FIRST ALLIANCE BANK ZAMBIA LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

FIRST ALLIANCE BANK (Z) LTD

(Registered Commercial Bank)

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The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of First Alliance Bank Zambia Limited. ("the Bank").

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The profit for the year of K 43.464 million (2017: K 19.150 million) has been added to retained earnings. The directors have declared K20 million interim cash dividend for the year ended 31 December 2018 (2017: nil). They have also declared interim dividend in kind in the form of Bank's building for the year 2018.

DIRECTORS

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

Sanmukh R Patel	-	Chairman
Cyril Patro	-	Managing Director (Retired)
Inder Mani Malik	-	Managing Director (Appointed)
Urbano Mutati	-	Non-Executive Director
Shashikant Patel	-	Non-Executive Director
Vincent Malambo	-	Non-Executive Director
Larry Kalala	-	Non-Executive Director
Nitesh Patel	-	Non-Executive Director
Peter Mulenga	-	Company Secretary

EXECUTIVE MANAGEMENT TEAM

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

Cyril Patro	-	Managing Director (Retired)
Inder Mani Malik	-	Managing Director (Appointed)
Chokkalingam Sukumar	-	General Manager (Retired)
Yogesh Bhandari	-	General Manager (Promoted)
Peter Mulenga	-	Chief Financial Officer

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees during the year amounted to K 18.505 million (2017: K 17.925 million) and the average number of employees was as follows:

Month	Number	Month	Number
January	104	July	106
February	107	August	106
March	107	September	107
April	106	October	105
May	108	November	109
June	106	December	112

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

GIFTS AND DONATIONS

During the year the Bank made donations of K264,500 (2017: K44,900) to charitable organisations and activities.

PROPERTY AND EQUIPMENT

The Bank purchased property and equipment amounting to K2.875 million (2017: K2.314 million) during the year. These represent the aggregate amounts disclosed under note 19 & 20. In the opinion of the directors, the carrying value of property, plant and equipment is not less than their recoverable value.

RELATED PARTY TRANSACTIONS

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

DIRECTORS' EMOLUMENTS AND INTERESTS

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

PROHIBITED BORROWINGS OR LENDING

There were no prohibited borrowings or lending as defined under Part VII of the Zambia Banking and Financial Services Act, No. 7 of 2017.

RISK MANAGEMENT AND CONTROL

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

COMPLIANCE FUNCTION

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

KNOW YOUR CUSTOMER AND ANTI-MONEY LAUNDERING POLICIES

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

AUDITOR

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

By order of the Board

Bank Secretary

......**25th June**......2019

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

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

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

Director

Director

25th June 2019

Grant Thornton

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REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Alliance Bank Zambia Limited, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of First Alliance Bank Zambia Limited as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code together with the ethical requirements that are relevant to our audit of the financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Key Audit Matters (continued)

Description of matter	How matter was addressed
Classification, measurement and impairment of financial assets	
The Bank applied IFRS 9 "financial instruments" for the first time in the financial period under review.	We reviewed the classification of the financial assets to ensure compliance with the reporting standards.
The directors are required to review the classifications of assets and align the classifications to the requirements of the reporting standards. The directors also reviewed the fair valuations and impairment models.	We reviewed the valuation and verified the calculation of the fair values. We also verified the inputs used in the valuations.
Due to the complex and subjective judgements required in estimating the timing and valuation of impairment and in estimating the fair value of assets, this was considered a key audit matter.	In considering the reasonableness of the impairment provision, we reviewed the assumptions used in impairment calculations. Based on the procedures performed, we are satisfied that the impairment provision is reasonable and the financial assets were properly classified and valued.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Banking and Financial Services Act, 2017 and the Companies Act, 2017, and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Report on Other Legal and Regulatory Requirements
The Companies Act, 2017 requires that in carrying out our audit, we consider and report to you on the following matters: we confirm that the accounting and other records and registers have been properly kept in accordance with the Act.

In accordance with the requirements of the Banking and Financial Services Act. 2017, we report that:

- We have obtained all the 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 not been within the powers of the Bank or which was contrary to the Act;
- The statements in the annual financial statements are fully fairly and properly drawn up, and exhibit a true and fair statement of the Bank's financial condition;
- The Bank has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act, and
- No transactions or conditions affecting the wellbeing of the Bank have come to our attention that in our opinion are not satisfactory and require rectification.

Grant Thornton
Chartered Accountants

Banda

Chilala Banda (AUD/F004257)
Name of Partner signing on behalf of the Firm

Lusaka

Date: 25/6/2019

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

Statement of comprehensive income

	Notes	2018	2017
Interest income calculated using effective interest method	5	110,556	99,522
Interest expense	6	(41,777)	(48,079)
Net interest income		68,779	51,443
Impairment (charges)/recoveries on/from financial instruments	16	(3,312)	(939)
Net interest income after loan impairment charges		65,467	50,504
Fees and commission income	7	6,538	11,110
Fees and commission expense		(605)	(355)
Net fees and commission income		5,933	10,755
Net exchange gain/ (loss)	8	53,458	8,395
Other income	9	59	287
Operating expenses	10	(54,478)	(44,837)
Profit before income tax		70,439	25,104
Income tax credit/ (expense)	12	(26,975)	(5,954)
Profit for the year		43,464	19,150
Other Comprehensive income			
Items that will not be classified to profit or loss			
Revaluation gain on plant and equipment	27	-	17,754
Tax relating to items that will not be classified to profit or loss	24	4,120	(11,772)
Other comprehensive income net of tax		4,120	5,982
Total Comprehensive income		47,584	25,132

The notes on pages 12 to 61 are an integral part of these financial statements.

