BANK OF CHINA (ZAMBIA) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2018

BANK OF CHINA (ZAMBIA) LIMITED
FINANCIAL STATEMENTS
for the year ended 31 December 2018

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BANK OF CHINA (ZAMBIA) LIMITED
Director's report
for the year ended 31 December 2018

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

1. PRINCIPAL ACTIVITY

The principal activity of the Bank continues to be commercial banking in its widest aspect and the promotion of banking related services. There has been no significant changes in the Bank's business during the year.

2. REVIEW OF BUSINESS

As at 31 December 2018 the bank had total deposits of **K 3,967 million** and advances to customers of **K 622 million** against the corresponding figures of K5,840 million and K689 million respectively for the previous year.

The bank maintained sufficient liquidity in the year. Investments in Treasury Bills were **K922 million** at 31 December 2018 as against K909 million for the year ended 31 December 2017.

3. DIRECTORS AND REMUNERATION

Mr Nie Lin	Chairperson
Mr Wang Qi	Managing Director and Executive Director
Mr Song Guolin	Independent Non-Executive Director
Mr Chita Chibesakunda	Independent Non-Executive Director
Ms Yan Bin	Non-Executive Director

During the year, the total directors' remuneration was K1,933,715, comprising K1,758,594 for services rendered by executive directors, and K175,121 for services rendered by non-executive directors.

4. BANK SECRETARY

Mr Zhang Youxian

5. AVERAGE NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration to employees during the year for the Bank amounted to K62.84million (2017: K62.65million), as disclosed in note 29 to the financial statements and the average number of employees per month were as follows:

Month	**Number**	**Number**	**Number**
January	60	July	58
February	59	August	59
March	59	September	57
April	59	October	55
May	59	November	58
June	58	December	61

6. PROFIT BEFORE TAX

The bank earned a profit before tax of **K210.1 million** for the year ended 31 December 2018 compared to a profit of K172.1 million for the year ended 31 December 2017.

7. DIVIDENDS

During the year, there was no dividend paid or declared (2017: K55.12 million).

8. SHARE CAPITAL

The authorised share capital of the Company remained unchanged at 9,490,000 ordinary shares of K48.53 each. The issued and fully paid-up share capital remained at 9,490,000 ordinary shares of K48.53 each. The Company shareholding is represented as follows:

Name of shareholder	Percentage of shareholding
Bank of China Limited	99%
Zhou Jianjun	1%

There were no changes in the beneficial ownerships during the year. The share capital is disclosed in note 18.

9. GIFTS AND DONATIONS

During the year the Bank made no donations (2017: K100,000) to charitable organisations.

10. PROPERTY, PLANT AND EQUIPMENT

The Bank purchased equipment amounting to K1.00 million (2017: K1.58 million) during the year, as disclosed at note 18 to the financial statements. In the opinion of the directors, the recoverable value of the equipment is more than their carrying value.

11. RESEARCH AND DEVELOPMENT

The Bank had no research and development costs during the year (2017: nil)

12. RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in note 32 to the financial statements.

13. INTERESTS REGISTER INFORMATION

During the year, the Company officers (a director, company secretary or executive officer of a company) made no declarations of interest in Bank transactions and business. The interests' register, as required by the Zambia Companies Act of 2017, containing particulars of any interests declared, is available for inspection at the Company's registered office.

14. PROHIBITED BORROWINGS OR LENDING

As at 31 December 2018, there were no prohibited borrowings or lending as defined under Sections 72 and 73 of the Banking and Financial Services Act of Zambia.

15. RISK MANAGEMENT AND CONTROL

The Bank, through its normal operations, is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. The Bank's risk management objectives, policies and strategies are disclosed in note 34 to the financial statements.

16. KNOW YOUR CUSTOMER, ANTI –MONEY LAUNDERING & COUNTER FINANCING OF TERRORISM POLICIES

The Bank has well established know your customer (KYC) and anti - money laundering and counter financing of terrorism policies and follows current legislation in these areas.

17. AUDITORS AND REMUNERATION

The Auditor, PricewaterhouseCoopers Zambia, has indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the next annual general meeting.
The Auditor remuneration for the year was K334,486. There were no other services rendered to the Bank.

By order of the Board

Secretary

BANK OF CHINA (ZAMBIA) LIMITED
Statement of directors' responsibilities on the financial statements
for the year ended 31 December 2018

The Zambia Companies Act of 2017 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its financial performance. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company. The Directors are further required to ensure the Company adheres to the corporate governance principles or practices contained in Sections 82 to 112 of Part VII of the Zambia Companies Act of 2017.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Zambia Companies Act.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, and for such internal controls as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Directors are of the opinion that the financial statements set out on pages 10 to 71 give a true and fair view of the state of the financial affairs of the Company and of its financial performance in accordance with International Financial Reporting Standards and the Zambia Companies Act of 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Sections 82 to 112 of Part VII of the Zambia Companies Act of 2017.

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

Signed on behalf of the Board of Directors

Nie Lin
Chairperson

Chita Chibesakunda
Director

Date: 24.04.2019

Independent auditor's report

To the Shareholders of Bank of China Zambia Limited

Report on the audit of the annual financial statements

Our opinion

In our opinion, Bank of China Zambia Limited's (the Bank's) annual financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Zambia Companies Act of 2017 and the Zambia Banking and Financial Services Act.

What we have audited

Bank of China Zambia Limited's annual financial statements are set out on pages 10 to 71 and comprise the:

- statement of financial position as at 31 December 2018;
- statement of profit or loss for the year then ended;
- statement of other comprehensive income for the year then ended;
- statement of changes in equity for the year then ended;
- statement of cash flows for the year then ended; and
- notes to the annual financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Calculation of expected credit losses on financial assets at amortised cost The Bank adopted IFRS 9:'Financial Instruments' for the first time on 1 January 2018 which significantly impacted its calculation of impairment losses on financial assets at amortised cost. Financial assets at amortised cost include, loans and advances, treasury bills, and interbank placements. These form a major portion of the Bank's assets. The bank has also calculated an estimate of the expected credit loss on off balance sheet financial instruments. As at 31 December 2018, the Bank's calculated expected credit loss amounted to K8.9m. The Bank exercises significant judgment by applying assumptions in the models used to determine expected credit losses for financial assets carried at amortised cost. Significant judgments were made in determining probabilities of default, loss given default, and the classification of loans and advances. Additional information about loans and advances is presented in Notes 2,12,14 and 15 of the annual financial statements.	We carried out the following procedures: • We reviewed the Bank's methodology for determining expected credit losses and evaluated this against the requirements of IFRS 9. • We engaged an actuary to independently recalculate the expected credit losses and compared this with the Bank's estimate. • We performed audit procedures to test the appropriateness of the criteria used by management to determine a significant increase in credit risk of individual facilities. We then obtained evidence to support any the classification of a sample of loans in line with its credit risk rating. • For loss given default of individual loans, we traced the expected future cash flows from collateral for a sample of the Bank's customers to information prepared by external valuers. We then compared the expected recoveries against that recorded by the bank for reasonability. We also tested directors' assumptions on the timing of the cash flows based on the Bank's empirical evidence. • For forward looking assumptions used in the expected credit loss calculations, we held discussions with management and the directors, and corroborated the assumptions using publicly available information where applicable

Other information

The directors are responsible for the other information. The other information comprises the Bank's Annual Report but does not include the annual financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the annual financial statements

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

In preparing the annual 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.

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual 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 annual 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 annual 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 annual financial statements, including the disclosures, and whether the annual 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.
We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Zambia Companies Act of 2017

The Zambia Companies Act of 2017 requires that in carrying out our audit of Bank of China Zambia Limited, we report on whether:

- there is a relationship, interest or debt which we, as the Bank's auditor, have in the Company;
- there are serious breaches by the Bank's directors, of corporate governance principles or practices contained in Sections 82 to 122 of Part VII of the Zambia Companies Act of 2017; and
- there is an omission in the annual financial statements as regards particulars of loan made to a Company Officer (a director, company secretary or executive officer of a company) during the year, and if reasonably possible, disclose such information in our opinion.

In respect of the foregoing requirements, we have no matters to report.

The Zambia Banking and Financial Services Act

The Zambia Banking and Financial Services Act requires that in carrying out our audit of Bank of China Zambia Limited, we report on whether:

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

ii) there are transactions or conditions affecting the ability of the Bank to continue as a going concern which have come to our attention and that in our opinion are not satisfactory and require rectification. In respect of the foregoing requirements, we have no matters to report.

The engagement leader on the audit resulting in this independent auditor's report is Martin Bamukunde.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Lusaka

29/04 2019

Martin Bamukunde
Practicing Certificate Number: AUD/A009933
Associate Director signing on behalf of the firm

BANK OF CHINA (ZAMBIA) LIMTED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	2018 K'000	2017 K'000
Interest income	4	**263,247**	232,164
Interest expense	5	**(10,658)**	(6,979)
Net interest income		**252,589**	225,185
Non-interest income	6	**43,230**	27,059
Operating income		**295,819**	252,244
Impairment charge on financial instruments	15b	**(1,996)**	(3,175)
Foreign currency trading gains	27	**20,103**	20,990
Operating expenses	28	**(103,843)**	(97,934)
Profit before tax		**210,083**	172,125
Income tax expense	7	**(75,492)**	(61,889)
Profit for the year		**134,591**	110,236
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Movement in fair value reserve (FVOCI equity instruments):			
Equity investment at FVOCI - net change in fair value	20	**132**	-
Net other comprehensive income		**132**	-
Total comprehensive income		**134,723**	110,236

The notes on pages 14 to 71 form an integral part of these financial statements.

