% of income in 2007. This was primarily as a result of expenses arising from the restructuring exercise, salary adjustments, and branch refurbishments.

2.4 Loan and advances

The credit portfolio grew by 63% in 2007 as compared to 2006. This was because of the increased demand of consumer loans (Scheme Loans) and syndicated corporate loans.

## 2.5 Deposits

Total deposits grew by 20% in 2007 as compared to 2006. This was mainly driven by 29% growth in savings and current account balances. The deposit growth was further driven by the positive growth in numbers of accounts and average account balances. A summarised analysis of deposits is set out below: *(all amounts are in millions of Kwacha unless otherwise stated)*

<b>Year ended 31 December</b>	<b>2007</b>	<b>2006</b>
Current accounts	1,273,102	986,631
Savings accounts	474,207	366,829
Fixed deposits	51,236	140,395
	<b>1,798,545</b>	<b>1,493,855</b>

### Comparison of the year ended 31 December 2006 to the year ended 31 December 2005.

#### 2.6 Interest income

Interest income was 3.8% lower in 2006 than in 2005. This was principally due to the decreased yield rates on GRZ securities and the 4.6% decline in the level of investments in GRZ securities.

The income from GRZ securities decreased by 28.7% in 2006 compared to 2005, mainly as a direct result of falling interest rates.

#### 2.7 Fees and commission income

Fees and commission income was 7.1% higher in 2006 than in 2005. The primary reasons for the improvement were the increased transaction activities on ATMs and enhanced collection of fees.

#### 2.8 Operating costs

Operating costs, as a percentage of income, reduced from 79% of income in 2005 to 76% of income in 2006.

#### 2.9 Loans and advances

The credit portfolio grew by 69% in 2006 as compared to 2005. This was mainly due to increased investment in new loans and advances following a shift in the business model as a direct result of declining yields in GRZ securities.

#### 2.10 Deposits

Deposits grew by 14.6% in 2006 as compared to 2005. This was mainly driven by 10.7% growth in saving and current deposits. A summarised analysis of deposits is set out below: *(all amounts are in millions of Kwacha unless otherwise stated)*

<b>Year ended 31 December</b>	<b>2006</b>	<b>2005</b>
Current	986,631	897,262
Savings	366,829	325,324
Fixed	140,395	80,634
	<b>1,493,855</b>	<b>1,303,220</b>

## 3. PROFIT FORECAST

Zanaco expects total operating income and net profit for the year ending 31 December 2008 to be approximately K 384,703 million and K 49,551 million respectively. Potential investors are referred to Annexure 2 of this Prospectus for the independent reporting accountants report on the profit forecast.

Assumptions on the profit forecast are included in Annexure 2, the Independent Reporting Accountant's Report on the Profit Forecast.

## 4. DIVIDEND POLICY

The table below shows the dividend the Company has declared and paid out in the last 3 financial years.

<b>Kwacha millions</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Dividends paid	10,001	10,001	10,007

Following the listing on the LuSE, the Company will follow a policy of declaring dividends out of the net profit of the Company as the Directors may deem prudent from time to time. Over the next few years, Zanaco will retain a significant part of its earnings which allows the Company to invest in the ongoing restructuring and repositioning of the business and its growth ambitions. After this, Zanaco expects to increase its pay-out ratio.

It is envisaged that interim dividends, if any, based on half year performance will be declared in August or September and paid out within six weeks, whilst year end dividends, if any, will be declared in March or April and paid within six weeks of shareholder approval.

Dividends paid by a company listed on the LuSE are subject to 15% withholding tax if paid to Zambian registered corporations while those paid to approved Zambian pension funds and individuals resident in Zambia attract withholding tax at 0%. Dividends paid to foreign shareholders will be subject to withholding tax in accordance with relevant taxation treaties.

Shareholders' entitlement to unclaimed dividends lapses after a period of 12 years. Such dividends will thereafter be transferred to the BOZ. Shareholders may thereafter claim the funds from the BOZ within a period of six years.

## IV. ZAMBIAN ECONOMY, CAPITAL MARKET AND OUTLOOK

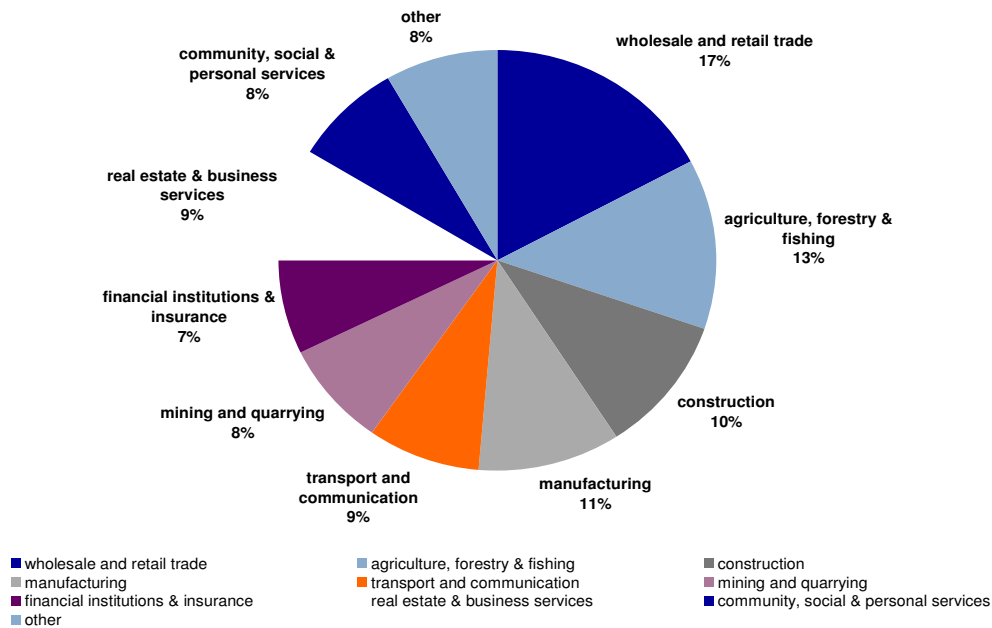
### 1. OVERVIEW

The official estimate of the population of Zambia in 2007 was 12 million people.

Zambia is a leading producer of copper and cobalt in Africa and amongst the top ranked producers of these minerals in global terms. Copper and mineral exports account for about 80% of Zambia's total export earnings.

According to published statistics, total Zambian GDP stood at K 51,559 billion as at December 2007. GDP composition is dominated by wholesale and retail trade at 17%, agriculture at 13%, manufacturing at 11% and construction at 10%.

**Exhibit 1.1: Composition of GDP in Zambia**

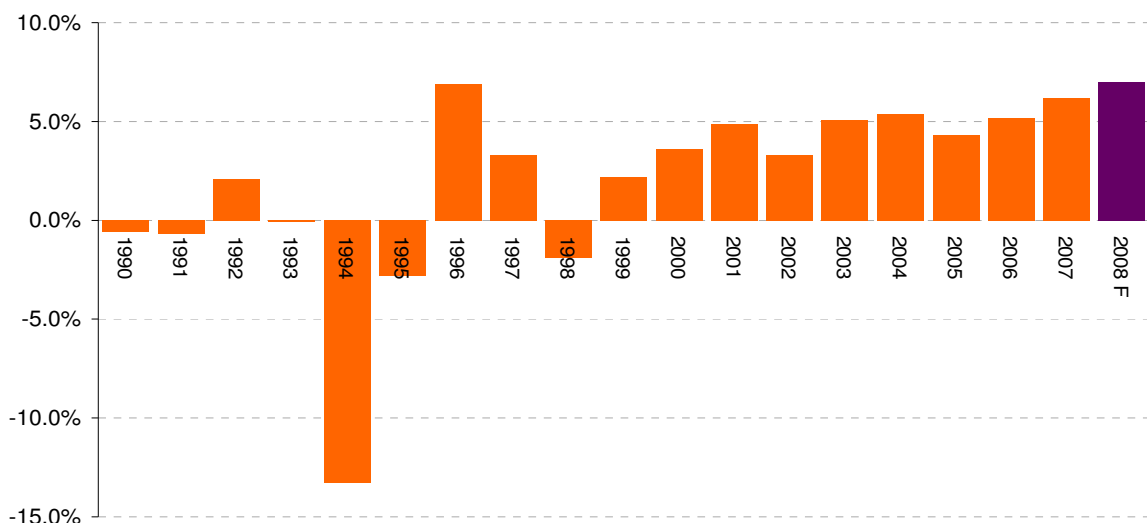


Source: Extracted from Central Statistics Office and National Accounts Statistics (2007 preliminary estimates)

### 2. ECONOMIC GROWTH

Between 1990 and 1995, Zambia recorded negative GDP growth rates. From 1996 onwards, save for 1998, Zambia has recorded positive GDP growth rates and in the past 5 years, from 2003 to 2007, GDP growth in real terms has exceeded 5% per annum each successive year and averaged at 5.2%.

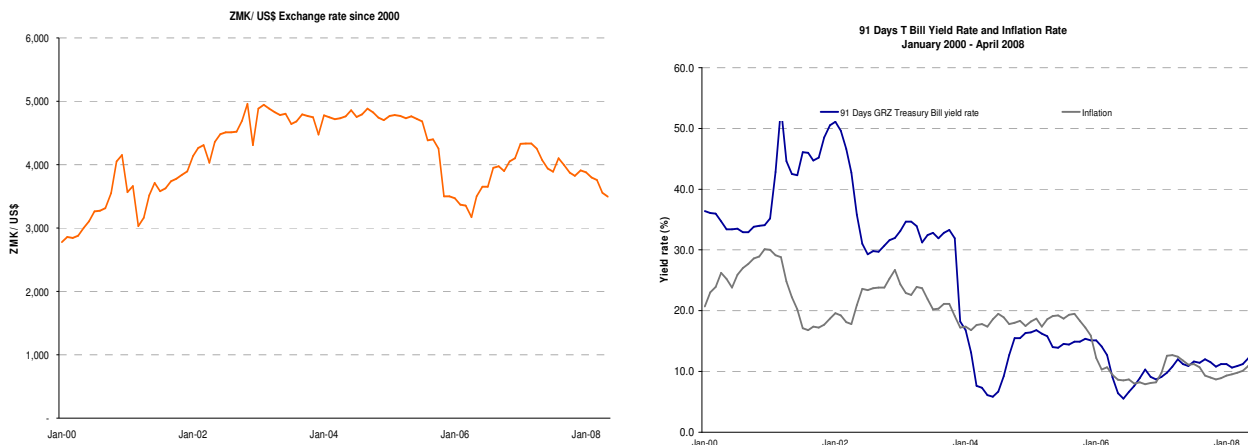
**Exhibit 2.1: Economic growth rate: 1990 – 2008**



Sources: Central Statistical Office of Zambia, IMF Country Report for Zambia

From 2004, the Zambian economy has turned towards improved macro-economic stability in contrast to prior years of exchange rate volatility, currency depreciation, high inflation and high interest rates.

### Exhibit 2.2: Exchange rate and interest rate trends



Source: Extracted from BOZ statistics

In 2005, Zambia qualified for significant debt relief under the World Bank's Highly Indebted Poor Countries debt relief initiative. This has provided an impetus for sustainable economic growth.

With increased foreign exchange availability and inflows from resurgence of copper mining production and exports, the exchange rate has stabilised. In the immediate to medium term the Zambian currency has tended to appreciate. In January 2007, the kwacha was quoted at an average of K 4,321/ 1 USD compared to K 3,834/1 USD in December 2007 and K 3,265/1USD in June 2008.

Inflation dropped to 7.9% in 2006, its lowest level in three decades and interest rates have also significantly declined from high levels of around 25 – 30% in 2004 to below 20%. Inflation for June 2008 was recorded at 12.1% whilst yields on the 91 day Treasury bill were around 12%, and 13% for the 364 day Treasury bill and 17% for the 5 year GRZ bond respectively.

### 3. PROSPECTS FOR THE ZAMBIAN ECONOMY

Copper production which had declined to its lowest level of around 260,000 metric tonnes in 2000 has since then progressively increased, rising to around 550,000 metric tonnes in 2007 and projected to reach one million by 2010. The increase in copper production and mining activity is as a result of high copper prices on the international market which have risen from 1,790 USD/ tonne in 2001 to 8,260 USD/ tonne in June 2008 on the back of demand from the industrialising emerging markets of China and India.

According to the 2008 GRZ Budget Address by the Minister of Finance, GDP growth is expected to remain positive and strong at 7% for 2008 and above 7% for 2009. The exchange rate and interest rates are also expected to remain stable in the short to medium term.

Current challenges to the Zambian economy include on going electricity deficits in the country and the entire Southern Africa region. The power shortage affects all key economic sectors; in particular, mining, agriculture and manufacturing, and this could dampen overall GDP output and growth.

Rising oil prices on the global market will increase the cost of fuel, leading to high transportation charges and in turn, higher food prices and this could lead to higher inflation.

### 4. ZAMBIAN FINANCIAL MARKET

The financial sector in Zambia is characterised by low financial intermediation (with limited access to financial services for the rural population and the low – to – medium income earners), generally high lending margins and relatively undeveloped money and capital markets.

The main players in Zambia's nascent financial sector are summarised below:

#### Banking Sector

- commercial banks

### Non Bank Financial Institutions

- leasing companies
- development finance institutions
- housing finance institutions (building societies )
- cooperatives
- micro finance institutions
- bureaux de change

### Contractual Savings Providers

- insurance companies
- pension schemes

The GRZ has therefore initiated a major review, overhaul and modernisation of the financial sector in Zambia under the FSDP.

The FSDP, launched in 2004, is a five year programme aimed at developing a stable, sound and market based financial system in Zambia that supports the efficient mobilisation and allocation of resources necessary to achieve economic diversification, sustainable growth and poverty reduction.

## 5. ZAMBIAN BANKING SECTOR

### 5.1 Regulation

Banks and non bank financial institutions (leasing companies, building societies, microfinance institutions and bureau de changes) are regulated by BOZ. The applicable and relevant regulatory statute is the Banking and Financial Services Act ("BFSA") of 1994.

### 5.2 Size of the banking sector in Zambia

As at 31<sup>st</sup> December 2007, there were 13 registered commercial banks, 10 leasing companies, 3 building societies, 13 microfinance institutions, 1 development bank, 39 bureau de changes and 2 other financial institutions licensed by BOZ.

The FinScope Zambia 2005 survey shows that the banking sector in Zambia is characterised by low banking penetration with a ratio of deposits to GDP of approximately 20-25%. However, it has high historic growth rates of deposits (25-30% p.a.) and loans & advances (30-35% p.a.)

Retail banking, through mobilisation of deposits and lending via loans and advances, appears to drive most of the growth in the banking industry. This is increasingly being complemented by corporate and wholesale banking in response to the needs of the mining, agriculture, energy and trade sectors.

Banking revenues are growing in line with the buoyant economy but margins are reducing on the back of lower interest rates and increased competition.

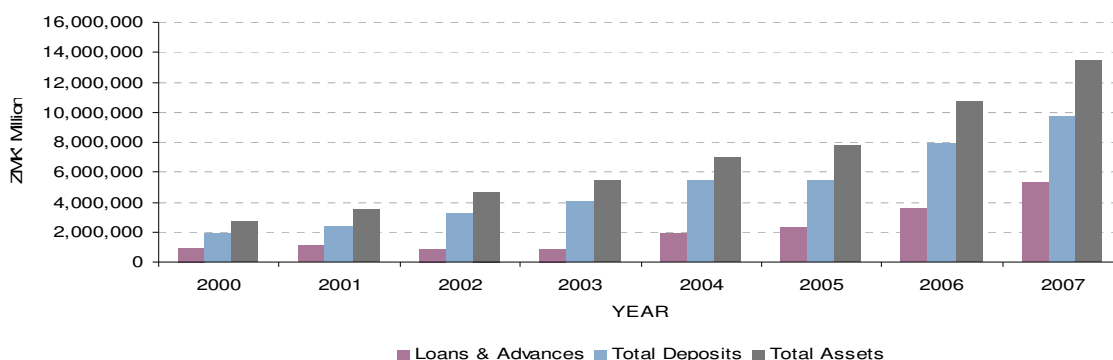
In response to the decline in interest rates there is a gradual trend to move away from holding GRZ securities to increased loans and advances and introduction of consumer lending products.

In 2000, the total assets held by commercial banks stood at K 2,698,040 million while loans and advances were K 916,604 million and deposits were K 1,916,576 million (prudential accounting).

As at 31 December 2007, total assets had increased to K 13,779,299 million, whilst loans and advances increased to K 5,335,338 million and deposits to K 9,928,064 million (prudential accounting).

In relation to GDP, total assets of the banking sector were 26% of GDP, total loans and advances were 10% of GDP, and total deposits stood at 19% of GDP as at December 2007.

#### Exhibit 5.1: Growth trends in the Zambian banking sector since 2000



Source: Extracted from BOZ statistics

### 5.3 Regional comparison

Exhibit 5.2 below illustrates the size of the Zambian banking sector relative to a number of regional African countries and the findings support the general observation that banking penetration is still low in Zambia. On the other hand lending rates in Zambia are relatively higher as shown under Exhibit 5.3

**Exhibit 5.2: Comparison of banking sector in selected regional countries**

COUNTRY	GDP (USD m) 2007	REALGDP GROWTH RATE 2007	BANKING DEPOSITS (USD m) 2006	BANKING CREDIT (USD m) 2006	BANKING ASSETS (USD m) 2006	POPULATION (estimated million) 2006	BANKING PENETRATION (Deposits/ GDP)
Botswana	9,931	5.0 %	3,996	2,033	5,696	1.7	40 %
Mozambique	8,758	6.8 %	1,800	1,024	2,663	20.0	21 %
Tanzania	15,675	7.3 %	3,216	1,608	4,127	38.2	21 %
Zambia	15,164	5.7%	2,866	1,569	3,969	12.0	19 %

Source: Stockbrokers Zambia Limited

**Exhibit 5.3: Comparison of interest, inflation and lending rates in selected regional countries**

COUNTRY	Inflation Rates Dec – 2007	Average 90 day T – bill Rates Dec – 2007	Average Prime Lending Rates 2007	Average Prime Lending Rates 2006
Botswana	8.1 %	11.50 %	16.2 %	16.5 %
Mozambique	10.3 %	15.20%	20.1 %	19.2 %
Tanzania	6.4 %	13.90 %	14.4 %	15.8 %
Zambia	8.9 %	11.00 %	25.0 %	27.8 %

Source: Stockbrokers Zambia Limited

### 5.4 Prospects for the Zambian banking sector

The Finscope Zambia 2005 under the auspices of the FSDP of the GRZ found that:-

- i) Overall levels of access to the formal financial system in Zambia are low, with just fewer than 15% of adult Zambians reported to be banked;
- ii) Various factors limit access, including physical distance, awareness and affordability;
- iii) Usage of credit products from formal institutions is very low at 1.2% of the population;
- iv) 90% of Zambians do not currently use credit in any form;
- v) Financial product penetration is very low;
- vi) Two thirds of Zambia's adults are not served by formal or informal financial institutions;
- vii) Three quarters of Zambians do not have any savings products; and
- viii) Awareness of terminology relating to banking products is low.

These findings suggest that the Zambian market is still in need of providing basic banking services and financial products to the vast majority of the Zambian people, both in the rural and urban locations.

This suggests opportunity for growth in the banking sector in terms of deposit mobilisation, introduction of new financial products and credit expansion.

## 6. ZAMBIAN CAPITAL MARKET

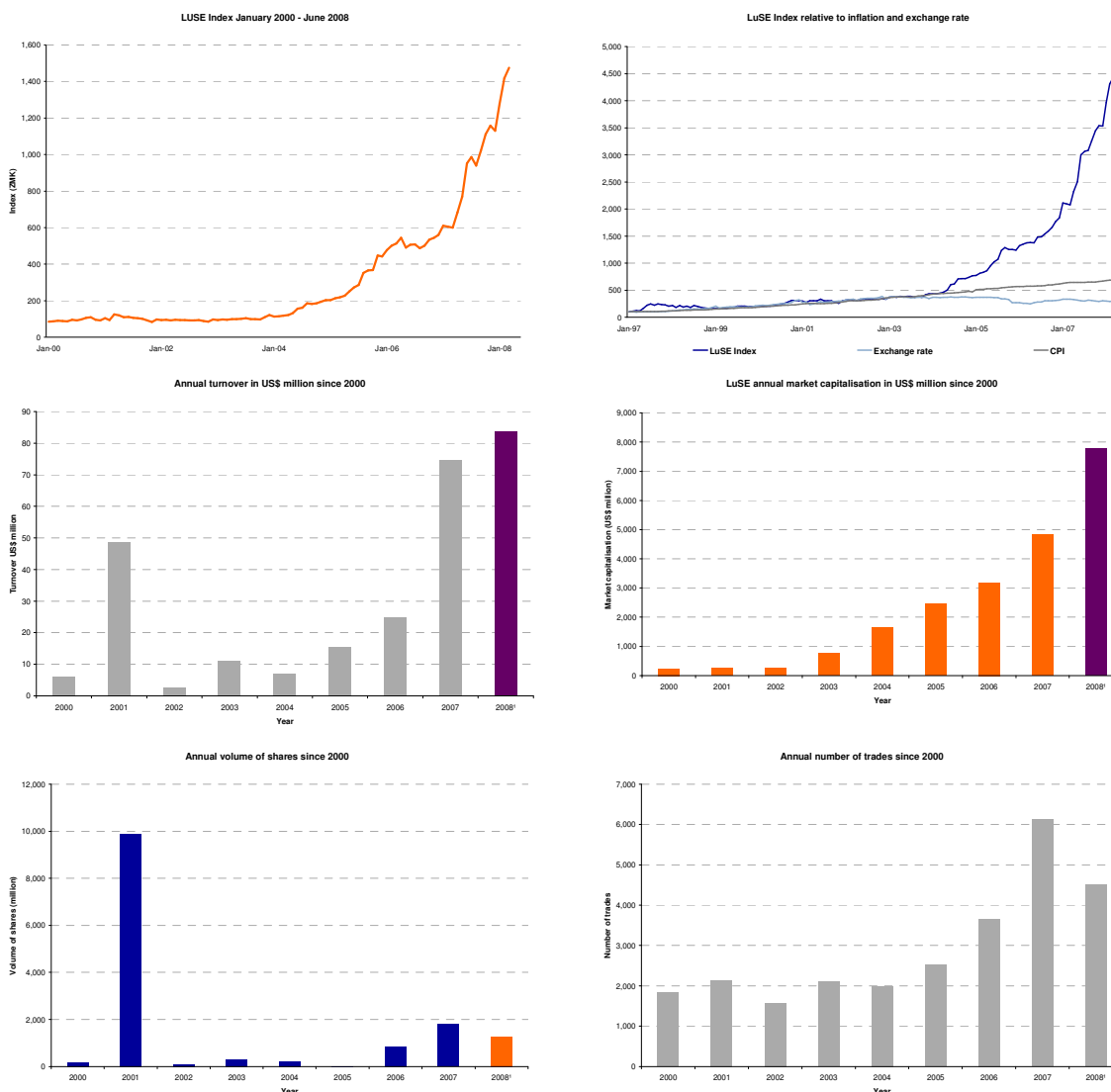
The LuSE was formed with the technical assistance of the International Finance Company (IFC/ World Bank) and the United Nations Development Program as project of the GRZ aimed at:-

- Supporting the emergence of an active and dynamic private sector in Zambia;
- Strengthening the institutional structure for the operation of a free and liberalized market economy in Zambia;
- Economic empowerment of the Zambian citizenry in a transparent, fair and equitable manner;
- Promoting broad and wide share ownership in newly privatised enterprises by the Zambian general public;

- Providing a platform for investors to realize their investment through secondary trading, liquidity and price formation;
- Deepening the capital market in Zambia to serve as a source of long term capital to enable Zambian corporates to expand and grow their businesses and contribute to economic development and growth in Zambia; and
- Attracting foreign capital as portfolio investment in Zambia to augment domestic savings and thus support overall economic development and growth in Zambia.

