Directors' report

for the year ended 31 December 2016

The directors of Indo Zambia Bank Limited (the "Bank") are pleased to submit their report and the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of the Bank.

General information

Indo Zambia Bank Limited is incorporated under the Companies Act of Zambia, as a limited liability company and is domiciled in the Republic of Zambia. The Bank is also licensed under the Banking and Financial Services Act of Zambia, to conduct commercial banking services. The Bank commenced operations on 19 October, 1984.

The Bank's business activities are the provision of retail and corporate banking services.

Shareholding

Indo Zambia Bank Limited's shareholding consists of the Government of Zambia through Industrial Development Corporation holding 40% and Bank of India, Bank of Baroda and Central Bank of India holding 20% each. The total number of authorised ordinary shares is 420,000,000 with a par value of K1 per share.

Details of the Bank's authorised and issued share capital are included in note 24 of the financial statements.

Operating results

	2016	2015
Net interest income	**277,883,763**	240,147,204
Profit before income tax	**128,183,024**	127,559,717
Income tax expense	**(44,576,501)**	(46,744,523)
Profit for the year	**83,606,523**	80,815,194

Dividends

During the year, K32,203,303 was paid as dividends to the members for the year ended 31 December 2016. (2015: K18,721,222). After the reporting date, a dividend of K33,353,413 was proposed (2015: K32,203,303). This dividend is subject to approval by the shareholders at the Annual General Meeting.

Reserves

	2016	2015
Statutory reserve	**15,000,000**	15,000,000
Fidelity reserve	**126,369**	126,369
Revaluation reserves	**19,968,460**	20,398,080
Credit risk reserves	**-**	10,424,349
Retained earnings	**249,289,721**	186,801,198
	284,384,550	232,749,996

Developments during the year

During the year, the Bank opened two branches and one agency namely, Serenje, Lundazi and Mungwi respectively. At 31 December 2016, the Bank had a total of 27 branches and 6 agencies.

Directors

The Directors who held office during the year were:

Mrs O Y Moyo	Chairperson
Mr D Malik	Director
Mr S Mukupa	Director
Mr R Rishi	Director
Mr B B Joshi	Director – Retired 05 December 2016
Mr M O Rego	Director – Appointed 29 May 2016
Mr S Gupta	Managing Director – Retired 03 April 2016
Mr. M M Bansal	Managing Director – Appointed 09 June 2016

Board secretary

Mr G C Ngoma

Directors' interests and emoluments

Except for the Managing Director, no other Director has a service contract with the Bank. No Director had an interest in any significant contract entered into by the Bank during the year (2015: Nil).

Directors' emoluments paid during the year ended 31 December 2016 were K3.19 million (2015: K1.48 million) as disclosed in note 13 of the financial statements.

Directors' fees paid during the year ended 31 December 2016 were K5.06 million (2015: K3.08 million) as disclosed in notes 12 and 28(e) of the financial statements.

Property and equipment

During the year, the Bank purchased property and equipment amounting to K20.87 million (2015: K46.44 million) which included K0.64 million (2015: K3.6 million) on leasehold improvements as disclosed in note 20 of the financial statements.

Research and developments

During the year, the Bank did not conduct any research and development activities (2015: Nil).

Related party transactions

As required by the Banking and Financial Services Act, related party transactions are disclosed in note 28 of the financial statements.

Employees

The average number of employees for each month during the period amounted to 292 (2015: 292).

The total remuneration to employees during the year amounted to K151.13 million (2015: K120.54 million) as disclosed in note 13 of the financial statements and the total number of employees was as follows:

January	289	July	293
February	287	August	293
March	294	September	288
April	293	October	288
May	293	November	286
June	293	December	301

Health and safety of employees

The Directors are aware of their responsibilities regarding the safety and health of employees and have put appropriate measures in place to safeguard the safety and health of the Bank's employees.

Risk management and control

In its normal operations, the Bank is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. These are described and explained in greater detail in notes 5 and 29.

The Directors have approved policies to mitigate the above risks by introducing controls that are designed to safeguard the Bank's assets while allowing sufficient freedom for the normal conduct of business. The Audit Committee, Loan Review Committee and Risk Management Committee carry out independent reviews to ensure compliance with financial and operational controls.

Gifts and donations

The Bank made donations during the year amounting to K0.59 million (2015: K0.43 million) in order to support various charitable organisations and events.

Directors' report *(continued)*
for the year ended 31 December 2016

Other material facts, circumstances and events

The directors are not aware of any material fact, circumstance or event which occurred between the reporting date and the date of this report which might influence an assessment of the Bank's financial position or the results of its operations.

Prohibited borrowings or lending

There were no prohibited borrowings or lending as defined under Sections 72 and 73 of the Banking and Financial Services Act.

Corporate governance

The Board of Directors hereby confirms that the Bank has complied with all the internal control aspects of the principles of good governance. A Risk and Audit Committee has been constituted.

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the requirements of the Companies Act and the Banking and Financial Services Act of Zambia.

The financial statements set out on pages 9 to 61 have been approved by the Board of Directors.

Auditors

In accordance with the provision of the Articles of Association of the Bank, the auditors Messrs KPMG Chartered Accountants ("KPMG") will retire at the forthcoming Annual General Meeting. A resolution for appointing external auditors for the forthcoming year and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By order of the Board.

O Y Moyo
Chairperson

Directors' responsibilities in respect of the preparation of financial statements

The Bank's directors are responsible for the preparation and fair presentation of the financial statements of Indo Zambia Bank Limited ("the Bank"), comprising the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and 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, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act and the Banking and Financial Services Act of Zambia. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as they determine necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

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

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework as described above.

Approval of the financial statements

The financial statements of Indo Zambia Bank Limited, as identified in the first paragraph, were approved by the board of directors on 25 February 2017 and are signed on its behalf by:

O Y Moyo
Chairperson

R Rishi
Director

S Mukupa
Director

M Rego
Director

M M Bansal
Managing Director

Independent auditor's report to the shareholders of Indo Zambia Bank Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Indo Zambia Bank Limited ("the Bank") set out on pages 9 to 61, which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Indo Zambia Bank Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act and the Banking and Financial Services Act of Zambia.

Basis for opinion

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

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of Zambia. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

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

ABCD

In accordance with Section 64 (2) of the Banking and Financial Services Act of Zambia, we report that in our opinion:

the Bank made available all necessary information to enable us to comply with the requirements of this Act;

the Bank has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act; and

there were no non-performing or restructured loans owing to the Bank whose principal amount exceeds 5% of the Bank's regulatory capital.

KPMG

KPMG Chartered Accountants

25 February 2017

Jason Kazilimani, Jr
Partner

AUD/F000336

Statement of financial position
as at 31 December 2016

In Zambian Kwacha

	Notes	**2016**	2015
Assets			
Cash balances at Bank of Zambia	*15*	**425,357,405**	398,502,253
Cash and cash equivalents	*15*	**490,951,305**	562,359,618
Held-to-maturity investment securities	*16*	**778,365,960**	613,717,938
Derivative financial instrument	*17*	**-**	5,348,959
Loans and advances to customers	*18*	**1,012,592,884**	986,591,061
Other assets	*19*	**96,033,328**	88,171,852
Property and equipment	*20*	**145,545,498**	142,589,699
Total assets		**2,948,846,380**	2,797,281,380
Liabilities			
Deposits from customers	*21*	**2,067,870,636**	1,992,903,086
Deposits from banks	*22*	**596,592**	-
Other liabilities	*23*	**177,137,214**	148,721,512
Current tax liabilities	*14c*	**574,014**	3,674,439
Deferred tax liabilities	*14d*	**2,283,374**	3,232,347
Total liabilities		**2,248,461,830**	2,148,531,384
Equity			
Share capital	*24*	**416,000,000**	416,000,000
Statutory reserve		**15,000,000**	15,000,000
Fidelity reserve		**126,369**	126,369
Revaluation reserve		**19,968,460**	20,398,080
Credit risk reserve		**-**	10,424,349
Retained earnings		**249,289,721**	186,801,198
Total equity attributable to the equity holders of the bank		**700,384,550**	648,749,996
Total liabilities and equity		**2,948,846,380**	2,797,281,380

These financial statements were approved by the board of directors on 25 February, 2017 and were signed on its behalf by:

O Y Moyo
Chairperson

R Rishi
Director

S Mukupa
Director

M Rego
Director

M M Bansal
Managing Director

G C Ngoma
General Manager

G Ramesh
Chief Financial Officer

The notes on pages 14 to 61 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2016

