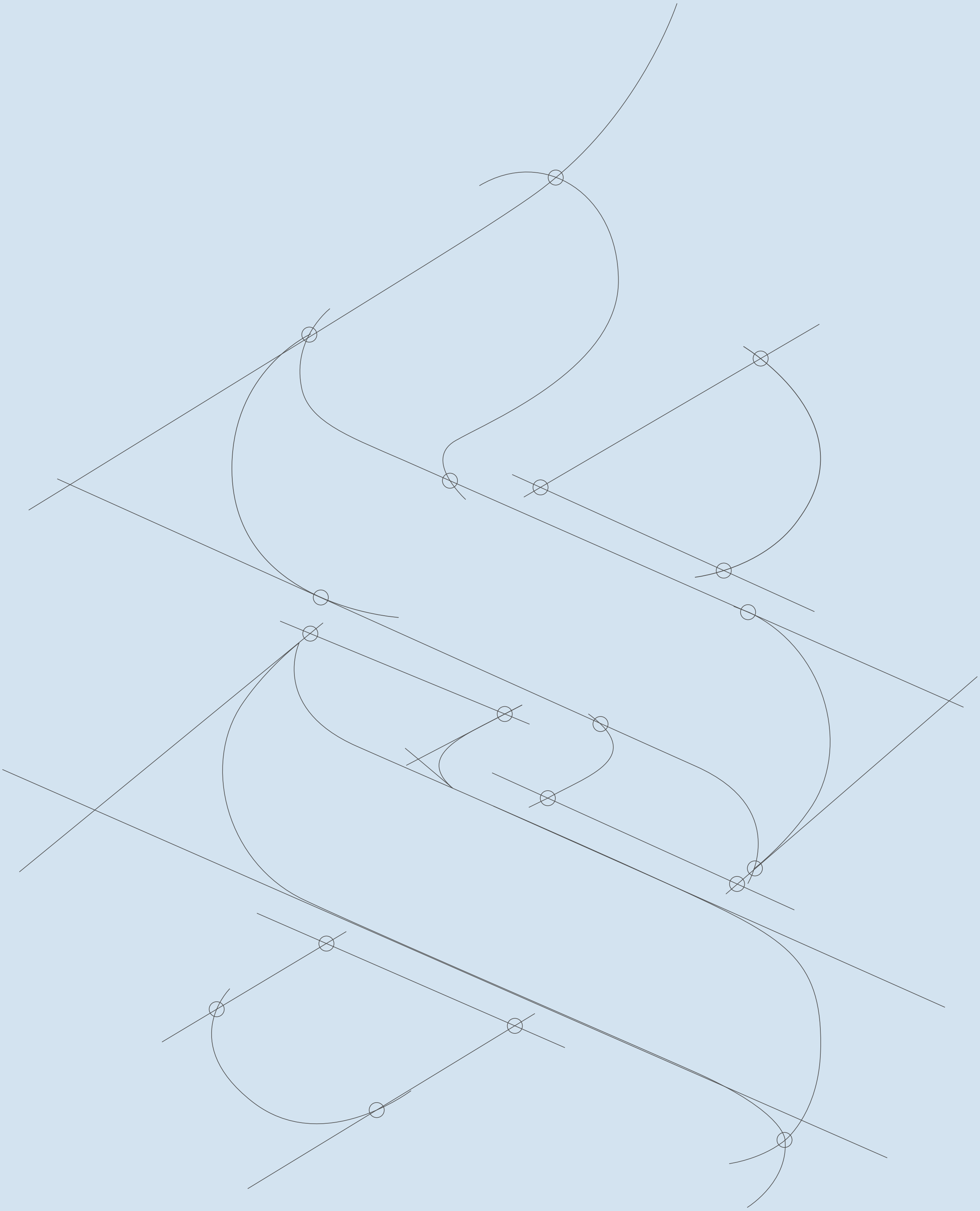

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

Standard Chartered

Standard Chartered

Contents

Chairman's Statement

For the year ended 31 December 2010

Overview

Macroeconomic stability was maintained throughout 2010 following the introduction of a multicurrency system in 2009 and a number of other measures during the period. GDP grew by 8.1% in 2010 (5.7% in 2009) while average annual inflation for the year was 3%. Industrial capacity reflected a recovery with an improved utilisation above 35%.

Although bank deposits grew from USD1.4bn in January 2009 to USD2.5bn in December 2010, they remained largely short-term in nature and would result in mismatches if deployed to medium term funding necessary for the recapitalisation of industry. The interbank market was largely inactive due to lender of last resort issues. The Bank continues to grow its loan book in line with prudent international credit risk best practices which protects depositors and ensures long term viability. Sustained economic stability should result in increased savings which will facilitate structured medium to long-term lending to industry.

Financial Results

The Bank recorded a profit after tax of USD8.4m, reversing a prior year loss of USD3.7m. The performance was driven by both non-funded income and interest income, with the latter arising from solid growth in the loan book. Margins remained subdued, a reflection of both competition and a realignment of interest rates to international norms. Operating expenses increased by 12%, a figure well above average inflation mainly due to adjustments in compensation. The cost to income ratio improved from 123% in 2009 to 72% and is expected to maintain this positive trend as performance continues to improve.

Loans and advances grew by 132% year on year, well above market averages. The Bank's capital at USD32m exceeds the minimum regulatory capital (USD12.5m) and is sufficient to meet all prudential guidelines. Capital adequacy ratio at 22.15% is above the prescribed minimum regulatory ratio of 10%.

Corporate Social Engagement

The Bank continues to contribute significantly to social and developmental programmes either on its own or in partnership with other organisations. 'Seeing is Believing' is an annual programme conducted by eminent local and international eye specialists to restore sight for the poor. A community month programme pioneered by the Bank in Zimbabwe runs annually and assists the underprivileged who include children's homes, orphans, the disabled and the elderly. The Bank donates up to three days over and above annual leave to any staff for voluntary work under the employee volunteering initiative. Joint programmes include the provision of scholarships for the underprivileged in conjunction with World Vision, and HIV/AIDS awareness campaigns with local NGO's, universities and SME customers.

Chairman's Statement (cntd.)

For the year ended 31 December 2010

Compliance issues

The Bank remains committed to ensuring compliance with all regulatory requirements and statutes as promulgated and amended from time to time. The Bank is in compliance with the minimum capital requirement of USD12.5m and capital adequacy ratio of 10% as currently stipulated by the Reserve Bank of Zimbabwe. Compliance monitoring is a key priority and a major component of the Bank's risk management processes. The Bank continues to safeguard the interests of all its stakeholders.

Corporate governance

The Board of Directors and Management remain fully committed to best practice in corporate governance across the Bank and this is being achieved by constant monitoring and evaluation by the appropriate Board Committees. A Compliance Risk Management process is in place to ensure adherence to processes and standards as well as regulatory requirements. Risk management committees include the Asset and Liabilities Committee (ALCO), the Country Risk Management Committee and Executive Management Risk Committee. These meet regularly to review risk and take the appropriate corrective steps.

Outlook

Standard Chartered is a premium international franchise with the strategic intent to offer banking services in Africa, Asia and the Middle East. It has a strong presence in markets such as China, India and South Korea and is well placed to support business opportunities that benefit the local economy. The Bank will leverage fully on these strong relationships. The Group's range of new products, skills, systems and processes will be exploited for the benefit of the local franchise.

Acknowledgement

My sincere appreciation goes to Mr. H.P. Mkushi, the outgoing Chairman, who retired in June after 27 years of wise counsel on the Board. His contribution and dedication will be missed and we wish him well in his future endeavours. I would also like to thank the staff, management and my fellow Directors for their dedication and for turning the fortunes of the Bank from a loss in 2009 to profitability in 2010. The Bank is here for good. Good for our staff, for the communities in which we operate and for all our stakeholders. I would like to thank you for your continued support and confidence in the Bank, and wish you all a profitable 2011.

I. J. MACKENZIE
ACTING CHAIRMAN

23 March 2011

Report of the Directors

For the year ended 31 December 2010

1 SHARE CAPITAL

The authorised and issued share capital of Standard Chartered Bank Zimbabwe Limited ("the Bank") remained unchanged at 1,000,000 and 825,000 ordinary shares respectively. The par value of the shares was redenominated to USD1 per ordinary share upon the change in functional currency.

