CAVMONT BANK LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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The directors submit their report together with the audited annual financial statements for the year ended 30 June 2016, which disclose the state of affairs of Cavmont Bank Limited ("the Bank").

PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and the provision of related services. The Bank had 17 branches and 3 Agencies at 30 June 2016.

RESULTS AND DIVIDENDS

The Bank recorded a profit before tax of K 1.30 million for the financial year ended 30 June 2016 (2015: K1.66 million).

Loans and advances reduced from K467.5 million to K466.6 million, while customer deposits grew from K 607.6 million to K768.2 million during the financial year ended 30 June 2016.

Despite the reduction in Loans and advances, interest income increased by K 31.7 million (36%) to K120.2 million (2015: K88.5 million). The increase was largely attributable to changes in the Bank of Zambia Policy Rate (BPR) of 300bps in November 2015 and a re-pricing of loans and advances after the removal of the interest rate cap on lending. However, the uplift in interest income was offset by a K33.6 million (78%) increase in interest expense to K 76.8 million (2015: K43.2 million). The increase was due to market liquidity constraints resulting in significant increase in cost of wholesale and interbank funding. Consequently, this impacted net interest income that reduced to K43.78 million (2015: K46.81 million).

	For the year ended 30 June 2016 K`000	**For the year ended 30 June 2015 K`000**
Net interest income after loan impairments	43,779	46,806
Profit after tax for the year	696	1,079

The directors do not recommend the payment of a dividend in order to utilise retained earnings to further increase the Bank's capacity to sustain its profitability.

SHARE CAPITAL

The company's authorised share capital is K20 million (2015: K20 million) of which K19.08 million (2015: K19.08 million) is issued and fully paid up.

DIRECTORS

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

Guy Zingalume Phiri	-	Chairman/Independent ,Non-Executive Director
Johannes Jacobus Swanepoel	-	Non-Executive Director
Victoria Charlotte Dean	-	Independent, Non-Executive Director
Miyanda Maimbo Katiwa	-	Independent, Non-Executive Director
Joseph Innocent Ngosa	-	Independent, Non-Executive Director
Marthinus Johannes Prinsloo	-	Non-Executive Director
Charles Henry De Beauvoir Carey	-	Chief Executive Officer / Managing Director

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees for the year ended to 30 June 2016 was K41.56 million (2015: K37.1 million) and the average number of employees per month was as follows:

Month	Number	Month	Number
July	241	January	245
August	242	February	242
September	241	March	242
October	247	April	242
November	246	May	243
December	245	June	240

The bank has policies and procedures to safeguard the occupational health and safety of its employees. Through welfare and various sports activities, which include football and golf.

RESEARCH AND DEVELOPMENT

The Bank did not carry out any research and development in the year.

PROPERTY AND EQUIPMENT

The bank purchased property and equipment amounting to K12.94 million (2015: K3.34 million) during the year. In the opinion of the directors, the carrying value of property and equipment is not more than their recoverable value.

DIRECTORS' EMOLUMENTS AND INTERESTS

Directors' emoluments and interests are disclosed in note 26 of the annual financial statements.

PROHIBITED BORROWINGS OR LENDING

There were no prohibited borrowings or lending as defined under Sections 72 and 73 of the Zambia Banking and Financial Services Act 1994 (as amended).

RISK MANAGEMENT AND CONTROL

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

COMPLIANCE FUNCTION

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

KNOW YOUR CUSTOMER AND MONEY LAUNDERING POLICIES

The Bank has well established 'Know Your Customer' (KYC) and money laundering policies and adheres to current legislation in these areas.

EXPORTS

During the year the Bank did not export any form of services outside Zambia.

AUDITOR

The auditors, PricewaterhouseCoopers Zambia, have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the next Annual General Meeting.

By order of the Board

SECRETARY

: 2016, 28 September

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

The directors accept responsibility for the annual financial statements which have been prepared using appropriate accounting policies supported by reasonable estimates in accordance with International Financial Reporting Standards and with the requirements of the Zambia Companies Act and the Zambia Banking and Financial Services Act. The directors are of the opinion that the annual financial statements give a true and fair view of the state of the financial position of the Bank and of its financial performance in accordance with International Financial Reporting Standards. The directors further accept responsibility for such internal control as the directors determine necessary to enable the preparation of annual financial statements that are free from material misstatements, whether due to fraud or error.

As set out in note 2 (a) of the accompanying annual financial statements, the Bank made a profit of K0.70 million (2015: K1.08 million profit) and has accumulated losses of K50.97 million (2015: K51.49 million). The Bank has implemented a comprehensive business strategy focused on the introduction of appropriate capital, mobilisation of deposits, responsible growth in assets, and an attractive value proposition for customers, realising cost efficiencies and effective risk management. The directors are confident that this business strategy will continue to improve the profitability of the Bank. On the basis of these actions, the directors are of the opinion that the Bank will remain a going concern for at least 12 months from the date of these annual financial statements.

Signed on their behalf by:

Director

Director

28 September 2016

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CAVMONT BANK LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Cavmont Bank Limited (the Bank), which comprise the statement of financial position as at 30 June 2016 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Director's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2016, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Zambia Companies Act and the Zambia Banking and Financial Services Act and the Securities Act of Zambia.

Report on other legal and regulatory requirements

The Zambia Companies Act requires that in carrying out our audit we consider whether the Bank has kept proper accounting records, other records and registers as required by this Act.

In our opinion, based on our examination of those records, the company has kept proper accounting records, other records and registers as required by the Zambia Companies Act.

PricewaterhouseCoopers , PwC Place, Stand No 2374, Thabo Mbeki Road, P.O. Box 30942, Lusaka, Zambia
T: +260 (211) 334000, F: +260(211) 256474, www.pwc.com/zm

A list of Partners is available from the address above

In accordance with the requirements of the Zambia Banking and Financial Services Act, we confirm that:

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) no transactions or conditions affecting the well being of the Bank have come to our attention that in our opinion are not satisfactory and require rectification;

iii) we are not aware of any transaction that has not been within the powers of the Bank or which was contrary to the Zambian Banking and Financial Services Act;

iv) there is no non-performing or restructured loan owing to the Bank whose principal amount exceeds 5% of the regulatory capital of the Bank; and

v) the Bank has complied with the provisions of the Zambia Banking and Financial Services Act and the regulations, guidelines and prescriptions issued under the Act

In accordance with requirements of Part III, Rule 18 of the Securities (accounting and financial reporting requirements) Rules of The Securities Act, Cap 354 of the Laws of Zambia we confirm that:

- the annual financial statements of the licensee have been properly prepared in accordance with SEC Rules;
- the licensee has, throughout the financial year, kept proper accounting records in accordance with the requirements of the SEC Rules;
- the statement of financial position and statement of comprehensive income are in agreement with the licensee's accounting records;
- we have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountant
Lusaka

21 October **2016**

Nasir Ali
Practice number: AUD/F005226
Partner signing on behalf of the firm

(Amounts in K'000 unless otherwise indicated)

Statement of Profit or Loss and Other Comprehensive Income

	Notes	30 June 2016	30 June 2015
Interest income	5	120,151	88,496
Interest expense	6	(76,768)	(43,162)
Net interest income		43,383	45,334
Recoveries on loans and advances	13	396	1,472
Net interest income after loan recoveries		43,779	46,806
Fee and commission income	7	36,060	32,040
Fee and commission expense	7	(3,626)	(3,579)
Net Fee and commission income		32,434	28,461
Foreign currency exchange income		22,518	7,647
Other income		2,452	1,610
Personnel expenses	8	(41,555)	(37,107)
Operating expenses	8	(58,330)	(45,761)
Profit before income tax		1,298	1,656
Income tax	10	(602)	(577)
Profit for the year		696	1,079
Other comprehensive income:		-	-
Total comprehensive income for the year		696	1,079

The notes on pages 12 to 51 are an integral part of these annual financial statements.

(Amounts in K'000 unless otherwise indicated)

Statement of financial position

	Notes	As at 30 June 2016	2015
ASSETS			
Cash and balances with Bank of Zambia	11	195,570	151,081
Placements with other banks	12	92,506	54,069
Financial assets at amortised cost	14	70,678	71,106
Loans and advances to customers	13	466,550	467,536
Current tax asset	10	8,566	6,367
Deferred tax asset	17	18,792	21,113
Other assets	18	55,337	28,596
Property and equipment	15	30,213	23,437
Intangible assets	16	8,631	9,440
Total assets		946,843	832,745
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits	19	768,235	607,581
Other liabilities	20	60,428	105,724
Total liabilities		828,663	713,305
EQUITY			
Share capital	21	19,075	19,075
Share premium	21	126,688	126,688
Revaluation reserve	15	4,451	4,451
Regulatory –reserve	22(a)	5,000	5,000
General banking reserve	22(b)	13,935	15,712
Accumulated losses		(50,969)	(51,486)
Total equity		118,180	119,440
Total equity and liabilities		946,843	832,745

The financial statements on pages 7 to 51 were approved for issue by the Board of Directors on 28 September 2016 and signed on its behalf by:

Director

Director

Director

Secretary

The notes on page 12 to 51 are an integral part of these annual financial statements

(Amounts in K'000 unless otherwise indicated)

Statement of changes in equity

	Notes	Share capital	Share premium	Revaluation reserve	Regulatory reserve	Accumulated losses	General Banking Reserve	Total equity
Year ended 30 June 2016								
At start of year		19,075	126,688	4,451	5,000	(51,486)	15,712	119,440
Comprehensive income								
Profit for the year		-	-	-	-	696	-	696
Total comprehensive Income		-	-	-	-	696	-	696
Transfer to/(from) general banking reserve	22(b)	-	-	-	-	1,777	(1,777)	-
Tax on BOZ recoveries relating to general banking reserve	17	-	-	-	-	(1,956)	-	(1,956)
At end of year 30 June 2016		19,075	126,688	4,451	5,000	(50,969)	13,935	118,180

(Amounts in K'000 unless otherwise indicated)

Statement of changes in equity (continued)

	Notes	Share capital	Share premium	Revaluation reserve	Regulatory reserve	Accumulated loss	General Banking reserve	Total equity
Year ended 30 June 2015								
At start of year		19,075	126,688	4,451	5,000	(52,710)	15,857	118,361
								-
Comprehensive income								-
Profit for the year		-	-	-	-	1,079	-	1,079
Total comprehensive income		-	-	-	-	1,079	-	1,079
Transfer to/(from) general banking reserve	22(b)	-	-	-	-	145	(145)	-
At end of year 30 June 2015		19,075	126,688	4,451	5,000	(51,486)	15,712	119,440

(Amounts in K'000 unless otherwise indicated)

Statement of cash flows

	Notes	Year ended 30 June 2016	Year ended 30 June 2015
Cash flows from operating activities			
Interest receipts		120,151	88,496
Interest payments		(76,768)	(43,162)
Net fee and commission receipts		32,434	28,461
Other income received		2,452	1,610
Recoveries from loans previously written off		396	1,472
Payments to employees and suppliers		(93,105)	(69,631)
Income tax paid	10	(2,199)	(465)
Cash (outflows)/inflows from operating activities before changes in operating assets and liabilities		(16,639)	6,781
Changes in operating assets and liabilities			
Other assets		(20,318)	7,168
Other liabilities		(45,296)	59,877
Cash reserve requirement		(53,131)	(32,355)
Loans and advances		986	(171,713)
Customer deposits		160,654	119,832
Net cash inflow/(outflow) from operating activities		26,256	(10,410)
Cash flows from investing activities			
Investments in Government securities		(96,740)	(88,543)
Redemption of Government securities		90,746	86,394
Purchase of property, equipment	15	(12,936)	(3,339)
Intangible assets	16	(49)	(805)
Net cash outflow from investing activities		(18,979)	(6,293)
Increase/(Decrease) in cash and cash Equivalents		7,277	(16,703)
Cash and Cash equivalent at the start of year		119,999	129,056
Effects of foreign currency transactions		22,518	7,646
Increase/ (Decrease)		7,277	(16,703)
Cash and cash equivalents at end of year	25	149,794	119,999

The notes on pages 12 to 51 are an integral part of these annual financial statements.

Notes

1 General information

The Bank is incorporated in Zambia under the Zambia Companies Act as a limited liability company, and is domiciled in Zambia. The Bank is registered as a commercial bank under the Zambia Banking and Financial Services Act. The address of its registered office is:

Cavmont House, Stand No 2374
Thabo Mbeki Road,
P O Box 38474
Lusaka, Zambia.

2 Summary of significant accounting policies

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

Cavmont Bank Limited's annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IASB and IFRIC effective at the time of preparing these statements. The annual financial statements have been prepared under the historical cost convention, as modified by the revaluation of property financial assets, financial assets held at fair value through profit or loss and all derivative contracts.

(a) Basis of preparation

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The annual financial statements are presented in Zambian Kwacha (K), rounded to the nearest thousand.

The preparation of annual financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires the directors to exercise 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 3.