In Zambian Kwacha

		2016	2015
Interest income	*7*	**375,654,758**	308,482,584
Interest expense	*8*	**(97,770,995)**	(68,335,380)
Net interest income		**277,883,763**	240,147,204
Fee and commission income	*9*	**69,069,172**	49,649,554
Net trading income	*10*	**23,899,946**	27,238,219
		92,969,118	76,887,773
Revenue		**370,852,881**	317,034,977
Other income	*11*	**10,014,874**	7,653,549
Administrative expenses	*12*	**(65,890,193)**	(43,427,931)
Operating expenses	*13*	**(185,901,597)**	(144,372,379)
Loan impairment recoveries	*18b*	**9,756,479**	4,852,695
Impairment loss on loans and advances	*18c*	**(10,649,420)**	(14,181,194)
Profit before income tax		**128,183,024**	127,559,717
Income tax expense	*14a*	**(44,576,501)**	(46,744,523)
Profit for the year		**83,606,523**	80,815,194
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation surplus		**-**	4,590,156
Deferred tax on revaluation surplus	*14d*	**-**	(1,606,555)
Amortisation of revaluation surplus		**(660,954)**	(146,423)
Deferred tax on amortisation of revaluation	*14d*	**231,334**	51,248
Other comprehensive income net of tax		**(429,620)**	2,888,426
Total comprehensive income for the year		**83,176,903**	83,703,620

The notes on pages 14 to 61 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2016

In Zambian Kwacha

	Share capital	Statutory reserves	Fidelity reserves	Revaluation reserves	Credit risk reserves	Retained earnings	Total
Balance at 1 January 2015	416,000,000	15,000,000	126,369	17,509,654	-	134,985,152	583,621,175
Total comprehensive income							
Profit for the year	-	-	-	-	-	80,815,194	80,815,194
Other comprehensive income							
Revaluation surplus	-	-	-	4,590,156	-	-	4,590,156
Deferred tax on revaluation surplus	-	-	-	(1,606,555)	-	-	(1,606,555)
Amortisation of revaluation surplus	-	-	-	(146,423)	-	146,423	-
Deferred tax on amortisation of revaluation surplus	-	-	-	51,248	-	-	51,248
Total comprehensive income for the year, net of tax	-	-	-	2,888,426	-	80,961,617	83,850,043
Increase in credit risk reserve	-	-	-	-	10,424,349	(10,424,349)	-
Transactions with owners recorded directly in equity							
Dividend paid	-	-	-	-	-	(18,721,222)	(18,721,222)
Balance at 31 December 2015	416,000,000	15,000,000	126,369	20,398,080	10,424,349	186,801,198	648,749,996
Balance at 1 January 2016	**416,000,000**	**15,000,000**	**126,369**	**20,398,080**	**10,424,349**	**186,801,198**	**648,749,996**
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	**83,606,523**	**83,606,523**
Other comprehensive income							
Amortisation of revaluation surplus	-	-	-	**(660,954)**	-	**660,954**	**-**
Deferred tax on amortization of revaluation surplus	-	-	-	**231,334**	-	**-**	**231,334**
Total comprehensive income for the year, net of tax	**-**	**-**	**-**	**(429,620)**	**-**	**84,267,477**	**83,837,857**
Transfer from retained earnings					**(10,424,349)**	**10,424,349**	**-**
Transactions with owners, recorded directly in equity							
Dividend paid	-	-	-	-	-	**(32,203,303)**	**(32,203,303)**
Balance at 31 December 2016	**416,000,000**	**15,000,000**	**126,369**	**19,968,460**	**-**	**249,289,721**	**700,384,550**

Statement of changes in equity *(continued)*
for the year ended 31 December 2016

Statutory reserve

The statutory reserve is established in accordance with section 69 of the Banking and Financial Services Act of Zambia.

Fidelity reserve

The fidelity reserve arises from compliance with section 82 of the Banking and Financial Services Act, which requires the Bank to maintain a special reserve account for the purpose of making good any loss resulting from potential negligence and dishonesty of directors, the chief executive officer, managers or employees. In addition, the Bank has taken out an insurance policy with an approved insurer for this purpose.

Revaluation reserve

The revaluation reserve arises from the periodic revaluation of property and equipment and represents the excess of the revalued amount over the carrying value of property and equipment at the date of valuation.

Credit risk reserve

The credit risk reserve is a loan loss reserve that relates to the excess of impairment provision as required by the Banking and Financial Services Act of Zambia, over the impairment provision computed in terms of International Financial Reporting Standards.

Retained earnings

Retained earnings are the carried forward recognised income, net of expenses of the Bank, plus current period profit attributable to shareholders less distributions to shareholders.

The notes on pages 14 to 61 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2016

In Zambian Kwacha

	Note	2016	2015
Cash flow from operating activities			
Profit for the year		**83,606,523**	80,815,194
Adjustment for			
Profit on sale of property, plant and equipment		**-**	(56,664)
Depreciation	*20*	**17,189,837**	8,862,328
Adjustment to depreciation		**725,131**	(725,131)
Exchange rate movement		**3,368,372**	(13,128,639)
Tax expense	*14(b)*	**44,576,501**	46,744,523
Interest expense		**97,770,995**	68,335,380
Interest income		**(375,654,758)**	(308,482,584)
		(128,417,399)	(117,635,593)
Change in:			
- Loans and advances to customers		**(26,001,823)**	(207,144,348)
- Other assets		**(7,861,476)**	(21,412,734)
- Customer deposits		**74,967,550**	347,883,361
- Derivative financial instrument		**5,348,959**	(5,348,959)
- Deposits from banks		**596,592**	(19,180,000)
- Other liabilities		**28,415,702**	21,317,197
		(52,951,895)	(1,521,076)
Tax paid	*14(c)*	**(48,394,565)**	(45,510,818)
Interest paid	*8*	**(97,770,995)**	(68,335,380)
Interest received	*7*	**375,654,758**	308,482,584
Net cash generated from operating activities		**176,537,303**	193,115,310
Cash flows from investing activities			
Acquisition of property and equipment	*20*	**(20,870,767)**	(46,435,325)
Acquisition of investment securities		**(164,648,022)**	-
Proceeds from disposal of property and equipment		**-**	56,664
Proceeds from redemption of investment securities		**-**	226,711,843
Cash (utilised in)/ generated from investing activities		**(185,518,789)**	180,333,182
Cash flows from financing activities			
Dividends paid		**(32,203,303)**	(18,721,222)
Net cash flows utilized in financing activities		**(32,203,303)**	(18,721,222)
Net (decrease)/increase in cash and cash equivalents		**(41,184,789)**	354,727,270
Cash and cash equivalents at 1 January		**960,861,871**	593,005,962
Effect of exchange rate fluctuation on cash held		**(3,368,372)**	13,128,639
Cash and cash equivalents at 31 December	*15*	**916,308,710**	960,861,871
Represented by:			
Cash and cash equivalents	*15*	**530,697,682**	611,351,871
Statutory reserves*	*15*	**385,611,028**	349,510,000
		916,308,710	960,861,871

*The total statutory reserve held with Bank of Zambia, as a minimum reserve requirement, is not available for the Bank's daily business.

The notes on pages 14 to 61 are an integral part of these financial statements.

1 Reporting entity

Indo Zambia Bank Limited ("the Bank") is a limited liability company incorporated under the Companies Act of Zambia and is domiciled in the Republic of Zambia. In addition, the Bank is licensed under the Banking and Financial Services Act of Zambia to conduct commercial banking services. The Bank commenced operations on 19 October, 1984. The Bank's activities are the provision of retail and corporate banking services and investment of surplus funds in various financial instruments. The registered office of the Bank is Plot 6907, Cairo Road, Lusaka.

2 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Companies Act and the Banking and Financial Services Act of Zambia. They were approved by the Bank's Board of Directors in its meeting held on 25 February 2017.

Details of the Bank's significant accounting policies are included in note 32.

3 Functional and presentation currency

These financial statements are presented in Zambian Kwacha ("Kwacha"), which is the Bank's functional currency. All amounts have been rounded to the nearest Kwacha, except when otherwise indicated.

4 Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2016 is set out below in relation to the impairment of financial instrument and in the following notes in relation to other areas:

- Note 14(d) – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used; and
- Notes 32(g)(vii) – Financial assets and liabilities, identification and measurement of impairment.

4 Use of estimates and judgements *(continued)*

(a) Assumptions and estimation uncertainties *(continued)*

i) Impairment of financial instruments

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 5a(i) and 32(g)(vii).

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

In Zambian Kwacha

5 Financial risk review

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

a) Credit risk

For the definition of credit risk and information on how credit risk is managed by the Bank, see note 29(b).

i) Credit quality analysis

The table below sets out information about the credit quality of financial assets and the allowance for impairment/loss held by the Bank against those assets.