The LuSE began operating on 14 February 1994 and has since 2004 attained sustained growth and recorded high investment returns on the back of a more stable Zambian economy. The recent performance and trends on the LuSE market are summarised under Exhibit 6.1 below.

### Exhibit 6.1: LuSE performance statistics and trends



**Note**  
 1. **Statistics up to 30 June 2008**  
 Source: Extracted from LuSE statistics

### 6.2 Relative size and liquidity

The relative size of the LuSE market (Market Capitalisation/ GDP Ratio) and liquidity (Turnover/ Market Capitalisation ratio) are summarised in Exhibit 6.2 below.

#### Exhibit 6.2: Relative size and liquidity indicators on the LuSE

	2005	2006	2007	2008 <sup>1</sup>
Turnover / Market Capitalisation ratio	0.70%	0.66%	1.55%	1.54%
Market Capitalisation / GDP ratio	28.65%	40.04%	54.64%	60.03%

**Note**  
 1. **Statistics up to 30 June 2008**  
 Source: Extracted from LuSE statistics

### **6.3 Prospects for the Zambian stock market**

#### **Automated trading and clearing**

In 2008, the LuSE is expected to install and commission an Automated Trading System (“ATS”) with inbuilt direct interface to an automated Central Share Depository (“CSD”). This upgrade will replace and modernise the existing manual trading arrangement and semi-automatic CSD.

The new ATS will provide real time share trading and capability to handle large numbers of transactions whilst the CSD will improve settlement efficiency. These improvements are expected to stimulate overall trading activity and volumes processed and consequently give rise to improved liquidity and better price formation.

#### **New listings**

Zanaco will be the 19<sup>th</sup> listing on the LuSE. The success of recent public offers and listings on the LuSE has significantly expanded the number of domestic investors and level of investor awareness. This has improved market depth and thus created favourable conditions for new listings in the future.

#### **Brokerage firms**

There are indications that the number of brokerage firms will increase from the current 3, to at least 6 by the end of 2008. This is expected to increase the span of service delivery and enhance market growth and development.

## V. INFORMATION ON ZANACO

Zanaco is a registered commercial bank whose principal activity is to provide banking and financial services in Zambia. Zanaco is one of the top tier banks in Zambia in terms of asset size at K 2,110 billion, deposits to customers at K 1,799 billion and loans and advances to customers at K 797 billion as at 31 December 2007. The Company is a full service retail bank and currently has 55 branches/agencies, and 58 ATMs.

### 1. BACKGROUND AND HISTORY

Zanaco was originally formed by the GRZ on 21 August 1969 in Lusaka to operate as a state owned enterprise. Zanaco was partially privatised in April 2007 when Rabobank, from the Netherlands, acquired 49% of GRZ's interest in Zanaco. In addition Rabobank and Zanaco entered into a Management Services contract.

The key milestones in the history of Zanaco can be summarised as follows:-

Year	Milestone
1969:	Incorporated on 21 August 1969 and opened for business on 15 October 1969 as National Commercial Bank
1978:	Name changed to Zambia National Commercial Bank
1992:	Zanaco introduced the first ATMs in Zambia
1999:	First bank in Zambia to introduce online operations in the branches
2000:	Zanaco converted to a public limited company (Plc)
2001:	First bank in Zambia to launch real time, online ATMs in Zambia
2003:	Zanaco introduces the first and only SMS banking service in Zambia
2005:	Zanaco quoted on the LuSE effective 4 April 2005
2007:	Partial privatisation of Zanaco with Rabobank acquiring 49% equity interest
2008:	Zanaco is the first bank in Zambia to launch cell phone banking under the " <b>Xapit Instant Banking</b> " brand
2008:	Proposed flotation and listing on the LuSE

Whilst GRZ extensively nationalized major industry sectors of the Zambian economy (such as mining, transport, timber, agro processing, insurance) in the late 1960's, the banking sector was not nationalized. Consequently Zanaco, though a state owned enterprise, has had to compete for business, customers and market share with the subsidiaries of well established multinational banks such as Barclays Bank, Standard Chartered, Stanbic Bank, Citibank and a number of local private banks (such as Cavmont Capital Bank, Finance Bank, Investrust Bank).

Over the years Zanaco has grown to be one of the leading banks in Zambia in terms of customer deposits, total assets and number of points of representation across Zambia as well. Since the partial privatisation in April 2007, Zanaco's profitability, return on investment, efficiency in terms of cost to income ratio (excluding one off restructuring charges) and other related performance measures have improved.

#### 1.1 Privatisation of Zanaco

Zanaco was partially privatised in April 2007, after a competitive international tender process when GRZ agreed to sell 49% of its shares to Rabobank. Under the privatisation sale and purchase agreement entered into by Rabobank and GRZ, it was agreed that Rabobank will provide management and technical support to Zanaco in addition to holding an equity interest of 49%.

The privatisation of Zanaco and the entry of Rabobank provide Zanaco with management and technical support for strategic direction, operational restructuring, repositioning and rebranding, staff training, new product development and improvement in operational efficiencies.

Rabobank brings particular skills and expertise in institutional banking, retail banking and agricultural finance solutions and this should position Zanaco to fully utilize its historical competitive advantage of having one of the largest branch and ATM networks in Zambia. All this is expected to result in improved service delivery to customers and an increase in market share and profitability.

## 2. RELATIONSHIP WITH MAJOR SHAREHOLDERS

The shareholders set out below currently have a beneficial interest in 5% or more of Zanaco's issued shares.

Shareholder	Number of shares	% shareholding
Rabobank	482,343,754	49.0%
ZPTF	253,968,752	25.8%
GRZ	246,401,376	25.0%
<b>Total</b>	<b>982,713,882</b>	<b>99.8%</b>

### 2.1 Government of Zambia

GRZ has a 25% shareholding interest in Zanaco through the Ministry of Finance and National Planning. GRZ has nominated two members on the Zanaco Board.

The ZPTF currently has 25.8% shareholding in Zanaco. GRZ has now directed the ZPTF to sell all its shares to Zambian citizens and Eligible Institutions via an offer for sale as described in this Prospectus.

### 2.2 The Rabobank Group

Rabobank has a 49% shareholding in Zanaco and has nominated three members on the Zanaco Board.

The Rabobank Group was created more than a century ago in the Netherlands. It is a reputable financial services leader in retail and institutional banking and agricultural finance solutions. The Rabobank Group ranks among the largest banking groups in the world with an asset base of EUR 570 billion and equity of EUR 31 billion at 31 December 2007. The Rabobank Group has operations in 43 countries. The Rabobank Group is one of the very few privately owned banks in the world that avails of a triple A (AAA) credit rating, the highest possible credit rating that can be achieved by any bank. The Rabobank Group offers both retail and institutional banking services globally and is a leader in the provision of agricultural finance solutions with a strong focus on customer value.

In Zambia, Rabobank is building on Zanaco's existing competencies, and aims to improve its operational efficiencies, branch outlook and human resource competencies. Furthermore, Rabobank also provides management and technical assistance to Zanaco to improve its risk management systems and enhance its service delivery.

Zanaco's strategic link with Rabobank culminates into best practice and skills transfer into Zambia. This creates a platform for launch of new innovative banking products and services aimed at supporting the growth areas of the economy and satisfying the diverse needs of Zambian customers across the spectrum from institutions to high net worth individuals and to the mass market. Zanaco, through its strategic link with Rabobank, seeks to firmly establish itself as the market leader and *People's Bank* in Zambia.

## 3 THE BUSINESS

### 3.1 Products

Zanaco is a full service commercial bank operating through a network that currently has 55 branches/agencies located in all major commercial centers and rural districts across Zambia.

Zanaco offers a full range of commercial banking products and services, including card products, investment products, credit facilities, international and correspondent banking services, payment services, transaction account products, saving account products, treasury facilities and e-Banking products.

The following constitutes the core products and services offered by Zanaco:-

Product / Service	Main Features
Card products	<ul style="list-style-type: none"> <li>- Zanaco has 58 Automated Teller Machines branded as "Zanaco 24 ATM", strategically located at branch outlets and offsite locations.</li> <li>- The Zanaco VISA Electron Card gives access to Zanaco's ATM network and in addition, to over 100 other VISA ATMs countrywide operated by other banks and a further 1 million ATMs and 27 million VISA merchant outlets in 170 countries worldwide.</li> </ul>
Investment products	Zanaco offers a range of investment products including 24 hour Call Accounts, Notice and fixed deposit accounts.
International and correspondent banking services	Services include SWIFT and MoneyGram, and Zanaco's wide correspondent banking network.
Credit facilities	Zanaco offers a variety of credit facilities including loans, overdrafts, guarantees, trade finance and Letters of Credit for corporates and consumers.
Payment services	Zanaco offers a variety of payment services including the Zanaco Pay-flexi (an electronic salary interface facility for organisations), Zanaco E-Cash, DDACC and utility bills payments.
Account products	These include current, savings, Zanaco Savers and foreign currency and Seba accounts.
E- banking services	Services include corporate and retail internet banking, "Xapit" (mobile banking with full transactability over the cell phones) e-tracer (email notifications), and Zanaco SMS (SMS notification services).

### 3.2 Product development

Zanaco is committed to the development and introduction of new and innovative financial products to cater for the needs of all sectors of the Zambian market.

Consistent with this commitment, several new financial products have recently been launched and include:-

#### ***Munda scheme***

A credit scheme specifically targeted to support the peasant farmers and small scale farmers. It provides access to finance for farmers in a cooperative set up who intend to enhance their agricultural food production.

#### ***Corporate Internet banking***

A corporate banking solution that allows the customer to:-

- Make third party transfers
- Make third party inter-bank transfers
- Make bulk payments
- Upload files
- Dual authorization
- See account activities
- Issue standing instructions
- Have adhoc statement request
- Make cheque book request
- Make cheque book status inquiries

#### ***Xapit***

A retail mobile banking platform that offers full transactability on the mobile phone where the customer can:-

- Open a bank account
- Pay utility bills
- Buy airtime
- Make third party funds transfers
- View mini statements
- Make balance enquiries
- Block ATM card
- Replace ATM card

#### ***Visa Electron Card***

Visa electron debit card allows cardholders to transact and get cash world-wide at any Visa enabled ATM terminal and also pay for transactions using any Visa enabled Point of Sale.

#### ***ATM air time top up***

A retail solution where cell phone prepaid airtime can be purchased by customers utilising Zanaco ATM machines and any Xapit enabled cell phone, thereby, providing our customers with convenience and efficiency in loading airtime on their cell phones.

### 3.3 Customers

Zanaco's retail customer base covers all segments of the Zambian economy. Currently, the bulk of the retail customers are concentrated in the middle to lower income brackets especially amongst savings and current accounts customers.

As at 31 December 2007, based on the published financial results prepared by Zambian commercial banks, in accordance with BOZ prudential reporting standards, total deposits for the banking sector in Zambia was K 9,928 billion and Zanaco's total deposits were K 1,799 billion representing 18% of banking deposits in Zambia.

### 3.4 Branch network

Zanaco has one of the widest branch networks in the country. All the branches are fully computerized and funds transfer within the network is real time, online.

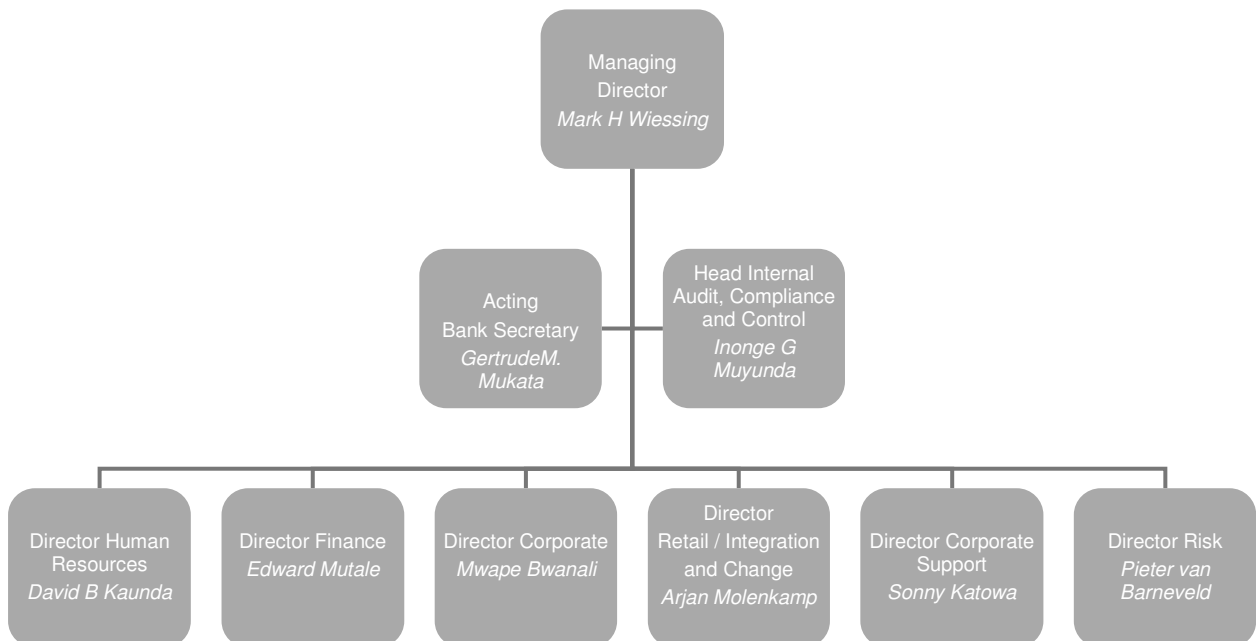
The Company currently has 55 outlets made up of 7 Business Centers, 38 Branches and 10 Agencies.

The distribution of the branch and ATM network across Zambia is shown in the diagram below.

**Exhibit 6.2: Zanaco branch and ATM network**



### 3.5 Organisation structure



### 3.6 Employees

Zanaco has a staff complement of approximately 1,000 people, of which 3 are expatriate appointments. The table below shows staff according to different categories.

Category	Number
Executive Management Team	9
Non-unionised employees	452
Unionised employees	539

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

Zanaco operates a defined benefit pension scheme for its employees. The scheme is administered by Zambia State Insurance Corporation and staff on 'permanent and pensionable' conditions of service, are members of the scheme. Zanaco and all its employees also contribute to the National Pension Scheme Authority, which is a statutory and mandatory defined contribution pension scheme.

### 3.7 Information technology

Information technology ("IT") underpins all business activities for the Company. Zanaco always focuses on improving and upgrading its information systems and processes in order to maximise operational efficiency which in turn translates into improved service delivery to its customers

Furthermore, Zanaco uses, and will be looking to use new technologies in banking activities to achieve an improved customer outreach.

Zanaco has made significant strides in developing its information and IT systems. Zanaco runs on an IT banking application called FLEXCUBE®, whose vendor is I-Flex® Solutions. FLEXCUBE® is a comprehensive application covering a wide spectrum of banking needs that include retail, corporate, and investment banking, and across multiple delivery channels and regions. It easily integrates with business intelligence and external systems, keeping regulatory compliance on its radar.

The FLEXCUBE® system is real time and all the 55 Zanaco outlets are connected onto a network and a centralized system. The system is flexible to address new business requirements, streamline processes, integrate with disparate systems and provide a range of choices.

### 3.8 Rebranding and refurbishments

On 22 July 2008, the Company launched its rebranding project. Zambia National Commercial Bank modernised its corporate logo and improved the visibility of the "Zanaco" name by which it is popularly known.

The Company is in the process of gradually renovating and/or refurbishing its branch network with a view to achieve a consistent look and feel across all its points of representation.

### 3.9 Social responsibility

Zanaco is committed to *"making it happen in a big, strong, and reliable"* way for Zambian people not only through its products and services, but also through its corporate culture and community development programs. In achieving the above goal, Zanaco's policies are focused on offering continuing commitment to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local community and society at large.

#### Social development

Zanaco also provides support in terms of office space, human resource management advisory, and other administration support to the ZBCT. All this is done in the spirit of promoting corporate social responsibility to the community that provides the support and business base for the Company.

Zanaco believes that it is making an important contribution to social development by extending access of banking and financial services to areas and communities that have historically been underserved. Zanaco has increased its infrastructure investments to remote areas by opening full fledged branches such as Itezhi-

Tezhi, Senanga, and Chirundu among others. Zanaco's cell phone banking platform is similarly designed to reach out to unbanked communities.

Zanaco also provides financial support to communities meeting various needs such as, education, through partial scholarships, traditional ceremonies and agricultural events.

#### **HIV/AIDS**

Zanaco's management is committed to non-discriminatory employment and HIV/AIDS education. Zanaco is a member of the Zambia Business Coalition Trust ("ZBCT"), a non-profit organization whose objective is to promote HIV/AIDS awareness programs and counselling to employees of member organizations.

#### **Zanaco Football Club**

Since 1985, Zanaco has supported and sponsored "**Sensational**" Zanaco Football Club. Starting as a community club, Zanaco Football Club has developed into a major league leader having won 13 major trophies including, 4 super league titles and 9 cup competitions

It has also represented the country in a number of continental competitions.

#### **Implementation of the financial literacy campaign project**

Zanaco has also launched a new financial literacy project aimed at making tangible contribution to increasing financial literacy in Zambia. The project specifically targets at:-

- Improving personal financial literacy and financial management skills among salaried staff;
- Increasing and improving financial literacy and awareness among school going children and the general adult population; and
- Promoting entrepreneurship and financial independence among SMEs.

#### **Environment**

Zanaco is committed to supporting environment friendly projects as part of its credit appraisal policy. It does not support organizations whose projects will impact negatively on the environment or the community.

### **3.10 Regulatory framework**

Zanaco operates under the following principal legal framework:-

#### *Banking and Financial Services Act, 1994, as amended:-*

This Act regulates the financial services providers' industry and prescribes their operating and reporting framework. The monitoring and compliance aspect is handled by the BOZ who are the regulators of the industry. From time to time BOZ issues circulars prescribing changes in certain legislation.

#### *Companies' Act, 1994, as amended:-*

The Act prescribes the operating and reporting framework for all types of companies and gives guidance on various matters including share capital, dividends, directors, meetings of shareholders and directors and winding up of companies.

#### *Securities Act and Listing Regulations:-*

As a public company, the shares of the Company are registered with the Securities and Exchange Commission Zambia and will be listed on the LuSE. The registration of shares and listing imposes continuing obligations on Zanaco stipulated under the Securities Act in regard to disclosure of price sensitive information, reporting to investors, equality of treatment of investors and principles of investor protection and transparency in general.

#### *Income Tax Act:-*

This Act prescribes the income tax framework for all tax payers, including Zanaco.

#### *Anti-money laundering guidelines:-*

The regulations, issued by BOZ provide guidance on how to deal and report money laundering activities in the conduct of banking activities.

## 4 Market position

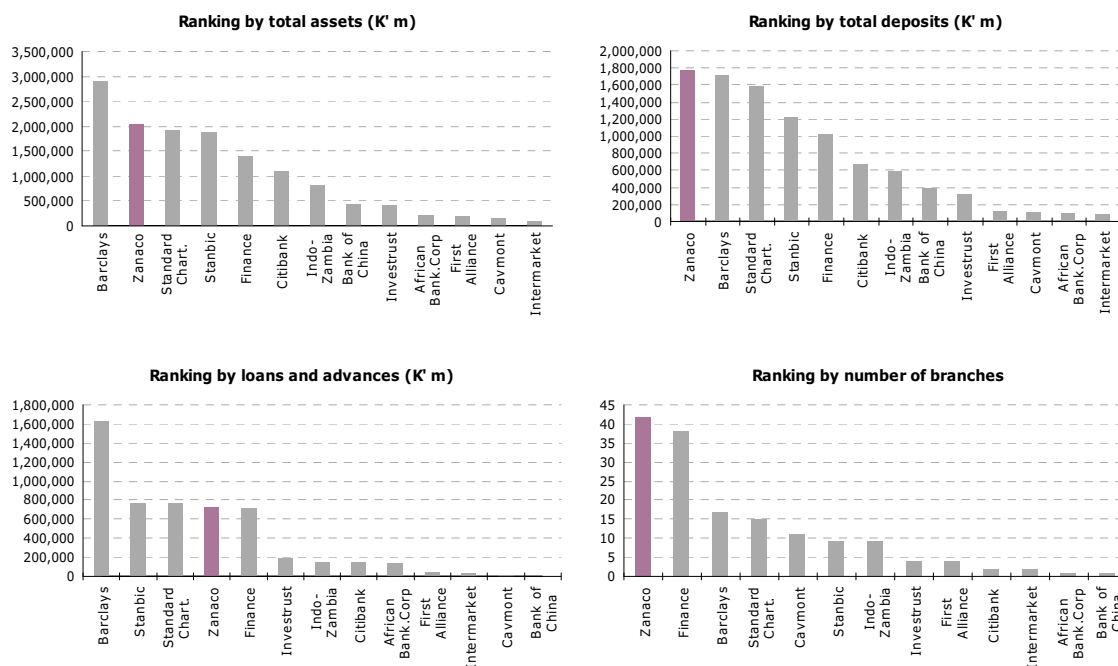
### 4.1 Market position

As at 31 December 2007, based on the published financial results prepared by Zambian commercial banks, in accordance with BOZ prudential reporting standards, total assets for the banking sector in Zambia was K 13,779 billion and Zanaco's total assets were K 2,044 billion representing a market share of 15% of banking assets in Zambia.

In terms of loans and advances, Zanaco ranked fourth with a market share of 14% of total banking sector loans and advances as at 31 December 2007.

Zanaco ranks first in terms of deposits where it commands a market share of approximately 18%.

