



9.0 FINANCIAL STATEMENTS



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Bank of Zambia

Financial statements
for the year ended 31 December 2007

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Bank of Zambia

Directors' responsibilities in respect of the preparation of financial statements

The Bank's directors are responsible for the preparation and fair presentation of the financial statements, comprising the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the Bank of Zambia Act, No. 43 of 1996.

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

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

Approval of the financial statements

The financial statements of the Bank as indicated above and set out on pages 70 to 105 were approved by the Board of Directors on 29 May 2008 and signed on its behalf by:



Governor



Director



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Independent auditor's report to the Members of Bank of Zambia

Report on the financial statements

We have audited the financial statements of the Bank of Zambia ("the Bank") which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 74 to 105.

Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Zambia Act, No. 43 of 1996. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank of Zambia as at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank of Zambia Act, No. 43 of 1996.

Report on other legal and regulatory requirements

We report that, in our opinion, proper books of account and other records relating to the Bank's accounts have been kept in accordance with Section 25 (1) of the Bank of Zambia Act, No. 43 of 1996.

KPMG
Chartered Accountants of Zambia

Hampande Hachongo
Partner

29 May 2008
Lusaka, Zambia

Bank of Zambia**Income statement**
for the year ended 31 December 2007

In millions of Zambian Kwacha

	Note	2007	2006 (Restated)
Interest income	7	319,095	251,433
Interest expense	7	<u>(84,008)</u>	<u>(60,136)</u>
Net interest income		<u>235,087</u>	<u>191,297</u>
Fee and commission income	8	35,135	26,282
Fee and commission expense	8	<u>(80)</u>	<u>(103)</u>
Net fee and commission income		<u>35,055</u>	<u>26,179</u>
Net income from foreign exchange transactions		7,903	8,996
Other operating (expense)/income	9	<u>(277,648)</u>	<u>531,304</u>
		<u>(269,745)</u>	<u>540,300</u>
Operating income		397	757,776
Net impairment (loss)/reversal on financial assets	10	(1,685)	5,413
Personnel expenses	11	(203,194)	(186,713)
Depreciation and amortisation	26,27	(12,474)	(14,921)
Other expenses	12	<u>(87,334)</u>	<u>(87,765)</u>
(Loss)/profit for the year		<u>(304,290)</u>	<u>473,790</u>

Bank of Zambia**Balance sheet**

as at 31 December 2007

In millions of Zambian Kwacha

	Notes	2007	2006 (restated)
Assets			
Domestic cash in hand		1,747	1,993
Foreign currency cash and bank accounts	14	4,145,314	3,107,405
IMF Subscriptions	15	3,085,870	2,219,656
Loans and advances	16	38,569	41,374
IMF funds receivable from Government	17	68,837	75,956
Held-to-maturity financial assets	18	1,963,491	1,950,308
Held-for-trading financial assets	20	-	1,906
Amounts due from closed banks	21	-	-
Items in course of settlement	23	40,609	125,181
Other assets	24	5,508	6,041
Available-for-sale investments	25	2,786	2,839
Property, plant and equipment	26	184,466	183,401
Intangible assets	27	1,835	3,216
Total assets		9,539,032	7,719,276
Liabilities			
Notes and coins in circulation	29	1,515,151	1,226,161
Foreign currency liabilities to other institutions	30	90,724	159,407
Foreign currency liabilities to IMF	31	334,023	149,765
Domestic currency liabilities to IMF	32	3,085,870	2,219,656
Deposits from the Government	33	1,951,177	1,100,531
Deposits from banks and other financial institutions	34	2,066,714	2,055,271
Other deposits	35	29,616	47,094
Provisions	36	4,000	2,890
Other liabilities	37	47,816	28,770
Employee benefits	38	-	11,500
Total liabilities		9,125,091	7,001,045
Equity			
Capital	39	10,020	10,020
General reserve fund	40	42,490	42,490
SDR allocation	40	246,897	246,897
Property revaluation reserves	40	147,684	150,945
Retained earnings	40	(33,150)	267,879
Total equity		413,941	718,231
Total liabilities and equity		9,539,032	7,719,276

These financial statements were approved by the Board of Directors on 29 May 2008.



Governor



Director

The notes on pages 74 to 105 form part of these financial statements.

Bank of Zambia**Statement of Changes in Equity**
for the year ended 31 December 2007

In millions of Zambian Kwacha

	Share capital	General reserve fund	SDR allocation	Property revaluation reserve	Retained earnings	Total
Balance at 1 January 2006	10,020	36,456	246,897	154,677	(203,113)	244,937
Net income recognised directly in equity:						
- Reversal of revaluation surplus on land	-	-	-	(496)	-	(496)
Profit for the year as restated	-	-	-	-	473,790	473,790
Total recognised income and expense for the year as restated	-	-	-	(496)	473,790	473,294
Transfer to General reserve fund from Retained earnings	-	6,034	-	-	(6,034)	-
Amortisation of revaluation surplus relating to properties	-	-	-	(3,236)	3,236	-
Balance at 31 December 2006 as restated	10,020	42,490	246,897	150,945	267,879	718,231
Balance at 31 December 2006 as previously reported	10,020	42,490	246,897	150,945	310,624	760,976
Prior year adjustment (Note 43)	-	-	-	-	42,745	42,745
Balance at 31 December 2006 as restated	10,020	42,490	246,897	150,945	267,879	718,231
Balance at 1 January 2007	10,020	42,490	246,897	150,945	267,879	718,231
Net income recognised directly in equity:						
Amortisation of revaluation surplus relating to properties	-	-	-	(3,261)	3,261	-
Loss for the year	-	-	-	-	(304,290)	(304,290)
Total recognised income and expense for the year as restated	-	-	-	(3,261)	301,029	(304,290)
Balance at 31 December 2007	10,020	42,490	246,897	147,684	(33,150)	413,941

Bank of Zambia**Statement of cash flows**

for the year ended 31 December 2007

In millions of Zambian Kwacha

	Notes	2007	2006
Cash flows from operating activities			
(Loss)/profit for the year		(304,290)	473,790
Adjustment for:			
- Depreciation/amortisation	26,27	12,474	14,921
- Dividends received		(152)	(105)
- Profit on disposal of property, plant and equipment		(1,163)	(122)
- Impairment loss on available-for-sale investments		53	-
- Impairment loss on other assets		2,022	(7,534)
- Impairment loss on amounts due from closed banks		(390)	2,121
- Movement in provisions during the year	36	1,110	3,067
- Reversal of revaluation on land		-	(496)
- Property, plant and equipment adjustments		88	900
		(290,248)	486,542
Changes in operating assets and liabilities			
Change in IMF subscription		(866,214)	(1,259,659)
Change in loans and advances		2,805	286,507
Change in IMF funds receivable from Government		7,119	2,018,485
Change in held-to-maturity financial assets		(13,183)	(299,778)
Change in held-for-trading financial assets		1,906	(1,828)
Change in amounts due from closed banks		390	2,170
Change in items in course of settlement		84,572	(38,543)
Change in available-for-sale investments		-	-
Change in other assets		(1,489)	6,740
Change in notes and coins in circulation		288,990	261,777
Change in foreign currency liabilities to other institutions		(68,683)	(150,159)
Change in foreign currency liabilities to IMF		184,258	(1,944,676)
Change in domestic currency liabilities to IMF		866,214	1,259,659
Change in deposits from the Government		850,646	234,290
Change in deposits from banks and other financial institutions		11,443	750,728
Change in other deposits		(17,478)	44,983
Change in employee benefits		(11,500)	11,500
Change in other liabilities		19,046	(24,740)
		1,048,594	1,643,998
Dividends received		152	105
Net cash generated from operating activities		1,048,746	1,644,103
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	26,27	(12,325)	(10,313)
Proceeds from sale of property, plant and equipment		1,242	146
Net cash out flows from investing activities		(11,083)	(10,167)
Net change in cash and cash equivalents		1,037,663	1,633,936
Cash and cash equivalents at the beginning of year		3,109,398	1,475,462
Cash and cash equivalents at the end of the year		4,147,061	3,109,398
Cash and cash equivalents at the end of the year comprise of:			
Domestic cash in hand		1,747	1,993
Foreign currency cash and bank accounts		4,145,314	3,107,405
		4,147,061	3,109,398

The notes on pages 74 to 105 form part of these financial statements.