2 BASIS OF PREPARATION AND PRESENTATION OF ACCOUNTS

The Directors are responsible for the preparation, integrity and fair presentation of the financial statements of the Bank. The financial statements have been prepared and presented in compliance with International Financial Reporting Standards, the Companies Act (Chapter 24:03), the Banking Act (Chapter 24:20) and Statutory Instruments ("SI") 33/99) and SI 62/96.

3 DIRECTORATE

Acting Chairman	I. J. Mackenzie
Directors	H. P. Mkushi (retired Chairman)
	W. Matsaira (Chief Executive)*
	S. V. Rushwaya
	S. J. Brice
	J. P. Maposa
	A. R. T. Manzai*
	S. Nhakaniso*
	* Executive

Mr. H. P. Mkushi retired from the Board with effect from 30 June 2010. Mr. I. J. Mackenzie was appointed as Acting Chairman with effect from 1 July 2010.

4 CORPORATE GOVERNANCE

The Board

The Board which comprises three Executive Directors and four Non-Executive Directors meets for a minimum of four times each year and has oversight over the Bank's affairs. It sets and monitors the Bank's strategy, reviews the Bank's performance and ensures that adequate financial resources are available. The Board of Directors oversees compliance with corporate governance rules and regulations laid out by the Reserve Bank of Zimbabwe and the Standard Chartered Bank Group.

DIRECTORS' ATTENDENCE AT BOARD MEETINGS

DIRECTOR	DATE OF MEETING				
	26-Feb-10	14-Apr-10	3-Jun-10	2-Sep-10	25-Nov-10
I. J. Mackenzie	•	•	•	•	•
W. Matsaira	•	•	•	•	•
S. V. Rushwaya	•	•	•	•	•
S. J. Brice	•	x	•	•	•
J. P. Maposa	•	x	x	•	•
H. P. Mkushi	•	x	•	Retired	Retired
A. R. T. Manzai	•	x	•	•	•
S. Nhakaniso	•	x	•	•	•

Key: • : Present x : Leave of absence granted

4 CORPORATE GOVERNANCE (continued)

The Board has four committees, namely Audit, Risk, Loans Review and Credit.

Audit Committee

This Committee inter alia reviews the Bank's audited financial statements and liaises with the external and internal auditors on accounting policies, procedures and other internal controls in operation.

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2010	NUMBER OF MEETINGS TO BE HELD IN A YEAR
I. J. Mackenzie	8	8	4
S. V. Rushwaya	8		
A. R. T. Manzai	8		
J. P. Maposa	6		

Risk Committee

The Risk Committee's mandate is to ensure the quality, integrity and reliability of the Bank's risk management systems and processes. The Committee has the responsibility, inter alia, of reviewing and assessing the integrity of the Bank's risk control systems, and to ensure that risk policies and strategies are effectively managed. The Committee also makes an independent review of management actions and decisions.

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2010	NUMBER OF MEETINGS TO BE HELD IN A YEAR
S. V. Rushwaya	4	4	4
W. Matsaira	3		
S. Nhakaniso	3		
A. R. T. Manzai	3		

Loans Review Committee

The Committee meets at least quarterly to review the quality of the Bank's loan portfolio in order to ensure the conformity of the loan portfolio to the sound lending policy approved and adopted by the Board, as well as to keep the Board adequately informed regarding portfolio risk.

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2010	NUMBER OF MEETINGS TO BE HELD IN A YEAR
I. J. Mackenzie	4	4	4
A. R. T. Manzai	2		

Please note: This Committee has other members who are not Board members.

4 CORPORATE GOVERNANCE (continued)

Credit Committee

The Credit Committee oversees the overall lending policy of the Bank. It ensures that there are effective procedures and resources to identify and manage irregular problem exposures and minimise credit losses while maximising recoveries.

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD IN 2010	NUMBER OF MEETINGS TO BE HELD IN A YEAR
J. P. Maposa	4	4	4
W. Matsaira	3		
S. Nhakaniso	3		

5 STATEMENT OF COMPLIANCE

The Bank complies with all statutes regulating financial institutions as well as corporate governance principles.

In addition, the Bank also complies with the Reserve Bank of Zimbabwe's directives on liquidity management, capital adequacy, as well as prudential lending guidelines.

6 GOING CONCERN BASIS

The financial statements are prepared on a going concern basis. In the opinion of the Directors, the Bank's business is sound and adequate resources exist to support this basis.

The financial statements were approved at a meeting held on 23 March 2011.

By order of the Board

Company Secretary

23 March 2011

Report Of The Independent Auditors

Deloitte.

P O Box 267
Harare
Zimbabwe

Deloitte & Touche
Kenilworth Gardens
1 Kenilworth Road
Highlands
Harare

Tel: +263 (0)4 746248/54
+263 (0)4 746271/5
Fax: +263 (0)4 746255
www.deloitte.com

REPORT OF THE INDEPENDENT AUDITORS TO THE DIRECTORS OF STANDARD CHARTERED BANK ZIMBABWE LIMITED TO THE MEMBERS OF STANDARD CHARTERED BANK ZIMBABWE LIMITED

We have audited the accompanying financial statements of Standard Chartered Bank Zimbabwe Limited ("the Bank") on pages 8 to 47, which comprise the statement of financial position at 31 December 2010, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act (Chapter 24:03) the Banking Act (Chapter 24:20), and the relevant Statutory Instruments (SI 33/99 and SI 62/96). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Standard Chartered Bank Zimbabwe Limited at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have, in all material respects, been properly prepared in compliance with the Companies Act (Chapter 24:03) the Banking Act (Chapter 24:20) and the relevant Statutory Instruments (SI 33/99 and SI 62/96).

Deloitte & Touche
Harare, Zimbabwe
23 May 2011

Income Statement

For the year ended 31 December 2010

	Note	31/12/2010 $	31/12/2009 $
Interest and similar income	6.0	9 258 003	1 878 584
Interest and similar expenses	7	(53 346)	(32 647)
Net interest income		**9 204 657**	**1 845 937**
Fees and commission income	6.1	28 946 082	16 248 179
Gains less losses - foreign currencies	6.2	4 519 942	3 904 589
Other income	9	350 212	407 874
Non-interest income		**33 816 236**	**20 560 642**
Total operating income		**43 020 893**	**22 406 579**
Operating expenses	10	(30 798 273)	(27 468 820)
Profit/(loss) before loan impairment charges		**12 222 620**	**(5 062 241)**
Loan impairment charges	18.4	(1 072 965)	(768 000)
Profit/(loss) before taxation		**11 149 655**	**(5 830 241)**
Taxation (expense)/credit	11.1	(2 771 891)	2 105 408
Profit/(loss) for the year		**8 377 764**	**(3 724 833)**
Basic earnings/(loss) per share (dollars)	13	10.15	(4.51)

Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	31/12/2010 $	31/12/2009 $
Profit/(loss) for the year		8 377 764	(3 724 833)
Other comprehensive income			
Impairment on property revaluation	8	-	(12 983 500)
Income tax relating to components of comprehensive income	8	-	5 046 263
Other comprehensive income/(loss) net of tax		**-**	**(7 937 237)**
Total comprehensive income/(loss) for the year		**8 377 764**	**(11 662 070)**

Statement of Financial Position

As at 31 December 2010

	Note	31/12/2010 $	31/12/2009 $	01/01/2009 $
ASSETS				
Cash and cash equivalents	16	105 524 658	165 949 769	27 304 681
Balances due from banks	17	33 805 098	28 338 197	19 127 480
Loans and advances to customers	18.1	108 651 858	46 734 476	6 196 700
Property and equipment	19	18 802 116	18 755 171	32 073 186
Investment property	20	7 570 000	7 570 000	8 600 000
Investments	21	-	-	6 312 240
Other assets	22	7 396 462	2 519 646	17 150 863
Total assets		**281 750 192**	**269 867 259**	**116 765 150**
EQUITY AND RESERVES				
Share capital	12.2	825 000	825 000	-
Share premium	12.3	20 625 000	20 625 000	-
Non-distributable reserve	12.3	5 888 147	5 888 147	35 275 384
Retained earnings	12.4	4 652 931	(3 724 833)	-
Total equity and reserves		**31 991 078**	**23 613 314**	**35 275 384**
LIABILITIES				
Deposits from customers	14.1	221 955 038	224 136 700	51 817 546
Deposits from banks	15	1 294 714	80 582	997 806
Deferred tax liability	11.3	3 741 705	4 485 331	12 207 541
Current tax payable		587 157	530 273	-
Provisions	24	4 454 605	7 672 529	-
Other liabilities	23	17 725 895	9 348 530	16 466 873
Total liabilities		**249 759 114**	**246 253 945**	**81 489 766**
Total equity and liabilities		**281 750 192**	**269 867 259**	**116 765 150**

