FIRST ALLIANCE BANK (Z) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2015

FIRST ALLIANCE BANK (Z) LIMITED

FINANCIAL STATEMENTS
for the year ended 31 December 2015

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FIRST ALLIANCE BANK (Z) LIMITED

CHAIRMAN'S REPORT
for the year ended 31 December 2015

It is my pleasure and privilege to present to you the Annual Report for the year 2015 which marks the 21st year of our Bank's operations.

The global economy

Global growth disappointed again in 2015, slowing to 2.4 percent, and is expected to recover at a slower pace in 2016 than previously envisioned. Growth is projected to reach 2.9 percent in 2016, as a modest recovery in advanced economies continues and activity stabilizes among major commodity exporters, according to the World Bank's January 2016 Global Economic Prospects. Forecasts are subject to substantial downside risks. A more protracted slowdown across large emerging markets could have substantial spill overs to other developing economies, and eventually hold back the recovery in advanced economies.

The Zambian economy

The year 2015 has been economically challenging. The slowdown in the Eurozone and in the Chinese economy lowered the demand for copper leading to the fall in the price of copper on the global market. With copper being the main source of Zambia's foreign exchange earnings, the fall in price put pressure on the value of the Kwacha and lowered the Governments tax receipts from the mining sector. Further, climate change has become a reality and is affecting the Country's day-to-day lives of its citizens and business operations. It affected the timing, distribution and amounts of rainfall last season that adversely affected Zambia's agricultural sector and weakened the Country's capacity to generate sufficient electric power.

Given the adverse global economic environment, Zambia's GDP growth in 2015 is estimated to be much lower (3.7) than the 7.0 percent projected at the beginning of year due to weaker global economic activity, especially in China and the Eurozone. This dampened demand for commodities and lowered mining sector output. The poor rains last season led to an unfavourable performance of the agriculture sector. The electricity supply deficit in the second half of 2015 negatively affected output across all sectors of the economy.

The factors mentioned above increased pressure on inflation resulting into a double digit rate by end of 2015 compared to the projected single digit rate of inflation at the beginning of the year.

FIRST ALLIANCE BANK (Z) LIMITED

CHAIRMAN'S REPORT
for the year ended 31 December 2015

Review of the Banking sector

The Financial Sector had nineteen (19) Commercial Banks in 2015. In addition there were about one hundred and thirty (130) other Financial Institutions comprising of Development Bank, Savings Bank, Leasing Companies, Building Societies, Micro Financial Institutions, and Bureau de Changes. All these are regulated by Bank of Zambia.

The overall financial performance and condition of the banking sector during the year 2015 has been satisfactory. Capital adequacy ratios have remained stable and above the required minimum as the banking sector is sufficiently well capitalised. However, earnings performance has been negatively affected due to the tight liquidity conditions which has resulted in higher cost of funds for banks during 2015.

The Bank's performance
I am pleased to report that the Bank continued to record profits in the year 2015 despite the challenges in the Banking sector. Since inception, our Bank has consistently recorded profits each year and 2015 was no exception. The Bank's profit before tax was **K18.067 million** during year 2015 as compared to profit before tax of K19.411 million earned in the previous year.

Total deposits as on 31 December 2015 were **K442.696 million** and total advances were **K 379.553 million** compared to K262.946 million and K238.465 million respectively the previous year.

Liquidity
Liquidity has been the Bank's strong point over the last decade. It is pertinent to note that the liquidity position of the Bank remained satisfactory throughout the year 2015. As at 31 December 2015 the Bank's total liquid assets were **K253.249 million** as a total of outside liability of **K444.093 million**; i.e. **57.03%.**

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

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

CHAIRMAN'S REPORT
for the year ended 31 December 2015

The way forward
The Bank's solid capital base coupled with prudent management of its liquidity leaves me with no doubt that 2016 will indeed continue to see growth for the Bank despite the challenges that lie ahead of us in the market. Our strategy will always be to foster our mission statement and objectives of growing a customer friendly Bank through the harnessing of both technology and human resource. In achieving such growth First Alliance Bank always aims at developing a personal and mutual relationship with its clientele. To all our esteemed customers and the staff I extend my heartfelt thanks and appreciation for their contribution to the Bank's performance in the year 2015 and hope for an even better 2016.

Conclusion
In conclusion I would like to mention that 2015 was indeed challenging but an eventful and successful year. I wish to extend my thanks and gratitude to the Bank of Zambia for their prompt and valued guidance that they have provided during the year.

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

Sanmukh Patel
Board Chairman

FIRST ALLIANCE BANK (Z) LIMITED

REPORT OF THE DIRECTORS

for the year ended 31 December 2015

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2015.

Principal Activities

The principal activity of the Bank is the provision of commercial banking and related services to the general public.

Directors

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

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

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

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

During the year 2015, the Board met four times while various Board Sub Committees met as per requirements.

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

Review of business

As at 31 December 2015, the Bank had total deposits of **K442.696 million** and net advance of **K379.553 million**. The Bank maintained sufficient liquidity during the year under review. Investment in Treasury Bills and Government Bonds (at cost) stood at **K84.431million** and **K2.864 million** respectively as at 31 December 2015.

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2015

Profit before tax

The Bank earned profit of **K18.067 million** before tax for the year ended 31 December 2015 compared to K19.411 million for the previous year.

Dividends

During the year 2015, the Bank did not pay any dividends to shareholders.

Share capital

As at 31 December 2015, authorized share capital was K104 million while issued and fully paid up Share Capital was K84 million comprising 84 million Ordinary Shares of K1 each

As at 31 December 2015, the Primary Capital of the Bank was **K128.458 million** and Regulatory Capital was **K135.160 million** against the minimum Regulatory Capital of K104 million stipulated by the Central Bank.

Bank's Shareholders and voting rights

The following individuals held shares in the bank:

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

REPORT OF THE DIRECTORS
for the year ended 31 December 2015

The Voting Rights are however distributed as under:

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

Board Committees

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

Audit Committee

The Audit Committee assists the Board in discharging its duties relating to financial reporting to all the stakeholders, compliance issues, risk management and the effectiveness of accounting and management information systems. This committee met four times in 2015.

The Audit Committee comprised the following members during the year:

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

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2015

Loans Review Committee

The following were the members of the Loans Review Committee during the year:

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

This committee has been constituted in accordance with the Banking and Financial Services Act of 1994 to review the loan portfolio, the classification of advances, provisioning in the Advances Accounts where necessary and effecting recovery in the problem accounts. In 2015, four meetings were held.

Credit Committee

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

The following are the members of the Credit Committee:

Mr. Urbano Mutati	Chairman
Mr. Cyril Patro	Managing Director
Mr. Sanmukh R Patel	Director
Mr. Larry Kalala	Director
Mr. Shashikant Patel	Director
Mr. Chokkalingam Sukumar	General Manager
Mr. Peter Mulenga	Chief Financial Officer
Mr. Thula Nyasulu	Secretary

Assets & Liabilities Management Committee (ALCO)

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

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

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

Nomination and Remuneration Committee

This committee is composed of the following members:

Mr. Vincent Malambo	Director – Chairman
Mr. Cyril Patro	Managing Director
Mr. Bwembya Chikwanda	Director
Mr. Chokkalingam Sukumar	General Manager
Mr. Galileo Mulambia	Secretary

Executive Management Team

At Head Office

Mr. Cyril Patro	Managing Director
Mr. Chokkalingam Sukumar	General Manager
Mr. Peter Mulenga	Chief Financial Officer
Mr. Joseph Jacob	Chief Inspector
Mr. Chenga Chisha	Head marketing and Risk
Mr. Thula Nyasulu	Manager – Credit
Mr. Galileo Mulambia	Manager - Personnel & Administration

At Branches

Mr. Yogesh Bhandari	Manager – Lusaka Branch
Mrs. Lilian Mwaba	Manager – Kitwe Branch
Mr. Matthew Pikiti	Manager – Ndola Branch
Mr. Eroy Mungaila	Manager – Industrial Branch , Lusaka
Mrs Margaret Catfish	Manager – East Park Mall

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2015

Staff strength and remuneration

The staff strength as at 31 December 2015 was **104.** This included **53** female members representing **51%** of the total workforce.