Bank of Zambia**Notes to the financial statement**
*for the year ended 31 December 2007***1 Principal activity**

The Bank of Zambia's (the "Bank" or "BoZ") principal activity, which is governed by the provisions of the Bank of Zambia Act No. 43 of 1996, is central banking and its related activities.

2 Basis of preparation of financial statements**(a) Statement of compliance**

These financial statements have been prepared in accordance with the International Financial Reporting Standards and comply with the requirements of the BoZ Act No. 43 of 1996. In preparing these financial statements, the Bank has not early adopted applicable amendments and interpretations to published standards that are effective on 1 January 2008 or later (refer to note 6).

(b) Basis of measurement

The financial statements have been prepared on the historical cost convention except for the following:

- Financial instruments at fair value through profit and loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value except where fair value cannot be determined.

(c) Functional and presentation currency

These financial statements are presented in Zambian Kwacha, which is the Bank's functional and presentation currency. Except where indicated financial information presented in Kwacha has been rounded to nearest million.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to both periods presented in these financial statements.

(a) Interest income and expense

Interest income includes interest earned on fixed income investment securities, income on foreign currency dealings, accrued discounts on treasury bills, interest from advances to financial institutions. Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Where the financial assets have been impaired, recognition of interest income is suspended.

(b) Fee and commission income

Fee and commission income, including account servicing fees, supervision fees, licensing and registration fees, are recognised as the related services are performed.

Other fee and commission expense relate mainly to transaction and service fees on foreign currency transactions, which are expensed as the services are received.

(c) Other operating income

Other operating income comprises gains less losses related to financial and non-financial assets and liabilities, and includes all realised and unrealised fair value changes on financial assets and liabilities at fair value through profit and loss, dividends received and foreign exchange differences.

Other income is recognised in the period in which it is earned and when it is probable that economic benefits will flow to the Bank on accrual basis, except for dividend income from available for sale investments which is accounted for in the income statement as other income when the right to receive payment is established.

Bank of Zambia**Notes for the year ended 31 December 2007** (continued)**3 Significant accounting policies** (continued)**(d) Impairment of financial assets**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the 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. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the loss events.

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.

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

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 asset'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 income statement.

When a loan is uncollectible, it is impaired. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the income statement. 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 the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. Reversals of impairment loss on available-for-sale equity instruments are recognised directly in equity. Subsequent reversals of impairment losses on available-for-sale debt securities are reversed through the income statement.

(e) Foreign currencies

Transactions in foreign currencies are translated to the Bank's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Bank's functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on the translation of available for sale equity instruments.

(f) Financial instruments**(i) Classification**

Management determines the appropriate classification for financial instruments on initial recognition of the financial assets and financial liabilities. Financial instruments of the Bank are classified as follows:

Bank of Zambia

Notes for the year ended 31 December 2007 (continued)

3 Significant accounting policies (continued)**(f) Financial instruments (continued)****(i) Classification (continued)****Financial assets***Loans and receivables*

The Bank has classified the following financial assets as loans and receivables:

- Domestic cash in hand;
- Foreign currency cash and bank balances;
- IMF subscriptions;
- Loans and advances;
- IMF funds receivable from Government;
- Amounts due from closed banks;
- Items in course of settlement; and
- Other assets.

Held-for-trading

The Bank has classified all treasury bills as financial assets held-for-trading except for the treasury bills arising from the November 2006 conversion of a portion of the GRZ consolidated bond and the staff savings treasury bills.

Held-to-Maturity

The Bank has classified the following financial assets as held to maturity:

- GRZ consolidated bond;
- Other GRZ securities; and
- Staff savings treasury bills.

Available-for-sale

The Bank's equity investments are considered to be available for sale financial assets.

Financial liabilities

The Bank has classified the following as other financial liabilities stated at amortised cost:

- Notes and coins in circulation;
- Foreign currency liabilities to other institutions;
- Foreign currency liabilities to IMF;
- Domestic currency liabilities to IMF
- Deposits from the GRZ;
- Deposits from banks and other financial institutions; and
- Other deposits.

(ii) Recognition

The Bank recognises financial assets which are classified as held-for-trading and available for sale and financial liabilities on the date the Bank becomes party to the contractual provisions of the financial instrument and applies trade date accounting for "regular way" purchases and sales. From this date any gains or losses arising from changes in fair value of the assets are recognised. Held-to-maturity securities, loans and advances and other financial liabilities are recognised on the day they are transferred to the Bank or the date they are originated.

(iii) Measurement

Financial instruments are measured initially at fair value. However for financial instruments not at fair value through profit or loss, such instruments are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition financial assets and financial liabilities are measured as described below:

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)****3 Significant accounting policies (continued)****(f) Financial instruments (continued)****(iii) Measurement (continued)***Held-to-maturity investments*

If the Bank has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Bank's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Bank manages such investments and makes purchase and sale decisions based on their fair value or if it eliminates or significantly reduces measurement or recognition inconsistency. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other financial instruments

All other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

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

Unquoted equity instruments whose fair value cannot be reliably measured are carried at cost.

Fair value is the amount for which an asset could be exchanged or a liability settled in an arms length transaction between knowledgeable willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, where one exists. The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate fair values. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could realise in a current market exchange.

(iv) De-recognition

The Bank de-recognises financial assets or a portion thereof when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial liability is de-recognised when the Bank's contractual obligations have been discharged, cancelled or expired.

(v) Offsetting

The Bank offsets financial assets and liabilities and presents the net amount in the balance sheet when and only when, there is a legally enforceable right to offset the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses, arising from a group of similar transactions such as the Bank's trading activity.

Bank of Zambia**Notes for the year ended 31 December 2007** *(continued)***3 Significant accounting policies** *(continued)***(j) Revaluation surplus**

The surplus arising on revaluation of property is credited to the revaluation reserve. A transfer, reflecting the portion of revaluation realized through use, is made from this reserve to the retained earnings for each year equivalent to the difference between the actual depreciation charge for the year based on revalued carrying amount and the depreciation charge based on original costs.

(k) Office stationery and other consumables

Office stationery and other consumables are included in other assets. These consumables represent bulk purchases and are held for consumption over more than one financial year.

(l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets that are subject to depreciation and amortisation are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss had been recognised.

(m) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events for which it is probable that an out-flow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Retirement benefits

The Bank maintains a defined benefit scheme to provide retirement benefits to employees. The calculation of the obligation is performed by qualified actuaries. The method used in the last valuation was the attained age method. The defined benefit scheme is actuarially valued at intervals of not more than three years. Funding shortfalls arising in the defined benefit scheme are met through lump sum payments or increased future contributions and other methods as may be deemed fit by the board of trustees.

The Bank also provides for retirement benefits for all permanent employees as provided for in Statutory Instrument No. 119. On 1 February 2000, the National Pension Authority (NAPSA) also came into effect. Membership with the exception of expatriate employees is compulsory and monthly contributions by both employer and employees are made.

Gratuity and leave days are accrued as per provisions of contracts of employment. A provision is made of the estimated liability as a result of services received.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with other central banks and amounts due from other banks that are held for the purpose of meeting short-term commitments and have less than three months' maturity from the date of acquisition.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)****3 Significant accounting policies (continued)****(p) Transactions with the International Monetary Fund ("IMF")**

The Bank is the Government's authorized agent for all transactions with the IMF and is required to record all transactions between the IMF and the Government in its books as per guidelines from the IMF. The Bank therefore maintains different accounts of the IMF namely, the IMF Subscriptions, Securities account, IMF No. 1 and No. 2 accounts.

The IMF Subscriptions account represents the Government's subscription to the IMF Quota and is reported as an asset under the heading IMF Subscription. This Quota is represented by the IMF Securities, IMF No1 and No2 accounts which appear in the books of the Bank under the heading "Domestic currency liabilities to IMF".