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Director Director

23 March 2011 23 March 2011

Statement of Changes In Equity

For the year ended 31 December 2010

	Share capital $	Share premium $	Non distributable reserve $	Retained earnings $	Total $
Balance at 1 January 2009	-	-	35 275 384	-	35 275 384
Redenomination of share capital	825 000	20 625 000	(21 450 000)	-	-
Total comprehensive loss for the year	-	-	(7 937 237)	(3 724 833)	(11 662 070)
Balance at 31 December 2009	**825 000**	**20 625 000**	**5 888 147**	**(3 724 833)**	**23 613 314**
Total comprehensive income for the year	-	-	-	8 377 764	8 377 764
Balance at 31 December 2010	**825 000**	**20 625 000**	**5 888 147**	**4 652 931**	**31 991 078**

Statement of Cash Flows

For the year ended 31 December 2010

	31/12/2010 $	31/12/2009 $
Cash flow from operating activities		
Profit/(loss) before taxation	11 149 655	(5 830 241)
Adjustments for:		
Dividend received	-	(1 348)
Profit on disposal of property and equipment	(22 760)	(3 387)
Profit on sale of investment securities	-	(161 606)
Depreciation	636 065	334 939
Loan impairment charges	1 072 965	768 000
Impairment of investment property	-	6 470 000
Operating cash flow before changes in operating assets and liabilities	**12 835 925**	**1 576 357**
Changes in operating assets and liabilities:		
Increase in loans and advances to customers	(62 990 347)	(41 305 776)
Increase in balances due from banks	(5 466 901)	(9 210 717)
(Increase)/decrease in other assets	(4 876 816)	14 631 217
(Decrease)/increase in deposits from customers	(2 181 662)	172 319 154
Increase/(decrease) in deposits from banks	1 214 132	(917 224)
(Decrease)/increase in provisions	(3 217 924)	7 672 529
Increase/(decrease) in other liabilities	8 377 365	(7 118 343)
	(56 306 228)	137 647 197
Corporate tax paid	(3 458 633)	(40 265)
Net cash flow from operating activities	**(59 764 861)**	**137 606 932**
Cash flow from investing activities		
Dividend received	-	1 348
Proceeds on disposal of property and equipment	22 760	3 387
Proceeds on disposal of investment securities	-	1 123 845
Purchase of property and equipment	(683 010)	(90 424)
Net cash flow from investing activities	**(660 250)**	**1 038 156**
Net increase in cash and cash equivalents	**(60 425 111)**	**138 645 088**
Cash and cash equivalents at the beginning of year	165 949 769	27 304 681
Cash and cash equivalents at end of year	**105 524 658**	**165 949 769**

Notes on the Financial Statements

For the year ended 31 December 2010

1 INCORPORATION AND ACTIVITIES

Standard Chartered Bank Zimbabwe Limited is a commercial bank registered and domiciled in Zimbabwe and is owned by Standard Chartered Bank, Standard Chartered Holdings Africa (BV) and Standard Chartered Holdings International (BV). The address of the Company's registered office is 2nd Floor Old Mutual Centre; corner Jason Moyo Avenue and Third Street, Harare. The Bank offers a wide range of financial services.

2 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in United States dollars, which is the Bank's functional currency. Except where indicated, financial information presented has been rounded to the nearest dollar.

3 BASIS OF PREPARATION

3.1 Statement of Compliance

The financial statements have been prepared in a form applicable to a commercial bank registered in terms of the Banking Act (Chapter 24:20), and in conformity with International Financial Reporting Standards (IFRS's), and the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Furthermore, the Bank complied with the following statutes inter alia:- The Banking Act (Chapter 24:20) and the Banking Regulations, Statutory Instrument 205 of 2000, the Exchange Control Act (Chapter 22:05), the Bank Use Promotion and Suppression of Anti-Money Laundering Act (Chapter 24:24), the National Payments Systems Act (Chapter 24:23) and the Companies Act (Chapter 24:03).

In addition, the Bank also complied with the Reserve Bank of Zimbabwe directives on liquidity management, capital adequacy as well as prudential lending guidelines.

3.2 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

3.2.1 Arising from conversion of functional currency

Determination of deemed cost

The Directors elected to apply the Financial Reporting Guidance jointly issued by the Public Accountants and Auditors Board (PAAB), Zimbabwe Accounting Practice Board (ZAPB) and Zimbabwe Stock Exchange (ZSE). This guidance recommended that all assets and liabilities be measured at their fair value in USD on the date of the Company's change in functional currency. The following mechanisms were employed to measure the fair values:

3 BASIS OF PREPARATION (continued)

3.2 Accounting policies (continued)

3.2.1 Arising from conversion of functional currency (continued)

Financial assets and liabilities **Accounts payable**	Fair value as agreed by the Directors i.e. willing buyer willing seller. Settlement amounts agreed with creditors in United States dollars.
Property, plant and equipment	These were valued at depreciated replacement value and reassessed in line with subsequent market trends and necessary adjustments were made.
Investment property	Fair value as reassessed by the independent valuers in line with subsequent market trends
Bank balances	All ZW$ bank accounts were written off to zero. Opening balances represent actual United States dollars or other foreign currency balances.
Shareholders' equity (NDR)	Difference between total assets and total liabilities
Receivables	Settlement amounts agreed with debtors in United States dollars.

Arising from the conversion of functional currency as per above the Directors have early adopted IFRS 1 in order to comply with IFRS.

3.2.2 New and amended IFRS and IFRIC interpretations

The Bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment): *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*, issued in December 2010 and effective for periods ending on or after 1 July 2011, early adoption being permitted;

- IFRIC 9 *Remeasurement of Embedded Derivatives* and *IAS 39 Financial Instruments: Recognition and Measurement* effective for periods ending on or after 30 June 2009;

3.2.3 IFRS 1 First-time Adoption of International Financial Reporting Standards

This standard allows the use of deemed cost on determining carrying amounts of assets and liabilities on the normalisation date to recreate an opening IFRS statement of financial position after a period of severe hyperinflation. The corresponding adjustments are posted directly into retained earnings or any other appropriate component of equity. IFRS 1 requires that an entity's first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate income statements (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

3 BASIS OF PREPARATION (continued)

3.2.3 IFRS 1 First-time Adoption of International Financial Reporting Standards (continued)

The Bank early adopted the amendment to IFRS 1 issued at the end of 2010 financial year. This adoption will not result in restatement of any prior year balances since the Bank adopted the Zimbabwe Financial Reporting Guidance which has been effectively endorsed by the IFRS 1 amendment.

The effect of the application of this amendment is to render the opening statement of financial position prepared on 1 January 2009 (date of transition) IFRS compliant. The opening statement of financial position was reported in the prior year as not being compliant with International Accounting Standard (IAS) 21 'The Effects of Changes in Foreign Exchange Rates' and IAS 29 'Financial Reporting in Hyperinflationary Economies'.

However, after the application of the exemption for fair values as deemed cost, no measurement differences exist between the amounts previously presented and the comparative amounts presented as at 1 January 2009. As a consequence, no reconciliation has been presented between IFRS results and the previous basis of preparation.

The financial statements comprise three statements of financial positions, two statements of comprehensive income, changes in equity and cash flows as a result of the retrospective application to IFRS 1.

3.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment property and property and equipment whose values have been stated at fair value.

3.4 Use of estimates and judgments

In the application of the Bank's accounting policies, which are described in note 4, the Directors are 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.

3.5 Going concern

The financial statements are prepared on a going concern basis. In the opinion of the Directors, the Bank's business is sound and adequate and resources exist to support this basis.

4 SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied by the Bank are consistent with those used in the previous years, except those highlighted in note 3.2.

4.1 FINANCIAL INSTRUMENTS

Classification

Trading instruments are those that the Bank principally holds for the purpose of short term profit taking. Originated loans and receivables are loans and receivables created or bought by the Bank providing money to a debtor other than those created with the intention of short term profit taking. Originated loans and receivables comprise loans and advances to banks and customers. Held to maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt instruments. Available for sale assets are financial assets that are not held for trading purposes originated by the Bank or held to maturity. Available for sale instruments include certain debt and equity investments.

