FIRST ALLIANCE BANK ZAMBIA LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

FIRST ALLIANCE BANK (Z) LTD

(Registered Commercial Bank)

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(Registered Commercial Bank)

Committed to your success

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The Directors submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of First Alliance Bank Zambia Limited. ("the Bank").

PRINCIPAL ACTIVITIES

The principal activities of the Bank continue to be the provision of commercial banking and related services to the general public. In the opinion of the Directors, the principal activities of the Bank continue to be within the financial services sector.

RESULTS AND DIVIDEND

The profit for the year of K 25.906 million (2015: K 6.438 million) has been added to retained earnings. The directors have not declared any dividend for the year ended 31 December 2016 (2015: nil).

DIRECTORS

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

Sanmukh R Patel	-	Chairman
Cyril Patro	-	Managing Director
Urbano Mutati	-	Non-Executive Director
Shashikanti Patel	-	Non-Executive Director
Vincent Malambo	-	Non-Executive Director
Bwembya Chikwanda	-	Non-Executive Director
Larry Kalala	-	Non-Executive Director
Nitesh Patel	-	Non-Executive Director
Jacob Joseph	-	Company Secretary

EXECUTIVE MANAGEMENT TEAM

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

Cyril Patro	-	Managing Director
Chokkalingam Sukumar	-	General Manager
Peter Mulenga	-	Chief Financial Officer
Joseph Jacob	-	Chief Inspector
Yogesh Bhandari	-	Chief Operations Manager
Naim Kakvi	-	Chief ICT Manager

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees during the year amounted to K **15.966** million (2015: K **13.823** million) and the average number of employees was as follows:

Month	Number	Month	Number
January	104	July	103
February	102	August	101
March	101	September	100
April	102	October	101
May	101	November	100
June	101	December	101

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

GIFTS AND DONATIONS

During the year the Bank made donations of K35,900 (2015: K7,000) to charitable organisations and activities.

PROPERTY AND EQUIPMENT

The Bank purchased property and equipment amounting to K7.804 million (2015: K2.171 million) during the year. These represent the aggregate amounts disclosed under note 19 & 20 In the opinion of the directors, the carrying value of property and equipment is not less than their recoverable value.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 31 of the financial statements.

DIRECTORS' EMOLUMENTS AND INTERESTS

Directors' emoluments and interests are disclosed in Note 31 of the financial statements.

PROHIBITED BORROWINGS OR LENDING

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

RISK MANAGEMENT AND CONTROL

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

COMPLIANCE FUNCTION

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

KNOW YOUR CUSTOMER AND ANTI-MONEY LAUNDERING POLICIES

The Bank has adopted 'know your customer' (KYC) and Anti- money laundering policies and adheres to current legislation in these areas.

AUDITOR

The Bank's auditor, PricewaterhouseCoopers, has indicated its willingness to continue in office and a resolution for their reappointment will be proposed at the annual general meeting.

By order of the Board

Bank Secretary

30th June 2017

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

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

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

Director   Director

30th June 2017

Independent auditor's report

To the Shareholders of First Alliance Bank Zambia Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of First Alliance Bank Zambia Limited (the Bank) as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Zambia Companies Act and the Zambia Banking and Financial Services Act.

What we have audited

The financial statements of First Alliance Bank Zambia Limited are set out on pages 7 to 51 comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report but does not include the Statement of Directors' Responsibilities, the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers , PwC Place, Stand No 2374, Thabo Mbeki Road, P.O. Box 30942, Lusaka, Zambia
T: +260 (211) 334000, F: +260(211) 256474, www.pwc.com/zm

A list of Partners is available from the address above

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Zambia Companies Act and the Zambia Banking and Financial Services Act, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The Zambia Companies Act requires that in carrying out our audit we consider whether the Bank has kept proper accounting records, other records and registers as required by this Act.

In our opinion, based on our examination of those records, the Bank has kept proper accounting records, other records and registers as required by the Zambia Companies Act.

In addition, the Zambia Banking and Financial Services Act require that our audit report should state whether, among other matters, First Alliance Bank Zambia Limited has complied with the provisions of the Act. In accordance with the requirements of the Zambia Banking and Financial Services Act, we are required to report to you whether:

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

ii) there are transactions or conditions affecting the ability of the Bank to continue as a going concern which have come to our attention and that in our opinion are not satisfactory and require rectification;

iii) the Bank had non-performing or restructured loans whose individual values exceeded 5% of the Bank's regulatory capital.

In respect of the foregoing requirements, we report:

i) The bank in the current year had one related party loan facility that exceeded 25% of regulatory capital;

ii) Included in gross loans and advances of **K389 million** are three non-performing loans whose principal amounts total **K35 million** and are more than 5% of regulatory capital as per section 64(2)(d)(ii) but for which impairment losses have been recorded. Our audit opinion is not qualified in respect of this matter as adequate loan impairment charges have been recorded.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Lusaka

19 July 2017

A Chibuye

Andrew Chibuye
Practicing Certificate Number: AUD/F002378
Partner signing on behalf of the firm

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

Statement of comprehensive income

	Notes	2016	2015
Interest income	5	111,988	80,574
Interest expense	6	(53,425)	(33,145)
Net interest income		58,563	47,429
Loan impairment recoveries/(charges)	16	9,972	(16,306)
Net interest income after loan impairment charges		68,535	31,123
Fees and commission income	7	12,803	12,202
Fees and commission expense		(402)	(825)
Net fees and commission income		12,401	11,377
Net exchange (loss)/gain	8	(4,159)	11,154
Other income	9	505	586
Operating expenses	10	(42,326)	(36,173)
Profit before income tax		34,956	18,067
Income tax expense	12	(9,050)	(11,629)
Profit for the year		25,906	6,438
Other Comprehensive income		-	-
Total Comprehensive income		25,906	6,438

The notes on pages 11 to 51 are an integral part of these financial statements.