The Quota is fixed in SDR's and may be increased by the IMF. Any increase in the quota is subscribed in local currency by way of non-negotiable, non-interest bearing securities issued by Government in favour of the IMF, which are repayable on demand. There is also a possibility that the increase in the quota maybe subscribed in any freely convertible currency, of which the value of the portion payable would be debited to the account of Government maintained with the Bank.

The Bank revalues IMF accounts in its balance sheet in accordance with the practices of the IMF's Treasury Department. In general, the revaluation is effected annually. Any increase in value is paid by the issue of securities as stated above while any decrease in value is effected by the cancellation of securities already in issue. These securities are lodged with the Bank acting as custodian and are kept in physical form as certificates at the Bank and they form part of the records of the Government.

4 Risk management policies**(a) Overview**

In its ordinary operations, the Bank is exposed to various financial and operational risks, which if not prudently managed may have adverse effects on the attainment of the Bank's strategic objectives. The identified risks are monitored and managed according to an existing and elaborate internal control framework. To underscore the importance of risk management in the Bank a risk management unit was created by management in November 2004 and in February 2007, the Board approved the transformation of the unit into the Risk Management Department whose role is to co-ordinate the Bank-wide framework for risk management and establish risk standards and management strategies for the management and mitigation of risks.

The Audit and Finance Committee of the Board oversees how management monitors compliance with the Bank's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Finance Committee is assisted in its oversight role by Internal Audit. Internal Audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Finance Committee.

The Board of Directors has ultimate responsibility for ensuring that sound risk management practices are in place that enable the Bank efficiently and effectively meet its objectives. The approach of the Board is to ensure the following conditions are enhanced:

- i) A business continuity strategy is in place to ensure continuity of mission critical activities in an event of a major disaster.
- ii) Active Board and senior management oversight. Management maintains an interest in the operations and ensures appropriate intervention is available for identified risks.
- iii) Implementation of adequate policies, guidelines and procedures. The existing policies, procedures and guidelines are reviewed and communicated to relevant users to maintain their relevance.
- iii) Maintain risk identification, measurement, treatment and monitoring as well as control systems. Management reviews risk management strategies and ensures that they remain relevant.
- iv) Adequate internal controls. Improved internal control structures and culture emphasizing the highest level of ethical conduct have been implemented to ensure safe and sound practices.
- v) Correction of deficiencies. The Bank has implemented a transparent system of reporting control weaknesses and following up on corrective measures.

Bank of Zambia**Notes for the year ended 31 December 2007** *(continued)***4 Risk management policies** *(continued)*

The following is the current exposure to the risks identified:

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its obligations and arises principally from the Bank's receivables from staff, Government and investment securities.

The Bank has two major committees that deal with credit risk. The Investment Committee deals with risk arising from foreign currency denominated deposits while the Finance and Budget Committee handles risks arising from all other assets. The details of policy and guidelines are passed on to relevant heads of departments to implement on a day-to-day basis.

The major issues covered in the credit risk assessment include establishing criteria to determine choice of counter parties to deal with, limiting exposure to a single counter party, reviewing collectability of receivables and determining appropriate credit policies.

The Bank is exposed to varying degrees of credit risk, in the following significant concentrations:

(i) Government bonds and treasury bills

The directors believe the credit risk of such instruments is low due to the fact that they are issued by the GRZ.

(ii) Equity investments

In the opinion of the directors the credit risk of such instruments is low in the light of the organizations involved which are supported by governments.

(iii) Fixed term deposits

The directors believe that the credit risk of such instruments is also low as the policy is to deal with only triple A rated institutions.

(iv) Loans to the GRZ

In the opinion of the directors the credit risk is low as such lending is advanced to Government, which is considered risk free.

(v) Loans to Commercial Banks

The Bank had no collateral recorded over loans and advances to closed commercial banks. Securities maybe held as collateral in reverse repurchases with operating commercial banks, however no such collateral was held as at 31 December 2007 and 2006.

(vi) Staff loans

The credit risk on staff housing loans is mitigated by security over property and mortgage protection insurance. The risk on other staff loans is mitigated by security in the form of terminal benefits payments.

The Bank holds collateral against some staff loans and advances to former and serving staff in form of mortgage interest over property and endorsement of the Bank's interest in motor vehicle documents of title. Estimates of the fair values of the securities are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(b) Credit risk (continued)****(vi) Staff loans (continued)**

An estimate of the fair value of collateral held against staff loans is shown below:

	Loans and advances (Note 16)		Other assets (Note 24)	
	2007	2006	2007	2006
Against past due but not impaired				
- Property	-	-	778	778
- Motor vehicles	-	-	-	-
- Other	-	-	-	-
Against neither past due nor impaired				
- Property	18,372	18,364	-	-
- Motor vehicles	7,617	8,203	-	-
- Gratuity and leave days	9,980	7,734	-	-
	<u>35,969</u>	<u>34,301</u>	<u>778</u>	<u>778</u>

The policy for disposing of the properties and other assets held as collateral provides for sale at competitive market prices to ensure the Bank suffers no loss or minimal loss.

The Bank monitors concentration of credit risk by the nature of the financial assets. An analysis of the concentration of credit risk at the reporting date on staff loans and other receivables is shown below:

	Loans and advances (Note 16)		Sundry receivables (Note 24)	
	2007	2006	2007	2006
Carrying amount	<u>38,569</u>	<u>41,374</u>	<u>6,542</u>	<u>4,998</u>
Concentration by nature				
- House loans	18,695	19,598	-	-
- Motor vehicle loans	9,573	10,509	-	-
- Multi-purpose loans	6,231	4,581	-	-
- Personal loans	1,744	4,394	-	-
- Other loans	2,326	2,292	-	-
- Former staff loans	-	-	2,962	2,098
- Other	-	-	3,580	2,900
	<u>38,569</u>	<u>41,374</u>	<u>6,542</u>	<u>4,998</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(c) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

To manage this risk the Bank ensures that all policies, procedures, authorization limits and approval frameworks are properly documented in the operational manuals for each department within the Bank and updated frequently to take account of the changes to internal controls, procedures and limits. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. In addition, the Bank has put in place a succession planning to attract and retain staff with vast banking and economic expertise.

(d) Liquidity risk

This is the risk of being unable to meet financial commitments or payments at the correct time, place and in the required currency. The Bank as a central bank does not face Zambian Kwacha liquidity risks.

In the context of foreign reserves management, the Bank's investment strategy ensures the portfolio of foreign reserves is sufficiently liquid to meet external debt financing. Government imports and interventions in foreign exchange market when need arises. The Bank maintains a portfolio of highly marketable foreign currency assets that can easily be liquidated in the event of unforeseen interruption or unusual demand for cash flows.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groups based on the remaining period to repayment from 31 December 2007.

	On demand	Due within 3 months	Due between 3 - 12 Months	Due between 1 5 years	Due after 5 Years	Total Carrying Amounts
31 December 2007						
Non-derivative liabilities						
Notes and coins in circulation	1,515,151	-	-	-	-	1,515,151
Foreign currency liabilities to other institutions	90,724	-	-	-	-	90,724
Foreign currency liabilities to IMF	334,023	-	-	-	-	334,023
Domestic currency liabilities to IMF	3,085,870	-	-	-	-	3,085,870
Deposits from the Government	1,951,177	-	-	-	-	1,951,177
Deposits from banks and other financial institutions	2,066,714	-	-	-	-	2,066,714
Other deposits	29,616	-	-	-	-	29,616
Other liabilities	-	-	47,816	-	-	47,816
Total non-derivative liabilities	9,073,275	-	47,816	-	-	9,121,091
At 31 December 2006						
Non-derivatives liabilities						
Total non-derivative liabilities	6,910,791	-	75,864	-	-	6,986,655

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(e) Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates and credit spreads will affect the Bank's income or the value of its holding of financial instruments.