The Bank's maximum exposure to credit risk is as follows:

	Loans and advances to customers		**Held to maturity investment securities**	
	2016	2015	**2016**	2015
Carrying amount	**1,012,592,884**	986,591,061	**778,365,960**	613,717,938
Individually impaired:				
Corporate loans	**15,430,332**	37,586,491	-	-
Retail loans	**12,573,004**	14,554,681	-	-
Allowance for specific impairment	**(22,523,083)**	(22,000,485)	-	-
Carrying amount	**5,480,253**	30,140,687	**-**	-
Past due but not impaired:				
Corporate loans	**360,555,689**	71,365,444	-	-
Retail loans	**83,323,865**	60,247,539	-	-
Carrying amount	**443,879,554**	131,612,983	-	-
Past due but not impaired comprises :				
01 – 30 days	**393,575,268**	74,766,103	-	-
31 – 60 days	**27,510,843**	15,812,299	-	-
61 – 90 days	**22,793,443**	41,034,581	-	-
Carrying amount	**443,879,554**	131,612,983	-	-
Neither past due nor impaired:				
Corporate loans	**322,240,135**	530,426,923	-	-
Retail loans	**245,880,194**	299,203,602	-	-
Held-to-maturity investment securities	**-**	-	**778,365,960**	613,717,938
	568,120,329	829,630,525	**778,365,960**	613,717,938
Allowance for collective portfolio impairment	**(4,887,252)**	(4,793,134)	-	-
Carrying amount	**1,012,592,884**	986,591,061	**778,365,960**	613,717,938

5 Financial risk review *(continued)*

a) Credit risk *(continued)*

i) Credit quality analysis *(continued)*

Impaired loans and advances

The Bank regards a loan and advance or a debt security as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A retail loan is overdue for 90 days or more.

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

Loans and advances that are past due but not impaired

Loans that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank. The amounts disclosed exclude assets measured at fair value through profit or loss.

Loans and advances with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. The Bank does not have any loans with renegotiated terms hence have not disclosed the carrying amounts.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate to 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 homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

5 Financial risk review *(continued)*

a) Credit risk *(continued)*

i) Credit quality analysis *(continued)*

Write off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Bank's Loan Review Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balances and standardised loans, charge write off decisions generally are based on a product specific past due status.

All credit write-offs require written endorsement at appropriate levels as set by the Bank.

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except where securities are held as part of reverse repurchase and securities borrowing activity. Collateral is not usually held against investment securities, and no such collateral was held at 31 December 2016.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely. For impaired loans, the Bank obtains appraisals of collateral because the current value of the collateral is an input to the impairment measurement when estimating future cashflows.

ii) Offsetting financial assets and financial liabilities

There are no financial assets and financial liabilities that are offset in the Bank's statement of financial position or that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

iii) Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and an analysis of concentration of credit risk from loans and advances and investment securities at the reporting date is shown below:

In Zambian Kwacha

5 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Concentration of credit risk

		Loans and advances to customers		Held to maturity investment securities	
		2016	2015	**2016**	2015
1	Agriculture,	**196,595,753**	84,496,208	-	-
2	Mining and quarrying	**1,980,140**	4,559,547	-	-
3	Manufacturing	**146,305,741**	188,452,338	-	-
4	Electricity, gas, water and energy	**3,701,779**	9,621,389	-	-
5	Construction	**28,498,194**	7,819,653	-	-
6	Wholesale and retail trade	**157,697,612**	162,736,376	-	-
7	Restaurants and hotels	**3,719,991**	6,164,364	-	-
8	Transport, storage and communications	**24,163,463**	25,414,285	-	-
9	Financial services	**29,265,468**	32,758,633	-	-
10	Community, social and personal services	**34,656,367**	21,855,450	-	-
11	Real estate	**167,078,605**	190,273,725	-	-
12	Government	**-**	-	**778,365,960**	613,717,938
13	Others	**218,929,771**	252,439,093	-	-
	Carrying amount	**1,012,592,884**	986,591,061	**778,365,960**	613,717,938

ii) Impaired loans and advances and investment debt securities

For details of impaired financial assets see note 5(a) (i). For details of impairment allowances for loans and advances see note 18.

b) Liquidity risk

For the definition of liquidity risk and information on how liquidity risk is managed by the Bank, see note 29c.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank of Zambia. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2016	2015
At 31 December	**65.50%**	69.53%
Average for the period	**63.10%**	71.54%
Maximum for the period	**65.50%**	79.85%
Minimum for the period	**60.92%**	62.06%

The minimum required by Bank of Zambia for core liquid assets is 6% (2015: 6%).

The concentration of funding requirements at any one date or from any one source is managed continuously. A substantial proportion of the Bank's deposit base is made up of current and savings accounts and other short term customer deposits.

In Zambian Kwacha

5 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

The following table below analyses financial assets and financial liabilities of the Bank into relevant contractual, undiscounted maturity groupings:

2016

	Carrying amount	Gross nominal	up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Financial assets							
Cash balances at Bank of Zambia	425,357,405	425,357,405	39,746,377	-	-	385,611,028	-
Cash and cash equivalents	490,951,305	490,951,305	490,951,305	-	-	-	-
Held-to- maturity investment securities	778,365,960	778,365,960	105,397,288	102,515,902	533,623,357	9,521,045	27,308,368
Loans and advances to customers	1,012,592,884	1,029,578,870	40,837,589	3,088,246	457,380,693	392,737,995	135,534,347
Total financial assets	2,707,267,554	2,724,253,540	676,932,559	105,604,148	991,004,050	787,870,068	162,842,715
Financial liabilities							
Deposits from customers	(2,067,870,636)	(2,109,275,850)	(1,529,030,572)	(53,959,051)	(519,236,400)	(7,049,827)	-
Balance due to Banks	(596,592)	(596,592)	(596,592)	-	-	-	-
Total financial liabilities	(2,068,467,228)	(2,109,872,442)	(1,529,627,164)	(53,959,051)	(519,236,400)	(7,049,827)	-
Net liquidity gap	638,800,326	614,381,098	(852,694,605)	51,645,097	471,767,650	780,820,241	162,842,715

In Zambian Kwacha

5 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

The following table below analyses financial assets and financial liabilities of the Bank into relevant contractual, undiscounted maturity groupings:

2015

	Carrying amount	Gross nominal	up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Financial assets							
Cash balances at Bank of Zambia	398,502,253	398,502,253	48,992,253	-	-	349,510,000	-
Cash and cash equivalents	562,359,618	562,359,618	562,359,618	-	-	-	-
Held-to- maturity investment securities	613,717,938	613,717,938	94,425,156	60,675,201	404,188,053	14,233,856	40,195,672
Derivative financial instrument	5,348,959	5,348,959	-	5,348,959	-	-	-
Loans and advances to customers	986,591,061	1,013,384,680	97,423,618	104,225,179	224,021,084	509,256,066	78,458,733
Total financial assets	2,566,519,829	2,593,313,448	803,200,645	170,249,339	628,209,137	872,999,922	118,654,405
Financial liabilities							
Deposits from customers	(1,992,903,086)	(1,992,903,086)	(1,761,421,025)	(58,346,335)	(165,405,509)	(7,730,217)	-
Total financial liabilities	(1,992,903,086)	(1,992,903,086)	(1,761,421,025)	(58,346,335)	(165,405,509)	(7,730,217)	-
Net liquidity gap	573,616,743	600,410,362	(958,220,380)	111,903,004	462,803,628	865,269,705	118,654,405

5 Financial risk review *(continued)*

c) Market risk

For the definition of market risk and information on how the Bank manages the market risks of trading and non-trading portfolios, see note 29(d).

i) Exposure to interest rate risk - non-trading portfolios

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or re-price at different times and/or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices. Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes.

The table below summaries the Bank's exposure to interest rate risk. Included in the table are the Bank's financial asset and liabilities at carrying amounts, categoriesed by earlier of contractual re-pricing or maturity dates.

