FIRST CAPITAL BANK LIMITED

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2019

FIRST CAPITAL BANK LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2019

Contents

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2019.

General information and the principal activities

The Bank is licensed under the Banking and Financial Services Act, 2017 of the laws of Zambia. The principal activity of the Bank is the provision of banking and related services to the public.

The address of its registered office is:

Plot No 4604
Tito Road
Lusaka

Shareholding

FMB Capital Holdings Plc incorporated and domiciled in Mauritius holds 49% shareholding in First Capital Bank Zambia; the rest of the 51% shareholding is held by local Zambian companies as follows: Afility Investments TS Limited 25%, Sakky Investments Limited 19% and Kark Investments Limited 7%.

Share capital

During the year 2019, the paid up primary capital of the Bank remained unchanged from the previous year at K104,000,000 and Share premium was K11,156,599.

Operating results

The summary of the operating results of the Bank for the year is as follows:

	2019	2018
	K	K
Net interest income	**90 803 163**	73 628 367
Profit before income tax	**15 624 830**	44 919 402
Income tax expense	**(7 438 262)**	(15 974 534)
Profit for the year	**8 186 568**	28 944 868

Dividend

The Directors do not recommend the payment of a dividend (2018: Nil).

Directors and management

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

Mr. Stuart Mark O'Donnell	Chairman (Appointed 31 December 2019)
Mr. Andrew M. Musukwa	Non-Executive Director (Retired 31 December 2019)
Mr. Hitesh Anadkat	Vice Chairman
Mr. Terence M. Davidson	Non-Executive Director
Mr. Ramesh Patel	Non-Executive Director
Mr. Osman L. Muzumbwe	Non-Executive Director (Retired 31 December 2019)
Mr. Dheeraj Dikshit	Non-Executive Director
Mr. Julian Ghui	Non-Executive Director (Appointed 1 July 2018)

Chief Executive Officer

Mr. Jitto Kurian

Chief Financial Officer

Mr. Judge Daka

Developments during the year

At the close of the year, the Bank had seven branches and one angency, five in Lusaka and two on the Copperbelt, the latest addition to our branch network being industrial agency.

Directors' interest and emoluments

No Director had an interest in any significant contract entered into by the Bank during the year (2018: Nil).

The Directors emoluments paid during the year ended 31 December 2019 were K1,812,276 (2018: K1,120,299) as disclosed in note 23 to the financial statements.

Loans to Directors

Loans and advances disbursed to the Directors and entities connected to directors during the year amounted to K0.8 million (2018: K21.8 million). Loans to non-executive Directors are made under commercial terms in the ordinary course of the Bank's business.

Health and safety

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

Number of employees and remuneration

During the year the averege number of employees in each month of the year was as follows:

Month	Number	Month	Number
January	119	July	127
February	121	August	128
March	124	September	129
April	127	October	133
May	126	November	131
June	126	December	134

The total remuneration of employees during the year amounted to K49,330,825 (2018: K41,083,173). The Bank hired 28 new employees in the year and 12 employees left the Bank.

Property and equipment and intangible assets

The Bank acquired assets with a value of K10,226,227 during the year (2018: K6,409,516). In the opinion of the Directors, there was no significant difference between the carrying value of property and equipment and its market value.

Gifts and donations

The Bank made donations during the year amounting to K185,200 (2018: K43,001) after approval from the Board of Directors.

Risk management and control

In its normal operations, the Bank is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. These are described and explained under risk management in note 31 to the financial statements.

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

Prohibited borrowings or lending

There were no prohibited borrowings or lending as defined under sections 81 through to 86 of the Banking and Financial Services Act 2017.

Corporate governance

The Board of Directors hereby confirms that the Bank has complied with the internal control aspects of the principles of good corporate governance. The Audit Committee, Risk Management Committee, Loan Review Committee and Remuneration Committee are in place.

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and comply with the requirements of the Companies Act, 2017 and the Banking and Financial Services Act, 2017.

The Bank Secretary and the Audit Committee have reviewed the 2017 Act and confirm that the requirements of the Act have been complied with.

The financial statements set out on pages 10 to 61 have been approved by the Directors.

Subsquent events

The Directors are aware of the global pandemic caused by the COVID 19 and its impact on the global and local economy, consequently banks perfomance in the near foreseable future. The impact of COVID 19 is disclosed in note 30 to the financial statement.

Auditors

The Bank's Auditors, Messrs Deloitte & Touche's, term of office comes to an end at the next Annual General Meeting. A resolution proposing their re-appointment for the coming year and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

By order of the Board.

Director

Date: 28 April 2020

FIRST CAPITAL BANK LIMITED

STATEMENT OF DIRECTORS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Companies Act, 2017 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its financial performance. It also requires the Directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank. The Directors are further required to ensure the Bank adheres to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Companies Act, 2017.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, 2017 and the Zambia Banking and Financial Services Act, 2017.

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

The Directors have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the business will not be a going concern for at least twelve (12) months from the date of this statement.

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

In the opinion of the Directors:

- the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the profit of the Bank for the financial year ended 31 December 2019;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2019;
- there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due;
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2017 and the Banking and Financial Services Act, 2017; and
- the Directors have implemented and further adhered to the corporate governance principles and practices contained in part VII, sections 82 to 122 of the Companies Act, 2017.

Approved of the financial statements

The financial statements of FIRST CAPITAL BANK LIMITED , set out on pages 10 to 61, were prepared by the Chief Financial Officer, a qualified Chartered Accountant under the supervision of the Audit and Risk Committees and were approved by the Board of Directors on 28 April 2020 and signed on its behalf by:

Chairman

Director

Director

Deloitte.

PO Box 30030
Lusaka
Zambia

Deloitte & Touche
Registered Auditors
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INDEPENDENT AUDITOR'S REPORT

To the members of
First Capital Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Capital Bank Limited ("the Bank"), set out on pages 10 to 61 which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of First Capital Bank Limited as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Banking and Financial Services Act, 2017 and the Companies Act, 2017.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Revised July 2016), parts 1 and 3 of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2019) and other independence requirements applicable to performing audits of financial statements in Zambia. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters	**How our audit addressed the key audit matter**
Impairment against loans and advances	
The Bank exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the impairment provision for loans and advances. Because loans and advances form a major portion of the Bank's assets, and due to the significance of the judgements used in determining related provision requirements, this was a matter of most significance to the audit. In calculating the impairment loss, management assesses any observable data which may indicate that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Historical loss experience is used by management in determining the estimated probability of default and recovery rates of future cash flows.	We gained understanding of the Bank's key credit processes comprising granting, booking, monitoring and provisioning and tested the relevant internal controls over impairment of loans and advances. We examined a sample of exposures and performed procedures to evaluate the following: • Timely identification of exposures with a significant deterioration in credit quality. • For exposures determined to be individually impaired, we examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculation. For provision against exposures classified as Stage 1, Stage 2 and Stage 3, we obtained an understanding of the Bank's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by management.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment against loans and advances (continued)	
The key areas of judgement are disclosed in note 3.2 Critical accounting estimates and judgements to the financial statements. As at 31 December 2019, the gross loans and advances to customers were K681.0 million against which an impairment provision of K4.7 million was recorded, this is disclosed in note 14 Loans and advances to the financial statements.	▪ We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; ▪ For a sample of exposures, we checked the appropriateness of the Bank's staging; ▪ We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models (the Models) used by the Bank to determine impairment provisions; ▪ For Probability of Default (PD) used in the ECL calculations, we checked the appropriateness of the system to determine the PDs; ▪ We checked the calculation of the Loss Given Default (LGD) used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations;
	▪ We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; ▪ For a sample of exposures, we checked the appropriateness of the Bank's staging; ▪ We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models (the Models) used by the Bank to determine impairment provisions; ▪ For Probability of Default (PD) used in the ECL calculations, we checked the appropriateness of the system to determine the PDs; ▪ We checked the calculation of the Loss Given Default (LGD) used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations; ▪ We checked the completeness of the loans and advances, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations as of 31 December 2018 and 31 December 2017; We understood the theoretical soundness and tested the mathematical integrity of the Models;

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment against loans and advances (continued)	
	▪ For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data; ▪ We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and ▪ We checked the appropriateness of the opening balance adjustments. We assessed the financial statement disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard. We also considered the impairment disclosures to be appropriate. Refer to the accounting policies, critical accounting estimates and judgements, disclosures of loans and advances and credit risk management in notes 2, 3 and 14 to the financial statements.
	▪ We checked the completeness of the loans and advances, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations; ▪ We tested the mathematical integrity of the models; ▪ For data from external sources, we understood the process of choosing such data, its relevance for the Bank, and the controls and governance over such data; ▪ We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and The review of the models revealed certain gaps but the noted gaps were assessed to be insignificant into the context of the financial statements taken as a whole, overall, we determined that the judgements applied in determining impairment provision against loans and advances were appropriate and adequate.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act, 2017, which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors , we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on other legal and regulatory requirements

Companies Act, 2017

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

- there is a relationship, interest or debt which us, as the Bank's auditor, have in the Bank;
- there are serious breaches by the Bank's directors, of corporate governance principles or practices contained in Part VII's Sections 82 to 112 of the Zambia Companies Act of 2017; and
- there is an omission in the financial statements as regards particulars of loans made to a Bank Officer (a director, Bank secretary or executive officer of a Bank) during the year, and if reasonably possible, disclose such information in our opinion.

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

Banking and Financial Services Act, 2017

The Banking and Financial Services Act, 2017 requires that in carrying out our audit of First Capital Bank Limited, we report on whether:

- all the information necessary to comply with the requirements of the Act was provided to us by the Bank;
- there are transactions or conditions affecting the ability of the Bank to continue as a going concern which have come to our attention and that in our opinion are not satisfactory and require rectification. This includes:

(i) any transaction of the financial service provider that has come to the attention of the external auditor and which, in the opinion of the external auditor, has not been within the powers of the financial service provider or which was contrary to this Act or any other law; and

(ii) a non-performing loan that is outstanding, has been restructured or the terms of repayment have been extended, if the principal amount of the loan is five percent or more of the regulatory capital of the financial service provider.