#### Exhibit 4.1: Ranking of Zanaco as at 31 December 2007



Source: Commercial Banks published quarterly results

## 5 STRATEGY

Zanaco has three (3) broad strategic aspirations. These are:

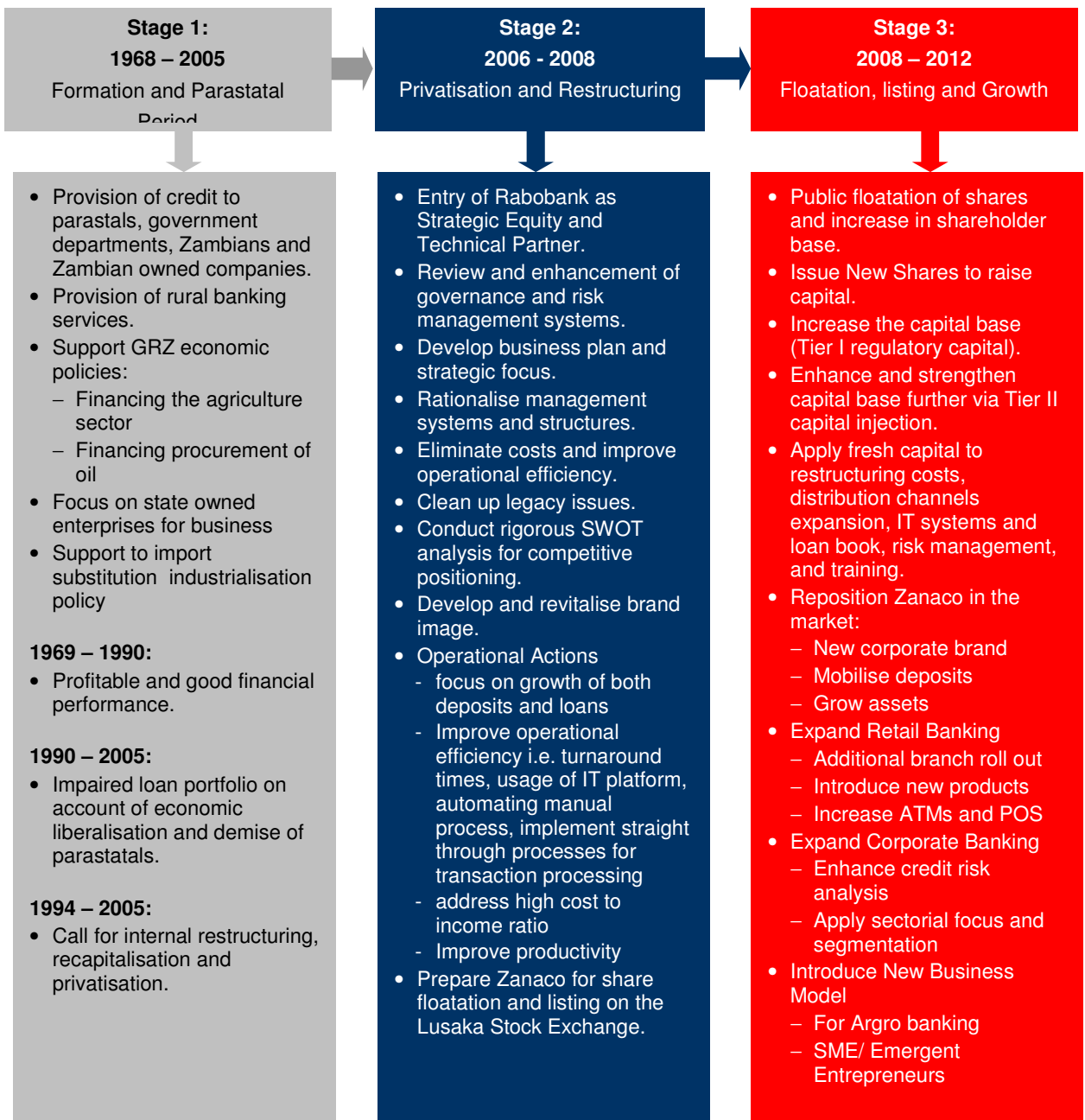
- Focus on continued growth of both deposits and loans;
- Focus on its overall market share; and
- Focus on improving its cost to income ratio.

These strategic themes therefore, aim to make Zanaco:

- more market focused and sales oriented;
- Service defined market segments appropriately;
- Efficient in the way products and services are provided to its customers;
- To grow and attain market leadership in all key banking drivers (deposits, assets, loans etc);
- To attain sustainable profitability and provide benefits to all its stakeholders; and
- be more innovative and use its distribution channels effectively.

The above will be driven by retail and corporate banking divisions. The retail and corporate banking divisions will segment their markets appropriately in the quest to provide banking and financial services to all selected customer groups in Zambia. In this way, Zanaco aims to be the market leader and the **“People’s Bank”** under its theme of being **“BIG, STRONG and RELIABLE”**

The chart below summarises the evolution of Zanaco and its new strategic intent.



## VI. DIRECTORS AND MANAGEMENT

### 1. STAFF

Zanaco has a staff complement of approximately 1,000 people, of which 3 are expatriate appointments.

#### 1.1 Senior management

##### **Mark H. Wiessing, Managing Director**

Nationality: Dutch

Mr. Wiessing, aged 50, was appointed Managing Director in April 2007. Mr. Wiessing has 24 years management experience in commercial banking, of which over 10 years has been at executive management level, principally in emerging markets (in Latin America, Eastern Europe, Asia and Africa), with specific experience in corporate and wholesale banking, corporate finance, and general banking operations management. He is responsible for managing the strategic direction; the restructuring and repositioning; and the day-to-day operations management of the Company. Mr. Wiessing is an Executive Member of the Board of Directors of the Company. He holds a Bachelor's degree in Business Administration (BBA) and a Master's degree in Business Administration (MBA).

##### **Edward Mutale, Finance Director**

Nationality: Zambian

Mr. Mutale, aged 47, was appointed Finance Director in October 2005. Mr. Mutale has 18 years auditing, accounting, and financial management experience at Zanaco and previously worked for ZSIC and Coopers and Lybrand. Mr. Mutale is responsible for management accounting and financial reporting; budgetary process and budgeting; financial management; prudential management and reporting; cost management; management information systems and projects around management information systems re-alignment. He holds a Bachelor of Accountancy degree and is Fellow of both the Chartered Certified Accountants (UK) and Zambia Institute of Chartered Accountants.

##### **Arjan Molenkamp, Director Retail/ Change and Integration**

Nationality: Dutch

Mr. Molenkamp, aged 40, was appointed Director Retail / Change and Integration in April 2007. Mr. Molenkamp has 14 years management experience in corporate and retail banking. He is responsible for managing the branch network and agencies; ATMs country wide; retail, sales and product support; E-business; public relations and marketing; projects around re-branding; distribution model; and process re-engineering. Mr. Molenkamp holds a Bachelor of Arts degree in economics and an International Executive MBA.

##### **Pieter van Barneveld, Director Risk Management**

Nationality: Dutch

Mr. van Barneveld, aged 54, was appointed Director Risk Management in April 2007. Mr. van Barneveld has 26 years experience in banking with specific experience in risk management, restructuring of banking processes, project management and financial control and planning. He is responsible for credit risk management; legal; special assets management; and projects related to credit re-alignment. Mr van Barneveld holds a Masters degree in Economics.

##### **Sonny Katowa, Director Corporate Support**

Nationality: Zambian

Mr. Katowa, aged 42, was appointed Director Corporate Support in October 2006. Mr. Katowa has 18 years experience in IT and communication, general administration, transaction processing and operations management. He is responsible for general administration involving real estate; procurement; outsourcing; security and fleet management; information technology and ICT infrastructure management; transaction processing and operations management; and projects related to premises and real estate. In addition, he has vast knowledge and experience in project management, systems analysis and design. Mr. Katowa holds a Bachelor of Science degree in Maths and Computer Science.

### **Mwape Bwanali, Director Corporate Banking**

Nationality: Zambian

Mr. Bwanali, aged 47, was appointed Director Corporate Banking in March 2004. Mr. Bwanali has 15 years experience in banking, accounting, treasury, and financial management. Previous to Zanaco he worked at Zambia Revenue Authority, Bank of Zambia, Zambia Sugar Plc, and Zimco Ltd. He is responsible for institutional banking, corporate product support, and treasury management. Mr. Bwanali is a Fellow of both the Chartered Association of Certified Accountants (UK) and the Zambia Institute of Chartered Accountants, and holds a Masters degree in Business Administration.

### **David B. Kaunda, Director Human Resources**

Nationality: Zambian

Mr. Kaunda, aged 44, was appointed Director Human Resources and Training in January 2008. Mr. Kaunda has 20 years experience in human resources management, performance management, talent management, training and recruitment, job evaluation, and human capital planning. Previous to Zanaco he worked with ZCCM, Zambia Sugar Plc, Coca Cola Bottlers, and Standard Chartered Bank for which he worked in several countries. He is responsible for all human resources activities and projects in the Company with the key deliverable of spearheading the focus of human capital as a strategic business advantage. Mr. Kaunda is a change management specialist and holds a Bachelor of Arts degree and a number of other professional and business qualifications.

### **Inonge G. Muyunda (Mrs.), Head Internal Audit, Compliance and Control**

Nationality: Zambian

Mrs. Muyunda, aged 53, was appointed Head Internal Audit, Compliance, and Control on 01 February 2001. Mrs. Muyunda has over 30 years experience in banking, with specific experience in branch banking, operations, branch and head office inspection management, internal audit operations and regulatory compliance. She is responsible for managing internal audits; compliance and adherence reviews; credit review; internal investigations and frauds management; co-ordination with law enforcement agents; and projects around internal audit re-alignment. Mrs. Muyunda holds a Bachelor of Arts degree in Public Administration and Political Economics.

### **Gertrude M. Musyani-Mukata (Mrs.), Acting Bank Secretary and Senior Manager - Legal**

Nationality: Zambian

Mrs. Mukata, aged 34, was appointed Senior Manager-Legal on 9 January 2008. She is also currently Acting Bank Secretary. Mrs. Mukata has 11 years working experience as a Legal Practitioner having been admitted to the bar in 1997. Her experience and areas of practice include civil litigation, contracts negotiation, drafting and review, conveyancing and the laws on privatisation and investments, commercial, corporate, employment, banking and company law. Prior to joining Zanaco, she worked at Zambia Development Agency (formerly Zambia Privatisation Agency), Corpus Globe and the National Legal Aid Clinic for Women. She assists the Legal Counsel with all legal matters and prosecutes and defends legal suits for and against the bank. She has a Bachelor of Laws Degree and is an Associate Member of the Chartered Institute of Arbitrators (UK) and also a Member of the Zambia Association of Arbitrators and the Law Association of Zambia.

## 2 DIRECTORS

The full names, qualifications, nationalities, addresses and occupations of the directors of Zanaco are set out below:

Name	Citizen	(Residential or business) Address	Directorships
Arnoldus Johannes Antonius Maria Kuijpers <b>(Non-Executive)</b> <b>(Chairman)</b>	Dutch	Lindestraat 109, 5521 EJ, Eersel, The Netherlands	National Microfinance Bank Plc (Tanzania), Banco Terra (Mozambique), Banco Regional (Paraguay) and Banque Populaire du Rwanda (Rwanda)
Chintu Younson Mulendema <b>(Non-Executive)</b> <b>(Vice-Chairman)</b>	Zambian	Plot No. 5752, Lusaka	Securities and Exchange Commission of Zambia
Gertrude Mwangala Akapelwa-Ehueni (Mrs.) <b>(Non-Executive)</b>	Zambian	Plot No. 8844A Mwinilunga Road, Woodlands, Lusaka	Innovative Capital Fund, Victoria Falls University of Technology, Le Residence Investments Limited
Frederikus Weenig <b>(Non-Executive)</b>	Dutch	2e Schuytstraat 230, 2517 TS, The Hague, The Netherlands	None
Guy Nicol Hallowes Robinson <b>(Non-Executive)</b>	Zambian	Kushiya Farms, Mazabuka	Zambia National Farmers' Union, Zambia Development Agency
Mark Henri Wiessing <b>(Executive)</b>	Dutch	Villa 41, Plot No. 6953, Birdcage Walk, Longacres, Lusaka	None

### Board of Directors

#### Arnold J. A. M. Kuijpers, Chairman

Nationality: Dutch

Appointed in April 2007

Mr. Kuijpers, aged 55, is Managing Director of Rabobank Financial Institutions Development B.V. Mr. Kuijpers is also member of the Board of Directors of National Microfinance Bank (Tanzania), Banco Terra (Mozambique), Banco Regional (Paraguay), Banque Populaire du Rwanda (Rwanda) and a member of the Executive Committee of the European Association of Co-operative Banks.

#### Chintu Y. Mulendema, Non-Executive Member

Nationality: Zambian

Appointed in April 2007

Mr. Mulendema, aged 50, is Managing Partner of CYMA Management and Public Accountants. He is a Commissioner on the Board of the SEC Zambia. Mr. Mulendema is also president of Zambia Institute of Chartered Accountants (ZICA).

#### Fred Weenig, Non-Executive Member

Nationality: Dutch

Appointed in April 2008

Mr. Weenig, aged 47, is Head Special Asset Management of Rabobank Group. Mr. Weenig currently holds no other positions.

### **Guy N. H. Robinson, Non-Executive Member**

Nationality: Zambian

Appointed in November 2007

Mr. Robinson, aged 61, is a businessman and farmer. Mr. Robinson also chairs the board of the Zambia National Farmers Union and is member of the boards of Livestock Services Co-operative Trust; Livestock Development Trust; Parmalat Zambia Limited; Zambia Development Agency and is trustee of the Cotton Association of Zambia.

### **Gertrude M. Akapelwa-Ehueni (Mrs.), Non-Executive Member**

Nationality: Zambian

Appointed in April 2007

Mrs. Akapelwa-Ehueni, aged 60, is the Executive Chairperson of the Victoria Falls University of Technology. Mrs. Akapelwa-Ehueni is also Chairperson of the board of Le Residence Investments Limited and Vice-Chairperson of the board of Innovative Capital Fund (Z) Limited. She served as Division Manager at the African Development Bank for 23 years.

## **2.1 Qualification, borrowing powers, appointment and remuneration of directors**

- i) The relevant provisions of the articles of association of Zanaco concerning the qualification, borrowing powers, appointment and remuneration of the directors are set out in Annexure 1 to this Prospectus.
- ii) The remuneration paid to directors of Zanaco in the financial year ended 31 December 2007 is shown below.

<b>Kwacha Million</b>	<b>Salary and Fees</b>	<b>Benefits</b>	<b>Bonuses</b>	<b>Total</b>
<b>Executive Directors<sup>1</sup></b>	2,696	0	0	2,696
<b>Non-executive Directors</b>	541	141	0	682
<b>Total</b>	<b>3,237</b>	<b>141</b>	<b>0</b>	<b>3,378</b>

Note

1. The remuneration for the Executive Directors includes payments to the previous Executive Director who left the Company on 3 April 2007.

The remuneration to be paid to the Directors for the financial year ending 31 December 2008 has not yet been determined. There will be no variation in the remuneration receivable by any of the Directors as a consequence of the listing of Zanaco.

## **2.2 Interests of Directors**

As at 31 December 2007, and as at the date of the Prospectus, none of the Directors had an interest in the Company.

## VII. CORPORATE GOVERNANCE

Zanaco is committed to good corporate governance and is fully devoted to the principles of accountability, integrity and transparency. The Directors are committed to ensuring that the Company complies with the major principles of modern corporate governance and best practice. A profile of the Board members is set out in section VI “Directors and Management” of this document.

### 1. Meetings of the Zanaco board of directors

The Board of Directors meets on a quarterly basis throughout the year and assigns specific duties to committees, in which other executive management members attend by invitation. Adequate and efficient communication and monitoring systems are in place to ensure that Directors receive all relevant, accurate information to guide them in making necessary strategic decisions, and providing effective leadership, control and strategic direction over the Company’s operations and in ensuring that the Company fully complies with relevant legal, ethical and regulatory requirements.

The Board has established 3 committees to enable it to properly discharge its duties and responsibilities and effectively fulfil its decision making process. A summary of these committees and their terms of reference are as follows;

AUDIT COMMITTEE	CREDIT COMMITTEE	LOANS REVIEW COMMITTEE
<ul style="list-style-type: none"> <li>- Assist the Board in financial reporting, compliance, and effectiveness of internal control environment.</li> <li>- Ensure existence of appropriate internal controls.</li> <li>- Review investments and material transactions.</li> <li>- Review of annual financial statements.</li> <li>- Liaise with external and internal auditors.</li> <li>- Ensure compliance with BFSA regulations.</li> </ul>	<ul style="list-style-type: none"> <li>- Ensure limitation of risks through adequate diversification of credit portfolio.</li> <li>- Manage credit risk through policies on concentration and large risk exposures.</li> <li>- Ensure proper asset classification and adequate loan provisioning.</li> <li>- Approve the general credit procedures of the Company.</li> <li>- Approve individual credit exposures for amounts above those delegated to management.</li> </ul>	<ul style="list-style-type: none"> <li>- Review loan reports from management.</li> <li>- Review loans portfolio to identify risk and ensure adequacy of the allowance for loan losses account.</li> <li>- Ensure compliance to Statutory Instrument No. 142 issued pursuant to the BFSA.</li> </ul>

#### 1.1 Audit Committee

Zanaco’s Audit Committee assists the Board in discharging its duties in relation to financial reporting, asset management, risk management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions in line with section 67 of the BFSA.

Zanaco’s external auditors and internal auditors report to the committee.

The Audit Committee comprises three (3) independent Non-Executive Directors. Other members of the executive management of the Company attend by invitation. The Audit committee meets at least 4 times a year.

#### 1.2 Loans Review Committee

The Loans Review Committee comprises two (2) independent Non-Executive Directors and the Chief Executive Officer. Other members of the executive management of the Company attend by invitation. It reviews, on a quarterly basis, the Company’s lending portfolio and assesses its performance, by ensuring adherence to not only statutory and regulatory requirements but also the lending practice and procedures as stipulated in the credit policy.

### **1.3 Credit Committee**

The Credit Committee comprises three (3) independent Non-Executive Directors and the Chief Executive Officer. Other members of the executive management of the Company attend by invitation. The Credit Committee supervises the effective implementation of credit and risk management policies and ensures enhancement of the Company's credit risk management systems and processes in line with the best practice in loan rating/ credit risk modelling, loan pricing, and strategic loan management, including identification and control of concentration of risk.

### **1.4 Management Committees**

The Board has delegated the responsibility for the day to day management of the Company to the Managing Director who is also the Chief Executive Officer. The Chief Executive Officer is supported by the following Committees which he chairs:-

- Executive Management Committee;
- Management Credit Committee;
- Management Loan Review Committee;
- Control Risk and Compliance Committee; and
- Human Resources Committee.

In addition to the above, the following committees have also been instituted to support and stream line the operations of the Company:

- Disciplinary;
- Appeals;
- Tender; and
- Staff Welfare advisory board.

## VIII. SHARE CAPITAL

### 1. Alterations to share capital

On 18 August 2008, an Extraordinary General Meeting of shareholders was held and resolutions were passed to approve the increase in authorised share capital from 984,375,009 Ordinary Shares to 1,500,000,000 Ordinary Shares. Furthermore, other resolutions were passed related to the issue of new shares, and to the listing of Zanaco. The share capital of the Company has not been changed in any other way over the past three years.

### 2. Authorised and issued share capital

The authorised and issued share capital of Zanaco, before and after, the Capital Raise, is as follows:-

	Before the Capital Raise	After the Capital Raise
<b>Authorised share capital (Kwacha)</b>	9,843,750,090	15,000,000,000
<b>Issued share capital (Kwacha)</b>	9,843,750,090	11,550,000,090

Note

Ordinary Shares in Zanaco are of K 10.00 par value each)

The authorised and unissued shares will be under the control of the shareholders, subject to the provisions of the Companies Act and the requirements of the LuSE.

All of the authorised and issued shares, including the Ordinary Shares issued pursuant to the Capital Raise, rank *pari passu* in every respect.

Any variation of rights attaching to shares will require the consent of shareholders in general meeting in accordance with the Articles of Association of Zanaco.

None of the shares of the Company are listed on any stock exchange, other than the proposed Listing on the LuSE.

### 3. Voting rights

In accordance with the Articles of Association of Zanaco, at any general meeting, every shareholder present in person or by authorised representative shall have one vote on a show of hands and on a poll, every shareholder present in person, by authorised representative or by proxy shall have that proportion of the total votes in the Company which the aggregate amount of the par value of the shares held by that shareholder bears to the aggregate of the par value of all the shares issued by the Company.

### 4. Options or preferential rights in respect of shares

Following the Offer, there will be no contract or arrangement, either actual or proposed, whereby any option or preferential right of any kind has been given by Zanaco to any person to subscribe for shares in Zanaco. Rabobank, after the partial privatisation in April 2007 has offered to sell down 4% shareholding in Zanaco to the Zambia National Farmers Union (ZNFU) and thus reduce its equity stake from 49% to 45%. At this stage it is still uncertain if and when this sale will take place.

### 5. Offers to the public

No offer has been made by Zanaco to the public for the subscription or the sale of shares during the three-year period preceding the date of issue of this Prospectus.

### 6. Shares held by advisers

None of the advisers holds any shares or has agreed to acquire any shares in Zanaco at the date of this Prospectus.

## **IX. OTHER FINANCIAL INFORMATION**

### **1. ADEQUACY OF CAPITAL**

The directors of Zanaco are of the opinion that:

- Zanaco's issued share capital after the Capital Raise is adequate for the purposes of the business of Zanaco for the foreseeable future; and
- Zanaco's working capital resources will be adequate for its current and foreseeable requirements.

### **2. BORROWING AND LOANS**

Zanaco has in principal agreed to enter into an agreement with FMO and Proparco for an unsecured credit facility of US\$ 35 million, made up of US\$ 25 million as senior debt and US\$ 10 million as subordinated debt to qualify as Tier 2 capital, subject to execution of documentation to be finalized and subject to fulfilment of the conditions precedent and approvals by regulators where appropriate.

The funds will be used to improve the asset – liability matching, extend the maturity profile of its loan book funding and in particular, to strengthen Zanaco's lending capacity in foreign currency to agriculture and industrial sectors.

Other than the above the Company has not issued any other debentures. The Company has not entered into any overdraft facility arrangements.

### **3. LOANS TO DIRECTOR AND MANAGEMENT**

#### **3.1 Loans to Directors**

As at 31 December 2007, there are no outstanding loans to directors and loans to companies controlled by directors or their families.

#### **3.2 Loans to Employees**

Advances to customers at 31 December 2007, included loans to Employees amounting to K 81,458 million (2006: K 53,201 million). Loans to Employees are repayable monthly over a period of between 3 and 20 years and have interest rates ranging from 12% to 15%, and may be amended from time to time.

#### **3.3 Capital commitments, lease payments and contingent liabilities**

As at 30 June 2008, the contracted but not yet incurred capital commitments totalled K 12,585 million, which was in respect of branch refurbishment and motor vehicles acquisition. The authorised but not yet contracted commitments totalled K 13,564 million. These commitments are to be funded from the Company's own resources.

#### **3.4 Material changes**

There have been no material changes in the financial or trading position of Zanaco that would warrant the preparation of any interim statement or reports between the release of the audited results for the period ended 30 June 2008 and the date of this Prospectus.

## X. BACKGROUND TO THE OFFER AND LISTING

### 1. INTRODUCTION

The partial privatisation of Zanaco was completed in April 2007, through the sale of 49% of the issued share capital of Zanaco held by GRZ to Rabobank. BOZ provided an indefinite waiver to Rabobank, allowing Rabobank to own more than 25% in Zanaco.

After the sale of 49% to Rabobank, 25.8% of GRZ's shareholding was transferred to the ZPTF. The ZPTF was established in 1993 by the GRZ to warehouse, for eventual offer to Zambian citizens and Eligible Institutions, a portfolio of share investments in privatised companies that previously operated as state owned enterprises.