In Zambian Kwacha

5 Financial risk review *(continued)*

c) Market risk *(continued)*

i) Interest rate risk *(continued)*

Exposure of interest rate risk – non trading portfolio contained

2016				**Fixed rate instruments**		
	Total	**Zero rate instruments**	**Floating rate instruments**	**Less than 3 months**	**3 months– 1 year**	**Over 1 year**
Cash balances at Bank of Zambia	**425,357,405**	**425,357,405**	**-**	**-**	**-**	**-**
Cash and cash equivalents	**490,951,305**	**490,951,305**	**-**	**-**	**-**	**-**
Held-to-maturity investment securities	**778,365,960**	**-**	**-**	**207,913,190**	**533,623,357**	**36,829,413**
Loans and advances to customers	**1,012,592,884**	**-**	**1,012,592,884**	**-**	**-**	**-**
Total financial assets	**2,707,267,554**	**916,308,710**	**1,012,592,884**	**207,913,190**	**533,623,357**	**36,829,413**
Financial liabilities						
Deposits from customers	**(2,067,870,636)**	**-**	**(2,067,870,636)**	**(1,541,584,409)**	**(519,236,400)**	**(7,049,827)**
Deposits from banks	**(596,592)**	**(596,592)**	**-**	**-**	**-**	**-**
Total financial liabilities	**(2,068,467,228)**	**(596,592)**	**(2,067,870,636)**	**(1,541,584,409)**	**(519,236,400)**	**(7,049,827)**
Inter rate gap position	**638,800,326**	**915,712,118**	**(1,055,277,752)**	**(1,333,671,219)**	**14,386,957**	**29,779,586**

2015				Fixed rate instruments		
	Total	Zero rate instruments	Floating rate instruments	Less than 3 months	3 months – 1 year	Over 1 year
Cash balances at Bank of Zambia	398,502,253	398,502,253	-	-	-	-
Cash and cash equivalents	562,359,618	562,359,618	-	-	-	-
Held-to-maturity investment securities	613,717,938	-	-	155,100,357	404,188,053	54,429,528
Derivative financial instrument	5,348,959	-	-	5,348,959	-	-
Loans and advances to customers	986,591,061	-	986,591,061	-	-	-
Total financial assets	2,566,519,829	960,861,871	986,591,061	160,449,316	404,188,053	54,429,528
Financial liabilities						
Deposits from customers	(1,992,903,086)	-	(1,992,903,086)	(1,819,767,360)	(165,405,509)	(7,730,217)
Total financial liabilities	(1,992,903,086)	-	(1,992,903,086)	(1,819,767,360)	(165,405,509)	(7,730,217)
Inter rate gap position	573,616,743	960,861,871	(1,006,312,025)	(1,659,318,044)	(238,782,544)	46,699,311

Interest rate sensitivity analysis

	2016		2015	
	ZMW	**US$**	ZMW	US$
Increase in basis points	**0.50**	**0.50**	0.50	0.50
Sensitivity of annual net interest income	**1.16**	**(2.44)**	(0.10)	(2.28)
Decrease in basis points	**0.50**	**0.50**	0.50	0.50
Sensitivity of annual net interest income	**(1.16)**	**2.44**	0.10	2.28

ii) Currency risk

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

In Zambian Kwacha

5 Financial risk review *(continued)*

c) Market risk *(continued)*

ii) Currency risk *(continued)*

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank and are as follows (in Zambian Kwacha terms).

2016	US dollar	Pound	Euro	Rand	Rupee	Kwacha	Total
Monetary assets	**766,032,768**	**10,765,602**	**7,171,954**	**10,405,821**	**745,728**	**1,901,721,332**	**2,696,843,205**
Monetary liabilities	**(762,976,061)**	**(10,719,558)**	**(7,772,075)**	**(6,897,617)**	**(237,361)**	**(1,457,001,771)**	**(2,245,604,443)**
Net recognised position	**3,056,707**	**46,044**	**(600,121)**	**3,508,204**	**508,367**	**444,719,561**	**451,238,762**

Maximum exposure to currency risk is as follows:

2015	US dollar	Pound	Euro	Rand	Rupee	Kwacha	Total
Monetary assets	803,358,645	6,708,693	3,764,162	11,263,433	916,926	1,735,159,010	2,561,170,869
Monetary liabilities	(810,356,607)	(6,087,273)	(3,719,088)	(11,404,758)	(144,682)	(1,309,912,192)	(2,141,624,600)
Net recognised position	(6,997,962)	621,420	45,074	(141,325)	772,244	425,246,818	419,546,269

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

In Zambian Kwacha

5 Financial risk review *(continued)*

c) Market risk *(continued)*

ii) Currency risk *(continued)*

Exchange rate sensitivity

A strengthening (weakening) of the Kwacha by 10 percent, as indicated below against the USD, GBP, Euro, Rupee and ZAR at 31 December 2016 would have increased (decreased) equity and profit or loss by the amounts shown below. This computation is based on the foreign exchange rate variance that the company considered reasonably possible at the reporting date. The computation assumes all the other variables remain constant.

	Strengthening		**Weakening**	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
31 December 2016				
USD	**305,707**	**305,707**	**(305,707)**	**(305,707)**
GBP	**4,604**	**4,604**	**(4,604)**	**(4,604)**
Euro	**(60,012)**	**(60,012)**	**60,012**	**60,012**
ZAR	**350,820**	**350,820**	**(350,820)**	**(350,820)**
Rupee	**50,837**	**50,837**	**(50,837)**	**(50,837)**
31 December 2015				
USD	699,796	699,796	(699,796)	(699,796)
GBP	62,142	62,142	(62,142)	(62,142)
Euro	4,507	4,507	(4,507)	(4,507)
ZAR	14,133	14,133	(14,133)	(14,133)
Rupee	77,224	77,224	(77,224)	(77,224)

5 Financial risk review *(continued)*

d) Capital management

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

- To comply with the capital requirements set by the Bank of Zambia;
- 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; and
- To maintain a strong capital base to support the development of its business.

The Bank complied with the minimal capital adequacy requirements in the period.

Regulatory capital

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

In implementing current capital requirements Bank of Zambia requires banks;

- To maintain the higher of a minimum 10% ratio of total capital to total risk-weighted assets or hold a minimum K 416 million;
- Maintain primary or Tier 1 capital of not less than 5% of total risk weighted assets; and
- Maintain total capital of not less than 10% of risk-weighted assets plus risk-weighted unrecognised items.

The Bank's regulatory capital is analysed into two tiers:

Primary (Tier 1) capital, which includes paid-up common shares, retained earnings, statutory reserves less adjustment for assets of little or no realizable value.
Secondary (Tier 2) capital, which includes qualifying subordinated term debt and revaluation reserves limited to a maximum of 40% of revaluation reserves. The maximum amount of total secondary capital is limited to 100% of primary capital.

The Bank fully complied with all externally imposed capital requirements throughout the year.

In Zambian Kwacha

5 Financial risk review *(continued)*

d) Capital management *(continued)*

i) Computation of capital position

	2016	2015
I Primary (Tier 1) Capital		
(a) Paid-up common shares	**416,000,000**	416,000,000
(b) Eligible preferred shares	-	-
(c) Contributed surplus	-	-
(d) Retained earnings	**249,289,721**	186,801,198
(e) General reserves	**20,094,829**	30,948,798
(f) Statutory reserves	**15,000,000**	15,000,000
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total A (items a to g)	**700,384,550**	648,749,996
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) Sub-total B (items i to m)	-	-
Provisions	-	-
Assets of little or no realised value	-	-
Other adjustments (prepayment)	-	-
(o) Sub-total C (other adjustments)	-	-
(p) Total primary capital [h – (n to o)]	**700,384,550**	648,749,996
II Secondary (tier 2) capital		
(a) Eligible preferred shares	-	-
(b) Eligible subordinated term debt	-	-
(c) Eligible loan stock / capital	-	-
(d) Eligible general provisions	-	-
(e) Revaluation reserves. (Maximum is 40% of revaluation reserves)	**7,987,384**	8,159,232
(f) Other	-	-
(f) Total secondary capital	**7,987,384**	8,159,232
III Eligible secondary capital	**7,987,384**	8,159,232
(The maximum amount of secondary capital is limited to 100% of primary capital)		
IV Eligible total capital (I(p) + III) (Regulatory capital)	**708,371,934**	656,909,228
V Minimum total capital requirement (10% of total on and unrecognised risk weighted assets)	**(520,000,000)**	(520,000,000)
VI Excess (IV minus V)	**188,371,934**	136,909,228

On 30 January 2012, the Bank of Zambia issued Circular 02/2012 on a new capital adequacy framework. This entailed reclassification of commercial banks into locally owned banks and foreign banks. The minimum capital was revised upwards to K520 million for foreign-owned banks and K104 million for locally-owned banks. Indo Zambia bank is a foreign owned bank.

The circular states that at least eighty percent of the minimum capital requirement shall be in nominal paid up common shares. Indo Zambia Limited has K416 million in share capital and eligible reserves of K284 million (2015: K233 million). This total is more than the minimum capital requirement of K520 million for foreign banks.