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

Deloitte & Touche

DELOITTE & TOUCHE

ALICE JERE TEMBO
PARTNER
AUD/F000433

30/04/2020

FIRST CAPITAL BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 K	2018 K
Interest income	4	**139 015 389**	101 950 415
Interest expense	4	**(48 212 226)**	(28 322 048)
Net interest income		**90 803 163**	73 628 367
Fee and commission income	5	**21 096 375**	27 412 140
Other operating income	6	**6 800 694**	58 930
Trading income		**20 405 681**	34 076 513
Total non-interest income		**48 302 750**	61 547 583
Total operating income		**139 105 914**	135 175 949
Impairment charge	9	**(9 657 997)**	(7 635 833)
Net operating income		**129 447 917**	127 540 116
Personnel expenses	7	**(49 330 825)**	(41 083 173)
Depreciation expense on property and equipment	19	**(5 300 904)**	(5 272 508)
Depreciation of right of use assets	20	**(6 749 806)**	-
Fair value gain on investment property	18	**-**	4 730 250
Operating lease expenses		**-**	(5 825 250)
Amortisation of intangible assets	17	**(2 303 311)**	(1 735 428)
Finance cost	24	**(1 666 828)**	-
Other expenses	8	**(48 471 413)**	(33 434 605)
Profit before income tax	9	**15 624 830**	44 919 402
Income tax expense	10	**(7 438 262)**	(15 974 534)
Profit and total comprehensive income for the year		**8 186 568**	28 944 868

There were no items of other comprehensive income for the year (2018: Nil).

FIRST CAPITAL BANK LIMITED

STATEMENT OF FINANCIAL POSITION
at 31 December 2019

	Notes	2019 K	2018 K
Assets			
Cash and balances with the Central Bank	11	**122,954,035**	94,106,611
Cash and short term funds	11	**269,810,087**	137,683,268
Placements with other banks	12	**3,153,442**	45,046,617
Investment securities	13	**290,567,730**	255,438,659
Loans and advances to customers	14	**680,439,098**	567,202,507
Other receivables	15	**21,506,087**	37,762,280
Current tax asset	10	**14,699,142**	-
Deferred tax asset	10	**4,303,960**	5,941,141
Property held for sale	16	**43,920,431**	26,158,947
Intangible assets	17	**7,600,653**	6,941,708
Investment property	18	**16,670,250**	16,670,250
Property and equipment	19	**16,762,319**	14,799,393
Right of use assets	20	**25,446,492**	-
Total assets		**1,517,833,725**	1,207,751,380
Liabilities			
Deposits from customers	21	**1,110,306,629**	853,573,088
Amounts payable to other banks	22	**181,110,677**	12,000,000
Amounts payable to group banks	23	**5,465,668**	156,101,242
Lease liabilities	24	**26,088,438**	-
Other liabilities	25	**30,941,681**	26,940,029
Current tax payable	10	**-**	3,402,958
Total liabilities		**1,353,913,093**	1,052,017,316
Equity			
Share capital	26	**104,000,000**	104,000,000
Share premium	26	**11,156,599**	11,156,599
Credit risk reserve	27	**2,997,263**	13,940,277
Retained earnings		**45,766,770**	26,637,188
Total equity		**163,920,632**	155,734,064
Total liabilities and equity		**1,517,833,725**	1,207,751,380

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 4. The financial statements on pages 10 to 61 were approved for issue by the Board of Directors on **28 April 2020** and were signed on its behalf by:

Director

Director

Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share capital K	Share premium K	Credit risk reserve K	Retained earnings K	Total K
At 1 January 2018	104 000 000	11 156 599	2 542 308	8 458 280	126 789 196
Transitional adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	972 321	972 321
Deferred tax on transition adjustment	-	-	-	(340 312)	(340 312)
	104 000 000	11 156 599	2 542 308	9 090 289	127 421 205
Total comprehensive income for the year	-	-	-	28 944 868	28 944 868
Credit risk reserve	-	-	11 397 969	(11 397 969)	-
At 31 December 2018	104 000 000	11 156 599	13 940 277	26 637 188	156 366 073
At 1 January 2019	**104 000 000**	**11 156 599**	**13 940 277**	**26 637 188**	**156 366 073**
Total comprehensive income for the year	-	-	-	8 186 568	**8 186 568**
Credit risk reserve	-	-	(10 943 014)	10 943 014	-
Balance at 31 December 2019	**104 000 000**	**11 156 599**	**2 997 263**	**45 766 770**	**164 552 641**

FIRST CAPITAL BANK LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	NOTES	2019 K	2018 K
Cash flows from operating activities			
Profit for the year		**8 186 568**	28 944 868
Adjustments for:			
Depreciation expense - property and equipment	19	**5 300 904**	5 272 508
Amortisation of intangible assets	17	**2 303 311**	1 735 428
Impairment of loans and advances	9	**9 150 624**	7 635 833
Finance cost	24	**1 666 828**	-
Depreciation for right of use assets	20	**6 749 806**	-
Gain on fair value of investment property	18	**-**	(4 730 250)
Income tax expense	10	**7 438 262**	15 974 534
		40 796 304	54 832 921
Movements in working capital:			
Decrease in other receivables		**16 256 193**	38 152 502
Increase in loans and advances to customers		**(122 387 216)**	(148 685 512)
Increase in deposits from customers		**256 733 541**	297 268 290
Increase in other liabilities		**3 966 041**	13 405 336
Increase (decrease) in amounts payable to other banks		**28 000 000**	(108 647 272)
Increase in property held for sale		**(17 761 484)**	(26 158 947)
(Decrease) increase in amount payable to group banks		**(150 635 574)**	122 199 250
Increase in deferred income		**35 610**	1 288 435
		55 003 417	243 655 003
Withholding tax suffered	10	**(14 713 503)**	(4 269 063)
Withholding tax written off	10	**-**	271 970
Income tax paid	10	**(9 189 678)**	(10 331 664)
Net cash generated from operating activities		**31 100 236**	229 326 246
Cash flows from investing activities			
Purchase of property and equipment	19	**(7 263 830)**	(4 859 511)
Acquisition of intangible assets	17	**(2 962 256)**	(1 550 003)
Net investment in securities		**(35 129 070)**	(76 353 150)
Net cash used in investing activities		**(45 355 156)**	(82 762 664)
Cash flows from financing activities			
Lease repayments	24	**(7 774 689)**	-
Proceeds from long term loan	22	**141 110 677**	-
Net cash flows from financing activities		**133 335 988**	-
Net increase in cash and cash equivalents		**119 081 068**	146 563 582
Cash and cash equivalents at beginning of year		**276 836 496**	130 272 914
Cash and cash equivalents at end of the year	11.3	**395 917 564**	276 836 496
Represented by:			
Cash and cash equivalents		**292 862 984**	196 746 291
Statutory reserves	11.1	**103 054 580**	80 090 205
		395 917 564	276 836 496

1. General Information

The Bank is licensed under the Banking and Financial Services Act, 2017 of the laws of Zambia. FIRST CAPITAL BANK LIMITED ("the Bank") is a Bank domiciled in Zambia. The address of the Bank's registered office and principal activity of business is disclosed in the report of the Directors on page 1.

The Bank is primarily involved in corporate and retail banking as well as the provision of related financial services.

2. Significant Accounting Policies

The principal accounting policies are set out below:

2.1 Basis of preparation and presentation of financial statements

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements are presented in Zambian Kwacha (K).

The Bank presents its statement of financial position in order of liquidity.

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

Positions recognised on a net basis primarily include balances with exchanges, clearing houses and brokers. Derivative assets and liabilities with master netting arrangements are only presented net when they satisfy the eligibility of netting for all of the above criteria and not just in the event of default.

2.1.1 Changes in accounting policies

IFRS 16 Leases

The Company applied IFRS 16 retrospectively from 1 January 2019, using the modified retrospective approach. Comparatives, as permitted by IFRS 16, are not restated under this approach. There was no impact to opening retained earnings on adoption of IFRS 16. IFRS 16 replaces IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract being the lessee and the lessor.

2. Significant accounting policies (continued)

2.1.1 Changes in accounting policies (continued)

IFRS 16 Leases (continued)

The standard requires lessees to capitalise all significant lease arrangements on inception of the lease as right-of-use assets with corresponding finance lease liabilities on the statement of financial position. The Company has included the right-of-use assets within 'Right-of-use assets' on the statement of financial position. As at 1 January 2019, a right-of-use asset of K 28,075,757 was recognised with a corresponding finance lease liability on the statement of financial position. The net impact to earnings for the year ended 31 December 2019 resulting from the difference between operating lease charges under IAS 17 and the IFRS 16 income statement expenses (deprecation and finance costs) is disclosed in note 33.1. Operating lease charges will continue to be recognised for short-term leases and leases of low value items.

2.2 Foreign currencies

The financial statements of the Bank are presented in the currency of the primary economic environment in which it operates (its functional currency). In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under Derivative financial instruments and Hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in Other Comprehensive Income (OCI) and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

2.3 Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at Fair Value Through Profit and Loss (FVTPL) are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net trading income' and 'Net income from other financial instruments at FVTPL'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at fair value through profit and loss (FVTPL) transaction costs are recognised in profit or loss at initial recognition.

The interest income or interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI), the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income and expense in the Bank's statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

2. Significant accounting policies (continued)

2.4 Net fee and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). The fees included in this part of the Bank's statement of profit or loss include among other things fees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fee and commission expenses with regards to services are accounted for as the services are received.

2.5 Net trading income

Net trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading. The Bank has elected to present the full fair value movement of trading assets and liabilities in trading income, including any related interest income, expense and dividends.