### 2. SHAREHOLDING OF ZANACO BEFORE AND AFTER THE PARTIAL PRIVATISATION

The original shareholding of Zanaco prior to its partial privatisation in April 2007 is shown below:-

Shareholder	Number of shares	% shareholding
GRZ	982,713,882	99.8%
Minorities	1,661,127	0.2%
<b>Total</b>	<b>984,375,009</b>	<b>100%</b>

Following the partial privatisation of Zanaco in April 2007 and the subsequent transfer of shares to the ZPTF, the shareholding structure of Zanaco is now as follows:-

Shareholder	Number of shares	% shareholding
Rabobank	482,343,754	49.0%
ZPTF	253,968,752	25.8%
GRZ	246,401,376	25.0%
Minorities	1,661,127	0.2%
<b>Total</b>	<b>984,375,009</b>	<b>100%</b>

The GRZ has now elected to implement the second phase of the privatisation of Zanaco, through the Offer for Sale, as summarised under section 4 below.

### 3. CONVERSION TO PUBLIC COMPANY

Zanaco was previously a private company, and converted to a public company on 4 January 2000, following shareholder approval by special resolution at an extraordinary general meeting held on 25 November 1999.

### 4. ZPTF OFFER FOR SALE

GRZ, through the ZPTF, plans to dispose its 25.8% shareholding in Zanaco, representing 253,968,752 Ordinary Shares, via the Offer for Sale to Zambian citizens, Eligible Employees and Eligible Institutions only. The Offer for Sale constitutes the second phase of the privatisation of Zanaco.

#### 4.1 Offer for sale of ZPTF Ordinary Shares via the Public Offer for Sale and the Preferential Offer

Out of the 253,968,752 Ordinary Shares reserved for Zambian citizens and Eligible Institutions, the ZPTF is now disposing and offering for sale to Zambian citizens and Eligible Institutions a total of 228,571,877 existing Ordinary Shares. These shares are being offered at the Offer Price. The remaining 25,396,875 existing Ordinary Shares (constituting 2.2% of Zanaco share capital post the Capital Raise) will be offered to Eligible Employees at the Offer Price under the Preferential Offer through an Employee Share Ownership Plan ("ESOP")

#### 4.2 ESOP under the Preferential Offer

ZPTF intends that the Eligible Employees will have an opportunity to participate in the ownership of the Company, subject to the trust deed and rules of the ESOP. Accordingly, up to 25,396,875 existing Ordinary Shares which ZPTF has transferred to the ESOP will be sold to Eligible Employees at the Offer Price on a two year deferred payment arrangement.

## **5. CAPITAL RAISE VIA ISSUE OF NEW ORDINARY SHARES**

Simultaneous to the Offer for Sale by the ZPTF, Zanaco is raising capital via the issue of 170,625,000 new Ordinary Shares at the Offer Price to existing shareholders based on their shareholding on a pro - rata basis.

Rabobank and GRZ have committed themselves to subscribe for the Ordinary Shares offered in the Capital Raise pro rata to their shareholding.

If the Minorities subscribe for new Ordinary Shares in the Capital Raise, the Minorities will receive guaranteed Allocation pro rata their shareholding.

The ZPTF has elected not to take up its new shares and will not subscribe for the Ordinary Shares under the Capital Raise.

Accordingly, the Ordinary Shares not taken-up by the ZPTF are now being offered for subscription by Zanaco to the General Public in the Offer for Subscription. In case other existing shareholders of the Company will not take up the new Ordinary Shares offered under the Capital Raise pro rata to their existing holdings, these Ordinary Shares will also be offered in the Offer for Subscription.

The net effect is that Zanaco will effectively raise approximately K 80 billion from Rabobank, GRZ, and the General Public (including the Minorities). This capital injection will increase the capital base of Zanaco.

## **XI. DETAILS OF THE OFFER AND LISTING**

The Offer consists of a combined offer of new and existing Ordinary Shares, namely an Offer for Sale by the ZPTF and an Offer for Subscription by Zanaco, as follows :-

### **1. PURPOSE OF THE OFFER AND LISTING**

The main purposes of the Offer and the Listing are to:

- enable the Zambian public and the employees of Zanaco to own shares of Zanaco and to encourage wider ownership of shares in general in line with GRZ policy and ZPTF objective of economic empowerment of Zambian citizens;
- provide a ready and transparent basis for valuation of Zanaco's shares, and hence, the market value of the Company;
- provide a market for shareholders to realise their investment in Zanaco through trading of their shares on the LuSE;
- enhance the public image and profile of Zanaco;
- promote and strengthen the Zambian capital market and the emergence of a dynamic and active private sector led economy in Zambia;
- obtain the necessary spread of shareholders to enable the listing of Zanaco shares on the LuSE;
- enable Zanaco to increase its capital base (Tier 1 capital); and
- enable Zanaco to fund restructuring and investments for future expansion and growth.

### **2. USE OF PROCEEDS**

#### **2.1 Proceeds from the Offer for Sale**

The net proceeds from the Offer for Sale will accrue to the GRZ via the ZPTF

#### **2.2 Proceeds from the Capital Raise**

The net proceeds from the Capital Raise will accrue to Zanaco. Zanaco intends to use these funds towards the restructuring, expansion and growth of Zanaco.

### **3. ZAMBIAN CITIZENS, ELIGIBLE INSTITUTIONS AND ELIGIBLE EMPLOYEES**

Pursuant to section 29 of the Privatisation Act, 1992, the Minister of Finance of the Government of Zambia established the ZPTF for the purpose of holding shares in selected state owned enterprises in trust for the citizens of Zambia and qualifying Zambian institutions, for subsequent divestiture. The ZPTF is governed by a trust deed. This trust deed stipulates that the ZPTF may hold shares in previously state –owned enterprises for subsequent sale at such times and on such terms as its trustees may determine in order to achieve a wide distribution among citizens of Zambia and obtain a level of sale proceeds which is reasonable in the circumstances then prevailing.

In accordance with its mandate, the ZPTF is now offering for sale to Zambian citizens, Eligible Institutions and Eligible Employees, the 253,968,752 existing Ordinary Shares that it holds in Zanaco at the Offer Price under the terms and conditions outlined in this Prospectus.

### **4. GENERAL PUBLIC**

A total of 44,021,250 new Ordinary Shares are hereby offered by Zanaco to the General Public to subscribe at the Offer Price. The General Public are referred to section XIII, “**Application Procedures**“, of this Prospectus, to the allotment policy and to the application form attached to the back of this Prospectus.

### **5. OFFER PRICE**

The Offer Price is K 470 per Ordinary Share. The Offer Price will be exclusive of all taxes and will be payable in full in Kwacha without deduction or set-off. Any taxes due on the transfer of the Ordinary Shares will be paid by the respective Applicant.

## 6. MINIMUM SUBSCRIPTION

Applications for Ordinary Shares pursuant to the Offer must be for a minimum of 1,000 Ordinary Shares and in multiples of 100 Ordinary Shares thereafter.

## 7. STATEMENT AS TO LISTING ON THE LuSE

Application has been made by the Company to have all of its Ordinary Shares listed on the LuSE. The LuSE has granted the listing and subject to successful completion of the Offer it is expected that the listing of the Ordinary Shares of Zanaco and share trading on the LuSE under the abbreviated name "ZANACO" will commence on 17 November 2008.

In the event of Zanaco shares not being listed, for any unforeseen reason, the shares will remain quoted and trade on the LuSE second tier market.

## 8. TIMETABLE

The Offer will open at 08:00 hrs on 29 September 2008 and close at 17:00 hrs on 23 October 2008.

Persons wishing to buy Ordinary Shares must complete the Application Form and return it, with relevant funds, to one of the authorised receiving agents identified in Annexure 4 of this Prospectus by no later than 17:00 hrs on 23 October 2008.

Postal applications will only be accepted if they are accompanied by relevant funds in the form of a bank certified cheque and sent by registered mail and received on or before 23 October 2008 to the addresses below.

**Attention: ZANACO IPO Manager**

Stockbrokers Zambia Limited  
Second Floor, Design House  
Dar Es Salaam Place  
P O Box 38956  
Lusaka, Zambia

**Attention: ZANACO IPO Manager**

Zambia National Commercial Bank Plc  
Ninth Floor, Zanaco Head Office Building  
Chainda Place, Cairo Road  
P O Box 33611  
Lusaka, Zambia

***Applications will only be considered if received by 17:00 hrs on 23 October 2008 by any of the Receiving Agents.***

***Accordingly, neither the Trustees nor the Company accept responsibility for any applications of the Offer that are, or may be, misdirected or lost or that are accepted by the Receiving Agents after the closing time and date of the Offer. Applications of the Offer must be in the form of a completed Application Form as attached to this Prospectus and completed in accordance with the instructions as set out in section XIII "Application Procedures" of this Prospectus. Only original completed Application Forms will be accepted.***

## 9. ALLOCATION AND ALLOTMENT POLICY

The ZPTF for the Offer for Sale, and the Company for the Offer for Subscription, reserve the right to accept or refuse any application, either in whole or in part, or to accept some applications in full and others in part in such manner as it may, in its sole and absolute discretion determine.

The allocation and allotment of the Ordinary Shares under the Offer will be subject to the following criteria:

- i) In the Preferential Offer, Ordinary Shares will be allotted to Eligible Employees based on prior agreed criteria that take into account employee capacity to pay, length of service and salary.
- ii) In the allotment of the Public Offer for Sale, preference will be given to Zambian citizens first, followed by Eligible Institutions.
- iii) In the allotment of the Offer for Subscription, preference will be given to Zambian citizens first, then Employees of Zanaco, then Eligible Institutions, and lastly other investors.
- iv) Ordinary Shares not applied for in the Preferential Offer will be offered in the Public Offer for Sale.
- v) New Ordinary Shares not applied for in the Capital Raise by existing minority shareholders will be offered in the Offer for Subscription.
- vi) Multiple applications are not permitted.

## **10. UNDERWRITING**

The advisers have determined that there is sufficient demand for the Zanaco shares and that adequate depth, absorptive capacity and liquidity exists in the Zambian market, nevertheless, an underwriting commitment of up to K 50 billion has been arranged with the National Pension Scheme Authority (NAPSA).

## **11. GOVERNING LAW**

The Offer, applications, allocations, allotment and acceptances will be exclusively governed by the laws of Zambia and each Applicant will be deemed, by applying for Ordinary Shares, to have consented and submitted to this jurisdiction of the courts of Zambia in relation to all matters arising out of or in connection with the Offer.

## **XII. SELLING RESTRICTIONS**

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Ordinary Shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the ZPTF nor Zanaco represents that this Prospectus may be lawfully distributed, or that any Ordinary Shares may be lawfully offered, in compliance with any applicable legislation or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the ZPTF or Zanaco that would permit a public offering of any Ordinary Shares or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Ordinary Shares may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except in compliance with any applicable laws and regulations. To the extent that this Prospectus may be sent to any jurisdiction in which the dissemination of this Prospectus is illegal or fails to conform to the laws of such jurisdiction, it is provided for information purposes only.

**The distribution of this Prospectus and the offer for sale of shares may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus or any Ordinary Shares come must inform themselves about, and observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer for sale of Ordinary Shares in the United States, the European Economic Area and the United Kingdom, as disclosed below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.**

This Prospectus and any other information supplied in connection with the Ordinary Shares is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the ZPTF, Zanaco or the Joint Lead Advisers that any recipient of this Prospectus or of any other information supplied in connection with the Ordinary Shares, should subscribe for any Ordinary Shares. Each investor contemplating purchasing any Ordinary Shares should make its own independent investigation of the financial condition and affairs and its own appraisal of Zanaco, including the merits and risks involved.

### **European Economic Area**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive, an offer of shares has not been made except:

- where publication of the Prospectus in relation to the shares has been approved by the competent authority in the relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive;
- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity which has two or more of: (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than € 43,000,000; and (iii) an annual net turnover of more than € 50,000,000 as shown in its annual or consolidated accounts.

For the purpose of this provision, the expression an “offer of shares” in relation to any shares in any member state of the European Economic Area means the communication, in any form and by any means, of sufficient information on the terms of the Offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares.

### **United Kingdom**

Shares have not been offered or sold to persons in the UK except in accordance with applicable laws. All applicable laws have been and will be complied with in relation to the shares in, from or otherwise involving the UK. Any document in connection with the offer for sale of the shares has only been and will only be issued or passed on in the UK to a person who is a person to whom the document may lawfully be issued or passed on.

### **United States of America**

The Ordinary Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or jurisdiction of the US. The Ordinary Shares may not be offered, sold or delivered within the US or to, or for the account or benefit of, US persons except in accordance with Regulation S under the US

Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the US Securities Act.

**General**

Neither the ZPTF nor Zanaco represent that the Ordinary Shares may at any time lawfully be sold in compliance with any applicable legislation or other requirements in any jurisdiction, or pursuant to any exemption available there under or assumes any responsibility for facilitating such sale.

## XIII. APPLICATION PROCEDURES

### 1. GENERAL

Application has been made by the Company to have all of its Ordinary Shares listed on the LuSE. The LuSE has granted the listing and subject to successful completion of the Offer it is expected that the listing of the Ordinary Shares of Zanaco and share trading on the LuSE under the abbreviated name "ZANACO" will commence on 17 November 2008.

The authorised share capital of the Company comprising 1,500,000,000 Ordinary Shares of par value K 10.00 each have been registered by the SEC in accordance with the Securities Act.

No application has been made to register the Ordinary Shares in any other jurisdiction.

### 2. COLLECTION OF PROSPECTUS

Copies of the Prospectus, with the accompanying Application Form, may be obtained from the registered office of Zanaco, the Joint Lead Advisers and the authorised Receiving Agents as set out in Annexure 4 of this Prospectus

### 3. CONDITIONS ATTACHED TO THE APPLICATION AND COMPLETION OF APPLICATION FORMS

Applications will only be accepted on the following conditions.

- In regard to the Offer for Sale, applications may be made only by Zambian citizens and Eligible Institutions. The Trustees of ZPTF reserve the right to require individuals to provide proof of Zambian citizenship (e.g. valid green National Registration Card or Zambian passport). **Multiple applications by a single Applicant are not permitted.**
- In regard to the Offer for Subscription, applications may be made by Employees, Zambian citizens, Zambian institutions and non Zambian investors. Zanaco reserve the right to require individuals to provide proof of Zambian citizenship (e.g. valid green National Registration Card or Zambian passport). Multiple applications by a single Applicant are not permitted.
- Zambian citizens and Eligible Institutions can simultaneously apply for shares under the ZPTF Offer for Sale as well the Zanaco Offer for Subscription.
- Non Zambian investors cannot apply for shares under the Offer for Sale but are free to apply for shares under the Offer for Subscription, it being noted that preference will be given to Zambian citizens first, followed by Employees, then Eligible Institutions and lastly other investors in share allotments.
- Applications may only be made on the relevant original Application Form which accompanies this Prospectus and must be completed in accordance with the provisions of this Prospectus and the instructions set out in the relevant application form. Copies or reproductions of the application form will not be accepted.
- Applications are irrevocable and may not be withdrawn once received.
- Applications must be for a minimum of 1,000 shares and in multiples of 100 shares thereafter.
- All alterations on the application form, other than the deletion of alternatives, must be authenticated by the full signature of the Applicant.
- The Trustees of ZPTF and Zanaco reserve the right to accept or refuse any application, in whole or in part.
- Persons or companies applying in a nominee capacity must disclose the names and address of their principals and the number of shares applied for on behalf of each principal.
- Shares may not be applied for in the name of a minor or deceased estate.
- Applicants may be called upon for evidence of their authority or capacity to sign the application form.
- The ZPTF, in consultation with Zanaco, reserve the right to alter, relax or waive any of the terms and conditions in the Offer for Sale with respect to the making of applications as it, may deem fit.

- Zanaco, in consultation with the Trustees of the ZPTF, reserve the right to alter, relax or waive any of the terms and conditions in the Offer for Subscription with respect to the making of applications as it, in its sole discretion, may deem fit.

#### 4. SUBMISSION OF APPLICATIONS AND PAYMENT

Application forms may be delivered by hand, marked “**Zanaco Offer**” to any of the receiving agents provided such application forms are submitted by 17:00 hrs on 23 October 2008, or posted at the risk of the Applicant, marked “**Zanaco Offer**” to be received by no later than 17:00 on 23 October, 2008 to:

**Attention: ZANACO IPO Manager**

Stockbrokers Zambia Limited  
Second Floor, Design House  
Dar Es Salaam Place  
P O Box 38956  
Lusaka, Zambia

**Attention: ZANACO IPO Manager**

Zanaco  
Ninth Floor, Zanaco Head Office Building  
Chainda Place, Cairo Road  
P O Box 33611  
Lusaka, Zambia

An envelope should contain one application form and must be clearly marked “**Zanaco Offer**”. Application forms should be accompanied by payment of the total price of the shares applied for by way of a manager’s cheque or bankers’ draft, crossed “not negotiable” and drawn in favour of “**Zanaco Offer**”. Such cheques and/ or bankers’ drafts will be deposited immediately for payment and will be held by the receiving agent with whom the application was submitted.

#### 5. APPLICATION MONIES

- The amount due on application is payable in full in Kwacha.
- All monies received in respect of applications will be held by the receiving agents for transfer to the collection bank for payment to ZPTF and /or Zanaco and/ or the payment of any refunds, pending fulfilment of the condition set out in Section 3 above.
- Zanaco will not be held responsible for monies deposited with any of the receiving agents or for any refunds.
- In the event of an application being rejected in whole or accepted for a lesser number of shares than that applied for, the application monies or surplus application monies (as the case may be), will be refunded by the respective receiving agent by way of a cheque drawn on a bank in Zambia’s currency and posted by registered post, at the risk of the Applicant, on or about 17 November, 2008. No interest will be paid on monies refunded.

#### 6. ISSUE OF SHARE CERTIFICATES

All the 297,990,002 shares of Zanaco that are the subject of this Offer (the 253,968,752 shares under the Offer for Sale and the 44,021,250 shares under the Offer for Subscription) have been placed in the LuSE CSD. In terms of this system, shareholders will not be issued share certificates, but will instead be issued confirmations of their entitlements to shares held in the LuSE CSD. Shareholders can trade through any of the stockbrokers who are members of the LuSE, and all trades on the LuSE must be conducted through the LuSE CSD.

Successful Applicants in the Offer who wish to withdraw their shares from the LuSE CSD and receive share certificates can, subsequent to being notified of their Allocation, request a share certificate from the Transfer Agent upon payment to the LuSE CSD of a withdrawal fee as determined from time to time.

Confirmations of entitlement to shares will be posted by registered post to each Applicant, at the risk of such Applicant, on or about 17 November 2008 by the Share Registrar. The confirmation of entitlement to shares will be posted to the address shown on the relevant application form. No contrary instructions will be accepted.

Zanaco and the Transfer Agent accept no liability for confirmations of entitlement to shares that may be lost in the post. No request for the issue of replacement confirmations of entitlement to shares will be considered before 31 December 2008 and thereafter only in writing and accompanied by an acceptable indemnity.

#### 7. FEE PAYABLE TO RECEIVING AGENTS

A fee at the maximum rate of 0.5% (exclusive of VAT) of the Offer Price will be paid by ZPTF and Zanaco respectively to Receiving Agents in respect of successful applications received by such Receiving Agents and on which the Receiving Agent’s stamp has been affixed. No brokerage will be paid if more than one endorsement appears on the application form.

Save for brokerage fees, listing fees and SEC registration fees payable, no commission or consideration relating to the shares has been paid by Zanaco during the three years preceding the date of issue of this Prospectus.

**8. LIABILITY OF RECEIVING AGENTS IN RESPECT OF APPLICATION MONIES**

Receiving Agents shall be solely responsible, and the Company and the Trustees, shall not be liable for the loss of or damage incurred by an Applicant as a result of failure for any reason on the part of the Receiving Agent to remit to the Company and/or the Trustees, any application monies paid by an Applicant.

## **XIV. MATERIAL CONTRACTS**

### **1. SHAREHOLDERS AGREEMENT**

On 3<sup>rd</sup> April 2007, GRZ, Rabo Financial Institutions Development and its parent company and Zanaco entered into the shareholders agreement, related to the sale of 49% of GRZ's shareholding in Zanaco to Rabobank. In the agreement it has been agreed that there will be the Management Services Agreement mentioned below.

### **2. MANAGEMENT SERVICES AGREEMENT**

Zanaco entered into a Management Services Agreement with Rabo International Advisory Services on 3<sup>rd</sup> April 2007. This agreement has a term of three years and is renewable. The management services provided by Rabo International Advisory Services B.V. relate to seconding the Chief Executive Officer, the Director Retail and the Director Risk.

### **3. TECHNICAL ASSISTANCE AGREEMENT**

Zanaco entered into a technical assistance agreement with Rabo International Advisory Services B.V. on 3<sup>rd</sup> April 2007. This agreement has an initial term of three years but may be extended after both parties agree. The technical assistance to be provided includes technical assistance related to the implementation of the strategic plan covering areas of process re-engineering, credit and risk policy and processes, treasury and asset liability management, branch bench marking, human resource audit and strategy, internal Audit methodology and training, premises planning, management information system, customer relationship management, and branding.

The State of the Netherlands, represented by the Ambassador of the Kingdom of the Netherlands in Zambia, supports the partnership and has agreed to financially contribute to this technical assistance, by means of a donation of up to an amount of approximately EUR 2 million.

### **4. FINANCING CONTRACT**

#### **Senior Term Facility**

Zanaco has agreed, in principal, with the FMO and Proparco, development finance institutions from the Netherlands and France respectively, on the provision of USD 25 million senior debt facility. This agreement will run up to August 2013 and will be repaid in 8 equal instalments starting from February 2010.

#### **Subordinated Term Facility**

Zanaco has agreed, in principal, on an USD 10 million subordinated debt facility with the FMO and Proparco. This agreement will run up to August 2013 and will be repaid in one instalment.

### **5. INVESTMENTS IN NON TRADABLE GOVERNMENT SECURITIES**

Investments of the Company consist primarily of government securities. These include short dated T-bills as well as bonds which are purchased at market prices in regular bond auctions. Separately, the Company holds non tradable government securities issued to it as settlement on certain defaulted loan assets previously guaranteed by GRZ.

These non tradable government securities were initially issued at "zero coupon" conditions and have been re-priced from time to time and are subject to commercial negotiations on terms between the Company and GRZ. The current coupon rate earned on these non tradable bonds is below the market yields of tradable bonds with the same tenure. As at 30 June 2008, the Company had K 248.9 billion in nominal value of these bonds on the balance sheet, and post balance sheet date GRZ has since redeemed one of the bonds with a nominal value of K 80.0 billion following its maturity.

## **XV. GENERAL INFORMATION**

### **1. DIRECTORS' RESPONSIBILITY STATEMENT**

The directors, whose names are given in section VI of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, that they have made all reasonable enquiries to ascertain such facts and that the Prospectus contains all information required by law.

The directors confirm that the listing particulars include all such information within their knowledge (or which it would be reasonable for them to obtain by making enquiries) as investors and their professional advisers would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Zanaco and of the rights attaching to the shares to which the Prospectus relates.

