



9.0 FINANCIAL STATEMENTS

**Bank of Zambia**

**Financial Statements**

For the year ended 31 December 2008

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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 2008, 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 74 to 119 were approved by the Board of Directors on 26 February 2009 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 2008, 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 78 to 119.

### **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 2008, 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

**26 February 2009**  
**Lusaka, Zambia**

**Bank of Zambia****Income statement***for the year ended 31 December 2008**In millions of Zambian Kwacha*

	<i>Note</i>	<b>2008</b>	2007
Interest income	6	<b>310,091</b>	319,095
Interest expense	6	<b>(121,280)</b>	(84,008)
<b>Net interest income</b>		<b><u>188,811</u></b>	<u>235,087</u>
Fee and commission income	7	<b>42,557</b>	35,135
Fee and commission expense	7	<b>(105)</b>	(80)
<b>Net fee and commission income</b>		<b><u>42,452</u></b>	<u>35,055</u>
Net income from foreign exchange transactions		<b>13,762</b>	7,903
Other operating income/(expense)	8	<b>639,176</b>	(277,648)
		<b><u>652,938</u></b>	<u>(269,745)</u>
<b>Total operating income</b>		<b><u>884,201</u></b>	<u>397</u>
Net impairment loss (reversal) on financial assets	9	<b>3,333</b>	(1,685)
Personnel expenses	10	<b>(244,668)</b>	(203,194)
Depreciation and amortisation	23,24	<b>(13,492)</b>	(12,474)
Operating expenses	11	<b>(128,393)</b>	(87,334)
<b>Profit/(loss) for the year</b>		<b><u>500,981</u></b>	<u>(304,290)</u>

**Bank of Zambia****Balance sheet**

as at 31 December 2008

In millions of Zambian Kwacha

	Note	2008	2007
<b>Assets</b>			
Domestic cash in hand		2,566	1,747
Foreign currency cash and bank accounts	13	5,202,878	4,145,314
Items in course of settlement	14	5,296	40,609
Loans and advances	15	38,208	38,569
Held to maturity financial assets	16	1,963,925	1,963,491
Other assets	18	23,608	5,508
Amounts due from closed financial institutions	19	-	-
Available for sale investments	20	2,786	2,786
IMF funds receivable from Government	21	85,311	68,837
IMF Subscriptions	22	2,824,220	3,085,870
Property, plant and equipment	23	203,430	184,466
Intangible assets	24	3,020	1,835
<b>Total assets</b>		<b>10,355,248</b>	<b>9,539,032</b>
<b>Liabilities</b>			
Deposits from the Government of the Republic of Zambia	27	1,340,637	1,951,177
Deposits from financial institutions	28	2,657,260	2,066,714
Foreign currency liabilities to other institutions	29	98,536	90,724
Other deposits	30	21,556	29,616
Other liabilities	31	72,001	47,816
Provisions	32	27,405	4,000
Domestic currency liabilities to IMF	33	2,824,220	3,085,870
Foreign currency liabilities to IMF	34	464,285	334,023
Employee benefits	35	-	-
Notes and coins in circulation	36	1,934,426	1,515,151
<b>Total liabilities</b>		<b>9,440,326</b>	<b>9,125,091</b>
<b>Equity</b>			
Capital	37	10,020	10,020
General reserve fund	38	92,588	42,490
SDR allocation	38	246,897	246,897
Property revaluation reserves	38	144,459	147,684
Retained earnings	38	420,958	(33,150)
<b>Total equity</b>		<b>914,922</b>	<b>413,941</b>
<b>Total liabilities and equity</b>		<b>10,355,248</b>	<b>9,539,032</b>

These financial statements were approved by the Board of Directors on 26 February 2009.



Governor



Director

The notes on pages 78 to 119 form part of these financial statements.

**Bank of Zambia****Statement of changes in equity**  
*for the year ended 31 December 2008**In millions of Zambian Kwacha*

	Share capital	General reserve fund	SDR allocation	Property revaluation reserve	Retained earnings	Total
<b>Balance at 1 January 2007</b>	10,020	42,490	246,897	150,945	267,879	<b>718,231</b>
Net income recognised directly in equity:						
- Amortisation of revaluation surplus relating to properties	-	-	-	(3,261)	3,261	-
- Loss for the year	-	-	-	-	(304,290)	<b>(304,290)</b>
<b>Total recognised income and expense for the year</b>	-	-	-	(3,261)	(301,029)	<b>(304,290)</b>
Balance at 31 December 2007	10,020	42,490	246,897	147,684	(33,150)	<b>413,941</b>
<b>Balance at 1 January 2008</b>	<b>10,020</b>	<b>42,490</b>	<b>246,897</b>	<b>147,684</b>	<b>(33,150)</b>	<b>413,941</b>
Net income recognised directly in equity:						
- Amortisation of revaluation surplus relating to properties	-	-	-	(3,225)	3,225	-
- Profit for the year	-	-	-	-	500,981	<b>500,981</b>
<b>Total recognised income and expense for the year</b>	-	-	-	(3,225)	504,206	<b>500,981</b>
Transfer to general reserve	-	<b>50,098</b>	-	-	(50,098)	-
<b>Balance at 31 December 2008</b>	<b>10,020</b>	<b>92,588</b>	<b>246,897</b>	<b>144,459</b>	<b>420,958</b>	<b>914,922</b>