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

Statement of financial position

	Notes	2016	2015
ASSETS			
Cash and balances with Bank of Zambia	13	131,266	94,279
Balances with other banks	15	32,809	71,675
Investment in securities	17	112,691	105,966
Other Investments	18	725	725
Loans and advances to customers	16	368,568	379,553
Property and equipment	19	20,528	19,680
Intangible assets	20	7,634	3,279
Other assets	21	3,855	18,197
Total assets		678,076	693,354
LIABILITIES			
Deposits from customers	23	483,741	442,696
Deposits from other banks	22	7,024	69,495
Current income tax	12	2, 315	1,998
Other liabilities	25	15,135	35,210
Total liabilities		508,215	549,399
EQUITY			
Share capital	26	84,000	84,000
Revaluation reserves	27	16,318	16,754
Statutory reserves	28	24,372	19,740
Credit reserves	29	16,643	-
Retained earnings		28,528	23,461
Total equity		169,861	143,955
Total equity and liabilities		678,076	693,354

The notes on pages 11 to 51 are an integral part of these financial statements.

The financial statements on pages 7 to 51 were approved for issue by the Board of Directors on ....30th June..........2017 and signed on its behalf by:

Director

Director

Director

Secretary

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

Statement of changes in equity

	Notes	Share capital	Rev reserve	Stat reserves	Credit Reserves	Retained earnings	Total equity
		(Note 26)	(Note 27)	(Note 28)	(Note 29)		
Year ended 31 December 2015							
At start of year		84,000	17,138	15,892		20,487	137,517
Comprehensive income				-			
Profit for the year		-	-			6,438	6,438
Transfer to statutory reserves				3,848		(3,848)	-
Revaluation reserve transfer			(384)			384	-
At end of year		84,000	16,754	19,740	-	23,461	143,955
Year ended 31 December 2016							
At start of year		84,000	16,754	19,740	-	23,461	143,955
Comprehensive income							
Profit for the year		-	-	-	-	25,906	25,906
Total comprehensive income		-	-	-	-	25,906	25,906
Revaluation reserve transfer		-	(436)	-	-	436	-
Transfer to statutory reserves		-	-	4,632		(4,632)	-
Transfer toCredit reserve		-	-	-	16,643	(16,643)	-
At end of year		84,000	16,318	24,372	16,643	28,528	169,861

The notes on pages 11 to 51 are an integral part of these financial statements.

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

Statement of cash flows

		Year ended 31 December	
	Notes	**2016**	**2015**
Cash flows from operating activities			
Profit before tax		34,956	18,067
Adjust:			
Depreciation charge for the year		1776	1557
Amortisation of intangible assets		825	25
Profit on disposal of PPE		(10)	-
Exchange movement on investment in securities		3,423	(8,791)
Income tax paid	12	(8,733)	(11,562)
Cash flows from operating activities before changes in operating assets and liabilities		32,237	(704)
Changes in operating assets and liabilities:			
- (increase)/decrease - other assets		14,342	(16,179)
- Increase/(decrease) -deposits from other banks		(62,471)	69,495
- Increase/(decrease)-customer deposits		41,045	179,750
- (Increase)/decrease-loans and advances to customers		10,985	(141,088)
- Increase/(decrease)-other liabilities		(20,075)	(27,353)
Net cash generated from operating activities		16,063	63,921
Cash flows from investing activities			
Purchase of property and equipment	19	(2,624)	(2,171)
Purchase of intangible assets	20	(5,180)	-
(Purchase)/redemption of treasury bills		13,372	(27,987)
Proceeds from disposal of property and equipment		10	-
Net cash generated/(used) in investing activities		5,578	(30,158)
Net (decrease)/increase in cash and cash equivalents		21,641	33,763
Cash and cash equivalents at start of year		165,954	132,191
Cash and cash equivalents at end of year	14	187,595	165,954

The notes on pages 11 to 51 are an integral part of these financial statements.

Notes to the financial statements

1 General information

First Alliance Bank Zambia Limited (the Bank) is a limited Bank domiciled in Zambia. The Bank is involved in investment, corporate and retail banking. After approval and issue of the financial statements by the Board of Directors, neither the entity's owners nor others have the power to amend them.

The address of the registered office is:

Plot No 627
P.O. Box 33959
Cairo Road
LUSAKA

2 Summary of significant accounting policies

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

(a) Basis of preparation

(i) Compliance with IFRS

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements are presented in Kwacha (K), rounded to the nearest thousand.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis.