### **2. TRUSTEES' RESPONSIBILITY STATEMENT**

The Trustees of the ZPTF collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading, that they have made all reasonable enquiries to ascertain such facts and that the Prospectus contains all information required by law.

The Trustees confirm that the listing particulars include all such information within their knowledge (or which it would be reasonable for them to obtain by making enquiries) as investors and their professional advisers would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Zanaco and of the rights attaching to the shares to which the Prospectus relates.

### **3. LITIGATION STATEMENT**

At present the Company faces several legal actions, including but not limited to claims from former Employees, claims on mortgage actions and claims from retention of title deeds. Provisions have been made for the outcome of these actions based on current estimate of the Company's financial exposure and in accordance with the Company's accounting principles, but it cannot be ruled out that the actual exposure is higher or lower and the Company continues to adjust the provisions included in the accounts if necessary on the basis of further developments. This can also be the result of unexpectedly adverse court decisions on existing cases, new adverse development on known and existing litigations or of new litigations on events preceding the privatisation through the sale of 49% to Rabobank.

Based on legal counsel, the directors are of the opinion that an amount of K 8,281 million may be required to meet the aggregate of these obligations. A provision of the same amount has been included in the financial statements shown in Annexure 3 (see note 3.27).

### **4. PRELIMINARY EXPENSES**

The expenses related to the Offer for Sale will be borne by ZPTF out of the proceeds of the Offer for Sale. Such expenses are estimated at approximately K 3,300,000,000. In addition to this, expenses of K 1,000,000,000 excluding VAT will be borne by the Company with regard to the Offer for Subscription and listing of new Zanaco shares.

## **XVI. REGISTRATION OF PROSPECTUS**

An English copy of this Prospectus was registered in terms of sections 123 to 126 of the Companies Act by the Registrar of Companies at Lusaka on 29 September 2008, together with:

- i) the written consents of the auditors, the Joint Lead advisers to the Offer and Listing, the legal adviser to Zanaco and the ZPTF, the independent legal adviser to Zanaco, sponsoring broker, share registrar, transfer agent and receiving agents named in this Prospectus to act in those capacities, none of which consents having been withdrawn prior to registration; and
- ii) the written consents of the reporting accountants to the inclusion in this Prospectus of their reports in the form and context in which they appear, which consents likewise had not been withdrawn prior to registration.

## **XVII. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company secretary's office at Zanaco, 12<sup>th</sup> Floor, Corporate Head Office, Cairo Road, Lusaka, Zambia, at any time during business hours on weekdays (official public holidays in Zambia excluded) prior to the close of the Offer at 17:00 hrs on 23 October 2008.

- i) the articles of association of the Company, the certificate of incorporation and the certificate of share capital;
- ii) the Shareholders Agreement, Management Services Agreement (excluding remuneration), Technical Assistance Agreement and the Financing Agreements described in the section "Material Contracts";
- iii) the signed reports of the Reporting Accountant, the texts of which are included in Appendices 2 and 3 to this Prospectus;
- iv) the audited annual reports of the Company for the last 5 years;
- v) the ZPTF ESOP Trust Deed;
- vi) the written consent of the Reporting Accountant to the publication of their reports and references thereto in the form and context in which they are included in this Prospectus; and
- vii) the written consents of the auditors, the Joint Lead advisers to the Offer and Listing, the legal adviser to Zanaco and the ZPTF, the independent legal adviser to Zanaco, sponsoring broker, share registrar, transfer agent and receiving agents named in this Prospectus to act in those capacities, none of which consents having been withdrawn prior to registration; and

**SIGNED BY Chintu Y Mulendema AND Mark H Wiessing ON BEHALF OF ALL THE DIRECTORS IN LUSAKA ON 26 September 2008.**

**SIGNED BY Chileshe Kapwepwe AND Larry Kalala ON BEHALF OF THE ZPTF TRUSTEES IN LUSAKA ON 26 September 2008.**

**The Trustees of the ZPTF are:**

**John Jeary;**

**Larry Kalala;**

**Chileshe Kapwepwe;**

**David Matongo; and**

**Evans Chibiliti**

## **ANNEXURE 1: QUALIFICATION, BORROWING POWERS, APPOINTMENT AND REMUNERATION OF DIRECTORS**

Various extracts of the articles of association of Zanaco are set out below:

1. The Company may by ordinary resolution appoint any Person to be a Director of the Company, and may by ordinary resolution remove any Director appointed.
2. The office of Director shall be vacated if the Director:
  - 2.1 becomes bankrupt or makes any arrangement or composition with the creditors generally; or
  - 2.2 becomes prohibited from being a Director by reason of any provision of or any order made under the Companies Act or by reason of any provision of these Articles; or
  - 2.3 becomes of unsound mind; or
  - 2.4 resigns his office by notice in writing to the Company; or
  - 2.5 shall be convicted of an offence under the Companies Act or any offence in connection with the promotion, formation or management of a company.
3. It shall not be necessary for a Director to be a shareholder in the capital of the Company.
4. The remuneration of the Directors (excluding the Managing Director) shall from time to time be determined by the Company in general meeting. The Director shall also be entitled to be paid their reasonable travelling and hotel and other expenses incurred in consequence of their attendance at meetings of Directors and otherwise in the execution of their duties as Directors. The fees of the Managing Director (under the Management Services Agreement) shall be determined by the Board of Directors from time to time.
5. The Directors may exercise all the powers of the Company to borrow money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock and other securities, whether outright or as security for any debt, liability or obligation of the Company or of any third party.

## **ANNEXURE 2: INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE PROFIT FORECAST**

10 September 2008

The Trustees  
Zambia Privatisation Trust Fund  
Nasser Road  
PO Box 30819  
**LUSAKA**

Dear Sirs,

### **FORECAST INCOME STATEMENTS AND BALANCE SHEETS FOR THE YEAR ENDING 31 DECEMBER 2008**

We have reviewed the accounting bases and calculations for the forecasts of interest income and profit after tax for the year ending 31 December 2008 of Zambia National Commercial Bank Plc in respect of the listing of the Zambia Privatisation Trust Fund's ("ZPTF") shares in Zambia National Commercial Bank Plc ("ZANACO" or the "Bank").

The Directors of Zambia National Commercial Bank Plc are solely responsible for these forecasts. This responsibility includes ensuring that the forecasts are prepared with due care and objectivity. Our responsibility as Independent Reporting Accountants is to satisfy ourselves that the forecasts have been so prepared.

In our opinion, the forecasts, so far as the accounting bases and calculations are concerned, have been properly compiled on the basis of the assumptions made by the Directors set out below and are presented on a basis consistent with the accounting policies adopted by Zambia National Commercial Bank Plc.

Yours faithfully,



**DELOITTE & TOUCHE  
CHARTERED ACCOUNTANTS**

## FORECAST INCOME STATEMENT

Kwacha millions	Actual <sup>1</sup> 2007	Forecast <sup>2</sup> 2008
Interest income	188,462	272,436
Interest expense	(13,425)	(20,360)
<b>NET INTEREST INCOME</b>	<b>175,037</b>	<b>252,076</b>
Fees and commission income	100,253	112,036
<b>NET FEE AND COMMISSION INCOME</b>	<b>100,253</b>	<b>112,036</b>
Net gains from dealing in foreign currencies	13,079	11,801
Other operating income	6,828	8,790
<b>TOTAL OPERATING INCOME</b>	<b>19,907</b>	<b>20,591</b>
<b>TOTAL OPERATING INCOME</b>	<b>295,197</b>	<b>384,703</b>
Operating expenses	(230,890)	(281,168)
<b>Operating profit before provisions and tax</b>	<b>64,307</b>	<b>103,535</b>
Impairment provisions on loans and receivables	(22,383)	(27,850)
<b>Profit before tax</b>	<b>41,924</b>	<b>75,685</b>
Income tax expense	5,365	(26,134)
<b>Profit attributed to ordinary shareholders</b>	<b>47,289</b>	<b>49,551</b>
Dividends paid	(10,001)	-
Basic and diluted earnings per Share	<b>48.06</b>	<b>48.92</b>

Source 1 -Audited financial statements  
2 -Management forecast

## FORECAST BALANCE SHEET

Kwacha millions	Actual <sup>1</sup> 2007	Forecast <sup>2</sup> 2008
<b>Assets</b>		
Cash in hand	45,071	59,858
Balances with Bank of Zambia	421,675	285,460
Loans and advances to banks	160,221	212,344
Loans and advances to customers	796,737	1,151,796
Held to maturity investments	312,971	250,000
Available for sale investments	229,138	501,640
Property and equipment	106,074	121,216
Investment properties	8,832	13,610
Deferred tax assets	-	-
Tax recoverable/Advance tax payment	17,333	11,838
Other assets	12,275	54,104
<b>TOTAL ASSETS</b>	<b><u>2,110,327</u></b>	<b><u>2,661,866</u></b>
<b>Liabilities</b>		
Deposits from banks	31,595	18,887
Deposits from customers	1,798,545	1,995,250
Other payables	55,415	178,937
External Funding	-	87,500
Deferred tax liabilities	25,917	44,934
<b>Total liabilities</b>	<b><u>1,911,472</u></b>	<b><u>2,325,508</u></b>
<b>Shareholders' equity</b>		
Share capital	9,844	89,844
Statutory reserves	9,844	22,232
General banking reserve	37,623	45,575
Revaluation reserves	51,538	50,443
Retained earnings	90,006	128,264
<b>Total shareholders' equity</b>	<b><u>198,855</u></b>	<b><u>336,358</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b><u>2,110,327</u></b>	<b><u>2,661,866</u></b>

Source 1 -Audited financial statements  
 2 -Management forecast

## ASSUMPTIONS

The Directors of Zambia National Commercial Bank are solely responsible for the forecasts. They have been prepared in accordance with the accounting policies and bases currently in place.

The following are the significant assumptions that management used in preparing these forecasts;

- The banking sector will continue to see high growth rates in its main indicators such as loans and advances at around 30% per annum, and we expect revenues of the bank to grow at or faster than the market.
- Volume of transactions grew by 25% but competitive price adjustments on some commission lines will result in net fees and commissions growth of approximately 12% on year to year basis after a 36% jump in 2007.
- Gradual staff rationalisation will continue in 2008 through a voluntary staff separation scheme that will continue at least into 2009.
- Average staff salary increments are expected to be 13%;
- Accelerated growth is expected for advertising and publicity, direct sales activities and promotion materials in support of the banks sales initiatives.
- All other expenses to increase by at least the projected annual average inflation rate of 10%.
- Capital expenditures incurred and committed will not have a major impact on the banks 2008 profitability.

## SIGNIFICANT RATIOS

The table below shows how ratios projected for the financial year ending 31 December 2008, compare with actual ratios for the year ended 31 December 2007.

	<b>Actual 2007</b>	<b>Forecast 2008</b>
<b>Income statement</b>		
Interest income growth	24%	44%
Net interest income/total income	59%	66%
Operating cost /income	78%	73%
Net interest margin	8%	8%
<b>Balance sheet</b>		
Credit/deposit ratio	48.79%	62.45%
Impairment to total advances ratio	7.71%	7.57%

## **ANNEXURE 3: INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON ZANACO**

10 September 2008

The Trustees  
Zambia Privatisation Trust Fund  
Nasser Road  
PO Box 30819  
**LUSAKA**

Dear Sirs,

### **REPORT OF THE INDEPENDENT REPORTING ACCOUNTANTS**

We have examined the audited financial statements of the Zambia National Commercial Bank Plc ("ZANACO" or the "Bank") for the three years ended 31 December 2007, 2006 and 2005 as well as the 6 months to 30 June 2008. PricewaterhouseCoopers are the auditors of the Bank. The financial information set out in section 1 to 3 is based on the financial statements of the Bank after making such adjustments as we believe necessary. The audited financial statements have been prepared on the basis of the accounting policies set out in pages 69 to 86 below, which conform to operative International Financial Reporting Standards.

The financial statements on which the following information is based are the responsibility of the Directors of the Bank who approved them for issue. The Directors of ZANACO are responsible for the contents of the prospectus dated 15 September 2008 in which this report is included. We report on the information in accordance with the requirements of the Securities Act 1993, and the Third Schedule to the Securities (Registration of Securities) Rules, 1993. We are a firm of Accountants with partners who hold practising certificates issued by the Zambia Institute of Chartered Accountants under the Accountants Act, 1982.

Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

In our opinion, the information set out in pages 87 to 99 below gives, for the purposes of the prospectus, a true and fair view of the profit of the Bank for the 6 months ended 30 June 2008 and two years ended 31 December 2007 and 2006 and of the assets and liabilities of the Bank as at 30 June 2008 and 31 December 2007 and 2006.

Yours faithfully,



**Deloitte & Touche**  
**Chartered Accountants**

## 1 ACCOUNTING POLICIES

### 1.1 GENERAL INFORMATION

Zambia National Commercial Bank Plc is a limited company incorporated and domiciled in the Republic of Zambia. The Bank is also licensed under the Zambia Banking and Financial Services Act 1994, (as amended) to conduct commercial banking services. The address of its registered office and principal place of business is Plot 2118-2120, Cairo Road Lusaka.

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

### 1.2 ADOPTION OF NEW AND REVISED STANDARDS

In 2007, the following new and revised standards and interpretations became effective for the first time and have been adopted by the Bank where relevant to its operations. The comparative figures have been restated as required, in accordance with the relevant requirements.

- IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the Bank's capital and how it manages capital
- IFRS 7 Financial Instruments: Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. This standard does not have any impact on the classification or measurement of the Bank's financial instruments.

#### Standards and interpretations not yet effective

The Bank has chosen not to early adopt the following Standards and Interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2007:

<p>IAS 1 Presentation of Financial Statements</p> <p>The revised IAS 1 supersedes the 2003 version of IAS 1. The main change in the revised IAS 1 is the requirement to present all non-owner changes in equity in either:</p> <ul style="list-style-type: none"> <li>▪ a single statement of comprehensive income which includes income statement line items; or</li> <li>▪ a statement of comprehensive income which includes only non-owner equity changes. In addition, an income statement is also disclosed.</li> </ul> <p>A statement of financial position, preferred term for "balance sheet", also has to be presented at the beginning of the comparative period when the entity restates the comparatives as a result of a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. Once effective, the revised IAS 1 will not impact the results of the Bank but will impact the format of the income statement and statement of changes in equity.</p>	<p>Effective annual periods commencing on or after 1 January 2009.</p>
<p>IAS 32 and IAS 1 amendments: Financial Instruments: Preparation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</p> <p>The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of the entity only on liquidation as equity. The amendment sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements. This amendment is not expected to have a significant impact on the Bank's results.</p>	<p>Effective annual periods commencing on or after 1 January 2009</p>
<p>IFRS 3 Business Combinations</p> <p>The principal amendments to IFRS 3 include:</p> <ul style="list-style-type: none"> <li>▪ the requirement to expense all acquisition-related costs;</li> <li>▪ recognition of fair value gains and losses in the income statement on interests in an acquiree at the time at which control is lost;</li> <li>▪ recognition of all increases and decreases in ownership interests over an acquiree within equity whilst control is held;</li> <li>▪ the option to recognise any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets of the entity acquired;</li> <li>▪ restriction of adjustments to the initial measurement of contingent considerations on a business combination, with subsequent measurement of such items being recognised in the income statement; and</li> <li>▪ the requirement at acquisition to reclassify and redesignate all contractual arrangements, excluding leases and insurance contracts.</li> </ul> <p>These amendments are not expected to have a significant impact on the Bank's results.</p>	<p>Effective annual periods commencing on or after 1 July 2009</p>
<p>IAS 27 Consolidated and Separate Financial Statements</p>	<p>Annual periods</p>

<p>The amendments to IAS 27 require changes in a parent's ownership interest in a subsidiary that does not result in a loss of control to be accounted for within equity as transactions with owners in their capacity as owners. At the time at which control is lost, a parent shall derecognise all assets, liabilities and non-controlling interest at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. A gain or loss on the loss of control is recognised in profit or loss. The revised standard also requires an entity to attribute its share of total comprehensive income to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.</p>	<p>commencing on or after 1 July 2009</p>
<p>IFRS 2 amendment Share-based Payment – Vesting Conditions and Cancellations</p> <p>The amendment to IFRS 2 clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment agreement should be treated as non-vesting conditions and should be included in the grant date fair value of the share-based payment. It also specifies that cancellations by parties other than the entity should be accounted for in the same way as cancellations by the entity.</p> <p>This amendment is not expected to have a significant impact on the Bank's results.</p>	<p>Effective annual periods commencing on or after 1 January 2009</p>
<p>IFRIC 12 <i>Service Concession Arrangements</i></p> <p>Service concessions are contractual service arrangements whereby a government or other public sector entity grants contracts for the supply of public services such as roads, airports, prison, energy and water supply distribution facilities to private sector operators. This interpretation provides guidance on how service concession operators should apply existing IFRS to account for the obligations they undertake and the rights they receive in service concession arrangements. This standard is not applicable to the business of the Bank.</p>	<p>Effective annual periods commencing on or after 1 January 2008</p>
<p>IFRIC 13 Customer Loyalty Programmes</p> <p>The interpretation addresses the recognition and measurement of obligations to provide customers with free or discounted goods or services if and when they choose to redeem their loyalty award credits. The interpretation requires entities to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when the obligations have been fulfilled. They may fulfil their obligations by supplying awards themselves, or engaging and paying a third party to do so.</p> <p>This amendment is not expected to have a significant impact on the Bank's results.</p>	<p>Effective annual periods commencing on or after 1 July 2008</p>

### 1.3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in note 1.4, Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Impairment losses on loans and receivables

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

future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### **Fair value of derivatives**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure the outputs reflect actual data and comparative market prices. To the extent practical, models used only observable data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. For financial instruments that trade infrequently and have little price transparency, fair values are less objective and require varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### **Held-to-maturity financial assets**

The Bank follows the guidance on IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value, not amortised cost.

#### **Impairment of non-financial assets**

The carrying amount of the Bank's assets other than financial assets is reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such exists, the asset's recoverable amount is estimated. This estimation requires significant judgment. An impairment loss is recognised in the income statement whenever the carrying amount exceeds the recoverable amount.

#### **Income taxes**

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

#### **Useful lives of property, plant and equipment**

As described in note 1.4.16, the Bank reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the Directors determined that the estimated useful lives of property and equipment were reasonable.

### **1.4 SIGNIFICANT ACCOUNTING POLICIES**

#### **1.4.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards and the Banking and Financial Services Act, 1994 (as amended) and the Companies' Act, 1994 (as amended).

#### **1.4.2 Basis of preparation**

The financial statements have been prepared on the historical basis of accounting, except for the revaluation of certain items of property, plant and equipment, derivative financial instruments, financial instruments at fair value through profit and loss and available for sale financial assets. The principal accounting policies adopted are set out below:

#### **1.4.3 Interest income and expense**

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method based on the actual purchase price.

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. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. 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. Interest income includes coupons earned on fixed price investment and trading securities, and accrued discount and premium on Treasury Bills and other discounted instruments.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate method; and
- Interest on available-for-sale securities at fair value.

When loans, receivables and other financial assets 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.

#### **1.4.4 Fees and commission income**

Fees and commission income are generally recognised on an accruals 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.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

#### **1.4.5 Lease payments**

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.

**With the Bank as lessee** To date, all leases entered into by the Bank are operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

**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.

To date, the Bank has not leased out any assets under operating leases

#### **1.4.6 Foreign currencies**

The financial statements of the Bank are presented in the currency of the primary economic environment in which the Bank operates (its functional currency).

For the purpose of the financial statements, the results and financial position of the Bank are expressed in units of millions of Zambian Kwacha ('ZMK'), which is the functional currency of the Bank and the presentation currency for the financial statements.

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in income statement in the year in which they arise.

#### **1.4.7 Retirement benefit costs**

The Bank operates a defined contribution retirement benefit scheme for its non- contractual employees. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has a legal or constructive obligation 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 both schemes are held in separate trustee administered funds, which are funded by contributions from both the Bank and employees. The Bank and all its employees also contribute to the National Pension Scheme Authority, which is a defined contribution scheme.

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

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually 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. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

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.

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

#### **1.4.8 Taxation**

##### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

##### **Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Withholding taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

##### **Current and deferred tax for the period**

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

#### **1.4.9 Financial assets**

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair-value-through-profit-or-loss', 'held-to-maturity investments', 'available-for-sale', financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair-value-through-profit-and-loss.

##### **Financial assets at fair-value-through-profit-and-loss**

Financial assets are classified as at fair-value-through-profit-and-loss where the financial asset is either held for trading or it is designated as at fair-value-through-profit-and-loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair-value-through-profit-or-loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair-value-through-profit-or-loss.

Financial assets at fair-value-through-profit-or-loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described above.

##### **Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments, and include bills of exchange and debentures. 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.

Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

##### **Available-for-sale financial assets**

Available-for-sale assets are those 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.

##### **Loans and receivables**

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those classified as held for trading and those that the Bank on initial recognition designates as at fair value through profit and loss; (ii) those that the Bank upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

#### **1.4.10 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. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

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

##### **(a) 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.

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 statement.

##### **(b) Assets classified as available for sale**

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are

impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

**(c) Renegotiated loans**

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

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.

**1.4.11 Financial assets and liabilities**

**Accounting classifications and fair values**

The table below sets out the Bank's classification of each class of financial assets and liabilities (excluding accrued interest).

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arms-length transaction between knowledgeable willing parties.

<b>30 June 2008 Kwacha Millions</b>	<b>Held to maturity</b>	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>Other amortised cost</b>	<b>Total carrying amount</b>
<b>Financial assets</b>					
Balances with Bank of Zambia	302,089	-	261,649	-	563,738
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	-	879,925	-	-	879,925
<b>Total assets</b>	<b>302,089</b>	<b>879,925</b>	<b>261,649</b>	<b>-</b>	<b>1,443,663</b>
<b>Financial liabilities</b>					
Deposits from banks	1,774	-	-	-	1,774
Deposits from customers	1,710,926	-	-	-	1,710,926
<b>Total liabilities</b>	<b>1,712,700</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,712,700</b>
<b>31 December 2007</b>					
<b>Financial assets</b>					
Balances with Bank of Zambia	312,971	-	229,138	-	542,109
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	-	796,737	-	-	796,737
<b>Total</b>	<b>312,971</b>	<b>796,737</b>	<b>229,138</b>	<b>-</b>	<b>1,338,846</b>
<b>Financial liabilities</b>					
Deposits from banks	31,595	-	-	-	31,595
Deposits from customers	1,798,545	-	-	-	1,798,545
<b>Total</b>	<b>1,830,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,830,140</b>

Fair value approximates carrying value due to the minimal credit losses and short-term nature of the financial assets and liabilities.

Financial instruments at fair value are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-markets pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, commodities prices, and currency rates.

**1.4.12 Sale and repurchase agreements**

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

#### **1.4.13 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.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

#### **1.4.14 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.

Cash equivalents are carried at fair value in the balance sheet.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances with Bank of Zambia, loans and advances to banks and amounts due to and from other banks.

#### **1.4.15 Property and equipment**

Land and buildings comprise mainly branches and offices. All categories of property, plant and equipment are initially recorded at cost. Buildings are subsequently shown at market value, based on regular valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment are 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. The revaluation reserves are non-distributable.