BANK OF CHINA (ZAMBIA) LIMITED
STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Note	2018 K'000	2017 K'000
Assets			
Cash on hand	9	**27,521**	18,988
Balances with central bank	10	**370,652**	574,892
Cash and short term funds at non-group banks	11	**2,269,019**	2,128,214
Cash and short term funds-group banks	13	**248,625**	901,219
Due from group banks	14	**2,526,735**	1,801,350
Treasury bills	12	**921,889**	909,349
Loans and advances-customers	15	**627,023**	690,702
Other assets	16	**2,329**	1,728
Investments	17	**439**	368
Property and equipment	18	**7,154**	7,552
		7,001,386	7,034,362
Equity			
Share capital	19	**460,580**	460,580
Statutory reserves	20	**266,132**	198,837
Fair value reserve	20	**132**	-
Retained earning	20	**111,473**	98,407
		838,317	757,824
Liabilities			
Due to financial institutions	21	**2,126,245**	353,614
Customer deposits	22	**3,966,956**	5,840,278
Income tax payable	7	**20,782**	11,117
Other liabilities	23	**48,664**	71,181
Deferred income tax	8	**422**	348
		6,163,069	6,276,538
		7,001,386	7,034,362

These financial statements on page 11 to 72 were approved by the board of directors on..... and signed on its behalf by:

Mr Nie Lin	*Mr Zhang Youxian*	*Mr Wang Qi*	*Mr Chita Chibesakunda*
Chairperson	*Bank Secretary*	*Managing Director*	*Director*

The notes on pages 14 to 71 form an integral part of these financial statements.

BANK OF CHINA (ZAMBIA) LIMTED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	(Note 19) Share capital K'000	(Note 20) Statutory reserves K'000	(Note 20) Fair value reserves K'000	Retained earnings K'000	Total K'000
Balance at 1 January 2017	460,580	143,719	-	87,914	692,213
Profit for the year	-	-	-	110,236	110,236
Total comprehensive income	-	-	-	110,236	110,236
Dividends for 2016	-	-	-	(44,625)	(44,625)
Transfer to statutory reserves	-	55,118	-	(55,118)	-
Balance at 31 December 2017	460,580	198,837	-	98,407	757,824
Balance at 1 January 2018	**460,580**	**198,837**	**-**	**98,407**	**757,824**
Changes on initial application of IFRS 9	-	-	**-**	**888**	**888**
Restated balance at 1 January 2018	**460,580**	**198,837**	**-**	**99,295**	**758,712**
Profit for the year	**-**	**-**	**-**	**134,591**	**134,591**
Other comprehensive income					
Equity investment at FVOCI - change in fair value, net of tax	-	-	**132**	-	**132**
Total comprehensive income	**-**	**-**	**132**	**134,591**	**134,723**
Dividends for 2017	**-**	**-**	**-**	**(55,118)**	**(55,118)**
Transfer to statutory reserves	-	**67,295**	-	**(67,295)**	-
Balance at 31 December 2018	**460,580**	**266,132**	**132**	**111,473**	**838,317**

The notes on pages 14 to 71 form an integral part of these financial statements.

BANK OF CHINA (ZAMBIA) LIMITED
STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Note	2018	2017
		K'000	K'000
Cash flows from operating activities			
Profit before tax		**210,083**	172,125
Depreciation	**18**	**1,394**	1,406
Foreign currency exchange gains	**27**	**(1,297)**	(114)
Net gain on financial instruments on initial application of IFRS 9		**888**	-
Net gain on equity investment AT FVOCI, gross of tax	**20**	**204**	-
Withholding tax deducted at source	**7**	**(22,707)**	(22,827)
Tax paid	**7**	**(43,118)**	(33,087)
Increase in other assets		**(672)**	2,774
Increase in statutory deposits	**10**	**227,850**	556,088
Increase/(decrease) in other liabilities		**(22,517)**	35,375
Increase in customer deposits		**(1,873,322)**	594,270
(Increase)/decrease in loans and advances to customers		**63,679**	(325,477)
Increase/(decrease) in balances due to financial institutions		**1,772,631**	275,444
Net cash flows from operating activities		**313,096**	1,255,977
Cash flows from investing activities			
Acquisition of treasury bills	**12**	**(947,083)**	(871,700)
Proceeds from treasury bills	**12**	**934,543**	610,563
Purchase of equipment	**18**	**(996)**	(1,580)
Net cash flows used in investing activities		**(13,536)**	(262,717)
Cash flows from financing activities			
Dividend paid		**(55,118)**	(44,625)
Movement in cash and cash equivalents			
Net cash flow		**244,442**	948,635
Effects of exchange rate movements		**1,296**	112
Cash and cash equivalents at beginning of year		**4,970,164**	4,021,416
Cash and cash equivalents at end of year	**25**	**5,215,902**	4,970,163

The notes on pages 14 to 71 form an integral part of these financial statements.

1. Principal Activity

The Bank is engaged in the business of commercial banking in its widest aspect and the provision of related financial services. The Bank is incorporated in Zambia under the Companies Act as a limited liability company and is domiciled in Zambia. The address of its registered office is:

Plot No.2339,
Kabelenga Road,
Lusaka, Zambia

2. Significant Accounting Policies

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

2.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and comply with the Banking and Financial Services Act of 2017 and the Zambia Companies Act of 2017.

2.2 Basis of Financial Statements Preparation

The financial statements have been prepared on the historical cost historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The Bank presents its Statement of Financial Position in order of liquidity from most liquid to least liquid. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.6.

2.3 Functional and presentation currency

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

2. Significant Accounting Policies (Continued)

2.4 Changes in accounting policies

The Bank has adopted IFRS 9 and IFRS 15 with effect from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.
The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:
- additional disclosures related to IFRS 9 (see Notes 2.4(A), 2.6, 2.7, 11, 12, 24 and 34); and
- additional disclosures related to IFRS 15 (see Note 2.4(B), 2.5 and 6).

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements.

A. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.
As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.
The key changes to, and the full impact on the Bank's accounting policies resulting from its adoption of IFRS 9 are set out below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

2. Significant Accounting Policies (Continued)

2.4 Changes in accounting policies (Continued)

A. IFRS 9 Financial Instruments (Continued)

As at 1 January 2018

In thousands of Kwacha	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**ECL**	**New carrying amount under IFRS 9**
Financial assets					
Cash and short term funds	Loans and advances to customers	Amortised cost	2,722,094	(536)	2,721,558
Treasury bills	Held-to-maturity	Amortised cost	909,349	(2,818)	906,531
Loans and advances-customers	Loans and advances to customers	Amortised cost	690,702	5,579	696,281
Total financial assets			**4,322,145**	**2,225**	**4,324,370**
Financial liabilities					
Due to financial institutions	Amortised cost	Amortised cost	353,614	-	353,614
Customer deposits	Amortised cost	Amortised cost	5,840,278	-	5,840,278
Total financial liabilities			**6,193,892**	**-**	**6,193,892**
Off balance sheet items			**3,333,663**	**(1,337)**	**3,333,663**
Total ECL impact on initial application of IFRS 9 (note 19)				**888**	

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain government securities, placements, loan commitments and financial guarantee contracts but not to equity investments.
Under IFRS 9, credit losses are recognised earlier than under IAS 39.

2. Significant Accounting Policies (Continued)

2.4 Changes in accounting policies (Continued)

A. IFRS 9 Financial Instruments (Continued)

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

2. Significant Accounting Policies (Continued)

2.4 Changes in accounting policies (Continued)

B. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank adopted IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 6).

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2.5 Revenue recognition

2.5.1 Interest income and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

2. Significant Accounting Policies (Continued)

2.5 Revenue recognition (Continued)

2.5.1 Interest income and expense (continued)

Policy applicable from 1 January 2018 (Continued)
Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.
However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

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

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

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 foreign trading gains(losses) (see Note 27).