(iii) New and amended standards adopted by the Bank

The Bank did not apply any standards and amendments for the first time for their annual reporting period commencing 1 January 2016.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) New standards and interpretations not yet adopted

Title of standard	Nature of change	Impact	Mandatory application date
IFRS 9 *Financial Instruments*	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.
IFRS 15 *Revenue from Contracts with Customers*	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Mandatory for financial years commencing on or after 1 January 2017.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) New standards and interpretations not yet adopted(continued)

Title of standard	Nature of change	Impact	Mandatory application date
IFRS 15 *Revenue from Contracts with Customers (continued)*	The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g 1 January 2017), i.e without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Mandatory for financial years commencing on or after 1 January 2017.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

IFRS 16 Leases	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Mandatory for financial years commencing on or after 1 January 2019.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(b) Foreign currency translation

i Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the “functional currency”). The financial statements are presented in Kwacha (“K”) which is the Bank's functional currency.

ii Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income and are cumulated in the fair value reserve in equity.

(c) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' or 'interest expense' respectively in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) 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.

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

(d) Fees and commission income

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

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(d) Fees and commission income (continued)

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportion basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

(e) Dividend income

Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

(f) Financial assets

Classification

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Financial assets are designated at fair value through profit or loss when:

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

Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(f) Financial assets (continued)

Classification (continued)

(ii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those classified as held for trading and those that the Bank on initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Available-for-sale financial assets

Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any other categories.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Bank has transferred all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in profit or loss within other gains or losses in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustment recognised in equity are included in profit or loss as gains and losses from available-for-sale securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of interest income.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(g) Derivative financial instruments

Derivatives, which comprise forward foreign exchange and currency swap contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the statement of financial position date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in profit or loss.

(h) 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 re-pledge 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 customers or placements with other Banks, 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.

(i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

(j) Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

a. significant financial difficulty of the issuer or obligor;
b. a breach of contract, such as a default or delinquency in interest or principal payments;
c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d. it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets (continued)

e. the disappearance of an active market for that financial asset because of financial difficulties; or
f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 1 month and 6 months.

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Bank 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 amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for group 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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets (continued)

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 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.

Estimates of changes in future cash flows for group of assets should reflect and be directionally consistent with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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. Impairment charges relating to loans and advances to customers are classified in loan impairment loans on loans and advances whilst impairment charges relating to investment securities are classified in 'Net gains/(losses) on investment securities'. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

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 profit or loss.

(ii) Available for sale financial assets

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 profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. 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 profit or loss.

(iii) Renegotiated loans

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(k) Property and equipment

Land and buildings comprise mainly Head office premises. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

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

Buildings	1.15% - 2%
Fixtures, fittings and equipment	25%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

The Bank assesses at each reporting period whether there is any indication that any item of property 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 recorded at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in "other income" in profit or loss.

(l) Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (four years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(l) Intangible assets (continued)

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding four years).

(m) Income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the statement of financial position date.

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

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

(n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with other 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 bills and other eligible bills, and amounts due from other banks.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(o) Employee benefits

(i) Retirement benefit obligations

The Bank contributes to the statutory scheme in Zambia namely National Pension Scheme Authority (NAPSA) which is a defined contribution plan where the Bank pays an amount equal to the employees' contributions. Employees' contribution is 5% of their gross earnings or maximum of K843.97 per month during the year 2016.

Contributions to NAPSA are recognised in the profit or loss in the year in which they fall due. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Other entitlements

The estimated monetary liability for employees such as accrued annual leave entitlement and gratuity at the statement of financial position date is recognised as an expense accrual.

(p) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(q) Share capital

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

(r) Dividends payable

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.

(s) Accounting for leases

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(s) Accounting for leases (continued)

(i) With the Bank as lessee

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) With the Bank as lessor

When assets are held subject to 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 tax), which reflects a constant periodic rate of return.

(t) 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.

(u) Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Bank has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote then they are not disclosed.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements in applying accounting policies

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

(a) Impairment losses on loans and advances

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

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practicable, models use only observable data. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

Notes to the financial statements (continued)

4 Financial risk management

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

Risk management is carried out by the management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

Financial instruments by category

Financial assets	**Loans and Receivables**
At 31 December 2016	
Cash and bank balances with Bank of Zambia	131,266
Balances with other banks-domestic	6,785
Balances with other banks-abroad	26,024
Loans and advances	368 ,568
Securities	112,691
Other assets	3,855
	649,189
At 31 December 2015	
Cash and bank balances with Bank of Zambia	94,279
Balances with other banks-domestic	36,880
Balances with other banks-abroad	35,484
Loans and advances	379,553
Securities	99,451
Other assets	5,208
	650,855

Financial liabilities	**Amortised cost**
At 31 December 2016	
Customer deposits	483,741
Deposits from banks	7,024
Other liabilities	18,025
	508,790
At 31 December 2015	
Customer deposits	442,696
Deposits from banks	69,495
Other liabilities	37,208
	549,399

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and guarantees.

(i) Credit risk measurement

(a) Loans and advances (including commitments and guarantees)

In measuring credit risk of loan and advances at a counterparty level, the loans review committee of the Bank considers three components: (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default' and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

The Credit Policy document of the Bank gives the guidelines and procedure for managing credit risk. The Credit Policy documents are reviewed by the Board from time to time. The Board lays down the limits for overall borrowing and sector-wise borrowing.