5 Financial risk review *(continued)*

e) Financial assets and financial liabilities

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

2016	*Note*	**Trading**	**Loans and Receivables**	**Amortised cost**	**Total carrying amounts**	**Fair value**
Cash balances at Bank of Zambia	*15*	-	**425,357,405**	-	**425,357,405**	**425,357,405**
Cash and cash equivalents	*15*	-	**490,951,305**	-	**490,951,305**	**490,951,305**
Held-to-maturity investment securities	*16*	-	-	**778,365,960**	**778,365,960**	**778,365,960**
Loans and advances to customers	*18*	-	**1,012,592,884**	-	**1,012,592,884**	**1,012,592,884**
Other assets	*19*	-	**96,033,328**	-	**96,033,328**	**96,033,328**
Total financial assets			**2,024,934,922**	**778,365,960**	**2,803,300,882**	**2,803,300,882**
Financial liabilities						
Deposits from customers	*21*	-	-	**2,067,870,636**	**2,067,870,636**	**2,067,870,636**
Deposits from Banks	*22*	-	-	**596,592**	**596,592**	**596,592**
Other liabilities	*23*	-	-	**177,137,214**	**177,137,214**	**177,137,214**
Total		-	-	**2,245,604,442**	**2,245,604,442**	**2,245,604,442**

2015	*Note*	Trading	Loans and Receivables	Amortised cost	Total carrying amounts	Fair value
Cash balances at central Bank	*15*	-	398,502,253	-	398,502,253	398,502,253
Cash and cash equivalents	*15*	-	562,359,618	-	562,359,618	562,359,618
Held-to-maturity investment securities	*16*	-	-	613,717,938	613,717,938	613,717,938
Derivative financial instruments	*17*	5,348,959	-	-	5,348,959	5,348,959
Loans and advances to customers	*18*	-	986,591,061	-	986,591,061	986,591,061
Other assets	*19*	-	88,171,852	-	88,171,852	88,171,852
Total financial assets		5,348,959	2,035,624,784	613,717,938	2,654,691,681	2,654,691,681
Financial liabilities						
Deposits from customers	*21*	-	-	1,992,903,086	1,992,903,086	1,992,903,086
Other liabilities	*23*	-	-	148,721,513	148,721,513	148,721,513
Total		-	-	2,141,624,599	2,149,624,599	2,141,624,599

The Directors are of the opinion that the carrying amounts are not materially different from fair values of the financial instruments due to their short term to maturity.

6 Fair values of financial instruments

a. Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

b. Financial instruments measured at fair value-fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Group and Bank

31 December 2016	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets						
Derivative financial instrument	*17*	-	-	-	-	-
31 December 2015	*Note*					
Assets						
Derivative financial instrument	*17*	-	5,348,959	-	5,348,959	5,348,959

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6 Fair values of financial instruments *(continued)*

c. Financial instruments not measured at fair value

31 December 2016	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Assets						
Cash and cash equivalents	*15*	-	**490,951,305**	-	**490,951,305**	**490,951,305**
Held to maturity investment securities	*16*	-	**778,365,960**	-	**778,365,960**	**778,365,960**
Loans and advances to customers	*18*	-	**1,012,592,884**	-	**1,012,592,884**	**1,012,592,884**
Liabilities						
Deposits from customers	*21*	-	**2,067,870,636**	-	**2,067,870,636**	**2,067,870,636**

31 December 2015	*Note*	Level 1	Level 2	Level 3	Total fair value	**Total carrying amount**
Assets						
Cash and cash equivalents	*15*	-	562,359,618	-	562,359,618	562,359,618
Held to maturity investment securities	*16*	-	613,717,938	-	613,717,938	613,717,938
Loans and advances to customers	*18*	-	986,591,061	-	986,591,061	986,591,061
Liabilities						
Deposits from customers	*21*	-	1,992,903,086	-	1,992,903,086	1,992,903,086

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on OTC trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as vintage, LTV ratios, the quality of collateral, product and borrower type, prepayment and delinquency rates, and default probability.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

The carrying amounts of financial assets and liabilities are representative of the Bank's position at 31 December 2016 and are in the opinion of the directors not significantly different from their respective fair values due to generally short periods to maturity dates. Fair values are generally determined using valuation techniques or where available, published price quotations from an active market.

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7 Interest income

See accounting policies in note 32 b

	2016	2015
Loans and advances to customers	**213,760,633**	156,236,451
Held-to-maturity investment securities	**146,149,427**	145,728,789
Other	**15,744,698**	6,517,344
	375,654,758	308,482,584

8 Interest expense

See accounting policies in note 32 b

Deposits from customers	**97,452,842**	66,839,130
Other	**318,153**	1,496,250
	97,770,995	68,335,380

9 Fee and commission income

See accounting policies in note 32 c

Retail banking customer fees	**65,690,814**	48,568,231
Loans and advances fees	**3,378,358**	1,081,323
	69,069,172	49,649,554

10 Net trading income

See accounting policies in note 32 d

Foreign currency transaction gains	**23,899,946**	27,238,219

11 Other income

Rental income	**-**	36,000
Gain on disposal of property and equipment	**-**	56,664
Cheque book charges	**970,369**	805,582
Swift charges recovered	**3,873,919**	5,152,897
Other income	**5,170,586**	1,602,406
	10,014,874	7,653,549

In Zambian Kwacha

12 Administrative expenses

	2016	2015
Audit fees	**701,161**	445,833
Directors fees	**5,060,003**	3,081,769
Depreciation	**17,189,837**	8,862,328
Stationery	**2,958,134**	2,407,457
Swift and telephone	**4,394,262**	4,159,849
Security charges	**5,203,145**	4,201,495
BOZ charges	**6,227,730**	5,799,206
Other administrative expenses	**24,155,921**	14,469,994
	65,890,193	43,427,931

13 Operating expenses

	2016	2015
Staff costs	**148,458,293**	118,075,953
National Pension Scheme Authority contributions	**2,671,467**	2,463,293
Directors' emoluments	**3,188,706**	1,486,384
Property related expenses	**9,748,124**	7,773,439
Office expenses	**21,835,007**	14,573,310
	185,901,597	144,372,379

14 Income taxes

See accounting policies in note 32 e

a) Current tax expense

	2016	2015
Current year	**45,294,140**	52,111,389
Deferred tax (note 14(d))	**(717,639)**	(5,366,866)
Total income tax expense	**44,576,501**	46,744,523

The income tax expenses for the current year is subject to agreement with the ZRA.

b) Reconciliation of effective tax rate

		2016		2015
Profit before income tax		**128,183,024**		127,559,717
Tax calculated at the tax rate of	*35%*	**44,864,058**	*35%*	44,645,901
Non-deductible expenses	*0%*	**(266,619)**	*1.8%*	1,757,441
Timing differences	*0%*	**(20,938)**	*0.27%*	341,181
Total income tax expense in profit or loss	*35%*	**44,576,501**	*37.07%*	46,744,523

c) Current income tax movement in the statement of financial position

	2016	2015
Current tax liability/(asset) at the beginning of the year	**3,674,439**	(2,926,132)
Charge for the year	**45,294,140**	52,111,389
Tax paid	**(48,394,565)**	(45,510,818)
Current tax liability at the end of the year	**574,014**	3,674,439

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14(d) Deferred tax assets and liabilities

See accounting policies in note 32 e

i) Recognised deferred tax assets and liabilities

The following are the deferred tax (assets)/liabilities recognised by the Bank.

	Assets		Liabilities		Net	
	2016	2015	**2016**	2015	**2016**	2015
Property and equipment	**(1,407,579)**	(1,296,418)	-	-	**(1,407,579)**	(1,296,418)
Bad debts provision	**(8,267,238)**	(7,910,498)	-	-	**(8,267,238)**	(7,910,498)
Clearing account provision	**(249,738)**	-	-	-	**(249,738)**	-
Amortisation of revaluation surplus	**(497,641)**	(266,307)	-	-	**(497,641)**	(266,307)
Revaluation	-	-	**12,705,570**	12,705,570	**12,705,570**	12,705,570
	(10,422,196)	(9,473,223)	**12,705,570**	12,705,570	**2,283,374**	3,232,347

ii) Movement in temporary differences during the year

	Balance at 1 January 2015	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2015	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2016
Property and equipment	(2,734,870)	1,438,452	-	(1,296,418)	**(111,161)**	-	**(1,407,579)**
Bad debts provision	(1,105,181)	(6,805,318)	-	(7,910,498)	**(356,740)**	-	**(8,267,238)**
Clearing account provision	-	-	-	-	**(249,738)**	-	**(249,738)**
Revaluation	11,099,015	-	1,606,555	12,705,570	-	-	**12,705,570**
Amortisation of reconciliation surplus	(215,059)	-	(51,248)	(266,307)	-	**(231,334)**	**(497,641)**
	7,043,190	(5,366,866)	1,555,307	3,232,347	**(717,639)**	**(231,334)**	**2,283,374**

There were no unrecognised deferred tax assets and liabilities during the year (2015: nil).