The remuneration of the employees during the year 2015 amounted to **K13.464 million** (2014 – K11.076 million).

Gifts and Donations

During the year, the Bank made donations of **K0.031million**, (2014: K0.007million,) to charitable organisations and events

Property, Plant and Equipment

The Bank purchased property and equipment amounting to **K2.171million** (2014: K0.440million) during the year. In the opinion of the Directors, the recoverable amount of property, plant and equipment is not less than the carrying value**.**

Research and Development

During the year, the Bank did not incur any research and development costs (2014: Nil).

Related Party Transactions

Related party transactions are disclosed in Note 25 to the financial statements.

Director's Emoluments and Interests

During the year 2015, Director's emoluments amounted to **K2.502 million** (2013 – K2.283 million). Further information is also disclosed in Note 25 to the financial statements.

Prohibited Borrowing and Lending

As at 31 December 2015, there were no prohibited borrowings or lending as defined under sections 72 and 73 of the Banking and Financial Services Act, 1994 (as amended).

Risk Management and Control

The Bank, through its normal operations, is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. The Bank's risk management objectives, policies and strategies are disclosed in Note 29 to the financial statements.

Compliance Function

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

Know Your Customer (KYC) and Anti-Money Laundering (AML) Policies

The Bank has adopted know-your-customer ("KYC") and anti-money laundering ("AML") policies and complies with current legislation in these areas as per local regulatory requirements.

Auditors

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

FIRST ALLIANCE BANK (Z) LTD

REPORT OF THE DIRECTORS
for the year ended 31 December 2015

Responsibility of directors in respect of preparation of financial statements

The Company's directors are responsible for the preparation and fair presentation of the financial statements of First Alliance Bank (Z) Limited comprising the statement of financial position as at 31 December 2015 and statements of comprehensive income, changes in equity and cash flows for the year ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with the International Financial Reporting Standards, the Banking and Financial Services Act, 1994 (as amended) and the Companies Act, 1994.

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

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

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

Approval of the financial statements

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

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Director ***Director***

Director

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

Report on the financial statements

We have audited the financial statements of First Alliance Bank (Z) Limited, as set out on pages 14 to 71, which comprise the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of financial position at 31 December 2015 and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of First Alliance Bank (Z) Limited at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Act, 1994 and the Banking and Financial Services Act, 1994 (as amended).

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

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

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

Ernst & Young
Chartered Accountants

Henry C Nondo — ***1 June 2016***
Partner — ***Lusaka***

Practising Certificate Number: AUD/F000136

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2015

	Note	**2015 K'000**	2014 K'000
Interest income	4	**80,574**	54,735
Interest expense	5	**(33,145)**	(17,060)
Net interest income		**47,429**	37,675
Net fees and commission income	6	**12,202**	10,643
Net trading income	7	**11,154**	4,432
Other operating income	8	**586**	653
Total operating income		**71,371**	53,403
Credit (loss)/gain	16	**(16,306)**	(8,483)
Net operating income		**55,065**	44,920
Personnel expenses	9	**(13,464)**	(11,077)
Depreciation of property, plant and equipment	18	**(1,582)**	(1,497)
Other operating expenses	10	**(21,952)**	(12,935)
Profit before tax	3	**18,067**	19,411
Income tax expense	11	**(11,629)**	(7,773)
Profit after tax		**6,438**	11,638
Dividends		**-**	-
Profit for the year		**6,438**	11,638
Other comprehensive income net of tax		**-**	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**-**	-
Net other comprehensive income not to be classified to profit and loss in subsequent periods		**-**	-
Total comprehensive income		**6,438**	11,638

The notes on pages 18 to 71 form part of these financial statements.

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share capital K'000	Revenue reserves K'000	Revaluation Reserves K'000	Statutory reserves K'000	Total K'000
At 1 January 2014	84,000	14,442	17,522	9,915	125,879
Profit for the year	-	11,638	-	-	11,638
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	11,638	-	-	11,638
Transfer to statutory reserves	-	(5,977)	-	5,977	-
Depreciation transfer for revalued assets	-	384	(384)	-	-
At 31 December 2014	**84,000**	**20,487**	**17,138**	**15,892**	**137,517**
At 1 January 2015	84,000	20,487	17,138	15,892	137,517
Profit for the year	-	6,438	-	-	
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	6,438	-	-	6,438
Transfer to statutory reserves	-	(3,848)	-	3,848	-
Depreciation transfer for revalued assets	-	384	(384)	-	-
At 31 December 2015	**84,000**	**23,461**	**16,754**	**19,740**	**143,955**

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

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

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

The notes on pages 18 to 71 form part of these financial statements.

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF FINANCIAL POSITION

as at 31 December 2015

	Note	2015 K'000	2014 K'000
Assets			
Cash on hand	13	**22,156**	22,399
Balances with central bank		**72,123**	57,486
Due from other banks	14	**71,675**	52,306
Treasury bills		**84,431**	56,444
Investment in securities	15	**18,671**	9,880
Government bonds		**2,864**	2,864
Loans and advances	16	**379,553**	238,465
Other assets	17	**22,176**	5,997
Property, plant and equipment	18	**19,705**	19,116
Total assets		**693,354**	464,957
Liabilities and Equity			
Liabilities			
Due to customers	19	**442,696**	262,946
Due to other banks	20	**69,495**	-
Other liabilities	21	**35,210**	62,563
Income tax payable	12	**1,998**	1,931
Total liabilities		**549,399**	327,440
Equity			
Share capital	22	**84,000**	84,000
Revenue reserves		**23,461**	20,487
Revaluation reserves		**16,754**	17,138
Statutory reserves		**19,740**	15,892
Total equity		**143,955**	137,517
Total liabilities and equity		**693,354**	464,957

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

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Director	***Director***
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Director	**Secretary**

The notes on pages 18 to 71 form part of these financial statements.

FIRST ALLIANCE BANK (Z) LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	Note	2015 K'000	2014 K'000
Cash flows from operating activities			
Profit before tax and unrealised trading gains		**13,715**	19,174
Unrealised trading gains		**4,352**	237
Profit before tax		**18,067**	19,411
Depreciation charge for the year		**1,582**	1,497
Exchange gain on investments in securities		**(8,791)**	(1,478)
		10,858	19,430
Loss/(profit) on disposal of property, plant and equipment		-	-
(Increase)/decrease in other assets		**(16,179)**	(2,545)
Increase/(decrease) in other liabilities		**(27,353)**	47,024
Increase/(decrease) due to customers		**179,750**	43,363
(Increase)/decrease in loans and advances		**(141,088)**	(35,547)
(Decrease)/increase in due to other banks		**69,495**	(21,600)
Income tax paid		**(11,562)**	(7,083)
Net cash flows from operating activities		**63,921**	43,042
Cash flows from investing activities			
Increase in Treasury Bills		**(27,987)**	(23,211)
Decrease in Government Bonds		-	7,210
Purchase of property, plant and equipment		**(2,171)**	(440)
Net cash flows used in investing activities		**(30,158)**	(16,441)
Movement in cash and cash equivalents			
Net cash flow		**33,763**	26,601
Cash and cash equivalents at beginning of the year		**132,191**	105,590
Cash and cash equivalents at end of the year	23	**165,954**	132,191

The notes on pages 18 to 71 form part of these financial statements.

