FIRST ALLIANCE BANK (Z) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2014

FIRST ALLIANCE BANK (Z) LIMITED

FINANCIAL STATEMENTS
for the year ended 31 December 2014

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FIRST ALLIANCE BANK (Z) LIMITED

CHAIRMAN'S REPORT
for the year ended 31 December 2014

It is my pleasure and privilege to present to you the Annual Report for the year 2014 which marks the 20th year of our Bank's operations.

The global economy

2014 saw a small resurgence with the global economy showing a very modest growth at 3.3% compared to 3% in 2013. The sluggish growth in the global economy can be attributed to the stagnation of the Euro Zone economies, slow growth in the major emerging economies i.e. BRICSA (Brazil, Russia, India, China and South Africa) and some others. Africa also witnessed a comparatively slower growth than had been forecast by the World Bank and to a large extent directly linked to the slowdown of the Chinese economy. The stronger than expected recovery witnessed in the United States of America contributed to the positive growth recorded in the global economy. It is projected that 2015 will continue with slow recovery in the global economy.

The Zambian economy

For the past three years, Zambia's GDP has shown a steady annual growth rate of 6% - 7%. This growth of almost double that of the global average has helped accelerate Zambia's growth in key sectors such as infrastructure development, agriculture and manufacturing. Over the past three years Zambia continues to enjoy favourable economic conditions and has achieved sustained high growth and macroeconomic stability over the last decade, but poverty levels and access to capital still remains a challenge. Inflation is at single-digit, hovering at the 8-9% level per annum. International reserves have remained within a sustainable level, and although debt is rising it appears to be manageable. The Minister of Finance in his budget address in October 2014 indicated that growth is forecast at not less than 7% for 2015. The key policy challenge is to make growth more inclusive by translating the favourable economic conditions and macro-economic stability into real growth and poverty alleviation.

On the foreign exchange front the country witnessed price volatility in the past year largely on account of external factors such as lower than anticipated global commodity prices. The lower earnings recorded from copper sales along with other factors such as the strengthening of the United States Dollar had a negative impact on the local currency.

FIRST ALLIANCE BANK (Z) LIMITED

CHAIRMAN'S REPORT
for the year ended 31 December 2014

Review of the Banking sector
The Banking sector in the year 2014 recorded growth in asset base of around 16% and a number of Banks had already managed to meet capital adequacy to the new levels provided by the regulator.

There were nineteen commercial Banks and more than eighty seven non Banking financial institutions regulated by BOZ that operated in Zambia during the year 2014. The non Bank financial institutions are divided into more than 24 micro financial institutions, 12 leasing companies, 1 savings Bank, 3 building societies, more than 46 bureau de changes, and 1 development Bank. This represents a vibrant financial sector which has been growing over the years at an average rate of 20% in terms of asset base. The Bank of Zambia introduced new capital adequacy requirements in January 2012 requiring Banks to keep minimum paid up capital levels at K104 million for local Banks and K520 million for foreign Banks by 31 December 2013. Our Bank met the threshold requirements for a local Bank. As at 31 December 2014 shareholders' funds were **K137 million** whilst dividends have been withheld since 2011 to pursue the Banks organic growth and ensure that compliance with the BOZ capital adequacy requirement is maintained.

The Bank's performance
I am pleased to report that the Bank continued to record profits in the year 2014 despite the challenges in the Banking sector.. Since inception, our Bank has consistently recorded profits each year and 2014 was no exception. The Bank's profit before tax was **K19.411 million** (after tax **K11.638 million**) during year 2014 as compared to profit before tax of K24.428 million (after tax K15.830 million) earned in the previous year.

Total deposits as on 31 December 2014 were **K262.946 million** and total advances were **K 238.465 million** compared to K219.583million and K202.918million respectively the previous year.

Liquidity
Liquidity has been the Bank's strong point over the last decade. It is pertinent to note that the liquidity position of the Bank remained satisfactory throughout the year 2014. As at 31 December 2014 the Bank's total liquid assets were **K191.499 million** as a total of outside liability of K2**64.877 million**; i.e. **72.30%.**

Corporate governance
The Bank practices good governance in accordance with the Bank of Zambia Corporate Governance Guidelines issued in 2004. It has a competent Board of Directors team which provides oversight of the Bank's operations performed by a competent Management team. The Board is committed to ensure robust governance structure which fosters a valuable culture of the ethical standards, corporate professionalism, team work, personal accountability and respect for others.

Our unique approach to team work and respect for our staff is based on the premise that high quality governance not only leads to the creation of a good working environment but ultimately to the creation of shareholder wealth.

CHAIRMAN'S REPORT
for the year ended 31 December 2014

The way forward
The Bank's solid capital base coupled with prudent management of its liquidity leaves me with no doubt that 2015 will indeed continue to see growth for the Bank. Our strategy will always be to foster our mission statement and objectives of growing a customer friendly Bank through the harnessing of both the technology and the human resource. In achieving such growth First Alliance Bank always aims at developing a personal and mutual relationship with its clientele. To all our esteemed customers and the staff I extend my heartfelt thanks and appreciation for their contribution to the Bank's performance in the year 2014 and hope for an even better 2015.

Conclusion
In conclusion I would like to mention that 2014 was indeed an eventful and successful year. I wish to extend my thanks and gratitude to the Bank of Zambia for their prompt and valued guidance that they have provided during the year.

I wish to reiterate my appreciation and thank the Management and Staff of the Bank for their unflinching commitment to the betterment of this splendid Bank.

Sanmukh Patel
Board Chairman

FIRST ALLIANCE BANK (Z) LIMITED

REPORT OF THE DIRECTORS
for the year ended 31 December 2014

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2014.

As on 31 December 2014, the composition of the Board of Directors was as follows:

Mr. Sanmukh R Patel	Chairman
Mr. Cyril Patro	Managing Director
Mr. Urbano Mutati	Director
Mr. Shashikant Patel	Director
Mr. Vincent Malambo	Director
Mr. Bwembya Chikwanda	Director
Mr. Larry Kalala	Director
Mr. Joseph Jacob	Secretary

The Board is responsible to the shareholders for the setting of strategy, monitoring of operational performance, risk management processes and policies, compliance and setting of authority levels. The Board is also responsible for the integrity and quality of communication with stakeholders including employees, regulators, shareholders and customers.

The Board has delegated the responsibility of the day to day operations and management of the bank to the Executive Director who is supported by the senior management staff.

During the year 2014, the Board met four times while various Board Sub Committees met as per requirements.

The Board exercises overall supervision and gives guidance to ensure that the bank maintains its name and reputation in the market and provides courteous services to its customers.

Review of business

As at 31 December 2014, the Bank had total deposits of **K262.946 million** and net advance of **K238.465 million**. The Bank maintained sufficient liquidity. Investment in Treasury Bills and Government Bonds stood at **K56.444 million** and **K2.864 million** respectively as at 31 December 2014.

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2014

Profit before tax

The Bank earned profit of **K19.411 million** before tax for the year ended 31 December 2014 compared to K24.428 million for the year ended 31 December 2013.

Dividends

During the year 2014, the Bank did not pay any dividends to shareholders.