Proper appraisals are carried out for all requests for loans and advances and adequately documented before being forwarded for approval. The disbursements of advances are made only after completion of necessary security checks, documentation and the performance of the advance portfolio is reviewed on regular basis by the management and by the Loans Review Committee.

Probability of default

Here Management looks at the combination of statistical analysis of the counterparty past performance with judgement on the current and future development of the counterparty's activities in relation to economic development in the country.

Exposure at default ("EAD")

EAD is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Loss given default/loss severity

Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers as stipulated by the Central Bank. Industry segments risk levels are monitored on a revolving basis and subject to annual or more frequent review as deemed by the Board of Directors.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advance, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

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

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(iii) 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 loan.

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.

(iv) Impairment and provisioning policies

The Bank establishes an allowance for impairment losses that represent its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogenous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(iv) Impairment and provisioning policies (continued)

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Loans Review Committee determines that the loan amount is uncollectable. This determination is reached after considering information such as occurrence of significant changes in the borrowers financial position such that the borrower can no longer manage to pay the obligation, or proceeds from collateral will not be sufficient to cover the entire exposure.

(v) Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amount represent exposure to credit risk without taking into account of any collateral held or other credit enhancements are disclosed below:

	2016	**2015**
Credit risk exposures relating to off-balance sheet items:		
-Guarantee and performance bonds	25,262	32,826

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
- 90% of the loans and advances portfolio are neither past due nor impaired (2015: 93%)
- 98% of the loans and advances portfolio are backed by collateral (2015: 98%)
  85% of the investments in debt securities are government securities (2015: 82%)

(vi) Loans and advances

	2016	**2015**
Neither past due nor impaired	349,922	379,553
Past due but not impaired	38,753	30,079
Gross	388,675	409,632
Less: allowance for impairment (Note 16)	(20,107)	(30,079)
Net	368,568	379,553

(vi) Other financial instruments

All other financial instruments below were neither past due nor impaired

	2016	**2015**
Cash andBalances with Bank of Zambia	131,266	94,279
Balances with other Banks-domestic	6,785	36,880
Balanceswith other Banks-abroad	26,024	35,484
Securities with GRZ	97,299	87,295
Corporate Bond	15,392	18,671
	276,766	272,609

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(vii) Concentrations of risk of financial assets with credit risk exposure

Industry sector risk concentrations were as follows for on-and off-balance sheet items:

	Financial institutions	Manufacturing	Transport and communications	Wholesale and retail trade	Agricultural	Other	Individuals	Total
At 31 December 2016								
Loans and advances to customers	4,559	65,242	27,310	105,456	8,977	172,093	5,038	388,675
Balances with Bank of Zambia	91,495	-	-	-	-	-	-	91,495
Placements with other Banks-abroad	26,024	-	-	-	-	-	-	26,024
Placements with other Banks-domestic	6,785	-	-	-	-	-	-	6,785
Total	**128,863**	**65,242**	**27,310**	**105,456**	**8,977**	**172,093**	**5,038**	**512,979**
%	**25%**	**13%**	**5%**	**21%**	**2%**	**34%**	**1%**	**100%**
At 31 December 2015								
Loans and advances to customers	10,766	74,512	33,027	85,863	11,122	152,164	42,178	409,632
Balances with Bank of Zambia	72,123	-	-	-	-		-	72,123
Placements with other Banks-abroad	65,789	-	-	-	-		-	65,789
Placements with other-Banks-domestic	36,880	-	-	-	-		-	36,880
Total	**185,558**	**74,512**	**33,027**	**85,863**	**11,122**	**152,164**	**42,178**	**584,424**
%	**28%**	**13%**	**6%**	**16%**	**2%**	**27%**	**8%**	**100%**

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

(vii) Concentrations of risk of financial assets with credit risk exposure (continued)

Other financial assets

All other financial instruments below were neither past due nor impaired:

	2016	**2015**
Securities with GRZ	97,299	87,295
Corporate Bond	15,392	18,671
	112,691	105,966

(b) Liquidity risk

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

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

(i) Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the undiscounted cash flows payable by the Bank under non-derivative financial liabilities and assets categorised by;

- remaining contractual maturities (liabilities); and
- expected maturity dates (assets).

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

At 31 December 2016	Up to 1 Month	1-3 months	3-12 months	1-5 Years	Over 5 years	Total
Liabilities						
Customer deposits	209,004	124,993	149,744	-		483,741
Deposits from other Banks	7,024	-	-	-		7,024
Other financial liabilities	12,048	-	5,402	-		17,450
Total financial liabilities	228,076	124,993	155,146	-		508,215
Assets						
Cash and balances with Bank of Zambia	131,266	-	-	-	-	131,266
Balances with other Banks	32,809	-	-	-	-	32,809
Loans and advances to	69,984	87,481	158,615	52,488	-	368,568
Investment in securities	4,727	18,793	71,054		18,117	112,691
Other Financial assets			3,418	28,887		32,305
Total financial assets	238,786	106,274	233,087	81,375	18,117	677,639

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

At 31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 Years	Over 5 Years	Total
Liabilities						
Customer deposits	211,092	103,235	128,369	-	-	442,696
Deposits from other Banks	39,495	18,000	12,000	-	-	69,495
Other financial liabilities	4,626	12,913	19,669		-	37,208
Total financial liabilities	255,213	134,148	160,038	-	-	549,399
Assets						
Cash and balances with Bank of Zambia	94,279	-	-	-	-	94,279
Balances with other Banks	47,350	17,105	7,220	-	-	71,675
Loans and advances to customers	75,910	94,888	151,822	56,933	-	379,553
Other Financial assets	14,778	38,094	52,798	18,941	22,299	146,910
Total financial assets	232,317	150,087	211,840	75,874	22,299	692,417

Assets held for managing liquidity risk

The Bank holds a diverse portfolio of cash and high quality liquid securities to support payment obligations and contingent funding in stress market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with Bank of Zambia
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Banks portfolios.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Off balance sheet items

(a) Operating lease commitments

Where the bank is a lessee, the future minimum lease payments under non-cancellable operating leases are summarised in the table below.