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;	2%	50 years
Computers	20%	5 years
Motor vehicles	25%	4 years
Fixtures, fittings and equipment	20%	5 years
Office Machines	20%	5 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 operating profit.

#### **1.4.16 Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **1.4.17 Earnings per share**

The Bank presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive ordinary shares, which may comprise convertible notes and share options granted to employees.

#### **1.4.18 Dividends**

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

#### **1.4.19 Fiduciary activities**

The Bank commonly acts as trustees 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.

#### **1.4.20 Acceptances and letters of credit**

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

### **1.5 RISK MANAGEMENT POLICIES & PROCEDURES**

The Bank's activities expose it to a variety of financial risks and 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 market, liquidity, currency risk management is carried out by the treasury department with guidance from Asset and Liability Committee. Treasury identifies, evaluates and hedges financial risk in close cooperation with the operating units.

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks
- currency risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The Bank has procedures which are used to identify the risk faced by the Bank. The Bank has in place risk limits and controls and regularly monitors risks and adherence to limits.

The Board Audit Committee is responsible for monitoring compliance with the Bank's procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions.

#### **(i) 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 treasury department, which reports regularly to the Board of Directors.

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. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors.

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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

#### 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.

Maximum exposure to credit risk before collateral held

Kwacha millions	30 June 2008	2007	2006
Placements with other banks	57,567	160,221	116,717
Loans and advances to customers	879,925	796,737	488,736
Investment securities:			
Available-for-sale	261,648	229,138	269,900
Held-to-maturity	302,089	312,971	268,003
Other assets	21,867	12,275	36,256
Credit risk exposures relating to off-balance sheet items:			
Acceptances and letters of credit	4,184	12,288	5,905
Guarantee and performance bonds	25,877	27,592	29,797
Commitments to lend	12,654	4,270	5,533
	<b>1,565,811</b>	<b>1,555,492</b>	<b>1,220,847</b>

The above table represents a worse case scenario of credit risk exposure to the Bank at 30 June 2008 and 31 December 2007 and 2006, 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, 51% of the total maximum exposure is derived from loans and advances to banks and customers (2007: 50%). 36% represents investments in debt securities (2007: 44%).

Loans and advances to customers, other than to major corporates and to individuals borrowing under scheme and premier loans, 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
- 55% of the loans and advances portfolio are neither past due nor impaired
- 32% of the loans and advances portfolio are backed by collateral
- 100% of the investments in debt securities are government securities.

#### Financial assets that are past due or impaired

Loans and advances are summarised as follows:

Kwacha millions	30 June 2008	2007	2006
Neither past due nor impaired	546,799	557,062	267,931
Past due but not impaired	292,490	202,509	198,294
Impaired	113,384	103,711	66,673
Gross	952,673	863,282	532,898
Less: allowance for impairment	(72,748)	(66,545)	(44,162)
<b>Net</b>	<b>879,925</b>	<b>796,737</b>	<b>488,736</b>

### Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank:

<b>Kwacha millions</b>	<b>30 June 2008</b>	<b>2007</b>	<b>2006</b>
Standard	546,799	557,062	267,931
Watch list	38,589	55,330	111,248
<b>Total</b>	<b>585,388</b>	<b>612,392</b>	<b>379,179</b>

### Loans and advances past due but not impaired

Loans and advances less than 90 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:

<b>Kwacha millions</b>	<b>30 June 2008</b>	<b>2007</b>	<b>2006</b>
Past due up to 30days	209,405	181,302	70,994
Past due 31-60days	48,766	19,470	86,017
Past due 61-90days	34,319	1,737	41,283
<b>Total</b>	<b>292,490</b>	<b>202,509</b>	<b>198,294</b>

### Loans and advances individually impaired

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

<b>Kwacha millions</b>	<b>30 June 2008</b>	<b>2007</b>	<b>2006</b>
Individually assessed impaired loans and advances			
Corporate	47,597	53,066	26,333
Retail	4,868	8,915	6,702
<b>Total</b>	<b>52,465</b>	<b>61,981</b>	<b>33,035</b>
<b>Fair value of collateral</b>	<b>442,283</b>	<b>398,724</b>	<b>72,729</b>

### (ii) Concentration of Risk

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

	<b>30 June 2008</b>	<b>2007</b>	<b>2006</b>
Manufacturing	9.58%	8.64%	16.36%
Wholesale and retail trade	9.82%	3.35%	23.21%
Transport and communications	6.32%	7.13%	8.43%
Business services	3.48%	3.04%	3.31%
Agricultural	20.62%	17.10%	19.97%
Individuals	40.41%	53.37%	23.43%
Other	9.77%	7.38%	5.30%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

<b>Kwacha millions</b>	<b>30 June 2008</b>	<b>2007</b>	<b>2006</b>
Private corporations and partnerships	410,057	284,986	169,394
Individuals and households	415,978	484,248	411,419
Government	380,789	474,350	420,314
Statutory bodies	176,308	237,514	31,414
Parastatals	82,319	84,667	175,638
Non- bank financial institutions	1,106	700	1
Other	244,369	232,080	285,675
<b>Total</b>	<b>1,710,926</b>	<b>1,798,545</b>	<b>1,493,855</b>

### (iii) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity management within the Bank has several strands. The first is day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in the money markets to enable that to happen. The second is maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow. Finally, the ability to monitor, manage and control intraday liquidity in real time is recognised by the Bank as a mission critical process: any failure to meet specific intraday commitments would be a public event and may have an immediate impact on the Bank's reputation.

Monitoring and reporting take the form of weekly reporting based on principles agreed by the Bank of Zambia. In addition to cash flow management, Treasury also monitors unmatched medium-term assets and the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Treasury develops and implements the process for submitting the Bank's projected cash flows to stress scenarios. The output of stress testing informs the Bank's contingency funding plan.

An important source of structural liquidity is provided by our core retail deposits, mainly current accounts and savings accounts. Although current accounts are repayable on demand and savings accounts at short notice, the Bank's broad base of customers has resulted in a level of deposits that is more or less permanent and provides liquidity to the Bank.

To avoid reliance on a particular group of customers or market sectors, the distribution of sources and the maturity profile of deposits are also carefully managed. Important factors in assuring liquidity are competitive rates and the maintenance of depositors' confidence. Such confidence is based on a number of factors including the Bank's reputation, the strength of earnings and the Bank's financial position.

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund liabilities at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. Liquidity management is directed towards ensuring that all the Bank's operations can meet their funding needs, whether this is to replace existing funding as it matures, or is withdrawn, or to satisfy the demands of customers for additional borrowings.

The table below presents the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date.

<b>30 June 2008</b>	<b>Up to 12</b>	<b>One to three</b>	<b>Three to</b>	<b>More than</b>	<b>Total</b>
<b>Kwacha 'millions</b>	<b>months</b>	<b>years</b>	<b>five years</b>	<b>five years</b>	
<b>Assets</b>					
Cash	48,222	-	-	-	48,322
Balances with Bank of Zambia	315,649	-	-	-	315,649
Loans and advances to banks	57,567	-	-	-	57,567
Loans and advances to customers	363,744	311,998	144,186	132,745	952,673
Investment securities	386,130	32,000	169,818	265	588,213
Current tax recoverable	11,885	-	-	-	11,885
Other assets	21,867	-	-	-	21,867
<b>Total financial assets</b>	<b>1,205,064</b>	<b>343,998</b>	<b>314,004</b>	<b>133,010</b>	<b>1,996,076</b>
<b>Liabilities</b>					
Deposits from banks	1,774	-	-	-	1,774
Deposits from customers	1,710,558	368	-	-	1,710,926
Other liabilities	62,794	-	-	-	62,794
<b>Total financial liabilities</b>	<b>1,775,126</b>	<b>368</b>	<b>-</b>	<b>-</b>	<b>1,775,494</b>
<b>Gap</b>	<b>(570,062)</b>	<b>343,630</b>	<b>314,004</b>	<b>133,010</b>	<b>220,582</b>

<b>31 December 2007</b>	<b>Up to 12 months</b>	<b>One to three years</b>	<b>Three to five years</b>	<b>More than five years</b>	<b>Total</b>
<b>Kwacha Millions</b>					
<b>Assets</b>					
Cash	45,071	-	-	-	45,071
Balances with Bank of Zambia	421,675	-	-	-	421,675
Loans and advances to banks	160,221	-	-	-	160,221
Loans and advances to customers	259,725	337,306	131,487	68,219	796,737
Investment securities	243,831	179,725	118,553	-	542,109
Current tax recoverable	17,333	-	-	-	17,333
Other assets	12,275	-	-	-	12,275
<b>Total financial assets</b>	<b>1,160,131</b>	<b>517,031</b>	<b>250,040</b>	<b>68,219</b>	<b>1,995,421</b>
<b>Liabilities</b>					
Deposits from banks	31,595	-	-	-	31,595
Deposits from customers	1,795,545	-	-	-	1,795,545
Other liabilities	55,415	-	-	-	55,415
<b>Total financial liabilities</b>	<b>1,885,555</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,885,555</b>

#### (iv) 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 30 June 2008. Included in the table are the Bank's financial instruments, categorised by currency:

<b>30 June 2008</b>	<b>USD</b>	<b>GBP</b>	<b>Euro</b>	<b>Total</b>
<b>Kwacha Millions</b>				
<b>Assets</b>				
Cash	3,763	303	245	4,311
Balances with Bank of Zambia	4,085	-	-	4,085
Loans and advances to banks	29,782	429	5,825	36,036
Loans and advances to customers	113,515	-	-	113,515
Investment securities	-	-	-	-
Current tax recoverable	-	-	-	-
Other financial assets	1,672	1	-	1,673
<b>Total assets</b>	<b>152,817</b>	<b>733</b>	<b>6,070</b>	<b>159,620</b>
<b>Liabilities</b>				
Deposits from banks	466	-	-	466
Deposits from customers	128,066	1,569	3,366	133,001
Other liabilities	490	385	1,019	1,894
<b>Total liabilities</b>	<b>129,022</b>	<b>1,954</b>	<b>4,385</b>	<b>135,361</b>
<b>Net on balance sheet position</b>	<b>23,795</b>	<b>(1,121)</b>	<b>1,685</b>	<b>24,259</b>

<b>31 December 2007</b>	<b>USD</b>	<b>GBP</b>	<b>Euro</b>	<b>Total</b>
<b>Kwacha Millions</b>				
Total assets	231,944	148	155	232,247
Total liabilities	154,337	2,710	4,162	161,209
<b>Net on balance sheet position</b>	<b>77,607</b>	<b>(2,562)</b>	<b>(4,007)</b>	<b>71,038</b>

### 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 repricing 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 repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

<b>30 June 2008</b>	<b>Up to 12 months</b>	<b>One to three years</b>	<b>Three to five years</b>	<b>More than five years</b>	<b>Non interest bearing</b>	<b>Total</b>
<b>Kwacha Millions</b>						
<b>Assets</b>						
Cash	-	-	-	-	48,222	48,222
Balances with Bank of Zambia	131,333	-	-	-	184,316	315,649
Loans and advances to banks	35,785	-	-	-	21,782	57,567
Loans and advances to customers	363,744	311,998	144,186	132,745	-	952,673
Investment in securities	386,130	32,000	169,818	265	-	588,213
Current tax recoverable	-	-	-	-	11,885	11,885
Other assets	-	-	-	-	21,867	21,867
Total financial assets	<b>916,992</b>	<b>343,998</b>	<b>314,004</b>	<b>133,010</b>	<b>288,072</b>	<b>1,996,076</b>
<b>Liabilities</b>						
Deposits from banks	-	-	-	-	1,774	1,774
Deposits from customers	751,845	368	-	-	958,713	1,710,926
Other liabilities	-	-	-	-	62,794	62,794
Total liabilities	<b>751,845</b>	<b>368</b>	<b>-</b>	<b>-</b>	<b>1,023,281</b>	<b>1,775,494</b>
<b>Interest sensitivity gap</b>	<b>165,147</b>	<b>343,630</b>	<b>314,004</b>	<b>133,010</b>	<b>(735,209)</b>	<b>220,582</b>

<b>31 December 2007</b>	<b>Up to 12 months</b>	<b>One to three years</b>	<b>Three to five years</b>	<b>More than five years</b>	<b>Non interest bearing</b>	<b>Total</b>
<b>Kwacha Millions</b>						
<b>Assets</b>						
Cash	-	-	-	-	45,071	45,071
Balances with Bank of Zambia	300,000	-	-	-	121,675	421,675
Loans and advances to banks	88,449	-	-	-	71,772	160,221
Loans and advances to customers	259,725	337,306	131,487	68,219	-	796,737
Investment securities	243,831	179,725	118,553	-	-	542,109
Property and equipment	-	-	-	-	106,074	106,074
Investment properties	-	-	-	-	8,832	8,832
Deferred tax	-	-	-	-	-	-
Current tax recoverable	-	-	-	-	17,333	17,333
Other assets	-	-	-	-	12,275	12,275
Total assets	<b>892,005</b>	<b>517,031</b>	<b>250,040</b>	<b>68,219</b>	<b>383,032</b>	<b>2,110,327</b>
<b>Liabilities</b>						
Deposits from banks	-	-	-	-	31,595	31,595
Deposits from customers	694,024	-	-	-	1,104,521	1,798,545
Liabilities	-	-	-	-	55,415	55,415
Deferred Tax liability	-	-	-	-	25,917	25,917
Shareholders funds	-	-	-	-	198,855	198,855
Total liabilities and equity	<b>694,024</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,416,303</b>	<b>2,110,327</b>
<b>Interest sensitivity gap</b>	<b>197,981</b>	<b>517,031</b>	<b>250,040</b>	<b>68,219</b>	<b>(1,033,271)</b>	<b>-</b>

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 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.

#### **(v) operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the various heads of departments / branch management with summaries submitted to the Audit committee and Executive Management Committee.

#### **(vi) Capital management**

The Bank's lead regulator, the Bank of Zambia, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the Bank of Zambia requires the Bank to maintain a 10% ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are differently treated for capital adequacy purpose.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Below are the computations of the Bank's risk weighted assets and capital position as at 30 June 2008. The minimum capital required for the Bank is 10% of the Risk Weighted Assets as computed below.

**Calculation of risk weighted assets**

Kwacha millions	Risk weight %	Balance(net of allowance for losses)	Risk weighted assets(1x2)
<b>Assets</b>			
Notes and coins			
Zambian notes and coins	-	43,623	-
Other notes and coins	-	4,599	-
Balances with Bank of Zambia			
statutory reserves	-	96,885	-
other balances	-	218,764	-
Balances held with commercial banks in Zambia			
with residual maturity of up to 12 months	20	26,940	5,388
with residual maturity of more than 12 months	100	-	-
Balances held with commercial banks in abroad			
with residual maturity of up to 12 months	20	30,627	6,125
with residual maturity of more than 12 months	100	-	-
Assets in transit			
From other commercial banks	50	-	-
From branches reporting to commercial bank	20	-	-
Investment in debt securities			
Treasury bills	-	261,648	-
Other government securities	20	302,089	60,418
Issued by Local Government Units	100	-	-
Bills of Exchange	100	81	81
Loans and advances			
Portion secured by cash or treasury bills	-	37,504	-
Loans to or guaranteed by the Government	50	-	-
Loans repayable in installments and secured by a mortgage on owner-occupied residential property	50	25,094	12,548
Loans to or guaranteed by local Government units	100	1,189	1,189
Loans to parastatals	100	36,191	36,191
Others	100	779,947	779,947
Inter-bank 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	99,412	99,412
Acceptances	100	-	-
Other assets	100	54,234	54,234
Investment in equity of other companies	100	307	307
<b>Total risk-weighted assets (on-balance sheet)</b>		<b>2,019,134</b>	<b>1,055,839</b>

**Off balance sheet obligations**

Kwacha millions	Risk weight %	Balance(net of allowance for losses)	Risk weighted assets(1x2)
Letters of credit			
sight import letters of credit	20	-	-
portion secured by Cash / Treasury bills	-	2,535	-
standby letters of credit	100	1,649	1,649
export letters of credit confirmed	20	-	-
Guarantees and indemnities			
guarantees for loans, trade and securities	100	-	-
portion secured by Cash / Treasury bills	-	7,991	-
performance bonds	50	4,350	2,175
securities purchased under resale agreement	100	2,594	2,594
other contingent liabilities	100	10,942	10,942
net open position in foreign currencies	100	-	-
<b>Total risk-weighted assets (off balance sheet)</b>		<b>30,061</b>	<b>17,360</b>

## Computation of capital position

### (I) Primary (Tier 1) Capital

Kwacha millions	30 June 2008	2007	2006
(a) Paid-up common shares	9,824	9,824	9,824
(b) Eligible preferred shares	-	-	-
(c) Contributed surplus	-	-	-
(d) Retained earnings	93,197	55,820	76,906
(e) General reserve	40,569	37,623	19,219
(f) Statutory reserves	9,844	9,844	9,844
(g) Minority interest	20	20	20
(h) Sub-total A (items a to g)	<b>153,454</b>	<b>113,131</b>	<b>115,813</b>
Less			
(i) Goodwill and other intangible assets	-	-	-
(j) Investments in unconsolidated subsidiaries	-	-	-
(k) Lending of a capital nature to subsidiaries	-	-	-
(l) Holding of other banks' or financial institutions' capital instruments	-	-	-
(m) Assets pledged to secure liabilities	4,215	-	-
(n) Sub-total B (items from l to m)	<b>4,215</b>	-	-
Other adjustments	-	-	-
Provisions	-	-	-
Assets of little or no unrealised value	-	544	329
(o) Sub-total C (other adjustments)	<b>-</b>	<b>544</b>	<b>329</b>
(p) Total primary capital [h- (n to o)]	<b>149,239</b>	<b>112,587</b>	<b>115,484</b>

### (II) Secondary (Tier 2) Capital

Kwacha millions	30 June 2008	2007	2006
(a) Eligible preferred shares	-	-	-
(b) Eligible subordinated term debt	-	-	-
(c) Eligible loan stock/capital	-	-	-
(d) Revaluation reserves (maximum is 40% of revaluation reserve)	20,389	34,290	17,286
(e) Other	-	-	-
(f) Total secondary capital	<b>20,389</b>	<b>34,290</b>	<b>17,286</b>

### (III) Eligible secondary capital

	30 June 2008	2007	2006
(The maximum amount of secondary capital is limited to 100% of primary capital)	20,389	34,290	17,286
IV Eligible total capital (I (p) + III) (Regulatory capital)	<b>169,628</b>	<b>146,877</b>	<b>132,770</b>
V Minimum total capital requirement (10% of total on and off-balance sheet risk-weighted assets)	107,320	100,239	67,837
VI Excess (IV minus V)	<b>62,308</b>	<b>46,638</b>	<b>64,933</b>
Capital adequacy percentage (minimum 10%)	<b>15.81%</b>	<b>14.7%</b>	<b>19.6%</b>

## 2 FINANCIAL STATEMENTS

### 2.1 INCOME STATEMENTS

Kwacha millions	Notes	Period to	Years ended 31 December		
		30 June	2007 <sup>1</sup>	2006 <sup>1</sup>	2005 <sup>1</sup>
		2008 <sup>1</sup>			
Interest income	3.1	124,538	188,462	151,746	157,694
Interest expense	3.2	(8,790)	(13,425)	(12,059)	(11,490)
<b>NET INTEREST INCOME</b>		<b>115,748</b>	<b>175,037</b>	<b>139,687</b>	<b>146,204</b>
Fees and commission income		53,113	100,253	73,653	68,776
<b>NET FEE AND COMMISSION INCOME</b>	3.3	<b>53,113</b>	<b>100,253</b>	<b>73,653</b>	<b>68,776</b>
Net gains from dealing in foreign currencies		5,135	13,079	18,534	(8,421)
Other operating income	3.4	6,898	6,828	9,776	8,673
		<b>12,033</b>	<b>19,907</b>	<b>28,310</b>	<b>252</b>
<b>TOTAL OPERATING INCOME</b>		<b>180,894</b>	<b>295,197</b>	<b>241,650</b>	<b>215,232</b>
Operating expenses	3.5	(141,032)	(230,890)	(183,079)	(170,725)
<b>Operating profit before provisions and tax</b>		<b>39,862</b>	<b>64,307</b>	<b>58,571</b>	<b>44,507</b>
Impairment provisions on loans and receivables	3.6	(6,203)	(22,383)	(18,553)	480
<b>Profit before tax</b>		<b>33,659</b>	<b>41,924</b>	<b>40,018</b>	<b>44,987</b>
Income tax credit (expense)	3.7	(11,854)	5,365	(10,867)	(16,154)
<b>Profit attributed to ordinary shareholders</b>		<b>21,805</b>	<b>47,289</b>	<b>29,151</b>	<b>28,833</b>
Dividends payable	3.8	-	(10,001)	(10,001)	(10,007)
Basic and diluted earnings per Share	3.9	22.16	48.06	29.63	29.30

Source 1 -Audited financial statements

### 2.2 STATEMENT OF MOVEMENTS IN EQUITY

Kwacha millions	Share capital	Statutory reserves	Property revaluation reserves	Banking general reserves	Retained earnings	Total
<b>At 1 January 2007</b>	<b>9,844</b>	<b>9,844</b>	<b>50,241</b>	<b>12,193</b>	<b>76,906</b>	<b>159,028</b>
Profit for the year	-	-	-	-	47,289	47,289
Revaluation surplus	-	-	43,754	-	-	43,754
Deferred tax on revaluation	-	-	(33,991)	-	-	(33,991)
Transfer of depreciation after disposal	-	-	(147)	-	147	-
Statutory impairment provision	-	-	-	25,430	(25,430)	-
Net change in available-for-sale financial assets	-	-	(7,356)	-	-	(7,356)
Transfer of excess depreciation	-	-	(1,845)	-	1,845	-
Deferred tax on excess depreciation	-	-	750	-	(750)	-
Deferred tax on available-for-sale financial assets	-	-	132	-	-	132
Dividends to equity holders in respect of prior years	-	-	-	-	(10,001)	(10,001)
<b>At 31 December 2007</b>	<b>9,844</b>	<b>9,844</b>	<b>51,538</b>	<b>37,623</b>	<b>90,006</b>	<b>198,855</b>
Net change in available-for-sale financial assets	-	-	(13)	-	-	(13)
Statutory impairment provision	-	-	-	2,946	(2,946)	-
Transfer of excess depreciation	-	-	(922)	-	922	-
Deferred tax on excess depreciation	-	-	369	-	(369)	-
Profit for the period	-	-	-	-	21,805	21,805
Deferred tax adjustments	-	-	-	-	(6,220)	(6,220)
Dividend payable	-	-	-	-	(10,001)	(10,001)
<b>At 30 June 2008</b>	<b>9,844</b>	<b>9,844</b>	<b>50,972</b>	<b>40,569</b>	<b>93,197</b>	<b>204,426</b>