2. Significant Accounting Policies (Continued)

2.5 Revenue recognition (Continued)

2.5.1 Interest income and expense (continued)

Policy applicable before 1 January 2018

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

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

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

2.5.2 Fees and commission income

Policy applicable from 1 January 2018

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.
Other fee and commission income – including account servicing fees, investment management fees, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.
Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

2. Significant Accounting Policies (Continued)

2.5.2 Fees and commission income (continued)

Policy applicable from 1 January 2018 (Continued)
Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Policy applicable before 1 January 2018
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

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

2. Significant Accounting Policies (Continued)

2.6 Financial Instruments

Policy applicable from 1 January 2018

2.6.1 Initial recognition and subsequent measurement

i) Date of recognition

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

ii) Classification

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

ii) Classification (Continued)

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

Financial risk management objectives and policies

In millions of Kwacha	**Subclasses**	**Original classification under IAS 39**	**New classification under IFRS 9**
Financial assets			
Cash and short term funds	Loans and advances to customers	Loans and advances to customers	Amortised cost
Investment securities	Treasury bills	Held-to-maturity	Amortised cost
Investments	Equity investment	Held-to-maturity	FV through OCI
Loans and advances	Loans and advances to customers Loans and advances to banks	Loans and advances to customers	Amortised cost
Other assets	Trade and other payables	Loans and advances to customers	Amortised cost
Financial liabilities			
Due to financial institutions	Short term borrowings	Other financial liabilities at amortised cost	Amortised cost
Deposits from customers	Current account Fixed term deposits Savings account	Other financial liabilities at amortised cost	Amortised cost
Borrowings	Long term loans	Other financial liabilities at amortised cost	Amortised cost
Other liabilities	Trade and other payables	Other financial liabilities at amortised cost	Amortised cost

2. Significant Accounting Policies (Continued)

2.6 Financial Instruments (Continued)

ii) Classification (Continued)

2.6.2 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

31 December 2018

Assets as per statement financial position	**Amortised cost**	**Other financial liabilities at amortised cost**	**FVOCI**	**Carrying value**
Assets	K'000	K'000	K'000	K'000
Cash on hand	27,521	-	-	27,521
Balances with central bank	370,652	-	-	370,652
Cash and short term funds at non-group bank	2,269,019	-	-	2,269,019
Treasury bills	921,889	-	-	921,889
Cash and short term funds-group banks	248,625	-	-	248,625
Due from bank accounts	2,526,735	-	-	2,526,735
Loans and advances	627,023	-	-	627,023
Other assets	9,483	-	-	9,483
Investments	-	-	439	439
Total	**7,000,947**	**-**	**439**	**7,001,386**
Liabilities				
Due to financial institutions	-	2,126,245	-	2,126,245
Customer deposits	-	3,966,956	-	3,966,956
Other liabilities	-	48,664	-	48,664
Total	**-**	**6,141,865**	**-**	**6,141,865**

2. Significant Accounting Policies (Continued)

2.6 Financial Instruments (Continued)

ii) Classification (Continued)

2.6.2 Classes of financial instruments (Continued)

31 December 2017

Assets as per statement financial position	Loans and receivables	Other financial liabilities at amortised cost	Held-to-maturity	Carrying value
Assets	K'000	K'000	K'000	K'000
Cash on hand	18,988	-	-	18,988
Balances with central Bank	574,892	-	-	574,892
Cash and short term funds at non-group bank	2,128,214	-	-	2,128,214
Treasury bills	-	-	909,349	909,349
Cash and short term funds-group banks	901,219	-	-	901,219
Due from bank accounts	1,801,350		-	1,801,350
Loans and advances	690,702	-	-	690,702
Other assets	1,728	-	-	1,728
Investments	-	-	368	368
Total	6,117,093	-	909,717	7,026,810
Liabilities				
Due to financial institutions	-	353,614	-	353,614
Customer deposits	-	5,840,278	-	5,840,278
Other liabilities	-	71,181	-	71,181
Total	-	6,265,073	-	6,265,073

2. Significant Accounting Policies (Continued)

2.6 Financial Instruments (Continued)

Policy applicable before 1 January 2018

iii) Initial measurement and subsequent measurement of financial instruments

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Subsequent to initial recognition all financial liabilities other than derivatives are measured at amortised cost. Financial liabilities measured at amortised cost are Due to financial institutions, demand, savings and time deposits, and other liabilities.

a) Held–to–maturity financial investments

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

b) Loans and receivables

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

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

2. Significant accounting policies (continued)

2.6 Financial Instruments (continued)

2.6.3 Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

(ii) Financial liabilities

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

2.6.4 Offsetting of financial assets and financial liabilities

Financial Assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets

Policy applicable from 1 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.
- investment securities

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

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

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.
12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

i) Financial assets carried at amortised cost
Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

i) Financial assets carried at amortised cost (continued)

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

i) Financial assets carried at amortised cost (continued)

Credit-impaired financial assets (continued)

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

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

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

i) Financial assets carried at amortised cost (continued)

Policy applicable before 1 January 2018

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

For financial assets carried at cost (such as amounts due from banks, loans and advances to customers as well as amortised cost investments), the bank assesses individually whether objective evidence of impairment exists for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Profit or Loss'.

Subsequent recoveries are also applied in terms of Banking and Financial Services Act. Under the Banking and Financial Services Act, interest on loans and advances is accrued to income until such time as reasonable doubt exists about its collectability. Thereafter and until all or part of the loan is written off, interest continues to accrue on the customers' accounts, but is not included in income. Such interest suspended is deducted from loans and advances. The carrying amount of the bank's other assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such exists, the asset's recoverable amount is estimated. An impairment loss is recognized in profit and loss whenever the carrying of an asset exceeds its recoverable amount.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

i) Financial assets carried at fair value though OCI
No impairment loss is recognised on equity investments.

2.8 Employee Benefits

The bank contributes to the statutory scheme in Zambia namely National Pension Scheme Authority (NAPSA) which is a defined contribution plan where the bank pays an amount equal to the employees' contributions. Employees' contribution is 5% of their gross earnings or maximum of K995 per month during the year 2018. Contributions to NAPSA are recognized in statement of profit or loss and other comprehensive income. The Bank has no further commitments or obligations to the scheme. Short-term employee benefits are recognised in the period of service and are measured on an undiscounted basis. Short-term employee benefits paid in advance are treated as prepayments and are expensed over the period of the benefit.

2.9 Property and Equipment

Items of property and equipment are stated at the lower of historical cost and recoverable amount less accumulated depreciation.

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

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

Buildings	3.33%
Motor vehicles	20%
Furniture and fittings	20%
Computers	20%

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Bank capitalises property and equipment based on nature and value of the item.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the statement of profit or loss and other comprehensive income in the year the asset is derecognised.

2. Significant accounting policies (continued)

2.10 Tax

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Bank operates and generates taxable income. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current and deferred taxes are recognised as income tax benefits or expenses in the statement of profit or loss and other comprehensive income except for tax related to the fair value re-measurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the statement of profit or loss and other comprehensive income together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity. The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank's intention to settle on a net basis.

2.11 Dividends

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

2. Significant Accounting Policies (Continued)

2.12 Fiduciary activities

The bank acts in a fiduciary capacity that results in the holding 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.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with the Bank of Zambia, placements with local banks, bank balances held and balances due to group companies and non-group companies.

2.14 Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on transaction are recognised in profit or loss and other comprehensive income. Non-monetary assets that are in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

Non-monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rates measured at the date when the fair value was determined.

2.15 Credit-related commitment risks- Financial guarantees

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

2. Significant Accounting Policies (Continued)

2.16 New and amended Standards and Interpretations

2.16.1 New standards and interpretations effective in 2018

Various amendments have been made to the standards and these amendments have become effective in the current period. None of the amendments have had an impact on the financial statements of the Bank. These include an amendment to IFRS 10,IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception-Amendments to IFRS 10,IFRS 12 and IAS , IFRS 10 and IAS 28 Sale or Contribution of Asset between an Investor and its Associate or Join Venture – Amendments to IFRS 10 and IAS 28, IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11, IFRS 14 Regulatory Deferral Accounts, IAS 1 Disclosure Initiative – Amendments to IAS 1, IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38, IAS 16 and IAS 41 Agriculture: Bearer Plants -Amendments to IAS 16 and IAS 41, IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27, IAS 7 Disclosure Initiative – Amendments to IAS 7 IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38, IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41.

2. Significant Accounting Policies (Continued)

2.16 New and amended Standards and Interpretations

2.16.2 New standards and interpretations not yet effective in 2016

IFRS 9 Financial Instruments

Effective for annual periods beginning on or after 1 January 2018.

Classification and measurement of financial assets

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

Classification and measurement of financial liabilities

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

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

Impairment

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

2. Significant Accounting Policies (Continued)

2.16 New and amended Standards and Interpretations (continued)

2.16.2 New standards and interpretations not yet effective in 2016 (continued)

IFRS 9 Financial Instruments (continued)

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

Early application is permitted for reporting periods beginning after the issue of IFRS 9 on 24 July 2014 by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. It will be important for entities to monitor the discussions of the IFRS Transition.

In 2015 the Bank‘s head office set up the IFRS 9 project implementation team (‘the Team’) to prepare an adoption plan for the standard across all the branches. In 2016, a model was designed and plans were underway to improve the system to accommodate the policy change. A number of system drills were conducted during the year 2017. Finally, this new system was successfully implemented at the end of 2017 and final results as at 1st January 2018 showed a decrease in impairment provisions by K887,696.

2. Significant Accounting Policies (Continued)

2.16 New and amended Standards and Interpretations (continued)

2.16.2 New standards and interpretations not yet effective in 2016 (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) in IFRS and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of sales of some non-financial assets including disposals of property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard will not have a material impact on the Bank.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted. The amendments are intended to provide information to help investors better understand changes in an entity's debt.