Share capital

As at 31 December 2014, authorized share capital was K104 million while issued and fully paid up Share Capital was K84 million comprising 84 million Ordinary Shares of K1 each

As at 31 December 2014, the Primary Capital of the Bank was **K120.379 million** and Regulatory Capital was **K127.234 million** against the minimum Regulatory Capital of K104 million stipulated by the Central Bank.

Bank's Shareholders and voting rights

The following individuals held shares in the bank:

Name of shareholding	**No. of shareholding held**	**% of shareholding**
Mr. Sanmukh R Patel	20,160,000	24%
Mr. Nitesh Patel	840,000	1%
Mrs Daxa Patel	21,000,000	25%
Mr. Suresh Gupta	21,000,000	25%
Mr. Mahendra Patel	21,000,000	25%
Total	**84,000,000**	**100%**

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2014

The Voting Rights are however distributed as under:

Name of Shareholder/Director	Voting Rights	Position
Mr. Sanmukh R Patel	24.00%	Shareholder
Mr. Suresh Gupta	25.00%	Shareholder
Mr. Urbano Mutatai	10.20%	Director (non-related)
Mr. Vincent Malambo	10.20%	Director (non-related)
Mr Shashikant Patel	10.20%	Director (non-related)
Mr. Bwembya Chikwanda	10.20%	Director (non-related)
Mr. Larry Kalala	10.20%	Director (non-related)

Board committees

The following are the committees of the Board that are in place to provide additional supervisory support to the main Board and to management. The Chairpersons of these committees report to the full Board following each meeting.

Audit committee

The Audit Committee assists the Board in discharging its duties relating to financial reporting to all the stakeholders, compliance issues, risk management and the effectiveness of accounting and management information systems. This committee met four times in 2014.

The Audit Committee comprises of the following members:

Mr. Vincent Malambo	Chairman
Mr. Cyril Patro	Managing Director
Mr. Bwembya Chikwanda	Director
Mr. Peter Mulenga	Finance Officer
Mr. Alepha Phiri	Risk Officer
Mr. Joseph Jacob	Secretary

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2014

Loans review committee

The following are the members of the Loans Review Committee:

Mr. Urbano Mutati	Chairman
Mr. Cyril Patro	Managing Director
Mr. Shashikant Patel	Director
Mr. Peter Mulenga	Finance Officer
Mr. Thula Nyasulu	Secretary

This committee has been constituted in accordance with the Banking and Financial Services Act of 1994 to review the loan portfolio, the classification of advances, provisioning in the Advances Accounts where necessary and effecting recovery in the problem accounts. In 2014, four meetings were held.

Credit committee

The Credit Committee is responsible to the Board for approval and extension of advances. In managing the Credit Risk, this committee also assists the Loan Review Committee. The committee meets as and when required to discuss credit issues and approval. In 2014, the committee met five times.

The following are the members of the Credit Committee:

Mr. Urbano Mutati	Chairman
Mr. Cyril Patro	Managing Director
Mr. Sanmukh R Patel	Director
Mr. Larry Kalala	Director
Mr. Shashikant Patel	Director
Mr. Peter Mulenga	Finance Officer
Mr. Thula Nyasulu	Secretary

Assets & Liabilities Management Committee (ALCO)

This committee manages the liquidity and cash flow of the bank, assets and liquidity mismatches, compliance with internal limits and regulatory ratios and exposure to the exchange rate and interest rate movements. This committee is composed of the following:

Mr. Cyril Patro	Managing Director/Chairman
Mr. Chokkalingam Sukumar	General Manager
Mr. Chenga Chisha	Head Marketing and Risk
Mr. Peter Mulenga	Finance Officer
Mr. Nyawengo Mwale	IT Senior Officer
Mr Thula Nyasulu	Manager - Credit
Ms. Mary Mtonga	Secretary

The Committee meets on monthly basis. Each meeting reviews and assesses the Kwacha Position, Foreign Exchange Position, Investment in Treasury Bills, Government Bonds and Open Market Operation (OMO), Position of Deposits and Loans, Liquidity Risk and Interest Risk analysis and plans the strategy.

Nomination and remuneration committee

This committee is composed of the following members:

Mr. Vincent Malambo	Director – Chairman
Mr. Cyril Patro	Managing Director
Mr. Bwembya Chikwanda	Director
Mr. C. Sukumar	General Manager
Mr. G Mulambia	Manager – Human Resource & Secretary

Senior Management

At Head Office

Mr. Cyril Patro	Managing Director
Mr. C Sukumar	General Manager
Mr. Joseph Jacob	Chief Inspector
Mr. Peter Mulenga	Finance Officer
Mr. Chenga Chisha	Head marketing and Risk
Mr. Thula Nyasulu	Manager – Credit
Mr. Galileo Mulambia	Manager - Personnel & Administration
Ms Mary Mtonga	Officer – Forex
Mr. Alepha Phiri	Officer – Compliance

At Branches

Mr. Yogesh Bhandari	Chief Operations Manager – Lusaka Branch
Mr. Dhandi Ganeshwar	Regional Manager – Copperbelt
Mr. Matthew Pikiti	Manager – Ndola Branch
Mr. Eroy Mungaila	Manager – Industrial Branch , Lusaka

REPORT OF THE DIRECTORS
for the year ended 31 December 2014

Staff Strength and remuneration

The staff strength as at 31 December 2014 was 94. This included 50 female members representing 53% of the total workforce.

The remuneration of the employees during the year 2014 amounted to **K11.076 million** (2013 – K9.532 million).

Director's Fees and Allowances

During the year 2014, the bank paid Director's fees and allowances amounting to **K2.283 million** (2013 – K0.522 million).

Prohibited borrowing and lending

As at 31 December 2014, there were no prohibited borrowings or lending as defined under sections 72 and 73 of the Banking and Financial Services Act, 1994 (as amended).

Auditors

Ernst & Young, the Bank's auditors retire at the forthcoming Annual General Meeting. As they have indicated their willingness to continue in office, a resolution for their reappointment will be submitted to the Annual General Meeting.

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2014

Responsibility of Directors in respect of preparation of financial statements

The Company's directors are responsible for the preparation and fair presentation of the financial statements of First Alliance Bank (Z) Limited comprising the statement of financial position as at 31 December 2014 and statements of comprehensive income, changes in equity and cash flows for the year ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with the International Financial Reporting Standards, the Banking and Financial Services Act, 1994 (as amended) and the Companies Act, 1994.

The directors' responsibility includes: designing, implementing and monitoring internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

Approval of the financial statements

The financial statements of the bank as indicated above, were approved by the directors on ……………………………… and were signed on its behalf by

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Director ***Director***

Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST ALLIANCE BANK (Z) LIMITED

Report on the financial statements

We have audited the financial statements of First Alliance Bank (Z) Limited, as set out on pages 13 to 51, which comprise the statement of financial position at 31 December 2014 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 1994 and the Banking and Financial Services Act 1994 (As amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of First Alliance Bank (Z) Limited at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, 1994 and the Banking and Financial Services Act, 1994 (as amended).

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2014, we have read the directors' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective prepares. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

In accordance with Section 173 (3) of the Companies Act, 1994, we report that, in our opinion, the required accounting records, other records and registers have been properly kept in accordance with the Act.