15 Cash balances at Bank of Zambia

See accounting policies in note 32 h

	2016	2015
Balances at Bank of Zambia	**39,746,377**	48,992,253
Bank of Zambia statutory reserve	**385,611,028**	349,510,000
Total	**425,357,405**	398,502,253
Cash and cash equivalents		
Cash on hand	**153,590,710**	91,784,371
Placements with other banks	**-**	100,000,000
Balance due from other banks	**337,360,595**	370,575,247
Total	**490,951,305**	562,359,618
Grand total	**916,308,710**	960,861,871

The total statutory reserve held with Bank of Zambia, as a minimum reserve requirement, is not available for the Bank's daily business. The reserve represents a requirement by the Banking and Financial Services Act and is a percentage of the Bank's local and foreign currency liabilities to the public. At 31 December 2016 the required percentage was 18% (2015: 18%).

16 Held-to-maturity investment securities

See accounting policies in note 32 j

	2016	2015
Treasury bills	**736,463,474**	552,197,162
Government bonds	**41,902,486**	61,520,776
	778,365,960	613,717,938

	2016		2015	
Maturity analysis	**Treasury bills**	**Government bonds**	Treasury bills	Government bonds
Within one year	**736,463,474**	**5,073,072**	552,197,162	7,091,248
Within one to five years	**-**	**36,829,414**	-	54,549,528
	736,463,474	**41,902,486**	552,197,162	61,640,776

Included in investment securities are treasury bills with a total face value of K 25 million (2015: K 20 million) pledged as security by the Bank for transactions with various counter parties and the Zambia Electronic Clearing House.

17 Derivative financial instrument

	2016	2015
Foreign exchange contract	**-**	5,348,959

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18 Loans and advances to customers

See accounting policies in note 32i

	2016			2015		
	Gross amount	**Impairment allowance**	**Carrying amount**	Gross mount	Impairment allowance	Carrying amount
Retail customers:						
Mortgage lending	**93,591,807**	**(3,228,214)**	**90,363,593**	101,284,703	(1,804,758)	99,479,945
Personal loans	**201,503,921**	**(7,871,333)**	**193,632,588**	235,931,520	(7,530,291)	228,401,229
Term loans	**46,681,335**	**(1,571,769)**	**45,109,566**	36,789,600	(1,550,860)	35,238,740
Total	**341,777,063**	**(12,671,316)**	**329,105,747**	374,005,823	(10,885,909)	363,119,914
Corporate customers:						
Term loans	**413,026,205**	**(7,629,208)**	**405,396,897**	319,891,281	(7,962,385)	311,928,896
Overdrafts	**285,199,951**	**(7,109,811)**	**278,090,140**	319,487,576	(7,945,325)	311,542,251
Total	**698,226,156**	**(14,739,019)**	**683,487,137**	639,378,857	(15,907,710)	623,471,147
Total loans	**1,040,003,219**	**(27,410,335)**	**1,012,592,884**	1,013,384,680	(26,793,619)	986,591,061

18 Loans and advances to customers *(continued)*

a) Maturity analysis of loans and advances

The maturity analysis is based on the remaining periods to contractual maturity.

	2016	2015
Maturing within one year	**473,896,193**	398,876,262
Maturing after 1 year but less than 5 years	**392,737,995**	509,256,066
Maturing after 5 years	**135,534,347**	78,458,733
	1,002,168,535	986,591,061

b) Allowances for impairment

See accounting policies in note 32 q (iii)

	2016	2015
Specific allowances for impairment		
Balance at beginning of the year	**22,000,485**	16,209,441
Charge for the year	**10,555,302**	12,528,993
Write-offs previously provided for	**(241,403)**	(1,885,254)
Exchange differences	**(34,822)**	-
Recoveries	**(9,756,479)**	(4,852,695)
Balance at end of the year	**22,523,083**	22,000,485
Collective allowances for impairment		
Balance at beginning of the year	**4,793,134**	3,140,933
Charge for the year	**94,118**	1,652,201
Balance at end of the year	**4,887,252**	4,793,134
Total impairment allowance	**27,410,335**	26,793,619

c) Total impairment losses in profit or loss

	2016	2015
Specific impairment	**10,555,302**	12,528,993
Collective impairment	**94,118**	1,652,201
Impairment loss recognised in profit or loss	**10,649,420**	14,181,194

19 Other assets

	2016	2015
Interest receivable	**25,855,361**	13,970,336
Inter branch accounts receivable	**82,925**	716,833
Other assets	**70,095,042**	73,484,683
	96,033,328	88,171,852

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20 Property and equipment

See accounting policies in note 32 p

	Land and buildings	Leasehold improvements	Motor vehicles	Computer and office equipment	Furniture and fixtures	Capital work in progress	Total
Cost/ valued assets							
At 1 January 2015	63,730,110	25,777,502	2,401,242	23,813,460	27,158,321	4,124,314	147,004,949
Additions	81,050	3,618,738	549,185	12,209,697	6,220,010	23,756,645	46,435,325
Revaluation	3,429,446	-	-	-	-	-	3,429,446
Transfers	-	-	-	72,299	(72,299)	-	-
Disposals	-	-	-	-	(56,664)	-	(56,664)
Balance at 31 December 2015	67,240,606	29,396,240	2,950,427	36,095,456	33,249,368	27,880,959	196,813,056
At 1 January 2016	**67,240,606**	**29,396,240**	**2,950,427**	**36,095,456**	**33,249,368**	**27,880,959**	**196,813,056**
Additions	**6,095,619**	**644,134**	**2,415,808**	**8,298,768**	**2,737,223**	**679,215**	**20,870,767**
Transfers	**18,221,254**	**540,393**	**-**	**3,321,150**	**5,354,296**	**(27,437,093)**	**-**
Adjustments	**-**	**-**	**-**	**(111,030)**	**(614,101)**	**-**	**(725,131)**
At 31 December 2016	**91,557,479**	**30,580,767**	**5,366,235**	**47,604,344**	**40,726,786**	**1,123,081**	**216,958,692**
Depreciation							
Balance at 1 January 2015	467,733	6,692,172	2,166,596	18,639,128	18,612,775	725,131	47,303,535
Charge for the year	1,270,930	2,139,869	158,591	3,226,567	2,066,371	-	8,862,328
Transfers	-	-	-	-	-	(725,131)	(725,131)
Depreciation write back	(1,160,711)	-	-	-	-	-	(1,160,711)
Disposal	-	-	-	-	(56,664)	-	(56,664)
At 31 December 2015	577,952	8,832,412	2,325,187	21,865,695	20,622,482	-	54,223,357
Balance at 1 January 2016	**577,952**	**8,832,041**	**2,325,187**	**21,865,695**	**20,622,482**	**-**	**54,223,357**
Charge for the year	**1,436,289**	**2,801,371**	**274,095**	**6,644,385**	**6,033,697**	**-**	**17,189,837**
Transfer	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2016	**2,014,241**	**11,633,412**	**2,599,282**	**28,510,080**	**26,656,179**	**-**	**71,413,194**
Carrying amounts							
At 31 December 2015	66,662,654	20,564,199	625,240	14,229,761	12,626,886	27,880,059	142,589,699
At 31 December 2016	**89,543,238**	**18,947,355**	**2,766,953**	**19,094,264**	**14,070,607**	**1,123,081**	**145,545,498**

Included in property and equipment are fully depreciated assets with a cost of K 20.73 million (2015: K 24.79 million). During the year, the land and buildings were revalued by Fairworld Properties Limited, Registered Valuation Surveyors, on the basis of open market. The revaluation surplus arising was K 4.59 million (2015: K 4.95 million). In the opinion of the directors, the carrying value of land and buildings at 31 December 2016 approximates fair value.

In accordance with section 193 of the Companies Act a list of the Bank's properties is available for inspection at the registered office.

20 Property and equipment *(continued)*

If the buildings were stated on a historical cost basis, the carrying value would be as follows:

	2016	2015
Cost	**33,531,069**	33,531,069
Accumulated depreciation	**(3,079,789)**	(2,409,168)
Net book value	**30,451,280**	31,121,901

Measurement of fair value

(i) Fair value hierarchy

The fair value of land and building was determined by external, independent property valuers Fairworld Properties Limited, Registered Valuation Surveyors having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The independent valuers provide the fair value of the Bank's land and building every 5 years as at the balance sheet date.