The impact of the standard on the Bank will result in enhanced disclosures. The impact on the Bank will not be significant.

2. Significant Accounting Policies (Continued)

2.16 New and amended Standards and Interpretations (continued)

2.16.2 New standards and interpretations not yet effective in 2016 (continued)

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12.

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses. The impact will not have an effect on the Bank as the Bank does not recognise assessed losses.

3.0 Significant accounting judgments, estimates and assumptions

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

3.1 Impairment losses on loans and advances

Policy applicable from 1 January 2018

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain government securities, placements, loan commitments and financial guarantee contracts but not to equity investments.
Under IFRS 9, credit losses are recognised earlier than under IAS 39 (see Note 2.8, 14 and 24)

Policy applicable before 1 January 2018

The bank reviews individually its significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances are assessed individually to determine whether provision should be made. The assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data. The impairment loss on loans and advances is disclosed in more detail in Note 2.8 and 1

		2018	2017
4.	**Interest income**	**'000**	**'000**
	Loans and advances	25,986	18,833
	Treasury bills	142,330	157,018
	Deposits with banks	94,931	56,313
		263,247	232,164
5.	**Interest expenses**		
	On deposits	1,078	1,208
	On Foreign currency loans	9,580	5,771
		10,658	6,979
6.	**Non-interest income**		
	Fee income from structural financing	2,201	1,711
	Letters of guarantee fee	23,997	8,755
	Guarantee income from international letter of credit	-	699
	Corporate remittance fee	10,117	8,607
	Personal remittance fee	1,000	1,264
	Telecom income from corporate international	68	42
	Handling fee of international letter of credit	6	9
	Handling fee on other international settlement	13	85
	Basic service fee from corporate account	846	964
	Management fee income from personal account	359	654
	Financial enterprise fee	-	3
	Other fee incomes	4,623	4,266
		43,230	27,059

A. Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services.

Transactional		
Corporate remittance fee	10,117	8,607
Personal remittance fee	1,000	1,264
Handling fee of international letter of credit	6	9
Handling fee on other international settlement	13	85
	11,136	**9,965**
Account services		
Basic service fee from corporate account	846	964
Management fee income from personal account	359	654
	1,205	1,618

B. Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15 (applicable from 1 January 2018)**
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, foreign currency transactions and maintenance fees on non-basic savings accounts. The fees for on-going account management are charged to the customer's account on a monthly basis. The Banks sets the rates separately for retail and corporate banking customers on an annual basis. Transaction-based fees for interchange, foreign currency transactions and transfers are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Investment banking service	The Bank's corporate banking segment provides various finance-related services, including loan administration and agency services and administration of a loan syndication. Fees for ongoing services are charged annually at the end of the calendar year to the customer's account. However, if a customer terminates the contract before 31 December, then on termination it is charged the fee for the services performed to date. Transaction-based fees for administration of a loan syndication and execution of transactions are charged when the transaction takes place.	Revenue from administrative agency services is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

		2018	2017
7.	**Income tax**	K'000	K'000
	Income tax charge:		
	Current income tax	75,490	61,944
	Deferred tax	2	(55)
	Income tax expense for the year	**75,492**	61,889
	Tax reconciliation		
	The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
	Profit before income tax	210,083	172,125
	Tax calculated at the statutory income tax rate of 35% (2017: 35%)	73,529	60,244
	Tax effect of:		
	Non-deductible expenses	2,556	2,296
	Non-deductible income	(593)	(651)
		1,963	1,646
	Income tax expense	**75,492**	61,889
	Income tax payable		
	Payable in respect of current year	75,490	61,944
	Payable in respect of previous year	11,117	5,087
		86,607	67,031
	Withholding tax on treasury bills offset	(22,707)	(22,827)
		63,900	44,204
	Less: Tax paid	**(43,118)**	(33,087)
	At end of year	**20,782**	11,117

8. Deferred tax

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

At start of year	348	403
Deferred tax on equity investment at FVOCI	72	(55)
Income statement charge	2	-
At end of year	**422**	348

8. Deferred tax (Continued)

The deferred income tax asset, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

Year ended 31 December 2018	At start of year K'000	Charged/ (credited) to P/L K'000	Charged/ (credited) to equity K'000	At end of year K'000
Deferred income tax liabilities				
Property and equipment	2,643	(139)	-	2,504
Equity investment at FVOCI	-	-	72	72
Deferred income tax assets				
Other deductible temporary differences	(2,295)	141	-	(2,154)
Net deferred income tax liabilities	**348**	**2**	**72**	**422**
Year ended 31 December 2017				
Deferred income tax liabilities				
Property and equipment	2,610	33		2,643
Deferred income tax assets				
Other deductible temporary differences	(2,207)	(88)	-	(2,295)
Net deferred income tax liabilities	403	(55)	-	348

		2018 K'000	2017 K'000
9.	**Cash on hand**		
	Cash domestic currency	14,875	10,699
	Foreign currency on hand	12,646	8,289
		27,521	**18,988**
10.	**Balances with Central Bank**		
	Statutory deposit account(Note 30)	226,650	454,500
	Current account	144,002	120,392
		370,652	**574,892**
11.	**Cash and short term funds at non-group banks**		
	Deposits held with commercial banks:		
	-Within Zambia	18,859	13,986
	-Abroad	2,250,655	2,114,228
	Gross balance	2,269,514	2,128,214
	Impairment provisions	(495)	-
	Net balance	**2,269,019**	2,128,214

12. **Treasury bills**	**2018**	**2017**
Maturing within less than three months (current)	269,825	252,226
Maturing between three months and one year (non-current)	652,064	657,123
	921,889	909,349
Reconciliation of investments		
At 1 January	909,349	648,212
Purchases	947,083	871,700
Maturities	(934,543)	(610,563)
At 31 December	**921,889**	909,349
Gross treasury bills	923,667	909,349
Allowance for losses on investment securities	(1,778)	-
	921,889	909,349

13. **Cash and short term funds-group banks**		
Bank of China-Guangdong CNY	526	462
Bank of China-Hongkong USD	18,232	50,530
Bank of China-Frankfurt EUR	2,054	3,793
Bank of China-New York USD	141,318	791,087
Bank of China-Johannesburg USD	11,523	9,663
Bank of China-Johannesburg ZAR	444	378
Bank of China-London USD	5,952	6,442
Bank of China-London CNY	492	438
Bank of China-Head Office USD	57,317	3,962
Bank of China-Shanghai CNY	3,360	19,301
Bank of China-Hongkong CNY	7,407	15,163
	248,625	901,219

14. **Due from group banks**		
Bank of China - London	2,526,735	1,801,350
Bank of China - Beijing	-	-
	2,526,735	**1,801,350**

All placements with group banks are current.

15. a) Loans and advances-Customers

All loans and advances are in stage 1 and therefore, impairments are based on 12-month ECL.

	2018 K'000	2017 K'000
Obligations from staff	**833**	-
Obligations from corporate customers	**631,035**	697,667
Gross advances-Customers	**631,868**	697,667
Repayable:		
- Three months to one year	**238,429**	534,924
- One to five years	**57,728**	48,579
- Over five years	**335,711**	114,164
Gross advances(as above)	**631,868**	697,667
Allowance for losses on loans and advances	**(4,845)**	(6,965)
	627,023	690,702
Allowances for losses on loans and advances		
Balance at 1 January	**6,965**	3,677
Impact on initial application of IFRS 9 (note 2.4a)	**(5,578)**	-
Restated balance at 1 January	**1,387**	3,677
Impairment losses recognised:		
-Provision for the year	**9,755**	6,125
-Amount reversed	**(6,723)**	(2,950)
Charge for the year	**3,032**	3,175
Effect of exchange rates movement	**426**	113
At 31 December	**4,845**	6,965
b) Impairment charge on financial instruments		
Loans and advances	**3,032**	3,175
Treasury bills	**(1,040)**	-
Placements	**(151)**	-
Off balance sheet	**155**	-
	1,996	3,175

At 1 January 2018, an impairment charge of K5, 578 thousand in respect of loans and advances relating to prior years was recognised directly in equity at the initial application of IFRS 9 as disclosed in note 2.4a.

16. Other assets

Prepayments and other receivables	**2,329**	1,728
	2,329	1,728

17. Investments

At 1 January 2018, the Bank designated the investment in Zambia Electronic Clearing House as equity security at FVOCI. In 2017, this investment was classified as held to maturity and measured at cost, thus the movement in prior year was exclusively due to foreign currency movements. The FVOCI designation was made because the investment is to be held for the long term for statutory purposes.

	2018	2017
	K'000	K'000
Opening balance	**368**	364
Change in fair value	**71**	4
Closing balance	**439**	368

Investment in Zambia Electronic Clearing House is non-current.