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

Statement of financial position

	Notes	2018	2017
ASSETS			
Cash and balances with Bank of Zambia	13	94,507	110,148
Balances with other banks	15	85,160	47,459
Investment in securities	17	280,484	189,376
Loans and advances to customers	16	407,202	354,647
Other investments	18	837	837
Property and equipment	19	38,305	38,394
Intangible assets	20	2,783	4,574
Current income tax	12	-	18
Other assets	21	9,866	6,207
Total assets		919,144	751,660
LIABILITIES			
Deposits from customers	23	614,106	531,353
Deposits from other banks	22	41,239	11,550
Current income tax	12	10,953	-
Deferred income tax	24	2,667	7,556
Dividends		20,000	-
Other liabilities	25	12,113	10,719
Total liabilities		701,078	561,178
EQUITY			
Share capital	26	84,000	84,000
Revaluation reserves	27	25,131	21,864
Statutory reserves	28	37,899	27,857
Credit reserves	29	46,160	24,311
Retained earnings		24,876	32,450
Total equity		218,066	190,482
Total equity and liabilities		919,144	751,660

The notes on pages 12 to 61 are an integral part of these financial statements.

The financial statements on pages 8 to 61 were approved for issue by the Board of Directors on ....**25th June**.......... 2019 and signed on its behalf by:

Director

Director

Director

Secretary

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

Statement of changes in equity

	Share Capital	Revaluation reserve	Statutory reserves	Credit Reserves	Retained earnings	Total equity
Year ended 31 December 2017	(Note 26)	(Note 27)	(Note 28)	(Note 29)		
At start of year	84,000	16,318	24,372	16,643	28,528	169,861
Comprehensive income						
Profit for the year	-	-	-	-	19,150	19,150
Revaluation gain	-	17,754	-	-	-	17,754
Tax on revaluation gain	-	(11,772)	-	-	-	(11,772)
Total Comprehensive Income	-	5,982	-	-	19,150	25,132
Revaluation reserve transfer	-	(436)	-	-	436	-
Transfer to statutory reserves	-	-	3,485	-	(3,485)	-
Transfer to Credit reserve	-	-	-	12,179	(12,179)	-
Credit reserves written off	-	-	-	(4,511)	-	(4,511)
At end of year	84,000	21,864	27,857	24,311	32,450	190,482
Year ended 31 December 2018						
At start of year	84,000	21,864	27,857	24,311	32,450	190,482
Comprehensive income						
Profit for the year	-	-	-	-	43,464	43,464
Tax on revaluation gain		4,120				4,120
Total Comprehensive Income	-	4,120	-	-	43,464	47,584
Revaluation reserve transfer	-	(853)	-	-	853	-
Transfer to Credit reserve	-	-	-	21,849	(21,849)	-
Transfer to statutory reserves	-	-	10,042	-	(10,042)	-
Dividends	-	-	-	-	(20,000)	(20,000)
At end of year	84,000	25,131	37,899	46,160	24,876	218,066

The notes on pages 12 to 61 are an integral part of these financial statements.

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

Statement of cash flows

	Notes	Year ended 31 December 2018	2017
Cash flows from operating activities			
Profit before tax		70,439	25,104
Adjust:			
Depreciation charge for the year	19	2,964	2,202
Amortisation of intangible assets	20	1,791	1,791
Profit on disposal of property and equipment		(36)	-
Recoveries on loans previously written off		(2,118)	(3,241)
Exchange movement on investment in securities		(2,813)	(311)
Income tax paid	12	(16,004)	(12,503)
Cash flows from operating activities before changes in operating assets and liabilities		54,223	13,042
Changes in operating assets and liabilities:			
- (Increase)/decrease- other assets		(3,659)	(2,353)
- Increase/(decrease)-deposits from other banks		29,689	4,526
- Increase/(decrease)-customer deposits		82,753	47,612
-(Increase)/decrease- loans and advances to customers		(52,555)	13,921
- Increase/(decrease)-other liabilities		1,394	(4,416)
Net cash generated from operating activities		111,845	72,332
Cash flows from investing activities			
Purchase of property and equipment	19	(2,875)	(2,314)
Purchase of other investments	18	-	(112)
(Purchase)/redemption of treasury bills		(58,603)	(74,327)
Proceeds from disposal of property and equipment		36	-
Net cash (used in)/ generated from investing activities		(61,442)	(76,753)
Net increase/(decrease) in cash and cash equivalents		50,403	(4,421)
Cash and cash equivalents at start of year		183,174	187,595
Cash and cash equivalents at end of year	14	233,577	183,174

The notes on pages 12 to 61 are an integral part of these financial statements.

Notes to the financial statements

1 General information

First Alliance Bank Zambia Limited (the Bank) is a limited Bank domiciled in Zambia. The Bank is involved in investment, corporate and retail banking.

The address of the registered office is:

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

(i) Compliance with IFRS

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

(ii) Going concern.

The Directors of the Bank have made an assessment of the Bank's ability to continue as a going concern and are satisfied that the Bank has resources to continue in business for foreseeable future. Therefore the financial statements continue to be prepared on a going concern basis.

(iii) Historical cost convention

The financial statements have been prepared on a historical cost basis as modified by the revaluation of property and equipment.

(iv) New and amended standards adopted by the Bank

In these financial statements, the Bank has applied IFRS 9, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective. Several other amendments and interpretations apply for the first time in 2018, including IFRS 15 but do not have an impact on the financial statements of the Bank.

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

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Title of standard	Nature of change	Impact	Mandatory application date
IFRS 16 Leases	IFRS 16 was issued in January 2017. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Mandatory for financial years commencing on or after 1 January 2019.

(v) Changes in accounting policies

The bank has adopted IFRS 9 effective 1 January 2018. The adoption of IFRS 9 with a due date of transition of 1 January 2018, resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Bank did not early adopt IFRS 9 in previous periods.