## Bank of Zambia

### Statement of cash flows

for the year ended 31 December 2008

<i>In millions of Zambian Kwacha</i>	Notes	2008	2007
<b>Cash flows from operating activities</b>			
Profit/(loss) for the year		500,981	(304,290)
Adjustment for:			
- Depreciation/amortisation	23,24	13,492	12,474
- Dividends received		-	(152)
- Gain on disposal of plant and equipment		(28)	(1,163)
- Impairment loss on available for sale investments		(53)	53
- Impairment loss on other assets		(2,263)	2,022
- Impairment loss on amounts due from closed financial institutions		(1,017)	(390)
- Provisions made during the year		23,525	1,110
- Provisions paid		(120)	-
- Write off of property, plant and equipment		-	88
		<u>534,517</u>	<u>(290,248)</u>
<b>Changes in operating assets and liabilities</b>			
Change in IMF subscription		261,650	(866,214)
Change in loans and advances		361	2,805
Change in Government holdings from international institutions		(16,474)	7,119
Change in held to maturity financial assets		(434)	(13,183)
Change in held for trading financial assets		-	1,906
Change in amounts due from closed financial institutions		1,017	390
Change in items in course of settlement		35,313	84,572
Change in available for sale investments		53	-
Change in other assets		(15,837)	(1,489)
Change in notes and coins in circulation		419,275	288,990
Change in foreign currency liabilities to other institutions		7,812	(68,683)
Change in foreign currency liabilities to IMF		130,262	184,258
Change in domestic currency liabilities to IMF		(261,649)	866,214
Change in deposits from the Government		(610,540)	850,646
Change in deposits from financial institutions		590,546	11,443
Change in other deposits		(8,060)	(17,478)
Change in employee benefits		-	(11,500)
Change in other liabilities		24,184	19,046
		<u>1,091,996</u>	<u>1,048,594</u>
Dividends received		-	152
<b>Net cash generated from operating activities</b>		<u>1,091,996</u>	<u>1,048,746</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	23,24	(33,709)	(12,325)
Proceeds from sale of property, plant and equipment		96	1,242
<b>Net cash out flows from investing activities</b>		<u>(33,613)</u>	<u>(11,083)</u>
<b>Net change in cash and cash equivalents</b>		<u>1,058,383</u>	<u>1,037,663</u>
Cash and cash equivalents at the beginning of year		<u>4,147,061</u>	<u>3,109,398</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>5,205,444</u>	<u>4,147,061</u>
Cash and cash equivalents at the end of the year comprise of:			
Domestic cash in hand		2,566	1,747
Foreign currency cash and bank accounts		5,202,878	4,145,314
		<u>5,205,444</u>	<u>4,147,061</u>

The notes on pages 78 to 119 form part of these financial statements.

**Bank of Zambia****Notes to the financial statements**  
*for the year ended 31 December 2008***1 Principal activity**

The Bank of Zambia (the "Bank" or "BoZ") is the Central Bank of Zambia, which is governed by the provisions of the Bank of Zambia Act No. 43 of 1996.

**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 issued by the International Accounting Standards Board (IASB) and comply with the requirements of the BoZ Act No. 43 of 1996.

**(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 or 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.

**(d) 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.

**(i) 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 indication 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.

## Bank of Zambia

Notes for the year ended 31 December 2008 (continued)

### 2 Basis of preparation of financial statements (continued)

#### (d) Use of estimates and judgements (continued)

##### (i) Key sources of estimation uncertainty (continued)

###### *Determination of fair values*

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 value of financial instruments is 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.

##### (ii) 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.

### 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 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. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes 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.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis.
- interest on available-for-sale investment securities calculated on an effective interest basis.

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)****3 Significant accounting policies (continued)****(b) Fees and commission income**

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

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

Other fees and commission expense relates 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 or 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.

**(d) Foreign currency transactions**

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 which are recognised directly in equity.

**(e) 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:

**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;
- Loans and advances;
- Amounts due from closed financial institutions;
- Items in course of settlement; and
- Other assets.

## Bank of Zambia

Notes for the year ended 31 December 2008 (*continued*)

### 3 Significant accounting policies (*continued*)

#### (e) Financial instruments (*continued*)

##### (i) Classification (*continued*)

##### Financial assets (*continued*)

###### *Financial assets 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.

Financial assets at fair value through profit or loss are those assets that the Bank acquires principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

The Bank has classified all treasury bills held for trading financial assets at fair value through profit or loss except for the treasury bills arising from the November 2007 conversion of a portion of the GRZ consolidated bond and the staff savings treasury bills.

###### *Held-to-maturity*

If the Bank has the positive intent and ability to hold debt securities to maturity, then they are classified as 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 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.

###### *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;
- Deposits from the GRZ;
- Deposits from financial institutions; and
- Other deposits.

##### (ii) Recognition

The Bank recognises all financial assets and financial liabilities on the date at which they are transferred. Regular way purchases and sales of financial assets are recognised on settlement date at which the Bank receives or delivers the financial instrument. From this date any gains or losses arising from changes in fair value of the assets are recognised.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

#### 3 Significant accounting policies (continued)

##### (e) Financial instruments (continued)

##### (ii) Recognition (continued)

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

##### (iii) Amortised cost measurement

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. The following financial assets are carried at amortised cost:

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

##### (iv) Fair value measurement

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.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Bank does not hold positions with its financial instruments.

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)****3 Significant accounting policies (continued)****(e) Financial instruments (continued)****(v) Impairment of financial assets**

The Bank assesses at each balance sheet date whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are 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 ('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.

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.

The Bank first assesses whether objective evidence of impairment exists individually for loans and advances and held to maturity securities that are individually significant, and individually or collectively for those 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.

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

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.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income statement.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

#### 3 Significant accounting policies (continued)

##### (e) Financial instruments (continued)

##### (v) Impairment of financial assets (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

##### (vi) 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.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible.

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

##### (vii) 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.

##### (f) Property, plant and equipment

##### (i) Recognition and measurement

Items of property and equipment are measured at cost or revalued amount less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

##### (ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the item's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are charged to the income statement during the financial period in which they are incurred.

**Bank of Zambia**

Notes for the year ended 31 December 2008 (continued)

**3 Significant accounting policies (continued)****(f) Property, plant and equipment****(iii) Revaluation surplus**

Property, which comprises offices and residential buildings, are subsequently measured at their market value, based on valuation by independent external valuations. The bank revalues its properties after every five years. The market value is based on the depreciated replacement cost since the buildings are considered to be of a specialised nature without an observable reference market price.

The surplus arising on revaluation of property is credited to the revaluation reserve (which is an equity 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.

**(iv) Depreciation**

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment to write off the depreciable amount of the various assets over the period of their expected useful lives

The depreciation rates for the current and comparative period are as follows:

Leasehold buildings	2%
Fixtures and fittings	4%
Plant and machinery	5%
Furniture and furnishings	10%
Security systems and other equipment	10 - 20%
Motor vehicles	25%
Computer equipment - hardware	25%
Office equipment	33.3%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**(v) Capital work-in-progress**

Capital work-in-progress represents assets in the course of development, which at balance sheet date would not have been brought to use. No depreciation is charged on capital work-in-progress.

**(g) Intangible assets - Computer software**

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to develop software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (*continued*)

#### 3 Significant accounting policies (*continued*)

##### (g) Intangible assets - Computer software (*continued*)

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three years.