1 General Information

1.1 Physical Address

The Bank is incorporated and domiciled in Zambia under the Companies Act, 1994 (as amended) as a limited liability Bank. The address of its registered office is:

Plot No 627
P.O Box 33959
Cairo Road
Lusaka

1.2 Principal Activity

The principal activity of the Bank is the provision of commercial banking and related services to the general public.
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2. 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.

2.1 Basis of preparation

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

Statement of compliance

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

Presentation of financial statements

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

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

2. Significant accounting policies *(continued)*

2.2 Significant accounting judgments, estimates and assumptions

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

Going concern

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

Deferred tax assets

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

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations

A number of new standards, amendments to standards and interpretations are mandatory for the year ended 31 December 2015, and have been adopted by the Company where relevant to the Company's operations.

a) **New standards and interpretations effective in 2015**
Many standards or amendments became effective for the first time in the current financial year. These include IFRS 9 Financial Instruments IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception –Amendments to IFRS 10, IFRS 12 and IAS 28
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 , IFRS 11 Accounting for Acquisitions of Interests in Joint Operations — Amendments to IFRS 11 ,IFRS 14 Regulatory Deferral Accounts
IFRS 15 Revenue from Contracts with Customers ,IAS 1 Disclosure Initiative – Amendments to IAS 1 ,IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation —Amendments to IAS 16 and IAS 38 ,IAS 16 and IAS 41 Agriculture: Bearer Plants — Amendments to IAS 16 and IAS 41 ,IAS 19 Defined Benefit Plans: Employee Contributions — Amendments to IAS 19 ,IAS 27 Equity Method in Separate Financial Statements — Amendments to IAS 27. Most of these standards did not have a significant impact on the Company. The nature and the impact of the standards and amendments that had an impact on the financial statements of the Company are described below:

IFRS 9 Financial Instruments
Effective for annual periods beginning on or after 1 January 2018.

Classification and measurement of financial assets
All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is
not accounted for at fair value through profit or loss (FVTPL).Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.Equity instruments are generally measured at FVTPL. However,entities have an irrevocable option on an instrument-byinstrument basis to present changes in the fair value of nontrading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations *(continued)*

a) New standards and interpretations effective in 2015 (continued)

Classification and measurement of financial liabilities
For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 Financial Instruments: Recognition and
Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment
The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 Leases. In determining the appropriate period to measure ELCs, entities are generally required to assess based on either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, a simplified approach may be applied whereby the lifetime expected credit losses are always recognised.

Hedge accounting
Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable.
The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging.
More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

Early application is permitted for reporting periods beginning after the issue of IFRS 9 on 24 July 2014 by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 (continued)

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. It will be important for entities to monitor the discussions of the IFRS Transition

The impact will be assessed close to the adoption date.

IFRS 10, IFRS 12 and IAS 27 Investment Entities –Amendments to IFRS 10, IFRS 12 and IAS 27

Effective for annual periods beginning on or after 1 January 2016.

The amendments address three issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated.

All other subsidiaries of an investment entity are measured at fair value.
The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

The amendments to IFRS 10 and IAS 28 provide helpful clarifications that will assist preparers in applying the standards more consistently. However, it may still be difficult to identify investment entities in practice when they are part of a multi layered group structure.

The standard will not have an impact on the financial statements as the Company does not have investment entities

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IFRS 14 Regulatory Deferral Accounts
IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from applying the standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income.

The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

IFRS 14 is applied retrospectively. Early application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

This standard will not have an impact on the financial statements of the Company as the Company is not a first time adopter of IFRS.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

In August 2015, the IASB issued Exposure Draft
ED/2015/7 Effective Date of Amendments to IFRS 10 and IAS 28 proposing to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method.

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 *(continued)*

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions

The standard will not have an impact on the Company as the Company does not have investments in associates or joint ventures.

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

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

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

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

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41
The amendments to IAS 16 and IAS 41 Agriculture change the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16 including the choice between the cost model and revaluation model. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20, instead of IAS 41.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earliest period presented. Any difference between the fair value used as deemed cost at that date and the previous carrying amount will be recognised in retained earnings. Earlier application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

The amendments effectively provide entities with a choice of using either the cost model or continuing to measure their bearer plants at fair value under the revaluation model. However, the requirements will not entirely alleviate the need to measure fair value or eliminate the volatility in profit or loss as agricultural produce will still be measured at fair value. In addition, entities using the revaluation model for bearer plants will recognise fair value changes in other comprehensive income, rather than profit or loss.This amendment will have no impact on the financial statements of the Company as the Company does not have biological assets.

IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27

When IAS 27 and IAS 28 were revised in 2003, the equity method was removed as an option to account for investments in subsidiaries and associates in an entity's separate financial statements. In some jurisdictions, local regulations require an entity to use the equity method for this purpose, therefore creating a difference between separate financial statements prepared in accordance with local GAAP and those prepared in accordance with IFRS. The objective of these amendments is to restore the option to use the equity method. Therefore, an entity must account for these investments either at cost in accordance with IFRS 9 (or IAS 39) or using the equity method.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27 *(continued)*

The entity must apply the same accounting for each category of investments. A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment. The amendments must be applied retrospectively. Early application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

The amendments will have no impact on the financial statements of the Company as the Company has no investments in subsidiaries, associates and joint ventures.

IAS 1 Disclosure Initiative – Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016.
Key requirements
The amendments to IAS 1 Presentation of Financial Statements
clarify, rather than significantly change, existing IAS 1requirements.
The amendments clarify:
• The materiality requirements in IAS 1
• That specific line items in the statement(s) of profit or loss
and OCI and the statement of financial position may be disaggregated
• That entities have flexibility as to the order in which they present the notes to financial statements
• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss
Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IAS 1 Disclosure Initiative – Amendments to IAS 1*(continued)*

Early application is permitted and entities do not need to disclose that fact because the Board considers these amendments to be clarifications that do not affect an entity's accounting policies or accounting estimates.

These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.

19 Defined Benefit Plans: Employee Contributions — Amendments to IAS 19
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age. These changes provide a practical expedient for simplifying the accounting for contributions from employees or third parties in certain situations.

The amendments must be applied retrospectively. Early application is permitted and must be disclosed. These amendments are effective for annual periods beginning on or after 1 July 2014. The Company has not assessed the impact of these amendments on its financial statement. An assessment will be made when the Company adopts this standard for the period beginning 1 January 2015.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IFRS 9 Financial Instruments

In July 2015, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities. The Company will quantify the effect closer to the effective date in 2017.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from applying the standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income.

The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

IFRS 14 is applied retrospectively. Early application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

This standard will not have an impact on the financial statements of the Company as the Company is not a first time adopter of IFRS.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) in IFRS and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of sales of some non-financial assets including disposals of property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

For each step of the model, the standard requires entities to exercise judgement and to consider all relevant facts and circumstances when applying the model to contracts with their customers.