The Bank sets its strategy and tactics on the level of market risk that is acceptable and how it would be managed through the Investment Committee. The major thrust of the strategy has been to achieve a sufficiently diversified portfolio of foreign currency investments to reduce currency risk and induce adequate returns.

(f) Currency risk

Currency risk is the risk of adverse movements in exchange rates that will result in a decrease in the value of foreign exchange assets or an increase in the value of foreign currency liabilities.

The Bank's liabilities are predominately held in Kwacha, while the foreign currency assets have been increasing, resulting in large exposure to foreign exchange risk. This position coupled with substantial exchange rate fluctuations is primarily responsible for the Bank recording large realized and unrealized exchange gains/ (losses) over the years. The Bank is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, British Pound and Euro. The Investment Committee is responsible for making investment decisions that ensure maximum utilization of foreign reserves at minimal risk.

The Bank as a central bank by nature holds a net asset position in its foreign currency balances. Management has mandated the Investment Committee to employ appropriate strategies and methods to minimise the eminent currency risk. Notable among useful tools used by the Investment Committee is the currency mix benchmark, which ensures that the foreign currency assets that are held correspond to currencies that are frequently used for settlement of Government and other foreign denominated obligations. All benchmarks set by the Committee are reviewed regularly to ensure that they remain relevant.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows and the net exposure expressed in Kwacha as at 31 December 2007 was as shown in the table below.

	USD	GBP	EUR	SDR	Other	Total Kwacha
At 31 December 2007						
Foreign currency assets						
Foreign currency cash and bank accounts	2,431,110	678,021	998,665	37,400	118	4,145,314
IMF Subscriptions	-	-	-	3,085,870	-	3,085,870
Total foreign currency assets	<u>2,431,110</u>	<u>678,021</u>	<u>998,665</u>	<u>3,123,270</u>	<u>118</u>	<u>7,231,184</u>
Foreign currency liabilities						
Foreign currency liabilities to other institutions	(8,970)	-	(51,918)	(29,836)	-	(90,724)
Foreign currency liabilities to IMF	-	-	-	(334,023)	-	(334,023)
Total foreign currency liabilities	<u>(8,970)</u>	<u>-</u>	<u>(51,918)</u>	<u>(363,859)</u>	<u>-</u>	<u>(424,747)</u>
Net exposure 2007	<u>2,422,140</u>	<u>678,021</u>	<u>946,747</u>	<u>2,759,411</u>	<u>118</u>	<u>6,806,437</u>
At 31 December 2006						
Total foreign currency assets	1,855,541	421,915	770,806	2,278,781	18	5,327,061
Total foreign currency liabilities	(116,805)	-	(23,018)	(169,349)	-	(309,172)
Net exposure 2006	<u>1,738,736</u>	<u>421,915</u>	<u>747,788</u>	<u>2,109,432</u>	<u>18</u>	<u>5,017,889</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(f) Currency risk (continued)**

The following are the reporting date exchange rates for the significant currencies applied during the year:

	Reporting date Spot rate	
	2007 ZMK	2006 ZMK
USD 1	3,843.89	4,405.56
GBP 1	7,644.32	8,637.55
EUR 1	5,579.76	5,803.45

Foreign currency sensitivity

The following table illustrates a 12 percent strengthening of the Kwacha against the relevant foreign currencies. 12 percent is based on observable trends, presented to key management personnel, in the value of Kwacha to major foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items outstanding at reporting date and adjusts their translation for a 12 percent change in foreign currency rates. This analysis assumes all other variables, in particular interest rates remain constant. The analysis is performed on the same basis for 2006.

Effect in millions of Kwacha	Equity	Income statement
31 December 2007		
USD	(290,657)	(290,657)
GBP	(81,400)	(81,400)
EUR	(113,609)	(113,609)
Total	<u>(485,666)</u>	<u>(485,666)</u>
31 December 2006		
USD	(208,648)	(208,648)
GBP	(50,630)	(50,630)
EUR	(89,734)	(89,734)
Total	<u>(349,012)</u>	<u>(349,012)</u>

A 12 percent weakening of the Kwacha against the above currencies at 31 December would have had an equal but opposite effect to the amounts shown above.

(g) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument or the future cash flows will fluctuate due to changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors approves levels of borrowing and lending that are appropriate for the Bank to meet its objective of maintaining price stability at reasonable cost.

Foreign currency deposits are subject to floating interest rates. Interest rate changes threaten levels of income and expected cash flows. The Bank holds a net asset position of foreign exchange reserves and interest income far outweighs interest charges on domestic borrowing and staff savings.

Substantial liabilities including currency in circulation and balances for commercial banks and Government ministries attract no interest.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(g) Interest rate risk (continued)**

Foreign currency deposits are the major source of interest rate risk for the Bank. Management has established information systems that assist in monitoring changes in the interest variables and other related information to ensure the Bank is in a better position to respond or take proactive action to meet challenges or opportunities as they arise. Management has also set performance benchmarks for income to arise from foreign currency deposits that are evaluated monthly through the Finance and Budget Committee and the Executive Committee. The Board reviews the performance against budget on a quarterly basis.

The following table shows the extent to which the Bank's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date or maturity date. The Bank's exposure to interest rate risk is low and in compliance with the principle pursued by the Bank of ensuring safety and liquidity in the management of financial affairs.

At 31 December 2007	Less than 3 months	Between 3 months and one year	Over 1 year	Non interest bearing	Total
Assets					
Domestic cash in hand	-	-	-	1,747	1,747
Foreign currency cash and bank accounts	4,144,309	-	-	1,005	4,145,314
IMF Subscriptions	-	-	-	3,085,870	3,085,870
Loans and advances	-	-	38,323	246	38,569
IMF funds receivable from Government	-	-	-	68,837	68,837
Held-to-maturity financial assets	-	4,442	1,959,049	-	1,963,491
Available-for-sale investments	-	-	-	2,786	2,786
Items in course of settlement	-	-	-	40,609	40,609
Other assets	-	-	-	5,508	5,508
Total financial assets	<u>4,144,309</u>	<u>4,442</u>	<u>1,997,372</u>	<u>3,206,608</u>	<u>9,352,731</u>
Liabilities					
Notes and coins in circulation	-	-	-	1,515,151	1,515,151
Foreign currency liabilities to other institutions	-	-	-	90,724	90,724
Foreign currency liabilities to IMF	-	-	-	334,023	334,023
Domestic currency liabilities to IMF	-	-	-	3,085,870	3,085,870
Deposits from the Government	-	-	-	1,951,177	1,951,177
Deposits from banks and other financial institutions	2,066,714	-	-	-	2,066,714
Other deposits	-	-	-	29,616	29,616
Other liabilities	-	-	-	47,816	47,816
Total financial liabilities	<u>2,066,714</u>	<u>-</u>	<u>-</u>	<u>7,054,377</u>	<u>9,121,091</u>
Net exposure at 31 December 2007	<u>2,077,595</u>	<u>4,442</u>	<u>1,997,372</u>	<u>(3,847,769)</u>	<u>231,640</u>
At 31 December 2006					
Total financial assets	3,105,182	631,204	1,362,241	2,620,650	7,401,437
Total financial liabilities	2,055,271	-	-	4,931,384	6,986,655
Net exposure at 31 December 2006	<u>1,049,911</u>	<u>631,204</u>	<u>1,362,241</u>	<u>(2,310,734)</u>	<u>732,622</u>

A disclosure of interest sensitivity is not provided since most of the financial assets and liabilities accrue interest at fixed rates.

Bank of Zambia

Notes for the year ended 31 December 2007 (continued)

In millions of Zambian Kwacha

4 Risk management policies (continued)

(h) Fair values versus carrying amounts

The table below sets out fair values of financial assets and liabilities, together with their carrying amounts as shown in the balance sheet.