Going concern

The Bank's annual financial statements have been prepared on the going concern basis, which assumes that the Bank will continue to be able to meet its liabilities as and when they fall due for the foreseeable future. During the period, the Bank made a profit after tax of K696 thousand (2015: profit after tax of K1,079 thousand) and as at 30 June 2016, had accumulated losses of K50,969 thousand after transfer to the general reserve (2015: K51,486 thousand).

Notes (continued)

2 Summary of significant accounting policies (continued)

Going concern (continued)

- The Bank has implemented a number of initiatives to further grow net interest income and non-interest income by 116% and 21% respectively over the next financial year.
- Management continues to focus on cost control and reduction activities that are expected to limit the growth of operating expenses of the Bank to 22% over the next year.
- The Bank is expected to remain adequately capitalised as per the Banking and financial Services Act requirements for the foreseeable future and profits are expected to add to this capital.
- The Bank targets to grow deposits and funding by 21% and advances by 39% during the financial year 2017 in order to attain sustainable interest income and remain profitable.

The directors are of the opinion that the above actions will improve the Bank`s financial performance and increase profitability.

For these reasons the directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result if the bank was unable to continue as a going concern.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

The bank has not applied any standards and amendments for the first time for their annual reporting period.

(ii) New standards and interpretations not yet adopted by the Bank

Disclosure Initiative: Amendments to IAS 1. The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

Notes (continued)

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted by the Bank (continued)

Title of standard	Nature of change	Impact	Mandatory application date
IFRS 9 *Financial Instruments*	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.
IFRS 15 *Revenue from Contracts with Customers*	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Mandatory for financial years commencing on or after 1 January 2017.

Notes (continued)

2 Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted by the Bank (continued)

Title of standard	Nature of change	Impact	Mandatory application date
IFRS 15 *Revenue from Contracts with Customers (continued)*	The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g 1 January 2017), i.e without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	The Bank is in the process of assessing the potential impact of the adoption of this standard.	Mandatory for financial years commencing on or after 1 January 2017.

Notes (continued)

(b) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(c) Interest income and expense

For interest income and expense, all interest-bearing financial instruments are recognised within 'interest income' or 'interest expense' respectively in profit or loss 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, repayment 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 flow for the purpose of measuring the impairment loss.

(d) Fees and commission income

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

Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Financial assets

The Bank classifies its financial assets into loans or receivables or held-to-maturity financial assets. The directors determine the appropriate classification of financial assets at initial recognition.

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

ii) Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the bank to sell more than an insignificant amount of financial assets at amortised cost, the entire category would have to be reclassified as available for sale.

Regular way purchases and sales of financial assets at amortised cost and available-for-sale are recognised on trade-date – the date on which the bank commits to purchase or sell the asset.

Financial assets at amortised cost are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets at amortised cost are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Loans and receivables and financial assets are carried at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the profit or loss.

(f) Impairment of financial assets

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Impairment of financial assets (continued)

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(g) Property and equipment

All categories of property and equipment are initially recorded at cost. Buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount, but at least on a triennial basis. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Buildings	50 years
Leasehold improvements	5 years
Motor vehicles-owned	4 years
Motor vehicles - leased	Shorter of 4 years or over lease term if less than 4 years
Fixtures, fittings and equipment	3 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at reporting date. The Bank assesses at each reporting date whether there is any indication that any item of property, plant and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount and are included in profit or loss. On disposal of re-valued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

Notes (continued)

2 Summary of significant accounting policies (continued)

(h) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives (11 years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

(i) Income tax

Income tax expense is the aggregate of the charge to the profit or loss in respect of current income tax and deferred income tax. Tax is recognised in the profit and loss account unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Zambian Income Tax Act.

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Bank of Zambia, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Zambia.

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

(k) Employee benefits

Retirement benefit obligations

The Bank operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate fund. Cavmont Capital Bank Limited Pension Scheme, which is funded by contributions from both the group and its employees. It is administered by AON Pension Fund Administrators Limited. The Bank and all its employees also contribute to the National Pension Scheme Fund, which is a defined contribution scheme.

A defined contribution scheme is a pension benefit plan under which the company pays fixed contributions into a separate entity (fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's contributions to the defined contribution schemes are charged to profit or loss in the year in which they fall due. The Bank has no further obligation once the contributions have been paid.

(l) Offsetting financial instruments

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

(m) Share capital

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

(n) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities. The amount recognized is based on the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The income is generally recognised on an accrual basis.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies

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

(i) Impairment charges on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis, In determining whether an impairment loss should be recorded in the profit and loss account, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Recoverability of deferred tax asset

Critical estimates are made by the directors in determining the recoverability of the deferred tax asset recognised. This involves estimating the amount of future taxable profits against which the deferred tax asset can be realised, should insufficient taxable profits be generated, the deferred tax asset of K18,792 thousand (2015: K21,113 thousand) would be recognised as an expense in the profit and loss account.

(iii) Financial assets at amortised cost

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as financial assets at amortised cost. This classification requires significant judgement, in making this judgement, the Bank evaluates its intention and ability to hold such assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The assets would therefore be measured at fair value and not at amortised cost.

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk management

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

Risk management is carried out by the Bank's Treasury department, Asset and Liability Committee (ALCO) and the Board Audit Risk Committee (BARC) under policies approved by the Board of Directors of the bank. Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and use of financial instruments.

(a) Financial instruments by category

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:

At 30 June 2016	**Loans and receivables**	**Financial assets at amortised cost**	**Total**
Financial assets			
Cash and balances with Bank of Zambia	195,570	-	195,570
Placements with other banks	92,506	-	92,506
Loans and advances to customers	466,550	-	466,550
Financial assets at amortised cost	-	70,678	70,678
Other assets	31,425	-	31,425
	786,051	70,678	856,729

At 30 June 2016

Financial liabilities	
Customer deposits	768,235
Other liabilities	60,428
	828,663

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk management (continued)

(a) Financial instruments by category(continued)

At 30 June 2015

	Loans and receivables	Financial assets at amortised cost	Total
Financial assets			
Cash and balances with Bank of Zambia	151,081	-	151,081
Placements with other banks	54,069	-	54,069
Loans and advances to customers	467,536	-	467,536
Financial assets at amortised cost	-	71,106	71,106
Other assets	9,824	-	9,824
	682,510	71,106	753,616

At 30 June 2015

Financial liabilities	
Customer deposits	607,581
Other liabilities	7,189
	614,770

(b) Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Bank manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis through the credit approval policies and procedures, categorisation procedures to identify non performing advances, and credit concentration as well as industry reviews to monitor portfolio credit risks. Loan classes are determined in line with the Central Bank, Bank of Zambia guidelines.