Other reports required by the Banking and Financial Services Act 1994 (as amended)

Section 64(2) of the Banking and Financial Services Act, 1994 (as amended), we report that in our opinion:

- We have obtained all information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- We are not aware of any transaction that has been within the powers of the Bank or which was contrary to the Act;
- The Bank has complied with the provision of this Act and regulations, guidelines and prescriptions under this Act; and
- There is no non- performing or restructured loan owing to the Bank whose principal amounts exceeds 5% of the regulatory capital of the bank**.**

Ernst & Young
Chartered Accountants

Henry C Nondo ***2015***
Partner ***Lusaka***

Practising Certificate Number: 0000601

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014

	Note	2014 K'000	2013 K'000
Interest income	4	**54,735**	40,887
Interest expense	5	**(17,060)**	(11,857)
Net interest income		**37,675**	29,030
Net fees and commission income	6	**10,643**	6,943
Net trading income	7	**4,432**	4,064
Other operating income	8	**653**	628
Total operating income		**53,403**	40,665
Credit (loss)/gain		**(8,483)**	944
Net operating income		**44,920**	41,609
Personnel expenses	9	**(11,077)**	(9,532)
Depreciation of property, plant and equipment	18	**(1,497)**	(1,415)
Other operating expenses	10	**(12,935)**	(6,234)
Profit before tax	3	**19,411**	24,428
Income tax expense	11	**(7,773)**	(8,598)
Profit after tax		**11,638**	15,830
Dividends		**-**	-
Profit for the year		**11,638**	15,830
Other comprehensive income net of tax		**-**	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**-**	-
Net other comprehensive income not to be classified to profit and loss in subsequent periods		**-**	-
Total comprehensive income		**11,638**	15,830

The notes on pages 17 to 51 form part of these financial statements.

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Share capital K'000	Revenue reserves K'000	Revaluation Reserves K'000	Statutory reserves K'000	Total K'000
At 1 January 2013	74,000	16,143	17,906	2,000	110,049
Profit for the year	-	15,830	-	-	15,830
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	15,830	-	-	15,830
Transfer – to share capital	10,000	(10,000)	-	-	-
Transfer to statutory reserves	-	(7,915)	-	7,915	-
Depreciation transfer for revalued assets	-	384	(384)	-	-
At 31 December 2013	**84,000**	**14,442**	**17,522**	**9,915**	**125,879**
At 1 January 2014	84,000	14,442	17,522	9,915	125,879
Profit for the year	-	11,638	-	-	11,638
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	11,638	-	-	11,638
Transfer to statutory reserves	-	(5,977)	-	5,977	-
Depreciation transfer for revalued assets	-	384	(384)	-	-
At 31 December 2014	**84,000**	**20,487**	**17,138**	**15,892**	**137,517**

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.

Revenue reserves represent retained earnings that is available for distribution as dividends to the shareholders.

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.

The notes on pages 17 to 51 form part of these financial statements.

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Note	2014 K'000	2013 K'000
Assets			
Cash on hand	13	**22,399**	29,570
Balances with central bank		**57,486**	29,365
Due from other banks	14	**52,306**	46,655
Treasury bills		**56,444**	33,233
Investment in securities	15	**9,880**	8,402
Government bonds		**2,864**	10,074
Loans and advances	16	**238,465**	202,918
Other assets	17	**5,997**	3,452
Property, plant and equipment	18	**19,116**	20,173
Total assets		**464,957**	383,842
Liabilities and Equity			
Liabilities			
Due to customers	19	**262,946**	219,583
Due to other banks	20	**-**	21,600
Other liabilities	21	**62,563**	15,539
Income tax payable	12	**1,931**	1,241
Total liabilities		**327,440**	257,963
Equity			
Share capital	22	**84,000**	84,000
Revenue reserves		**20,487**	14,442
Revaluation reserves		**17,138**	17,522
Statutory reserves		**15,892**	9,915
Total equity		**137,517**	125,879
Total liabilities and equity		**464,957**	383,842

These financial statements were approved by the board of directors on .... and signed on its behalf by:

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Director ***Director***

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Director **Secretary**

The notes on pages 17 to 51 form part of these financial statements.

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Note	2014 K'000	2013 K'000
Cash flows from operating activities			
Profit before tax and unrealised trading gains		**19,174**	21,424
Unrealised trading gains		**237**	3,004
Profit before tax		**19,411**	24,428
Depreciation charge for the year		**1,497**	1,415
Exchange gain on investments in securities		**(1,478)**	(311)
		19,430	25,532
Loss/(profit) on disposal of property, plant and equipment		**-**	-
(Increase)/decrease in other assets		**(2,545)**	63
Increase/(decrease) in other liabilities		**47,024**	(20,847)
Increase/(decrease) due to customers		**43,363**	(14,959)
Increase in loans and advances		**(35,547)**	(6,708)
(Decrease)/increase in due to other banks		**(21,600)**	21,600
Income tax paid		**(7,083)**	(9,876)
Net cash flows from/(used in) operating activities		**43,042**	(5,195)
Cash flows from investing activities			
(Increase)/decrease in Treasury Bills		**(23,211)**	5,428
(Increase)/decrease in Government Bonds		**7,210**	(270)
Purchase of property, plant and equipment		**(440)**	(383)
Net cash flows (used in)/from in investing activities		**(16,441)**	4,775
Movement in cash and cash equivalents			
Net cash flow		**26,601**	(420)
Cash and cash equivalents at beginning of the year	23	**105,590**	106,010
Cash and cash equivalents at end of the year		**132,191**	105,590

The notes on pages 17 to 51 form part of these financial statements.

2. Principal Activity

The principal activity of the bank is that of commercial banking in its widest aspect and promotion of banking related services.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities held for trading which have been measured at fair value and property, plant and equipment that have been measured at revalued amounts. The financial statements are presented in Zambian Kwacha (K) and all values are rounded to the nearest thousand Kwacha, except when otherwise indicated.

Statement of compliance

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and comply with the Banking and Financial Services Act 1994 (as amended) and the Companies Act, 1994.

Presentation of financial statements

The bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non–current) is presented in note 30.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless where required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

2. Significant accounting policies (continued)

2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the bank's accounting policies, management has exercised judgment and estimates in the amounts recognised in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The bank's management has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The valuation of financial instruments is described in more detail in note 29.8.

Impairment losses on loans and advances

The bank reviews individually its significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances are assessed individually to determine whether provision should be made. The assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data. The impairment loss on loans and advances is disclosed in more detail in Note 16.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2. Significant accounting policies (continued)

2.3 Changes in accounting policies and disclosures

2.3.1 New Standards and Interpretations

New standards and interpretations effective in 2014

IAS 36 - Disclosure requirements for the recoverable amount of impaired assets – effective 1 January 2014

The IASB has issued amendments to IAS 36 - *Impairment of Assets*, to clarify the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

The amendments clarify the IASB's original intention: that the scope of these disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments)
The amendments provide an exception to the consolidation requirements and represent a significant change for investment entities, which are currently required to consolidate investees that they control. Significant judgement of facts and circumstances may be required to assess whether an entity meets the definition of investment entity. The amendment is effective for annual periods beginning on or after 1 January 2014.

The key amendments include:

Investment entity' is defined in IFRS 10.An entity must meet all three elements of the definition and consider whether it has four typical characteristics, in order to qualify as an investment entity.