IFRS 9 Financial Instruments

IFRS 9 sets out new requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instrument: Disclosures'.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets and liabilities from the previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

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

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount at 31 December 2017	Other changes in Classification	Fair Value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount post reclassification	IFRS 9 Re-measurement including expected credit losses	IFRS 9 Carrying amount at 1 January 2018
Assets								
Cash and balances with Bank of Zambia	110,148	-	-	-	110,148	110,148	-	110,148
Balances with other Banks	47,459	-	-	-	47,459	47,459	-	47,459
Loans and advances to customers	354,647	-	-	-	354,647	354,647	-	354,647
Investment in Securities	189,376	-	-	-	189,376	189,376	-	189,376
Financial liabilities								
Customer deposits	531,353	-	-	-	531,353	531,353	-	531,353
Deposits from other banks	11,550	-	-	-	11,550	11,550	-	11,550
Other liabilities	18,275	-	-	-	18,275	18,275	-	18,275

Cash and balances with Bank of Zambia, balances with other banks and loans and advances fall under the hold to collect business model as per bank policy and pass the SPPI test and so continue to be measured at amortised cost.

The table below shows the summary of the classification and measurement categories for financial instruments under IAS 39 compared to IFRS 9.

Financial assets	IAS 39 Measurement category	Carrying amount	IFRS 9 Measurement category	Carrying amount
Cash and balances with Bank of Zambia	Loans and receivables	110,148	Amortised cost	110,148
Balances with other Banks	Loans and receivables	47,459	Amortised cost	47,459
Loans and advances to customers	Loans and receivables	354,647	Amortised cost	354,647
Investment in Securities	Amortised cost	189,376	Amortised cost	189,376
Financial liabilities				
Customer deposits	Amortised cost	531,353	Amortised cost	531,353
Deposits from other banks	Amortised cost	11,550	Amortised cost	11,550
Other liabilities	Amortised cost	18,275	Amortised cost	18,275

There were no changes to the classification and measurement of financial liabilities

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(b) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

(c) Recognition of interest income

(i) The effective interest rate (EIR) method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Similar to interest-bearing financial assets classified as available-for-sale or held to maturity under IAS 39, interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(c) Recognition of interest income (continued)

(i) The effective interest rate method (continued)

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

(ii) Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

Other interest income/expense includes interest on derivatives in economic hedge relationships and all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in Net trading income.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Notes to the financial statements (continued)

2 Summary of significant accounting policies

(d) Fees and commission income

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

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

(e) Dividend income

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

(f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

(a) Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient, the Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient are measured at the transaction price determined under IFRS 15.

Notes to the financial statements (continued)

2 Summary of significant accounting policies

(f) Financial instruments (continued)

i) Financial assets (continued)

(a) Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

(b) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss (FVTPL)

i) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

ii) Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(b) Subsequent measurement (continued)

iii) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

iv) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired Or
- 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 under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) 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, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. 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.

(d) Impairment of financial assets

i) Impairment and provisioning policies

Policy applicable from 1 January 2018
The Bank recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at Fair value through Profit and Loss (FVTPL):

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(d) Impairment of financial assets (continued)

i) Impairment and provisioning policies (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments for which a lifetime ECL is recognised and which are credit impaired are referred to as 'stage 3 financial instruments'.

ii) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

iii) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.
- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(d) Impairment of financial assets (continued)

i) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Objective evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties;
- default or delinquency by a borrower;
- observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(e) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost* as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

(f) Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(g) Derivatives and hedge accounting

The Bank uses derivative financial instruments, such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

(h) Sale and repurchase agreements

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

(i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(k) Property and equipment

Buildings comprise mainly Head office premises. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred. Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss.

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

Buildings	1.15% - 2.7%
Fixtures, fittings and equipment	25%
Motor vehicles	20%

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

The Bank assesses at each reporting period whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are recorded at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(l) Intangible assets

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

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

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

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

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

(m) Income tax

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

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

Recognition of deferred tax

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(m) Income tax (continued)

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with other banks, other short term highly liquid investments with maturities of three months or less and cash and non- restricted balances with the Bank of Zambia.

(o) Employee benefits

(i) Retirement benefit obligations

The Bank contributes to the statutory scheme in Zambia namely National Pension Scheme Authority (NAPSA) which is a defined contribution plan where the Bank pays an amount equal to the employees' contributions. Employees' contribution is 5% of their gross earnings or maximum of K1,073.80 per month during the year 2018.

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

(ii) Other entitlements

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

(p) Borrowings

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

(q) Share capital

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

(r) Dividends payable

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(s) Accounting for leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if 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 (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

i) Bank as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Bank is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

ii) Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease 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.

t) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(t) Investment properties (continued)

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(u) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

(v) Provisions

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

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

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

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements in applying accounting policies

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

(a) Impairment losses on loans and advances

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, theBank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 90 days past due.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements in applying accounting policies

(a) Impairment losses on loans and advances (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Exposures are subject to ongoing monitoring and the monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files –e.g. audited financial statements, management accounts, budgets and projections. • Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour – e.g. utilisation of credit facilities • External data from credit reference agencies, including industry-standard	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. (Overdrafts are considered as being past due once the customer has breached approved limit) or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

(b) Recognition of deferred tax

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

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

Notes to the financial statements (continued)

4 Financial risk management

The Bank's primary business model is to collect deposits and use these funds to provide loans and other funding products and debt instruments to its customers. The bank currently is only involved with the Banking book and no trading book. The Bank's activities expose it to a variety of financial risks: market risk (including foreign exchange, interest rate risk and price risk), credit risk and liquidity risk. These activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