	Up to 1 year	2-5 years
At 31 December 201 6		
Operating lease commitments	4,294	15,821
At 31 December 201 5		
Operating lease commitments	3,657	7,314

(a) Capital commitments

There were no capital commitments for the acquisition of property and equipment during the year (2015: Nil).

(c) 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 the financial instrument. Market risk arises from open position in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in levels of exchange volatility. The objective of the market risk management is to manage and control market risk exposures within acceptable limits, while optimising the returns on the risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO).

The Treasury Department in consultations with the senior management reviews the foreign exchange buying and selling rates on a daily basis and decisions are made as to how to proceed in time within the limits stipulated by the Bank of Zambia.

Similarly the Assets and Liabilities Management Committee monitors the interest rates on a monthly basis and adjustments are made on interest chargeable on loans and advances, if deemed necessary. The monitoring process pays attention to Treasury bill rates and base rates changes announced by the other Banks.

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(a) Exposure to foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2016 and 2015. Included in the table are the Bank's financial instruments, categorised by currency.

	USD	GBP	ZAR	Euro
At 31 December 2016				
Assets				
Cash and balances with Bank s abroad	4,500	196	12,760	377
Loans and advances to customers	15,186	-	-	-
Other assets	7,559	-	-	-
Total assets	27,245	196	12,760	377
Liabilities				
Customer deposits	23,198	17	317	142
Deposits from other banks	-	-	-	-
Other liabilities	3,516	-	-	-
Total liabilities	26,714	17	317	142
Net on-balance sheet position	531	179	12,443	235
Off balance sheet	471	-	4,000	-
Overall open position	60	179	8,443	235
At 31 December 2015				
Assets				
Cash and balances with Banks abroad	3,088	224	6,805	526
Loans and advances to customers	16,924	-	-	-
Other assets	5,467	-	-	-
Total assets	25,479	224	6,805	526
Liabilities				
Customer deposits	18,290	19	550	309
Other liabilities	7,060	-	-	-
Total liabilities	25,350	19	550	309
Net on-balance sheet position	129	205	6,255	217
Off balance sheet	1,865	-	5,200	-
Overall open position	-1,736	205	1,055	217

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(b) Foreign currency sensitivity

The following shows the currency sensitivity to the Bank's exposure to a 10% appreciation or depreciation of the Kwacha against the relevant foreign currencies, translated at a statement financial position date. 10% represents management's assessment of a reasonably possible change in foreign currency rates taking into account recent developments in the economy.

Only net open position has been used in performing the sensitivity analysis. A negative number indicates a decrease in the net asset position there by increasing the exposure where the Kwacha appreciates and the opposite is the impact when the Kwacha depreciates.

Appreciate	US$	GBP	ZAR	EURO
-10%	192	(21)	(103)	(22)

Interest rate risk

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

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 any interest rate risk on off balance sheet items.

At 31 December 2016	**Up to 3 Months**	**3-6 months**	**6-12 months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and balances with Central bank	-	-	-	-	131,266	131,266
Balances with other banks-domestic	5,353	-	-	-	1,432	7,785
Balanceswith other banks-abroad	26,024	-	-	-	-	26,024
Loans and advances to customers	157,465	69,984	88,630	51,164	1,325	368,568
Other assets	23,063	27,281	32,288	17,842	44,522	144,996
Total financial assets	211,905	97,265	120,918	69,006	178,545	677,639
Liabilities						
Customer deposits	279,944	78,755	70,990	-	54,052	483,741
Deposits from other banks	5,000	-	-	-	2,024	7,024
Other liabilities	-	-	-	-	17,450	17,450
Total financial liabilities	284,944	78,755	70,990	-	73,526	508,215
Interest repricing gap	(73,039)	(54,529)	(4,601)	64,405	169,424	-
Impact of 10% increase in rates	(7,303)	(5,423)	(460)	6,441	16,942	
Impact of 7.5% decrease in rates	5,478	4,090	345	(4,830)	(12,707)	

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (Continued)

Interest rate risk (continued)

At 31 December 2015	Up to 3 Month	3-6 Months	6-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	-	-	-	-	94,279	94,279
Balances with other banks-domestic	23,866	6,439	-	-	5,886	36,191
Balances with other banks -abroad	23,484	12,000	-	-	-	35,484
Loans and advances	172,414	75,911	75,911	55,317	-	379,553
Other assets	38,789	18,623	27,019	21,535	40,944	146,910
Total financial assets	258,553	112,973	102,930	76,852	141,109	692,417
Liabilities						
Customer deposits	224,740	51,328	77,042	-	89,586	442,696
Deposits from other banks	57,495	12,000	-	-	-	69,495
Other liabilities	-	-	-	-	37,208	37,208
Total financial liabilities	282,235	63,328	77,042	-	126,794	549,399
Interest repricing gap	(23,682)	25,963	51,851	128,703	143,018	
Impact of 10% increase in rates	(2,368)	2,596	5,185	12,870	14,302	
Impact of 7.5% decrease in rates	1,776	(1,947)	(3,889)	(9,653)	(10,726)	

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

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

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Fair values of financial instruments

The fair values of the Bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Bank at the statement of financial position date.