The fair value measurement for land and building of K92.35 million (2015: K92.35 million) has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

(i) Valuation technique

Market approach model – the land and building have been valued using direct comparison with similar properties that have been sold in the area.

(ii) Valuation inputs

The input is the actual selling price of similar properties that have been sold in the same location and include cost of specific features such as security, generators and CCTV. For properties located in areas where no actual sales transactions took place in recent times, the current cost of constructing similar properties is used as a basis for determining the fair value

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21 Deposits from customers

See accounting policies in note 32l

	2016	2015
Demand deposits	**514,417,162**	535,276,729
Savings deposits	**342,926,897**	370,312,793
Term deposits	**451,544,934**	302,370,533
Foreign currency deposits	**758,981,643**	784,943,031
	2,067,870,636	1,992,903,086
Repayable on demand	**1,487,625,358**	1,572,123,923
Repayable with agreed maturity dates or periods of notice, by residual maturity:		
- Three months or less	**53,959,051**	145,240,655
- Between three months and one year	**519,236,400**	262,774,613
- Between one year and three years	**7,049,827**	12,763,895
	2,067,870,636	1,992,903,086

22 Deposits from banks

See accounting policies in note 32 l

	2016	2015
Standard Chartered	**596,592**	-
	596,592	-

23 Other liabilities

See accounting policies in note 32m

	2016	2015
Bills payable	**4,916,358**	6,261,993
Interest payable	**41,405,214**	15,684,999
Withholding tax payable	**1,608,150**	533,283
Accrued expenses	**7,043,787**	4,779,455
Employee provisions	**85,799,527**	82,295,313
Other liabilities	**36,364,178**	39,166,469
	177,137,214	148,721,512

24 Share capital

See accounting policies in note 32 l

	Number of ordinary shares 2016	**Ordinary share capital 2016**	Number of ordinary shares 2015	Ordinary share capital 2015
Authorised				
Ordinary shares of K 1 each	420,000,000	420,000,000	420,000,000	420,000,000
Issued and fully paid				
Ordinary shares of K 1 each	**416,000,000**	**416,000,000**	416,000,000	416,000,000

24 Share capital *(continued)*

The holders of ordinary shares are entitled to vote at meetings of the Bank and to dividends as declared from time to time. After the reporting date, a dividend of K33, 353,413 (2015:K32, 203,303) was proposed. The dividends have not been recognised as liabilities, therefore, there are no tax consequences.

25 Contingent liabilities

There were contingent liabilities as at 31 December 2016 amounting to K42.80 million (2015: K54.12 million). These are financial guarantees and letters of credit, which are not recognised in the statement of financial position.

26 Subsequent events

Apart from the dividend of K33,353,413 (2015: K32,203,303 million) which was proposed after the reporting date, there were no events after the reporting date requiring disclosure in, or adjustment of, these financial statements.

27 Capital commitments

There were no capital commitments as at 31 December 2016 (2015: K4 million).

28 Related party transactions

All the transactions with related parties were at arm's length.

(a) Balances due to other banks

	2016	2015
Bank of Baroda	**35,533,159**	21,104,931
Bank of India	**12,887,883**	193,767,688
	48,421,042	214,872,619

b) Interest paid

Bank of Baroda	**1,641**	128,269
Bank of India	**-**	1,162,366
	1,641	1,290,635

c) Deposits

Government of the Republic of Zambia - (Central Government)	**29,208,776**	51,803,624
Government of the Republic of Zambia - (Donor funds)	**489,747**	2,624,848
	29,698,523	54,428,472

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28 Related party transactions *(continued)*

d) Key management compensation

Salaries and short term benefits	**19,767,013**	13,421,965
Terminal benefits	**6,993,812**	3,151,367
	26,760,825	16,573,332

e) Directors' remuneration

Directors' remuneration	**5,060,003**	3,081,769

f) Directors' loans

2016	**Directors**	**Key management**
Loans outstanding at beginning of the year	**423,775**	**4,495,046**
Loan advances during the year	**-**	**2,192,500**
Loan repayments during the year	**(117,944)**	**(1,185,768)**
Loans outstanding at end of the year	**305,831**	**5,501,778**
Interest earned	**67,740**	**557,835**

2015		
Loans outstanding at beginning of the year	15,538	3,355,884
Loan advances during the year	464,510	2,158,500
Loan repayments during the year	(56,273)	(1,019,338)
Loans outstanding at end of the year	423,775	4,495,046
Interest earned	36,577	461,098

The average interest rate range for the year 2016 was 32% (2015: 24.50%).

All loans to directors and companies controlled by directors are given on commercial terms and at market rates, in the ordinary course of business. Directors' remuneration is disclosed in note 12.

g) Directors' deposits

2016	**Directors**	**Key management**
Balance at beginning of the year	**1,422,299**	**428,877**
(Withdraw)/deposit during the year	**(851,833)**	**291,628**
Balance at end of the year	**570,446**	**720,505**

2015	**Directors**	**Key management**
Balance at beginning of the year	1,259,586	244,362
(Withdraw)/deposit during the year	162,713	184,515
Balance at end of the year	1,422,299	428,877

28 Related party transactions *(continued)*

(h Deposit balances with entities owned by the Industrial Development Corporation

The following companies that are fully owned and partly owned by the IDC held deposits accounts with the Bank:

Engineering Services Corporation - ESCO Limited;
Indeni Petroleum Refinery;
Lusaka South Multi Facility Economic Zone Limited;
ZESCO Limited;
ZAMTEL Limited;
ZAFFICO Limited;
Zambia Railways Limited and;
ZSIC Group Limited.
Zambia Educational Publishing House

The total cumulative deposits held by entities owned by Industrial Development Corporation as at 31 December 2016 was K66.84 million (2015: K14.79). Normal terms and conditions apply on the deposit accounts held by these entities. The transactions with the Bank were at arm's length.

There were no loan accounts held by any of the entities in which IDC has interest.

The following entities that are owned by IDC did not have any deposit and loan accounts with the Bank as at 31 December 2016:

Afrox Zambia PLC Kariba Minerals Limited Lusaka Trust Hospital Medical Stores Limited Mpulungu Harbour Limited Mukuba Hotel Limited Mulungushi Village Limited Mupepetwe Development Company Nanga Farms PLC Nitrogen Chemicals of Zambia Limited Zambia Daily Mail Zambia International Trade Fair Limited Zambia Printing Company Limited	Zambia China Mulungushi Joint Venture Zamcapital Enterprises Limited Times Printpak Zambia ZANACO PLC Mpulungu Harbour corporation Limited ZCCM-IH PLC MOFED London MOFED Tanzania Zambia Forestry and Forest Industries company Zambia Publishing House Limited Zambia School of Business Zambia Airways Limited

29 Financial risk management

a) Introduction and overview

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

This note presents information about the Bank's exposure to each of the above risks and the Bank's objectives, policies and processes for measuring and managing risk.

Risk management framework

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risks management controls and procedures, the results of which are reported to the Bank Audit Committee.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, Internal Audit and the Risk Management units are responsible for the independent review of risk management and the control environment. The most important types of risks are credit risk, liquidity risk, market risk and operational risks.

b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally through the Bank's lending activities that lead to loans and advances, and investment activities that bring about debt securities and other bills into the Bank's asset portfolio. There is also credit risk arising from unrecognised financial instruments, such as loan commitments and guarantees. The credit risk management and control is carried out by the Loan Review Committee and reported to the Board of Directors and head of each business unit regularly.

29 Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Management of credit risk

The board of directors has delegated responsibility for the oversight of credit risk to its Group Credit Committee. A separate Credit department, reporting to the Group Credit Committee, is responsible for managing the credit risk, including the following.

Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit, the Head of Credit, the Credit Committee or the board of directors as appropriate.

Reviewing and assessing credit risk Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).

Developing and maintaining the risk gradings to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Risk.

Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Credit, which may require appropriate corrective action to be taken

Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit-related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval. Regular audits of business units and Credit processes are undertaken by Internal Audit.

29 Financial risk management *(continued)*

c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity is monitored on a daily basis by the Bank's Treasury Department in consultation with the Chief Manager Finance and the Managing Director and controlled as far as possible by ensuring that mismatches between maturing deposit liabilities and investments of these funds are kept to a minimum.

Any unforeseen mismatches that arise would result in the Bank borrowing on the interbank market either on a clean basis or with collateral for a short period.

d) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in the Treasury department and monitored by two separate teams. Regular reports are submitted to the Board of Directors and heads of each business unit.