##### (h) Land

Land is held on lease from the GRZ for a maximum period of 99 years. The prepaid lease rentals made at inception are insignificant and therefore not separated from the carrying value of the buildings.

##### (i) 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 pre-tax 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 or equity if the revalued properties are impaired to the extent that an equity reserve is available.

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.

##### (j) Employee benefits

###### (i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Bank contributes to the Statutory Pension Scheme in Zambia, namely National Pension Scheme Authority (NAPSA) where the Bank pays an amount equal to the employees' contributions. Membership, with the exception of expatriate employees is compulsory.

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)****3 Significant accounting policies (continued)****(j) Employee benefits (continued)****(ii) Defined benefit plans**

The Bank provides for retirement benefits (i.e. a defined benefit plan) for all permanent employees as provided for in Statutory Instrument No. 119. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Bank's net obligation in respect of its defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value, then deducting the fair value of any plan assets. To determine the net amount in the balance sheet, any unrecognised actuarial gains (losses) not recognised because of the "corridor" approach described below are added (deducted) and unrecognised past service costs are deducted. The discount rate is the yield at the reporting date on the Government bonds that have maturity dates approximating the terms of the Bank's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed after every three years by a qualified actuary using the attained age (projected unit credit) method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited to the income statement when they arise. Past-service costs are recognised immediately in the income statement.

When the calculations above result in a benefit to the Bank, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Bank if it is realisable during the life of the plan or on settlement of the plan liabilities.

**(iii) Termination benefits**

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

#### 3 Significant accounting policies (continued)

##### (j) Employee benefits (continued)

###### (iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus, gratuity or leave days if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

###### (v) Other staff benefits

The Bank also operates a staff loans scheme for its employees for the provision of facilities such as house, car and other personal loans. From time to time, the Bank determines the terms and conditions for granting of the above loans with reference to the prevailing market interest rates and may determine different rates for different classes of transactions and maturities.

In cases where the interest rates on staff loans are below market rates, a fair value calculation is performed using appropriate market rates. The Bank recognises, in the income statement, the resulting staff loan benefit arising as a result of mark to market adjustment, on a straight line basis over the remaining period to maturity (see note 15).

##### (k) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the balance sheet.

##### (l) 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, 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 No. 1 and No. 2 accounts which appear in the books of the Bank under the heading "Domestic currency liabilities to IMF".

The Quota is fixed in Special Drawing Rights 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 affected 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.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

#### 3 Significant accounting policies (continued)

##### (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.

#### 4 Risk management policies

##### (a) Overview and risk management framework

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

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

In its ordinary operations, the Bank is exposed to various financial and operational risks, which if not 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, the Board has since established a Risk Management Department, whose role is to co-ordinate the Bank-wide framework for risk management and establish risk standards and strategies for the management and mitigation of risks.

The Audit Committee 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 Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Board of Directors has ultimate responsibility for ensuring that sound risk management practices are in place that enables the Bank to 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.
- iv) Maintain risk identification, measurement, treatment and monitoring as well as control systems. Management reviews risk management strategies and ensures that they remain relevant.
- v) 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.
- vi) 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 2008 (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.

**Exposure to credit risk**

The Bank is exposed to credit risk on all its deposits, investments and its loans and advances portfolios. The credit risk on deposits and investments arise from direct exposure on account of deposit placements, direct issuer exposure with respect to investments including sovereigns, counterparty exposure arising from repurchase transactions, and settlement exposure on foreign exchange or securities counterparties because of time zone differences or because securities transactions are not settled on a delivery versus payment basis.

The Bank invests its reserves in assets that are deemed to have low credit risk such as deposits at other central banks, or deposits at highly rated supranational such as the Bank for International Settlement (BIS) and other typically AAA rated institutions.

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

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(b) Credit risk (continued)****Exposure to credit risk**

	Note	Loans and advances to staff		Investment securities		Other receivables		Amounts due to closed financial institutions	
		2008	2007	2008	2007	2008	2007	2008	2007
Carrying amounts	15 - 20	<b>38,208</b>	38,569	<b>1,966,711</b>	1,966,277	<b>23,608</b>	5,508	-	-
<b>Assets at amortised cost</b>									
Individually impaired		-	-	-	-	<b>2,495</b>	4,757	<b>137,163</b>	138,181
Allowance for impairment		-	-	-	-	<b>(2,495)</b>	(4,757)	<b>(137,163)</b>	(138,181)
Carrying amount	18 - 19	-	-	-	-	-	-	-	-
Collectively impaired		-	-	-	-	-	-	-	-
Past due but not impaired		-	-	-	-	-	-	-	-
Neither past due nor impaired		<b>38,208</b>	38,569	<b>1,963,925</b>	1,963,491	<b>23,608</b>	5,508	-	-
Carrying amount	15 - 19	<b>38,208</b>	38,569	<b>1,963,925</b>	1,963,491	<b>23,608</b>	5,508	-	-
<b>Available-for-sale (AFS) assets</b>									
Individually impaired		-	-	-	-	-	-	-	-
Allowance for impairment		-	-	-	-	-	-	-	-
Carrying amount	20	-	-	-	-	-	-	-	-
Neither past due nor impaired		-	-	<b>2,786</b>	2,786	-	-	-	-
Carrying amount	20	-	-	<b>2,786</b>	2,786	-	-	-	-
<b>Assets at fair value through profit or loss</b>									
Carrying amount at fair value		-	-	-	-	-	-	-	-
Total carrying amount	15 - 20	<b>38,208</b>	38,569	<b>1,966,711</b>	1,966,277	<b>23,608</b>	5,508	-	-

**(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.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (b) Credit risk (continued)

##### Exposure to credit risk (continued)

##### (iii) Fixed term deposits (continued)

The table below provides credit risk rating information on institutions where the Bank invests its funds:

Currency	Country / Location	Country Ceiling	Correspondent Bank	Bank Short Term	Bank Long Term
EUR	European Union	AAA	BIS Basle account	-	-
EUR	European Union	AAA	Deutsche Bundes bank	-	-
GBP	United Kingdom	AAA	Bank of England	-	A+
GBP	European Union	AAA	BIS Basle account	-	-
SDR	USA	AAA	IMF	-	-
USD	European Union	AAA	BIS Basle account	-	-
USD	USA	AAA	Federal Reserve Bank and Citi New York	-	-
ZAR	South Africa	AAA	Reserve Bank of South Africa	-	-

##### Institutional credit risk exposure analysis

The table below shows the maximum exposure to credit risk for the financial instruments held.