Assets and liabilities measured at fair value

	Carrying Amount 2016	Fair Value 2016	Carrying Amount 2015	Fair Value 2015
Assets				
Cash and balances with Bank Zambia	131,266	131,266	94,279	94,279
Balances with other Banks-domestic	6,785	6,785	36,191	36,191
Balances with other Banks-abroad	26,024	26,024	35,484	35,484
Loans and advances	368,568	368,568	379,553	379,553
Other Assets	144,999	144,999	146,910	146,910
Total	677,642	677,642	692,417	692,417
Liabilities				
Deposits from customers	483,741	483,741	442,696	442,696
Deposits from other Banks	7,024	7,024	69,495	69,495
Other Liabilities	17,450	17,450	37,208	37,208
Total	508,215	508,215	549,399	549,399

Notes to the financial statements (continued)

4 Financial risk management (continued)

(e) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial positions, are:

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

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

The Bank of Zambia requires local owned Banks to: (a) hold the minimum level of regulatory capital of K104,000,000; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%; (c) maintain primary or tier 1 capital of not less than K 104,000,000 of which 80% should be share capital and 20% audited retained earnings.

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

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

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

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(e) Capital management (continued

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

	2016	2015
Tier 1 capital	153,543	127,201
Tier 1 + Tier 2 capital	160,070	133,903
Risk-weighted assets		
On-balance sheet	426,903	456,779
Off-balance sheet	24,737	31,888
Total risk-weighted assets	451,640	488,667
Basel ratio		
Tier 1 (Regulatory minimum-5%)	34.0%	26.0%
Tier 1 + Tier 2 (Regulatory minimum - 10%)	35.4%	27.4%

5 Interest income

	2016	2015
Loans and advances to customers	89,934	56,472
Government and other securities	20,580	20,185
Advances to banks	1,474	3,917
	111,988	80,574

6 Interest expense

	2016	2015
Customer deposits	48,382	30,675
Deposits from other banks	5,043	2,470
	53,425	33,145

7 Fees and commission income

	2016	2015
Credit related fees and commission	9,623	9,512
Customer transaction and activity fees	3,180	2,690
	12,803	12,202

8 Other income

	2016	2015
Gain on disposal of property and equipment	10	-
Rental and other income	495	586
	505	586

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

Notes to the financial statements (continued)

9 Operating expenses

	2016	2015
Employee benefits expense (Note 11)	15,966	13,823
Depreciation on property and equipment (Note 19)	1,776	1,557
Amortisation of intangible property and equipment (Note 20)	825	25
Property and equipment maintenance expenses	1,663	182
Donations	36	31
Insurance Expenses	285	242
Computer Expenses	2,609	1,369
Clearing House Expenses	180	1,340
Telephone Expenses	581	484
Regulatory supervision fees	3,016	991
Travel Expenses	1,128	1,135
Education and Training	134	339
Subscription fees	168	133
Security Charges	799	565
Swift Expenses	413	325
Reuters Expenses	338	349
Generator Expenses	107	147
System upgradation Expenses	1,171	3,190
Directors fees	3,034	2,502
Business Promotion Expenses	1,991	1,853
Auditor's remuneration	380	246
Property rentals	3,309	2,267
Other expenses	2,417	3,078
	42,326	36,173

10 Employee benefits expense

Salaries and wages	15,050	12,966
Fuel & Maintenance	464	359
Other Staff benefit costs	452	498
	15,966	13,823

11 Income tax expense

Current tax on interest income	9, 003	11,570
Current tax on Rental income	47	59
	9,050	11,629

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

Notes to the financial statements (continued)

12 Income tax expense (continued)

	2016	2015
Current income tax movement		
At start of year (asset)/liability	1,998	1,931
Current income tax charge	9,050	11,629
Payments during the year	(8,733)	(11,562)
At end of year - liability/(asset)	2,315	1,998

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

	2016	2015
Profit before income tax	34,956	18,067
Tax calculated at the statutory income tax rate of 35%	12,235	6,323
Tax effect of:		
Net adjusted expenses for tax purposes	(6,659)	2,168
Deferred tax (liability)/ asset not recognised	3,474	3,138
Income tax expense	9,050	11,629

13 Cash and balances with Bank of Zambia

	2016	2015
Cash in hand		
-Local currency	7,176	5,760
-Foreign currency	32,595	16,396
	39,771	22,156
Balances with Bank of Zambia		
-Local currency current account	4	227
-Foreign currency current account	490	600
-Local currency statutory reserves	44,941	28,096
-Foreign currency statutory reserves	46,060	43,200
	91,495	72,123
	131,266	94,279

Statutory reserve deposits are available for use in the Bank's day-to-day operations. Cash-in-hand and balances with the Central Bank and statutory reserve deposits are non-interest-bearing.