In addition to the five-step model, the standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.
Application guidance is provided in the standard to assist entities in applying its requirements to common arrangements, including licences, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services,

Entities are allowed to choose either a full retrospective approach for all periods presented in the period of adoption with some limited relief provided, or a modified retrospective approach. Early application is permitted and must be disclosed. This standard is effective for annual periods beginning on or after 1 January 2017.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IFRS 15 Revenue from Contracts with Customers *(continued)*

The Company is still assessing the impact of this standard on the Company's financial statements. It is currently expected that the impact will mostly be on disclosure requirements which are likely to be more extensive. The Company will adopt this standard close to the effective date of this standard.

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

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

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

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

IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41
The amendments to IAS 16 and IAS 41 Agriculture change the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16 including the choice between the cost model and revaluation model. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20, instead of IAS 41.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations *(continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 *(continued)*

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earliest period presented. Any difference between the fair value used as deemed cost at that date and the previous carrying amount will be recognised in retained earnings. Earlier application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

The amendments effectively provide entities with a choice of using either the cost model or continuing to measure their bearer plants at fair value under the revaluation model. However, the requirements will not entirely alleviate the need to measure fair value or eliminate the volatility in profit or loss as agricultural produce will still be measured at fair value. In addition, entities using the revaluation model for bearer plants will recognise fair value changes in other comprehensive income, rather than profit or loss.

This amendment will have no impact on the financial statements of the Company as the Company does not have biological assets.

19 Defined Benefit Plans: Employee Contributions — Amendments to IAS 19

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee’s salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee’s age. These changes provide a practical expedient for simplifying the accounting for contributions from employees or third parties in certain situations.

The amendments must be applied retrospectively. Early application is permitted and must be disclosed. These amendments are effective for annual periods beginning on or after 1 July 2015. The Company has not assessed the impact of these amendments on its financial statement. An assessment will be made when the Company adopts this standard for the period beginning 1 January 2015.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

a) New standards and interpretations effective in 2015 *(continued)*

IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27
When IAS 27 and IAS 28 were revised in 2003, the equity method was removed as an option to account for investments in subsidiaries and associates in an entity's separate financial statements. In some jurisdictions, local regulations require an entity to use the equity method for this purpose, therefore creating a difference between separate financial statements prepared in accordance with local GAAP and those prepared in accordance with IFRS. The objective of these amendments is to restore the option to use the equity method. Therefore, an entity must account for these investments either at cost in accordance with IFRS 9 (or IAS 39) or using the equity method.

The entity must apply the same accounting for each category of investments. A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment. The amendments must be applied retrospectively. Early application is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2016.

The amendments will have no impact on the financial statements of the Company as the Company has no investments in subsidiaries, associates and joint ventures.
The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.

- **2010-2012 cycle (issued in December 2013)**

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, summaries of which are provided below. Other than amendments that only affect the standards' Basis for Conclusions, the changes are effective 1 July 2015. Earlier application is permitted and must be disclosed.

IFRS 2 Share-based Payment Definitions of vesting conditions
The amendment defines 'performance condition' and 'service condition' to clarify various issues, including the following:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those
- of another entity in the same group

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

New standards and interpretations effective in 2015 *(continued)*

IFRS 2 Share-based Payment Definitions of vesting conditions *(continued)*

- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the
- vesting period, the service condition is not satisfied
- The amendment must be applied prospectively.

The amendments will have no impact on the financial statements of the Company as the Company has no share based payments of vesting conditions.

IFRS 3 Business Combinations Accounting for contingent consideration in a business combination
The amendment clarifies that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). The amendment must be applied prospectively.

The amendments will have no impact on the financial statements of the Company as the Company had no business combinations during the current year.

IFRS 8 Operating Segments Aggregation of operating segments
The amendment clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8.12, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are similar. The amendment must be applied retrospectively.

- Reconciliation of the total of the reportable segments' assets to the entity's assets
- The amendment clarifies that the reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendment must be applied retrospectively**.** The amendments will result in additional disclosure to the financial statements of the Company.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

New standards and interpretations effective in 2015 *(continued)*

IFRS 13 Fair Value - Measurement Short-term receivables and payables
The amendment clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately. The amendments will have no impact on the financial statements of the Company however the application of IFRS 13 Fair Value measurement for receivables and payables is much more clarified.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method – proportionate restatement of accumulated depreciation/amortisation.
The amendments to IAS 16 and IAS 38 clarify that the revaluation can be performed, as follows:

- Adjust the gross carrying amount of the asset to market value OR
- Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The amendments also clarifies that accumulated depreciation/amortisation is the difference between the gross and carrying amounts of the asset. The amendments must be applied retrospectively**.** The amendments will have no impact on the financial statements of the Company as the Company already adjusts the carry amount to equal the market value.

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment must be applied retrospectively. The amendments will have no impact on the financial statements of the Company as the Company already discloses key management personnel as related parties subject to related party disclosures.

➢ **2011-2013 cycle (issued in December 2013)**

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, summaries of which are provided below. Other than amendments that only affect the standards' Basis for Conclusions, the changes are effective 1 July 2015. Earlier application is permitted and must be disclosed.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

New standards and interpretations effective in 2015 *(continued)*

IFRS 1 First-time Adoption of International Financial Reporting Standards Meaning of 'effective IFRSs'
The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. The amendment is effective immediately and had no impact on the financial statements of the Company as the Company is not a first time adopter of international financial reporting standards.

IFRS 3 Business Combinations Scope exceptions for joint ventures
The amendment clarifies that Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment must be applied prospectively. The amendment had no impact on the financial statements of the Company as the Company has no joint arrangement or joint venture arrangements.

IFRS 13 Fair Value Measurement Scope of paragraph 52 (portfolio exception)
The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).The amendment must be applied prospectively. The amendment will have no significant impact on the financial statements of the Company as the Company's financial assets and liabilities are mostly short-term in nature.

IAS 40 Investment Property Interrelationship between IFRS 3 and IAS 40 (ancillary services)
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The amendment must be applied prospectively. The amendment had no impact on the financial statements of the Company as the Company does not have investment properties accounted for under IAS 40 Investment Property.

- **2012-2015 Cycle (issued in September 2014)**

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

New standards and interpretations effective in 2015 *(continued)*

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations Changes in methods of disposal
Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.The amendment must be applied prospectively. The amendment had no significant impact on the financial statements of the Company as the Company non-current assets held for sale are not material.

IFRS 7 Financial Instruments: Disclosures Servicing contracts.
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.

The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. An assessment will be made when the Company adopts this standard for the period beginning 1 January 2015.

Applicability of the offsetting disclosures to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment must be applied retrospectively. An assessment of the impact on the Company's interim financial statements will be made when the Company adopts this standard for the period beginning 1 January 2015.

IAS 19 Employee Benefits Discount rate: regional market issue
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively. This amendment will have no impact as the Company is already applying a discount rate based on the currency in which the obligation is denominated which is Zambia.

2. Significant accounting policies *(continued)*

2.3 New standards and interpretations (*continued)*

New standards and interpretations effective in 2015 *(continued)*

IAS 34 Interim Financial Reporting-Disclosure of information 'elsewhere in the interim financial report'
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment must be applied retrospectively. This amendment is not expected to have significant impact on the interim financial statements of the Company.

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

2.4. Recognition of income and expenses

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

2.4.1 Interest and similar income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest and similar income' or 'interest and similar expense' respectively in profit or loss using the effective interest method.