Recognition

The Bank initially recognises loans and advances, deposits, debt securities and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the bank becomes party to the contractual provisions of the instrument.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Bank is recognised as a separate asset or liability. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets or liabilities are set off and the net amount presented in the statement of financial position when, and only when the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to 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 gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 FINANCIAL INSTRUMENTS (continued)

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short term commitments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Fair value measurement

The determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for the financial instrument traded in the market. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present values technique, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognised valuation models for determining fair value.

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit and loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

4.2 PROPERTY AND EQUIPMENT

Owned assets

Items of property and equipment are stated at cost or valuation less accumulated depreciation and impairment losses

Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is provided to write off the cost less estimated residual value of motor vehicles, furniture and fittings, computers and office equipment, and buildings by equal instalments over their estimated remaining useful lives. The change in residual values and useful lives is treated as a change in accounting estimate.

The depreciation rates for assets are as follows:

Buildings	2.5%
Premises fixed equipment	10%
Motor vehicles	33.33%
Equipment	33.33%
Furniture, fixtures and fittings	33.33%

Impairment

The carrying amount of the Bank's assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Residual values

Asset residual values and useful lives are reviewed and adjusted as appropriate at each statement of financial position date.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 INVESTMENT PROPERTY

Investment property is stated at fair value determined annually by an independent registered valuer. Fair value is based on current prices in the market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for under other income. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement. When the use of property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

Reclassification to investment property

When the use of property changes from owner occupied to investment property, the property is re-measured and reclassified as investment property. When an item of property, plant and equipment becomes an investment property following a change of its use, any differences arising at the date of transfer between the carrying amount of the item and its fair value is recognised directly in equity if it is a gain.

4.4 EMPLOYEE BENEFITS

The Bank operates both defined contribution and defined benefit schemes for its employees.

Defined contribution plan

Contributions to the defined contribution scheme are recognised as an expense in the income statement when incurred. The Bank has no further payment obligations once the contributions have been paid.

Defined benefit plan

The Bank's net obligation in respect of defined benefit scheme is calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine the present and the fair value of any plan assets. The calculation is performed by a qualified actuary every three years using the projected unit credit method.

When the benefits of the plan change, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 EMPLOYEE BENEFITS

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without a realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

4.5 PROVISIONS

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

4.6 REVENUE

Interest and similar income

Interest and similar income and expenses are recognised in the income statement as they accrue, taking into account the effective yield of the financial asset or an applicable floating rate. Interest and similar income and expenses include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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.

Fees and commission

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expenses relate mainly to transaction and services fees, which are expensed as the services are received.

Net trading income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 LOAN IMPAIRMENT CHARGES

Loan impairment charges are held in respect of loans and advances. Loan impairment charges are provided for in accordance with the provisions of the Banking Act (Chapter 24:20). Specific provisions covering identified doubtful debts are based on periodic evaluation of advances and take account of past loss experience, economic conditions and changes in the nature and level of risk.

Interest on loans and advances is accrued to income until such time a reasonable doubt exists with regard to its collectability. Thereafter and until all or part of the loan is written off, interest continues to accrue on customers' accounts, but is not included in income. Such suspended interest is deducted from loans and advances.

4.8 FOREIGN CURRENCY

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the foreign exchange rate ruling at the date of the transaction.

4.9 LEASE PAYMENTS

Payments made under operating lease are recognised in the profit or loss on a straight line basis over the term of the lease.

4.10 TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method providing for temporary

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 TAXATION (continued)

differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for, goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxation profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4.11 GUARANTEES AND ACCEPTANCES

Financial guarantees are contracts that require the Bank to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the debt instrument. Financial guarantee liabilities recognised initially are set off against the created assets.

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs have been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009)

The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

IFRIC 18, 'Transfers of assets from customers'

Effective for transfer of assets received on or after 1 July 2009. The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18, 'Revenue'.

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial Instruments: Recognition and measurement'

Effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified at fair value through profit or loss in its entirety.

IFRIC 16, 'Hedges of a net investment in a foreign operation'

Effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within a Bank, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39, 'Financial Instruments: Recognition and Measurement' that relate to a net investment hedge are satisfied. In particular, the entity should clearly document its hedging strategy because of the possibility of different designations at different levels of the Bank.

IAS 38 (amendment), 'Intangible assets'

Effective 1 January 2010, the amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the Banking of intangible assets as a single asset if each asset has similar useful economic lives.

IAS 1 (amendment), 'Presentation of financial statements'

The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as noncurrent (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

IAS 36 (amendment), 'Impairment of assets'

Effective 1 January 2010, the amendment clarifies that the largest cash-generating unit to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

IFRS 2 (amendments), 'Bank cash-settled share-based payment transactions'

Effective 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Bank and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Bank arrangements that were not covered by that interpretation.

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'

The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal Banks) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1, 'Presentation of Financial Statements' still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

New and reviewed standards in issue but not effective

The Bank has not applied the following new and revised standards that have been issued but are not yet effective. Its assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, 'Financial instruments'

Issued in November 2009, this standard is the first step in the process to replace IAS 39, 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Bank's accounting for its financial assets.
The standard is not applicable until 1 January 2013 but is available for early adoption. The Bank is yet to assess IFRS 9's full impact.

IAS 24 (revised), 'Related party disclosures'

Issued in November 2009, this amendment is mandatory for periods beginning on or after 1 January 2011. Earlier application,in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government related entities. The Bank will apply the revised standard from 1 January 2011.

'Classification of rights issues' (amendment to IAS 32)

Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments'

Effective 1 July 2010, the interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Bank has not entered into transactions of this nature. However, if the Bank does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. The Bank will apply the interpretation from 1 January 2011. It is not expected to have any impact on the financial statements.

5 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

'Prepayments of a minimum funding requirement' (amendment to IFRIC 14)

The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted.

IFRS 7, 'Financial Instruments: Disclosures'

Effective for annual periods beginning on or after 1 January 2011. Earlier application permitted. Encourages qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. Clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans.

IAS 34, 'Interim Financial Reporting'

Effective for annual periods beginning on or after 1 January 2011. Earlier application permitted. Emphasises the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report. Clarifies how to apply this principle in respect of financial instruments and their fair values.

IFRIC 13, 'Customer Loyalty Programmes'

Effective for annual periods beginning on or after 1 January 2011. Earlier application permitted. Clarifies that the 'fair value' of award credits should take into account: the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale; and any expected forfeitures.

6.0 INTEREST AND SIMILAR INCOME

		31/12/2010 $	31/12/2009 $
	Loans and advances to banks	297 022	34 793
	Loans and advances to customers	8 960 981	1 843 791
		9 258 003	**1 878 584**
6.1	**FEES AND COMMISSION INCOME**		
	Account service fees and charges	5 950 759	2 340 680
	Lending fees	5 494 627	2 837 364
	Outward and inward remittance fees	-	1 145 219
	Transaction related commissions	17 797 469	9 996 824
	Commission expenses	(1 539 619)	(913 602)
	Other fees and commissions	1 242 846	841 694
		28 946 082	**16 248 179**
6.2	**GAINS LESS LOSSES - FOREIGN CURRENCIES**		
	Dealing income	4 438 159	3 880 236
	Foreign exchange revenue from non-customers	81 783	24 353
		4 519 942	**3 904 589**

Notes on the Financial Statements

For the year ended 31 December 2010

		31/12/2010 $	31/12/2009 $
7	**INTEREST AND SIMILAR EXPENSES**		
	Customer accounts - Time deposits	**53 346**	**32 647**
8	**OTHER COMPREHENSIVE INCOME / (LOSS)**		
	Impairment of property	-	(12 983 500)
	Income tax relating to components of comprehensive income	-	5 046 263
	Other comprehensive loss for the year	**-**	**(7 937 237)**
9	**OTHER INCOME**		
	Dividend income	-	1 348
	Rental income from investment property	319 957	239 777
	Profit on sale of investment securities	-	161 606
	Profit on sale of property and equipment	22 760	3 387
	Other miscellaneous income	7 495	1 756
		350 212	**407 874**
10	**OPERATING EXPENSES**		
	Audit fees	110 000	206 915
	Depreciation	636 065	334 939
	Staff costs	18 372 871	13 646 957
	Impairment of investment property	-	6 470 000
	Retrenchment costs	-	2 693 351
	Directors' emoluments	395 889	118 535
	Other expenses	11 283 448	3 998 123
		30 798 273	**27 468 820**
10.1	**Staff costs**		
	Salaries and allowances	13 256 669	7 547 151
	Compulsory social security contributions	100 321	120 139
	Contributions to pension funds	3 255 041	2 382 814
	Other costs	1 760 840	3 596 853
		18 372 871	**13 646 957**
	The average number of employees during 2010 was 713 (2009 : 832).		
10.2	**Directors' emoluments**		
	Fees for services as directors	36 970	19 500
	Other emoluments	358 919	99 035
		395 889	**118 535**