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

Financial instruments by category included at carrying amount

Financial assets	**Loans and Receivables**
At 31 December 2018	
Cash and bank balances with Bank of Zambia	94,507
Balances with other banks-domestic	49,918
Balances with other banks-abroad	35,242
Loans and advances	407,202
Securities	280,484
Other assets	9,573
	876,926
At 31 December 2017	
Cash and bank balances with Bank of Zambia	110,148
Balances with other banks-domestic	22,107
Balances with other banks-abroad	25,352
Loans and advances	354,647
Securities	189,376
Other assets	4,057
	705,687

Financial liabilities	**Amortised cost**
At 31 December 2018	
Customer deposits	614,106
Deposits from banks	41,239
Other liabilities	12,113
	667,458
At 31 December 2017	
Customer deposits	531,353
Deposits from banks	11,550
Other liabilities	10,719
	553,622

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Loss (ECL). The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 15.8% probability of occurring, and two less likely scenarios, best case and one worst case, each assigned a 73.7% and 10.5% probability of occurring respectively.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk for portfolios include but are not limited to: GDP growth, unemployment rates, interest rates, real estate prices, etc.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy of the bank.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime probability of default at the reporting date based on the modified terms; with
- the remaining lifetime probability of default estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Modified financial assets (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Risk limit control and mitigation policies

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

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

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

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

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

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements

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

	2018	2017
Credit risk exposure relating to off-balance sheet		
-Guarantees and performance bonds	12,593	14,061

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans
- 90% of the loans and advances portfolio are neither past due nor impaired (2017: 90%)
- 98% of the loans and advances portfolio are backed by collateral (2017: 98%)
- 92% of the investments in debt securities are government securities (2017: 85%)

(vi) Loans and advances

(a) Credit quality analysis at gross carrying amounts

	2018	2017
Stage 1	299,673	-
Stage 2	101,506	-
Stage 3	30,381	-
Gross advances	431,560	375,693

(b) Loss allowances

	Stage 1	Stage 2	Stage 3	2018 Total	2017 Total
Balance at January	-	-	-	-	20,107
Charge for the year	19,734	2,115	26,476	48,325	8,438
Transfer to credit reserves	(19,734)	(2,115)	-	(21,849)	-
Recoveries	-	-	(2,118)	(2,118)	(4,258)
Write off	-	-	-	-	(3,241)
	-	-	24,358	24,358	21,046

(vii) Other financial instruments

All other financial instruments below were neither past due nor impaired

	2018	2017
Cash and Balances with Bank of Zambia	94,507	110,148
Balances with other Banks- domestic	49,918	22,107
Balances with other Banks-abroad	35,242	25,352
Securities with Government of the Republic of Zambia	261,968	173,673
Corporate Bonds	18,516	15,703
	460,151	346,983

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Concentrations of risk of financial assets with credit risk exposure

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

	Financial institutions	Manufacturing	Transport and communication	Wholesale and Retail Trade	Agricultural	Other	Individual	Total
At 31 December 2018								
Loans and advances to customers	6,431	36,715	22,936	158,095	16,095	165,717	1,213	407,202
Balances with Bank of Zambia	48,440							48,440
Placements with other Banks- abroad	35,242							35,242
Placements with other Banks- domestic	49,918							49,918
Other assets	-					9,573		9,573
Total	**140,031**	**36,715**	**22,936**	**158,095**	**16,095**	**175,290**	**1,213**	**546,111**
%	**25%**	**7%**	**4%**	**29%**	**3%**	**32%**	**0%**	**100%**
At 31 December 2017								
Loans and advances to customers	10,173	45,584	20,742	115,604	11,537	149,080	1,927	354,647
Balances with Bank of Zambia	68,459	-	-	-	-	-	-	68,459
Placements with other Banks- abroad	25,352	-	-	-	-	-	-	25,352
Placements with other Banks- domestic	22,107	-	-	-	-	-	-	22,107
Other assets	-	-	-	-	-	4,007	-	4,007
Total	**126,091**	**45,584**	**20,742**	**115,604**	**11,537**	**153,087**	**1,927**	**474,572**
%	**25%**	**10%**	**4%**	**24%**	**2%**	**34%**	**0%**	**100%**

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Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

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

Other financial assets

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

	2018	**2017**
Securities with Government of the Republic of Zambia	261,968	173,673
Corporate Bonds	18,516	15,703
	280,484	189,376

(b) Liquidity risk

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

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

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

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

- remaining contractual maturities; and
- expected maturity dates.

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

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

At 31 December 2018	Up to 1 Month	1-3 months	3-12 months	1-5 Years	Over 5 Years	Total
Liabilities						
Customer deposits	248,489	171,739	193,878	-	-	614,106
Deposits from other Banks	41,239	-	-	-	-	41,239
Other financial liabilities	12,113	-	-	-	-	12,113
Total financial liabilities	301,841	171,739	193,878	-	-	667,458
Assets						
Cash and balances with Bank of Zambia	94,507	-	-	-	-	94,507
Balances with other Banks	85,160	-	-	-	-	85,160
Loans and advances	79,723	100,888	155,852	70,739	-	407,202
Investment in securities	9,977	42,684	206,546	19,432	1,845	280,484
Other Financial assets	9,573	-	-	-	-	9,573
Total financial assets	278,940	143,572	362,398	90,171	1,845	876,926

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

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

At 31 December 2017	Up to 1 Month	1-3 months	3-12 months	1-5 Years	Over 5 years	Total
Liabilities						
Customer deposits	227,948	123,121	180,284	-	-	531,353
Deposits from other Banks	11,550	-	-	-	-	11,550
Other financial liabilities	10,719	-	-	-	-	10,719
Total financial liabilities	250,217	123,121	180,284	-	-	553,622
Assets						
Cash and balances with Bank of Zambia	110,148	-	-	-	-	110,148
Balances with other Banks	47,459	-	-	-	-	47,459
Loans and advances	70,929	88,662	141,858	53,198	-	354,647
Investment in securities	-	25,567	145,219	16,605	1,985	189,376
Other Financial assets	4,057	-	-	-	-	4,057
Total financial assets	232,593	114,229	287,077	69,803	1,985	705,687

Assets held for managing liquidity risk

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

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Off balance sheet items

(a) Operating lease commitments

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

	Up to 1 year	**2 – 5 years**
At 31 December 2018		
Operating lease commitments	4,509	17,112
At 31 December 2017		
Operating lease commitments	4,294	16,297

(b) Capital commitments

There were no capital commitments for the acquisition of property and equipment during the year (2017: Nil).