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

Notes to the financial statements (continued)

14 Cash and cash equivalents

The analysis of cash and cash equivalents at year end was as follows;

	2016	2015
Cash and cash equivalents with Bank of Zambia (Note 13)	131,266	94,279
Balances with other Banks (Note 15)	32,809	71,675
Securities maturing before 90days	23,520	-
Total	187,595	165,954

Banks are required to maintain a prescribed minimum cash balance with the Bank of Zambia as statutory reserves. The amount is determined as 18% (2015: 18%) of the average outstanding customer deposits over a cash reserve cycle period of one week.

15 Balances with other banks

	2016	2015
Nostro accounts	26,024	35,484
Items in course of collection	1,432	5,886
Inter Bank Placement s	5,353	30,305
	32,809	71,675

Included in items in course of collection is un-reconciled CTS clearing figure of K1.086 million (2015: K1.086 million)

16 Loans and advances to customers

	2016	2015
Overdrafts	312,240	339,979
Commercial loans	73,959	67,035
Personal loans	2,476	2,618
Gross loans and advances	388,675	409,632
Less:		
-Provision for impairment of loans and advances	(20,107)	(30,079)
	368,568	379,553

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

	2016	2015
At 1 January	30,079	13,773
(Recovery)/Charge to the income statement	(9,972)	16,306
Charge for the year	6,671	16,306
Recovery during the year	(16,643)	-
At 31 December	20,107	30,079

All impaired loans have been written down to their estimated recoverable amount.

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

Notes to the financial statements (continued)

17 Investment in Securities

	2016	2015
Treasury Bills	94,304	84,431
Corporate Bond	15,392	18,671
GRZ Bonds	2,995	2,864
At 31 December	112,691	105,966

The Bank holds US Dollar denominated unsecured redeemable bonds of the total face value of USS$ 1,555,941.45 issued by the Farmers House Plc for 12 years (Nov 2010 to Nov 2022 bearing interest at 8.75% per annum payable half yearly.

18. Other Investments

	2016	2015
National Switch	725	725

This is an investment or contribution by the Bank towards the set up costs of the establishment of the National Switch to enhance Zambia Electronic Clearing House Limited (ZECHL) functionality, more especially to support electronic point of sale transactions. This investment is carried at cost and is reviewed for impairment at each reporting date.

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

Notes to the financial statements (continued)

19 Property and equipment

Bank

	Buildings	Motor vehicles	Furniture, Fittings & Equipment	Total
At 1 January 2015				
Cost	20,375	836	3,162	24,373
Accumulated depreciation	(2,159)	(654)	(2,469)	(5,282)
Net book amount	18,216	182	693	19,091
Year ended 31 December 2015				
Opening net book amount	18,216	182	693	19,091
Additions	-	-	2,171	2,171
Depreciation charge	(540)	(84)	(958)	(1,582)
Closing net book amount	17,676	98	1,906	19,680
At 31 December 2015				
Cost	20,375	836	5,333	26,544
Accumulated depreciation	(2,699)	(738)	(3,427)	(6,864)
Net book amount	17,676	98	1,906	19,680
Year ended 31 December 201 6				
Opening net book amount	17,676	98	1,906	19,680
Additions	-	584	2,040	2,624
Disposals	-	(10)	-	(10)
Depreciation on write off/disposal	-	10	-	10
Depreciation charge	(540)	(133)	(1,103)	(1,776)
Closing net book amount	17,136	549	2,843	20,528
As at 31 December 2016				
Cost	20,375	1,410	7,373	29,158
Accumulated depreciation	(3,239)	(861)	(4,530)	(8,630)
Net book amount	17,136	549	2,843	20,528

Revaluation of the Bank's assets

The board of directors authorised the revaluation of the Bank premises. The Bank of Zambia also approved the valuation of the said property, plant and equipment. The Bank recorded a total amount of K16, 152,830 to the Revaluation Reserve Account in the year 2011 in which the revaluation was carried out by BLK Real Estate Consultants.

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

Notes to the financial statements (continued)

20 Intangible assets

	Computer software & licences	Capital Work in Progress	Total
At 1st January 2015			
Carrying value at start of year	50	-	50
Additions	-	3,254	3,254
Amortisation	(25)	-	(25)
At year end	25	3,254	3,279
At 31st December			
Accumulated cost	99	3,254	3,353
Accumulated Amortisation	(74)	-	(74)
Carrying value at end of year	25	3,254	3,279

	Computer software & licences	Capital Work in Progress	Total
At 1st January 2016			
Carrying value at start of year	25	3,254	3,279
Additions	-	5,180	5,180
Capitalisation	3,248	(3,248)	-
Amortisation	(825)	-	(825)
At year end	2,448	5,186	7,634
At 31st December			
Accumulated cost	3,347	5,186	8,533
Accumulated Amortisation	(899)	-	(899)
Carrying value at end of year	2,448	5,186	7,634

Capital Work In Progress (CWIP) relate to VISA Project in 2016 and in 2015 it relates to the upgradation of the core banking system.