18. Property and equipment

Cost	**Buildings K'000**	**Motor Vehicles K'000**	**Furniture &fittings K'000**	**Computer Equipment K'000**	**Total K'000**
At 1 January 2017	5,614	3,841	4,964	2,909	17,328
Additions	-	836	232	512	1,580
At 31 December 2017	**5,614**	**4,677**	**5,196**	**3,421**	**18,908**
Additions	**-**	**-**	**617**	**379**	**996**
At 31 December 2018	**5,614**	**4,677**	**5,813**	**3,800**	**19,904**
Depreciation					
At 1 January 2017	1,467	3,493	3,246	1,744	9,950
Charge for the year	181	255	526	444	1,406
At 31 December 2017	**1,648**	**3,748**	**3,772**	**2,188**	**11,356**
Charge for the year	**182**	**274**	**493**	**445**	**1,394**
At 31 December 2018	**1,830**	**4,022**	**4,265**	**2,633**	**12,750**
Net Book Value					
At 31 December 2018	**3,784**	**655**	**1,548**	**1,167**	**7,154**
At 31 December 2017	3,966	929	1,424	1,233	7,552

There are no restrictions on title to the assets held. None of the assets have been pledged as collateral.

19. Share capital	2018 K'000	2017 K'000
Authorised, issued and fully paid		
9,490,000 ordinary shares of K48.53 each	**460,580**	460,580

20. Reserves	Retained earnings K'000	Statutory reserves K'000	Fair value reserves K'000	Total K'000
At 1 January 2018	**98,407**	**198,837**	**-**	**297,244**
Changes on initial application of IFRS 9	**888**	**-**	**-**	**888**
Profit for the year	**134,591**	**-**	**-**	**134,591**
Transfer to statutory reserves	**(67,295)**	**67,295**	**-**	**-**
Movement in fair value reserve (equity investment at FVOCI)			**132**	**132**
2017 Dividend paid	**(55,118)**	**-**	**-**	**(55,118)**
At 31 December 2018	**111,473**	**266,132**	**132**	**377,737**

The statutory reserve is established in accordance with Chapter (IV) Section 69 of the Banking and Financial Services Act, 1994 (as amended). This regulation stipulates that a bank shall set aside 50% of the net profit, before declaring any dividend and after due provision has been made for tax, until such a reserve equals the paid up share capital.

21. Due to financial institutions	2018 K'000	2017 K'000
Bank of China Cayman	**-**	153,520
Bank of China Hong Kong	**98,889**	-
Bank of China London	**596,250**	200,000
Bank of China Macao	**1,431,000**	-
Barclays Bank Zambia Plc	**106**	94
	2,126,245	353,614

All borrowings from other banks are current

22. Customer deposits		
Current deposit accounts	**3,629,961**	5,619,688
Savings deposit accounts	**166,691**	157,453
Time deposits	**170,304**	63,137
	3,966,956	5,840,278

22. Customer deposits (continued)	**2018**	2017
	K'000	K'000
Time deposits		
Kwacha deposits	**1,992**	1,572
Foreign deposits	**168,312**	61,565
	170,304	63,137
Margin deposits	**127,050**	24,862
Other fixed term deposits	**43,254**	38,275
	170,304	63,137

23. Other liabilities		
Inward remittances	**366**	36,176
Bills payable	**1,956**	1,906
Accrued interest payable	**3,191**	639
Other accruals and payables	**43,151**	32,460
	48,664	71,181

Included in other accruals and payables is salary payable of K13,119 (2017:K13,578), impairment loss allowance for loan commitments and other off-balance sheet items of K1,739 (2017: Nil) and other payables K28,496 (2017:K18,882).

24. Off balance sheet items

In common with other banks, the bank conducts business involving Letters of Credit and Guarantees. The Bank also had an undrawn loan balance at the end of the current year.

	2018	2017
Letters of credit	**7,461**	-
Loan commitments	**83,478**	-
Letter of guarantee	**3,272,733**	3,333,663
	3,363,672	3,333,663
- Current (less than 3 months)	**903,069**	1,424,106
- Non-current (more than 3 months)	**2,460,603**	1,909,557
	3,363,672	3,333,663
Opening balance at initial application of IFRS 9	**1,337**	-
Loss allowance	**155**	-
Effect of exchange rates movement	**247**	-
Carrying amount (provision)	**1,739**	-

25. Analysis of the balances in cash as shown in the statement of financial position	**2018 K'000**	2017 K'000	**Movement in the year K'000**
Cash on hand	**27,521**	18,988	**8,533**
Balance with Central Bank (note 9)	**144,002**	120,392	**23,610**
Cash and short term funds at non-group banks	**2,269,019**	2,128,214	**140,805**
Cash and short term funds-group banks	**248,625**	901,219	**(652,594)**
Due from group banks	**2,526,735**	1,801,350	**725,385**
	5,215,902	4,970,163	**245,739**

26. Capital commitments

There were no capital commitments as at 31 December 2018 and 2017.

27. Foreign currency trading gains	**2018 K'000**	2017 K'000
Trading income	**18,806**	20,876
Exchange gains	**1,297**	114
	20,103	20,990

28. Operating expenses

Auditors' remuneration-Audit fee	**334**	190
Depreciation	**1,394**	1,406
Directors' fees	**175**	200
Other operating expenses	**39,110**	33,490
Employee benefit expenses	**62,830**	62,648
	103,843	97,934

Included in other operating expenses include: Banking supervision fee K11,521 (2017:K11,180), systems and software expenses K6,315 (2017:K4,029), network special line fee K3,964 (2017:K2,236),Financial enterprise fee K3,328 (2017: K3,009) and Other K13,982 (2017: K13,036).

29. Employee benefit expenses	**2018**	2017
NAPSA contributions	**441**	188
Salaries and allowances	**54,114**	56,946
Other staff costs	**8,285**	5,514
	62,840	62,648

30.	**Statutory deposits with Bank of Zambia**	**2018**	2017
		K'000	K'000
	Local currency: Current accounts and time deposits	**12,000**	24,500
	Foreign currency: Current accounts and time deposits	**214,650**	430,000
		226,650	454,500

The statutory deposits held with Bank of Zambia, as a minimum reserve requirement, are not available for the bank's daily business. The reserve represents a percentage of the bank's local currency and foreign currency liabilities to the public as required by the Banking and Financial Services Act. The percentage at 31 December 2018 was 5% (2017:8%).

31.	**Cash and short term fund with non- group banks**	**2018**	2017
		K'000	K'000
	Standard Chartered Bank-London	**34,193**	324,511
	Standard Chartered Bank-Lusaka	**18,859**	13,986
	Citibank-New York	**425,997**	20,840
	ICBC – New York	**1,789,970**	143,453
	ICBC - Cambodia	**-**	1,625,424
		2,269,019	2,128,214

32. Related party transactions

The Bank is controlled by Bank of China incorporated in China. The ultimate parent and ultimate controlling party of the Bank is Bank of China Ltd, incorporated in China. There are other companies which are related to Bank of China Zambia Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent and other group companies at interest rates in line with the market. The relevant relationships and balances in the year are shown below:

Name of Branch/Company	**Relationship**	**Transaction type**
Bank of China-Guangdong	Branch of BOC Group	Current account
Bank of China-Hong Kong	Branch of BOC Group	Loan account
Bank of China-Hong Kong	Branch of BOC Group	Current account
Bank of China-Frankfurt	Branch of BOC Group	Current account
Bank of China-New York	Branch of BOC Group	Current account
Bank of China-Johannesburg	Branch of BOC Group	Current account
Bank of China-London	Branch of BOC Group	Loan account
Bank of China - London	Branch of BOC Group	Current account
Bank of China-Head Office	Holding Company	Current account
Bank of China -Beijing	Branch of BOC Group	Loan account
Bank of China-Shanghai	Branch of BOC Group	Current account
Bank of China-Macao	Branch of BOC Group	Loan account
Bank of China-Cayman	Branch of BOC Group	Loan account

a) Amounts due from/(to) related parties

Name of Branch/Company	**Transaction type**	**2018 Asset/(liability)**	2017 Asset/(Liability)
Bank of China-Guangdong	Current account	**526**	462
Bank of China-Hong Kong	Current account	**25,639**	65,693
Bank of China-Hong Kong	Loan account	**(98,889)**	-
Bank of China-Frankfurt	Current account	**2,054**	3,793
Bank of China-New York	Current account	**141,318**	791,087
Bank of China-Johannesburg	Current account	**11,967**	10,041
Bank of China-London	Current account	**6,444**	6,881
Bank of China-London	Loan account	**2,522,138**	1,800,000
Bank of China-London	Loan account	**(596,250)**	(200,000)
Bank of China-Head Office	Current account	**57,317**	3,962
Bank of China-Shanghai	Current account	**3,360**	19,301
Bank of China-Cayman	Loan account	**(1,431,000)**	(153,520)

b) Key management compensation

Directors and senior management Remuneration	**2018 K'000**	2017 K'000
Salaries	**11,450**	13,370
Directors fees	**175**	200
	11,625	13,570

32. Related party transactions (continued)

c) Customer deposits relating to directors and senior management

	2018	2017
Deposits	**K'000**	K'000
Current accounts	**84**	330

33. Fair value information

The carrying amounts of financial assets and liabilities are representative of the bank's position at 31 December 2018 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 value hierarchy

IFRS 13 – *Fair Value Measurement* specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. The two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level
- includes listed equity securities and debt instruments on stock exchanges (for example, Lusaka Stock Exchange);
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 – inputs for the asset or liability that are not on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The following summarises the major methods and assumptions used in estimating fair values.