## 2.3 BALANCE SHEETS

Kwacha millions	Notes	30 June 2008 <sup>1</sup>	2007 <sup>1</sup>	31 December 2006 <sup>1</sup>	2005 <sup>1</sup>
<b>Assets</b>					
Cash in hand		48,222	45,071	37,791	24,678
Balances with Bank of Zambia	3.10	315,649	421,675	398,680	415,084
Loans and advances to banks	3.11	57,567	160,221	116,717	115,090
Loans and advances to customers	3.12	879,925	796,737	488,736	288,817
Held to maturity investments	3.13	302,089	312,971	268,003	331,087
Available for sale investments	3.14	261,648	229,138	269,900	232,969
Property and equipment	3.15	111,449	106,074	66,104	66,303
Investment properties	3.16	13,610	8,832	4,740	4,645
Deferred tax assets	3.21	-	-	1,000	5,357
Current tax recoverable	3.8	7,108	17,333	17,741	17,482
Other assets	3.17	21,867	12,275	36,256	23,400
<b>TOTAL ASSETS</b>		<b>2,019,134</b>	<b>2,110,327</b>	<b>1,705,668</b>	<b>1,524,912</b>
<b>Liabilities</b>					
Deposits from banks	3.18	1,774	31,595	29,506	54,444
Deposits from customers	3.19	1,710,926	1,798,545	1,493,855	1303,220
Other payables	3.20	62,794	55,415	23,279	32,377
Deferred tax liabilities	3.21	39,214	25,917	-	-
<b>Total liabilities</b>		<b>1,814,708</b>	<b>1,911,472</b>	<b>1,546,640</b>	<b>1,390,041</b>
<b>Shareholders' equity</b>					
Share capital	3.22	9,844	9,844	9,844	9,844
Statutory reserves	3.23	9,844	9,844	9,844	9,844
General banking reserve	3.24	40,569	37,623	12,193	-
Revaluation reserves	3.25	50,972	51,538	50,241	44,208
Retained earnings		93,197	90,006	76,906	70,975
<b>Total shareholders' equity</b>		<b>204,426</b>	<b>198,855</b>	<b>159,028</b>	<b>134,871</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,019,134</b>	<b>2,110,327</b>	<b>1,705,668</b>	<b>1,524,912</b>

Source 1 -Audited financial statements

## 2.4 CASH FLOW STATEMENTS

Kwacha millions	Notes	Period to	Years ended 31 December		
		30 June	2007 <sup>1</sup>	2006 <sup>1</sup>	2005 <sup>1</sup>
		2008 <sup>1</sup>			
<b>OPERATING ACTIVITIES</b>					
Interests receipts		124,538	188,462	151,746	157,694
Interests payments		(8,790)	(13,425)	(12,059)	(11,490)
Net fees and commission receipts		53,113	100,253	73,653	68,776
Foreign currency dealings and other income		12,033	19,907	28,310	252
Payments to employees, suppliers and other expenses		(147,235)	(252,811)	(201,633)	(170,245)
Depreciation of property and equipment		5,058	10,924	8,987	8,685
Fair value on investment properties		(4,778)	(4,092)	-	-
Asset written off		-	-	163	21
Gain(loss) on property and equipment		-	83	(258)	(2,056)
Income tax recovered(paid)		5,448	(1,169)	(8,782)	(14,138)
<b>Cash flows generated from operating activities</b>		<b>39,387</b>	<b>48,132</b>	<b>40,127</b>	<b>37,499</b>
<b>Changes in operating assets and liabilities</b>					
Government securities		(7,017)	(38,270)	(30,915)	(21,281)
Loans and advances		(83,188)	(308,001)	(199,920)	(60,502)
Other assets		(9,592)	23,981	(12,856)	(15,528)
Customer deposits		(87,619)	304,690	190,635	58,516
Other liabilities		7,381	32,136	(9,098)	(25,618)
<b>Net cash flows (used in) generated from operating activities</b>		<b>(180,035)</b>	<b>14,536</b>	<b>(62,154)</b>	<b>(64,413)</b>
<b>INVESTING ACTIVITIES</b>					
Purchase of property and equipment		(10,434)	(8,269)	(9,102)	(19,563)
Proceeds from disposal of property and equipment		-	585	316	2,395
<b>Net cash (used in) generated from investing activities</b>		<b>(10,434)</b>	<b>(7,684)</b>	<b>(8,786)</b>	<b>(17,168)</b>
<b>FINANCING ACTIVITIES</b>					
Dividends paid	3.8	(10,001)	(10,001)	(10,007)	(4,007)
<b>Net cash flows used in financing activities</b>		<b>(10,001)</b>	<b>(10,001)</b>	<b>(10,007)</b>	<b>(4,007)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(161,083)</b>	<b>44,983</b>	<b>(40,820)</b>	<b>(48,089)</b>
<b>Cash and cash equivalents at:</b>					
Beginning of the period/year	3.26	595,379	550,396	591,216	639,305
<b>End of the period/year</b>	<b>3.26</b>	<b>434,296</b>	<b>595,379</b>	<b>550,396</b>	<b>591,216</b>

## 3 NOTES TO THE FINANCIAL STATEMENTS

### 3.1 Interest income

Revenue is derived substantially from the business of banking and related activities and comprises net interest and non-interest income.

An analysis of interest income is as follows:

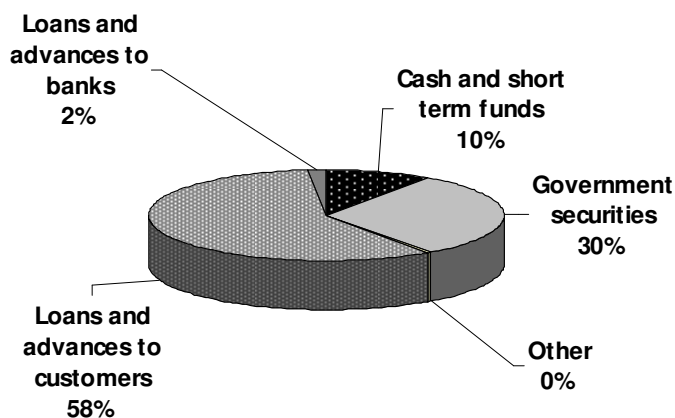
Kwacha millions	Period to	Years ended 31 December	
	30 June	2007	2006
	2008		
Cash and short term funds	12,234	9,847	12,728
Government securities	37,576	64,321	65,430
Loans and advances to customers	72,445	109,818	71,120
Loans and advances to banks	2,092	3,829	1,699
Other	191	647	769
<b>Total</b>	<b>124,538</b>	<b>188,462</b>	<b>151,746</b>

Interest income recognised on impaired financial assets was ZMK 6,069 million (2007:ZMK13,642 million, 2006:ZMK7,076 million).

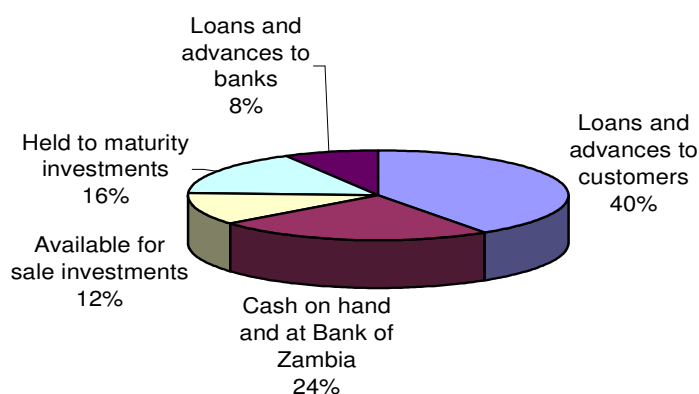
The carrying value of each of the Bank's financial assets which generated the above interest income as 31 December 2007 and 2006 was as follows:

Kwacha millions	As at 31 December	
	2007	2006
Loans and advances to customers	796,737	488,736
Cash on hand and at Bank of Zambia	466,746	436,471
Available for sale investments	229,138	269,900
Held to maturity investments	312,971	268,003
Loans and advances to banks	160,221	116,717
<b>Total</b>	<b>1,965,813</b>	<b>1,579,827</b>

**Interest income for the 6 months to 30 June 2008**



**Classification of the Bank's interest income at 31 December 2007**



With the Bank's interest income amounting to ZMK124,538 million for the six months to 30 June 2008, an increase of over 31 per cent over last year's recorded income is projected for the financial year ending 31 December 2008.

**3.2 Interest expense**

An analysis of the total interest expenses is shown below:

Kwacha millions	Period to	Years ended 31 December	
	30 June 2008	2007	2006
Deposits from customers	8,249	12,975	11,951
Deposits from banks	536	12	47
Other	5	438	61
<b>Total</b>	<b>8,790</b>	<b>13,425</b>	<b>12,059</b>

The carrying value of each of the Bank's financial liabilities on which the interest expense arose as at 30 June 2008, 31 December 2007 and 2006 was as follows:

Kwacha millions	As at 31 December	
	2007	2006
Deposits from banks	31,595	29,506
Deposits from customers	1,798,545	1,493,855
<b>Total</b>	<b>1,830,140</b>	<b>1,523,361</b>

### 3.3 Net fee and commission income

Net fee and commission income primarily relates to retail banking customer fees and financial guarantee contracts issued.

### 3.4 Other operating income

An analysis of this amount is shown below:

Kwacha millions	Period to	Years ended 31 December	
	30 June 2008	2007	2006
Fair value gain on investment properties	4,778	4,092	-
Other	2,120	2,736	9,776
<b>Total</b>	<b>6,898</b>	<b>6,828</b>	<b>9,776</b>

### 3.5 Operating expenses

The following items are included within operating expenses:

Kwacha millions	Period to	Years ended 31 December	
	30 June 2008	2007	2006
Employee benefits expenses	67,782	120,460	107,070
Depreciation of property and equipment	5,058	10,924	9,080
Other operating expenses	68,192	99,506	66,929
<b>Total operating expenses</b>	<b>141,032</b>	<b>230,890</b>	<b>183,079</b>

The following items are included within employee benefits expenses:

Kwacha millions	Period to	Years ended 31 December	
	30 June 2008	2007	2006
<i>Employee benefits expenses</i>			
Wages and salaries	58,858	106,568	95,639
Other pension costs	7,286	10,647	8,859
Compulsory social security obligations (NAPSA)	1,638	3,245	2,572
<i>Total employee benefits expense</i>	<b>67,782</b>	<b>120,460</b>	<b>107,070</b>

Other operating expenses for the year ended 31 December 2007 include **ZMK331 million** (2006: ZMK330 million) in respect of auditors' remuneration for the Bank, Directors fees of **ZMK104 million** (2006: ZMK343 million) and repairs and maintenance on property and equipment of **ZMK18,210 million** (2006: ZMK20,754 million).

The average number of employees for each month during the year ended 31 December 2007 and 2006 was 1,083 and 1,101 respectively.

Details of Directors' pay and benefits, and transactions with Directors and other senior officers are disclosed under related parties in note 3.29.

### 3.6 Impairment provision on loans and receivables

Kwacha millions	Period to	Years ended 31 December	
	30 June 2008	2007	2006
Accumulated allowance for impairment held at beginning of year	66,545	44,162	25,609
Net charge against profit	6,203	22,383	18,553
<b>Accumulated allowance for impairment held at end of year(note 3.12)</b>	<b>72,748</b>	<b>66,545</b>	<b>44,162</b>

Following the partial privatization of the Bank, new credit scoring and monitoring of the Bank's loan portfolio in conjunction with the central bank (Bank of Zambia) has necessitated what may be perceived as a more aggressive stance towards provisions raised for impairment of the Bank's financial assets.

The Board of Directors has devoted significant resources towards (i) ensuring that risk undertaken for new credit advanced is evaluated appropriately (ii) employing more stringent credit monitoring; and (iii) enhancing the technical proficiency of credit staff.

In this way, Management intends to expand the base of the Bank's financial assets, while maintaining the Bank's loan portfolio within a tolerable level of credit risk.

### 3.7 Income tax expense

The income tax expense comprises the following:

Kwacha millions	Period to	Years ended 31 December	
	30 June 2008	2007	2006
Current tax	(4,777)	(1,577)	(6,510)
Deferred tax	(7,077)	6,942	(4,357)
<b>Income tax (expense) credit for the period</b>	<b>(11,854)</b>	<b>5,365</b>	<b>(10,867)</b>

The total charge for the year can be reconciled to the accounting profit as follows:

#### (i) Reconciliation of the tax charge

Kwacha millions	Period to	Years ended 31 December	
	30 June 2008	2007	2006
Profit before tax	33,659	41,924	40,018
Tax on accounting profit at 40%	(13,463)	(16,770)	(16,007)
Tax rate effect of income taxed separately at 15%		2,049	9,120
Income taxed separately at 35%	13	24	52
Underprovision in prior year	-	(173)	-
Tax loss	-	7,644	-
Non-deductible expenses	-	-	(4,032)
Income not subject to tax	1,596	12,591	-
<b>Income tax (expense) credit</b>	<b>(11,854)</b>	<b>5,365</b>	<b>(10,867)</b>

#### (ii) Current income tax receivable

The movements on current income tax payable were as follows:

Kwacha millions	30 June	As at 31 December	
	2008	2007	2006
At the beginning of the period/year	17,333	17,741	17,482
Current income tax charge	(4,777)	(1,577)	(6,510)
Prior year tax adjustment	-	-	(2,013)
Payments made (recovered)	(5,448)	1,169	8,782
<b>At end of the year</b>	<b>7,108</b>	<b>17,333</b>	<b>17,741</b>

### 3.8 Dividends paid

The following dividends were declared and paid by the Bank in respect of the previous years:

Kwacha millions	Years ended 31 December	
	2007	2006
ZMK per ordinary share (2006: ZMK10.17 per ordinary share)	10,001	10,001

Dividends are recorded in the period in which they are declared. Accordingly, the final dividends set out above relate to the respective prior periods. A 2006 final dividend of ZMK10.17 per share was paid to share holders. Payment of dividends is subject to tax at a rate of 15%.

### 3.9 Earnings per share

The calculation of earnings per share is based on the profit after tax using as a divisor the number of ordinary shares in issue at the end of each of the three financial years. There were no dilutive potential ordinary shares at 31 December 2007 (2006: nil) and basic earnings per share equals to diluted earnings per share.

	Years ended 31 December	
	2007	2006
Profit after tax (Kwacha millions)	47,289	29,151
Ordinary shares in issue (millions)	984	984
<b>Earnings per share</b>	<b>48.06</b>	<b>29.63</b>

### 3.10 Balances with Bank of Zambia

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Balances with Bank of Zambia other than mandatory reserve deposits	218,731	329,504	273,294
Mandatory reserve deposits with Bank of Zambia	96,918	92,171	125,386
<b>Total</b>	<b>315,649</b>	<b>421,675</b>	<b>398,680</b>

Cash in hand and balances with the Bank of Zambia are non-interest-bearing.

Mandatory reserve deposits are not available for use in the bank's day to day operations and are non-interest bearing.

### 3.11 Loans and advances to banks

The following items are included within loans and advances due from banking institutions:

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Items in course of collection	11,640	20,565	20,071
Other money-market placements	15,300	118,300	13,382
Loans and advances to banks	30,627	21,356	83,264
	<b>57,567</b>	<b>160,221</b>	<b>116,717</b>

Other money-market placements are fixed-rate assets.

### 3.12 Loans and advances to customers

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Overdrafts	257,417	243,214	161,396
Personal Loans	359,381	252,245	82,768
Mortgages	25,096	18,794	16,147
Corporate loans	310,779	349,029	272,587
Gross loans and advances to customers	952,673	863,282	532,898
Allowance for impairment (note 3.6)	(72,748)	(66,545)	(44,162)
<b>Net loans and advances to customers</b>	<b>879,925</b>	<b>796,737</b>	<b>488,736</b>

The maturity analysis of these amounts is as follows:

Kwacha millions	As at 31 December	
	2007	2006
Repayable		
Up to 12 months	156,905	273,153
Between one and five years	610,318	247,273
Over five years	96,059	12,472
Gross loans and receivables	863,282	532,898
Less : allowance for impairment	(66,545)	(44,162)
<b>Net loans and advances to customers</b>	<b>796,737</b>	<b>488,736</b>

In accordance with the methodology laid down by the Bank of Zambia under the Banking and Financial Services Act 1994, (as amended), the provision for impairment against loans and advances for the years ended 31 December 2007 and 2006 were ZMK47,813 million and ZMK31,046 million respectively. At 31 December 2007, the difference between the Bank of Zambia impairment provision of ZMK47,813 million and the impairment provision under IFRS of ZMK22,383 million amounting to ZMK25,430 million has been shown as a general banking reserve. See note 3.24.

### 3.13 Held-to-maturity investments

Government bonds are classified as held-to-maturity securities issued by the Government of the Republic of Zambia. These are scheduled to mature after one year. The carrying value of these held-to-maturity securities was ZMK 351,484 million as at 30 June 2008 (2007: ZMK312,971 million).

### 3.14 Available-for-sale securities

Available for sale securities relate to treasury bills, classified as available-for-sale securities. Their maturity period is as follows:

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Maturing within 90 days of acquisition	14,632	7	33,740
Maturing after 91 days of acquisition	247,016	229,131	236,160
	<b>261,648</b>	<b>229,138</b>	<b>269,900</b>

### 3.15 Property and equipment

Kwacha millions	Leasehold land and Buildings	Motor Vehicles	Fixtures fittings and equipment	Total
<b>At 31 December 2006</b>				
Opening net book amount	46,814	2,468	17,021	66,303
Additions	821	484	7,797	9,102
Disposals	-	-	(58)	(58)
Depreciation charge	(968)	(1,091)	(7,021)	(9,080)
Write offs	(48)	(115)	-	(163)
<b>Closing net book amount</b>	<b>46,619</b>	<b>1,746</b>	<b>17,739</b>	<b>66,104</b>
Comprising:				
Cost	1,473	-	-	1,473
Valuation	47,089	7,233	61,999	116,321
Accumulated depreciation	(1,943)	(5,487)	(44,260)	(51,690)
<b>Net book amount</b>	<b>46,619</b>	<b>1,746</b>	<b>17,739</b>	<b>66,104</b>
<b>At 31 December 2007</b>				
<b>Opening net book amount</b>	<b>46,619</b>	<b>1,746</b>	<b>17,739</b>	<b>66,104</b>
Revaluation surplus	40,420	-	-	40,420
Additions	2,451	-	5,818	8,269
Disposals	(413)	(255)	-	(668)
Depreciation charge	(2,727)	(1,006)	(7,191)	(10,924)
Write offs	2,873	-	-	2,873
<b>Closing net book amount</b>	<b>89,223</b>	<b>485</b>	<b>16,366</b>	<b>106,074</b>
Comprising:				
Cost	1,473	6,666	67,816	75,955
Valuation	89,552	-	-	89,552
Accumulated depreciation	(1,802)	(6,181)	(51,450)	(59,433)
<b>Net book amount</b>	<b>89,223</b>	<b>485</b>	<b>16,366</b>	<b>106,074</b>
<b>At 30 June 2008</b>				
<b>Opening net book amount</b>	<b>89,223</b>	<b>485</b>	<b>16,366</b>	<b>106,074</b>
Additions	-	-	6,922	6,922
Work in progress	3,511	-	-	3,511
Disposals	-	-	-	-
Depreciation charge	(883)	(225)	(3,950)	(5,058)
<b>Closing net book amount</b>	<b>91,851</b>	<b>260</b>	<b>19,338</b>	<b>111,449</b>
Comprising:				
Cost	9,083	6,666	74,740	90,489
Valuation	85,451	-	-	85,451
Accumulated depreciation	(2,683)	(6,406)	(55,402)	(64,491)
<b>Net book amount</b>	<b>91,851</b>	<b>260</b>	<b>19,338</b>	<b>111,449</b>

### 3.16 Investment properties

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
<b>Net book amount</b>	8,832	4,740	4,740
Revaluation	4,778	4,092	-
Balance end of year	<b>13,610</b>	<b>8,832</b>	<b>4,740</b>

As at 31 December 2007 the Bank revalued investment properties and the valuers were TP Chibwe Property consultants and CMM property consultants. To comply with the requirements of IAS 40 Investment properties have been separated from the other properties used in the operations of the bank.

### 3.17 Other assets

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Account receivable	536	1,896	30,140
Prepayments	6,970	332	85
Other	14,361	10,047	6,031
<b>Total</b>	<b>21,867</b>	<b>12,275</b>	<b>36,256</b>

### 3.18 Deposits from banks

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Borrowings	-	28,842	15,157
Deposits	521	584	1,016
Items in the course of collection	1,253	2,169	13,333
<b>Total</b>	<b>1,774</b>	<b>31,595</b>	<b>29,506</b>

### 3.19 Deposits from customers

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Current deposits	1,073,088	1,273,102	986,631
Savings accounts	517,956	474,207	366,829
Term deposits	119,882	51,236	140,395
<b>Total</b>	<b>1,710,926</b>	<b>1,798,545</b>	<b>1,493,855</b>

### 3.20 Other payables

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Bills payable	831	2,095	2,484
Accrued expenses and provisions	39,105	30,374	9,721
Other creditors	20,511	22,423	11,074
Pension cost liability	2,347	523	-
<b>Total</b>	<b>62,794</b>	<b>55,415</b>	<b>23,279</b>

### 3.21 Deferred tax

Deferred income tax is calculated using the enacted tax rate of 40% (2007:40%). The movement in the deferred income tax is as follows:

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Opening balance	(25,917)	1,000	5,357
Movements			
Recognised in income statements	(7,077)	6,942	(4,357)
Recognised in equity	(6,220)	(33,859)	-
<b>Deferred tax (liability) asset</b>	<b>(39,214)</b>	<b>(25,917)</b>	<b>1,000</b>

### 3.22 Share capital

Millions	As at 31 December		
	30 June 2008	2007	2006
<i>Authorised</i>			
Number of ordinary shares	984	984	984
Ordinary share capital (ZMK)	<b>9,844</b>	<b>9,844</b>	<b>9,844</b>
<i>Issued and fully paid</i>			
Number of ordinary shares	984	984	984
Ordinary share capital (ZMK)	<b>9,844</b>	<b>9,844</b>	<b>9,844</b>

The total authorised number of ordinary shares is 984 million with a par value of ZMK 10 per share. All issued shares are fully paid.

### 3.23 Statutory reserves

Current regulation stipulates that a Bank shall transfer to its reserve fund:

- (i) 25 per cent 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.

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
At the start of year	9,844	9,844	9,844
Transfer from retained earnings		-	-
At end of year	<b>9,844</b>	<b>9,844</b>	<b>9,844</b>

The statutory reserve is established in accordance with Chapter VI Section 69 of the Zambian 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 per cent of the net profit of each year after due provision has been made for tax, to a maximum of the issued share capital.

### 3.24 General banking reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Opening balance	37,623	12,193	-
Statutory impairment provision	2,946	25,430	12,193
At end of year	<b>40,569</b>	<b>37,623</b>	<b>12,193</b>

The Bank makes an appropriation to general banking reserve for unforeseeable risks and future losses. General banking reserve can only be distributed following approval by the shareholders in general meetings.

The reserve consists of loan loss provisions required to meet regulatory requirements on loan provisions and Bank policy requirements.

### 3.25 Revaluation reserves

Premises revaluation reserves arose from the revaluation of properties in prior years. The revaluation reserves are being written off to revenue reserves as the related properties are being disposed of. The revaluation reserves are not available for distribution to the Bank's shareholders.