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 credit approval procedures are based on various credit discretionary limits of which the highest involves the credit risk committee, which is a subcommittee of the Board. This committee is also responsible for managing concentration risk.

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk management (continued)

(b) Credit risk(continued)

Credit risk management(continued)

The tables below present an analysis of financial assets by rating designation at 30 June 2016 and at 30 June 2015 based on the Bank's policy rating system:

	Investment Securities	Balances with Bank of Zambia	Placements with other banks	Loans and advances	Total
At 30 June 2016					
Investment grade	70,678	195,570	92,506	466,550	825,304
Unrated	-	-	-	-	-
	70,678	195,570	92,506	466,550	825,304
At 30 June 2015					
Investment grade	71,106	151,081	54,069	467,536	743,792
Unrated	-	-	-	-	-
	71,106	151,081	54,069	467,536	743,792

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 advances/credit department, which reports regularly to the Board of Directors.

<u>Credit risk measurement</u>

Loans and advances

The group's internal ratings are determined in line with the Central Bank, Bank of Zambia guidelines.

Group's rating	Description of the grade
Pass	Investment grade
Watch	Standard monitoring
Substandard	Special monitoring
Doubtful	Special monitoring
Loss	Default/ classified
Legal Provision	Default/ classified

Notes (continued)

4 Financial risk Management (continued)

(b) Credit risk (continued)

Limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to annual or more frequent review. 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. 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.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 advanced, 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.

Collateral held

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured but backed by salaried payments. 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.

Collateral pledged

The Bank conducts borrowings from Bank of Zambia and other commercial banks on the secured lending facility (SLF), or under repurchase agreements (REPOS). These borrowings are normally secured by pledging of the Bank`s investments in treasury bills. The Bank has also pledged treasury bills for the Zambia Electronic Clearing House for the Bank's clearing activities. At 30 June 2016, the Bank had K42,000,000 on treasury bills pledged to cover the above borrowings and clearing activities.

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.

(Amounts in K'000 unless otherwise indicated)

Notes (Continued)

4 Financial risk Management (continued)

(b) Credit risk (continued)

Credit related commitments (continued)

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.

Statutory balances with Bank of Zambia

Mandatory reserve deposits are held with the Bank of Zambia in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations. Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options. All other pledges are conducted under terms which are usual and customary to lending arrangements.

Maximum exposure to credit risk before collateral held

With the exception of the following, the maximum exposure to credit risk of financial assets is equal to their carrying amount.

	2016	**2015**
Credit risk exposures relating to off-balance sheet items:		
Undrawn commitments	17,154	41,259
Guarantee and performance bonds	11,646	21,723
Total	28,800	62,982

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 he following:

- the bank exercises stringent controls over the granting of new loans,
- 89% of the loans and advances portfolio are neither past due nor impaired,
- 90% of the loans and advances portfolio are backed by collateral,
- 100% of the investments in debt securities are government securities.

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk Management (continued)

(b) Credit risk (continued)

The above table represents a worst case scenario of credit risk exposure to the bank at the year ended 2016 and 2015, 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. Loans and advances to customers are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees.

Financial assets

Year ended 30 June 2016	Overdrafts	Term loans	Staff loans	Mortgages	Total
Neither past due nor impaired	49,973	247,808	18,610	18,742	335,133
Past due but not impaired	24,056	58,454	-	11,927	94,437
Individually impaired	7,139	26,695	-	7,599	41,433
Gross	81,168	332,957	18,610	38,268	471,003
Less: allowance for impairment (note 13)	(489)	(3,126)	-	(838)	(4,453)
Net	80,679	329,831	18,610	37,430	466,550

Year ended 30 June 2015	Overdrafts	Term loans	Staff loans	Mortgages	Total
Neither past due nor impaired	58,463	257,975	16,974	30,378	363,790
Past due but not impaired	40,995	25,395	-	4,891	71,281
Individually impaired	6,850	29,387	-	482	36,719
Gross	106,308	312,757	16,974	35,751	471,790
Less: allowance for impairment (note 13)	(255)	(3,997)	-	-	(4,253)
Net	106,053	308,760	16,974	35,751	467,538

Management performs sensitivity analysis and reviews on the quality of the loan book. If the probability of default increased by 5% of the general performing book, individually impaired loans would increase by K1,330,000 (2015: K218,000). This would result in the reported profit reducing by K864,500 (2015: K109,000)

Loans and advances neither past due nor impaired
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by the reference to the internal rating system adopted by the group.

Year ended 30 June 2016	Overdrafts	Term loans	Staff loans	Mortgages	Total
Unrated	49,973	247,808	18,610	18,742	335,133

Year ended 30 June 2015	Overdrafts	Term loans	Staff loans	Mortgages	Total
Unrated	58,463	257,975	16,974	30,378	363,790

(Amounts in K'000 unless otherwise indicated)

Notes (Continued)

4 Financial risk Management (continued)

(b) Credit risk (continued)

Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered fully impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

Year ended 30 June 2016	**Overdrafts**	**Term loans**	**Staff loans**	**Mortgages**	**Total**
Past due up to 30 days	20,182	31,557	-	2,599	54,338
Past due 31 – 60 days	3,225	18,931	-	5,716	27,872
Past due 61 – 90 days	649	7,966	-	3,612	12,227
	24,056	58,454	-	11,927	94,437

Year ended 30 June 2015	**Overdrafts**	**Term loans**	**Staff loans**	**Mortgages**	**Total**
Past due up to 30 days	1,657	6,044	-	339	8,040
Past due 31 – 60 days	11,309	6,856	-	3,911	22,076
Past due 61 – 90 days	28,029	12,495	-	641	41,165
	40,995	25,395	-	4,891	71,281

Loans and advances individually impaired

Of the total gross amount of impaired loans, the following amounts have been individually assessed:

Year ended 30 June 2016	**Overdrafts**	**Term loans**	**Staff loans**	**Mortgages**	**Total**
Loans and advances to customers	7,139	26,695	-	7,599	41,433

Year ended 30 June 2015	**Overdrafts**	**Term loans**	**Staff loans**	**Mortgages**	**Total**
Loans and advances to customers	6,850	29,387	-	482	36,719

Notes (continued)

4 Financial risk Management (continued)

(b) Credit risk (continued)

Credit risk concentration by industry

Economic sector risk concentrations within the customer loan portfolio were as follows:

Loans and advances	2016 K`000	%	2015 K`000	%
Manufacturing	25,602	5	26,284	6
Wholesale and retail trade	73,247	16	69,334	15
Transport and communications	55,932	12	41,387	9
Financial services	105,800	22	110,666	23
Agricultural	26,561	6	22,417	5
Restaurant and hotels	10,220	2	8,469	2
Mining and Quarrying	27,258	6	41,895	9
Community, social and personal	103,688	22	76,086	16
Construction	21,298	5	28,167	6
Real Estate	6,304	1	8,964	2
Electricity, gas, water and energy	9,417	2	1,201	0
Other	5,676	1	36,919	7
	471,003	100	471,789	100

Repossessed loans

The Bank had repossessed collateral amounting to K 5,945 thousand as at 30 June 2016 (June 2015: K384 thousand).