2.6 Net income from other financial instruments at FVTPL

Net income from other financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL except those that are held for trading. The Bank has elected to present the full fair value movement of assets and liabilities at FVTPL in this line, including the related interest income, expense and dividends.

2.7 Classification of financial instruments

Under IFRS9, on initial recognition, a financial asset is classified as measured at:

1) Amortised cost
2) Fair value through other comprehensive income (FVOCI) – debt investments
3) Fair value through other comprehensive income (FVOCI)– equity investments or
4) Fair value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The business models are explained as follows:

i) Hold to collect contractual cash-flow - Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

* It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
* Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Hold to collect contractual cash-flow and selling (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

* It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
* Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

iii) Other business model - Equity investments (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Bank irrevocably elects to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

iv) Hold to sell - (FVTPL)

* All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets and debt instruments held for trading.
* A financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition for financial assets and liabilities not at fair value through profit and loss. Transaction costs for financial assets and liabilities carried at fair value through profit and loss are expensed in profit and loss

2. Significant accounting policies (continued)

2.7 Classification of financial instruments (continued)

The following accounting policies apply to the subsequent measurement of financial assets.

Financial instrument	Business model	IFRS9 subsequent measurement
Loans and advances to customers	Hold to collect – contractual cashflows	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by losses and impairments that are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss
Loans and receivables from banks (held for investment purposes)	Hold to collect – contractual cashflows	These assets are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gain or loss on derecognition is recognised in profit or loss.
Financial instrument	Business model	IFRS 9 subsequent measurement
Investment securities – debt (held for liquidity purposes)	Hold to collect – contractual cashflows and sell	These assets are subsequently measured at fair value. Interest income and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Investment securities - equity	Other business model	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly are recognised in OCI and are never reclassified to profit or loss.
Investment securities – debt (held for trading)	Hold to sell	These assets are subsequently measured at fair value. Net gains are recognised in profit or loss.

Personal lending

The Bank's personal lending portfolio consists of both secured and unsecured loans.

Corporate lending

The Bank requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Bank obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2019 the net carrying amount of loans and advances was K677 million (2018: K567 million).

Investment securities

The Bank holds investment securities measured at amortised cost with a carrying amount of K291million (2018: K255 million).

Assets obtained by taking possession of collateral

The Bank obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against loans and advances and held at the year end. The Bank's policy is to realise collateral on a timely basis. The Bank does not use non-cash collateral for its operations.

	2019	2018
	K	K
Property	**43 920 431**	26 158 947

2. Significant accounting policies (continued)

2.8 Retirement benefits

A defined contribution plan is a post-employment benefit plan under which the entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

The Bank contributes to the compulsory National Pension Scheme Authority (NAPSA) and pays an amount equal to the employees' contributions. Employees contribute 5% of their gross earnings or a maximum of K796 whichever is lower on a monthly basis.

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

2.9 Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions. 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 plans or accumulated leave 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.

2.10 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with the Central Bank and highly liquid financial assets with residual 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 statement of financial position.

Cash and cash equivalents disclosed in the statement of cash flows consist of cash and cash equivalents, cash on hand and balances with Central Bank.

2.11 Deposits from customers

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

2.12 Non derivative financial liabilities

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

2.13 Collateral

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

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

2.14 Leasehold improvements and equipment

Recognition and measurement

Leasehold improvements and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

2. Significant accounting policies (continued)

2.14 Leasehold improvements and equipment (continued)

Subsequent costs

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Bank and its cost can be measured reliably. The costs of day-to-day servicing of leasehold improvements and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leasehold buildings are depreciated over the period of the lease or over a lesser period, as is considered appropriate. The estimated useful lives for the current and comparative periods are as follows:

Motor vehicles	5 years
Furniture and fittings	5 years
Computer hardware	5 years
Office equipment	5 years
Leasehold improvements	Shorter of lease term and 5 years
ATM machines	5 years

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

2.15 Intangible assets - computer software

Intangible assets acquired separately are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset it relates to. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives from the date that the asset is available for use. The effects of any changes in estimates are accounted for on a prospective basis. Intangible assets are amortised within seven years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The effects of any changes in estimates are accounted for on a prospective basis.

2.16 Investment property

Investment property is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property is included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2.17 Impairment of non-financial assets

The carrying amounts of non-financial assets, other than deferred tax asset, 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. The recoverable amount of an asset is the greater of its value in use and fair value less costs to sell. 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 assessment of the time value of money and the risk specific to the assets.

An impairment loss is recognised in profit or loss when the carrying amount exceeds the recoverable amount.

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.

2. Significant accounting policies (continued)

2.18 Income tax

Income tax

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

Current tax

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

Deferred tax

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

Deferred tax is not recognised for:

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

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

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

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

2.19 Leases

The Bank has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately

The Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as office equipment). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

2. Significant accounting policies (continued)

2.19 Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as a lessee

Assets held under finance leases are recognised as assets of the Bank at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

2. Significant accounting policies (continued)

2.19 Leases (continued)

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.20 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow 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 using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.21 Share capital

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

3. Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the Banking Act disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and or estimates are set out below with respect to judgements/estimates involved.

3.1 Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.2 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at least quarterly and at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The Bank's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- Specific impairment losses on individually significant or specifically identified exposures;
- Collective impairment of:
  - Individually not significant exposures
  - Incurred but not yet identified losses (IBNI)

3. Significant accounting judgements, estimates and assumptions (continued)

3.2 Impairment losses on loans and advances (continued)

All categories include an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

Additionally, judgements around the inputs and calibration of the collective and IBNI models include the criteria for the identification of smaller homogenous portfolios, the effect of concentrations of risks and economic data (including levels of unemployment, repayment trends, collateral values such as real estate prices indices for residential mortgages, country risk and the performance of different individual Banks, and bankruptcy trends), and for determination of the emergence period. The methodology and assumptions are reviewed regularly in the context of actual loss experience.

3.3 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

3.4 Revaluation of property

The Bank reviews the fair value of its property at the end of each reporting period. An independent valuation of the Bank's properties to determine fair value is carried out by independent valuers. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

3.5 Collateral

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

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

Longer-term finance and lending to corporate entities are generally secured. Certain personal credit facilities are generally unsecured.

In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

3.6 Effective Interest Rate (EIR) method

The Bank's EIR methodology, as explained in Note 2.3 recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the Bank's base rate and other fee income/expense that are integral parts of the instrument.

3.7 Financial assets measured at amortised costs

Classification of financial assets:

Debt instruments that meet the following conditions are measured subsequently at amortised cost: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant accounting judgements, estimates and assumptions (continued)

3.8 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

3.9 Provisions and other contingent liabilities

The Bank operates in a regulated and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory reviews and proceedings both in Zambia and in other jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

3.10 Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell. An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognized previously in any remeasurement. A gain is recognized for any subsequent increase in fair value less costs to sell of the asset, but not in excess of the cumulative impairment loss that has been recognized previously on the asset.

Such assets or disposal groups classified as held for sale are not depreciated or amortized.

4. Net interest income

	2019	2018
	K	K
Interest income		
Arising from:		
Loans and advances to customers	**81 391 374**	61 721 094
Investment securities	**54 522 533**	36 066 657
Interbank lending	**3 101 482**	4 162 664
	139 015 389	101 950 415
Interest expense		
Arising on:		
Deposits from customers	**(34 739 551)**	(20 998 482)
Deposits from other banks	**(13 472 675)**	(7 323 566)
	(48 212 226)	(28 322 048)
Net interest income	**90 803 163**	73 628 367

5. Fee and commission income

Telegraphic transfer charges	**9 237 405**	8 160 801
Processing fees and loan documentation	**5 717 001**	9 914 819
Monthly service fee	**3 569 748**	4 253 258
RTGS fee income	**800 528**	780 629
Bank guarantees	**753 239**	962 585
Other fees	**412 249**	2 269 692
ATM transaction charges	**237 088**	224 564
Cheque books issued	**212 975**	167 975
DDAC charges	**64 125**	55 635
Sundry commission	**59 418**	471 333
Bankers cheques issued	**32 600**	150 850
	21 096 375	27 412 140

6. Other operating income

	2019 K	2018 K
Recoveries from loan loss provisions	**6 800 694**	58 930
	6 800 694	58 930

7. Personnel expenses

	2019	2018
Staff salaries	**36 334 813**	28 895 329
Staff welfare	**5 749 969**	7 795 746
Gratuity	**3 731 917**	3 593 543
Pension Cost	**2 286 606**	747 642
Leave pay	**864 457**	39 313
Staff travel	**363 062**	11 600
	49 330 825	41 083 173

8. Other expenses

	2019	2018
Management fees	**10 597 132**	5 238 219
Swift, Reuters and bank charges	**6 070 157**	5 253 818
Travelling	**3 774 602**	986 314
Legal and professional fees	**3 578 511**	1 165 983
Licences and levies	**2 499 527**	1 642 285
Advertising and rebranding	**2 225 566**	1 360 932
Computer software	**1 998 251**	1 550 876
Supervisory fees	**1 830 682**	1 735 801
Directors' Fees	**1 812 276**	1 120 299
VISA general charges	**1 731 938**	2 215 651
Communication expenses	**1 659 597**	1 734 775
Repairs and maintenance	**1 588 602**	1 240 910
Accommodation	**1 504 149**	1 075 210
Security	**1 344 412**	1 014 376
Audit fees	**1 400 868**	588 843
Printing and stationery	**1 195 852**	778 974
Miscellaneous	**908 302**	2 066 580
Transport	**521 251**	535 220
Insurance	**450 714**	406 080
Other directors expenses	**425 046**	336 215
Other expenses	**321 590**	157 159
Electronic clearing house charges	**278 408**	324 150
Electricity and water	**299 454**	344 517
Bankers association fees	**214 892**	343 336
Training	**110 162**	116 942
General expenses	**86 412**	63 582
Professional fees and subscriptions	**43 060**	37 559
	48 471 413	33 434 605