	31/12/2010 $	31/12/2009 $
11. TAXATION		
11.1 Analysis of tax charge		
Charge for taxation based on taxable income for the year	3 435 235	469 537
Provision for aids levy	103 057	14 086
	3 538 292	**483 623**
Capital gains tax	-	56 192
Prior year under provision-current tax	7 948	-
Prior year over provision-deferred tax	-	(2 255 904)
Deferred tax credit	(743 626)	(420 042)
Banking institution levy	(30 723)	30 723
Taxation expense	**2 771 891**	**(2 105 408)**

The income tax rate applicable to the Bank's 2010 taxable income is 25.75% (2009 : 30.9%)

	31/12/2010 $	31/12/2009 $
Reconciliation of tax charge		
Notional tax charge based on profit/ (loss) for the year	2 871 036	(1 801 544)
Effect of:		
Permanent differences	(76 370)	1 880 066
Prior year underprovision - income tax	(22 775)	-
Prior year adjustment -change in tax rate	-	(2 270 845)
Capital gains tax	-	56 192
Banking institution levy	-	30 723
Total tax charge	**2 771 891**	**(2 105 408)**

11.3 Deferred taxation

The deferred tax assets and liabilities are attributable to the following:

	31/12/2010 $	31/12/2009 $	01/01/2009 $
Property and equipment	3 819 257	4 064 423	9 110 686
Fair valuation of investment property	378 500	378 500	1 720 000
Other assets	(456 052)	42 408	1 376 855
	3 741 705	**4 485 331**	**12 207 541**

	31/12/2010 $	31/12/2009 $	01/01/2009 $
11. TAXATION (continued)			
11.4 Deferred tax movement (continued)			
Balance at the beginning of the year	4 485 331	12 207 541	-
Current year charge	(743 626)	(3 267 844)	12 207 541
Rate change adjustment	-	(4 454 366)	-
	3 741 705	**4 485 331**	**12 207 541**
12. CAPITAL AND RESERVES			
12.1 Authorised share capital			
1 000 000 ordinary shares of $1 each	**1 000 000**	**1 000 000**	**-**
12.2 Issued share capital			
825 000 ordinary shares of $1 each	**825 000**	**825 000**	**-**

Subject to the provisions of section 183 of the Companies Act (Chapter 24:03), unissued shares are under the control of the Directors. This is in accordance with the articles and memorandum of association the Bank.

	31/12/2010 $	31/12/2009 $	01/01/2009 $
12.3 Capital reserves			
Share premium	20 625 000	20 625 000	-
Non distributable reserves (note 12.5)	5 888 147	5 888 147	35 275 384
	26 513 147	**26 513 147**	**35 275 384**
12.4 Retained earnings			
Retained earnings/(accumulated loss)	**4 652 931**	**(3 724 833)**	**-**

12.5 Non-distributable reserves

The reserves arose from the change in functional currency exercise carried out as at 1 January 2009. Upon conversion to United States dollars, a special reserve was created to account for the net of the converted assets and liabilities.

The Bank redenominated its share capital to United States Dollars in 2009.

	31/12/2010 $	31/12/2009 $	01/01/2009 $
12. CAPITAL AND RESERVES (continued)			
12.6 Capital & Reserves			
Tier 1 capital	**28 318 486**	**22 243 938**	**35 275 384**
Ordinary paid-up share capital	825 000	825 000	-
Share premium	20 625 000	20 625 000	-
Capital reserve	5 888 147	5 888 147	35 275 384
Retained earnings / (accumulated loss)	4 652 931	(3 724 833)	-
Less capital allocated for market and operational risk	(3 672 592)	(1 369 376)	-
Tier 2 capital	**1 840 965**	**768 000**	**-**
General provisions (Tier 2)	-	-	-
(limited to 1.25% of risk weighted assets)	1 840 965	768 000	-
Total Capital - Tier 1 & 2	**30 159 451**	**23 011 938**	**35 275 384**
Tier 3 capital	**3 672 592**	**1 369 376**	**-**
Capital allocated for market and operational risk	3 672 592	1 369 376	-
Total capital base	**33 832 043**	**24 381 314**	**35 275 384**
Risk weighted assets	**152 714 083**	**118 408 269**	**70 332 989**
Tier 1 capital ratio	18.54%	18.79%	50.15%
Tier 2 capital ratio	1.21%	0.65%	0.00%
Tier 3 capital ratio	2.40%	1.16%	0.00%
Capital adequacy	22.15%	20.59%	50.15%

13. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on earnings and a weighted average number of ordinary shares.

	31/12/2010 $	31/12/2009 $
Earnings / (Loss)	8 377 764	(3 724 833)
Weighted average number of ordinary shares	825 000	825 000
Basic earnings / (loss) per share (dollars)	10.15	(4.51)

There are no dilutive potential ordinary shares as at the statement of financial position date.

	31/12/2010 $	31/12/2009 $	01/01/2009 $
14 DEPOSITS FROM CUSTOMERS			
14.1 Deposits			
Payable on demand	217 953 691	224 136 700	51 817 546
Short term deposits	4 001 347	-	-
	221 955 038	**224 136 700**	**51 817 546**
14.2 Maturity analysis			
Repayable on demand	217 953 691	224 136 700	51 817 546
With agreed maturity dates or period of notice, by residual maturity:			
3 months or less	4 001 347	-	-
	221 955 038	**224 136 700**	**51 817 546**
15 DEPOSITS FROM BANKS			
Deposits from banks	**1 294 714**	**80 582**	**997 806**
16 CASH AND CASH EQUIVALENTS			
Cash and balances with banks	97 918 020	44 598 965	27 212 503
Unrestricted balances with Central Bank	3 606 638	-	-
Money market placements	4 000 000	121 350 804	92 178
	105 524 658	**165 949 769**	**27 304 681**

17 BALANCES DUE FROM BANKS

	31/12/2010 $	31/12/2009 $	01/01/2009 $
Restricted balances with Central Bank	**33 805 098**	**28 338 197**	**19 127 480**

Restricted balances with the Central Bank include statutory reserves which have been revoked and customer funds that were transferred to the Central Bank during the Zimbabwe dollar era in line with Exchange Control regulations in force at the time. These funds are yet to be refunded.

18 LOANS AND ADVANCES TO CUSTOMERS

18.1 Loans and advances

	31/12/2010 $	31/12/2009 $	01/01/2009 $
Loans and advances to customers	110 492 823	47 502 476	6 196 700
Less:			
Loan impairment charges (note 18.4)	(1 840 965)	(768 000)	-
	108 651 858	**46 734 476**	**6 196 700**
Maturities			
Repayable on demand	-	-	-
With a residual maturity of:			
3 months or less	108 609 229	47 502 476	6 196 700
Between 3 months and 1 year	1 883 594	-	-
Between 1 and 5 years	-	-	-
Between 5 and 10 years	-	-	-
Over 10 years	-	-	-
	110 492 823	**47 502 476**	**6 196 700**
Less:			
Loan impairment charges (note 18.4)	(1 840 965)	(768 000)	-
	108 651 858	**46 734 476**	**6 196 700**

18.2 Sectoral analysis of utilisations

	31/12/2010		31/12/2009		01/01/2009	
	$	%	$	%	$	%
Agriculture and horticulture	29 384 656	26.59%	20 430 011	43.01%	399 648	6.45%
Construction and property	48 000	0.04%	10 000	0.02%	248 880	4.02%
Commerce	28 323 313	25.63%	1 605 643	3.38%	2 144 240	34.60%
Mining	166 000	0.15%	30 521	0.06%	222 594	3.59%
Manufacturing	50 270 599	45.50%	25 122 816	52.89%	516 385	8.33%
Transport and communications	395 342	0.36%	100 680	0.21%	562 826	9.08%
Other	1 904 913	1.72%	202 805	0.43%	2 102 127	33.92%
	110 492 823	**100%**	**47 502 476**	**100%**	**6 196 700**	**100%**

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

18.3 Risk concentrations

There are material concentrations of loans and advances to the manufacturing sector of 46% (2009 - 53%), agriculture and horticulture of 27% (2009 - 43%) and Commerce sector 26% (2009 - 3%).