An entity must consider all facts and circumstances, including its purpose and design, in making its assessment. An investment entity accounts for its investments in subsidiaries at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable), except for investments in subsidiaries that provide services that relate to the investment entity's investment activities, which must be consolidated. An investment entity must measure its investment in another controlled investment entity at fair value. A non-investment entity parent of an investment entity is not permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For venture capital organisations, mutual funds, unit trusts and others that do not qualify as investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, is retained

FIRST ALLIANCE BANK (Z) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

2.3.1 Standards and Interpretations *(continued)*

New standards and interpretations effective in 2014 (*continued*)

IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting - - effective 1 January 2014
The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations: That arises as a consequence of laws or regulations, or the introduction of laws or regulations. Where the parties to the hedging instrument agree that one or more clearing counter parties replace the original counterparty to become the new counterparty to each of the parties that did not

result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception.
The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries.
For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

IAS 19 - Defined Benefit Plans: Employee Contributions1 - effective July 2014
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit.

The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee’s salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee’s age.

2.3.1 Standards and Interpretations *(continued)*

New standards and interpretations effective in 2014 (*continued*)

IFRIC 21 – Levies – effective 1 January 2014

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and those where the timing and amount of the levy is certain.

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached.

IAS 32 - Offsetting Financial Assets and Financial Liabilities The amendment is effective for annual periods beginning on or after 1 January 2014.

The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts" (IAS 32.42(a)). This means that the right of set-off:

- must not be contingent on a future event; and
- must be legally enforceable in all of the following circumstances:
  - the normal course of business;
  - the event of default; and
  - the event of insolvency or bankruptcy of the entity and all of the counterparties.

New standards and interpretations not yet effective in 2014

The following standards and interpretations have been issued or revised:

2.3.1 Standards and Interpretations *(continued)*

New standards and interpretations effective in 2014 (*continued*)

IFRS 15 - Revenue from Contracts with Customers – effective 1 January 2017

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 *Leases*. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property or equipment. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates

IFRS 14 - Regulatory Deferral Accounts – effective 1 January 2016

The International Accounting Standards Board (IASB) issued IFRS 14 *Regulatory Deferral Accounts* to ease the adoption of International Financial Reporting Standards (IFRS) for rate-regulated entities. The standard allows an entity to continue applying most of its existing accounting policies for regulatory deferral account balances upon adoption of IFRS. This interim standard provides first-time adopters of IFRS with relief from derecognising rate regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation – effective 1 January 2016

The IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* prohibiting the use of revenue-based depreciation methods for fixed assets and limiting the use of revenue-based amortisation
methods for intangible assets. The amendments are effective prospectively

2.3.1 Standards and Interpretations *(continued)*

New standards and interpretations not yet effective in 2014 (*continued*)

IAS 16 and IAS 41 - Accounting for bearer plants – effective 1 January 2016
IAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

IFRS 9 - Financial instruments1 – effective January 2018

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, as well as hedge accounting. IFRS 9 does not yet have a mandatory effective date, but early adoption is allowed. A mandatory effective date will be set when the IASB completes the impairment phase of the project. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11

The amendments require an entity acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business to apply, to the extent of its share, all of the principles on business combination accounting in IFRS 3 Business Combinations, and other IFRSs, that do not conflict with the requirements of IFRS 11. Furthermore, entities are required to disclose the information required in those IFRSs in relation to business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by the entity to the joint operation on its formation. The amendments also clarify that for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business; previously held interests in the joint operation must not be re-measured if the joint operator retains joint control

2.3.1 Standards and Interpretations *(continued)*

New standards and interpretations not yet effective in 2014 (*continued*)

The amendments are applied prospectively. Early application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

The amendments are expected to have no impact on the financial statement of the Company as the Company does not have an interest in joint operations.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (Continued)
The amendments are effective prospectively. Early application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

The Company is currently not using revenue-based amortisation methods for property, plant and equipment and as such this amendment is not expected to change our current amortisation approach.

2.4. Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

2.4.1 Interest and similar income and expense

Interest income is recognized as it accrues taking account of the principal outstanding and the rate applicable. Interest income and expenses include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity on an effective interest rate basis.

2. Significant accounting policies (continued)

2.4.2 Fee and commission income

The bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loans and other facilities are recognized when a binding obligation has been entered into. Commitment, facility and loan fees are recognized according to the nature of service provided. Fee and commitment income in respect of loans and advances is accounted for in the year of receipt as it is not refundable.

2.4.3 Dividend income

Dividend income is recognised when the bank's right to receive the payment is established.

2.4.4 Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and interest income or expense and dividends for financial assets and financial liabilities 'held–for–trading'.

2.5 Financial Instruments

2.5.1 Initial recognition and subsequent measurement.

i) Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument.

ii) Initial measurement of financial instruments

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2. Significant accounting policies (continued)
2.5 Financial Instruments (continued)

iii) Financial assets or financial liabilities held–for–trading

Held-for-trading instruments are financial assets or financial liabilities held principally for the purpose of generating a profit from short-term fluctuations in price dealers’ margins.

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in ‘Net trading income’. Interest and dividend income or expense is recorded in ‘Net trading income’ according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

iv) Held–to–maturity financial investments

Held-to-maturity assets (Government bonds and Treasury Bills) are financial assets with fixed or determinable payments and fixed maturity that the bank has the intent and ability to hold to maturity. After initial measurement held–to–maturity financial investments are subsequently measured at amortised cost, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortisation is included in ‘Interest and similar income’ in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income line ‘Credit loss expense’. If the bank were to sell or reclassify more than an insignificant amount of held–to–maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available–for–sale.

2.5.1 Initial recognition and subsequent measurement.

v) Due from banks and loans and advances to customers

Amounts due from banks and loans and advances are created by the bank providing money to a debtor other than those created with the intention of short term profit making. They comprise loans and advances to banks and customers.

After initial measurement, amounts ‘Due from banks’ and ‘Loans and advances to customers’ are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in ‘Interest and similar income’ in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in ‘Credit loss expense’.

2. Significant accounting policies (continued)
2.5 Financial Instruments (continued)

vi) Fair Value Measurement Principles

Where a financial instrument is shown at fair value it is based on the quoted market price at the statement of financial position date without any deduction for transaction costs. If a quoted market price is not available, the instrument is stated at cost.

2.5.2 Classification

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics.

When applicable the Bank classifies financial assets at fair value through profit and loss; loans and receivables held to maturity assets; and available- for- sale assets.

2.5.3 Derecognition of financial assets and financial liabilities
(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:
- the bank has transferred substantially all the risks and rewards of the asset, or
- the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

2. Significant accounting policies (continued)

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.5.4 Off Setting of financial assets and financial liabilities

Financial Assets and liabilities are off set and the net amount is reported in the statement of financial position when the bank has a legally enforceable right to set off the recognized amount and the transactions are intended to be settled on a net basis.

2.5.5 Borrowings

Borrowings are initially recognized at fair value net of transaction cost incurred. After initial recognition such borrowings are recognized at amortized cost using the effective interest rate method.

2.6 Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. Significant accounting policies (continued)
2.6 Impairment of financial assets (continued)

i) Financial assets carried at amortised cost

For financial assets carried at cost (such as amounts due from banks, loans and advances to customers as well as held–to–maturity investments), the bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, 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. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Credit loss expense'.