9. Profit before income tax

Profit before income tax is stated after crediting:

	2019	2018
Interbank lending	**3 101 482**	4 162 664
Trading Income	**20 405 681**	34 076 513
Recoveries from loan losses	**6 800 694**	58 930

and after charging:

	2019	2018
Emoluments:		
- Key management personnel	**22 474 049**	13 503 000
- Directors' fees	**1 812 276**	1 120 299
Interest payable to other banks	**11 047 516**	7 323 566
Impairment charge	**9 657 997**	7 635 833
Depreciation of right of use assets	**6 749 806**	-
Depreciation expense - property and equipment	**5 300 904**	5 272 508
Amortisation of intangible assets	**2 303 311**	1 735 428
Pension costs	**2 286 606**	740 606
Donations	**185 200**	43 001

9. Profit before income tax (continued)

	2019	2018
	K	K
Impairment charge		
Impairment charge on loans and advances	**9 150 624**	7 220 746
Impairment charge on low risk assets and off balance sheets exposures	**507 372**	415 087
	9 657 997	7 635 833

Analysis of expected credit losses

Movements in provisions for impairment of loans and advances

	2019	2018
Opening balance	**9 123 993**	4 302 442
Recoveries	**(6 800 694)**	(58 930)
Amounts written off	**(6 801 313)**	(2 340 264)
Charge for the year	**9 150 624**	7 220 746
	4 672 611	**9 123 993**

Movements in provisions for impairment of low risk assets and off balance sheet exposures

	2019	2018
Opening balance	**633 319**	-
Charge for the year	**507 372**	633 319
	1 140 691	**633 319**

10. Income tax

Income tax is calculated at the statutory rate of 35% on banking profits (2018: 35%).

	2019	2018
Current tax	**5 801 081**	18 883 134
Deferred tax (charge)	**1 637 181**	(2 908 600)
Income tax expense	**7 438 262**	15 974 534

The movement during the year in the current tax balance is as follows:

	2019	2018
Tax recoverable at beginning of year	**(3 402 958)**	1 151 420
Payable in respect of the year	**(5 801 081)**	(18 883 134)
Tax paid during the year	**9 189 678**	10 331 664
Witholding tax recoveries in respect of current year	**14 713 503**	4 269 063
Witholding tax received during the year from ZRA	**-**	(271 970)
Current tax asset (liability) at end of year	**14 699 142**	(3 402 958)

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2019	2018
Profit before income tax	**15 624 830**	44 919 402
Tax calculated at the statutory income tax rate of 35% (2018: 35%)	**5 468 690**	15 721 791
Non-deductible expenses	**1 969 571**	252 743
Income tax expense	**7 438 262**	15 974 534

10. Income tax (continued)

Deferred tax

A deferred tax asset has been recognised in respect of these items because it is probable that future taxable profits will be available against which the Bank can utilise the benefits there from:

	Assets		Liabilities		Net	
	2019	2018	**2019**	2018	**2019**	2018
	K	K	**K**	K	**K**	K
Recognised deferred tax asset						
Leasehold improvements and equipment	**(2 090 956)**	(902 766)	**-**	-	**(2 090 956)**	(902 766)
Provisions	**(693 221)**	(2 503 412)	**-**	-	**(693 221)**	(2 503 412)
Tax effect on IFRS 9 transition adjustment	**340 312**	340 312	**-**	-	**340 312**	340 312
Leased assets	**(224 681)**				**(224 681)**	
Collective portfolio impairment provision	**(1 635 414)**	(2 875 275)	**-**	-	**(1 635 414)**	(2 875 275)
Deferred tax assets	**(4 303 960)**	(5 941 141)	**-**	-	**(4 303 960)**	(5 941 141)

Movement in temporary differences

	1 January 2018	Recognised in profit or loss/Equity	Balance at 31 December 2018	Recognised in profit or loss	Charged to equity	Balance at 31 December 2019
	K	K	K	K		K
Leasehold improvements and equipment	(532 524)	(370 242)	(902 766)	(1 188 190)	-	**(2 090 956)**
Provisions	(2 270 928)	(232 485)	(2 503 413)	1 810 191	-	**(693 221)**
Tax effect on IFRS 9 transition adjustment	-	340 312	340 312	-	-	**340 313**
Leased assets	-	-	-	(224 681)	-	**(224 681)**
Collective portfolio impairment provision	(569 402)	(2 305 873)	(2 875 275)	1 239 861	-	**(1 635 414)**
	(3 372 824)	(2 568 288)	(5 941 142)	1 637 181	**-**	**(4 303 960)**

The Bank applies IAS 12 – Income taxes, which states that deferred tax asset is recognised in respect of deductible temporary differences. A deferred tax asset should be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

11. Cash Balances

11.1 Cash and balances with the Central Bank

	2019 K	2018 K
Cash on hand	**34 492 986**	37 126 349
Balances at Bank of Zambia:		
Statutory deposit	**103 054 580**	80 090 205
Settlement account	**(14 585 742)**	(23 106 550)
	88 468 838	56 983 655
Loss allowance	**(7 788)**	(3 393)
	122 954 035	94 106 611

The statutory deposit held with Bank of Zambia, as a minimum reserve requirement, is not available for the Bank's day to day operations. The reserve represents a requirement by the Central Bank and is a percentage of the Bank's local currency and foreign currency liabilities to the public. At 31 December 2019 the percentage was 9% (2018:5%).

11.2 Cash and short term funds

	2019	2018
Detsche Bank New York	**141 009 693**	93 026 486
DCB Limited Mumbai	**95 416 384**	29 478 568
Deutsche Bank Trust Bank Americas	**14 790 065**	6 760 720
FBN	**2 109 803**	3 963 437
ABSA Bank Limited	**13 415 161**	3 669 900
Crown Agents Bank Limited	**22 789**	454 131
Deutsche Bank Trust Bank Americas	**(301 677)**	333 978
Citi Bank	**3 354 673**	
	269 816 890	137 687 220
Loss allowance	**(6 803)**	(3 952)
	269 810 087	137 683 268

11.3 Cash and cash equivalents at end of year

2019	**At 1 January K**	**Cash flow K**	**At 31 December K**
Cash and balances with Central Bank	**94 110 004**	**28 844 032**	**122 954 035**
Cash and short term funds	**137 679 556**	**132 130 531**	**269 810 087**
Placements with other banks	**45 046 936**	**(41 893 494)**	**3 153 442**
Total	**276 836 496**	**119 081 069**	**395 917 564**

2018	At 1 January	Cash flow	At 31 December
Cash and balances with Central Bank	106 564 242	(12 454 238)	94 110 004
Cash and short term funds	21 055 554	116 624 002	137 679 556
Placements with other banks	2 653 118	42 393 818	45 046 936
Total	130 272 914	146 563 582	276 836 496

12. Placements with other banks

	2019 K	2018 K
Barclays Bank Zambia Plc	**3 153 503**	2 765 625
Crown Agents Bank Limited	**-**	24 093 463
First Alliance Bank Zambia Limited	**-**	18 187 848
	3 153 503	45 046 936
Loss allowance	**(61)**	(319)
	3 153 442	45 046 617

13. Investment securities

	2019 K	2018 K
Investment securities measured at amortised cost		
Government bonds	**32 754 975**	32 139 416
Treasury bills	**258 678 003**	223 247 954
Government securities	**291 432 978**	255 387 369
Other investments	**-**	594 860
Gross amount	**291 432 978**	255 982 229
Loss allowance	**(865 248)**	(543 570)
Net amount	**290 567 730**	255 438 659

Government securities are due to mature as follows:

Current	**258 678 003**	223 247 954
Non- Current	**32 754 975**	32 139 416
	291 432 978	255 387 369

Average interest on treasury bills was 25.58% (2018: 21%). Average interest rate on government bonds was 11% (2018: 11%).

Movements in investment in securities

At 1 January	**255 387 369**	179 085 508
Additions	**301 880 833**	251 638 440
Redemptions (Maturities)	**(265 240 365)**	(175 336 579)
At 31 December	**291 432 978**	255 387 369

14. Loans and advances to customers

Net loans and advances

Gross loans and advances to customers	**684 740 137**	576 326 501
Loss Allowance	**(4 301 040)**	(9 123 993)
	680 439 098	567 202 507

14.1 Analysis of expected credit losses

Stage 1	**(1 741 166)**	(1 488 402)
Stage 2	**(168 385)**	(28 885)
Stage 3	**(2 763 060)**	(7 606 707)
Allowance for impairment including staff loans	**(4 672 611)**	(9 123 993)

Loss allowance on staff loan loss allowance K371,571 (2018: K8,041).

14. Loans and advances to customers (continued)

14.2 Net loans and advances

	Consumer Banking K 2019	Business Banking K 2019	Total K 2019	Consumer Banking K 2018	Business Banking K 2018	Total K 2018
Personal and term loans	2 602 119	337 371 792	339 973 911	2 084 877	225 945 587	228 030 464
Mortgage loans	499 738		499 738	-	-	-
Overdrafts	9 447 809	340 917 389	350 365 198	2 673 106	355 775 944	358 449 050
Interest in suspense	(1 169 969)	(4 928 742)	(6 098 710)	(424 985)	(11 056 608)	(11 481 593)
Transition adjustment on IFRS 9 adoption	-	-	-	-	1 328 580	1 328 580
Gross loans and advances to customers	**11 379 698**	**673 360 439**	**684 740 137**	4 332 998	571 993 503	576 326 501
Less: allowance for impairment						
Stage1	(10 061)	(1 359 534)	(1 369 595)	(5 928)	(1 223 489)	(1 488 402)
Stage2		(168 385)	(168 385)	(5 667)	(396 796)	(28 885)
Stage3	(766 000)	(1 997 059)	(2 763 060)	(584 699)	(1 261 355)	(7 606 707)
Allowance for impairment	**(776 062)**	**(3 524 978)**	**(4 301 040)**	(596 294)	(2 881 640)	(9 123 993)
Net loans and advances	**10 603 636**	**669 835 462**	**680 439 098**	3 736 703	569 111 863	567 202 507

Staff loans amounting to K 13,717,404 with related impairment of K371,571 (2018: K9,450,774 net of impairment) have been excluded from the table above. Staff loans are disclosed separately in other receivables note 15.