	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Assets				
Domestic cash in hand	1,747	1,747	1,993	1,993
Foreign currency cash and bank accounts	4,145,314	4,145,314	3,107,405	3,107,405
IMF Subscriptions	3,085,870	3,085,870	2,219,656	2,219,656
Loans and advances	38,569	38,569	41,374	41,374
IMF funds receivable from Government	68,837	68,837	75,956	75,956
Held-to-maturity financial assets	1,963,491	1,963,491	1,950,308	1,950,308
Available-for-sale investments	2,786	2,786	1,906	1,906
Items in course of settlement	40,609	40,609	125,181	125,181
Other assets	5,508	5,508	6,041	6,041
Total financial assets	9,352,731	9,352,731	7,529,820	7,529,820
Liabilities				
Notes and coins in circulation	1,515,151	1,515,151	1,226,161	1,226,161
Foreign currency liabilities to other institutions	90,724	90,724	159,407	159,407
Foreign currency liabilities to IMF	334,023	334,023	149,765	149,765
Domestic currency liabilities to IMF	3,085,870	3,085,870	2,219,656	2,219,656
Deposits from the Government	1,951,177	1,951,177	1,100,531	1,100,531
Deposits from banks and other financial institutions	2,066,714	2,066,714	2,055,271	2,055,271
Other deposits	29,616	29,616	47,094	47,094
Other liabilities	47,816	47,816	28,770	28,770
Total financial liabilities	9,121,091	9,121,091	6,986,655	6,986,655

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(i) Basis for determining fair values**

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

(i) Investments in equity and Government securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. Debt and equity securities that do not have a quoted bid price are calculated by either discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit, maturity and yield characteristics. Where fair value cannot be determined such investments are held at cost less impairment losses.

(ii) Loans and advances

Loans and advances are stated net of impairment losses. The estimated fair value of loans and advances represents the present value of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates at the reporting date to determine fair value.

(iii) Deposits

The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

(j) Management of capital

The Bank's authorized capital is set and maintained in accordance with the provisions of the Bank of Zambia Act 43, 1996. The Act provides a framework, which enables sufficient safeguards to preserve the capital of the Bank from impairment (Sections 6, 7 and 8 of the Bank of Zambia Act 43, 1996). The Government of the Republic of Zambia is the sole subscriber to the paid up capital of the Bank and its holding is not transferable in whole or in part nor is it subject to any encumbrance.

In managing the Bank's capital, the Board's policy is to implement a sound financial strategy that ensures financial independence and maintains adequate capital to sustain the long term objectives of the Bank and to meet its operational and capital budget without recourse to external funding.

Distributable profits as described in the provisions of Sections 7 and 8 of the Bank of Zambia Act 43, 1996 are inclusive of unrealized gains. The Board is of the opinion that the distribution of unrealized gains would compromise the Bank's capital adequacy especially that such gains are not backed by cash but are merely book gains that may reverse within no time. The Bank has made proposals under the proposed amendments to the BoZ Act to restrict distributable profits to those that are realized.

There were no changes recorded in the Bank's strategy for capital management during the year.

The Bank's capital position as at 31 December was as follows:

	Notes	2007	2006
Capital	39	10,020	10,020
General reserve fund	40	42,490	42,490
SDR allocation	40	246,897	246,897
Property revaluation reserve	40	147,684	150,945
Retained earnings	40	(33,150)	267,879
Total		413,941	718,231

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***5 Use of estimates and judgements**

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(a) Key sources of estimation uncertainty*Impairment losses on loans and advances*

The Bank reviews its portfolio of loans and advances to assess impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, 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 individual loans. This evidence may include observable data that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of non-financial assets

The carrying amount of the Bank's assets other than financial assets is reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such impairment exists, the asset's recoverable amount is estimated. This estimation requires significant judgement. An impairment loss is recognised in the income statement whenever the carrying amount exceeds the recoverable amount.

(b) Critical accounting judgements in applying the Bank's accounting policies*Held-to-maturity investments classification*

The Bank classifies financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than selling an insignificant amount close to maturity, it will reclassify the entire class as available-for-sale.

Held for trading and other classifications

In classifying financial assets or liabilities as "held for trading", the Bank determines that they meet the description set out in the accounting policy set out in note 3, significant accounting policies. All other classification for financial instruments will be determined by relevant accounting policies as set out in note 3.

6 New standards and interpretations not yet adopted

The Bank has considered all standards and interpretations issued but not yet effective at 31 December, 2007. All interpretations and amendments to some standards not yet effective for the year ended 31 December 2007 have not been applied in preparing these financial statements.

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Bank does not present segment information in respect of its business and geographical segments. IFRS 8 will not have any impact on the financial statements of the Bank.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional provisions the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. However, this standard is not expected to have any impact on the financial statements of the Bank.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***6 New standards and interpretations not yet adopted (continued)**

- International Financial Reporting Interpretations Committee (IFRIC)-11, IFRS 2 Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. IFRIC 11 is not expected to have any impact on the financial statements of the Bank.
- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any effect on the financial statements.
- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. This standard may have an impact on the financial statements of the Bank. However, the impact is yet to be assessed.

7 Net interest income

	2007	2006
Interest income		
Interest on held to maturity Government securities	152,502	107,262
Interest on loans and receivables	2,962	54,408
Interest on foreign currency investments and deposits	163,631	89,763
Total interest income	<u>319,095</u>	<u>251,433</u>
Interest expense		
Interest paid on open market operations liability	82,883	59,517
Interest paid on staff savings	1,125	619
Total interest expense	<u>84,008</u>	<u>60,136</u>
Net interest income	<u>235,087</u>	<u>191,297</u>

8 Net fee and commission income

	2007	2006
Fee and commission income		
Fee and commission income on transactions with the Government	15,943	13,124
Supervision fees	12,316	11,121
Penalties	4,556	333
Licences and registration fees	730	642
Other	1,590	1,062
Fee and commission income	<u>35,135</u>	<u>26,282</u>
Fee and commission expense		
Fees and commission paid on foreign exchange transactions	80	103
Net fee and commission income	<u>35,055</u>	<u>26,179</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***9 Other operating (expense)/income**

	2007	2006
Dividend on available-for-sale investments	152	105
Realised foreign exchange gains	58,404	68,933
Unrealised foreign exchange (losses)/gains	(339,886)	456,271
Rental income	953	941
Profit on disposal of property, plant and equipment	1,163	122
Other	1,566	4,932
	<u>(277,648)</u>	<u>531,304</u>

10 Impairment losses

	Amounts due from closed banks (Note 21)	Other assets (Note 24)	Available-for- sale investments (Note 25)	Total
At 1 January 2006	136,450	10,269	-	146,719
Impairment loss for the year				
- Charge for the year	2,283	1,008	-	3,291
- Reversal during the year	(162)	(8,542)	-	(8,704)
	2,121	(7,534)	-	(5,413)
Balance at 31 December 2006	<u>138,571</u>	<u>2,735</u>	<u>-</u>	<u>141,306</u>
At 1 January 2007	138,571	2,735	-	141,306
Impairment loss for the year				
- Charge for the year	-	2,609	53	2,662
- Reversal during the year	(390)	(587)	-	(977)
	(390)	2,022	53	1,685
Balance at 31 December 2007	<u>138,181</u>	<u>4,757</u>	<u>53</u>	<u>142,991</u>

11 Personnel expenses

	2007	2006
Wages and salaries	100,118	90,175
Employer's pension contributions	13,069	11,916
Employer's NAPSA contributions	2,079	1,452
Other employee costs	87,928	71,670
Pension deficit	-	11,500
	<u>203,194</u>	<u>186,713</u>

12 Other expenses

	2007	2006
Administrative expenses	42,395	42,975
Repairs and maintenance costs	7,870	6,503
Expenses for bank note production	37,058	36,814
Other banking office expenses	11	1,473
	<u>87,334</u>	<u>87,765</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***13 Income tax**

The Bank is exempt from paying income tax under section 56 of the Bank of Zambia Act, No. 43 of 1996.