### 3.26 Cash and cash equivalents at end of year

Kwacha millions	At 1.1.2008	Cash flow	At 30.06.2008
Cash	45,071	3,151	48,222
Balances at Bank of Zambia	421,675	(106,026)	315,649
Government securities	7	14,625	14,632
Deposits and balances due from banking Institutions	160,221	(102,654)	57,567
Due to banking Institutions	(31,595)	29,821	(1,774)
<b>Total</b>	<b>595,379</b>	<b>(161,083)</b>	<b>434,296</b>
	<b>At 1.1.2007</b>	<b>Cash flow</b>	<b>At 31.12.2007</b>
Cash	37,791	7,280	45,071
Balances at Bank of Zambia	398,680	22,995	421,675
Government securities	26,714	(26,707)	7
Deposits and balances due from banking Institutions	116,717	43,504	160,221
Due to banking Institutions	(29,506)	(2,089)	(31,595)
<b>Total</b>	<b>550,396</b>	<b>44,983</b>	<b>595,379</b>
	<b>At 1.1.2006</b>	<b>Cash flow</b>	<b>At 31.12.2006</b>
Cash	24,678	13,113	37,791
Balances at Bank of Zambia	415,084	(16,404)	398,680
Government securities	90,808	(64,094)	26,714
Deposits and balances due from banking Institutions	115,090	1,627	116,717
Due to banking Institutions	(54,444)	24,938	(29,506)
<b>Total</b>	<b>591,216</b>	<b>(40,820)</b>	<b>550,396</b>

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 central banks, 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.

### 3.27 Contingent liabilities

#### Off balance sheet financial instruments

In common with other banks, the Bank conducts business involving acceptances, 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.

#### Nature of instruments

##### Acceptances

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

##### Guarantees

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

##### Legal proceedings

The Bank is also party to various legal proceedings, including former management staff who have sued the Bank for additional retirement compensation. Based on legal counsel, the Directors are of the opinion that an amount of ZMK8,281 million may be required to meet these obligations. A provision of the same amount has been included in these financial statements.

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
Acceptances and letters of credit	4,184	12,288	5,905
Other contingent liabilities	25,877	27,592	29,797
<b>Total</b>	<b>30,061</b>	<b>39,880</b>	<b>35,702</b>

### 3.28 Commitments

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have a specific maturity but are cancellable by the lender subject to notice requirements.

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

Documentary credits commit the Bank to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-balance sheet risk, which comprises documentary credits and other short-term trade related transactions, forward asset purchases and forward deposits placed, standby facilities, credit lines and purchase of property and equipment.

Kwacha millions	As at 31 December		
	30 June 2008	2007	2006
<b>Total</b>	<b>12,654</b>	<b>4,270</b>	<b>5,533</b>

### 3.29 Related party transactions

The Bank has a related party relationship with its shareholders, non-executive directors, executive directors and key management personnel.

A number of banking and other transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency and other transactions for services.

The volumes of related party transactions, outstanding balances at the year end, and the related interest expense and income for year are as follows:

### Loans to directors

Advances to customers include loans to directors and loans to companies controlled by directors or their families as follows:

Kwacha millions	30 June 2008	As at 31 December	
		2007	2006
At the start of period/year	-	745	-
Movement during the period/year	-	(745)	745
At end of period/year	-	-	745
Interest income earned	-	-	78

All loans to directors and to companies controlled by directors or their families were given on commercial terms and at market rates.

No provisions have been recognised in respect of loans to directors and to companies controlled by directors or their families.

### Loans to employees

At 30 June 2008 advances to employees amounted to **ZMK81,064 million** (2007: ZMK81,458 million). Loans to employees are repayable monthly over a period of between 3 and 20 years and have interest rates ranging from 12% to 15%.

Kwacha millions	30 June 2008	As at 31 December	
		2007	2006
Interest income earned	5,126	6,763	3,914

### Deposits by directors

Kwacha millions	30 June 2008	As at 31 December	
		2007	2006
At the start of year	-	37	17
(Withdrawals)/deposits during the year	-	(37)	20
At end of year	-	-	37

### Key management compensation

Kwacha millions	30 June 2008	As at 31 December	
		2007	2006
Salaries and other short-term employment benefits	5,333	9,611	7,855
Terminal benefits	-	2,251	780
<b>Total</b>	<b>5,333</b>	<b>11,862</b>	<b>8,635</b>

### Directors' remuneration

Kwacha millions	30 June 2008	As at 31 December	
		2007	2006
Fees for services as a director	187	757	1,300

### Management fees

Management fees paid to Rabo Bank in respect of the financial period ended 31 December 2007 were ZMK 3,740 million.

## 3.30 Retirement benefit obligations

The Bank operates a defined benefit pension scheme for its employees. The scheme is administered by Zambia State Insurance Corporation and staff on permanent and pensionable conditions of service are members of the scheme. The Bank and all its employees also contribute to the National Pension Scheme Authority, which is a defined contribution scheme. The amounts recognised in the balance sheet are determined as follows:

Kwacha millions	30 June 2008	As at 31 December	
		2007	2006
Present value of funded obligations	(98,924)	(90,356)	-
Fair value of scheme assets	90,015	85,541	-

Present value of unfunded obligations/(over-funding)	(13,999)	(4,815)	-
Unrecognised actuarial gains/(losses)	31,144	23,366	-
Unrecognised prior service cost	-	-	-
Liability/asset in the balance sheet	<b>22,235</b>	<b>18,551</b>	-

The amounts recognised in the income statements are as follows:

Kwacha millions	30 June 2008	As at 31 December	
		2007	2006
Opening net liability/Asset	18,551	128	-
Expense	(1,824)	(523)	-
Contribution paid	5,508	18,946	-
Net actuarial losses recognised in the year	-	-	-
Movement in the liability/asset recognised in the balance sheet	<b>22,235</b>	<b>18,551</b>	-

	30 June 2008	As at 31 December	
		2007	2006
- discount rate	<b>19.8%</b>	20%	-
- expected rate of return on scheme assets	<b>19.8%</b>	20%	-
- future salary increases	<b>17.3%</b>	17.9%	-
- future pension increases	<b>12.8%</b>	13.4%	-
- long term price inflation	<b>15.8%</b>	16.4%	-

### 3.31 Post balance sheet events

There were no material post balance sheet events that would require disclosure or adjustment to the balance sheet at 30 June 2008.

## 4 STATEMENT OF ADJUSTMENTS

All our adjustments in the financial statements are in respect of disclosures and rearrangement of notes and have no financial impact. These revisions have been effected in sections.

Yours faithfully,

*Deloitte & Touche*

**Deloitte & Touche**

*Alice Jere Tembo*

**Alice Jere Tembo**  
Partner

## ANNEXURE 4: DIRECTORY OF RECEIVING AGENTS

### DIRECTORY OF LuSE BROKERS

Intermarket Securities Limited	Central Park, Cairo Road	+260 211 227227/3
Pangaea Renaissance Securities Limited	Farmers House, Central Park, Cairo Road, Lusaka	+260 211 220707/ 238709 – 10
Stockbrokers Zambia Limited	Design House, Dar Es Salaam Place, Cairo Road, Lusaka	+260 211 227303/ 232456
	Ebenezer Centre, Kabengele Road, Kitwe, Zambia	+260 212 225984

### DIRECTORY OF ZANACO BRANCHES AND AGENCIES

AREA	BRANCH	CONTACT NUMBER
Copperbelt	Kitwe Business Centre	+260 212 221816/221344
	Kitwe Industrial Branch	+260 212 214196/214173
	Luanshya Branch	+260 212 511570/511580
	Ndola Business Centre	+260 212 617357/610601/613849
	Ndola Industrial Branch	+260 212 650803/8
	Ndola West Branch	+260 212 61045/8
Central Province	Mufulira Branch	+260 212 412788/410566
	Kabwe Business Centre	+260 215 222051/222053
	Chisamba branch	+260 211 212115
	Kapiri Mposhi Branch	+260 215 271083/271084
Eastern Province	Mkushi Branch	+260 215 362316/362352
	Chipata Branch	+260 216 21478/22220/22229
	Lundazi Branch	+260 216 480365-7
	Mfuwe Branch	+260 216 45047/45038/45087
Lusaka Province	Petauke Branch	+260 216 71365/71301
	Avondale Branch	+260211 282749/281056
	Cairo Road Business Centre	+260211 228167-9
	Chisamba Branch	+260211 212115/212697
	Kwacha Branch	+260211 223521/229525/ 223804
	Civic Centre Branch	+260211 253052/254624
	Northmead Branch	+260211 294936/294949/294955
	Premium House Branch	+260211 227122/227117
	Government Business Centre	+260211 228236/228240
	Lusaka Business Centre	+260211 221042/221422/221941
	Lusaka Centre Branch	+260211 227882
Luapula Province	Kafue Branch	+260211 311601/311273
	Lusaka City Market	+260211 286398/286399/286400
	Manda hill branch	+260211 255524/255525
Northern Province	Kawambwa Branch	+260212 960202/960133
	Mansa Branch	+260212 821711/821712/821351
North Western Province	Kasama Branch	+260214 222149/221770/221090
	Mpika Branch	+260214 370620/370509
Southern Province	Solwezi Branch	+260218 821148/821415/ 821535
Western Province	Choma Branch	+260213 21889/20252/ 21106
	Livingstone Business Centre	+260213 321901/321903
	Itezhi-Tezhi Branch	+260213 263170-3
	Maamba Branch	+260213 78109/78144/78122
	Mazabuka Branch	+260213 30050/30144
	Monze Branch	+260213 50565/50411/50379
	Siavonga Branch	+260211 511062/511379/ 511118
	Namwala Branch	+260213 60048/60026
Southern Province	Chirundu Branch	+260213 515073 / 515065
	Mongu Branch	+260217 221313/221144
	Senanga Branch	+260217 230129/131
AREA	AGENCY	CONTACT NUMBER
Copperbelt	Ndola Airport Agency	+260 212 612554/611193-94
Central Province	Chisamba Agency	+260 211 611245
Eastern Province	Chadiza Agency	+260 216 251016
Lusaka Province	Ministry of Finance Agency	+260 211 255634/251815
	Lusaka International Airport Agency	+ 260 211 271280
Luapula Province	Nchelenge Agency	+260 212 960041
Northern Province	Tazara Agency	+260 214 370357
North Western Province	Kasempa Agency	+260 218 251069
Southern Province	Nakambala Agency	+260 213 230054
	Kazungula Agency	+260 213 321901
	Livingstone Airport Agency	+260 213 321903

## DIRECTORY OF ZAMPOST BRANCHES AND AGENCIES

AREA	BRANCH	CONTACT NUMBER
<b>Copperbelt</b>		
<b>Kitwe/ Chingola Postal Area</b>	Kitwe Main	+260 212 228937
	Buchi	+260 212 221836
	Chambeshi	+260 212 721150
	Chamboli	-
	Kalulushi	+260 212 733320
	Chimwemwe	+260 212 217154
	Itimpi	-
	Martindale	+260 212 224814
	Chibuluma	-
	Chingola Main	+260 212 313678
	Chiwempala	+260 212 312415
	Nchanga	+260 212 311543
	Chililabombwe	+260 212 382159/ 382773
	Lubengele	+260 212 383753
	Mufulira Main	+260 212 412109
	Kumuchanga	-
	Bwangalo	-
<hr/>		
<b>Ndola/ Luanshya Postal Area</b>	Ndola Main	+260 212 618040
	Kansenshi	+260 212 681502/ 681503
	Lubuto	+260 212 660830
	Ndola General Hospital	+260 212 622076
	Skyways	+260 212 650744
	Luanshya Main	+260 212 510515
	Masaiti	+260 212 760027
	Mikomfwa	+260 212 512236
	Mpatamatu	+260 212 515011
	Mpongwe	+260 211 482048
<hr/>		
<b>Central Province</b>		
<b>Central Postal Area</b>	Kabwe Main	+260 215 221890
	Chisamba	+260 211 611004
	Fringilla	+260 211 214435
	Chibombo	+260 215 274012
	Kapiri Mposhi	+260 215 271305
	Mkushi	+260 215 362026
	Ngungu	+260 215 221719
	Serenje	+260 215 382123
<hr/>		
<b>Eastern Province</b>		
<b>Eastern Postal Area</b>	Chipata Main	+260 216 223423
	Chama	+260 216 482056
	Chadiza	+260 216 251038
	Katete	+260 216 252130
	Lundazi	+260 216 480068
	Mfuwe	+260 216 245037
	Nyimba	+260 216 374287
	Petauke	+260 216 371146
	Sinda	+260 216 256123
<hr/>		
<b>Lusaka Province</b>		
<b>Lusaka Postal Area</b>	Lusaka Main	+260 211 224598
	Lusaka Airport	+260 211 271194
	Castle	+260 211 223508/ 225793
	Chelston	+260 211 281685
	Chilanga	+260 211 278102
	Chongwe	+260 211 620113
	Freedomway	+260 211 236472
	Garden	+260 211 235156
	Itezhi Tezhi	+260 213 263055
	Kafue	+260 211 311246
	Kalingalinga	+260 211 266912/ 266913
	Luangwa	+260 211 415089
	Lumumba	+260 211 221003
	Chawama	+260 211 272293
	Matero	+260 211 244121/ 244134
	Mumbwa	+260 211 800120
	Naboye	+260 211 311548
	Namalundu	+260 211 371035
	National Assembly	+260 211 292425/ 292139
	Northmead	+260 211 292975
	Ridgeway	+260 211 255193
	Siavonga	+260 211 511221
	UNZA	+260 211 254908/ 292037
UTH	+260 211 253877	
Woodlands	+260 211 263199	

	Chirundu	+260 211 515269
<b>Luapula Province</b>		
<b>Luapula Postal Area</b>	Mansa Main	+260 212 821841
	Kazembe	+260 212 484049
	Kawambwa	+260 212 960242
	Mwense	+260 212 970079
	Nchelenge	+260 212 972025
	Samfya	+260 212 830080
<b>Northern Province</b>		
<b>Northern Postal Area</b>	Kasama Main	+260 214 222195
	Chinsali	+260 214 565060
	Isoka	+260 214 560254
	Luwingu	+260 955 125722/ 235033
	Mbala	+260 214 450380
	Mpika	+260 955 204433/ 370344
	Morokoso	+260 214 680230
	Mpulungu	+260 214 455012
	Mungwi	+260 214 245036
	Nakonde	+260 214 567057/ 567123
<b>North Western Province</b>		
<b>North Western Postal Area</b>	Solwezi Main	+260 218 821572
	Ikelenge	-
	Kabompo	+260 218 375067
	Kasempa	+260 218 251004
	Mufumbwe	+260 218 253020
	Mwinilunga	+260 218 361026
	Chavuma	-
	Zambezi	+260 218 371031
	Mahyinga	-
<b>Southern Province</b>		
<b>Southern Postal Area</b>	Livingstone Main	+260 213 321976
	Livingstone Airport	+260 213 321951
	Gwembe	
	Kalomo	+260 213 65227
	Chisekesi	-
	Maramba	+260 213 324797
	Mazabuka	+260 213 30672
	Monze	+260 213 50303
	Namwala	+260 213 60088
	Pemba	+260 213 242237
	Sesheke	+260 213 481073
	Maamba	+260 213 78124
	Choma	+260 213 20216
	Zimba	+260 213 344009
	Fallspark	+260 213 320117/ 320118
<b>Western Province</b>		
<b>Western Postal Area</b>	Mongu Main	+260 217 221267
	Kanyonyo	+260 217 222039
	Kaoma	+260 217 360052
	Lukulu	+260 217 250071
	Kalabo	+260 217 240124
	Senanga	+260 217 230197

<b>Form number:</b>	
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A copy of the Prospectus in which this application is enclosed was registered in terms of sections 123 to 126 of the Companies Act, chapter 388 of the Laws of Zambia, as amended, on 29 September 2008 ("the Prospectus").

**Zambia National Commercial Bank Plc**  
 (Registration number 5387)  
 (Incorporated in the Republic of Zambia)  
 ("Zanaco" or "the Company")



**APPLICATION FORM**

for Ordinary Shares of Zambia National Commercial Bank Plc in terms of the Offer for Sale by the Zambia Privatisation Trust Fund ("ZPTF") of 253,968,752 Ordinary Shares and Offer for Subscription by Zambia National Commercial Bank Plc ("Zanaco") of 44,021,250 Ordinary Shares at an Offer price of K 470 per share.

Please refer to the instructions overleaf before completing this form.

This form, when completed, should be delivered together with payment to any of the authorised receiving agents whose contact details are shown in the Directory of Receiving Agents shown in Annexure 4, by not later than 17:00 hrs on Thursday 23 October 2008. Note: Only funds denominated in Zambian Kwacha will be accepted.

ALL APPLICANTS: Please complete in BLOCK LETTERS:

<b>Title (Circle appropriate title(s) or fill in the blank if not listed)</b>	<b>Mr Mrs Miss Ms Dr Rev Other.....</b>
<b>First name(s) of applicant(s) in full, if individual(s)</b>	
<b>Surname(s) of applicant(s) or name of Eligible Institution</b>	
<b>Postal address. (Please print only one address, to which a depository confirmation or refund cheque will be sent)</b>	
<b>National Registration Card Number/ Passport Number or Company Registration Number (if not a Zambian passport, please state country of citizenship)</b>	
<b>Telephone No.</b>	<b>Email:</b>
<b>Number of shares applied for (Enter figure, not words) Note: Minimum application is for 1,000 shares and multiples of 100 thereafter.</b>	
<b>Total value of funds (Enter figure, not words)</b>	

PLEASE READ, SIGN AND DATE THE APPLICABLE SECTION LISTED BELOW. DO NOT SIGN MORE THAN ONE SECTION.

**ZPTF/ ZANACO OFFERS:**

**FOR APPLICANTS WHO ARE ZAMBIAN CITIZENS OR ELIGIBLE INSTITUTIONS ONLY**

**Declaration**

- I / We, the undersigned, being Zambian citizen(s) or duly authorised to sign for this transaction on behalf of an Eligible Institution as defined in the Prospectus, to which this form is attached, confirm that I / we have full legal capacity to contract and, having read the Prospectus, hereby irrevocably apply for and request you to accept my/ our application for the undermentioned number of shares in Zanaco at K 470 per share subject to the Prospectus and articles of association of Zanaco.
- I / We understand and accept that this Prospectus does not constitute an offer, but is an invitation to make an offer to the ZPTF and/ or Zanaco to purchase shares, on the terms and conditions set out in the Prospectus, which offer the ZPTF and/ or Zanaco may accept or reject, in part or in full, in its/ their sole discretion.

Signature1	Signature2	Dated	2008
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(If joint application or if two authorised signatories are required for an Eligible Institution)

**FOR APPLICANTS WHO ARE NEITHER ZAMBIAN CITIZENS NOR ELIGIBLE INSTITUTIONS**

**Declaration**

- I / We, the undersigned, certify that I / we have read and understand the Prospectus, and have sought professional advice regarding any doubts which I / we may have regarding its meaning. I / We hereby apply for and request you to accept my/ our application for the number of Ordinary Shares in Zanaco mentioned above, or any lesser number that may, in your absolute discretion, be allotted to me/ us, subject to the Articles of Association of Zanaco, If representing an institution, I / we declare that I / we are duly authorised to sign for this transaction.
- I / We understand and accept that this Prospectus does not constitute an offer, but is an invitation to make an offer to Zanaco to purchase shares, on the terms and conditions set out in the Prospectus, which offer Zanaco, may accept or reject, in part or in full, in its sole discretion. **I / We further understand that preference will be given to applicants who are Zambian citizens, employees or Eligible Institutions, as defined in the Prospectus, to which this form is attached.**

Signature1	Signature2	Dated	2008
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(If joint application or if two authorised signatories are required for an institution)

**Acknowledgement** Please detach from the perforation and retain this portion for your records.



<b>Form number:</b>	
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<b>Name of applicant:</b>	<b>Total shares applied for:</b>	<b>Total payment:</b>

Mode of payment: ..... Cash / cheque / IMO: ..... Receiving agents stamp:

Received by: ..... Signature: .....

Date received: .....

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**Instructions**

1. Applications may only be made on this application form - photocopies or other reproductions will be rejected.
2. Applications are irrevocable and may not be withdrawn once submitted to a receiving agent.
3. The ZPTF and/or Zanaco reserve the right to require individuals to provide proof of Zambian citizenship (e.g. a valid green National Registration Card or Zambian passport).
4. Please refer to the Conditions attached to the application and completion of application forms set out in section XIII of the Prospectus. Applicants should consult their stockbrokers, bankers or other financial advisers in case of doubt as to the correct completion of this form.
5. Postal orders or telegraphic transfers will not be accepted.
6. No documentary evidence of capacity to apply need accompany this application, but the ZPTF and/or Zanaco reserve the right to call upon any applicant to submit such evidence in support of a person's authority to sign this form in a representative capacity.
7. No receipts will be issued for applications, payments, cheques or banker's drafts lodged with a receiving agent and applications will only be regarded as complete when the relevant cheque / banker's draft has been paid. All monies will be deposited for payment immediately on receipt.
8. If any cheque or banker's draft is dishonoured, the ZPTF and/ or Zanaco may, at its discretion, regard the relevant application as invalid or take such other steps in regard thereto as it may deem fit.
9. All alterations on the application form must be authenticated by full signature.
10. Confirmations of entitlement to shares and refund cheques, if applicable, will be posted to the address given above, on or about 17 November 2008.
11. The Application Form, when completed, should be delivered by hand (to any of the receiving agents) in an envelope marked "Zanaco Offer", accompanied by payment. Alternatively, if posted, the envelop containing the Application Form should be addressed to Stockbrokers Zambia Limited or Zanaco together with payment in the form of a Bankers Cheque (crossed "not negotiable" and marked "not transferable") or a banker's draft in Zambia's currency in favour of "Zanaco Offer" by post to the addresses contained in section XI.
12. The application form and payment or proof thereof are to be received by not later than 17:00 hrs on 23 October 2008. **NO LATE APPLICATIONS WILL BE ACCEPTED**
13. Each application submitted must be in one name only and show only one address. The ZPTF Trustees reserve the right to accept or reject any application, in whole or in part, particularly if the instructions overleaf and as set out in the Prospectus are not properly complied with.

**CALCULATION TABLE AT K 470 PER SHARE**

Number of Shares	Amount Payable	Number of Shares	Amount Payable	Number of Shares	Amount Payable
1,000	470,000	4,000	1,880,000	100,000	47,000,000
1,200	564,000	5,000	2,350,000	150,000	70,500,000
1,400	658,000	6,000	2,820,000	200,000	94,000,000
1,600	752,000	7,000	3,290,000	250,000	117,500,000
1,800	846,000	8,000	3,760,000	300,000	141,000,000
2,000	940,000	9,000	4,230,000	400,000	188,000,000
2,200	1,034,000	10,000	4,700,000	500,000	235,000,000
2,400	1,128,000	15,000	7,050,000	1,000,000	470,000,000
2,600	1,222,000	20,000	9,400,000	2,000,000	940,000,000
2,800	1,316,000	25,000	11,750,000	3,000,000	1,410,000,000
3,000	1,410,000	50,000	23,500,000	5,000,000	2,350,000,000

**For office use only**

Agents name:  
 Agent's code:  
 Batch number:  
 Branch name  
 Schedule number:

Receiving agent's stamp