Subsequent recoveries are also applied in terms of Banking and Financial Services Act. Under the Banking and Financial Services Act, interest on loans and advances is accrued to income until such time as reasonable doubt exists about its collectability. Thereafter and until all or part of the loan is written off, interest continues to accrue on the customers' accounts, but is not included in income. Such interest suspended is deducted from loans and advances.

(ii) Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually review renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

2. Significant accounting policies (continued)

2.7 Foreign currency translation

The consolidated financial statements are presented in Goodland dollars ($). For each entity in the group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Bank uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

Transactions and balances
Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non–trading activities are taken to other operating income in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time; they are recognised in the income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined

2.8 Retirement benefits

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 K792.05 per month during the year 2014. Contributions to NAPSA are recognised in the profit or loss.

2. Significant accounting policies (continued)

2.9 Property and equipment – Owned Assets

Items of property, plant and equipment are stated at cost/valuation, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

Expenditure on repairs and maintenance of property and equipment made to restore or maintain future economic benefits expected from the assets is recognised as expense when incurred.

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Property, plant and equipment are depreciated using the straight-line method to write the gross book value of the various assets over the expected useful lives at the following annual rates:

Owned premises	1.15% - 2.7%
Motor vehicles	20%
Furniture and fittings	25%
Computer equipment	25%
General equipment	25%

Land is not depreciated and the Bank charges full depreciation in the year of acquisition and none in the year of disposal.

Revaluation surplus of property, plant and equipment is transferred to revenue reserves on a yearly basis over the estimated life of property, plant and equipment.

2. Significant accounting policies (continued)

2.10 Impairment of non–financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

2.11 Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

2.12 Taxation

(i) Current tax

The tax charge is determined in accordance with the provisions of the Income Tax Act CAP 323 and is based on the adjusted profit for the year.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. Significant accounting policies (continued)

2.12 Taxation (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised in equity or other comprehensive income and not in profit or loss

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.13 Provisions

Provisions are recognized when the bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount of the obligation can be made.

2.14 Dividends

Dividends are recognized as a liability in the period in which they are approved by the shareholders.

2.15 Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2. Significant accounting policies (continued)

2.15 Leasing (continued)

Bank as a lessee

Leases which do not transfer to the bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor

Leases where the bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.16 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income'.

2.17 Fiduciary Activities

The bank acts in a fiduciary capacity those results in the holding of assets on behalf of individuals and other institutions. These assets are excluded from the financial statements, as they are not assets of the bank.

As at 31 December 2014, the bank held the following securities on behalf of the customers:

Security	**K'000**
Government Bonds direct clients	970
Government Bonds held on behalf of clients	11,560
Treasury Bills held on behalf of clients	960
Treasury Bills direct clients	61
Total	13,551

2. Significant accounting policies (continued)

2.18 Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the statement of other comprehensive income in 'Credit loss expense'. The premium received is recognised in profit or loss in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

	2014	2013
	K'000	K'000

3. Profit before tax

Profit before tax is stated after charging

	2014 K'000	2013 K'000
Auditors remuneration	**281**	130
Directors emoluments	**2,283**	522

4. Interest and similar income

	2014 K'000	2013 K'000
Loans, advances and overdrafts	**41,144**	27,485
Government securities and other	**9,489**	7,052
Deposits with banks	**4,102**	6,350
	54,735	40,887

5. Interest and similar expenses

	2014 K'000	2013 K'000
Due to banks	**1,898**	857
Due to customers	**15,162**	11,000
	17,060	11,857

6. Net fees and commission income

	2014 K'000	2013 K'000
Commission	**2,114**	804
Fees and service charges	**8,529**	6,139
	10,643	6,943

7. Net trading income

	2014 K'000	2013 K'000
Realised trading gains	**4,195**	1,060
Unrealised trading gains	**237**	3,004
	4,432	4,064

FIRST ALLIANCE BANK (Z) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

		2014	2013
8.	**Other operating income**	**K'000**	K'000
	Operating lease income	**653**	628
9.	**Personnel expenses**		
	Salaries and allowances	**9,709**	8,938
	Staff benefits	**1,368**	594
		11,077	9,532
10.	**Other operating expenses**		
	Occupancy	**1,946**	411
	Donations	**7**	15
	Insurance	**227**	222
	Computer expenses	**1,737**	1,055
	Telephone expenses	**621**	382
	BOZ fees	**703**	462
	Travel expenses	**1,003**	827
	Education and training	**1,721**	201
	Fraud and forgeries	**1,015**	-
	Legal and professional fees	**474**	442
	Security charges	**320**	329
	Reuters expenses	**303**	237
	Fuel and maintenance	**328**	286
	Other	**2,530**	1,365
		12,935	6,234
11.	**Income tax**		
i)	**Income tax expense**		
	Current tax on bank income	**7,544**	8,378
	Current tax on rental income @ 35%	**229**	220
	Deferred tax	**-**	-
		7,773	8,598
ii)	**Tax reconciliation**		
	Taxation on accounting profit at 35%	**6,794**	8,550
	Non deductible expenditure	**145**	(221)
	Deferred tax asset not recognised	**834**	269
		7,773	8,598

		2014	2013
		K'000	K'000
12. (i)	**Deferred tax asset**		
	Deferred tax asset not recognised comprises:		
	Accelerated capital allowances	**(1,453)**	(1,163)
	Provisions	**(1,203)**	(659)
		(2,656)	(1,822)
12. (ii)	**Income tax payable**		
	At 1 January	**1,241**	2,519
	Payable in respect of current year	**7,773**	8,598
		9,014	11,117
	Paid during the year	**(7,083)**	(9,876)
	At 31 December	**1,931**	1,241
13.	**Cash on hand**		
	Local currency on hand	**13,203**	14,431
	Foreign currency on hand	**9,196**	15,139
		22,399	29,570
14.	**Due from other banks**		
	Nostro accounts	**52,085**	22,990
	Outward clearing	**221**	7,665
	Inter-Bank placements	**-**	16,000
		52,306	46,655

15. Investment in securities

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

16. Loans and advances to customers

	2014 K'000	2013 K'000
Private corporations	**225,093**	169,409
Individuals and households	**12,469**	14,040
Parastatals	**-**	20,000
Non-profit organisations	**-**	31
Non-bank financial institutions	**14,676**	4,728
	252,238	208,208
Less: Allowance for impairment losses (**Note 16.1**)	**(13,773)**	(5,290)
	238,465	202,918

16.1 Allowance for impairment losses

A reconciliation of the allowance for impairment losses for loans and advances is as follows:

	2014 K'000	2013 K'000
At 1 January	**5,290**	6,234
Charge for the year	**8,483**	-
Recovery during the year	**-**	(944)
At 31 December	**13,773**	5,290

17. Other assets

	2014 K'000	2013 K'000
Interest earned but not collected	**4,162**	3,222
Other accounts	**1,835**	230
	5,997	3,452

18. Property, plant and equipment

Year ended 31 December 2014

	Leasehold land and buildings K'000	Motor vehicles K'000	Furniture fittings and Equipment K'000	Total K'000
Cost/valuation				
At 1 January 2014	20,375	836	2,821	24,032
Additions	-	-	440	440
At 31 December 2014	**20,375**	**836**	**3,261**	**24,472**
Depreciation				
At 1 January 2014	1,619	510	1,730	3,859
Charge for the year	540	144	813	1,497
At 31 December 2014	**2,159**	**654**	**2,543**	**5,356**
Net book value				
At 31 December 2014	**18,216**	**182**	**718**	**19,116**
At 31 December 2013	18,756	327	1,091	20,173

Revaluation of the Bank's assets

The board of directors authorised the revaluation of the premises, plant and equipment. The Bank of Zambia has 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.