2. Significant accounting policies (*continued)*

2.4. Recognition of income and expenses *(continued)*

2.4.1 Interest and similar income and expense *(continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4.2 Fee and commission income

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

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 the related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

2.4.3 Dividend income

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

2.4.4 Net trading income

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

2. Significant accounting policies *(continued)*

2.5 Financial Instruments

2.5.1 Initial recognition and subsequent measurement

i) Date of recognition

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

ii) Initial measurement of financial instruments

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

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

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

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

iv) Held–to–maturity financial investments

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

2. Significant accounting policies *(continued)*

2.5 Financial Instruments *(continued)*

2.5.1 Initial recognition and subsequent measurement *(continued)*

v) Due from banks and loans and advances to customers

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

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

vi) Fair Value Measurement Principles

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

2.5.2 Classification

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

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

2.5.3 Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- The rights to receive cash flows from the asset have expired.
- The bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:
- the bank has transferred substantially all the risks and rewards of the asset, or

2. Significant accounting policies *(continued)*

2.5 Financial Instruments *(continued)*

2.5.3 Derecognition of financial assets and financial liabilities *(continued)*

(i) Financial assets

- the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(ii) Financial liabilities

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

2.5.4 Off Setting of financial assets and financial liabilities

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

2.5.5 Borrowings

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

2. Significant accounting policies *(continued)*

2.6 Impairment of financial assets *(continued)*

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

i) Financial assets carried at amortised cost

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

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

2. Significant accounting policies *(continued)*

2.6 Impairment of financial assets *(continued)*

ii) Financial assets carried at amortised cost *(Continued)*

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

(ii) Renegotiated loans

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

2.7 Foreign currency translation

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

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 account. Monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items denominated in foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise.

2. Significant accounting policies *(continued)*

2.8 Retirement benefits

The bank contributes to the statutory scheme in Zambia namely National Pension Scheme Authority (NAPSA) which is a defined contribution plan where the bank pays an amount equal to the employees' contributions. Employees' contribution is 5% of their gross earnings or maximum of K796.2 per month during the year 2015.

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.

2.9 Property and equipment – Owned Assets

Recognition and Measurements
All property, plant and equipment - except buildings - is stated at historical cost. Items of property, plant and equipment are subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses. It is the Bank's policy to perform revaluations with regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. The revaluation differences are credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus", unless it represents the reversal of a revaluation decrease previously recognised as an expense to the extent, in which case it should be recognised as income. A decrease as a result of a revaluation is recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset.

When a revalued asset is disposed of, any revaluation surplus is transferred directly to retained earnings.

Cost includes expenditure that is directly attributable to the acquisition of the asset. This includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are componentised as separate items of property, plant and equipment.

2. Significant accounting policies *(continued)*

2.9 Property and equipment – Owned Assets *(continued)*

Capital work-in-progress relates to items of property, plant and equipment that are under construction and are yet to be commissioned for use. Work-in-progress is measured at the cost incurred in relation to the construction up to the reporting date.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other operating income

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced component is then derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of the asset less its residue value. Components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Capital work-in-progress is not depreciated.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

The estimated useful lives are as follows:

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

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

The Bank assesses at each reporting date 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.

2. Significant accounting policies *(continued)*

2.10 Impairment of non–financial assets

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

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

2.11 Cash and cash equivalents

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

2.12 Taxation

(i) Current tax

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

(ii) Deferred tax

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

2. Significant accounting policies *(continued)*

2.12 Taxation *(continued)*

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

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

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

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

2.13 Provisions

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

2.14 Dividends

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

2.15 Leasing

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

2. Significant accounting policies *(continued)*

2.15 Leasing *(continued)*

Bank as a lessee

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

Bank as a lessor

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

2.16 Securities lending and borrowing

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

2.17 Fiduciary Activities

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

As at 31 December 2015, the bank held the following securities on behalf of the customers:

Security	**K'000**
Government Bonds	12,082
Treasury Bills	350
Total	12,432

2. Significant accounting policies *(continued)*

2.18 Financial guarantees

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

FIRST ALLIANCE BANK (Z) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

		2015	2014
		K'000	K'000
3.	**Profit before tax**		
	Profit before tax is stated after charging		
	Auditors remuneration	**246**	281
	Directors emoluments	**2,502**	2,283
4.	**Interest and similar income**		
	Loans, advances and overdrafts	**56,472**	41,144
	Government securities and other	**20,185**	9,489
	Deposits with banks	**3,917**	4,102
		80,574	54,735
5.	**Interest and similar expenses**		
	Due to banks	**2,470**	1,898
	Due to customers	**30,675**	15,162
		33,145	17,060
6.	**Net fees and commission income**		
	Commission	**2,690**	2,114
	Fees and service charges	**9,512**	8,529
		12,202	10,643
7.	**Net trading income**		
	Realised trading gains	**6,802**	4,195
	Unrealised trading gains	**4,352**	237
		11,154	4,432

		2015	2014
8.	**Other operating income**	**K'000**	K'000
	Operating lease income	**586**	653
9.	**Personnel expenses**		
	Salaries and allowances	**12,966**	9,709
	Staff benefits	**498**	1,368
		13,464	11,077
10.	**Other operating expenses**		
	Occupancy	**2,267**	1,946
	Donations	**31**	7
	Insurance	**242**	227
	Computer expenses	**1,369**	1,737
	Clearing House Expenses	**1,340**	-
	Telephone expenses	**484**	621
	BOZ fees	**991**	703
	Travel expenses	**1,667**	1,003
	Education and training	**1,716**	1,721
	Fraud and forgeries	**-**	1,015
	Legal and professional fees	**958**	474
	Security charges	**565**	320
	Reuters expenses	**349**	303
	Fuel and maintenance	**359**	328
	Systems upgradation	**3,190**	-
	Other	**6,424**	2,530
		21,952	12,935
11.	**Income tax**		
i)	**Income tax expense**		
	Current tax on bank income @ 35%	**11,570**	7,544
	Current tax on rental income @ 10%	**59**	229
	Deferred tax	**-**	-
		11,629	7,773
ii)	**Tax reconciliation**		
	Taxation on accounting profit at 35%	**6,323**	6,794
	Non deductible expenditure	**2,168**	145
	Deferred tax asset not recognised	**3,138**	834
		11,629	7,773

		2015 K'000	2014 K'000
12. (i)	**Deferred tax asset**		
	Deferred tax asset not recognised comprises:		
	Accelerated capital allowances	**(662)**	(1,453)
	Provisions	**(5,132)**	(1,203)
		(5,794)	(2,656)

		2015 K'000	2014 K'000
12. (ii)	**Income tax payable**		
	At 1 January	**1,931**	1,241
	Payable in respect of current year	**11,629**	7,773
		13,560	9,014
	Paid during the year	**(11,562)**	(7,083)
	At 31 December	**1,998**	1,931

		2015 K'000	2014 K'000
13.	**Cash on hand**		
	Local currency on hand	**5,760**	13,203
	Foreign currency on hand	**16,396**	9,196
		22,156	22,399

		2015 K'000	2014 K'000
14.	**Due from other banks**		
	Nostro accounts	**35,484**	52,085
	Outward clearing	**5,886**	221
	Inter-Bank placements	**30,305**	-
		71,675	52,306

15. Investment in securities

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

16. Loans and advances to customers

	2015	2014
	K'000	K'000
Private corporations	**356,688**	225,093
Individuals and households	**42,178**	12,469
Non-bank financial institutions	**10,766**	14,676
	409,632	252,238
Less: Allowance for impairment losses (**Note 16.1**)	**(30,079)**	(13,773)
	379,553	238,465

16.1 Allowance for impairment losses

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

At 1 January	**13,773**	5,290
Charge for the year	**16,306**	8,483
Recovery during the year	**-**	-
At 31 December	**30,079**	13,773

17. Other assets

Interest earned but not collected	**12,989**	4,162
Other accounts **	**9,187**	1,835
	22,176	5,997

** National Switch

Included in other accounts is K725,000 (2014: nil) 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 specifically to support electronic point-of-sale transactions. This investment is carried at cost and is reviewed for impairment at each reporting date.