Currency	Credit rating	2008	2007
BIS Fixbis - Euro	A+	1,179,317	940,981
BIS Fixbis - USD	A+	1,672,047	1,859,370
BIS Fixbis - GBP	A+	795,185	584,119
BIS Fixed Term - Euro	A+	679,386	-
BIS Fixed Term - USD	A+	394,728	151,687
BIS Fixed Term - GBP	A+	199,198	91,014
Bank of England	A+	13,443	232
Federal Reserve Bank NY	AAA	328	1,523
Citibank New York C/A	AA+	13,648	21,872
BIS Current account - USD	A+	116,666	108,327
BIS Current account - GBP	A+	10,589	2,273
BIS Current account - EUR	A+	71,933	55,699
Deutsche Bundes Bank Current a/c	-	429	1,010
SDR Holdings account	A+	51,047	37,147
Reserve Bank of South Africa	-	40	110

##### (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) 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.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (b) Credit risk (continued)

##### Exposure to credit risk (continued)

##### (v) Staff loans (continued)

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. The Bank had no collateral recorded over loans and advances to closed commercial banks. Securities may be held as collateral in reverse repurchases with operating commercial banks, however no such collateral was held as at 31 December 2008 and 2007.

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

	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	38,208	-	38,569	-
Past due 0-30 days	-	-	-	-
Past due 31-120 days	-	-	-	-
More than one year	-	-	-	-
Total	38,208	-	38,569	-

An estimate of the fair value of collateral held against financial assets is shown below:

	Loans and advances (Note 15)		Other assets (Note 18)	
	2008	2007	2008	2007
Against past due but not impaired	-	-	-	-
- Motor vehicles	-	-	-	778
Against neither past due nor impaired	20,258	18,372	-	-
- Property	8,673	7,617	-	-
- Motor vehicles	15,829	9,980	-	-
- Gratuity and leave days	44,760	35,969	-	-

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 a reporting date is shown below:

	Loans and advances (Note 15)		Sundry receivables (Note 18)	
	2008	2007	2008	2007
<b>Carrying amount</b>	<b>38,208</b>	<b>38,569</b>	<b>16,872</b>	<b>6,542</b>
Concentration by nature				
- House loans	17,694	18,695	-	-
- Motor vehicle loans	8,264	9,573	-	-
- Multi-purpose loans	6,893	6,231	-	-
- Personal loans	1,518	1,744	-	-
- Other advances	3,839	2,326	-	-
- Former staff loans	-	-	2,286	2,962
- Other	-	-	14,586	3,580
	<b>38,208</b>	<b>38,569</b>	<b>16,872</b>	<b>6,542</b>

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (b) Credit risk (continued)

##### Exposure to credit risk (continued)

##### (vi) Impaired loans and investment debt securities

Impaired loans and securities are loans and advances and investment securities (other than those carried at fair value through profit or loss) for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / investment security agreement(s). Loans and advances and investment debt securities carried at fair value through profit or loss are not assessed for impairment but are subject to the same internal grading system.

##### (vii) Allowances for impairment

The Bank establishes a specific allowance for impairment losses on assets carried at amortised cost or classified as available for sale that represents its estimate of incurred losses in its loan and investment security portfolio. The only component of this allowance is a specific loss component that relates to individually significant exposures. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

##### (viii) Write-off policy

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

##### (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 and 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.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (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 2008.

#### Residual contractual maturities of financial liabilities

	On demand	Due within 3 months	Due Between 3 - 12 Months	Due Between 1 5 years	Due after 5 years	Total Carrying Amounts
<b>31 December 2008</b>						
<b>Non-derivative liabilities</b>						
Deposits from the Government	1,340,637	-	-	-	-	1,340,637
Deposits from financial institutions	2,657,260	-	-	-	-	2,657,260
Foreign currency liabilities to other Institutions	98,536	-	-	-	-	98,536
Other deposits	21,556	-	-	-	-	21,556
Other liabilities	-	-	72,001	-	-	72,001
Domestic currency liabilities to IMF	2,824,220	-	-	-	-	2,824,220
Foreign currency liabilities to IMF	464,285	-	-	-	-	464,285
Notes and coins in circulation	1,934,426	-	-	-	-	1,934,426
<b>Total non-derivative liabilities</b>	<b>9,340,920</b>	<b>-</b>	<b>72,001</b>	<b>-</b>	<b>-</b>	<b>9,412,921</b>

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (d) Liquidity risk (continued)

	On Demand	Due within 3 months	Due between 3 - 12 Months	Due between 1 - 5 years	Due after 5 years	Total Carrying Amounts
<b>31 December 2007</b>						
<b>Non-derivative liabilities</b>						
Deposits from the Government	1,951,177	-	-	-	-	1,951,177
Deposits from financial institutions	2,066,714	-	-	-	-	2,066,714
Foreign currency liabilities to other institutions	90,724	-	-	-	-	90,724
Other deposits	29,616	-	-	-	-	29,616
Other liabilities	-	-	47,816	-	-	47,816
Domestic currency liabilities to IMF	3,085,870	-	-	-	-	3,085,870
Foreign currency liabilities to IMF	334,023	-	-	-	-	334,023
Notes and coins in circulation	1,515,151	-	-	-	-	1,515,151
<b>Total non-derivative liabilities</b>	<b>9,073,275</b>	<b>-</b>	<b>47,816</b>	<b>-</b>	<b>-</b>	<b>9,121,091</b>

##### (e) Market risk

Market risk is the risk that changes in market prices, such as interest rate, 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.

##### (i) Exposure to 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.

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(e) Market risk (continued)****(i) Exposure to currency risk (continued)**

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 2008 was as shown in the table below.