Loans and advances
Fair values for loans and advances to customers are calculated based on the discounted expected future principal and interest cash flows taking into account changes in credit status of loanees since the loans were made and any indication of impairment.

Bank and customer deposits
For demand and fixed term deposits fair value is taken to be the amount payable on demand at the statement of financial position date. The value of long term relationships with depositors is not taken into account in estimating fair values.
The majority of the Bank's financial assets and liabilities fall within level 2 of the fair value hierarchy. The significant inputs that are used are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates

33. Fair value information (continued)
Financial instruments measured at fair value – fair value hierarchy

The table below analyses financial instruments measured at amortised cost at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. All carrying values equate fair values.

	Note	Level 1	Level 2	Level 3	Carrying amount
Assets		**K'000**	**K'000**	**K'000**	**K'000**
31 December 2018					
Treasury bills	11	-	**921,889**	--	**921,889**
31 December 2017					
Treasury bills	11	-	909,349	-	909,349

34. Risk management

The most important types of financial risk to which the bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

There is a comprehensive risk management reporting structure to the bank's group management responsible for risk. The group has a co-ordinated approach to all aspects of risk.

34.1 Liquidity risk

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

The responsibility for asset and liability management policies lies with the Asset and Liability Committee (ALCO) whose members include the bank's Executive Directors and selected senior management staff. ALCO oversees the management of the bank's capital, the size and composition of the bank's statement of financial position and liquidity. Policies are within guidelines set by the Group.

Liquidity management is directed towards ensuring that all the bank's operations can meet their funding needs, whether this is to replace existing funding as it matures, or is withdrawn, or to satisfy the demands of customers for additional borrowings.

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 accounts and other short term customer deposits.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date and from financial assets by expected maturity dates.

34. Risk management (Continued)

34.1 Liquidity risk

As at 31 December 2018 ASSETS	Up to 1 Month K'million	1-3 Months K'million	3-6 Months K'million	6-12 Months K'million	1-3 Years K'million	Up to 3 years K'million	Total K'million
Cash on hand	28	-	-	-	-	-	28
Balances with Central Bank	371	-	-	-	-	-	371
Balances with other financial institutions	2,037	3,008	-	-	-	-	5,045
Treasury bills	150	120	317	335	-	-	922
Loans and advances	-	-	76	161	57	333	627
Other assets	2	-	-	-	-	-	2
Total financial assets (expected maturity dates)	2,588	3,128	393	496	57	333	6,995
Liabilities							
Due to financial institutions	-	2,034	57	35	-	-	2,126
Customer deposits	3,898	67	1	1	-	-	3,967
Other liabilities	49	-	-	-	-	-	49
Total financial liabilities (expected maturity dates)	3,947	2,101	58	36	-	-	6,142
Off-balance sheet items							
Loan commitments and other credit related obligations	348	556	136	183	1,898	243	3,364
Net liquidity gap	(1,359)	1,027	335	460	57	333	853
Cumulative liquidity gap	(1,359)	(332)	3	463	520	853	-

34. Risk management (Continued)
34.1 Liquidity risk (Continued)

As at 31 December 2017 ASSETS	Up to 1 Month K'million	1-3 Months K'million	3-6 Months K'million	6-12 Months K'million	1-3 Years K'million	Up to 3 years K'million	Total K'million
Cash on hand	19	-	-	-	-	-	19
Balances with Central Bank	575	-	-	-	-	-	575
Balances with other financial institutions	4,104	726	-	-	-	-	4,830
Treasury Bills	137	215	342	215	-	-	909
Loans and advances	-	-	278	253	48	112	691
Other assets	2	-	-	-	-	-	2
Total financial assets (expected maturity dates)	4,837	941	620	468	48	112	7,026
Liabilities							
Due to financial institutions	-	354	-	-	-	-	354
Customer deposits	5,803	34	3	-	-	-	5,840
Other liabilities	71	-	-	-	-	-	71
Total financial liabilities (expected maturity dates)	5,874	388	3				6,265
Off-balance sheet items							
Loan commitments and other credit related obligations	348	526	136	183	1,898	243	3,334
Net liquidity Gap	(1,037)	553	617	468	48	112	761
Cumulative liquidity Gap	(1,037)	(484)	133	601	649	761	-

34. Risk management *(continued)*

34.2 Market risk

Market risk arises from open positions in interest rate and currency risk, all of which are exposed to general and specific market movements.

All businesses in the bank operate within market risk management policies that are set by the Group. Limits have been set to control the bank's exposure to movements in prices and volatilities arising from trading, lending, deposit taking and invest decisions.

34.2.1 Value at risk (VAR)

The bank measures the risk of losses arising as a result of potential adverse movements in interest and exchange rates daily. The limits based on historical utilisation are recommended by the local ALCO and approved by Risk management on an annual basis.

In addition to the close supervision of trading activities by senior management, there are limits on the size of positions and concentrations of instruments as well as stress testing of certain product groups and currencies. The bank regularly stress tests its main portfolios to identify any exposure to low probability events that may not be highlighted by other measures.

34.2.2 Interest risk exposure

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 reprise at different times 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 reprising characteristics of the various floating rate indices.

34.3 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 repricing 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 assets and liabilities at carrying amounts, categorised by instrument rate type.

34. Risk management (Continued)

34.3 Interest rate risk (continued)

	2018				2017			
31 December	**Total**	**Zero rate instruments**	**Floating rate instruments**	**Fixed rate instruments**	Total	Zero rate instruments	Floating rate instruments	Fixed rate instruments
Assets	**K'000**	**K'000**	**K'000**	**K'000**	K'000	K'000	K'000	K'000
Cash and short term funds	**2,296,540**	**27,521**	**2,269,019**	**-**	2,147,202	18,988	2,128,214	-
Balances with central bank	**370,652**	**370,652**	**-**	**-**	574,892	574,892	-	-
Treasury bills	**921,889**	**-**	**-**	**921,889**	909,349	-	-	909,349
Due from group banks	**2,775,360**	**-**	**-**	**2,775,360**	2,702,569	-	-	2,702,569
Loans and advances-customers	**627,023**	**-**	**-**	**627,023**	690,702	-	-	690,702
Other assets	**2,329**	**2,329**	**-**	**-**	1,728	1,728	-	-
Total assets	**6,993,793**	**400,502**	**2,269,019**	**4,324,272**	7,026,442	595,608	2,128,214	4,302,620
Liabilities								
Due to financial institutions	**2,126,245**	**106**	**-**	**2,126,139**	353,614	-	-	353,614
Customer deposits	**3,966,956**	**3,898,743**	**-**	**68,213**	5,840,278	5,777,743	-	62,535
Other liabilities	**48,664**	**45,473**	**3,191**	**-**	71,181	71,181	-	-
Total liabilities	**6,141,865**	**3,944,322**	**3,191**	**2,194,352**	6,265,073	5,848,924	-	416,149
Interest rate gap position	**851,928**	**(3,543,820)**	**2,265,828**	**2,129,920**	761,369	(5,253,316)	2,128,214	3,886,471

34. Risk management (Continued)

34.3 Interest rate risk (continued)

2018

				Fixed rate instruments			
31 December	**Total**	**Zero rate instruments**	**Floating rate instruments**	**0 - 3 Months**	**3 - 6 Months**	**6 - 12 Months**	**Over 12 Months**
Assets	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Cash and short term funds	**2,296,540**	**27,521**	**2,269,019**	**-**	**-**	**-**	**-**
Balances with central bank	**370,652**	**370,652**	**-**	**-**	**-**	**-**	**-**
Treasury bills	**921,889**	**-**	**-**	**397,031**	**265,465**	**833**	**258,560**
Due from group banks	**2,775,360**	**-**	**-**	**2,775,360**	**-**	**-**	**-**
Loans and advances-customers	**627,023**	**-**	**-**	**458,447**	**94,819**	**73,757**	**-**
Other assets	**2,329**	**2,329**	**-**	**-**	**-**	**-**	**-**
Total assets	**6,993,793**	**400,502**	**2,269,019**	**3,630,838**	**360,284**	**74,590**	**258,560**
Liabilities							
Due to financial institutions	**2,126,245**	**106**	**-**	**2,034,190**	**57,252**	**34,697**	**-**
Customer deposits	**3,966,956**	**3,898,743**	**-**	**66,701**	**696**	**816**	**-**
Other liabilities	**48,664**	**45,473**	**3,191**	**-**	**-**	**-**	**-**
Total liabilities	**6,141,865**	**3,944,322**	**3,191**	**2,100,891**	**57,948**	**35,513**	**-**
Interest rate gap position	**851,928**	**(3,543,820)**	**2,265,828**	**1,529,947**	**302,336**	**39,077**	**258,560**