14 Foreign currency cash and bank accounts

	2007	2006
Current account balances with non-resident banks	472,931	131,067
Clearing correspondent accounts with other central banks	2,875	6,019
Foreign currency cash with banking office	1,005	1,868
Deposits with non-resident banks	3,631,102	2,909,326
Special Drawing Rights ("SDR's")	37,401	59,125
	<u>4,145,314</u>	<u>3,107,405</u>

15 IMF subscription

	2007	2006
IMF currency holdings	<u>3,085,870</u>	<u>2,219,656</u>

The IMF subscription represents membership quota amounting to SDR 489,100,000 (2006: SDR 489,100,000) assigned to the GRZ by the IMF and forms the basis for the Government's financial and organisational relationship with the IMF. The financial liability relating to the IMF subscription is reflected under note 32. The realisation of the asset will result in simultaneous settlement of the liability. The IMF Quota subscription and the related liability have the same value.

The movement on IMF subscription is on account of currency valuation adjustments between 2006 and 2007. The valuation is conducted once every 30 April of the year by the IMF and advised to member countries to effect necessary adjustments.

16 Loans and advances

	2007	2006
Staff loans	38,323	41,221
Staff advances	246	153
	<u>38,569</u>	<u>41,374</u>

Loans and advances to staff are offered within appropriate business considerations. Credit quality is enhanced by insurance and collateral demanded. Collateral will generally be in the form of property or retirement benefits. In the opinion of the directors, the applicable interest rates for the loans and advances approximate market interest rates.

The aging of loans and advances at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2007	2007	2006	2006
Not past due	38,569	-	41,374	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	-	-	-	-
More than one year	-	-	-	-
Total	<u>38,569</u>	<u>-</u>	<u>41,374</u>	<u>-</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***16 Loans and advances (continued)**

The maximum prevailing interest rates on staff loans were as follows:

	2007	2006
House loans	10%	10%
Multi-purpose loans	12.5%	12.5%
Personal loans	10%	10%

17 IMF funds receivable from the Government

	2007	2006
Poverty Reduction and Growth Facility (PRGF) (Note 31)*	66,295	72,888
Charges on SDR allocation	<u>2,542</u>	<u>3,068</u>
	<u>68,837</u>	<u>75,956</u>

* Formerly Enhanced Structural Adjustment Facility (ESAF) obligations.

This represents funds drawn by the Government of the Republic of Zambia against the IMF PRGF facility (Note 31).

18 Held-to-maturity financial assets

	2007	2006
GRZ consolidated bond (note 19)	1,661,494	1,655,177
Other GRZ securities	297,555	291,237
Staff savings treasury bills	<u>4,442</u>	<u>3,894</u>
	<u>1,963,491</u>	<u>1,950,308</u>

19 The Government of the Republic of Zambia (GRZ) consolidated bond

	2007	2006
6% GRZ Consolidated Bond		
364 days Treasury Bills	1,121,892	1,121,416
	<u>539,602</u>	<u>533,761</u>
	<u>1,661,494</u>	<u>1,655,177</u>

Effective 1 December 2006 a portion of the consolidated bond was converted to treasury bills for the purpose of enhancing the range of instruments available for implementing monetary policy and to support the Bank's strategic objective of maintaining price stability.

The securities will be available for trading as repurchase agreements (repos).

The economic substance of a repurchase agreement is regarded as that of a collateralised loan. Consistent with the principle of "substance over form" the portion of consolidated securities converted into treasury bills has been treated as held-to-maturity because the trade will not result in outright sale leading to full transfer of rewards and risks to the purchaser.

The consolidated bond arose on 27 February 2003 when GRZ and the Bank signed an agreement whereby all the debts owed by GRZ to the Bank were converted into a consolidated debt. In consideration of such consolidation of debt, GRZ undertook and agreed to issue, effective 1 January 2003, in favour of the Bank a 10-year long-term bond with a face value of K1,646,743 million and a coupon rate of 6%. This reduced to K1,121,416 after the 2006 conversion.

Bank of Zambia

Notes for the year ended 31 December 2007 (continued)

In millions of Zambian Kwacha

19 The Government of the Republic of Zambia (GRZ) consolidated bond (continued)

The following amounts owed by GRZ were included in the consolidated debt:

GRZ securities held by the Bank	131,914
Kwacha loan to GRZ	467,804
Parastatal debt guaranteed by the Bank	193,515
USD debt service on behalf of GRZ	853,510
	<u>1,646,743</u>

The bond is carried at amortised cost at an effective interest rate of 6.04%. The bond is also reviewed regularly for any impairment.

The treasury bills are measured at amortised cost at an effective interest rate of 11.05%. The treasury bills are renewable in the short term and the rolled over values will reflect fair values. However, where objective evidence of impairment exists, a measurement of the impairment loss will be determined and recorded in the profit and loss account.

20 Held-for-trading financial assets

	2007	2006
Treasury bills held-for-trading	<u>-</u>	<u>1,906</u>
Maturing as follows:		
91 days	-	-
182 days	-	-
273 days	-	1,906
Total	<u>-</u>	<u>1,906</u>

These balances reflect actual holdings of treasury bills acquired by the Bank through rediscounts by commercial banks. Rediscount activity was generally low in 2007 with a nil holding recorded as at 31 December 2007.

21 Amounts due from closed financial institutions

	2007	2006
Amounts due from closed banks	138,181	138,571
Specific allowances for impairment (note 10)	<u>(138,181)</u>	<u>(138,571)</u>
	<u>-</u>	<u>-</u>

The aging of advances to financial institutions at the reporting date was:

	2007		2006	
	Gross	Impairment	Gross	Impairment
Not past due	-	-	-	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	-	-	-	-
More than one year	138,181	138,181	138,571	138,571
Total	<u>138,181</u>	<u>138,181</u>	<u>138,571</u>	<u>138,571</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***22 Agency relationship with Bank of China**

There is an agency relationship between the Bank and Bank of China in respect of a financing arrangement between the Government of China on one hand and the Governments of Tanzania and Zambia on the other hand to fund certain supplies to Tanzania Zambia Railways Authority. The relationship commenced in 1998. The balances relating to this transaction were carried on balance sheet until 2005. However, in 2006 the Bank and Bank of China entered into an agreement for the Bank to maintain these balances off balance sheet.

23 Items in course of settlement

Items in the course of settlement represent a claim on commercial banks in respect of cheques deposited in the Bank by its customers on the last business day of the year and expected to be paid by respective banks on or after the first business day of the new year.

24 Other assets

	2007	2006
Sundry receivables	6,542	4,998
Stationery and office consumables	1,168	1,579
Prepayments	<u>2,555</u>	<u>2,199</u>
	10,265	8,776
Specific allowances for impairment (note 10)	<u>(4,757)</u>	<u>(2,735)</u>
	<u>5,508</u>	<u>6,041</u>

The aging of sundry receivables included under other assets at the reporting date was:

	2007		2006	
	Gross	Impairment	Gross	Impairment
Not past due	-	-	-	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	1,544	-	-	-
More than one year	4,998	4,757	4,998	2,735
	<u>6,542</u>	<u>4,757</u>	<u>4,998</u>	<u>2,735</u>
Total	6,542	4,757	4,998	2,735

25 Available-for-sale investments

	2007	2006
Zambia Electronic Clearing House Limited	1,847	1,847
African Export Import Bank	939	939
Development Bank of Zambia	<u>53</u>	<u>53</u>
	2,839	2,839
Specific allowance for impairment (note 10)	<u>(53)</u>	<u>-</u>
	<u>2,786</u>	<u>2,839</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***25 Available-for-sale investments (continued)**

The aging of available-for-sale investments at the reporting date was:

	2007		2006	
	Gross	Impairment	Gross	Impairment
Not past due	2,839	53	2,839	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	-	-	-	-
More than one year	-	-	-	-
Total	2,839	53	2,839	-

Zambia Electronic Clearing House Limited

The investment in Zambia Electronic Clearing House Limited ("ZECHL") represents the Bank's contribution to the set up costs. The principal activity of ZECHL is the electronic clearing of cheques and direct debits and credits in Zambia for its member banks, including the Bank of Zambia. The ZECHL is funded by contributions from member banks. ZECHL is considered to be an available-for-sale financial asset. As there is no reliable measure of the fair value of this investment, it is carried at cost, and regularly reviewed for impairment at each reporting date. ZECHL has a unique feature of being set up as a non profit making concern whose members contribute monthly to its operating expenses and other additional requirements. Monthly contributions of K45 million (2006: K30 million) by the Bank are included in administrative expenses.