FIRST ALLIANCE BANK (Z) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

18. Property, plant and equipment

Year ended 31 December 2013

	Leasehold land and buildings K'000	Motor vehicles K'000	Furniture fittings and equipment K'000	Total K'000
Cost/valuation				
At 1 January 2013	20,375	771	2,503	23,649
Additions	-	65	318	383
At 31 December 2013	**20,375**	**836**	**2,821**	**24,032**
Depreciation				
At 1 January 2013	1,079	340	1,025	2,444
Charge for the year	540	170	705	1,415
At 31 December 2013	**1,619**	**510**	**1,730**	**3,859**
Net book value				
At 31 December 2013	**18,756**	**327**	**1,091**	**20,173**
At 31 December 2012	19,296	432	1,478	21,205

		2014	2013
19.	**Due to customers**	**K'000**	K'000
19.1	**Demand deposits**		
	Foreign deposits	**67,322**	30,394
	Kwacha deposits	**63,872**	87,305
		131,194	117,699
19.2	**Time deposits**		
	Foreign fixed deposits	**26,236**	57,041
	Kwacha fixed deposits	**105,516**	44,843
		131,752	101,884
	Total due to customers	**262,946**	219,583

20. Due to banks

Deposits from other banks	**-**	21,600

21. Other liabilities

Bills payable	**1,075**	1,303
Margin money	**53,461**	10,539
Interest payable	**4,759**	1,240
Withholding tax payable	**-**	42
Provision for gratuity	**2,084**	1,339
Other	**1,184**	1,076
	62,563	15,539

22. Share capital

Authorised		
104,000,000 *(2013: 104,000,000)* shares of K1 each	**104,000**	104,000
Issued and fully paid		
84,000,000 (2013: 84,000,000) shares of K1,000 each	**84,000**	84,000

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

23. Analysis of cash and cash equivalents as shown on the statement of cash flows	2014 K'000	2013 K'000
Cash in hand	**22,399**	29,570
Balance with central bank**	**57,486**	29,365
Due from other banks	**52,306**	46,655
	132,191	105,590

**Balances with Central Bank are composed of Current Accounts and Statutory Reserves Accounts. They are both accessible for daily operations by the Bank.

24. Treasury bills

Treasury bills amounting to K2,971,489 (2013-K7,048,334) are held at the Bank of Zambia as collateral for Zambia Electronic Clearing House Limited.

25. Prior year figures

Prior year figures have been reclassified where necessary to allow for meaningful comparison.

26. Contingent liabilities, commitments and leasing arrangements	2014 K'000	2013 K'000
Contingent liabilities		
Guarantees, letter of credits and indemnities	**66,741**	35,958

Guarantees and indemnities are mainly for performance bonds, trade and securities and other contingent liabilities.

27. Future capital expenditure

There were no capital expenditure commitments for the year ended 31 December 2014 and 31 December 2013.

28. Post Balance sheet events

There are no post year end events management is aware of that could materially impact on the Bank's results for the year ended 31 December 2014.

FIRST ALLIANCE BANK (Z) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

29. Risk management and control:

The bank through its normal operations is exposed to a number of risks such as Credit Risk, Operational Risk, Liquidity Risk, Legal Risk, Reputation Risk, Market Risk, Foreign Exchange Risks, Interest Rate Risk, etc.

The Directors have approved policies to mitigate these risks by introducing controls that are designed to safeguard the bank without constraining the normal conduct of business. The directors review these policies annually; the following is the current position:

29.1 Credit risk:

Credit Risk is incurred by the bank through its trading, lending and investment activities and in cases where the bank acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Credit Policy document of the bank gives the guidelines and procedure for managing credit risk. The Credit Policy document is 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 documentation and the performance of the advance portfolio is reviewed on regular basis by the management and by the Loans Review Committee.

As at 31 December 2014 the sector-wise distribution of gross advances was as follows:

Sector	**As at 31 Dec 2014**		As at 31 Dec 2013	
	K ‘000	**%**	K ‘000	%
Agriculture, Forestry, fishing & Poultry	**5,181**	**2.1%**	24,836	11.92
Manufacturing	**44,487**	**17.6%**	41,828	20.09
Mining and quarrying	**6,146**	**2.4%**	9,839	4.73
Housing/construction	**6,896**	**2.7%**	1,581	0.76
Trade (wholesale/retail)	**57,567**	**22.8%**	33,231	15.96
Hotel Industry	**18,603**	**7.4%**	14,809	7.11
Transport	**21,450**	**8.5%**	19,816	9.52
Community and social services	**302**	**0.1%**	719	0.34
Real Estate	**23,008**	**9.1%**	19,166	9.21
Personal and other	**53,922**	**21.4%**	37,655	18.09
Financial services	**14,676**	**5.8%**	4,728	2.27
	252,238	**100%**	208,208	100

29.1 Credit risk: (Continued)

Thus there was no concentration of advances to one particular sector. The bank's policy is to require collateral as per lending powers and other documents to be provided by the customers prior to the disbursement of approved loans. Collateral for Loans, Guarantees and Letters of Credit is usually in the form of cash. Debenture on the assets or mortgage of property, etc.

29.2. Liquidity risk:

Liquidity risk arises in the general funding of the bank's activities and in the management of the resulting positions. It includes both the risk of being unable to fund assets at appropriate maturities and the rates and the risk of being unable to liquidate an asset at a reasonable price and within an appropriate time frame.

This risk is monitored on a daily basis by the Bank's Treasury Department in consultations with the General Manager and the Executive Director and controlled as far as possible by ensuring that mismatches between maturing deposits liabilities and investments of these funds are kept to a minimum. Liquidity Risk Management policies are framed and monitored the Assets and Liabilities Management Committee (ALCO).

Every month Liquidity Risk Statement is prepared and submitted to the Bank of Zambia as a part of the Prudential Returns. Liquidity Risk Statement as of 31 December 2014 is disclosed in note 29.9.

29.3. Operational risk:

All policies, procedures and limits are properly documented in the operational manual for each department within the Bank and updated from time to time to take account of the changes to internal controls, procedures and limits. Self-assessment and Internal Control procedures are used to monitor these risks.

29.4. 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.

29.5. Legal risk:

The Bank ensures that all prudential requirements of the Bank of Zambia and the relevant regulations in the Laws of Zambia are complied with without exception. The risk of non-compliance could be detrimental to the operations of the Bank.

29.6 Foreign exchange risk:

This is a risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank is exposed to foreign exchange risk arising from various currency dealings primarily with respect to the US Dollar, British Pound, Euro and South African Rand. The Treasury is responsible for hedging the net position in each currency by using currency borrowings and lending.