14.3 Maturity analysis of loans and advances

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

	2019 K	2018 K
One month	**347 499 753**	363 369 768
Less than three months (two to three months)	**-**	598 377
Maturity between four months to one year	**76 748 605**	44 914 285
Maturity between two year to five years	**256 002 366**	152 246 314
Maturity over five years	**188 373**	6 073 763
	680 439 098	567 202 507

Loans and advances to related parties as at year ended 31 December 2019 amounted to K13.5 million (2018: K25.6 million).

The Directors consider that the carrying amounts of loans and advances are a reasonable approximation of their fair value.

The Bank manages these loans and advances in accordance with its investment strategy. Internal reporting and measurement of these loans and advances are at amortised cost. Impairment of loans and advances has been calculated as disclosed in note 30.

14. Loans and advances to customers (continued)

14.4 Collateral against exposure

	2019 K	2018 K
Neither past due nor impaired	**2 027 591 424**	1 035 126 500
Past due but not impaired	**289 655 396**	12 093 500
Non-performing loans	**272 334 815**	135 812 424
	2 589 581 636	1 183 032 424

14.5 Credit quality

The Bank monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

An analysis of the Bank's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Maximum exposure to credit risk

		ECL stage			
	2019 K	**stage1 K**	**stage2 K**	**stage3 K**	**2018 K**
Loans and advances to customers (including staff loans)	704 556 252	348 340 592	318 746 683	37 468 976	595 938 329
Guarantees and Letters of credit	110 803 515	110 803 515	-	-	84 045 000
Investment securities	291 413 138	291 413 138	-	-	255 982 229
Bank balances	395 932 216	395 932 216	-	-	194 670 875
Placements with other banks	3 153 442	3 153 442			45 046 617
Other assets	21 282 798	21 282 798	-	-	26 158 947
	1 527 141 360	**1 170 925 700**	**318 746 683**	**37 468 976**	1 201 841 996

14. Loans and advances to customers (continued)

14.5 Credit quality (continued)

Maximum exposure to credit risk

2019

Credit exposure	ECL grade	Loans and receivables from banks K	Loans and advances to customers & staff K	Guarantees provided K	Investment securities-debt K	Bank balances K	other assets K	Total K
Investment grade	1-3	3 153 503	648 118 946	110 803 515	291 413 138	395 932 216	21 282 798	**1 470 704 116**
Standard monitoring	4-7	-	18 968 329	-	-	-	-	**18 968 329**
Non-performing loans	8-10	-	37 468 976	-	-	-	-	**37 468 976**
Gross exposure		**3 153 503**	**704 556 252**	**110 803 515**	**291 413 138**	**395 932 216**	**21 282 798**	**1 527 141 421**

2018

Credit exposure	ECL grade	Loans and receivables from banks K	Loans and advances to customers & staff K	Guarantees provided K	Investment securities-debt K	Cash & Cash Equivalents K	Other assets K	Total K
Investment grade	1-3	45 046 936	527 723 772	84 045 000	255 982 229	194 670 875	26 158 947	**1 133 627 759**
Standard monitoring	4-7	-	2 658 894	-	-	-	-	**2 658 894**
Non-performing loans	8-10	-	65 555 663	-	-	-	-	**65 555 663**
Gross exposure		**45 046 936**	**595 938 329**	**84 045 000**	**255 982 229**	**194 670 875**	**26 158 947**	**1 201 842 316**

14.6 Credit risk concentration of loans and advances were as follows:

	2019 K	%	2018 K	%
Agriculture, forestry, fishing and hunting	**11 843 620**	**2**	14 843 913	2
Mining and quarying	**61 043 802**	**9**	37 609 698	6
Manufacturing	**199 653 030**	**28**	85 799 641	14
Electricity, gas, water and energy	**29 369 591**	**4**	21 536 242	4
Construction	**25 342 467**	**4**	71 717 687	12
Wholesale and retail trade	**285 132 699**	**40**	267 656 899	45
Restaurants and hotels	**1 464 784**	**0**	739 055	0
Transport, storage and communications	**39 553 023**	**6**	47 404 612	8
Financial services	**454 435**	**0**	569 292	0
Community, social and personal services	**14 583 852**	**2**	17 673 625	3
Real estate	**3 067 374**	**0**	15 760 419	3
Personal and Other sectors	**19 330 171**	**3**	5 176 469	1
Staff	**13 717 404**	**2**	9 450 774	2
	704 556 252	**100**	595 938 328	100

14. Loans and advances to customers (continued)

14.6 Credit risk concentration of loans and advances were as follows (continued)

2019	Total loans K	impaired loans K	Write offs K	Recoveries K	Loss allowance K
Agriculture, forestry, fishing and hunting	11 843 620	-	2 660 081	35 877	-
Mining and quarying	61 043 802	3	409	103 536	584 439
Manufacturing	199 653 030	442 870	1 993 488	213 611	25 644
Electricity, gas, water and energy	29 369 591	-	1	58 131	-
Construction	25 342 467	7 771 949	-	4 353 221	6
Wholesale and retail trade	285 132 699	22 492 343	1 820 113	1 470 751	1 707 915
Restaurants and hotels	1 464 784	1 020 490	-	941	1 020 490
Transport, storage and communications	39 553 023	582 906	-	203 536	30 074
Financial services	454 435	454 435	-	-	-
Community, social and personal services	14 583 852	-	375 480	33 207	156 250
Real estate	3 067 374	3 067 374	-	761	-
Personal and other sectors	19 330 171	1 636 607	32 325	326 804	776 221
Staff	13 717 404	-	-	-	371 571
	704 556 252	**37 468 976**	**6 881 897**	**6 800 376**	**4 672 611**

2018	Total loans K	impaired loans K	Write offs K	Recoveries K	Loss allowance K
Agriculture, forestry, fishing and hunting	14 843 913	1 792 376	123 535	-	64 877
Mining and quarying	37 609 698	18	134 668	216 358	103 945
Manufacturing	85 799 641	2 315 384	140 802	2 798 454	638 287
Electricity, gas, water and energy	21 536 242	-	-	2 644 953	58 132
Construction	71 717 687	24 250 779	31 842	1 389 968	4 353 221
Wholesale and retail trade	267 656 899	5 164 664	1 175 366	19 115	1 985 684
Restaurants and hotels	739 055	724 421	648	-	941
Transport, storage and communications	47 404 612	13 077 485	10 343	198 002	209 964
Financial services	569 292	569 292	45 191	128 027	583 901
Community, social and personal services	17 673 625	572 703	208 785	22 710	416 703
Real estate	15 760 419	15 483 557	266 323	72 140	761
Personal and other sectors	5 168 428	1 604 983	2 748 991	144 815	699 536
Staff	9 458 815	-	-	-	8 041
	595 938 326	**65 555 662**	**4 886 494**	**7 634 542**	**9 123 993**

14. Loans and advances to customers (continued)

14.7 Credit risk concentration of loans and advances were as follows (continued)

Reconciliation of Financial Assets and expected credit losses

	2019		2018	
	Gross Carrying Amount	Expected Credit Losses	Gross Carrying Amount	Expected Credit Losses
On-Balance Sheet Exposures				
Loans and advances to customer at amortised cost				
- Overdrafts	350 638 501	2 739 439	358 449 050	7 146 810
- Term Loans	343 720 018	1 249 662	228 022 553	1 756 376
- Mortgage	9 743 298	683 509	8 897 433	220 807
Loans and advances to financial institutions	454 435	-	569 292	-
	704 556 252	4 672 611	595 938 329	9 123 993
Other financial assets measured at amortised cost				
- Cash	34 492 986	-	37 126 349	-
- Central bank balances	88 468 838	7 788	56 983 655	3 393
	122 961 823	7 788	94 110 004	3 393
- Balances with other banks				
- Nostro balances	270 650 237	6 803	161 780 683	3 952
- Interbank placements (Local and Foreign)	3 153 503	61	20 953 473	319
	273 803 740	6 864	182 734 156	4 271
- Treasury bills and short term government securities	291 432 978	716 385	223 247 791	426 391
- Government bonds	32 754 975	148 863	32 139 416	117 179
	324 187 953	865 248	255 387 207	543 570
Total gross on-balance sheet exposures	1 425 509 767	5 552 510	1 128 169 696	9 675 227
Off balance sheet exposures				
- Financial guarantees	67 338 626	150 488	49 485 798	32 730
- Perfomance gurantees	43 464 889	110 304	34 559 202	49 355
Total off-balance sheet exposures	110 803 515	260 791	84 045 000	82 084
Off balance sheet and low risk assets expected credit losses		1 140 691		633 319
Low risk asset expected credit losses		879 900		551 234

15. Other receivables

	2019 K	2018 K
Non-customer treasury account**	-	25 084 500
Staff loans*	13 345 833	9 450 774
Prepayments	6 525 255	2 775 006
Interest receivable	1 351 841	335 324
Clearing main	283 158	116 676
	21 506 087	37 762 280
Current	**8 160 254**	28 311 506
Non-current	**13 345 833**	9 450 774
	21 506 087	37 762 280

** These are transactions which occur with customers who have a dealing mandate with the Bank but do not have a bank account.

*Employee loans and advances are offered on concessionary rates. House and car loans are enhanced by collateral of landed property and in the case of car loans, the vehicle registration certificate is endorsed with the Bank as absolute owner. Personal loans do not attract any form of collateral.