18. Property, plant and equipment

Year ended 31 December 2015

	Leasehold land and buildings K'000	Motor vehicles K'000	Furniture fittings and Equipment K'000	Total K'000
Cost/valuation				
At 1 January 2015	20,375	836	3,261	24,472
Additions	-	-	2,171	2,171
At 31 December 2015	**20,375**	**836**	**5,432**	**26,643**
Depreciation				
At 1 January 2015	2,159	654	2,543	5,356
Charge for the year	540	84	958	1,582
At 31 December 2015	**2,699**	**738**	**3,501**	**6,938**
Net book value				
At 31 December 2015	**17,676**	**98**	**1,933**	**19,705**
At 31 December 2014	18,216	182	718	19,116

Revaluation of the Bank's assets

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

18. Property, plant and equipment

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

		2015	2014
19.	**Due to customers**	**K'000**	K'000
19.1	**Demand deposits**		
	Foreign deposits	**152,700**	67,322
	Kwacha deposits	**89,293**	63,872
		241,993	131,194
19.2	**Time deposits**		
	Foreign fixed deposits	**80,197**	26,236
	Kwacha fixed deposits	**120,506**	105,516
		200,703	131,752
	Total due to customers	**442,696**	262,946

20. Due to banks

Deposits from other banks	**69,495**	-

21. Other liabilities

Bills payable	**1,397**	1,075
Margin money	**11,677**	53,461
Interest payable	**12,913**	4,759
Withholding & VAT tax payable	**1,290**	-
Provision for gratuity	**2,287**	2,084
Other	**5,646**	1,184
	35,210	62,563

22. Share capital

Authorised		
104,000,000 shares of K1 each	**104,000**	104,000
Issued and fully paid		
84,000,000 shares of K1 each	**84,000**	84,000

23.	**Analysis of cash and cash equivalents as shown on the statement of cash flows**	**2015 K'000**	2014 K'000
	Cash in hand	**22,156**	22,399
	Balance with central bank**	**72,123**	57,486
	Due from other banks	**71,675**	52,306
		165,954	132,191

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

24. Treasury bills

Treasury bills amounting to K5, 357 (2014-K2, 971) are held at the Bank of Zambia as collateral for Zambia Electronic Clearing House Limited.

25. 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.

A number of banking transactions and other transactions were entered into with related parties in the normal course of doing business 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:

Directors Emoluments	**2015**	2014
Fees and Allowances	**2,502**	2,283
Key Management Compensation		
Salaries and other short term employment benefits	**3,815**	3,123

25. Related Party Transactions *(continued)*

Deposits	**2015**	2014
Directors & Key Management Personnel	**10,231**	11,306
Entities connected to Directors	**14,772**	1,605
	25,003	12,911

Loans; Key Management Personnel

January	**55**	-
New	**420**	75
Repayments	**(27)**	(20)
December	**448**	55

Loans; Directors and connected entities

There were no loan facilities availed to both Directors and connected entities or families of the Directors (2014: nil). However, Overdraft Facilities were availed and outstanding balances were as shown below;

	2015	2014
Credit line limit	**64,750**	27,305
Outstanding Balance	**44,707**	17,758
Fees & interest earned	**5,928**	1,812

NB: The exchange rate has material impact on US$ denominated overdraft facilities, K12/$ (2014: K6.35/$) as the lines of credits remained unchanged.

Guarantees	**2015**	2014
Entities connected to Directors	**2,483**	1,438

No impairment provisions has arisen on loans and advances to related parties (2014: nil).

Loans to Key Management Personnel are provided on the same terms as other employees of the Bank while to Directors and connected entities facilities are at market terms.

26. Contingent liabilities, commitments and leasing arrangements

	2015 K'000	2014 K'000
Guarantees		
Guarantees and performance bonds	**32,826**	66,741

Guarantees are generally written by the 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.

Operating Lease commitments

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

	2015 K'000	2014 K'000
Less than one (1) year	**3,657**	2,043
More than one (1) year but less than three (3) years	**7,314**	3,892
	10,971	5,935

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

27. Future capital expenditure

There were no capital expenditure commitments for the year ended 31 December 2015 (2014: Nil).

28. Post Balance sheet events

There are no post year end events management is aware of that could materially impact on the Bank's results for the year ended 31 December 2015.

29. Financial risk management and control

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

The Directors have approved policies to mitigate these risks by introducing controls that are designed to safeguard the bank without constraining the normal conduct of business. The directors review these policies on a regular basis at least once a year.

29.1 Credit risk

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

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

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

I. Credit risk measurement

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

29. Financial risk management and control *(continued)*

29.1 Credit risk *(continued)*

I. Credit risk measurement

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

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

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

Loss given default/loss severity**:** This represents the Bank's expectation of the extent of loss on a claim should default occur. It typically varies by type of counterparty and availability of collateral or other credit support.

II. Risk limit control and mitigation policies

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

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

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

29. Financial risk management and control *(continued)*

29.1 Credit risk *(continued)*

II. Risk limit control and mitigation policies *(continued)*

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

As at 31 December 2015 the sector-wise distribution of gross advances (see note 16) was as follows:

Sector	As at 31 Dec 2015		As at 31 Dec 2014	
	K '000	%	K '000	%
Agriculture, Forestry, fishing & Poultry	**11,122**	**2.7%**	5,181	2.1%
Manufacturing	**74,512**	**18.2%**	44,487	17.6%
Mining and quarrying	**14,816**	**3.6%**	6,146	2.4%
Housing/construction	**6,480**	**1.6%**	6,896	2.7%
Trade (wholesale/retail)	**85,863**	**21.0%**	57,567	22.8%
Hotel Industry	**26,676**	**6.5%**	18,603	7.4%
Transport	**33,027**	**8.1%**	21,450	8.5%
Community and social services	**798**	**0.2%**	302	0.1%
Real Estate	**28,045**	**6.9%**	23,008	9.1%
Personal and other	**117,527**	**28.7%**	53,922	21.4%
Financial services	**10,766**	**2.5%**	14,676	5.8%
	409,632	**100%**	252,238	100%

III. Impairment and provisioning policies

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

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

29. Financial risk management and control *(continued)*

29.1 Credit risk *(continued)*

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

Financial instruments whose carrying amount does not represent exposure to credit risk without taking into account of any collateral held or other credit enhancements are disclosed below:

a) Off-balance sheet items

	2015	2014
Performance bonds guarantees	**32,826**	66,741

b) Loans and advances

Pass (neither past due nor impaired)	**379,553**	238,465
Past due and impaired	**30,079**	13,773
Gross	**409,632**	252,238
Less allowance for impairment	**30,079**	13,773
Net (Note 16)	**379,553**	238,465

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.
- 93% of the loans and advances portfolio are neither past due nor impaired (2014: 95%).
- 98% of the loans and advances portfolio are backed by collateral (2014: 99%).
- 82% of the investments in debt securities are government securities (2014: 86%).

c) Other Financial Instruments

All other financial instruments below were neither past due nor impaired

	2015	2014
Placements with other Banks	**71,675**	52,306
Balances with central Bank	**72,123**	57,486
Securities with GRZ	**87,535**	59,308
Corporate Bond	**18,671**	9,880
Total	**250,004**	178,980

29. Financial risk management and control *(continued)*

29.2. Liquidity risk

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

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

Every month Liquidity Risk Statement is prepared and submitted to the Bank of Zambia as a part of the Prudential Returns. Liquidity Risk Statement as of 31 December 2015 is disclosed in note 29.9.