18.4 Loan impairment charges

	31/12/2010			31/12/2009		
	Specific	Portfolio specific	Total	specific	Portfolio specific	Total
	$	$	$	$	$	$
Balance at 1 January	-	768 000	768 000	-	-	-
Loan impairment charge	-	1 072 965	1 072 965	-	768 000	768 000
Balance at 31 December	**-**	**1 840 965**	**1 840 965**	**-**	**768 000**	**768 000**

18.5 Non performing loans and advances to customers

As at 31 December 2010, there were no non-performing loans and advances to customers (2009 – nil).

18.6 Loans to executive directors

	31/12/2010	31/12/2009
	$	$
Loans to directors	**10 093**	**-**

19 PROPERTY AND EQUIPMENT

19.1

	Premises $	Furniture & fittings $	Motor vehicles $	Office equipment $	Total $
Cost/Valuation					
Balance at 1 January 2010	18 467 000	11	1 049 507	115 967	19 632 485
Additions	-	13	149 825	533 172	683 010
Balance at 31 December 2010	**18 467 000**	**24**	**1 199 332**	**649 139**	**20 315 495**
Accumulated depreciation					
Balance at 1 January 2010	-	-	818 079	59 235	877 314
Charge for the year	369 675	-	217 299	49 091	636 065
Balance at 31 December 2010	**369 675**	**-**	**1 035 378**	**108 326**	**1 513 379**
Net book value at 31 December 2010	**18 097 325**	**24**	**163 954**	**540 813**	**18 802 116**
Net book value at 31 December 2009	**18 467 000**	**11**	**231 428**	**56 732**	**18 755 171**

There were no changes in accounting estimates, residual values, depreciation methods and useful lives for property and equipment.

Premises were revalued by an independent valuer in 2010 on an open market value basis as at 31 December 2010. The same independent valuer performed a full revaluation of the portfolio as at 31 December 2009. The Directors maintained the balances as there were no material changes resulting from the independent valuation.

19. PROPERTY AND EQUIPMENT (continued)

19.2

	Premises $	Furniture & fittings $	Motor vehicles $	Office equipment $	Total $
Deemed cost					
Balance at 1 January 2009	31 540 500	-	987 402	87 659	32 615 561
Additions / transfers in	560 000	11	62 105	28 308	650 424
Transfers out	(650 000)	-	-	-	(650 000)
Impairment	(12 983 500)	-	-	-	12 983 500)
Balance at 31 December 2009	**18 467 000**	**11**	**1 049 507**	**115 967**	**19 632 485**
Accumulated depreciation					
Balance at 1 January 2009	-	-	503 222	39 153	542 375
Charge for the year	-	-	314 857	20 082	334 939
Balance at 31 December 2009	**-**	**-**	**818 079**	**59 235**	**877 314**
Net book value at 31 December 2009	**18 467 000**	**11**	**231 428**	**56 732**	**18 755 171**
Net book value at 1 January 2009	**31 540 500**	**-**	**484 180**	**48 506**	**32 073 186**

20 INVESTMENT PROPERTY

	31/12/2010 $	31/12/2009 $	01/01/2009 $
Balance at 1 January	7 570 000	8 600 000	8 600 000
Transfers from investments	-	5 350 000	-
Transfer from property and equipment	-	650 000	-
Transfer to property and equipment	-	(560 000)	-
Impairment	-	(6 470 000)	-
Balance as at 31 December	**7 570 000**	**7 570 000**	**8 600 000**

All the Bank's investment property is held under freehold title.

Investment properties were valued by an independent valuer in 2010 on an open market value basis as at 31 December 2010. The same independent valuer performed a full valuation of the portfolio as at 31 December 2009. The Directors maintained the valuation as there were no material changes.

21 INVESTMENTS

	31/12/2010 $	31/12/2009 $	01/01/2009 $
Balance at the begining of the period	-	6 312 240	6 312 240
Transfer to investment property	-	(5 350 000)	-
Disposal of Visa shares	-	(962 240)	-
Balance at the end of the period	**-**	**-**	**6 312 240**

		31/12/2010 $	31/12/2009 $	01/01/2009 $
22	**OTHER ASSETS**			
	Accrued interest receivable	44 320	12 452	34 653
	Internal accounts	7 352 142	2 507 194	17 116 210
		7 396 462	**2 519 646**	**17 150 863**
23	**OTHER LIABILITIES**			
	Accrued interest payable	4 819 137	-	-
	Remittances in transit	450 389	35 355	-
	Other	12 456 369	9 313 175	16 466 873
		17 725 895	**9 348 530**	**16 466 873**

24 PROVISIONS

	Voluntary separation scheme $	Pension $	Performance bonus $	Other accrued expenses $	Total $
Balance at 1 January 2010	2 693 351	2 000 000	1 975 797	1 003 381	7 672 529
Provisions made during the year	-	2 000 000	3 030 529	1 102 853	6 133 382
Provisions reversed during the year	(2 693 351)	(4 000 000)	(1 808 374)	(849 581)	(9 351 306)
Balance at 31 December 2010	**-**	**-**	**3 197 952**	**1 256 653**	**4 454 605**
Balance at 1 January 2009	-	-	-	-	-
Provisions made during the year	5 038 218	2 000 000	1 975 797	1 003 381	10 017 396
Provisions reversed during the year	(2 344 867)	-	-	-	(2 344 867)
Balance at 31 December 2009	**2 693 351**	**2 000 000**	**1 975 797**	**1 003 381**	**7 672 529**

25 INTEREST RATE REPRICING AND GAP ANALYSIS

25.1 Total position at 31 December 2010

	Up to 1 month $	1 month to 3 months $	3 months to 1 year $	Over 1 year $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	62 555 744	-	-	-	42 968 914	105 524 658
Loans and advances to customers	60 396 542	46 371 722	1 883 594	-	-	108 651 858
Balances due from banks	-	-	-	-	33 805 098	33 805 098
Property and equipment	-	-	-	-	18 802 116	18 802 116
Investment property	-	-	-	-	7 570 000	7 570 000
Other assets	-	-	-	-	7 396 462	7 396 462
	122 952 286	**46 371 722**	**1 883 594**	**-**	**110 542 590**	**281 750 192**
Liabilities						
Deposits from customers	217 953 691	4 001 347	-	-	-	221 955 038
Deposits from banks	-	-	-	-	1 294 714	1 294 714
Deferred tax liabilities	-	-	-	-	3 741 705	3 741 705
Current tax liabilities	-	-	-	-	587 157	587 157
Other liabilities	-	-	-	-	17 725 895	17 725 895
Provisions	-	-	-	-	4 454 605	4 454 605
Shareholders' funds	-	-	-	-	31 991 078	31 991 078
	217 953 691	**4 001 347**	**-**	**-**	**59 795 154**	**281 750 192**
Interest rate repricing gap	**(95 001 405)**	**42 370 375**	**1 883 594**	**-**	**50 747 436**	
Cumulative gap	**(95 001 405)**	**(52 631 030)**	**(50 747 436)**	**(50 747 436)**	**-**	

25 INTEREST RATE REPRICING AND GAP ANALYSIS (continued)

25.2 Total position at 31 December 2009

	Up to 1 month $	1 month to 3 months $	3 months to 1 year $	Over 1 year $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	134 229 271	-	-	-	31 720 498	165 949 769
Loans and advances to customers	28 990 011	17 744 465	-	-	-	46 734 476
Balances due from banks	-	-	-	-	28 338 197	28 338 197
Property and equipment	-	-	-	-	18 755 171	18 755 171
Investment property	-	-	-	-	7 570 000	7 570 000
Other assets	-	-	-	-	2 519 646	2 519 646
	163 219 282	**17 744 465**	**-**	**-**	**88 903 512**	**269 867 259**
Liabilities						
Deposits from customers	224 136 700	-	-	-	-	224 136 700
Deposits from banks	-	-	-	-	80 582	80 582
Deferred tax liabilities	-	-	-	-	4 485 331	4 485 331
Current tax liabilities	-	-	-	-	530 273	530 273
Other liabilities	-	-	-	-	9 348 530	9 348 530
Provisions	-	-	-	-	7 672 529	7 672 529
Shareholders funds	-	-	-	-	23 613 314	23 613 314
	224 136 700	**-**	**-**	**-**	**45 730 559**	**269 867 259**
Interest rate repricing gap	**(60 917 418)**	**17 744 465**	**-**	**-**	**43 172 953**	
Cumulative gap	**(60 917 418)**	**(43 172 953)**	**(43 172 953)**	**(43 172 953)**	**-**	