Other financial instruments

Neither past due nor impaired

Placements with other banks and other assets are classified as investment grade assets. These are with Bank Windhoek, Stanchart London, Stanchart Frankfurt and Stanchart New York that are all rated AA by Fitch ratings. Standard Chartered Bank South Africa is rated BBB+. Investment securities held to maturity are debt securities issued by the Government of the Republic of Zambia. The Government of the Republic of Zambia is rated B by Fitch Ratings.

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk management (continued)

(c) Liquidity risk

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

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

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the reporting date and from financial assets by expected maturity dates, assets used to manage liquidity risk are shown in the table below.

At 30 June 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Total contractual cash flows	Total carrying amounts
Liabilities						
Customer deposits	44,659	447,310	318,439	-	810,408	768,129
Other liabilities	1,106	9,953	63,875	-	74,934	60,385
Guarantees and performance bonds	28,800	-	-	-	28,800	28,800
Total financial liabilities (Contractual maturity dates)	74,565	457,263	382,814	-	914,142	857,314
Assets						
Cash and balances with Bank of Zambia	195,570	-	-	-	195,570	195,570
Placements with other banks	92,506	-	-	-	92,506	92,506
Loans and advances to customers	8,222	16,837	75,546	381,567	482,172	466,550
Financial assets at amortised cost	1,805	13,500	50,782	4,591	70,678	70,678
Other assets	-	55,337	-	-	55,337	55,337
Total financial assets (expected maturity dates)	298,103	85,674	126,328	386,158	896,263	880,641

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk management (continued)

(c) Liquidity Risk (continued)

At 30 June 2015	Up to 1 Month	1-3 months	3-12 Months	1-5 years	Total contractual cash flows	Total carrying amounts
Liabilities						
Customer deposits	322,914	153020	89,859	49,377	614,770	607,460
Other liabilities	61,699	49,309	-	-	111,008	105,565
Guarantees and performance bonds	62,981	-	-	-	62,981	62,981
Total financial liabilities (Contractual maturity dates)	447,594	202,329	89,859	49,377	789,159	776,006
Assets						
Cash and balances with Bank of Zambia	151,081	-	-		151,081	151,081
Placements with other banks	54,069	-	-		54,069	54,069
Loans and advances to customers	88,949	4,610	14,875	359,102	467,536	467,536
Financial assets at amortised cost	6,500	16,000	45,500	3,106	71,106	71,106
Other assets	-	28,596	-	-	28,596	28,596
Total financial assets	300,599	49,206	60,375	362,208	772,388	772,388

(d) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO), the Board Audit Risk Committee and the Board. The treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

<u>Currency risk</u>

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

(Amounts in K'000 unless otherwise indicated)

Notes (continued

4 Financial risk management (continued)

(d) Market risk (continued)

Currency risk (continued)

The table below summarises the bank's exposure to foreign currency exchange rate risk at the end of the period. Included in the table are the bank's financial instruments, categorised by currency

At 30 June 2016	**USD**	**GBP**	**EURO**	**ZAR**	**Total**
Assets					
Cash and balances with Bank of Zambia	25,097	74	472	234	25,877
Placements with other banks	36,438	6,706	3,862	4,243	51,249
Loans and advances to customers	107,705	-	-	-	107,705
Total assets	169,240	6,780	4,334	4,477	184,831
Liabilities					
Customer deposits	133,444	1,545	3,628	5,261	143,878
Other liabilities	2,013	808	167	-	2,988
Total liabilities	135,457	2,353	3,795	5,261	146,866
Net on-balance sheet position	33,783	4,427	539	(784)	37,965
Net off-balance sheet position	-	-	-	-	-
Overall open position	33,783	4,427	539	(784)	37,965
At 30 June 2015					
Assets					
Cash and balances with Bank of Zambia	46,508	259	264	515	47,546
Placements with other banks	43,086	10,332	2,532	175	56,125
Loans and advances to customers	56,362	-	-	-	56,362
Total assets	145,956	10,591	2,796	690	160,033
Liabilities					
Customer deposits	135,685	3,328	2,019	2,846	143,878
Other liabilities	15,146	291	104	-	15,541
Total liabilities	150,831	3,619	2,123	2,846	159,419
Net on-balance sheet position	(4,875)	6,972	673	(2,156)	614
Net off-balance sheet position	-	-	-	-	-
Overall open position	(4,875)	6,972	673	(2,156)	614

Notes (continued)

4 Financial risk management (continued)

(d) Market risk (continued)

Currency risk (continued)

At 30 June 2016, if the currency had weakened/(strengthened) by 10% against the US Dollar with all other variables held constant, post tax profit for the year and equity would have been K645,176 (2015: K97,500) lower/higher, mainly as a result of US Dollar deposits, loans and placements with other banks. The impact of fluctuations of other foreign currencies is becoming more significant as the Bank's foreign currency book grows. The direction of the ALCO of the Bank is therefore to maintain a square position to avoid income statement fluctuations as a result of the movement in the exchange rate.

Interest rate risk

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

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

At 30 June 2016	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total contractual cash flows	Total Carrying Amounts
Assets							
Cash and balances with Bank of Zambia		-	-	-	195,570	195,570	195,570
Placements with other banks	92,506	-	-	-	-	92,506	92,506
Loans and advances to customers	8,222	16,837	200,546	256,567	-	482,172	466,550
Financial assets at amortised cost	1,804	13,500	50,783	4,591	-	70,678	70,678
Total financial assets	102,532	30,337	251,329	261,158	195,570	840,926	825,304
Liabilities							
Customer deposits	88,743	142,537	579,128	-	-	810,408	768,235
Other liabilities	1,106	9,953	63,875	-	-	74,934	60,428
Total financial liabilities	89,849	152,490	643,003	-	-	885,342	828,663
Interest re-pricing gap	12,683	(122,153)	(391,674)	261,158	195,570	(44,416)	(3,359)

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk management (continued)

(d) Market risk (continued)

Interest rate risk (continued)