	USD	GBP	EUR	SDR	Other	Total Kwacha
<b>At 31 December 2008</b>						
<b>Foreign currency assets</b>						
Foreign currency cash and bank accounts	2,199,515	1,019,341	1,932,355	51,617	50	5,202,878
IMF Subscriptions	-	-	-	2,824,220	-	2,824,220
Total foreign currency assets	2,199,515	1,019,341	1,932,355	2,875,837	50	8,027,098
<b>Foreign currency liabilities</b>						
Foreign currency liabilities to other institutions	78,704	313	16,393	3,125	-	98,535
Foreign currency liabilities to IMF	-	-	-	464,285	-	464,285
Total foreign currency liabilities	78,704	313	16,393	467,410	-	562,820
<b>Net exposure</b>	<b>2,120,811</b>	<b>1,019,028</b>	<b>1,915,962</b>	<b>2,408,427</b>	<b>50</b>	<b>7,464,278</b>
<b>At 31 December 2007</b>						
<b>Foreign currency assets</b>						
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	2,431,110	678,021	998,665	3,123,270	118	7,231,184
<b>Foreign currency liabilities</b>						
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	(8,970)	-	(51,918)	(363,859)	-	(424,747)
<b>Net exposure</b>	<b>2,422,140</b>	<b>678,021</b>	<b>946,747</b>	<b>2,759,411</b>	<b>118</b>	<b>6,806,437</b>

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

	Reporting date Spot rate	
	2008	2007
	ZMK	ZMK
USD 1	4,800.36	3,843.98
GBP 1	6,958.60	7,644.32
EUR 1	6,767.57	5,579.76

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (e) Market risk (continued)

##### (i) Exposure to currency risk (continued)

##### 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 2007.

Effect in millions of Kwacha

	Equity ZMK	Income statement ZMK
31 December 2008		
USD	-	(263,809)
GBP	-	(122,328)
EUR	-	(231,983)
	Equity ZMK	Income statement ZMK
31 December 2007		
USD	-	(290,657)
GBP	-	(81,400)
EUR	-	(113,609)

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.

##### (ii) Exposure to 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 2008 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(e) Market risk (continued)****(ii) Exposure to interest rate risk**

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 table below 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.

	Less than 3 months	Between 3 months & one year	Over 1 year	Non interest Bearing	Total
<b>At 31 December 2008</b>					
<b>Assets</b>					
Domestic cash in hand	-	-	-	2,566	2,566
Foreign currency cash and bank accounts	5,201,065	-	-	1,813	5,202,878
Items in course of settlement	-	-	-	5,296	5,296
Loans and advances	-	1,491	33,938	2,779	38,208
Held to maturity financial assets	-	631,544	1,332,381	-	1,963,925
Other assets	-	-	-	23,608	23,608
Available for sale investments	-	-	939	1,847	2,786
IMF funds receivable from Government	-	-	-	85,311	85,311
IMF Subscriptions	-	-	-	2,824,220	2,824,220
<b>Total financial assets</b>	<b>5,201,065</b>	<b>633,035</b>	<b>1,367,258</b>	<b>2,947,440</b>	<b>10,148,798</b>
<b>Liabilities</b>					
Deposits from the Government	-	-	-	1,340,637	1,340,637
Deposits from financial institutions	-	-	-	2,657,260	2,657,260
Foreign currency liabilities to other Institutions	-	-	-	98,536	98,536
Other deposits	19,049	-	-	2,507	21,556
Other liabilities	-	-	-	72,001	72,001
Domestic currency liabilities to IMF	-	-	-	2,824,220	2,824,220
Foreign currency liabilities to IMF	-	-	-	464,285	464,285
Notes and coins in circulation	-	-	-	1,934,426	1,934,426
<b>Total financial liabilities</b>	<b>19,049</b>	<b>-</b>	<b>-</b>	<b>9,393,872</b>	<b>9,412,921</b>
<b>Net exposure at 31 December 2008</b>	<b>5,182,016</b>	<b>633,035</b>	<b>1,367,258</b>	<b>(6,446,432)</b>	<b>735,877</b>

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***4 Risk management policies (continued)****(e) Market risk (continued)****(ii) Exposure to interest rate risk (continued)**

	Less than 3 Months	Between 3 Months & one year	Over 1 year	Non interest bearing	Total
<b>At 31 December 2007</b>					
<b>Assets</b>					
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	4,144,309	4,442	1,997,372	3,206,608	9,352,731
<b>Liabilities</b>					
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	2,066,714	-	-	7,054,377	9,121,091
<b>Net exposure at 31 December 2007</b>	<b>2,077,595</b>	<b>4,442</b>	<b>1,997,372</b>	<b>(3,847,769)</b>	<b>231,640</b>

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 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (f) 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 sheets.

	Carrying Amount 2008	Fair value 2008	Carrying Amount 2007	Fair value 2007
<b>Assets</b>				
Domestic cash in hand	2,566	2,566	1,747	1,747
Foreign currency cash and bank accounts	5,202,878	5,202,878	4,145,314	4,145,314
Items in course of settlement	5,296	5,296	40,609	40,609
Loans and advances	38,208	34,975	38,569	35,054
Held to maturity financial assets	1,963,925	1,963,925	1,963,491	1,963,491
Other assets	23,608	23,608	5,508	5,508
Available for sale investments	2,786	2,786	2,786	2,786
IMF funds receivable from Government	85,311	85,311	68,837	68,837
IMF Subscriptions	2,824,220	2,824,220	3,085,870	3,085,870
<b>Total financial assets</b>	<b>10,148,798</b>	<b>10,145,893</b>	<b>9,352,731</b>	<b>9,349,216</b>
<b>Liabilities</b>				
Deposits from the Government	1,340,637	1,340,637	1,951,177	1,951,177
Deposits from financial institutions	2,657,260	2,657,260	2,066,714	2,066,714
Foreign currency liabilities to other institutions	98,536	98,536	90,724	90,724
Other deposits	21,556	21,556	29,616	29,616
Other liabilities	72,001	72,001	47,816	47,816
Domestic currency liabilities to IMF	2,824,220	2,824,220	3,085,870	3,085,870
Foreign currency liabilities to IMF	464,285	464,285	334,023	334,023
Notes and coins in circulation	1,934,426	1,934,426	1,515,151	1,515,151
<b>Total financial liabilities</b>	<b>9,412,921</b>	<b>9,412,921</b>	<b>9,121,091</b>	<b>9,121,091</b>

##### (g) 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.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 4 Risk management policies (continued)

##### (g) Management of capital (continued)

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

	Notes	2008	2007
Capital	37	10,020	10,020
General reserve fund	38	92,588	42,490
SDR allocation	38	246,897	246,897
Property revaluation reserve	38	144,459	147,684
Retained earnings/ (Accumulated loss)	38	420,958	(33,150)
Total		914,922	413,941

#### 5 New standards and interpretations not yet adopted

The Bank has considered all standards and interpretations issued but not yet effective at 31 December, 2008. All interpretations and amendments to some standards not yet effective for the year ended 31 December 2008 have not been applied in preparing these financial statements.