25INTEREST RATE REPRICING AND GAP ANALYSIS (continued)

25.3 Total position at 1 January 2009

	Up to 1 month $	1 month to 3 months $	3 months to 1 year $	Over 1 year $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	14 876 552	-	-	-	12 428 129	27 304 681
Loans and advances to customers	6 196 700	-	-	-	-	6 196 700
Balances due from banks	-	-	-	-	19 127 480	19 127 480
Property and equipment	-	-	-	-	32 073 146	32 073 146
Investment property	-	-	-	-	8 600 000	8 600 000
Investments	-	-	-	-	6 312 240	6 312 240
Other assets	-	-	-	-	17 150 903	17 150 903
	21 073 252	**-**	**-**	**-**	**95 691 898**	**116 765 150**
Liabilities						
Deposits from customers	51 817 546	-	-	-	-	51 817 546
Deposits from banks	-	-	-	-	997 806	997 806
Deferred tax liabilities	-	-	-	-	12 207 541	12 207 541
Other liabilities	-	-	-	-	16 466 873	16 466 873
Shareholders funds	-	-	-	-	35 275 384	35 275 384
	51 817 546	**-**	**-**	**-**	**64 947 604**	**116 765 150**
Interest rate repricing gap	**(30 744 294)**	**-**	**-**	**-**	**30 744 294**	**-**
Cumulative gap	**(30 744 294)**		**(30 744 294)**	**(30 744 294)**	**(30 744 294)**	**-**

25 INTEREST RATE REPRICING AND GAP ANALYSIS (continued)

25.3 Effective yields on major financial assets and cost of liabilities as at 31 December 2010

	2010		2009	
	$	Yield/cost	$	Yield/cost
Loans and advances to customers	108 651 858	5.67%	46 734 476	3.95%
Deposits	221 955 038	0.02%	224 136 700	0.01%

26 CURRENCY EXPOSURE

	US dollars	Sterling	Other	Total
	$	$	$	$
At 31 December 2010				
ASSETS				
Monetary assets	234 021 668	1 759 057	19 597 351	255 378 076
Non-monetary assets	26 372 116	-	-	26 372 116
Total assets	**260 393 784**	**1 759 057**	**19 597 351**	**281 750 192**
LIABILITIES AND EQUITY				
Monetary items	232 916 000	1 759 057	11 342 352	246 017 409
Non-monetary items	35 732 783	-	-	35 732 783
Total liabilities and equity	**268 648 783**	**1 759 057**	**11 342 352**	**281 750 192**
Net exposure	**(8 254 999)**	**-**	**8 254 999**	**-**
At 31 December 2009				
ASSETS				
Monetary assets	229 718 929	2 037 103	11 786 056	243 542 088
Non-monetary assets	26 325 171	-	-	26 325 171
Total assets	**256 044 100**	**2 037 103**	**11 786 056**	**269 867 259**
LIABILITIES AND EQUITY				
Monetary items	230 338 196	2 024 880	9 405 538	241 768 614
Non-monetary items	28 098 645	-	-	28 098 645
Total liabilities and equity	**258 436 841**	**2 024 880**	**9 405 538**	**269 867 259**
Net exposure	**(2 392 741)**	**12 223**	**2 380 518**	**-**

26 CURRENCY EXPOSURE (continued)

At 1 January 2009

	US dollars $	Sterling $	Other $	Total $
ASSETS				
Monetary assets	38 885 843	3 753 555	27 140 326	69 779 724
Non-monetary assets	46 985 426	-	-	46 985 426
Total assets	**85 871 269**	**3 753 555**	**27 140 326**	**116 765 150**
LIABILITIES AND EQUITY				
Monetary items	55 222 967	4 155 203	9 904 055	69 282 225
Non-monetary items	47 482 925	-	-	47 482 925
Total liabilities and equity	**102 705 892**	**4 155 203**	**9 904 055**	**116 765 150**
Net exposure	**(16 834 623)**	**(401 648)**	**17 236 271**	**-**

The above amounts are stated in United States dollar equivalents.
The rates of exchange to the United States Dollar used are as follows:

Currency	**31/12/2010 Mid Rate Against USD**	**31/12/2009 Mid Rate Against USD**	**01/01/2009 Mid Rate Against USD**
GBP	1.5522	1.6195	1.4620
EUR	1.3365	1.4410	1.3840
BWP	6.4557	6.6711	7.5187
ZAR	6.6181	7.4019	9.4653
CAD	1.0019	1.0507	1.2220
AUD	1.0173	0.8996	0.6958

26.1 SENSITIVITY OF EQUITY TO THE EXCHANGE RATE

As at the end of 2010, the Bank's net foreign currency position reflected a net positive asset position resulting in the expected impact on the profit and loss and capital as reported below, assuming a 5% depreciation in exchange rate.

Currency	**Assets**	**Liabilities**	**Net exposure**	**Effects of a 5% Increase in exchange rate**	**Effects of a 5% decrease in exchange** rate
GBP	1 759 057	1 759 057	-	-	-
EUR	6 286 855	6 286 855	-	-	-
ZAR	9 040 730	9 040 730	-	-	-
BWP	629 121	629 121	-	-	-

27 CONTINGENT LIABILITIES

	31/12/2010 $	31/12/2009 $
Acceptances and endorsements	-	5 090 818
Guarantees and irrevocable letters of credit	22 039 091	379 712
	22 039 091	**5 470 530**

28 PENSION COSTS

	31/12/2010 $	31/12/2009 $
Pension costs		
Current service costs	1 255 041	382 814
Past service costs	2 000 000	2 000 000
Social service costs	-	-
	3 255 041	**2 382 814**
The following financial assumptions were taken into account for the pension fund valuation: Allowance for discretionary increases to pensions in payment in line with price inflation. General increases in pensionable salary will be at the rate of 4% per annum above price inflation. The return on investments will average 5% per annum above inflation.		
Present value of future benefits in respect of service		
Total defined contribution past service liabilities	10 300 000	10 300 000
Total defined benefit past service liabilities	5 500 000	5 500 000
Total past service liabilities	**15 800 000**	**15 800 000**
Assets	15 631 624	9 800 000
Past service shortfall	(168 376)	(6 000 000)
Unrecognised actuarial losses	2 000 000	4 000 000
Recognised liability for defined benefit obligations	**1 831 624**	**2 000 000**
Plan assets consist of the following:		
Equity	7 970 953	8 300 000
Property	2 165 000	1 500 000
Money market	5 495 671	-
	15 631 624	**9 800 000**
Movement in present value of defined benefit obligations		
Defined benefit obligations	13 498 186	9 498 186
Actuarial losses	2 000 000	6 000 000
Benefits paid by the plan	(111 360)	(81 000)
Current service costs	413 174	382 814
Defined benefit obligation at valuation	**15 800 000**	**15 800 000**
Movement in plan assets		
Value of plan assets	9 998 573	9 449 000
Contributions into the plan	5 744 411	432 000
Benefits paid by the plan	(111 360)	(81 000)
	15 631 624	**9 800 000**

The following financial assumptions were taken into account for the pension fund valuation;
- Allowance for discretionary increases to pensions in payment in line with price inflation.

28 PENSION COSTS (continued)

- General increases in pensionable salary will be at the rate of 4% per annum above price inflation
- The return on investments will average 5% per annum above inflation.

The Bank resolved to write off the current actuarial loss over three years taking cognisance of the amount and the vesting period.

29 NATIONAL SOCIAL SECURITY AUTHORITY SCHEME

All employees are members of the National Social Security Authority Scheme, to which both the company and the employees contribute. Contributions by the employer are charged to the profit and loss account.

30 RELATED PARTIES

Key management comprises of the Chief Executive Officer and Heads of Divisions.

	31/12/2010 $	31/12/2009 $
Loans extended to key management	31 130	-
Remuneration paid to key management	623 433	276 409
	654 563	**276 409**
Balances with group companies		
Owing to group companies	411 133	80 582
Owing by group companies	62 555 744	134 229 271

Transactions with the group companies are done at arm's length.
Interest rates are at the same rates offered to all other customers.