(c) Market risk

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

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

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(a) Exposure to foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by management through treasury. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017. Figures in the table below are in thousands.

	USD	GBP	ZAR	Euro	INR
At 31 December 2018					
Assets					
Cash and balances with Banks abroad	4,532	131	13,574	318	126
Loans and advances to customers	22,262	-	-	-	
Other assets	4,620	55	-	184	-
Total assets	31,414	186	13,574	502	126
Liabilities					
Customer deposits	25,571	102	317	132	-
Deposits from other banks	-	-	-	-	-
Other liabilities	7,402	2	-	-	-
Total liabilities	32,973	104	317	132	-
Net on-balance sheet position	-1,559	82	13,257	370	126
Off balance sheet (Net)	1600	-	-	-	-
Overall open position	41	82	13,257	370	126
At 31 December 2017					
Assets					
Cash and balances with Banks abroad	4,495	144	11,603	176	-
Loans and advances to customers	21,667	-	-	-	-
Other assets	3,826	-	-	-	-
Total assets	29,988	144	11,603	176	-
Liabilities					
Customer deposits	24,480	12	260	116	-
Deposits from other banks	-	-	-	-	-
Other liabilities	4,958	-	-	-	-
Total liabilities	29,438	12	260	116	-
Net on-balance sheet position	550	132	11,343	60	-
Off balance sheet (Net)	200	-	-	-	-
Overall open position	350	132	11,343	60	-

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

(b) Foreign currency sensitivity

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

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

Change	US$	GBP	ZAR	EUR	INR
2018- 10%	(4)	(4)	(1.326)	(37)	(13)
2017- 10%	(35)	(13)	(1,134)	(6)	(6)

(c) Interest rate risk

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

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items.

At 31 December 2018	**Up to 3 months**	**3-6 months**	**6-12 months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and balances with Central bank	-	-	-	-	94,507	94,507
Balances with other banks – domestic	453	-	-	-	48,402	48,855
Balances with other banks – abroad	35,242	-	-	-	-	35,242
Loans and advances to customers	180,611	79,722	79,722	70,739	-	410,794
Other assets	-	-	-	-	9,573	9,573
Total financial assets	216,306	79,722	79,722	70,739	152,482	598,971
Liabilities						
Customer deposits	420,220	100,706	93,180	-	-	614,106
Deposits from other banks	39,912	-	-	-	1,327	41,239
Other liabilities	-	-	-	-	16,312	16,312
Total financial liabilities	460,132	100,706	93,180	-	17,639	671,657
Interest re-pricing gap	(243,826)	(264,810)	(278,268)	(207,529)	(72,269)	
Impact of 10% increase in rates	(24,383)	(26,481)	(27,827)	(20,753)	(7,269)	
Impact of 7.5% decrease in rates	(18,287)	(19,861)	(20,870)	(15,565)	(3,634)	

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Interest rate risk (continued)

At 31 December 2017	Up to 3 months	3-6 months	6-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	-	-	-	-	110,148	110,148
Balances with other banks – domestic	20,469	-	-	-	1,638	22,107
Balances with other banks – abroad	25,352	-	-	-	-	25,352
Loans and advances to customers	159,591	70,929	69,239	53,591	1,297	354,647
Other assets	-	-	-	-	4,057	4,057
Total financial assets	205,412	70,929	69,239	53,591	117,140	516,311
Liabilities						
Customer deposits	349,694	83,296	96,988	-	1,375	531,353
Deposits from other banks	11,550	-	-	-	-	11,550
Other liabilities	-	-	-	-	10,719	10,719
Total financial liabilities	361,244	83,296	96,988	-	12,094	553,622
Interest re-pricing gap	(155,832)	(168,199)	(195,948)	(142,357)	(37,311)	
Impact of 10% increase in rates	(15,583)	(16,820)	(19,595)	(14,236)	(3,731)	
Impact of 7.5% decrease in rates	11,687	12,615	14,696	10,677	2,798	

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

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

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Fair values of financial instruments

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

Assets and liabilities measured at fair value

	Carrying Amount 2018	Fair Value 2018	Carrying Amount 2017	Fair Value 2017
Assets				
Cash and balances with Bank Zambia	94,507	94,507	110,148	110,148
Balances with other Banks- domestic	49,918	49,918	22,107	22,107
Balances with other Banks- abroad	35,242	35,242	25,352	25,352
Loans and advances	407,202	407,202	354,647	354,647
Other Assets	290,056	290,056	230,647	230,647
Total	876,925	876,925	742,901	742,901
Liabilities				
Deposits from customers	614,106	614,106	531,353	531,353
Deposits from other Banks	41,239	41,239	11,550	11,550
Other Liabilities	16,312	16,312	10,719	10,719
Total	671,657	671,657	553,622	553,622

Fair value hierarchy

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Banks' market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Fair values of financial instruments (continued)

Fair value hierarchy (Continued)

For assets whose fair value is equal to the carrying amounts, the fair value disclosures as above are analysed as follows in the fair value hierarchy;

	Level 1	Level 2	Level 3
31 December 2018			
Balances with other banks - domestic	-	49,918	-
Balances with other banks - abroaad	-	35,242	-
Loans and advances	-	407,202	-
Investment in securities	-	280,484	-
Total Assets	-	772,846	-
31 December 2017			
Balances with other banks - domestic	-	22,107	-
Balances with other banks - abroaad	-	25,352	-
Loans and advances	-	354,647	-
Investment in securities	-	189,376	-
Total Assets	-	591,482	-

At 31 December 2018, the Bank did not have financial liabilities measured at fair value (2017: nil).