Where staff loans are issued to members of staff at concessionary rates, fair value is calculated based on market rates. There was no charge to the profit and loss during the year because the fair value amount that was calculated was insignificant.

The prevailing interest rates on staff loans were as follows:

	2019 K %	2018 K %
Personal loan	**11.5**	8.6
Car loan	**11.5**	8.6
House loan	**11.5**	8.0

16. Property held for sale

Balance at 1 January 2019	**26 158 947**
Additions	**17 761 484**
Balance at 31 December 2019	**43 920 431**

The Bank has classified 2 properties as held for sale as at 31 December 2019, one which was recognized in 2018 as held for sale and both relating to re-possed collateral on defaulted loans. In relation to the Heroes Estate property recognised as held for sale in 2018, the initial recognition was based on the fact that the sale of the property would happen within 12 months.

In relation to the Heroes Estate property recognized as held for sale in 2018, the initial recognition was based on the fact that the sale of the property would happen within 12 months. However, due to circumstances which arose during the year the Bank was unable to dispose of the asset in 2019. However, measures to dispose of the property are actively being pursued and it is expected that the property will be disposed off within the next 12 months.

17. Intangible assets

	Software
Cost	K
At 1 January 2018	12 331 948
Additions	1 550 003
At 31 December 2018	13 881 951
At 1 January 2019	**13 881 951**
Additions	2 962 256
At 31 December 2019	**16 844 207**
Amortisation	
At 1 January 2018	5 204 815
Amortisation for the year	1 735 428
At 31 December 2018	6 940 243
At 1 January 2019	**6 940 243**
Amortisation for the year	2 303 311
At 31 December 2019	**9 243 554**
Carrying amount	
At 31 December 2018	6 941 708
At 31 December 2019	**7 600 653**

Intangible assets relate to externally developed software.

18. Investment property

	2019	2018
	K	K
Balance at beginning of year	**16 670 250**	11 940 000
Fair value gain	**-**	4 730 250
Balance at end of year	**16 670 250**	16 670 250

The fair value of the Bank's investment property was arrived at on the basis of valuation carried out by Messrs Classic Property Consultants, independent valuers not related to the Bank. Classic Property Consultants are members of the Surveyors Institute of Zambia (SIZ) and the Zambia Institute of Estate Agents (ZIEA) and they have appropriate qualifications and recent experience in the valuation of properties in relevant locations. The valuation which conforms to the International Valuation Standard was arrived at by reference to the valuation method under international accounting standard (IAS 40 Investment property).

The Investment Property (Land) is carried at fair value with latest valuation being done as at 31 December 2018. Management believes that the valuation still remains appropriate as reported. Next assessment is due on 30 June 2020. Management has maintained the Land as investment property as the intention still remains to collect rentals and hedging purposes from value appreciation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

19. Property and equipment

	Leasehold improvements	Capital Work in Progress	Furniture and fitting	Motor vehicle	Office equipment	Computer hardware	ATM machines	Total
Cost	K	K	K	K	K	K	K	K
Balance at 1 January 2018	16 319 643	977 160	2 142 531	1 370 243	5 940 546	3 567 697	1 238 014	31 555 834
Additions	2 183 107	1 127 541	434 569	-	622 653	322 598	169 042	4 859 510
Transfer	912 890	(1 235 975)	66 701	-	226 133	30 252	-	-
At 31 December 2018	**19 415 640**	**868 726**	**2 643 801**	**1 370 243**	**6 789 332**	**3 920 547**	**1 407 056**	**36 415 344**
Balance at 1 January 2019	19 415 640	868 726	2 643 801	1 370 243	6 789 332	3 920 547	1 407 056	36 415 344
Additions	713 521	4 523 308	45 228		925 521	1 034 420	21 831	7 263 830
At 31 December 2019	**20 129 161**	**5 392 034**	**2 689 029**	**1 370 243**	**7 714 853**	**4 954 967**	**1 428 887**	**43 679 174**
Accumulated depreciation								
Balance at 1 January 2018	8 304 460	-	1 756 867	756 283	2 612 331	2 244 283	669 219	16 343 443
Depreciation for the year	2 945 890	-	398 102	272 104	964 640	526 119	165 652	5 272 508
At 31 December 2018	**11 250 350**	**-**	**2 154 969**	**1 028 387**	**3 576 971**	**2 770 402**	**834 871**	**21 615 951**
Balance at 1 January 2019	11 250 350	-	2 154 969	1 028 387	3 576 971	2 770 402	834 871	21 615 951
Depreciation for the year	3 167 622	-	155 408	218 243	1 073 321	456 509	229 802	5 300 904
At 31 December 2019	**14 417 972**	**-**	**2 310 377**	**1 246 630**	**4 650 293**	**3 226 910**	**1 064 673**	**26 916 855**
Carrying amounts								
At 31 December 2019	**5 711 189**	**5 392 034**	**378 652**	**123 613**	**3 064 560**	**1 728 057**	**364 214**	**16 762 319**
At 31 December 2018	8 165 290	868 726	488 832	341 856	3 212 361	1 150 145	572 185	14 799 393

In accordance with section 279 of the Companies Act 2017 the Register of Land and Buildings is available for inspection by members and their duly authorised agents at the Registered Records Office of the Bank.

20. Right of use assets

	Buildings K
Cost	
At 1 January 2019	28 075 757
Additions	4 120 541
At 31 December 2019	**32 196 298**
Amortisation	
At 1 January 2019	
Depreciation	6 749 806
At 31 December 2019	**6 749 806**
Carrying amounts	
At 31 December 2019	**25 446 492**

The Bank lease 8 buildings with an average of 5 years lease period. During the year, one lease contract expired. The expired contract was replaced by a new agreement for underlying asset and resulted in additional K3.87 million.

21. Deposits from customers

	2019 K	2018 K
Consumer Banking:		
Fixed deposits	**211 748 102**	41 699 705
Savings accounts	**54 989 857**	39 785 462
Current accounts	**44 319 456**	130 139 177
	311 057 415	211 624 345
Business Banking:		
Current accounts	**525 131 515**	260 391 230
Fixed deposits	**269 480 954**	370 775 177
Savings accounts	**4 636 745**	10 782 336
	799 249 215	641 948 743
	1 110 306 629	853 573 088

22. Amounts payable to banks and Other Financial Institutions

Nederlandse financierings-maatshappij voor ontwikerlingsladen N.V	**141 110 677**	-
Indo-Zambia Bank Limited	**30 000 000**	12 000 000
AB Bank Zambia Limited	**10 000 000**	-
	181 110 677	12 000 000

All balances due to other banks are stated at amortised cost.

During the year, the Bank secured USD10 million credit facility with Nederlandse financierings-maatshappij voor ontwikerlingsladen N.V for on lending to the Bank's customers. The facility carries interest of 3.5% per annum plus 3 months Libor and is repayable quarterly in equal installment ending 10 December 2023.

Balances due to Indo-Zambia Bank and AB Bank represent short term borrowing from local banks.

23. Related party transactions

Parent and ultimate controlling party

FMB Capital Holdings Plc incorporated and domiciled in Mauritius holds 49% shareholding in First Capital Bank Zambia; the rest of the 51% shareholding is held by local Zambian companies as follows: Afility Investments TS Limited 25%, Sakky Investments Limited 19% and Kark Investments Limited 7%.

Below are the related party balances:

	2019	2018
Amounts payable to group banks	K	K
Prime Bank Limited	-	120 311 241
Capital Bank Mozambique	-	35 790 001
FMBCH Mauritius	**3 569 480**	-
FMB Malawi	**1 851 082**	
Capital Bank Botswana	**45 106**	-
	5 465 668	156 101 242

The amounts payable represent Intercompany payables to group banks, which are payable within the year.

Loans to Directors and entities connected to directors

Loans and advances disbursed to the Directors and entities connected to directors during the year amounted to K0.8 million (2018: K21.8 million). Loans to non-executive Directors are made under commercial terms in the ordinary course of the Bank's business.

Loans to executive Directors are made on the same terms as those of other employees of the Bank.

Key management personnel compensation

	2019	2018
Salaries and other short-term employment benefits	**22 474 049**	13 503 000

Directors' emoluments

	2019	2018
Directors' fees	**1 812 276**	1 120 299

A number of banking and other transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency and other transactions for services. The volumes of related party transactions, outstanding balances at the year end, and the related interest expense and income for the year are as follows:

Loans and advances

2019	**Directors**	**Entities connected to Directors**	**Key management staff**	**Total**
	K	K	K	K
At 1 January	93 028	25 482 830	6 155 945	**31 731 803**
Issued during the year	-	800 259	4 291 804	**5 092 064**
Repayments during the	(58 338)	(12 864 692)	(1 646 472)	**(14 569 502)**
At 31 December	**34 689**	**13 418 397**	**8 801 278**	**22 254 364**
Interest income earned	**26 870**	**3 189 809**	**524 644**	**3 741 323**

Loans and advances 2018				
At 1 January	7 159 988	22 463 268	7 953 616	37 576 872
Loans issued during the	-	21 891 655	663 000	22 554 655
Repayments during the	(7 066 960)	(18 872 093)	(2 460 671)	(28 399 724)
At 31 December	93 028	25 482 830	6 155 945	31 731 803
Interest and fee income	26 870	3 189 809	524 644	3 741 323

23. Related party transactions (continued)

DEPOSIT	Directors K	Entities connected to Directors K	Key management staff K	Total K
2019				
At 1 January	23 697 527	19 215 659	(1 749 735)	41 163 452
Deposits during the year	15 171 468	112 930 643	663 000	22 197 478
Withdrawals	(13 214 162)	(116 363 388)	(2 460 671)	(28 042 546)
At 31 December	**25 654 833**	**15 782 914**	**(3 547 405)**	**35 318 384**
Interest paid	**1 698 130**	**8 965**	**20 963**	**1 728 058**
2018				
Deposits at 1 January	4 053 562	16 196 096	47 936	20 297 594
Deposits during the year	10 779 654	21 891 655	663 000	33 334 309
Withdrawals	8 864 311	(18 872 092)	(2 460 671)	(12 468 452)
At 31 December	23 697 527	19 215 659	(1 749 735)	41 163 452
Interest paid	97 850	2 384 158	140 207	2 622 215

24. Lease liabilities

	2019 K
Opening balance	-
Recognised on 1 january	28 075 757
Additions	4 120 541
Finance Cost	1 666 828
Lease Payments	(7 774 689)
At 31 December	**26 088 438**
Non-Current	19 761 024
Current	6 327 414
	26 088 438
Maturity Analysis	
Less than one year	-
Later than one year but not later than two years	1 609 004
Later than two years but not later than five years	8 673 125
Later than five years	15 806 309
	26 088 438

The Directors consider that the fair value of the lease liabilities is equal to their carrying values as reflected in the statement of financial position.