21 Other assets

	2016	2015
Prepayments	434	937
WHT Receivable	3,294	1,898
Other	127	15,362
	3,855	18,197
Current	3,855	18,197
Non-current	-	-

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

Notes to the financial statements (continued)

22 Deposits from other banks

	2016	2015
Overnight borrowing	5,000	69,495
Items in course of collection	2,024	-
	7,024	69,495

Deposits from other banks are held at variable interest rates. All the items shown above are current.

23 Deposits from Customers

	2016	2015
Current and demand deposits	187,510	241,993
Savings accounts	19	-
Fixed deposit accounts	296,212	200,703
	483,741	442,696
Current	483,741	442,696
Non-current	-	-
	483,741	442,696

24 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 35% (2015: 35%). The movement on the deferred income tax account is as follows:

	2016	2015
At start of the year	5,794	2,656
Movement for the year	3,474	3,138
At end of year	9,268	5,794

The deferred income tax (liability)/ asset not recognised income statement/statement of financial position are attributable to the following items:

Deferred income tax		
Property and equipment	(5,327)	(5,441)
Revaluation	5,711	6,103
Provisions for impairment	7,037	3,819
Other Provisions	1,847	1,313
	9,268	5,794

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

Notes to the financial statements (continued)

25 Other liabilities

	2016	2015
Bills payables	6 67	1,397
Margin money	4,771	11,677
Interest payable	160	12,913
WHT & VAT payable	300	1,290
Provision for gratuity	3,087	2,287
Other liabilities	6,150	5,646
	15,135	35,210

26 Share capital

	2016	2015
Issued and fully paid	84,000	84,000

The total authorised number of ordinary shares is 1.04 million with a par value of K1 per share.

27 Revaluation reserves

	2016	2015
At start of year	16,754	17,138
Transfer to retained earnings	(436)	(384)
At end of year	16,318	16,754

Revaluation reserves represent the surplus value of property, plant and equipment following the revaluation exercise. The market value of property, plant and equipment is higher than the cost recorded in the books at a time. Revaluation surplus is on a yearly basis transferred to revenue reserves over the estimated useful life of property, plant and equipment.

28 Statutory reserves

	2016	2015
At start of year	19,740	15,892
Transfer from retained earning	4,632	3,848
At the end of year	24,372	19,740

The statutory reserve is established in accordance with Chapter (IV) Section 69 of the Banking and Financial Services Act, 1994 (as amended). This regulation stipulates that a Bank shall set aside at least fifty percentum of the net profit, before declaring any dividend and after due provision has been made for tax, until such a time when the reserve equals the paid up share capital after which a Bank can at its discretion set aside any amount into statutory reserves. Statutory reserves are not available for distribution as dividends.

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

Notes to the financial statements (continued)

29 Credit reserves

The Bank has charged the impairment loss on loans and advances in accordance with IAS 39. The difference of the charge for impairment on loans and advances based on Bank of Zambia regulatory requirements under statutory instrument No.142 and the charge under IAS 39 has been transferred from retained earnings to credit reserves.

30 Off-balance sheet financial instruments, contingent liabilities and commitments

Nature of contingent liabilities

Guarantees

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

	2016	2015
Guarantees and performance bonds	25,262	32,826

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

Operating lease commitments

At the statement of financial position date, the Bank had outstanding commitments for future minimum lease payments under a non-cancellable operating lease, which fall due as follows:

	2016	2015
Not later than 1 year	4,294	3,657
Later than 1 year but not later than 5 years	15,821	7,314
	20,115	10,971

Operating lease represents rentals for properties which are payable by the Bank. The leases are negotiated for an average term of 5 years. All leases have an annual escalation clause ranging between 3% and 5%.

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

Notes to the financial statements (continued)

31 Related party transactions

The Bank is related to Astro Holdings Limited and its subsidiary companies by way of common shareholding. Astro Holdings Limited is one of Zambia's largest privately owned companies. It is the holding Bank of a large and diversified leading group of companies in Zambia with a wide and varied operational base. The Group has ventured into various sectors namely furniture, motor, steel, construction and hardware, pharmaceuticals amongst others and very recently into mining and quarrying.

In the normal course of doing business, a number of banking transactions and other transactions were entered into with related parties during the year under review. These include loans and advances, deposits, foreign currency and other transactions for goods and services. The relevant balances at the yearend are shown below:

	2016	**2015**
Directors emoluments		
Fees & allowances	3,034	2,502
Deposits		
Directors & Key Management Personnel	6,936	10,231
Entities connected to Directors	1,337	14,772
	8,273	**25,003**

Advances to customers at 31 December 2016 and 31 December 2015 include to directors, loans to entities controlled by directors or their families as follows:

(a) Advances to directors & connected entities

Credit line limits	58,670	64,750
Outstanding Balance	61,728	44,707
Fees & Interest received	5,972	5,928

Loans to entities controlled or related to the directors are given at commercial terms and conditions.

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

Notes to the financial statements (continued)

31 Related party transactions (continued)

(b) Loans to Key Management Personnel

At 31 December 2016 loans and advances to key management amounted to K0.259 million (2015: K 0.448 million). Loans & advances to all staff are given at an interest rate ranging from 20% to 22%

	2016	2015
(c) Guarantees		
Entities connected to directors	816	2,483

No impairment provisions have arisen on loans to related parties (2015: K nil)

Key management compensation

Salaries and other short-term employment benefits	3,670	3,815

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