34. Risk management (Continued)

34.3 Interest rate risk (continued)

2017

				Fixed rate instruments			
31 December	Total	Zero rate instruments	Floating rate instruments	0 - 3 Months	3 - 6 Months	6 - 12 Months	Over 12 Months
Assets	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cash and short term funds	2,147,202	18,988	2,128,214	-	-	-	-
Balances with central bank	574,892	574,892	-	-	-	-	-
Treasury bills	909,349	-	-	283,074	383,908	242,367	-
Due from group banks	2,702,569	-	-	2,702,569	-	-	-
Loans and advances-customers	690,702	-	-	284,090	270,634	51,243	84,735
Other assets	1,728	1,728	-	-	-	-	-
Total assets	7,026,442	595,608	2,128,214	3,269,733	654,542	293,610	84,735
Liabilities							
Due to financial institutions	353,614	-	-	353,614	-	-	-
Customer deposits	5,840,278	5,777,743	-	58,482	4,053		-
Other liabilities	71,181	70,542	639	-	-	-	-
Total liabilities	6,265,073	5,848,285	639	412,096	4,053	-	-
Interest rate gap position	761,369	(5,252,677)	2,127,575	2,857,637	650,489	293,610	84,735

34. Risk management (Continued)
34.3 Interest rate risk (continued)

The effective interest rates for principal financial assets and liabilities averaged as follows:

	2018		2017	
	ZMW	**USD**	ZMW	USD
	%	**%**	%	%
Treasury bills held to maturity	**17.64**	**-**	17.27	-
Loans and advances to corporates	**-**	**5.37**	-	3.68
Staff and other loans	**10.25**	**-**	-	-
Due from other banks	**-**	**2.79**	-	2.05
Due to other banks	**-**	**3.75**	-	-
Customer deposits	**3.00**	**4.00**	3.00	4.00

At 31 December 2018, if the interest rates moved 5% (2017: 5%) with all variables constant, the profit for the year would have been K24.4million higher/lower mainly due to cash and loans and advances at variable interest rates (2017: K25.8million lower/higher).

34.4 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. These exposures comprise the monetary assets and monetary liabilities of the bank, as follows:

31 December 2018 K'000	**USD**	**ZAR**	**Euro**	**CNY**	**Other**	**Total**
Monetary						
Assets	**5,731,707**	**444**	**2,054**	**162,327**	**-**	**6,993,793**
Liabilities	**5,732,508**	**232**	**4,034**	**161,221**	**1,786**	**6,142,069**
Net position	**(801)**	**212**	**(1,980)**	**1,106**	**(1,786)**	**851,724**
31 December 2017						
Monetary						
Assets	5,219,432	378	3,793	37,695	-	5,959,303
Liabilities	5,742,215	250	3,991	209,275	1,910	5,955,892
Net position	(522,783)	128	(198)	(171,580)	(1,910)	3,411

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.

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 that are recognised in the statement of profit or loss and other comprehensive income.

At 31 December 2018, if the Kwacha had weakened/ strengthened by 2% (2017: 2%) against the US Dollar with all variables constant, the profit for the year would have been K16 thousand higher/lower mainly due to US Dollar deposits and loans and advances (2017: K10 million lower/higher).

If the Kwacha had weakened/ strengthened by 10 %(2017:10%) against the South African rand, with all variables constant, there would have been K21 thousand higher/lower mainly due to ZAR deposits and cash and short term funds (2017: K13 thousand).

34. Risk management (Continued)

34.4 Currency risk (Continued)

If the Kwacha had weakened/ strengthened by 10 %(2017:10%) against the Chinese Yuan, with all variables constant, there would have been K111 thousand higher/lower mainly due to CNY deposits and cash and short term funds (2017: K17 million).

If the Kwacha had weakened/ strengthened by 1.5% (2017: 1.5%) against the Euro, with all variables constant, the profit for the year would have been K30 thousand higher/lower mainly due to Euro deposits, accrued expenses and cash and short term funds (2017: K3 thousand higher/lower).

34.5 Credit risk

The bank is subject to credit risk through its trading lending, and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

Policies and procedures for managing credit risk are determined by the bank's Credit Policy Committee. The committee defines the procedures and limits for accepting credit risk. Credit risk associated with trading and investing activities is managed through the bank's market risk management process.

The bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position.

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

(i) Credit risk measurement

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

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

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Bank considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

34. Risk management (Continued)

34.5 Credit risk (Continued)

(i) Credit risk measurement (continued)

Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment. They are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes.

The rating methods are subject to an annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults. The Bank's internal ratings scale and mapping of external ratings:

Exposure at default ("EAD")

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

Loss given default/loss severity

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

(b) Debt securities
For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by Bank's Treasury for managing of the credit risk exposures as supplemented by the Bank's own assessment through the use of internal ratings tools.

34. Risk management (Continued)

34.5 Credit risk (Continued)

(i) Credit risk measurement (continued)

Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limited on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.
Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.
Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

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

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

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

34. Risk management (Continued)

34.5 Credit risk (Continued)

(i) Credit risk measurement (continued)

(ii) Risk limit control and mitigation policies (continued)

(b) Credit related commitments

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

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

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	2018 K'millions	2017 K'millions
Placements with other banks	**2,269**	2,128
Amounts due from group companies	**2,776**	2,702
Loans and advances to customers	**627**	691
Investment securities- held-to-maturity	**922**	909
Other assets	**2**	2
	6,596	6,432
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	**7**	-
- Commitments to lend	**83**	-
- Guarantee and performance bonds	**3,273**	3,334
	3,363	3,334

34. Risk management (Continued)

34.5 Credit risk (Continued)

(i) Credit risk measurement (continued)

(b) Credit related commitments (continued)

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 86% of the total maximum exposure is derived from loans and advances to banks and customers (2017: 85%) and 14% represents investments in debt securities (2017: 14%) for on-balance sheet. As for off-balance sheet, 97% of the total maximum exposure is derived from guarantees and performance bonds (2017: 100%).

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

- the Bank exercises stringent controls over the granting of new loans
- 100% of the loans and advances portfolio are neither past due nor impaired
- 100% of the loans and advances portfolio are backed by collateral
- 100% of the investments in debt securities are short-term government securities.

Financial assets

Financial assets are summarised as follows:

	2018 K'millions	2017 K'millions
Neither past due nor impaired	**7,003**	6,429
Past due but not impaired	**-**	-
Individually impaired	**-**	-
Gross	**7,001**	6,429
Less: allowance for impairment	**(7)**	(7)
Net	**6,994**	6,422

No other financial assets are either past due or impaired.

34. Risk management (Continued)

34.5 Credit risk (continued)

(a) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

All credit assets are performing hence have not been disaggregated into risk grades or performance categories.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2.7(i).

Credit risk	**2018 K'000**			2017 K'000
	Stage 1	**Stage 2**	**Stage 3**	
Loans and advances to banks at amortised cost	**2,269,514**	**-**	**-**	2,128,214
Loss allowance	**495**	-	-	-
Net carrying amount	**2,264,019**			2,128,214
Loans and advances to customers at amortised cost	**631,868**	**-**	**-**	697,667
Loss allowance	**4,845**	-	-	6,965
Net carrying amount	**627,023**			690,702
Treasury bills	**923,667**	**-**	**-**	909,349
Loss allowance	**1,778**	-	-	-
Net carrying amount	**921,889**			909,349
Letters of credit	**7,461**	**-**	**-**	-
Loss allowance	-	-	-	-
Letters of guarantee	**3,272,733**	**-**	**-**	3,333,663
Loss allowance	**1,266**	-	-	-
Loan commitments	**83,478**	**-**	**-**	-
Loss allowance	**473**	-	-	-

34. Risk management (Continued)

34.5 Credit risk (continued)

(b) Concentration of credit risk

Concentrations of credit risk (whether on or off statement of financial position) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.
Total on statement of financial position economic sector credit risk concentrations are presented in the table below:

Credit risk	**2018**		2017	
	K'000	**%**	K'000	%
Mining and quarrying	**149,609**	**24**	171,519	25
Electricity, gas, water and energy	**290,274**	**46**	48,094	7
Construction	**126,289**	**20**	221,168	32
Wholesale and retail trade	**-**	**-**	186,486	27
Transport, storage and communications	**60,012**	**10**	63,435	9
Other sectors	**839**	**-**	-	-
	627,023	**100**	690,702	100

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for losses on loans and advances.

The bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The collateral is as follows:

Collateral type	**Loan amount**	**Collateral**
Insurance by Sinosure	**290,255**	**273,411**
Standby letter of credit	**218,151**	**229,526**
Vessel	**64,896**	**96,700**
Mortgage	**57,727**	**68,490**
Bank guarantee	**-**	-
Facility split letter		
Other	**839**	-
Total	**631,868**	**668,127**

(c) ***Impairment sensitivity analysis***

The most significant macro-economic assumptions affecting the ECL allowance are: year on year commodity prices, real GDP growth rate, year on year inflation, year on year USD to ZMW exchange rate, year on year country credit rating, year on year lending rate and the year on year GDP per capita.