The Forex Department in consultation with the Managing Director and, Chief Manager (Forex) review the foreign exchange buying and selling rates on a daily basis and a decision is made as to whether to hold long or short positions, within the limits stipulated by Bank of Zambia.

Similarly the same composition of individuals also monitors the interest rates on a regular basis and adjustments are made on interest chargeable on loans and advances. The monitoring process pays attention to Treasury bill rates and base rates changes announced by other Banks.

i) Currency risk

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

ii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by Treasury department.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

29 Financial risk management *(continued)*

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. All policies, procedures and limits are properly documented in the operational manual for each department within the Bank and updated every year to take account the changes to internal controls, procedures and limits.

Management of strategic risk

The Bank's strategic plan is comprehensive in all aspects with particular emphasis on compliance with legal and market conditions and, senior management effectively communicates the plan to all staff levels and allocates resources in line with the laid down objectives.

Management of regulatory risk

Any risks associated with the reputation of the Bank are dealt with as soon as they are perceived. This includes matters arising from regulatory reviews such as Bank of Zambia inspections. These are promptly and adequately dealt with as they arise. Customer complaints are thoroughly investigated and resolved.

30 Basis of measurement

These financial statements have been prepared on the historical cost basis, except for building, which are carried at their revalued amount.

31 Changes in accounting policies

There were no changes in accounting policies.

32 Significant accounting policies

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

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

a) Foreign currency

Transactions in foreign currencies are translated to Kwacha at spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non monetary items that are measured based on historical cost in the foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

32 Significant accounting policies *(continued)*

b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate.
Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and OCI include:

Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Other fees and commission expenses relate to transactions and service fees, which are expensed as the services are provided.

d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

32 Significant accounting policies *(continued)*

e) Taxation

Income tax
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax
Current tax represent the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustments to the tax payable in respect of previous years. The tax rates are based on the applicable Zambian tax law.

Deferred tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

32 Significant accounting policies *(continued)*

f) Employment benefits

i) Defined contribution plan

The Bank contributes to the National Pension Scheme Authority (NAPSA) which is a defined contribution scheme. Membership to NAPSA is compulsory and monthly contributions by both employer and employee are made.

Obligations for contributions to National Pension Scheme Authority (NAPSA) are recognised as an expense in profit or loss in the periods during which services are rendered by employees. The Bank's employees are on term contracts and a provision for gratuity has been made for all its employees

ii) Short term benefits

Short-term employee benefits, such as salaries, holiday pay, and other benefits, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid as short-term bonus to the extent that the Bank has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

iii) Terminal benefits:

Normal retirement

An employee may retire on attaining the pensionable age which shall be 55 years, or after working for 20 years of continuous service whichever is earlier. The retirement benefits shall be 3 months pay for each completed year of continuous service.

Retirement on medical grounds

An employee may be retired on medical grounds on receipt of satisfactory medical evidence from the relevant Ministry of Health authority or a Bank appointed medical practitioner. The benefits to be received on such retirement will be 3 months pay for each completed year of service.

32 Significant accounting policies *(continued)*

g) Financial assets and financial liabilities

i) Recognition and initial measurement

The Bank initially recognises loans and advances and deposits, on the date they are originated. All other financial assets (including regular way purchases and sales of financial assets) are recognised initially on the trade date which is the date the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value including, for an item not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

Financial assets

The Bank classifies its financial assets in one of the following categories:

Loans and receivables; and
Held-to-maturity investment securities.

Financial liabilities

The Bank classifies its financial liabilities, other than financial standby letters of credit and loan commitments, as measured at amortised cost.

iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

32 Significant accounting policies *(continued)*

g) Financial assets and financial liabilities *(continued)*

iii) Derecognition *(continued)*

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

iv) Offsetting financial instruments

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

v) Amortised cost measurement

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

vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

32 Significant accounting policies *(continued)*

g) Financial assets and financial liabilities *(continued)*

vi) Fair value measurement *(continued)*

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not measured at fair value though profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer,
- default or delinquency by a borrower,
- restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individual significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

32 Significant accounting policies *(continued)*

g) Financial assets and financial liabilities *(continued)*

vii) Identification and measurement of impairment *(continued)*

In assessing collective impairment the Bank uses statistical modelling of historical trends for the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The Bank writes off a loan either partially or in full, and any related allowance for impairment losses when the Bank Credit Committee determines that there is no realistic prospect of recovery.

h) Cash and cash equivalents

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

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

i) Loans and advances

Loans and advances are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near future. Loans and advances include mortgage, term loans, personal loans and overdrafts.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method, less impairment losses.

32 Significant accounting policies *(continued)*

j) Investment securities

Investment securities are initially measured at fair value and subsequently measured depending on their classification as held-to-maturity. Management determines the classification of its investments at initial recognition.

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification;

sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

k) Borrowings

Borrowings are subsequently measured at amortised cost, any difference net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

l) Deposits from customers

Deposits are the Bank's sources of debt financing. Deposits are subsequently measured at amortised cost using the effective interest method.

m) Non derivative financial liabilities

The Bank classifies non derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities include accruals and other payables.

32 Significant accounting policies *(continued)*

n) Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities.

The Bank receives collateral in the form of cash or debt securities in respect of other financial instruments in order to reduce credit risk. Collateral received in the form of debt securities is not recognised on the statement of financial position. Collateral received in the form of cash is recognised on the statement of financial position with a corresponding liability. These items are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recognised as interest expense or interest income respectively.

o) Leases

A lease is classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership. For an operating lease, a lessee does not recognise a liability for rentals in respect of future periods, except for a property that is held for an operating lease that is accounted for as investment property. In a case where the Bank is the lessee, the leased assets are not recognised in the Bank's statement of financial position. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the lease period.

p) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed.

32 Significant accounting policies *(continued)*

p) Property and equipment *(continued)*

Depreciation

Depreciation is calculated to write off items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Leasehold land and building	50 years
Leasehold improvements	10 years
Motor vehicles	5 years
Furniture, fittings and office equipment	4 years
Office computer	4 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Revaluation of property

An external, independent valuation expert, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Bank's land and buildings every 5 years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A market yield is applied to the estimated rental value, adjustments are made to reflect actual rentals.

i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

32 Significant accounting policies *(continued)*

p) Property and equipment *(continued)*

Revaluation surplus

The surplus arising on the revaluation of properties is initially credited to a revaluation surplus, which is a non-distributable reserve. A transfer is made (net of tax) from this reserve to retained earnings each year, equivalent to the difference between the actual depreciation charge for the year and the depreciation charge based on historical values, in respect of the re-valued assets.

If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset, thereafter the remaining decrease is recognised in profit or loss.

Capital work in progress

Capital work-in-progress represents assets in the course of development, which as at the reporting date, has not brought into use.

q) Impairment of non-financial assets

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets.

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

32 Significant accounting policies *(continued)*

r) Share capital and prepaid capital contributions

i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

ii) Prepaid capital contributions

Amounts received in respect of prepayments for shares not yet issued, and for which there is no possibility that the Bank may be required to refund the amount received and the Bank's obligation is to deliver only a fixed number of shares, are credited to a separate category of equity as funds awaiting allotment of shares.

iii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

s) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. These assets are excluded from these financial statements, as they are not assets of the Bank.

t) Financial guarantees and loan commitments

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Loan commitments are Bank commitments to provide credit under pre specified terms and conditions.

Financial guarantee liabilities are accounted for as unrecognised transactions and disclosed as contingent liabilities. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income under other operating expenses.

u) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as unrecognised transactions and disclosed as contingent liabilities.

33 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017; however, the Bank has not applied the following new or amended standards in preparing these consolidated financial statements.

Effective date	Standard, Amendment or Interpretation	Summary of Requirements
1 January 2017	*Disclosure Initiative (Amendments to IAS 7)*	The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.
1 January 2017	*Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*	The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised. Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this. Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type. The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.
1 January 2019	IFRS 16 Leases	This standard will replace the existing standard IAS 17. The core principal of the standard is that the lessee and the lessor should recognise all rights and obligations arising from leasing arrangements on the balance sheet. The impact of the adoption of the standard on the financial statements for the Bank is still being assessed.

33 Standards issued but not yet adopted *(continued)*

Effective date	Standard, Amendment or Interpretation	Summary of Requirements
1 January 2018	IFRS 15 *Revenue from Contracts with Customers*	This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. This new standard will most likely have a significant impact on the Bank, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Bank is currently in the process of performing a more detailed assessment of the impact of this standard on the Bank and will provide more information in the year ended 31 December 2016 financial statements. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. .
1 January 2018	IFRS 9 Financial Instruments	On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. This standard will have a significant impact on the Bank, which will include changes in the measurement bases of the Bank's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Bank.