Other related party transactions

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows;

	31/12/2010 $	31/12/2009 $
Loan extended to J P Maposa (Non-Executive Director)	**865**	**-**

From time to time directors of the Bank, or their related entities, may purchase goods from the Bank. These purchases are on the same terms and conditions as those entered into by other Bank employees or customers.

31 BORROWING POWERS

The directors may exercise all the powers of the Bank to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue other securities whether outright or as security for any debt, liability obligation of the Bank or of any third party.

32 USE OF ESTIMATES AND JUDGEMENTS

Management discusses with the Bank's Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates. These disclosures supplement the commentary on risk management (note 32).

The Bank follows accounting policy of designating any asset at inception into different asset categories in line with the Bank's laid down process. The Bank then relies on markets, valuation experts and valuation methodologies to determine the fair values of its financial instruments in line with IAS 39 (Financial Instruments- Presentation and Disclosure) requirements.

Property revaluation

This was provided by an independent valuer in line with market practice.

33 RISK MANAGEMENT FRAMEWORK

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

- Credit risk
- Liquidity risk
- Foreign exchange risk
- Price risk
- Interest rate risk
- Operational risk
- Capital risk

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.

33.1 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Asset and Liability (ALCO), Credit and Operational Risk Committees, which are responsible for developing and monitoring Bank Risk Management Policies in their specified areas. All Board committees have both executive and non executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by internal audit who undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

33 RISK MANAGEMENT (continued)

33.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to the financial instrument fails to meet its contractual obligations, and arises from the Bank's loans and advances to customers, other banks and investment securities. The Bank actively manages its credit risk at the individual transaction, counterparty and other portfolio levels, using a variety of qualitative and quantitative measures. The Bank endeavors to minimise risk as far as possible by only granting a loan where the possibility of default is acceptable. Based on evaluation of the counterparty's creditworthiness and the type of credit arrangement desired, credit limits are assigned by experienced credit officers and approved by the Board Credit Committee. Loan advances in the agricultural sector are 100% secured by tangible collateral in the form of bonds over properties. The remainder of the loan advances is to the commercial and manufacturing sectors where the lending is to established large multinational corporates which in most instances are multibanked. These are secured by intra group guarantees and Notarial General Covering Bonds over movable assets subject to individual risk profiles.

An estimate of the fair value of collateral and other security enhancements held against loans to customers is as follows:

	31/12/2010 $	31/12/2009 $
Asset based	9 593 487	73 200
Property	5 916 210	6 719 000
Commodity	4 553 493	5 760 000
Total collateral	**20 063 190**	**12 552 200**

Some loans issued within the corporate banking department are secured by parental guarantees. Collateral would have been lodged with Stanadard Chartered Bank Group in their respective head offices.

33.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting the obligations of its financial liabilities. Liquidity risk arises from the fact that assets and liabilities have differing maturities. Liquidity issues are addressed through the Asset and Liability Committee of the Bank (ALCO) comprising the Chief Executive Officer and respective heads of origination and client coverage, consumer banking, financial markets and finance and administration. At its meetings, ALCO deals with strategic and policy issues on liquidity, and sets the positions and mismatch levels within which the activities of the next period are conducted. It is the responsibility of ALCO to ensure that the Bank has sufficient liquidity at any given time.

33 RISK MANAGEMENT (continued)

33.4 Foreign exchange risk

Foreign exchange risk is the risk to earnings and ultimately to capital, arising from movements in foreign exchange rates. The Bank makes use of dealer management and counterparty positions as the basic management control tools for foreign exchange risk.

33.5 Interest rate risk

Interest rate risk refers to the changes in the net interest income of the Bank that could arise owing to adverse variations in interest rates. Combined with liquidity risk, it forms part of those financial risks that are managed by ALCO on the basis of quantitative results. These results stem from a set of tools and techniques used in Asset and Liability management to deal with sensitivity, volatility and extreme deviations of target variables, and ultimately reflect the overall risk profile. By reviewing these monthly, ALCO optimises the risk reward trade off by assessing and optimally structuring the profile of the Bank's statement of financial position, developing and implementing strategies that will adhere to the risk profile requirements and effectively utilising capital.

Gap analysis is used to determine the exposure and to stimulate techniques to determine the sensitivity to interest rate changes.

33.6 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The Bank follows a philosophy of pro-actively managing operational risk, optimising the risk-reward relationship and maintaining business continuity, while preserving the life of and protecting all assets. Operational risk measurement is both qualitative and quantitative, and the principle of self assessment is applied. Use is made of management information system reports and segregation of duties is built into the systems to ensure compliance with the operational procedures and to manage operational risks. Disaster recovery plans and contingency arrangements particularly for the Information Technology Department are in place.

33.7 Reputational risk

Reputational risk refers to the risk of damage to the Bank's image, which may affect its ability to retain and generate business. The Bank manages reputational risk by ensuring that business is conducted in accordance with the legal and regulatory requirements. In addition, the Bank's corporate governance structure conforms to international standards. The Bank also has systems in place to monitor customer service satisfaction levels as well as processes to resolve customer queries and complaints.

33.8 Legal and compliance risk

Legal and compliance risk is the risk that arises due to the Bank's failure to adhere to legal and regulatory obligations. The Bank manages this risk through dedicated Legal and Compliance units, and deliberations by its Country Operational Risk Group Committee. The Board Risk Committee also monitors this risk.

33.9 Strategic Risk

The Board approves the Bank's strategy as formulated by executive management, while the Chief Executive Officer has the overall responsibility for strategy implementation. The Board conducts a quarterly review of the strategy's performance and its continued applicability.

33.10 Capital Risk

Capital risk refers to the risk of the Bank's own capital resources being adversely affected by unfavourable external developments.

The Bank's capital resources should therefore be adequate to absorb losses such as operating losses and capital losses on investments. So long as net losses can be fully offset against capital invested by the Bank's owners, the legal claims of depositors or other creditors are not compromised and the Bank can continue to function without interrupting its operations.

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.

34 ONSITE EXAMINATION AND EXTERNAL CREDIT RATINGS

The latest onsite examination of the Bank was as at March 2006 using information as at 31 December 2005 and the Bank was given a "1", that is, strong rating.

CAMELS RATING

Component ratings	Latest rating 31/12/05
Capital adequacy	1
Asset Quality	1
Management	2
Earnings	1
Liquidity	1
Sensitivity to Market Risk	1
Composite rating	1

Key

1	**Strong**
2	**Satisfactory**
3	**Fair**
4	**Weak**
5	**Critical**

The Bank's overall composite risk was considered low and the direction stable.

Summary Risk Matrix

Type of risk	Level of inherent risk	Adequacy of risk management systems	Overall composite risk	Direction of overall composite risk
Credit	Low	Acceptable	Low	Stable
Liquidity	Low	Acceptable	Low	Stable
Interest rate	Moderate	Strong	Low	Stable
Foreign exchange	Low	Strong	Low	Stable
Strategic risk	Moderate	Acceptable	Low	Stable
Operational risk	Moderate	Acceptable	Moderate	Stable
Legal & Compliance	Low	Strong	Low	Stable
Reputation	Low	Strong	Low	Stable
Overall	**Low**	**Strong**	**Low**	**Stable**

34 ONSITE EXAMINATION AND EXTERNAL CREDIT RATINGS (continued)

Interpretation of the risk matrix

Level of inherent risk

Low - reflects a lower than average probability of an adverse impact on a banking institution's capital and earnings. Losses in a functional area with a low inherent risk would have little negative impact on the banking institution's overall financial condition.

Moderate - could reasonably be expected to result in a loss that could be absorbed by a banking institution in the normal course of business.

Adequacy of risk management

Acceptable-: Management of risk is largely effective but lacking to some modest degree. While the bank might be having some minor risk management weaknesses, these have been recognised and are being addressed. Management information systems are generally adequate.

Strong-: means that there is evidence of effective management controls on all risks inherent across functional areas. The board and senior management are active participants in managing risk, setting appropriate policy frameworks, defining a bank's risk tolerance levels and ensuring that responsibilities and accountabilities are effectively communicated.

35 EXTERNAL CREDIT RATING

Rating agent	Latest 2010	Previous 2009	Previous 2008
Global Credit Rating	AA-	AA-	AA-

36 SUBSEQUENTS EVENTS

There were no material subsequent events after year end.