29.3. Operational risk

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

29.4. Legal risk

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

29.5. 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).

29. Financial Risk management and control *(continued)*

29.5. Market risk *(continued)*

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

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

29.6 Foreign exchange risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

29. Financial Risk management and control *(continued)*

29.6 Foreign exchange risk – (continued)

a) Exposure to foreign currency exchange risk

Exposure to Foreign Currency assets and liabilities of the bank as on 31 December 2015 is given below:

Currency type (K'000)	**US$**	**GBP**	**ZAR**	**EURO**
Exchange rate (K)	12	18	0.85	13
F*oreign currency asset*s:				
Cash & balances with banks abroad	3,088	224	6,805	526
Loans & Advances	16,924	-	-	-
Other Foreign Assets	5,467	-	-	-
Undelivered Spot Purchases	-	-	-	-
Total foreign assets	25,479	224	6,805	526
Kwacha equivalent	305,748	4,032	5,784	6,838
Foreign currency liabilities:				
Customers' Deposits	18,290	19	550	309
Other foreign liabilities	7,060	-	-	-
Total Foreign Currency liabilities	25,530	19	550	309
Kwacha equivalent	304,200	342	468	4,017
Net open position	129	205	6,255	217
Kwacha equivalent	1,548	3,690	5,316	2,821
Net open position to Regulatory Capital K133,903 million (2014**:** K127.234 million)	**1.29%**	**2.8%**	**4.0%**	**2.1%**

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

29. Financial Risk management and control *(continued)*

29.6 Foreign exchange risk *(continued)*

b) Foreign currency sensitivity

The following shows the currency sensitivity to the Bank's exposure to a 20% appreciation or depreciation of the Kwacha against the relevant foreign currencies, translated at a statement financial position date. 20% represents management's assessment of a reasonably possible change in foreign currency rates taking into account recent developments in the economy.

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

Appreciate	US$	GBP	ZAR	EURO
-20%	(310)	(738)	(1,063)	(654)

29.7. Interest rate risk:

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rates re-pricing that may be undertaken which is monitored daily. Every month Interest Risk Statement is prepared and submitted to the Bank of Zambia as a part of the Prudential Returns. Interest Risk Statement as of 31 December 2015 is disclosed in note 29.10.

29.8 Fair values of financial instruments

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

29.9 Liquidity risk analysis

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 Bank of Zambia 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 table below presents the undiscounted cash flows payable by the Bank under financial liabilities by the remaining contractual maturities at the reporting date and from financial assets by expected maturity dates

K'000

Assets	**Up to 1 month**	**1 – 3 Months**	**3 – 6 Months**	**6 – 12 Months**	**1 – 3 Years**	**3 – 5 Years**	**Over 5 Years**	**Total**
Notes and coins	22,156	-	-	-	-	-	-	22,156
Balances with Bank of Zambia	72,123	-	-	-	-	-	-	72,123
Balances with domestic institutions	11,886	17,085	7,220	-	-	-	-	36,191
Balances with foreign institutions	35,464	-	-	-	-	-	-	35,464
Investments in securities	7,473	31,316	18,623	27,019	270	18,671	2,594	105,966
Loans and advances	75,910	94,888	75,911	75,911	56,933			379,553
Other assets	7,305	7,715	7,156	-	-	-	19,705	41,881
Total assets	**220,337**	**163,004**	**108,910**	**102,930**	**57,203**	**18,671**	**22,299**	**693,354**
Liabilities and shareholders' funds								
Deposits	211,092	103,235	51,328	77,041	-	-	-	442,696
Due to domestic institutions	39,495	18,000	12,000	-	-	-	-	69,495
Other liabilities	4,626	12,913	11,677	6,735	-	-	-	35,951
Off balance sheet items	32,826	-	-	-	-	-	-	32,826
Total liabilities and shareholder's funds	**288,039**	**134,148**	**75,005**	**83,776**	**-**	**-**	**-**	**580,968**
Net Liquidity gap	**(67,702)**	**28,856**	**33,905**	**19,154**	**57,203**	**18,671**	**22,299**	**112,386**
Cumulative Liquidity Gap	**(67,702)**	**(38,846)**	**(4,941)**	**14,213**	**71,416**	**90,087**	**112,386**	**-**

FIRST ALLIANCE BANK (Z) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

29.10 Interest Rate Risk Analysis
K'million

Assets	Zero rate instrument	Floating rate instrument	0 – 3 Months	3 – 6 Months	6 – 9 Months	9 – 12 Months	Over 12 months	Total
Notes and coins	22,156	-	-	-	-	-	-	22,156
Balances with Bank of Zambia	72,123	-	-	-	-	-	-	72,123
Balances with domestic institutions	5,886	-	**23,085**	7,220	-	-	-	36,191
Balances with foreign institutions	-	23,484		12,000	-	-	-	35.484
Investments in securities	-	-	**38,789**	18,623	21,255	**5,764**	21,535	105,966
Loans and advances	-	-	**172,414**	75,911	37,955	**37,956**	55,317	379,553
Other assets	41,881	-	-	-	-	-	-	41,881
Total assets	**142,046**	**23,484**	**234,288**	**113,754**	**59,210**	**43,720**	**76,852**	**693,354**
Liabilities and shareholders' funds								
Deposits	89,586	-	**224,740**	51,328	23,126	**53,916**	-	442,696
Balances due to domestic institutions	-	-	**57,495**	12,000	-	-	-	69,495
Other liabilities	37,208	-	-	-	-	-	-	37,208
Total liabilities and shareholder's funds	**126,794**	**-**	**282,235**	**63,328**	**23,126**	**53,916**	**-**	**549,399**
Asset liability gap	**15,252**	**23,484**	**(47,947)**	**50,426**	**36,084**	**(10,196)**	**76,852**	**143,955**
Cumulative liquidity gap	**15,252**	**38,736**	**(9,211)**	**41,215**	**77,299**	**67,103**	**143,955**	**-**

The table above 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 re-pricing or maturity dates. The Bank does not bear any interest rate risk on off Balance Sheet Items of financial position. 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 the risk of losses.

29. Financial Risk management and control *(continued)*

29.11 Capital risk 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 foreign 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 amortization 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 as prescribed by the Central Bank (see appendix 1).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

30. Maturity analysis of assets and liabilities

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

	Within 12 months K'000	After 12 months K'000	Total K'000
Assets			
Cash on hand	22,156	-	22,156
Balances with central bank	72,123	-	72,123
Due from other banks	71,675	-	71,675
Treasury bills	84,431	-	84,431
Investment in securities	-	18,671	18,671
Government bonds	-	2,864	2,864
Loans and advances	324,236	55,317	379,553
Other assets	22,176	-	22,176
Property, plant and equipment	-	19,705	19,705
	596,797	**96,554**	**693,354**
Liabilities			
Due to customers	442,696		442,696
Due to other Banks	69,495		69,495
Shareholders' Funds	-	143,955	143,955
Other liabilities	35,210		35,210
Income tax payable	1,998	-	1,998
	548,142,	**145,212**	**693,354**