Fair Value Estimation of Non-financial assets

When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible.

An independent valuation of the Bank’s property was performed by valuers to determine the fair-value of the buildings. The following table analyses by hierarchy

	Level 1	Level 2	Level 3
31 December 2018			
Property	-	-	38,305
31 December 2017			
Property	-	-	38,394

All fair value measurements disclosed are recurring fair value measurements, required for the purposes of measuring the Bank’s assets at fair value. During the year no transfers were made amongst the different levels.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(e) Capital management

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

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

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

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

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

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

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

Notes to the financial statements (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

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

	2018	**2017**
Tier 1 capital	192,935	168,618
Tier 1 + Tier 2 capital	202,987	177,364
Risk-weighted assets		
On-balance sheet	523,890	414,374
Off-balance sheet	12,593	14,061
Total risk-weighted assets	536,483	428,435
Basel ratio		
Tier 1 (Regulatory minimum – 5%)	36.0%	39.4%
Tier 1 + Tier 2 (Regulatory minimum – 10%)	37.8%	41.4%

5 Interest income calculated using effective interest rate method

Loans and advances to customers	69,607	74,274
Government and other securities	38,612	23,792
Advances to banks	2,337	1,456
	110,556	99,522

6 Interest expense

Customer deposits	39,380	47,074
Deposits from other banks	2,397	1,005
	41,777	48,079

7 Fees and commission income

Credit related fees and commission	2,634	7,634
Customer transaction and activity fees	3,904	3,476
	6,538	11,110

8 Net Exchange gains/(losses)

Realized gains/(losses)	58,326	7,187
Un realized gains/(losses)	(4,868)	1,208
	53,458	8,395

9 Other income

Gain on disposal of property and equipment	36	-
Rental and other income	23	287
	59	287

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

Notes to the financial statements (continued)

10 Operating expenses

	2018	2017
Employee benefits expense (Note 11)	18,505	17,925
Depreciation on property and equipment (Note 19)	2,964	2,202
Amortisation of intangible property and equipment (Note 20)	1,791	1,791
Property and equipment maintenance expenses	535	327
Donations	265	44
Insurance Expenses	445	354
Computer Expenses	3,446	3,082
Clearing House Expenses	239	158
Telephone Expenses	724	669
Regulatory supervision fees	1,408	1,256
Travel Expenses	1,647	858
Training	49	83
Subscription fees	208	174
Security Charges	756	932
Swift Expenses	962	432
Reuters Expenses	278	309
Generator Expenses	64	36
System upgradation Expenses	15	293
Directors fees	6,713	2,682
Business Promotion Expenses	2,097	1,806
Auditor's remuneration	1,844	625
Rentals	3,563	3,570
ATM expenses	1,815	1,466
Other expenses	4,145	3,763
	54,478	44,837

11 Employee benefits expense

Salaries and wages	16,820	16,813
Other Staff benefit costs	1,685	1,112
	18,505	17,925

12 Income tax expense

Current tax	27,744	10,170
Deferred tax movement (Note 24)	(769)	(4,216)
	26,975	5,954

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

Notes to the financial statements (continued)

12 Income tax expense (continued)

	2018	2017
Current income tax movement		
At start of year (asset)/liability	(18)	2,315
Current income tax charge	26,975	10,170
Payments during the year	(16,004)	(12,503)
At end of year – (asset)/liability	10,953	(18)

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

	2018	2017
Profit before income tax	70,439	25,104
Tax calculated at the statutory income tax rate of 35%	24,654	8,786
Tax effect of:		
Net adjusted expenses for tax purposes	3,090	1,384
Net deferred tax asset movement (Note 24)	(769)	(4,216)
Income tax (credit)/expense	26,975	5,954

13 Cash and balances with Bank of Zambia

	2018	2017
Cash in hand		
-Local currency	8,290	8,798
-Foreign currency	37,777	32,891
	46,067	41,689
Balances with Bank of Zambia		
-Local currency current account	695	859
-Foreign currency current account	595	500
-Local currency statutory reserves	29,300	47,100
-Foreign currency statutory reserves	17,850	20,000
	48,440	68,459
	94,507	110,148
Split as follows:		
Current	94,507	110,148
Non-current	-	-
	94,507	110,148

Statutory reserve deposits are not available for use in the Bank's day-to-day operations. Cash-in-hand and balances with the Central Bank and statutory reserve deposits are non-interest- bearing.

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

Notes to the financial statements (continued)

14 Cash and cash equivalents

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

	2018	2017
Cash and balances with Bank of Zambia (Note 13)	94,507	110,148
Balances with other Banks (Note 15)	85,160	47,459
Securities maturing before 90 days	53,910	25,567
	233,577	183,174

Banks are required to maintain a prescribed minimum cash balance with the Bank of Zambia as statutory reserves. The amount is determined as 5% (2017: 8%) of the average outstanding customer deposits over a cash reserve cycle period of one week.