The Bank takes on some exposure to effects of fluctuations in the prevailing foreign currency rates on its financial position and cash flows. The Bank of Zambia sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

29.6 Foreign exchange risk – (continued)

a) Exposure to foreign currency exchange risk

Exposure to Foreign Currency assets and liabilities of the bank as on 31 December 2014 is given below:

Currency type (K'000)	**US$**	**GBP**	**ZAR**	**EURO**
Exchange rate (K)	6.35	9.9028	0.5490	7.7101
Foreign currency assets:				
Cash & balances with banks abroad	8,019	200	11,674	257
Loans & Advances	13,124	-	295	-
Other Foreign Assets	4,116	-	-	-
Undelivered Spot Purchases	500	-	-	-
Total foreign assets	25,759	200	11,969	257
Kwacha equivalent	163,570	1,981	6,571	1,981
Foreign currency liabilities:				
Customers' Deposits	15,378	23	676	144
Other foreign liabilities	9,228	-	-	-
Total Foreign Currency liabilities	24,606	23	676	144
Kwacha equivalent	156,248	228	371	1,110
Net open position	1,153	177	11,293	113
Kwacha equivalent	7,323	1,753	6,200	871
Net open position to Regulatory Capital K127.234 million (2013**:**K115.366 million**)**	**5.76%**	**1.38%**	**4.87%**	**0.66%**

Allowable overall exposure is **15%** of Regulatory Capital and single currency exposure is 10% of the Regularly Capital.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

29.6 Foreign exchange risk – (continued)

b) Foreign currency sensitivity

The following shows the currency sensitivity to the Bank's exposure to a 20% appreciation or depreciation of the Kwacha against the relevant foreign currencies, translated at a statement financial position date. 20% 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
-20%	(1,465)	(351)	(1,240)	(174)

29.7. Interest rate risk:

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rates re-pricing that may be undertaken which is monitored daily. Every month Interest Risk Statement is prepared and submitted to the Bank of Zambia as a part of the Prudential Returns. Interest Risk Statement as of 31 December 2014 is disclosed in note 29.10.

29.8 Fair values of financial instruments

The fair values of financial instruments equate the values as disclosed in the statement of financial position. The fair values are determined by quoted (unadjusted) prices in active markets for identical assets and liabilities.

FIRST ALLIANCE BANK (Z) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

29.9 Liquidity risk analysis

K'000

Assets	**Up to 1 month**	**1 – 3 Months**	**3 – 6 Months**	**6 – 12 Months**	**1 – 3 Years**	**3 – 5 Years**	**Over 5 Years**	**Total**
Notes and coins	22,399	-	-	-	-	-	-	22,399
Balances with Bank of Zambia	57,486	-	-	-	-	-	-	57,486
Balances with domestic institutions	221	-	-	-	-	-	-	221
Balances with foreign institutions	52,085	-	-	-	-	-	-	52,085
Investments in securities	3,460	7,808	9,368	35,808	-	270	12,474	69,188
Loans and advances	47,693	59,616	47,693	47,693	35,770	-	-	238,465
Other assets	3,231	1,387	1,379	-	-	-	19,116	25,113
Total assets	**186,575**	**68,811**	**58,440**	**83,501**	**35,770**	**270**	**31,590**	**464,957**
Liabilities and shareholders' funds								
Deposits	116,256	59,106	41,582	46,002	-	-	-	262,946
Balances due to Bank of Zambia	-	-		-	-	-	-	-
Due to domestic institutions	-	-	-	-				-
Other liabilities	7,074	-	53,461	3,959	-	-	-	64,494
Shareholders' funds	-	-	-	-	-	-	137,517	137,517
Off balance sheet items	4,236	16,060	36,408	10,037	-	-	-	66,741
Total liabilities and shareholder's funds	**127,566**	**75,166**	**131,451**	**59,998**	**-**	**-**	**137,517**	**531,698**
Net Liquidity gap	**59,009**	**(6,355)**	**(73,011)**	**23,503**	**35,770**	**270**	**(105,927)**	**(66,741)**
Cumulative Liquidity Gap	**59,009**	**52,654**	**(20,357)**	**3,146**	**38,916**	**39,186**	**(66,741)**	**-**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

29.10 Interest Rate Risk Analysis
K'million

Assets		Zero rate instrument	Floating rate instrument	0 – 3 Months	3 – 6 Months	6 – 9 Months	9 – 12 Months	Over 12 months	Total
Notes and coins		22,399	-	-	-	-	-	-	22,399
Balances with Bank of Zambia		57,486	-	-	-	-	-	-	57,486
Balances with domestic institutions		221	-	-	-	-	-	-	221
Balances with foreign institutions		-	36,210	15,875	-	-	-	-	52,085
Investments in securities		-	-	11,268	9,368	5,743	30,065	12,744	69,199
Loans and advances		864	-	107,309	47,693	23,847	23,847	34,905	238,465
Other assets		25,113	-	-	-	-	-	-	25,113
Total assets		**106,083**	**36,210**	**134,452**	**57,061**	**29,590**	**53,912**	**47,649**	**464,957**
Liabilities and shareholders' funds									
Deposits		45,436	-	129,925	41,582	11,688	34,315	-	262,946
Balances due to domestic institutions		-	-	-	-	-	-	-	-
Other liabilities		64,494	-	-	-	-	-	-	64,494
Shareholders' funds		137,517	-	-	-	-	-	-	137,517
Off- statement financial position items		66,741	-	-	-	-	-	-	66,741
Total liabilities and shareholder's funds		**314,188**	**-**	**129,925**	**41,582**	**11,688**	**34,315**	**-**	**531,698**
Asset liability gap		**(208,105)**	**36,210**	**4,527**	**15,479**	**17,902**	**19,597**	**47,649**	**(66,741)**
Cumulative liquidity gap		**(208,105)**	**(171,895)**	**(167,368)**	**(151,889)**	**(133,987)**	**(114,390)**	**(66,741)**	**-**
Impact of increase in interest rate	**5%**	(10,405)	1,811	226	774	895	980	2,382	(3,337)
	10%	(20,811)	3,621	453	1,548	1,790	1,960	4,765	(6,674)
	15%	(31,216)	5,432	679	2,322	2,685	2,940	7,145	(10,011)
Impact of decrease in interest rate	**2.5%**	5,203	(906)	(113)	(387)	(448)	(490)	(1,191)	1,669
	7.5%	15,608	(2,714)	(340)	(581)	(671)	(735)	(3,574)	5,006
	12.5%	26,013	(4,526)	(566)	(1,935)	(2,238)	(2,450)	(5,956)	8,343

29.11 Capital risk management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year end 31 December 2014.

30. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Within 12 months K'000	After 12 months K'000	Total K'000
Assets			
Cash on hand	22,399	-	22,399
Balances with central bank	57,486	-	57,486
Due from other banks	221	-	221
Treasury bills	56,444	-	56,444
Investment in securities	-	9,880	9,880
Government bonds	-	2,864	2,864
Loans and advances	202,695	35,770	238,465
Other assets	6,005	-	6,005
Property, plant and equipment	-	19,116	19,116
	397,327	**67,630**	**464,957**
Liabilities			
Due to customers	262,946	-	262,946
Shareholders' Funds	-	137,517	135,548
Other liabilities	62,563	-	62,563
Income tax payable	1,931	-	1,931
	327,440	**137,517**	**464,957**