The Company's weighted average incremental borrowing rates applied to lease liabilities recognised in the statement of financial position on 1 January 2019 are 12.5% for leases in Zambian Kwacha and 5% for leases in US Dollar.

25. Other liabilities

	2019 K	2018 K
Sundry liabilities	**30 941 681**	26 940 029

The analysis of sundry liabilities is shown below:

	2019 K	2018 K
Other provisions	**15 824 859**	3 720 242
Sundry creditors	**4 948 657**	9 396 185
Withholding tax	**3 296 581**	156 524
Deferred income	**2 618 023**	2 582 413
Pay As You Earn	**1 762 520**	1 010 802
Provision for gratuity	**1 243 355**	3 652 480
Bankers cheques	**747 810**	1 032 810
Clearing suspense	**264 943**	3 030
National Pension Scheme Authority	**234 933**	147 325
Bank management services	-	5 238 219
	30 941 681	26 940 029

26. Share capital

	2019 K	2018 K
Authorised, issued and fully paid up		
104,000,000 (2018: 104,000,000) ordinary shares of K1.00 each	**104 000 000**	104 000 000
Share premium	**11 156 599**	11 156 599

27 Credit risk reserve

	2019 K	2018 K
Impairment as per Bank of Zambia	**7 669 874**	23 064 270
Impairment as per IFRS	**(4 672 611)**	(9 123 993)
Excess of Bank of Zambia impairment for the year	**2 997 263**	13 940 277

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

The Bank has charged impairment losses on loans and advances accordance with IFRS 9. The difference of the charge for impairment based on Bank of Zambia Statutory Instrument No.142 and the charge based on International Financial Reporting Standards (IFRS 9) has been charge to Credit risk reserve because provisions based on Statutory Instrument No. 142 are higher than same calculation based on IFRS 9.

28. Contingent liabilities

The Bank issued bank guarantees amounting to K104 million in the year under review (2018: K88.45 million). The balance outstanding as at 31 December 2019 was K110 million (2018: K88 million).

29. Capital commitments

There were no significant capital commitments at 31 December 2019 and 2018.

30. Events after the reporting date

There were no events noted after reporting date that required to be adjusted for in the financial results of First Capital Bank Limited. The effects of COVID-19 pandemic both direct and indirect will impact the 2020 financial year. The Bank is however unable to quantify the impact of the measures that it will put in place to respond to the COVID-19 pandemic. However, the outbreak is likely to cause a decline in the country's GDP as companies shut down. Consequently the Bank's income may decline due to lower customer activity and own scale down initiatives to manage the impact to staff.

The Bank's customers are concentrated in various industry sectors which have been disclosed in note 14.6. One of the significant impact of the COVID-19 pandemic on the Zambian economy has been on the wholesale/retail trade and manufacturing sectors. Loans to clients within these sector constitute 60% of the Bank's loan book. The Bank will initiate stress tests to assess the impact that the pandemic may have on the performance of this section of its loan book.

The Bank is encouraging its customers through various communication channels to transact using electronic channels and cards, this will minimise the decline in transactions volumes. The Bank has also put in some measures to manage credit risk at sector and customer level to minimise the credit risk impact.

The Bank will be conducting periodic stress tests on its loan assets to assess requisite levels of preparedness, magnitude and potential negative impact. As the pandemic evolves, there is an expectation of repayment delays and/or requests to extend loan repayments due to adverse impacts on borrower cash-flows.

31. Financial risk management review

31.1 Financial risk management

(i) Introduction and overview

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

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

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

31. Financial risk management review (continued)

31.1 Financial risk management (continued)

Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit and Risk Management Committees, which are responsible for developing and monitoring risk management policies in specified areas. The Committee membership comprises of non-executive Directors and reports regularly to the Board of Directors on its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk Management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Committees are assisted in their oversight roles by the Risk Management and Internal Audit functions of the Bank. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Bank's Board of Directors.

Credit risk

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

Management of credit risk

The Board of Directors has established the authorization structure for the approval and renewal of credit facilities and delegated responsibility for the oversight of credit risk to its Credit Committee and Loans Review Committee. The Credit Committee, is responsible for managing the credit risk, including the following.

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Assessing and approving all credit exposures as per the limits delegated by the Board. Subsequent to the approval from the Credit Committee, facilities are disbursement to customers. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures);
- Developing and maintaining the Bank's risk gradings to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the committee;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to credit committee, which may require appropriate corrective action to be taken; and
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank's in the management of credit risk.

The Credit Department is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. The Committee is responsible for the quality and performance of the credit portfolio and for monitoring and controlling all credit risks in it's portfolios. Regular audits of business units and Credit processes are undertaken by Internal Audit and regular reviews of the portfolio is also done by the Risk Department.

31. Financial risk management review (continued)

31.1 Financial risk management (continued)

Management of credit risk (continued)

The Loans Review Committee is responsible for reviewing the credit risk of the Bank including the following;

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to credit committee, which may require appropriate corrective action to be taken;
- Reviewing all the loans and advances which have been sanctioned by the Credit Committee;
- Reviewing the portfolio composition including sectoral and industry exposures; and
- Reviewing the portfolio to ensure that all the regulatory directives have been met.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient funding to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury department receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from forecast future business. Treasury department then maintains a portfolio of short-term liquid assets, largely made up of short term liquid investment securities and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank further has to comply with the liquidity requirements set by the Central Bank which monitors compliance with local regulatory limits on a regular basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors through the Audit and Risk Management Committees. A summary report, including any exceptions and remedial action taken, is submitted regularly to the Board of Directors.

Market risk

Market risk is the risk that changes in the market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's /issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters in order to ensure the Bank's solvency while optimising the return on investment. The Bank faces two main risks in this category; interest and foreign exchange rate risk.

Management of market risk

The Bank operates within market risk management policies that are set by the Bank's Board of Directors. Limits have been set to control the Bank's exposure to movements in prices and volatilities arising from trading, lending, deposit taking and investment decisions.

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

Interest rate risk

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

31. Financial risk management review (continued)

31.1 Financial risk management (continued)

Operational risk

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

Management of strategic risk

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

Management of regulatory risk

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

31.2 Financial risk review

Credit risk is the risk of financial loss should the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. The Bank actively seeks to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk adjusted returns in line with board-approved risk parameters. The credit risk that the Bank faces arises mainly from corporate loans and advances and counterparty credit risk arising from derivative contracts entered into with our clients. Other sources of credit risk arise from treasury bills, government bonds, settlement balances with counterparties and bank balances with Central Bank and other related banks.

31.2.1 Credit risk management

Credit risk management objectives are;

* Supporting the achievement of sustainable asset and revenue growth in line with our risk parameters
* Operating sound credit granting processes and monitoring credit risk using appropriate models to assist decision making
* Ensure credit risk taking is based on sound credit risk management principles and controls
* Continually improving collection and recovery

a) Risk limit and mitigation policies

The Bank uses a range of policies and practices to mitigate credit risk. These include credit scoring, marking limits against counter parties and monitoring cashflows and utilisation against limits, covenants and collateral. Principal collateral types used for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as inventory, accounts receivable and moveable assets;
- Cash cover.

The Bank's Legal and Credit departments are responsible for conducting sufficient legal review to confirm that the approved collateral is legally effective. The ratio of value of loan to value of security is assessed on grant date and continuously monitored.

Internal credit risk ratings

The Bank uses external rating where available from ratings agencies, alternatively an internal application credit risk scoring tool that reflects its assessment of the Probability of Default (PD) of individual counterparties. Borrower and loan and advances specific information collected at the time of application (such as borrower profile, business activity, financial, account conduct, facility type, tenor and collateral) is fed into this rating tool. This is supplemented with external data such as credit bureau scoring information. The tool enables expert judgement to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

31.2 Financial risk review (continued)

31.2.1 Credit risk management (continued)

Internal credit risk ratings (contiued)

Originators and underwriters will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the Bank officials will also update information about the creditworthiness of the borrower every year from sources such as financial statements, bank statements, credit bureau information and market feedback This will determine the updated internal credit rating.

Behavioural:

Payment and other behavioural aspects of the borrower are monitored on an ongoing basis in conjunction with collateral values and event driven factors to develop an internal behavioural credit rating. Exposures are monitored by grading customers in an early warning/ongoing monitoring list in order to identify those customers who are believed to be facing a Significant Increase in Credit Risk (SICR). Customers are categorised into Risk Categories 0 - 3. Those in 0 and 1, the risk of default is low. Category 2 implies there are some doubts that the borrower will meet its obligations but the risk of default is medium. Category 3 implies that there are strong doubts that the customer will meets its obligations and the risk of default is high or has occurred.