34. Risk management (Continued)
34.5 Credit risk (continued)
Impairment sensitivity analysis (continued)

Set out below is the P&L impact of changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in the parameters from the actual assumptions used in the Bank's macro-economic variable assumptions in each of the scenarios (upside, base case and severe):

31-Dec18

In K'000	Loans and advances - banks	Loans and advances - customers	Treasury bills	Off balance items	Total
Upside (20%)	758	(1,269)	(198)	1,088	(133)
Base case (50%)	1,994	(3,340)	(520)	2,864	(444)
Severe (30%)	1,256	(2,104)	(328)	1,804	(332)
Total	4,008	(6,713)	(1,046)	5,756	2,005

01-Jan-18

In K'000	Loans and advances - banks	Loans and advances - customers	Treasury bills	Letters of guarantee	Total
Upside (20%)	102	(1,060)	564	261	(133)
Base case (50%)	268	(2,789)	1,409	668	(444)
Severe (30%)	169	(1,757)	845	411	(332)
Total	539	(5,606)	2,818	1,340	(909)

34.5 Operational risk management

Operational risks are also managed within a policy framework set by the directors. The policy sets minimum standards and requires the bank to identify and address potential and actual operational risks on a continuing basis. The senior management team, receive regular updates on all critical operational risk issues. The implementation of operational risk policy is subject to regular audit and underpins corporate governance.

35. Dividends per share

During the year, there was no dividend paid or declared.
A final dividend in respect of the year ended 31 December 2017 of K5.8 per share amounting to a total of K55.12 million was declared and paid.
Payment of dividends is subject to withholding tax at a rate of 5% for non-resident shareholders under the Sino-Zambia double tax agreement (DTA).

36. Capital management

Capital management is a key contributor to shareholder value. The Bank's objectives when managing capital, which is a broader concept than the equity on the statement of financial positions are;-

- To comply with the capital requirements set by the Banking and Financial Services Act, 2017.
- To safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits or other stakeholders.
- To maintain a strong capital base to support the development of its business.
- To allocate capital to businesses using risk based capital allocation, to support the Bank's strategic objectives, including optimising returns on shareholder and regulatory capital.
- Maintain the dividend policy and dividend declarations of the Bank taking into consideration shareholder and regulatory expectations.

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

36. Capital management *(Continued)*

36.1 Regulatory capital

The Bank manages its capital base to achieve a prudent balance between maintaining capital levels to support business growth, maintaining depositor and creditor confidence and providing competitive returns to shareholders.
The Bank of Zambia requires banks to:

a) Hold the minimum level of regulatory capital of K520 million at a foreign bank;
b) Maintain a ratio of total regulatory capital to the risk weighted assets plus risk weighted off statement of financial position assets (the Basel ratio) at or above the required minimum of 10%;
c) Maintain primary or tier 1 capital of not less than 5% of total risk weighted assets; and
d) Maintain total capital or not less than 10% of risk weighted assets plus risk weighted off statement of financial position items.

Regulatory capital adequacy is measured through risk based ratio;

- Tier 1 capital (primary capital); common shareholders' equity, qualifying preferred shares and minority interests in the equity of subsidiaries that are less than wholly owned.

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

Risk weighted assets are determined on a granular basis by using risk weights from internally derived risk parameters within the regulatory requirements.

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

36. Capital management *(Continued)*

36.2 Computation of capital position *(Continued)*

K 'million

	Primary(tier 1) capital	**2018**
(a)	Paid-up common shares	**461**
(b)	Amount received pending allotment of shares	**-**
(c)	Eligible preferred shares	**-**
(d)	Contributed surplus	**-**
(e)	Retained earnings	**111**
(f)	General reserves	**-**
(g)	Statutory reserves	**266**
(h)	Minority interest(common shareholders' equity)	**-**
(i)	Subordinated loan capital	**-**
(j)	Sub total	**838**
	Less	
(k)	Goodwill and other intangible assets	**-**
(l)	Investments in unconsolidated subsidiaries and associates	**-**
(m)	Lending of a capital nature of subsidiaries and associates	**-**
(n)	Holding of other banks' or financial institutions' capital instruments	**-**
(o)	Assets pledged to secure liabilities	**-**
	Sub total (A)(items in a to o)	**838**
	other adjustments	
	Provisions	
	Assets of little or no realizable value	
	(p) Sub total (b)	
	(q) Total primary capital(j-p)	**838**

36. Capital management *(Continued)*

36.2 Computation of capital position

K 'million

II	**Secondary(tier 2) capital**	
	(a) Eligible preferred shares(regulations 13 and 17)	-
	(b) Eligible subordinated term debt(regulation 17(b))	-
	(c) Eligible loan stock/capital regulation 17(b)	-
	(d) Revaluation reserves (regulation 17(a) (Maximum is 40%)	-
	(e) Other (regulation 17(c))	-
	Sub total	-
III	**Eligible secondary capital** (The maximum amount of secondary capital is limited to 100% of primary capital)	-
IV	**Eligible total capital(I(q) +III)** (Regulatory capital)	**838**
V	**Minimum total capital requirement**	
	10% of total on and off statement of financial position risk-weighted assets (as established in **appendix I**, K478 million) or K520 million whichever is higher	**520**
VI	**Excess(I +III-V)**	**318**
VII	**Total regulatory capital**	**838**

Ratios

Tier 1 capital ÷ WRA= 17.5% (Minimum requirement 5%)

Total eligible capital ÷ WAR= 17.5% (Minimum requirement 10%)

37. Events after the reporting period

The directors are not aware of any other matter or circumstance since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the bank and the results of its operation.

BANK OF CHINA (ZAMBIA) LIMITED
RISK WEIGHTED CAPITAL RATIO **Appendix I**
AS PER STATUTORY INSTRUMENT NO.184 OF 1995
for the year ended 31 December 2018

This information does not form part of the audited financial statements and is not covered by the auditor's opinion.

K'million

		Amount(net of allowances for losses)	Risk factor	Weight total
part	**1-calculation of risk-weighted assets**			
	Assets			
	Notes and coins:			
(a)	Zambian notes &coins	15	0.00	-
(b)	Other notes &coins	12	0.00	-
	Balances held with Bank of Zambia			
(a)	Statutory reserves	227	0.00	-
(b)	Other balances	144	0.00	-
	Balances held with commercial banks in Zambia:			
(a)	With residual maturity of up to 12 months	19	0.20	4
(b)	With residual maturity of more than 12 months	-	1.00	-
	Balances held abroad:			
(a)	With residual maturity of up to 12 months	5,026	0.20	1,005
(b)	With residual maturity of more than 12 months	-	1.00	-
	Assets in transit			
(a)	From other commercial banks	-	0.50	-
(b)	From branches of reporting bank	-	0.20	-

RISK WEIGHTED CAPITAL RATIO **Appendix I**
AS PER STATUTORY INSTRUMENT NO.184 OF 1995
for the year ended 31 December 2018

K'million

		Amount(net of allowances for losses)	Risk factor	Weight total
	Investment in Debt Securities:			
(a)	Treasury bills	922	0.00	-
(b)	Other government securities-bonds	-	0.20	-
(c)	Issued by local government units	-	1.00	-
(d)	Private securities	-	1.00	-
	Bills of exchange:			
(a)	Portion secured by cash treasury bills	-	0.00	-
(b)	Other	-	1.00	-
	Loans & Advances:			
(a)	Portion secured by cash or treasury bills	-	0.00	-
(b)	Loans to or guaranteed by GRZ	266	0.50	133
(c)	Loans repayment in instalments &secured by a mortgage on owner of occupied residential property	-	0.50	-
(d)	Loans to or guaranteed by local government units		1.00	-
(e)	Loans to parastatals	19	1.00	19
(f)	All other loans(net or provisions)	342	1.00	342

RISK WEIGHTED CAPITAL RATIO **Appendix I**
AS PER STATUTORY INSTRUMENT NO.184 OF 1995
for the year ended 31 December 2018

K'million

		Amount(net of allowances for losses)	**Risk factor**	**Weight total**
Part	**1-calculation of risk-weighted assets**			
	Inter-bank advances &loans /advances guaranteed by other banks			
(a)	With residual maturity of up to 12 months	-	0.20	-
(b)	With residual maturity of more than 12 months	-	1.00	-
	Bank premises(NBV)	7	1.00	7
	Acceptances		1.00	-
	Other assets	2	1.00	2
	Investment in equity of other companies	-	1.00	-
	Total risk-weighted assets(on statement of financial position)	7,001		1,512

RISK WEIGHTED CAPITAL RATIO **Appendix I**
AS PER STATUTORY INSTRUMENT NO.184 OF 1995
for the year ended 31 December 2018

K'million

		Amount(net of allowances for losses)	Risk factor	Weight total
Part	**2-Off statement of financial position obligations**			
	Letter of credit:			
	Sight import letters of credit	-	0.20	-
	Portion secured by Cash/Treasury Bills	7	-	-
	Standby letters of credit	-	1.00	-
	Export letters of credit confirmed	-	0.20	-
	Guarantees &indemnities			
	Guarantees of loans trade & securities	3,168	1.00	3,168
	Portion secured by Cash/Treasury bills	105	-	-
	Performance bonds	-	0.50	-
	Securities purchased under resale agreement	-	1.00	-
	Other contingent liabilities-bid bonds	-	1.00	-
	Net open position in foreign currencies*	-	1.00	-
	Sub total-risk weighted assets(off statement of financial position)	3,280		3,168
	Total risk weighted assets(on and off statement of financial position)	10,281		4,680