Appendix I

FIRST ALLIANCE BANK (Z) LIMITED

COMPUTATION OF CAPITAL POSITION
at 31 December 2014

			2014	2013
I	**Primary (tier 1) capital**		**K'000**	K'000
	(a)	Paid-up common shares	**84,000**	84,000
	(b)	Eligible preferred shares	-	-
	(c)	Contributed surplus	-	-
	(d)	Retained earnings	**20,487**	14,442
	(e)	General reserves	-	-
	(f)	Statutory reserves	**15,892**	9,915
	(g)	Minority interest (common shareholder's equity)	-	-
	(h)	**Sub total**	**120,379**	108,357
	Subtractions:			
	(i)	Goodwill and other intangible assets	-	-
	(j)	Investments in unconsolidated subsidiaries and associates	-	-
	(k)	Lending of a capital nature to subsidiaries and associates	-	-
	(l)	Holding of other banks' or financial institutions' capital instruments	-	-
	(m)	Assets pledged to secure liabilities	-	-
	(n)	Net unrealized gains (losses) on available-for-sale securities	-	-
	(o)	Accumulated net gains (losses) on cash flow hedges	-	-
	(p)	Defined benefit plan actuarial gain	-	-
	Sub total (A)		-	-
	Other adjustments:			
		Provisions (note 1 appendix II)	-	
		Assets of little or no realizable value (note 3)	-	
		Other adjustments	-	-
	Sub total (B)		-	-
	(q)	**Total Subtractions: (Sub-total A + B)**		-
	(r)	**TOTAL PRIMARY CAPITAL (h – q)**	**120,379**	108,357

FIRST ALLIANCE BANK (Z) LIMITED

COMPUTATION OF CAPITAL POSITION (continued)
at 31 December 2014

			2014	2013
II	**Secondary (tier 2) capital**		**K'000**	K'000
	(a)	Eligible preferred shares	**-**	-
	(b)	Eligible subordinated term debt	**-**	-
	(c)	Eligible loan stock / capital	**-**	-
	(d)	Eligible general provisions	**-**	-
	(e)	Revaluation reserves (40% Maximum)	**6,855**	7,009
	(f)	Other	**-**	-
	(g)	**Total secondary capital**	**6,855**	7,009
III		**Eligible secondary capital** (The maximum secondary capital is limited to 100% of primary capital (Tier 1 Capital))	**6,855**	7,009
IV		**Eligible total capital (I + III)**	**127,234**	115,366
V		**Minimum total capital requirement** (The higher of 10% of total on and off balance sheet risk-weighted assets as established in Appendix II, K350,023 (2013 – K282,130) or K104,000)	**104,000**	104,000
VI		**Excess / (deficiency) - (IV – V)**	**23,234**	11,366
VI		**Total regulatory capital (V + VI)**	**127,234**	115,366

Ratios

Tier 1 capital ÷ WRA = 34.39% (Minimum requirement 5%)

Total eligible capital ÷ WRA = 36.35% (Minimum requirement 10%)

Appendix II

FIRST ALLIANCE BANK (Z) LIMITED

RISK WEIGHTED CAPITAL RATIO (STATUTORY INSTRUMENT NO. 184 OF 1995) FOR THE YEAR ENDED 31 DECEMBER 2014

Part 1

Risk weighted assets	Risk factor %	2014 K'000 Amount	2014 K'000 Risk weight	2013 K'000 Amount	2013 K'000 Risk weight
Notes and coins:-					
Zambian notes & coins	**0%**	**13,202**	**-**	14,431	-
Foreign notes & coins	**0%**	**9,196**	**-**	15,139	-
Balances held with Bank of Zambia					
Statutory reserves	**0%**	**38,700**	**-**	200	-
Other balances	**0%**	**18,786**	**-**	29,165	-
Balances held with commercial banks in Zambia					
With residual maturity of up to 12 months	**20%**	**221**	**44**	38,990	7,798
With residual maturity of more than 12 months	**100%**	**-**	**-**		
Balances held with financial institutions abroad					
With residual maturity of up to 12 months	**20%**	**52,085**	**10,417**	22,990	4,598
With residual maturity of more than 12 months	**100%**				
Assets in transit					
From other commercial banks	**50%**	**-**	**-**		
From branches of reporting bank	**20%**			7,665	3,833
Investment in Debt Securities					
Treasury bills	**0%**	**56,444**	**-**	33,233	
Other government securities	**20%**	**2,864**	**573**	10,074	2,015
Issued by local government units	**100%**	**-**			
Private securities	**100%**	**9,880**	**9,880**	8,402	8,402-
Bills of exchange					
Secured by cash / treasury bills	**0%**				
Other	**100%**				

Appendix II

FIRST ALLIANCE BANK (Z) LIMITED

RISK WEIGHTED CAPITAL RATIO (STATUTORY INSTRUMENT NO. 184 OF 1995)
FOR THE YEAR ENDED 31 DECEMBER 2014

Part 2 (continued)

Risk weighted assets	**Risk factor %**	**2014 K'000 Amount**	**Amount**	2013 K'000 Risk weight	Risk weight
Loans & Advances					
Portion secured by cash or treasury bills	**0%**				
Loans to or guaranteed by GRZ	**50%**			20,000	10,000
Loans repayment in instalments & secured by a mortgage on owner of occupied residential property	**50%**			-	-
Loans to or guaranteed by local government units	**100%**			-	-
Loans to parastatals	**100%**			-	-
All other loans (net or provisions)	**100%**	238,465	238,465	202,918	202,918
Inter-bank loans & advances guaranteed by other banks					
With residual maturity of up to 12 months	**20%**				
With residual maturity of more than 12 months	**100%**				
Bank premises (NBV)	**100%**	19,116	19,116	20,173	20,173
Acceptances	**100%**				
Other assets	**100%**	5,997	5,997	3,452	3,452
Investment in equity of other companies	**100%**	-	-	-	-
TOTAL (on-balance sheet)		464,957	284,492	383,842	248,590

Appendix II

FIRST ALLIANCE BANK (Z) LIMITED

RISK WEIGHTED CAPITAL RATIO (STATUTORY INSTRUMENT NO. 184 OF 1995)
FOR THE YEAR ENDED 31 DECEMBER 2014

Part 2 – (continued)

Off Balance Sheet Obligations	**Risk factor %**	**2013 K'000 Amount**	**Risk weight**	2013 K'000 Amount	Risk weight
Letter of credit					
Sight import letters of credit	**20%**				
Letters of credit secured by Cash / Treasury Bills	**0%**				
Standby letters of credit	**100%**				
Export letters of credit confirmed	**20%**				
Guarantees & indemnities					
Guarantees for loans trade & securities	**100%**	316	316	117	117
Guarantees & bonds secured by Cash / Treasury bills	**0%**				
Performance bonds	**50%**	2,420	1,210	4,836	2,418
Securities purchased under resale agreement	**100%**				
Other contingent liabilities– bid bonds	**100%**	64,005	64,005	31,005	31,005
Net open position in foreign currencies*	**100%**	-	-	-	-
Total (off-balance sheet)		66,741	65,531	35,958	33,540
Total - on & off balance sheet assets		531,698	350,023	419,800	282,130

* *As open FCY position is already included under part I i.e. under balances held abroad, no figure has been included as this would be tantamount to double counting.*