Appendix I

FIRST ALLIANCE BANK (Z) LIMITED

COMPUTATION OF CAPITAL POSITION
at 31 December 2015

			2015	2014
I	**Primary (tier 1) capital**		**K’000**	K’000
	(a)	Paid-up common shares	**84,000**	84,000
	(b)	Eligible preferred shares	-	-
	(c)	Contributed surplus	-	-
	(d)	Retained earnings	**23,461**	20,487
	(e)	General reserves	-	-
	(f)	Statutory reserves	**19,740**	15,892
	(g)	Minority interest (common shareholder’s equity)	-	-
	(h)	**Sub total**	**127,201**	120,379
	Subtractions:			
	(i)	Goodwill and other intangible assets	-	-
	(j)	Investments in unconsolidated subsidiaries and associates	-	-
	(k)	Lending of a capital nature to subsidiaries and associates	-	-
	(l)	Holding of other banks’ or financial institutions’ capital instruments	-	-
	(m)	Assets pledged to secure liabilities	-	-
	(n)	Net unrealized gains (losses) on available-for-sale securities	-	-
	(o)	Accumulated net gains (losses) on cash flow hedges	-	-
	(p)	Defined benefit plan actuarial gain	-	-
	Sub total (A)		-	-
	Other adjustments:			
		Provisions (note 1 appendix II)	-	-
		Assets of little or no realizable value (note 3)	-	-
		Other adjustments	-	-
	Sub total (B)		-	-
	(q)	**Total Subtractions: (Sub-total A + B)**	-	-
	(r)	**TOTAL PRIMARY CAPITAL (h – q)**	**127,201**	120,379

Appendix I

FIRST ALLIANCE BANK (Z) LIMITED

COMPUTATION OF CAPITAL POSITION *(continued)*
at 31 December 2015

			2015	2014
II	**Secondary (tier 2) capital**		**K'000**	K'000
	(a)	Eligible preferred shares	**-**	-
	(b)	Eligible subordinated term debt	**-**	-
	(c)	Eligible loan stock / capital	**-**	-
	(d)	Eligible general provisions	**-**	-
	(e)	Revaluation reserves (40% Maximum)	**6,702**	6,855
	(f)	Other	**-**	-
	(g)	**Total secondary capital**	**6,702**	6,855
III		**Eligible secondary capital** (The maximum secondary capital is limited to 100% of primary capital (Tier 1 Capital)	**6,702**	6,855
IV		**Eligible total capital (I + III)**	**133,903**	127,234
V		**Minimum total capital requirement** (The higher of 10% of total on and off balance sheet risk-weighted assets as established in Appendix II, K488,667 (2014 – K350,023) or K104,000)	**104,000**	104,000
VI		**Excess / (deficiency) - (IV – V)**	**29,903**	23,234
VI		**Total regulatory capital (V + VI)**	**133,903**	127,234

Ratios

Tier 1 capital ÷ WRA = 26.03% (Minimum requirement 5%)

Total eligible capital ÷ WRA = 27.40% (Minimum requirement 10%)

Appendix II

FIRST ALLIANCE BANK (Z) LIMITED

RISK WEIGHTED CAPITAL RATIO (STATUTORY INSTRUMENT NO. 184 OF 1995)
FOR THE YEAR ENDED 31 DECEMBER 2015

Part 1

Risk weighted assets	Risk factor %	2015 K'000 Amount	2015 K'000 Risk weight	2014 K'000 Amount	2014 K'000 Risk weight
Notes and coins:-					
Zambian notes & coins	**0%**	**5,760**	**-**	13,202	-
Foreign notes & coins	**0%**	**16,396**	**-**	9,196	-
Balances held with Bank of Zambia					
Statutory reserves	**0%**	**28,696**	**-**	38,700	-
Other balances	**0%**	**43,427**	**-**	18,786	-
Balances held with commercial banks in Zambia					
With residual maturity of up to 12 months	**20%**	**30,305**	**6,061**	221	44
With residual maturity of more than 12 months	**100%**	**-**	**-**	-	-
Balances held with financial institutions abroad					
With residual maturity of up to 12 months	**20%**	**35,484**	**7,097**	52,085	10,417
With residual maturity of more than 12 months	**100%**	**-**	**-**	**-**	**-**
Assets in transit					
From other commercial banks	**50%**	**5,886**	**2,943**	-	-
From branches of reporting bank	**20%**	**-**	**-**	-	-
Investment in Debt Securities					
Treasury bills	**0%**	**84,431**	**-**	56,444	-
Other government securities	**20%**	**2,864**	**573**	2,864	573
Issued by local government units	**100%**	**-**	**-**	-	
Private securities	**100%**	**18,671**	**18,671**	9,880	9,880
Bills of exchange					
Secured by cash / treasury bills	**0%**	-	-	-	-
Other	**100%**	-	-	-	-

Appendix II

FIRST ALLIANCE BANK (Z) LIMITED

RISK WEIGHTED CAPITAL RATIO (STATUTORY INSTRUMENT NO. 184 OF 1995)
FOR THE YEAR ENDED 31 DECEMBER 2015

Part 2 (continued)

Risk weighted assets	**Risk factor %**	**2015 K'000 Amount**	**2015 K'000 Risk weight**	2014 K'000 Amount	2014 K'000 Risk weight
Loans & Advances					
Portion secured by cash or treasury bills	**0%**	**-**	**-**	-	-
Loans to or guaranteed by GRZ	**50%**	**-**	**-**	-	-
Loans repayment in instalments & secured by a mortgage on owner of occupied residential property	**50%**	**-**	**-**	-	-
Loans to or guaranteed by local government units	**100% -**	**-**	**-**	-	-
Loans to parastatals	**100%**	**-**	**-**	-	-
All other loans (net or provisions)	**100%**	**379,533**	**379,533**	238,465	238,465
Inter-bank loans & advances guaranteed by other banks					
With residual maturity of up to 12 months	**20%**	**-**	**-**	-	-
With residual maturity of more than 12 months	**100%**	**-**	**-**	-	-
Bank premises (NBV)	**100%**	**19,705**	**19,705**	19,116	19,116
Acceptances	**100%**				
Other assets	**100%**	**22,176**	**22,176**	5,997	5,997
Investment in equity of other companies	**100%**	**-**	**-**	-	-
TOTAL (on-balance sheet)		**693,354**	**456,779**	464,957	284,492

Appendix II

FIRST ALLIANCE BANK (Z) LIMITED

RISK WEIGHTED CAPITAL RATIO (STATUTORY INSTRUMENT NO. 184 OF 1995)
FOR THE YEAR ENDED 31 DECEMBER 2015

Part 2 – (continued)

Off Balance Sheet Obligations	**Risk factor %**	**2015 K'000 Amount**	**2015 K'000 Risk weight**	2014 K'000 Amount	2014 K'000 Risk weight
Letter of credit					
Sight import letters of credit	**20%**	**-**	**-**	-	-
Letters of credit secured by Cash / Treasury Bills	**0%**	**-**	**-**	-	-
Standby letters of credit	**100%**	**-**	**-**	-	-
Export letters of credit confirmed	**20%**	**-**	**-**	-	-
Guarantees & indemnities					
Guarantees for loans trade & securities	**100%**	**250**	**250**	316	316
Guarantees & bonds secured by Cash / Treasury bills	**0%**	**-**	**-**	-	-
Performance bonds	**50%**	**1,876**	**938**	2,420	1,210
Securities purchased under resale agreement	**100%**	**-**	**-**	-	-
Other contingent liabilities– bid bonds	**100%**	**30,700**	**30,700**	64,005	64,005
Net open position in foreign currencies*	**100%**	**-**	**-**	-	-
Total (off-balance sheet)		**32,826**	**31,888**	66,741	65,531
Total - on & off balance sheet assets		**726,180**	**488,667**	531,698	350,023

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