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Bank's 2009 financial statements and will be applicable retrospectively. The IFRIC is not expected to have any impact on the Bank's 2009 financial statements.
- Amendment to IFRS 2 Share-based Payment Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Bank's 2009 financial statements, with retrospective application. The Amendment to IFRS 2 is not expected to have any impact on the Bank's 2009 financial statements.
- Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Bank's operations:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Bank's 2010 financial statements, will be applied prospectively. The revised IFRS 3 is not expected to have any impact on the Bank's 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 a change in the presentation and disclosure of segment information based on the internal reports that are 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 Bank's financial statements.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

#### 5 New standards and interpretations not yet adopted (continued)

- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term “total comprehensive income,” which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Bank plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. 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 requirements, 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 Bank's financial statements.
- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements are not expected to have a significant impact on the financial statements.
- Amendments to IAS 32 and IAS 1 Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements with retrospective application required are not expected to have any significant impact on the financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. This Amendment to IAS 39 is not expected to have any impact on the Bank's 2010 financial statements.
- IFRIC 15 Agreements for the Construction of Real Estate addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements within the scope of IFRIC 15 are described as 'agreements for the construction of real estate', and may include the delivery of other goods or services. IFRIC 15 addresses two (related) issues:
  - determining whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue; and
  - when revenue from the construction of real estate should be recognised.

IFRIC 15, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the Bank's financial statements.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 5 New standards and interpretations not yet adopted (continued)

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation.
  - the hedging instrument may be held by any entity within the Bank except the foreign operation that is being hedged.
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the Bank's financial statements.

#### 6 Net interest income

	2008	2007
<b>Interest income</b>		
Interest on held to maturity Government securities	177,928	152,502
Interest on loans and receivables	3,062	2,962
Interest on foreign currency investments and deposits	129,101	163,631
Total interest income	<u>310,091</u>	<u>319,095</u>
<b>Interest expense</b>		
Interest paid on open market operations	119,519	82,883
Interest paid on staff savings	1,761	1,125
Total interest expense	<u>121,280</u>	<u>84,008</u>
<b>Net interest income</b>	<u>188,811</u>	<u>235,087</u>

No interest is paid on deposits from financial institutions, GRZ and foreign currency liabilities to other institutions.

#### 7 Net fee and commission income

	2008	2007
<b>Fee and commission income</b>		
Fees and commission income on transactions with the Government	19,694	15,943
Supervision fees	17,935	12,316
Penalties	1,768	4,556
Licences and registration fees	847	730
Other	2,313	1,590
Fees and commission income	<u>42,557</u>	<u>35,135</u>
<b>Fee and commission expense</b>		
Fees and commission paid on foreign exchange transactions	<u>105</u>	<u>80</u>
Net fee and commission income	<u>42,452</u>	<u>35,055</u>

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***8 Other operating income/(expense)**

	2008	2007
Dividend on available for sale investments	-	152
Realised foreign exchange gains	147,624	58,404
Unrealised foreign exchange gains/(losses)	476,369	(339,886)
Rental income	886	953
Profit on disposal of property, plant and equipment	28	1,163
Other income	14,269	1,566
	<u>639,176</u>	<u>(277,648)</u>

Other income includes ZK10 billion representing under accrual of income from the Bank's management of the Apex Unit of the World Bank's Multi-purpose Credit Facility. The under accrual was due to the non-availability of the signed contract for the management of the Apex Unit.

**9 Impairment losses**

	Amounts due from closed banks (Note 19)	Other assets (Note 18)	Available for sale Investments (note 20)	Total
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>
At 1 January 2008	138,181	4,757	53	142,991
Impairment loss for the year				
- Charge for the year	33	-	-	33
- Reversal during the year	(1,051)	(2,262)	(53)	(3,366)
	(1,018)	(2,262)	(53)	(3,333)
Balance at 31 December 2008	<u>137,163</u>	<u>2,495</u>	<u>-</u>	<u>139,658</u>

**10 Personnel expenses**

	2008	2007
Wages and salaries	115,560	100,118
Employer's pension contributions	14,184	13,069
Employer's NAPSA contributions	2,218	2,079
Other employee costs	112,146	87,928
Staff loan benefit	560	-
	<u>244,668</u>	<u>203,194</u>

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***11 Other expenses**

	2008	2007
Administrative expenses	62,683	42,395
Repairs and maintenance costs	8,937	7,870
Expenses for bank note production	56,755	37,058
Other banking office expenses	<u>18</u>	<u>11</u>
	<u>128,393</u>	<u>87,334</u>

**12 Income tax**

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

**13 Foreign currency cash and bank accounts**

	2008	2007
Current account balances with non-resident banks	212,836	472,931
Clearing correspondent accounts with other central banks	14,240	2,875
Foreign currency cash with banking office	1,813	1,005
Deposits with non-resident banks	4,922,372	3,631,102
Special Drawing Rights ("SDR's")	<u>51,617</u>	<u>37,401</u>
	<u>5,202,878</u>	<u>4,145,314</u>

**14 Items in course of settlement**

Items in the course of settlement represent a claim on credit institutions in respect of cheques lodged in the Bank by its customers on the last business day of the year and presented to the Bank on or after the first business day of the new year.

	2008	2007
Settlement position at the clearing house	<u>5,296</u>	<u>40,609</u>

**15 Loans and advances**

	2008	2007
Staff loans benefit at market value	3,233	3,515
Staff loans	<u>31,963</u>	<u>32,728</u>
Total staff loans	35,196	36,243
Staff advances	<u>3,012</u>	<u>2,326</u>
Total staff loans and advances	<u>38,208</u>	<u>38,569</u>

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***15 Loans and advances (continued)****Movement in staff loans benefit**

	2008	2007
Balance at 1 January	3,515	3,181
Current year fair value adjustment of new loans	278	334
	<u>3,793</u>	<u>3,515</u>
Amortised to income statement	(560)	-
Balance at 31 December	<u>3,233</u>	<u>3,515</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.

Where staff loans are issued to members of staff at concessionary interest rates, fair value is calculated based on market rates. This will result in the long term staff loans benefit as shown above.