Africa Export Import Bank

On behalf of GRZ, the Bank of Zambia holds an investment in the equity of Africa Export Import Bank ("AEIB"). AEIB is a grouping of regional central banks and financial institutions designed to facilitate intra and extra African trade. AEIB is considered to be an available for sale financial asset. As there is no reliable measure of the fair value of this investment, it is carried at cost, and regularly assessed for impairment at each reporting date.

Development Bank of Zambia (DBZ)

The Bank holds an equity investment of K53 million in DBZ. This investment is considered an available-for-sale financial asset. It is carried at cost, as there is no reliable measure of the fair value.

Before amendment of the Banking and Financial Services Act in December 2000, DBZ was not under the Bank's regulatory and supervisory jurisdiction. However, the amendment to the Banking and Financial Services Act brought DBZ under the supervision ambit of the Bank. It therefore, became necessary to divest to avoid conflict of interest where the Bank is both an investor and a supervisor.

Following difficulties faced in trying to sell this investment for cash, the Bank has impaired the balance in full.

Valuation for available-for-sale investments

The investments in the above available-for-sale investments are disclosed at cost because there is no market for these investments that provide evidence of their current fair values.

Bank of Zambia

Notes for the year ended 31 December 2007 (continued)

In millions of Zambian Kwacha

26 Property, plant and equipment

	Leasehold buildings	Furniture, fittings, computers, plant and equipment	Motor vehicles	Capital work-in- progress	Total
Cost or valuation					
At 1 January 2006	163,859	45,508	11,609	1,687	222,663
Additions	68	5,796	448	2,595	8,907
Transfers	157	157	-	(809)	(495)
Disposals	(15)	-	(132)	-	(147)
Adjustments	(514)	(84)	-	(5)	(603)
At 31 December 2006	<u>163,555</u>	<u>51,377</u>	<u>11,925</u>	<u>3,468</u>	<u>230,325</u>
At 1 January 2007	163,555	51,377	11,925	3,468	230,325
Additions	212	3,615	2,191	5,284	11,302
Transfers	508	-	-	(571)	(63)
Disposals	(42)	(689)	(1,877)	-	(2,608)
Adjustments	-	-	-	(90)	(90)
At 31 December 2007	<u>164,233</u>	<u>54,303</u>	<u>12,239</u>	<u>8,091</u>	<u>238,866</u>
Depreciation					
At 1 January 2006	4,309	23,715	7,967	-	35,991
Charge for the year	3,276	5,327	2,156	-	10,759
Disposals	(2)	-	(121)	-	(123)
Adjustments	292	5	-	-	297
At 31 December 2006	<u>7,875</u>	<u>29,047</u>	<u>10,002</u>	<u>-</u>	<u>46,924</u>
At 1 January 2007	7,875	29,047	10,002	-	46,924
Charge for the year	3,273	5,743	991	-	10,007
Disposals	(6)	(649)	(1,878)	-	(2,533)
Adjustments	-	-	2	-	2
At 31 December 2007	<u>11,142</u>	<u>34,141</u>	<u>9,117</u>	<u>-</u>	<u>54,400</u>
Carrying amounts					
At 31 December 2007	<u>153,091</u>	<u>20,162</u>	<u>3,122</u>	<u>8,091</u>	<u>184,466</u>
At 31 December 2006	<u>155,680</u>	<u>22,330</u>	<u>1,923</u>	<u>3,468</u>	<u>183,401</u>

(a) The Bank's business premises were revalued on 24 November 2005 by registered valuation surveyors, DW Zyambo and Associates. Due to the absence of evidence of market based fair values the basis of valuation was the depreciated replacement cost. The assumption was that the buildings were of a specialised nature without an observable reference market price. The carrying amount of premises before revaluation was K27,045 million. The revaluation surplus of K117,803 million was credited to the revaluation reserve.

(b) Capital work-in-progress represents the expenditure to date on office refurbishment at Head Office, Lusaka.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***27 Intangible assets**

	Purchased software
Cost	
At 1 January 2006	17,952
Additions	1,406
Transfers from capital work in progress	495
At 31 December 2006	<u>19,853</u>
At 1 January 2007	19,853
Additions	1,023
Transfers from capital work in progress	63
At 31 December 2007	<u>20,939</u>
Amortisation and impairment	
At 1 January 2006	12,475
Charge for the year	4,162
At 31 December 2006	<u>16,637</u>
At 1 January 2007	16,637
Charge for the year	2,467
At 31 December 2007	<u>19,104</u>
Carrying amounts	
At 31 December 2007	<u>1,835</u>
At 31 December 2006	<u>3,216</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***28 Capital commitments**

	2007	2006
Authorised by the directors but not contracted for	<u>41,526</u>	<u>24,839</u>

The funds to meet the capital commitments will be sourced from internally generated funds.

29 Notes and coins in circulation

	2007	2006
Bank notes issued by denomination		
K20	702	702
K50	3,129	3,000
K100	7,210	6,054
K500	18,307	16,128
K1,000	23,938	20,093
K5,000	38,373	48,257
K10,000	100,154	102,303
K20,000	485,699	438,827
K50,000	<u>837,413</u>	<u>590,571</u>
Bank notes issued	1,514,925	1,225,935
Coins issued	<u>226</u>	<u>226</u>
	<u>1,515,151</u>	<u>1,226,161</u>

30 Foreign currency liabilities to other institutions

	2007	2006
Deposits from other governments	<u>90,724</u>	<u>159,407</u>

These are non-interest bearing deposits and are repayable on demand.

31 Foreign currency liabilities to IMF

	2007	2006
Due to the International Monetary Fund:		
- Poverty Reduction and Growth Facility (PRGF) (a)	331,481	146,697
- Charges on SDR allocation (b)	<u>2,542</u>	<u>3,068</u>
	<u>334,023</u>	<u>149,765</u>

a) The facility (formerly the Enhanced Structural Adjustment Facility (ESAF)) loan was obtained in 2002 and is repayable semi-annually with the last payment due in 2017. The loan carries an interest rate of one-half per centum. There is an unutilised balance of K 265,186 million by the Government on this facility.

b) The charges on the SDR allocation are levied by the IMF and repaid quarterly with full recovery from the Government of the Republic of Zambia.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***32 Domestic currency liabilities to IMF**

	2007	2006
International Monetary Fund:		
Securities account	3,078,033	2,214,019
No. 1 account	7,713	5,548
No. 2 account	<u>124</u>	<u>89</u>
	<u>3,085,870</u>	<u>2,219,656</u>

The above liabilities arose from IMF Quota subscriptions (Note 15) and have no repayment terms and bear no interest. The increase in value is on currency valuation adjustments between 2006 and 2007 as advised by IMF.

33 Deposits from the Government of the Republic of Zambia

	2007	2006
Deposits of the Ministry of Finance and National Planning	<u>1,951,177</u>	<u>1,100,531</u>

The growth in the deposits from the Ministry of Finance and National Planning follows a directive during the year to sweep all idle balances for Government departments in commercial banks to Bank of Zambia. The deposits are non-interest bearing and are payable on demand.