At 30 June 2015	Up to 1 Month	1-3 months	3-12 Months	Over 1 year	Non-Interest bearing	Total contractual cash flows	Total carrying amounts
Assets							
Cash and balances with Bank of Zambia	-	-	-	-	151,081	151,081	151,081
Placements with other banks	54,069	-	-	-	-	54,069	54,069
Loans and advances to customers			88,517	383,019	-	471,536	467,536
Financial assets at amortised cost	6,500	16,000	45,500	3,106	-	71,106	71,106
Total financial assets	60,569	16,000	134,017	386,125	151,081	747,792	743,792
LIABILITIES							
Customer deposits	261,727	79,754	265,979	-	-	607,581	607,581
Other liabilities	8,999	96,725	-	-	-	105,724	105,724
Total financial liabilities	270,726	176,479	265,979	-	-	713,305	713,305
Interest re-pricing gap	(210,278)	(160,479)	(131,962)	386,125	151,081	34,487	30,487

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

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

At 30 June 2016, if the policy rate had increased/decreased by 200 basis points (2015: 200 basis) with all other variables held constant, post tax profit for the year and equity would have been K2.4 million (2015: K5 million) lower/higher, mainly as a result of interest on loans.

At 30 June 2016, if the yield rate had increased/decreased by 200 basis points (2015: 200 basis) with all other variables held constant, post tax profit for the year and equity would have been K1 million (2015: K1 million) lower/higher, mainly as a result of interest on government securities

Notes (Continued)

4 Financial risk management (continued)

(e) Fair values of financial assets and liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date i.e. an exit price. Fair value is therefore a market based measurement and when measuring fair value the Bank uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. When determining fair value it is presumed that the Bank is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

Recurring fair value measurements

Recurring fair value measurements are those for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date.

Fair value of financial instruments

Where the Bank has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid where the time value of money is significant.

Non-financial assets

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

Other fair value measurements

Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available or in accordance with generally acceptable pricing models such as a discounted cash flow analysis.

The Bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item. If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the Bank include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques. Where a valuation model is applied and the Bank cannot mark to market, it applies a mark-to-model approach, subject to prudent valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. When applying mark-to-model, an extra degree of conservatism is applied.

(Amounts in K'000 unless otherwise indicated)

Notes (Continued)

4 Financial risk management (continued)

(e) Fair Value of Financial assets and liabilities (continued)

Fair value hierarchy

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group market assumptions. These 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 exchanges (for example, Lusaka Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the swaps and forwards. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

• Level 3 – inputs for the asset or liability that are not based 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 represents the fair values of financial instruments not carried at fair value on the statement of financial position. For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

At 30 June 2016	**Carrying value**	**Fair Value**
Assets		
Loans advances at amortised cost	466,550	482,172
Financial assets at amortised cost	70,678	77,100
Total assets	**537,228**	**559,272**
Liabilities		
Total deposits and current accounts at amortised cost	768,235	777,631

Notes (continued)

4 Financial risk management (continued)

(e) Fair Value of Financial assets and liabilities (continued)

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

30 June 2016		**Level 1**	**Level 2**	**Level 3**
		K'000	K'000	K'000
Loans and advances		-	482,172	-
Financial assets at amortised cost		-	77,100	-
Total Assets		-	**559,272**	-
30 June 2015				
Loans and advances		-	471,536	-
Financial assets at amortised cost		-	71,106	-
Total Assets		-	**542,642**	-

At 30 June 2016, the Group did not have financial liabilities measured at fair value (2015: nil).

Fair Value Estimation of Non-financial assets

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

Fair value measurements at 30 June 2016

	Level 1	**Level 2**	**Level 3**
	K`000	K`000	K`000
Land and buildings	-	8,085	-

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

Instrument	**Level**	**Valuation technique**	**Description**	**Observable inputs**	**Unobservable inputs**
Loans and advances	2	Discounted cash flows	Future cash flows discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves.	Credit inputs
Financial assets at amortised cost	2	Discounted cash flows	Future cash flows discounted using a market related interest rate.	Market interest rates and curves	Not applicable

Notes (continued)

4 Financial risk management (continued)

(f) Capital management

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

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

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

The Bank of Zambia requires each local bank to:

i) hold the minimum level of regulatory capital of K104,000,000

ii) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%;

iii) maintain primary or tier 1 capital of not less than 5% of total risk weighted assets; and

iv) maintain total capital of not less than 10% of risk- weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (primary capital): common shareholders' equity, qualifying preferred shares, non distributable reserves and retained reserves.

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

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

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

4 Financial risk management (continued)

(f) Capital management (continued)

The table below summarises the composition of regulatory capital and the ratios of the company at the period end. In arriving at Tier 1 capital, management make various adjustments for provisions as permitted by the Bank of Zambia.

	2016	2015
Tier 1 capital	105,809	107,754
Tier 1 + Tier 2 capital	107,502	109,447
Risk-weighted assets		
On-balance sheet	561,826	505,915
Off-balance sheet	28,800	62,981
Total risk-weighted assets	590,626	568,896
Basel ratio		
Tier 1 (Regulatory minimum – 5%)	17.9%	18.9%
Tier 1 + Tier 2 (Regulatory minimum – 10%)	18.2%	19.2%

5 Interest income

	2016	2015
Loans and advances to customers	105,322	76,847
Financial assets at amortised cost	13,765	10,306
Cash and other short term funds	1,064	1,343
	120,151	88,496

6 Interest expense

	2016	2015
Customer deposits	61,524	36,511
Deposits from Banks and other liabilities	15,244	6,651
	76,768	43,162

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

	2016	2015
7 Net fee and commission income		
Fee and commission income		
Credit related fees and commissions	24,846	18,203
Account management fees	11,214	13,837
	36,060	32,040
Fee and commission expense		
VISA fees	(3,626)	(3,579)
	32,434	28,461

8 Operating expenses

The following items are included within operating expenses

Employee benefits expense (Note 9)	41,555	37,107
Depreciation on property and equipment (Note 15)	6,160	5,263
Amortisation of intangible assets (Note 16)	858	1,532
Operating lease rentals	9,836	10,019
Auditors' remuneration	900	1,080
Other IT support and maintenance costs	3,716	5,563
Telecommunications	3,080	1,374
Advertising and publicity	2,738	1,527
Insurance	1,135	1,087
Other operating expenses	29,907	18,316
	99,885	82,868

9 Employee benefits expense

The following items are included within employee benefits expense:

Wages and salaries	37,936	33,882
Retirement benefit expense:		
-CCBL pension scheme contributions	2,352	2,078
-National Pension Scheme Authority	1,267	1,147
	41,555	37,107

10 Income tax

Current income tax	237	169
Deferred income tax (note 17)	365	408
	602	577

(Amounts in K'000 unless otherwise indicated)

Notes (Continued)