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

	2008	2007
House loans	10%	10%
Multi-purpose loans	12.5%	12.5%
Personal loans	10%	10%

**16 Held to maturity financial assets**

	2008	2007
The Government of the Republic of Zambia ("GRZ") Consolidated Securities (Note 17)	1,656,416	1,661,494
Other GRZ securities	299,593	297,555
Staff savings treasury bills	7,916	4,442
	<u>1,963,925</u>	<u>1,963,491</u>

**17 The Government of the Republic of Zambia (GRZ) consolidated bond**

	2008	2007
6% GRZ Consolidated Bond	1,122,396	1,121,892
364 days Treasury Bills	534,020	539,602
	<u>1,656,416</u>	<u>1,661,494</u>

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

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

Effective 1 December 2007 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.

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 income statement.

#### 18 Other assets

	2008	2007
Sundry receivables	16,872	6,542
Stationery and office consumables	1,055	1,168
Prepayments	8,176	2,555
	<u>26,103</u>	10,265
Specific allowances for impairment (note 9)	(2,495)	(4,757)
	<u>23,608</u>	5,508

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

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 19 Amounts due from closed financial institutions

	2008	2007
Overdrawn current accounts	78,161	78,161
Other credits to other financial institutions	59,002	60,020
	<u>137,163</u>	<u>138,181</u>
Specific allowances for impairment (note 9)	<u>(137,163)</u>	<u>(138,181)</u>
	<u>-</u>	<u>-</u>

#### 20 Available for sale investments

	2008	2007
Zambia Electronic Clearing House Limited	1,847	1,847
African Export Import Bank	939	939
Development Bank of Zambia	-	53
	<u>2,786</u>	<u>2,839</u>
Specific allowance for impairment (note 9)	<u>-</u>	<u>(53)</u>
	<u>2,786</u>	<u>2,786</u>

#### 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. The contributions made by the Bank during the year of K38 million (2007: K45 million) 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 had an equity investment of K53 million in DBZ. This investment was considered an available for sale financial asset. It was carried at cost, as there was 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 impaired the balance in full, and during the year, following Board approval, the full amount was written off.

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***20 Available for sale investments (continued)****Valuation for available for sale investments**

The available for sale investments are disclosed at cost because there is no market for these investments which could provide evidence of their current fair values.

**21 IMF funds receivable from the Government**

	2008	2007
Poverty Reduction and Growth Facility (PRGF)*	83,472	66,295
Accrued charges - SDR Allocation	<u>1,839</u>	<u>2,542</u>
	<u>85,311</u>	<u>68,837</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 34).

**22 IMF subscription**

	2008	2007
IMF subscription	<u>2,824,220</u>	<u>3,085,870</u>

The IMF subscription represents membership quota amounting to SDR 489,100,000 (2007: 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 33. 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 2008 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.

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***23 Property, plant and equipment**

	Furniture Fittings Computer, Plant, Machinery				Total
	Leasehold Buildings	and Equipment	Motor Vehicles	Capital Work In Progress	
<b>Cost or valuation</b>					
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)
Write off	-	-	-	(90)	(90)
<b>31 December 2007</b>	<b>164,233</b>	<b>54,303</b>	<b>12,239</b>	<b>8,091</b>	<b>238,866</b>
<b>At 1 January 2008</b>	<b>164,233</b>	<b>54,303</b>	<b>12,239</b>	<b>8,091</b>	<b>238,866</b>
Additions	235	7,820	2,794	20,390	31,239
Transfers	2,886	21,402	42	(24,742)	(412)
Disposals	(19)	(1,368)	(487)	-	(1,874)
<b>31 December 2008</b>	<b>167,335</b>	<b>82,157</b>	<b>14,588</b>	<b>3,739</b>	<b>267,819</b>
<b>Depreciation</b>					
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)
Write off	-	-	2	-	2
<b>At 31 December 2007</b>	<b>11,142</b>	<b>34,141</b>	<b>9,117</b>	<b>-</b>	<b>54,400</b>
<b>At 1 January 2008</b>	<b>11,142</b>	<b>34,141</b>	<b>9,117</b>	<b>-</b>	<b>54,400</b>
Charge for the year	3,304	6,665	1,825	-	11,794
Disposals	(5)	(1,313)	(487)	-	(1,805)
<b>At 31 December 2008</b>	<b>14,441</b>	<b>39,493</b>	<b>10,455</b>	<b>-</b>	<b>64,389</b>
<b>Carrying amounts</b>					
<b>At 31 December 2008</b>	<b>152,894</b>	<b>42,664</b>	<b>4,133</b>	<b>3,739</b>	<b>203,430</b>
At 31 December 2007	153,091	20,162	3,122	8,091	184,466

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 23 Property, plant and equipment (continued)

- (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 K1 17,803 million was credited to the revaluation reserve.
- (b) Capital work-in-progress represents the expenditure to date on office refurbishment and software upgrade projects.

#### 24 Intangible assets

	Purchased Software
<b>Cost</b>	
At 1 January 2007	19,853
Additions	1,023
Transfers from capital work in progress	63
At 31 December 2007	<u>20,939</u>
<b>At 1 January 2008</b>	<b>20,939</b>
Additions	2,470
Transfers from capital work in progress	413
<b>At 31 December 2008</b>	<b><u>23,822</u></b>
<b>Amortisation and impairment</b>	
At 1 January 2007	16,637
Charge for the year	2,467
At 31 December 2007	<u>19,104</u>
<b>At 1 January 2008</b>	<b>19,104</b>
Charge for the year	1,698
<b>At 31 December 2008</b>	<b><u>20,802</u></b>
<b>Carrying amounts</b>	
<b>At 31 December 2008</b>	<b><u>3,020</u></b>
At 31 December 2007	<u>1,835</u>

#### 25 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.

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***26 Capital commitments**

	2008	2007
Authorised by the directors but not contracted for	<u>34,648</u>	<u>41,526</u>

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

**27 Deposits from the Government of the Republic of Zambia**

	2008	2007
Deposits of the Ministry of Finance and National Planning	<u>1,340,637</u>	<u>1,951,177</u>

The deposits are non-interest bearing and are payable on demand.

**28 Deposits from financial institutions**

	2008	2007
Commercial bank current accounts	497,130	145,036
Minimum reserve requirements	951,258	856,359
Term deposits from financial institutions	1,207,007	1,063,246
Deposits of banks in liquidation	1,468	1,476
Deposits from other international financial institutions	363	563
Deposits from other central banks	<u>34</u>	<u>34</u>
	<u>2,657,260</u>	<u>2,066,714</u>

The deposits, except for term deposits are non interest bearing and are payable on demand. Term deposits from financial institutions arise from Open Market Operations (OMO). These are short term instruments with maximum maturity of up to 90 days and are used as means of implementing monetary policy.