15 Balances with other banks

	2018	2017
Nostro accounts	35,242	25,352
Items in course of collection	49,465	1,638
Inter bank placements	453	20,469
	85,160	47,459
Current	84,097	46,373
Non current	1,063	1,086
	85,160	43,459

Included in items in course of collection is un-reconciled CTS clearing amount of K1.063 million (2017: K1.086 million) which has been provided in full

16 Loans and advances to customers

	2018	2017
Overdrafts	380,166	334,312
Commercial loans	46,097	38,586
Personal loans	5,297	2,795
Gross loans and advances	431,560	375,693
Less:		
- Provision for impairment of loans and advances	(24,358)	(21,046)
	407,202	354,647

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

	2018	2017
At 1 January	21,046	20,107
Charge/(Recovery) to the income statement	3,312	939
Charge	5,430	8,438
Write off	-	(4,258)
Recovery during the year	(2,118)	(3,241)
	24,358	21,046

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

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

Notes to the financial statements (continued)

17 Investment in Securities

	2018	2017
Treasury Bills	259,080	170,786
Corporate Bonds	18,516	15,703
Government of the Republic of Zambia Bonds	2,888	2,887
At 31 December	280,484	189,376

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

18 Other Investments

	2018	2017
National Switch	837	837
Split as follows:		
Current	-	-
Non current	837	837
	837	387

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

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

Notes to the financial statements (continued)

19 Property and equipment

	Buildings	Motor vehicles	Furniture, Fittings & Equipment	Total
At 1 January 2017				
Cost/Valuation	20,375	1,410	7,373	29,158
Accumulated depreciation	(3,239)	(861)	(4,530)	(8,630)
Net book amount	17,136	549	2,843	20,528
Year ended 31 December 2017				
Opening net book amount	17,136	549	2,843	20,528
Additions	-	1,081	1,233	2,314
Revaluation surplus	17,754		-	17,754
Depreciation on write off/disposal	-		-	
Depreciation Charge	(540)	(289)	(1,373)	(2,202)
Closing net book amount	34,350	1,341	2,703	38,394
At 31 December 2017				
Cost/ Valuation	34,350	2,491	8,606	45,447
Accumulated depreciation	-	(1,150)	(5,903)	(7,053)
Net book amount	34,350	1,341	2,703	38,394
Year ended 31 December 2018				
Opening net book amount	34,350	1,341	2,703	38,394
Additions	-	2,448	427	2,875
Disposals	-	(392)	(1)	(393)
Depreciation on disposal	-	392	1	393
Depreciation charge	(914)	(549)	(1,501)	(2,964)
Closing net book amount	33,436	3,240	1,629	38,305
As at 31 December 2018				
Cost/ Valuation	34,350	4,557	9,033	47,939
Accumulated depreciation	(914)	(1,317)	(7,403)	(9,634)
Net book amount	33,436	3,240	1,629	38,305

Revaluation of the Bank's building

An independent valuation of the buildings was performed by BLK REAL ESTATE CONSULTANT to determine the fair value of the land and buildings as at 31st December 2017. The last valuation was carried in December 2011. The purpose of the valuation was to determine the Current Open Market Value of the property for asset value purpose. The valuation was done on direct comparisons to other similar available property transactions in the vicinity and considerations were made with reference to location, accessibility, age condition etc, and the prevailing market trends. Sales were analyzed and precessed to form units of the value per metre square of the floor areas of the buildings which were compared with the subject property on the basis to arrive at an adjusted unit value/per metre and applied the same to the subject property allowing similarities and dissimilarities accordingly. The revaluation surplus was credited to other comprehensive income and is included in shareholders' equity. The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable. The movement in the revaluation surplus on buildings is shown in note 27.

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

Notes to the financial statements (continued)

19 Property and equipment (continued)

The carrying amount of the revalued properties if carried under cost model would be as follows:

	2018	2017
Cost	3,547	3,547
Accumulated depreciation	(1,344)	(1,248)
Net book value	2,203	2,299

20 Intangible assets

	Computer software & licenses
At 1st January 2017	
Carrying value at start of year	7,634
Expensed	(1,269)
Amortisation	(1,791)
At year end	4,574
At 31st December 2017	
Accumulated cost	7,264
Accumulated Amortisation	(2,690)
Carrying value at end of year	4,574

	Total
At 1st January 2018	
Carrying value at start of year	4,574
Amortisation	(1,791)
At year end	2,783
At 31st December 2018	
Accumulated cost	7,264
Accumulated Amortisation	(4.481)
Carrying value at end of year	2,783

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

Notes to the financial statements (continued)

21 Other assets

	2018	2017
Prepayments	293	53
Withholding Tax receivable	4,250	3,366
Recoverable Deposit	4,264	2,150
Other	1,059	638
	9,866	6,207
Split as follows:		
Current	9,866	6,207
Non-current	-	-
	9,866	6,207

22 Deposits from other banks

	2018	2017
Overnight borrowing	39,912	10,171
Items in course of collection	1,327	1,379
	41,239	11,550
Split as follows:		
Current	41,239	11,550
Non current	-	-
	41,239	11,550

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

23 Deposits from Customers

	2018	2017
Current and demand deposits	237,021	257,239
Savings accounts	691	426
Fixed deposit accounts	376,394	273,688
	614,106	531,353
Split as follows:		
Current	614,106	531,353
Non-current	-	-
	614,106	531,353

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

Notes to the financial statements (continued)

24 Deferred income tax

The deferred income tax liability/(asset) recognised income statement/statement of financial position are attributable to the following items:

Year ended 31 December 2018	deferred tax at start of year	Movement in deferred tax	(Credit)/ charge to profit or loss	charge to other comprehensive income	At end of year
Deferred income tax liabilities					
Plant and equipment					
Cost	5,468	604	604	-	6,072
Valuation	11,772	(4,120)	-	(4,120)	7,652
	17,240	(3,516)	604	(4,120)	13,724
Deferred income tax assets					
Provision for impairment	(7,366)	(1,159)	(1,159)	-	(8,525)
Other provisions	(2,318)	(214)	(214)	-	(2,532)
	(9,684)	(1,373)	(1,373)	-	(11,057)
Net deferred tax	7,556	(4,889)	(769)	(4,120)	2,667

Year ended 31 December 2017	Unrecognised deferred tax at start of year	Movement in unrecognized deferred tax	(Credit)/ charge to profit or loss	charge to other comprehensive income	At end of year
Deferred income tax liabilities					
Plant and equipment					
Cost	5,327	(5,327)	5,468	-	5,468
Valuation	5,711	(5,711)	-	11,772	11,772
	11,038	(11,038)	5,468	11,772	17,240
Deferred income tax assets					
Provision for impairment	(7,037)	7,037	(7,366)	-	(7,366)
Other provisions	(1,847)	1,847	(2,318)	-	(2,318)
	(8,884)	8,884	(9,684)	-	(9,684)
Net deferred tax	2,154	(2,154)	(4,216)	11,772	7,556

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

Notes to the financial statements (continued)

24 Deferred income tax (continued)

Deferred income tax is calculated using the enacted income tax rate of 35% (2017: 35%).
The movement on the deferred income tax account is as follows:

Year ended 31 December 2018	at start of year	ecognised in terms of prior year	Recognised in current year	Total	Movement to other Comprehe nsive Income	Movement to profit & Loss	Total
Deferred income tax liabilities							
Plant & Equip							
Cost	5,468		604	6,072	-	604	6,072
Valuation	11,772		(4,120)	7,652	(4,120)	-	7,652
	17,240		(3,516)	13,724	(4,120)	604	13,724
Deferred income assets							
impairment	(7,366)		(1,159)	(8,525)	-	(1,159)	(8,525)
Other provisions	(2,318)		(214)	(2,532)	-	(214)	(2,532)
	(9,684)		(1,373)	(11,057)	-	(1,373)	(11,057)
Net deferred tax	7,556		(4,889)	2,667	(4,120)	(771)	2,667

Year ended 31 December 2017	At the start of the year	Recognized in terms of prior year	Recognized in current year	Total	Movement to other comprehensive income	Movement to profit & loss	At the end of the year
liabilities							
Plant & equipment							
Cost	-	5,327	141	5,468	-	5,468	5,468
Valuation	-	5,558	6,214	11,772	11,772	-	11,772
	-	10,885	6,355	17,240	11,772	5,468	17,240
assets							
impairment	-	(7,037)	(329)	(7,366)	-	(7,366)	(7,366)
Other provisions	-	(1,847)	(471)	(2,318)	-	(2,318)	(2,318)
	-	(8,884)	(800)	(9,684)	-	(9,684)	(9,684)
Net deferred tax	-	2,001	5,555	7,556	11,772	(4,216)	7,556

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

Notes to the financial statements (continued)

25 Other liabilities

	2018	2017
Bills payables	460	487
Education expenses	3,438	1,354
Cheque Truncation System	1,200	1,200
WHT & VAT payable	175	410
Provision for gratuity	2,111	4,091
Other	4,729	3,177
	12,113	10,719
Split as follows:		
Current	12,113	10,719
Non-current	-	-
	12,113	10,719

26 Share capital

	2018	2017
Issued and fully paid	84,000	84,000

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

27 Revaluation reserves

	2018	2017
At start of year	21,864	16,318
Revaluation gain for the year	-	17,754
Deferred tax liability (Note 24)	4,120	(11,772)
Transfer to retained earnings	(853)	(436)
At end of year	25,131	21,864

The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable.

28 Statutory reserves

	2018	2017
At start of year	27,857	24,372
Transfer from retained earning	10,042	3,485
At the end of year	37,899	27,857

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

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

Notes to the financial statements (continued)

29 Credit reserves

	2018	2017
At start of year	24,311	16,643
Transfer from retained earning	21,849	12,179
Credit reserves written off	-	(4,511)
At the end of year	46,160	24,311

The Bank has charged the impairment losses on financial instruments in accordance with IFRSs. The difference of the charge for impairment on loans and advances based on Bank of Zambia regulatory requirements under statutory instrument No.142 and the charge under IFRSs is recorded under credit reserves.

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

Nature of contingent liabilities

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

	2018	2017
Guarantees and performance bonds	12,593	14,061

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

Operating lease commitments

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

	2018	2017
Not later than 1 year	4,509	4,294
Later than 1 year but not later than 5 years	17,112	16,297
	21,621	20,591

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

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

Notes to the financial statements (continued)

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

31 Related party transactions

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

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

	2018	2017
Directors emoluments		
Fees & allowances	3,064	2,682
Deposits		
Directors & Key Management Personnel	5,761	6,196
Entities connected to Directors	25,354	4,047
	31,115	10,243

Advances to customers at 31 December 2018 and 31 December 2017 include advances to directors and adavances to entities controlled by directors or their families as follows:

(a) Advances to directors & connected entities	2018	2017
Credit line limits	82,170	68,580
Outstanding Balance	78,758	39,380
Fees & Interest received	11,310	9,090

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

(b) Loans to Key Management Personnel

At 31 December 2018 loans and advances to key management amounted to K0.133 million (2017: K 0.331 million). Loans & advances to all staff are given at an interest rate ranging from 20% to 22% per annum.

	2018	2017
(c) Guarantees		
Entities connected to directors	1,572	1,000

No impairment provisions have arisen on loans to related parties (2017: K nil)

(d) Key management compensation		
Salaries and other short-term employment benefits	3,918	3,761