10 Income tax (continued)

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:

	2016	2015
Profit before income tax	1,298	1,656
Tax calculated at the statutory income tax rate of 35%	454	580
Tax effect of:		
Utilisation of previously unrecognised tax losses	-	(1,072)
Expenses not deductible / (income not taxable)	(89)	434
Effect of taxes from non-banking activities	237	600
Income tax expense	602	577

Current income tax movement in the balance sheet

	2016	2015
At start of period	(6,367)	(5,902)
Current income tax	-	169
Payments during the period	(2,199)	(1,587)
Withholding Tax refunds during the year	-	953
Tax paid during the period	(2,199)	(465)
Other	-	-
At end of period	(8,566)	(6,367)

An analysis of the bank's tax losses is as follows:

	Amount	Tax impact
2011 tax loss expiring in 2017	22,573	7,900
2012 tax loss expiring in 2018	24,705	8,647
2013 tax loss expiring in 2019	11,301	3,956
2014 tax loss expiring in 2020	3,661	1,281
	62,240	21,784

11 Cash and balances with Bank of Zambia

	2016	2015
Cash in hand	58,423	42,834
Balances with Bank of Zambia	137,147	108,247
	195,570	151,081

12 Placements with other banks

Current	92,506	54,069

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

13 Loans and advances to customers – Group

	2016	2015
Overdrafts	81,168	88,769
Term loans	332,957	320,087
Mortgage loans	38,268	44,299
Staff loans	18,610	18,634
Gross loans and advances	471,003	471,789
Less: Impairment of loans and advances		
• Individually assessed/Specific impairment		
Term loans	(3,544)	(3,314)
• Collectively assessed /Portfolio impairment		
Overdrafts	-	(255)
Term loans	(909)	(684)
	(909)	(939)
	(4,453)	(4,253)
	466,550	467,536

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

	2016	2015
At start of year	4,253	5,725
Increase in impairment	760	-
Impairment recovery	(1,156)	(1,472)
	(396)	(1,472)
At end of the period	3,857	4,253

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 30 June 2016 was K41,433,000 (2015: K36,719,000), and suspended interest amounted to K3,986,000.

14 Financial assets at amortised cost

	2016	2015
Financial assets at amortised cost		
Government securities		
- Current	66,087	66,106
-Non-current	4,591	5,000
	70,678	71,106

(Amounts in K'000 unless otherwise indicated)

Notes (Continued)

15 Property and equipment

	Buildings	Leasehold Improve-ments	Motor vehicles	Fixtures, fittings & equipment	Capital work in progress	Total
Year ended 30 June 2015						
Opening net book value amount	8,085	6,292	926	9,338	720	25,361
Additions	205	182	-	3,672	(720)	3,339
Depreciation charge	(230)	(587)	(311)	(4,135)	-	(5,263)
Closing net book value amount	8,060	5,887	615	8,875	-	23,437
At 30 June 2015						
Cost or valuation	8,645	8,786	2,094	29,692	-	49,217
Accumulated depreciation	(585)	(2,899)	(1,479)	(20,817)	-	(25,780)
Net book amount	8,060	5,887	615	8,875	-	23,437
Year ended 30 June 2016						
Opening net book value amount	8,060	5,887	615	8,875	-	23,437
Additions	351	77	1,541	10,967	-	12,936
Depreciation charge	(178)	(595)	(552)	(4,835)	-	(6,160)
Closing net book value amount	8,233	5,369	1,604	15,007	-	30,213
At 30 June 2016						
Cost or valuation	8,996	8,863	3,635	40,300	-	61,794
Accumulated depreciation	(763)	(3,494)	(2,031)	(25,293)	-	(31,581)
Net book amount	8,233	5,369	1,604	15,007	-	30,213

There are no leased assets included in property plant and equipment (2015: nil).

In accordance with section 193 of the Zambia Companies Act, 1994 (as amended) the register of Lands and Buildings is available for inspection by members and their duly authorised agents at the Registered Records Office of the Bank.

(a) An independent valuation of the buildings was performed by valuers to determine the fair value of the land and buildings as at 30 June 2014. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in shareholders' equity. The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable. The movement in the revaluation surplus on buildings is as below:

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

	2016	2015
At beginning of year	4,451	4,451
Revaluation gain for the year	-	-
At end of year	4,451	4,451

Notes (continued)

15 Property and equipment (continued)

The fair value of business buildings was determined using the depreciated replacement cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. The valuation techniques are consistent with those applied in the past. The carrying amount of the revalued properties if carried under cost model would be as follows:

	30 June 2016	**30 June 2015**
Cost	2,130	2,130
Accumulated depreciation	(750)	(707)
Net book value at end of the year	1,380	1,423

16 Intangible assets-computer software

At 30 June 2015	**K`000**
Cost	16,898
Accumulated amortisation	(7,458)
Net book Value	9,440
Year ended 30 June 2015	
At Start of the year	10,167
Additions	805
Amortisation	(1,532)
At end of the period	9,440
At 30 June 2016	
Cost	9,489
Accumulated amortisation	(858)
Net book amount	8,631
Year ended 30 June 2016	
At Start of the year	16,898
Additions	49
Amortisation	(8,316)
At end of the year	8,631

During the year, the useful life of the computer software was reviewed and revised to 11 years (2015: 5 years) in light of recent investments enhancing its expected future economic benefits and life.

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

17 Deferred tax asset

Deferred income tax is calculated using the enacted income tax rate of 35% (2015: 35%). The movement on the deferred tax asset is as follows:

	2016	2015
At start of year	21,113	21,521
Charge to statement of comprehensive Income	(365)	(408)
Charge to equity	(1,956)	-
At end of year	18,792	21,113

The deferred tax asset, deferred income tax charge in the statement of comprehensive income, and deferred income tax charge in equity are attributable to the following items:

	At start of the year	Charged/ (credited) to P/L	Charged/ (credited) to equity	At end of year
Year ended 30 June 2016				
Property and Equipment				
- on cost	3,654	(419)	-	3,235
- on valuation	(407)	164	-	(243)
Tax loss carried forward	(24,360)	620	1,956	(21,784)
	(21,113)	365	1,956	(18,792)
Year ended 30 June 2015				
Property and equipment	4,439	(785)	-	3,654
- on cost	2,133	(2,540)	-	(407)
- on valuation	(28,093)	3,733	-	(24,360)
Tax loss carried forward				
	(21,521)	408	-	(21,113)

The recognition of the deferred income tax asset is dependent on the ability of the bank to make taxable profits sufficient to utilise the tax losses carried forward before they begin to expire in Dec 2021. The directors have put in place certain measures, enumerated in note 2 to the financial statements that will result in the bank having sufficient taxable profits for the foreseeable future. During the year, the Bank recovered Bank of Zambia (BOZ) bad debt impairments amounting to K5.6m that resulted in tax charges worth K1.96m charged against equity relating to differences in treatment of credit provisioning between IFRS impairments and BOZ impairments. The resulting tax credits were utilised against tax assets.