34 Deposits from banks and other financial institutions

	2007	2006
Commercial bank current accounts	145,036	266,480
Minimum reserve requirements	856,359	989,710
Term deposits from financial institutions	1,063,246	796,999
Deposits of banks in liquidation	1,476	1,485
Deposits from other international financial institutions	563	563
Deposits from other central banks	<u>34</u>	<u>34</u>
	<u>2,066,714</u>	<u>2,055,271</u>

35 Other deposits

	2007	2006
Staff savings, deposits and clearing accounts	29,322	45,910
Other savings and deposits	<u>294</u>	<u>1,184</u>
	<u>29,616</u>	<u>47,094</u>

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***36 Provisions**

	Provision for litigation
Balance at 1 January 2006	423
Provisions made during the year	2,617
Payments made during the year	(150)
Balance at 31 December 2006	2,890
Balance at 1 January 2007	2,890
Provisions made during the year	1,110
Payments/adjustments made during the year	-
Balance at 31 December 2007	4,000

37 Other liabilities

	2007	2006
Accrued expenses payable	33,001	20,801
Accounts payable	14,815	7,969
	47,816	28,770

38 Employee benefits

	2007	2006
Present value of unfunded obligations	-	-
Present value of funded obligations	187,176	155,374
Total present value of obligations	187,176	155,374
Fair value of plan assets	(196,017)	(143,874)
Unrecognised plan asset	8,841	-
Recognised liability for defined benefit obligations	-	11,500

The Bank provides a pension scheme for all non-contract employees administered by a Board of Trustees. The assets of this scheme are held in administered trust funds separate from the Bank's assets and the funds are governed by the Pension Scheme Regulation Act, No. 26 of 1996.

Contributions to the defined benefit fund are charged against income based upon actuarial advice. Any deficits are funded to ensure the ongoing financial soundness of the fund. The benefits provided are based on the years of membership and salary level. These benefits are provided from contributions by employees and the employer, as well as income from the assets of the scheme.

The fund is revalued every three years by independent consultant actuaries. The latest actuarial report was carried out by QED of South Africa to determine the fund's position as at 31 December 2006 and shows that the plan assets were K143,874 million and liabilities were K155,375 million resulting in a deficit of K11,500 million which has since been paid in full to the fund.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***38 Employee benefits (continued)****Plan assets comprise:**

	2007	2006
Equity securities	11,846	5,364
Government bonds	95,027	72,305
Corporate bonds	2,000	-
Treasury bills	33,356	42,130
Investment properties	30,133	16,060
Other assets	<u>23,655</u>	<u>8,015</u>
Total plan assets	<u>196,017</u>	<u>143,874</u>

Movement in the present value of the defined benefit obligations

Defined benefit obligations at 1 January	155,374
Benefits paid by the plan	(5,233)
Current service costs and interest	37,035
Actuarial (gains) losses recognised in equity	-
Defined benefit obligations at 31 December	<u>187,176</u>

Movement in the present value of plan assets

Fair value of plan assets at 1 January	143,874
Contributions paid into the plan	28,878
Benefits paid by the plan	(5,233)
Expected return on plan assets	23,354
Unrecognised actuarial gains	5,144
Fair value of plan assets at 31 December	<u>196,017</u>

Expense recognised in profit or loss

Current service costs	13,136
Interest on obligation	23,899
Expected return on plan assets	(23,354)
Unrecognised plan asset	8,841
Unrecognised actuarial gains	(5,144)
Contribution by members	<u>(4,309)</u>
	<u>13,069</u>

Actuarial assumptions

Principle actuarial assumptions at the balance sheet date were:

	2007	2006
Discount rate (p.a)	15%	15%
Salary increase (p.a)	12%	12%
Expected return on plan assets	15%	15%
Future pension increase	3.5%	3.5%

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***39 Capital**

	2007	2006
Authorised and paid up capital	<u>10,020</u>	<u>10,020</u>

The Government is the sole subscriber to the paid up capital of the Bank and its holding is not transferable in whole or in part nor is it subject to any encumbrance.

40 Reserves*General reserve fund*

The General Reserve Fund represents appropriations of profit in terms of Section 8 of the Bank of Zambia Act No. 43 of 1996.

Under Section 8 of the Bank of Zambia Act, No 43 of 1996, if the Bank of Zambia Board of Directors certifies that the assets of the Bank are not, or after such transfer, will not be less than the sum of its capital and other liabilities then the following appropriation is required to be made to the general reserve fund:

- (a) 25% of the net profits for the year, when the balance in the general reserve fund is less than three times the Bank's authorised capital; or
- (b) 10% of the net profits for the year, when the balance in the general reserve fund is equal to or greater than three times the Bank's authorised capital.

The balance of the net profits after the above transfers should be applied to the redemption of any outstanding Government securities issued against losses incurred by the Bank.

Section 7 of the Bank of Zambia Act, provides that the remainder of the profits after the above transfers should be paid to the Government within sixty days following the auditor's certification of the Bank's financial statements.

SDR allocation

This represents Special Drawing Rights allocated by the IMF amounting to SDR 68,298,000. The purpose of the allocations is to improve an IMF member country's foreign exchange reserves assets. The amount is not repayable to IMF and is stated at the historical SDR rate to the Zambian Kwacha.

Property revaluation reserves

This represents revaluation reserves that arise from the periodic revaluation of properties.

Retained earnings

Retained earnings or losses are the carried forward income net of expenses of the Bank plus current year profit or loss attributable to equity holders. This is a holding account before the residual income is remitted to Government in accordance with the provisions of Section 7 of the Bank of Zambia Act, No 43 of 1996.

41 Related party transactions

In the context of the Bank, related party transactions include any transactions made by any of the following:

- The Government of the Republic of Zambia (GRZ);
- Government bodies;
- Members of the Board of Directors including the Governor;
- Key management personnel.

The main services during the year to 31 December 2007 were:

- provision of banking services including holding the principal accounts of Government;
- provision and issue of notes and coins;
- holding and maintaining the register of the Zambian Government securities.

Bank of Zambia**Notes for the year ended 31 December 2007 (continued)***In millions of Zambian Kwacha***41 Related party transactions (continued)*****The Government of the Republic of Zambia***

During the year, the nature of dealings with Government included: banking services, sale of foreign currency and agency services for the issuance of securities culminating in the income and balances stated in (a) and (b) below:

- a) Listed below was income earned in respect of interest, charges or fees on the transactions with Government for the year up to 31 December:

	2007	2006
Profit on foreign exchange transactions	3,685	7,532
Fees and commission income on transactions with the Government	15,453	13,124
Interest on held to maturity Government securities	150,030	103,880
Interest on advances to GRZ	-	52,045
	<u>169,168</u>	<u>176,581</u>

All transactions with related parties were made on an arms length basis.

- b) Listed below were outstanding balances at close of business on 31 December:

	2007	2006
GRZ - year end balances		
Holdings of Government securities	1,963,491	1,950,308
Deposits from Government Institutions	(1,951,177)	(1,100,531)

Directors' and key management remuneration

Directors' fees	251	282
Remuneration for key management personnel:		
• Salaries and allowances	14,973	14,245
• Pension contributions	631	576
	<u>15,855</u>	<u>15,103</u>

Loans and advances to key management personnel

Balance at 31 December	<u>2,819</u>	<u>3,077</u>
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- c) No impairment has been recognised in respect of balances due from related parties.

42 Contingent liabilities

The Bank is party to various litigation cases, whose ultimate resolution, in the opinion of the Directors, is not expected to materially affect the operations of the Bank.

43 Prior year adjustment

Certain comparatives have been adjusted in respect of interest accrued on deposits from financial institutions and net income from foreign exchange transactions in order to properly reflect amounts recorded in respect of open market operations and foreign currency cash and bank accounts.

Bank of Zambia**Notes for the year ended 31 December 2007** *(continued)***43 Prior year adjustment** *(continued)*

The effect is to adjust interest expense to K60,239 million (previously reported K20,199 million) and net income from foreign exchange transactions to K8,996 million (previously reported K11,701 million), retained earnings to K267,879 million (previously reported K310,624 million), deposits from financial institutions to K2,054,673 million (previously reported K2,014,634 million) and foreign currency cash and bank accounts to K3,107,405 (previously reported K3,110,110 million), respectively. There is no effect in the current year.

44 Comparative figures

Comparative figures have been reclassified where appropriate to allow for more meaningful comparison with current year figures. In particular prior year figures have been reclassified in respect of the income statement, balance sheet and notes thereto.

45 Events after the balance sheet date

Assets and liabilities are adjusted for events that occur between the Bank's annual balance sheet date, and the date the Board of Directors approves the financial statements if such events materially affect the condition of assets and liabilities at the balance sheet date. There were no material events after balance sheet date requiring adjustment or disclosure in the financial statements.