**29 Foreign currency liabilities to other institutions**

	2008	2007
Deposits from other governments	<u>98,536</u>	<u>90,724</u>

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

**30 Other deposits**

	2008	2007
Staff savings, deposits and clearing accounts	21,389	29,322
Other savings and deposits	<u>167</u>	<u>294</u>
	<u>21,556</u>	<u>29,616</u>

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***31 Other liabilities**

	2008	2007
Accrued expenses payable	54,410	33,001
Accounts payable	17,591	14,815
	<u>72,001</u>	<u>47,816</u>

**32 Provisions**

	Provision for Litigation
Balance at 1 January 2007	2,890
Provisions made during the year	1,110
Payments made during the year	<u>-</u>
<b>Balance at 31 December 2007</b>	<u>4,000</u>
Balance at 1 January 2008	4,000
Provisions made during the year	23,525
Payments made during the year	<u>(120)</u>
<b>Balance at 31 December 2008</b>	<u>27,405</u>

The provisions are in respect of various legal cases currently being contested by the Bank in the courts of law.

**33 Domestic currency liabilities to IMF**

	2008	2007
International Monetary Fund:		
Securities account	2,816,397	3,078,033
No. 1 account	7,713	7,713
No. 2 account	110	124
	<u>2,824,220</u>	<u>3,085,870</u>

The above liability arises from IMF Quota subscriptions (Note 22) and has no repayment terms and bears no interest. The decrease in value is on currency valuation adjustments between 2008 and 2007 as advised by IMF.

**34 Foreign currency liabilities to IMF**

	2008	2007
Due to the International Monetary Fund:		
- Poverty Reduction and Growth Facility (PRGF) (Note a)	462,446	331,481
- Charges on SDR allocation (Note b)	1,839	2,542
	<u>464,285</u>	<u>334,023</u>

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 34 Foreign currency liabilities to IMF (continued)

- 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 bears an interest rate of one-half per centum. The balance has increased on account of additional receipt of funds and exchange rate movements during the year.
- 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.

#### 35 Employee benefits

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 valuation 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 was paid in full to the fund.

Since the last actuarial valuation was performed in 2006, the Bank has made approximations of the present value obligation of the defined benefit fund as at the balance sheet date. This is based on the assumptions made in the last actuarial valuation report.

	2008	2007
Present value of unfunded obligations	-	-
Present value of funded obligations	213,070	187,176
Total present value of obligations	213,070	187,176
Fair value of plan assets	(212,911)	(196,017)
Unrecognised (obligation)/plan asset	(159)	8,841
Recognised liability for defined benefit obligations	-	-
Plan assets consist of the following:		
	2008	2007
Equity securities	9,639	11,846
Government bonds	115,989	95,027
Corporate bonds	3,826	2,000
Treasury bills	41,447	33,356
Investment properties	28,729	30,133
Other assets	13,281	23,655
Total plan assets	220,284	196,017

**Bank of Zambia****Notes for the year ended 31 December 2008 (continued)***In millions of Zambian Kwacha***35 Employee benefits (continued)**

	2008	2007
<b>Movement in the present value of the defined benefit obligations</b>		
Defined benefit obligations at 1 January	187,176	155,374
Benefits paid by the plan	(16,742)	(5,233)
Current service costs and interest	42,636	37,035
Defined benefit obligations at 31 December	<u>213,070</u>	<u>187,176</u>

	2008	2007
<b>Movement in the present value of plan assets</b>		
Fair value of plan assets at 1 January	196,017	143,874
Contributions paid into the plan	18,805	28,878
Benefits paid by the plan	(16,742)	(5,233)
Expected return on plan assets	29,557	23,354
Unrecognised actuarial (loss) or gains	(14,726)	5,144
Fair value of plan assets at 31 December	<u>212,911</u>	<u>196,017</u>

Actual return on plan assets	<u>24,498</u>	<u>14,831</u>
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## Actuarial assumptions

Principle actuarial assumptions at the balance sheet date were:

	2008	2007
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 2008 (continued)***In millions of Zambian Kwacha***36 Notes and coins in circulation**

	2008	2007
Bank notes issued by denomination		
K20	714	702
K50	3,498	3,129
K100	8,096	7,210
K500	20,537	18,307
K1,000	28,370	23,938
K5,000	41,992	38,373
K10,000	131,613	100,154
K20,000	507,947	485,699
K50,000	1,191,433	837,413
Bank notes issued	<u>1,934,200</u>	1,514,925
Coins issued	<u>226</u>	226
	<u>1,934,426</u>	1,515,151

**37 Capital**

	2008	2007
Authorised and paid up capital	<u>10,020</u>	10,020

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.

**38 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.

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 38 Reserves (continued)

##### 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.

#### 39 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 2008 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.

##### Transactions and balances with 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:

	2008	2007
Profit on foreign exchange transactions	5,569	3,685
Fees and commission income on transactions with the Government	19,694	15,453
Interest on held to maturity Government securities	177,424	150,030
Interest on advances to GRZ	101	-
	<hr/>	<hr/>
Total	202,788	169,168

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

## Bank of Zambia

### Notes for the year ended 31 December 2008 (continued)

In millions of Zambian Kwacha

#### 39 Related party transactions (continued)

##### Transactions and balances with the Government of the Republic of Zambia (continued)

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

	2008	2007
<i>GRZ - year end balances</i>		
Holdings of Government securities	1,967,925	1,963,491
Deposits from Government Institutions	(1,340,637)	(1,951,177)

##### Transactions and balances with directors and key management

c) Directors' and key management remuneration during the year was as follows

###### *Directors' and key management remuneration*

Directors' fees	296	251
Remuneration for key management personnel		
● Salaries and allowances	16,697	14,973
● Pension contributions	802	631
	<u>17,795</u>	<u>15,855</u>

###### *Loans and advances to key management personnel*

Balance at 31 December	<u>1,642</u>	<u>2,819</u>
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d) No impairment has been recognised in respect of balances due from related parties.

#### 40 Contingent liabilities

The Bank is a 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. In a majority of cases the possibility of loss is remote.

#### 41 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 staff loans and receivables on note 15.

#### 42 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.