The analysis of deferred tax assets is as follows:

Deferred tax asset on losses carried forward	**2016**	**2015**
-Deferred tax assets to be recovered within 12 months	7,900	7,116
-Deferred tax assets to be recovered after 12 months	13,884	17,244
	21,784	24,360

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

17 Deferred tax asset (continued)

The tax rate was 35% during the current financial year and therefore, deferred tax asset at 30 June 2016 was measured at 35%. The recognition of the deferred income tax asset is dependent on the ability of the Bank to make taxable profits sufficient to utilise the tax losses carried forward. The directors have put in place certain measures, enumerated in note 2 to the financial statements, that will result in the Bank having sufficient taxable profits for the foreseeable future

18 Other Assets

	2016	2015
Commission receivable	1,000	6,140
Prepayments and other receivables	54,337	22,456
	55,337	28,596
Current	55,337	28,596

Commission receivable and prepayments are classified as current.

19 Customer deposits

Current and demand deposits	456,931	361,537
Savings accounts	68,961	43,478
Fixed deposit accounts	242,010	200,381
Call accounts	333	2,185
	768,235	607,581
Current	703,145	558,204
Non-Current	65,090	49,377
	768,235	607,581

20 Other liabilities

Amounts due to group companies (Note 26)	30,006	50,229
Other payables and accrued expenses	30,422	55,495
	60,428	105,724
Current	60,428	105,724
Non Current	-	-
	60,428	105,724

Notes (continued)

21 Share capital and share premium

	Number of shares (million)	Ordinary shares K`000	Share premium K`000
Balance at 30 June 2015 and 30 June 2016	19,075	19,075	126,688

22 Other reserves

	2016	2015
a) Regulatory reserve	5,000	5,000

The statutory reserve is a non-distributable reserve established in accordance with Chapter VI Section 69 of the Zambia Banking and Financial Services Act, 1994. Current regulations stipulate that the bank shall maintain a reserve account and before declaring any dividend, shall transfer to its reserve account, 50% of the net profit of each year after due provision has been made for tax, to a maximum of the issued share capital.

b) General Banking reserve

	2016	2015
At start of the year	15,712	15,857
Transfer to retained earnings	(1,777)	(145)
At end of year	13,935	15,712

The regulatory reserve represents an appropriation from accumulated losses to comply with the Bank of Zambia's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Bank's accounting policy. The reserve is not distributable.

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

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

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the statement of financial position.

Contingent liabilities	**2016**	**2015**
Undrawn commitments	17,154	41,259
Guarantees and performance bonds	11,646	21,723
	28,800	62,982

Nature of commitments

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

24 Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2016	**2015**
Not later than one year	8,044	6,088
Later than 1 year and not later than 5 years	13,698	13,528
	21,742	19,616

25 Analysis of cash and cash equivalents as shown in the statement of cash flows

	2016	**2015**
Cash and balances with Bank of Zambia	195,570	151,081
Placements with other banks	92,506	54,069
	288,076	205,150
Less: cash reserve requirement (see below)	(138,282)	(85,151)
	149,794	119,999

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

25 Analysis of cash and cash equivalents as shown in the statement of cashflows (continued)

For the purposes of the statement of cash flow, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the central bank, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Zambia.

Cash reserve requirement

Banks are required to maintain a prescribed minimum cash balance with the Bank of Zambia that is not available to finance the Bank's day-to-day activities. The amount is determined as 18% (2015: 18%) of the customer deposits at the statement of financial position date held with bank of Zambia.

26 Related party transactions

The Bank's parent company is Cavmont Capital Holdings Plc, incorporated in Zambia. There are no other shareholders in the Bank There are other companies which are related to Cavmont Bank Limited through common shareholdings or common directorships.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions as below:

	2016	2015
Transactions:		
Capricorn Investment Group Limited	30,006	35,229
Bank Gaborone limited	-	15,000
	30,006	50,229

Services rendered to the Bank included Information Technology, Marketing and Human capital support by Capricorn Investment Group Limited, a registered company in Namibia and listed on the Namibian stock exchange.

Loans to directors	**2016**	**2015**
At start of the period	600	974
Raised during the period	(275)	(374)
At end of the period	325	600
Interest income earned	87	605

At 30 June 2016 advances to employees amounted to K18,610,058 (2015: K18,634,058)

(Amounts in K'000 unless otherwise indicated)

Notes (continued)

26 Related party transactions (continued)

	2016	**2015**
Deposits by directors		
At start of the period	450	375
Received during the period	9,295	6,569
Repaid during the period	(9,294)	(6,494)
At end of the period	451	450

Key management remuneration

	2016	2015
Salaries and other short-term employment benefits	7,725	4,607
Termination Benefits and Statutory contributions	386	243
	8,111	4,850

Key management compensation was higher in the year on account of annual adjustments for inflation and the inclusion of two senior executives after elevation.

Director emoluments

	2016	2015
Fees for services as directors	1,355	890

The increase in director's fees was as a result of 2 new directors that were appointed on the board at the end of the prior year.

Year-end balances arising from transactions

	2016	2015
Receivables from related parties		
• Parent company	-	57
Payables to related parties		
• Subsidiaries of Ultimate parent company	30,006	50,229

27 Capital requirements

On 30 January 2012, the Bank of Zambia (BOZ) issued a circular outlining the amended minimum capital requirements for banks in Zambia and categorised banks between local and foreign owned. The minimum capital requirements for Local and Foreign Banks are K104,000,000 and K520, 000,000 respectively and these changes came into effect on the 31st December 2013.

In December 2013, the Holding Company of the Bank injected additional capital in the Bank amounting to K127 million after undertaking a claw back rights offer underwritten by its major minority shareholder Capricorn Investment Holdings of Namibia (CIH). This enabled the Bank to comply with the new minimum capital requirement for local Banks as at 31st December 2013 and to date.

The Bank through its Holding Company and its major minority shareholder CIH has now executed the second phase of its capital requirements by localising part of its shares through a special purpose vehicle "Mukumbi Investments" set up to warehouse and offer shares to local individuals, private and institutional investors. This will result in the Bank regularising its structure to that of a local bank as defined by the Bank of Zambia (BOZ) and be able to meet the capital requirements. The Bank has received dispensation from Bank of Zambia up to 31 December 2016 to enact this plan.