These ratings are reflected on the following scale using days past due as well as other criteria which are indicative of the severity of a SICR. These categories are in turn further sub-categorised in order to better measure any SICR. The Bank has mapped these sub-categories to the 22 rating categories employed by Standards and Poors (S&P) with a view to using the Corporate PDs published by S&P as a representation:

Category 0 (sub categories 1 - 3c): 0 to 5 days past due
Category 1 (sub categories 4a-5c): 6 to 30 days past due
Category 2 (sub categories 6a -7c): 31 days to 89 days past due
Category 3 (sub categories 8 - 10): 90 days+ past due (Default)

Expected Credit Losses measurement (ECLs)

IFRS9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

* A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Bank.
* If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired.
* If the financial instrument is credit-impaired, it is then moved to 'Stage 3'.

The Expected Credit Loss (ECL) is measured on either a 12 - month (12 M) or Lifetime basis depending on whether a Significant Increase in Credit Risk (SICR) has occurred since initial recognition or whether an asset is considered to be credit impaired. ECLs are the discounted product of the Probabilty of Default (PD), Loss Given Default (LGD) and EAD, defined as follows:

The PD is the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" below), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PDs are modelled using historic data into 12 M PD and Lifetime PDs. Where data is not available proxies which resemble the risk of default characteristics of the exposure are used. The PDs are determined individually or below threshold at portfolio level (below internal thresholds for customer exposures) and segmented into various categories using tenure, currency, product or low risk classification.

PDs modelled using historical data may then be adjusted for forward looking factors. PDs are mapped into regulatory grades as follows:

Customer loans and advances

Stage 1	12 Month PD	Central bank classification Pass / internal category 0 and 1
Stage 2	Life Time PD	Central Bank classification Standard / internal category 2
Stage 3	Default PD	Central bank classification, Substandard, Doubtful, Loss / internal category 3

31.2 Financial risk review (continued)

31.2.1 Credit risk management (continued)

Low risk financial instruments

For debt securities in the Treasury portfolio and interbank exposures, performance of the counterparty is monitored for any indication of default. PDs for such exposures are determined based on benchmarked sovereign ratings mapped to external credit rating agencies grade. Where there are external credit ratings PDs are derived using those external credit ratings.

Exposure at Default is the amount the Bank expects to be owed at the time of default. For a customer revolving commitment, the EAD includes the current drawn balance plus any undrawn amount at the time of default, should it occur. For term loans EAD is the drawn balance. For low risk financial instruments EAD is the current balance sheet exposure.

Loss Given Default represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD1 is calculated on a discounted lifetime basis for accounts in Stages 1 and 2 where LGD is the percentage of loss expected to be made if the default occurs. LGD2 is individually determined or modelled based on historical data. LGD for low risk financial instruments exposure is based on observed recovery rates and.

- Basel II & III Guidelines: the treatment of sovereign exposures in the banking book
- Basel II Guidelines: applied under foundation IRB and observed in the Committee's study on Banks

- Internal benchmark on Securities & Derivatives engaged with corporate counterparties.

i) 12 month ECLs; (Stage 1 - no increase in credit risk)

For exposures where there has been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised. The 12 month ECL is calculated for the following exposures:

* Customer loans and advances with central bank classification Pass, days past due 0 to 29 (Internal monitoring categories 0 and 1)
* Low risk financial instruments which are not past due
* These are a product of 12 months PD, LGD1 and EAD.

ii) Life time ECLs (Stage 2 - SICR)

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Lifetime ECL is measured on assets with a significant increase in credit risk since initial recognition. Its is measured on the following;

* Customer loans and advances with regulatory asset classification of Special Mention (Rebuttable presumption basis of 30 to 89 days past due) or with a significant increase in credit risk (as demonstrated in terms of the Bank's early warning risk monitoring process)

* Low risk financial instruments where the credit risk has significantly increased since initial recognition

* These are a product of lifetime PD, LGD1 and EAD

iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Bank's methodology for specific provisions remains largely unchanged.

This is measured on the following exposures;

* Customer loans and advances with regulatory asset classification Substandard, Doubtful, Loss (Rebuttable presumption basis of more than 89 days past due) or with a SICR (as demonstrated in terms of the Bank's early warning risk monitoring process) justifying credit impairment.

* Debt securities, loans to banks, bank balances in default.

31.2 Financial risk review (continued)

31.2.1 Credit risk management (continued)

Low risk financial instruments (continued)

iii) Stage 3: Lifetime ECL – credit impaired (continued)

For Stage 3 assets, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwind of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Bank's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the profit or loss component of the statement of other comprehensive income.

Benchmarking ECL

Portfolio assessment is performed by way of a collective assessment semi-empirical IFRS 9 model (the ECL Model) developed in consultation with external consultants supported by available historic information to support the modelling of PD, LGD and EAD.

Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

The Bank elected to use a country rating by sovereign debt approach, which forms the basis of calculating the PD's of all financials assets within the scope of IFRS 9 guidelines. The sovereign debt PD is adjusted by individual corporate PD rates based on external rating provider S&P's information.

LGD's of individually assessed customer loans and advances, have been determined in terms of:

- Stages 1 and 2: An internal benchmark.
- Stage 3: Net exposure after application of future realisable cashflows,

LGD's on various financial assets/low risk financial instruments, with the exception of customer loans and advances, have been determined in terms of:

- Basel II & III Guidelines: the treatment of sovereign exposures in the banking book
- Basel II Guidelines: applied under foundation internal ratings-based (IRB) approach and observed in the Committee's study on Banks
- Internal benchmark on Securities & Derivatives engaged with corporate counterparties.

EAD is determined as below:

- For customer loans and advances: Outstanding exposures plus undrawn limits.
- For other financial assets/low risk financial instruments: Outstanding exposures.

Significant increase in credit risk (SICR)

As explained in note 1 the Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and including forward-looking information.

The use of the Rebuttable Presumption of significant increase in risk means that an account is categorized as Stage 2 when the DPD is greater than 30 days and less than 90 days. In addition to the Rebuttable Presumption the Bank will also consider the output of its multi factor early warning/risk monitoring analysis as a qualitative measure, which include but are not limited to:

Retail:

- Extension of credit terms
- Retrenchment/ dismissal of employee
- Employer facing financial difficulties
- Salary diversion

31.2 Financial risk review (continued)

31.2.1 Credit risk management (continued)

Corporate and low risk financial instruments:

- Significant adverse changes in regulatory, business, financial or economic conditions in which the borrower operates in,
- Actual or expected restructuring of debt,
- Early signs of cash-flow/liquidity problems such as delay in servicing debt,
- Significant decline in account turnover,
- Breach or anticipation of breach of significant debt covenants,
- Significant changes in the value of the collateral supporting the facility, and
- Significant change in the quality of the guarantee or financial support provided by the shareholder.

The assessment of SICR incorporates forward looking information and is performed on a monthly basis at a portfolio level below internal thresholds. Customer loans and advances exceeding internal thresholds and low risk financial instrument exposures are assessed on a monthly and quarterly basis respectively, by the Credit department, Bank management and the Loans Review Committee.

Default

The Bank considers a financial asset to be in default when:

Based on the Rebuttable Presumption a customer loan and/or advance is categorized as Substandard/Doubtful/Loss on the central bank asset classification when the DPD is 90 days or more.

In addition to the Rebuttable Presumption the Bank will also consider the output of its multi factor risk analysis using internal risk monitoring as a qualitative measure. Qualitative examples of a significant increase in risk include but are not limited to:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- The borrower commits an act of insolvency;
- The borrower's financial statements are qualified as to going concern;
- The borrower or its Executive commit an act of fraud.

Forward–looking information incorporated in the ECL model

The Bank subscribes to a forward looking view informed by the identification and use of economic factors which demonstrate a strong correlation with default experience. The ECL model allows the Bank to develop potential future scenarios, attach probabilities thereto and to incorporate this into the calculation of ECL.
However in the absence of strongly correlating factors, allowance is also made for the use of Management's expert view in a holistic manner; implemented by way of adjustment of the PD/LGD/EAD levers built into the ECL model for this purpose.

The Bank considered the composition of its customer loans and advances portfolio, limited number of defaults experienced and the unique causes of defaults in concluding that defaults did not strongly correlate to specific macroeconomic factors.

The Bank has thus developed an alternative methodology which allows the direct amendment of key ECL Model inputs, the probability of occurrence of these events, and their impact on the provision model outputs.

31. Financial risk management review (continued)

31.2.1 Credit risk management (continued)

Forward–looking information incorporated in the ECL model (continued)

The Bank's policy provides that an asset should be written off if there is no near term realistic chance of recovery once collateral has been recovered. Recoveries are actively pursued but write-off of an account shall also not be unduly delayed. An asset shall not be written off earlier than:

- Unsecured – 6 months after Default
- Secured – 18 months after Default

However, final or earlier write-off shall remain at the discretion of Management and the board.

ECL Model governance

The ECL Models used for PD, EAD and LGD calculations are governed on a regular basis through the Management Credit Committee comprising of senior managers in risk, finance and the business. Decisions and key judgements made by the Committee relating to the impairments and model overrides will be taken to Board Risk, Board Loans Review and Board Audit Committee as appropriate. Credit risk processes from origination to monitoring and other operational processes around impairments now take into cognisance IFRS9 requirements.

31.2.2 Liquidity risk

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from Banks, other borrowings and commitments maturing within the next month.

The liquidity ratios of net liquid assets to deposits from customers as per central bank guidelines at the reporting date and during the reporting period were as follows:

	2019	2018
At 31 December	**10%**	51%
Average for the year	**28%**	46%
Maximum for the year	**65%**	52%

The Bank of Zambia requirement is that the Bank should have a ratio of at least 6% (2018: 6%).

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

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity stages:

31. Financial risk management review (continued)

31.2.2 Liquidity risk management (continued)

Exposure to liquidity risk (continued)

2019	Carrying amount	Gross notional	up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years
Financial assets	K	K	K	K	K	K
Cash balances with Central bank	122 954 035	122 961 823	122 961 823	-	-	-
Cash and cash equivalents	269 810 087	269 816 890	269 816 890	-	-	-
Placements with other banks	3 153 503	3 800 918	3 800 918	-	-	-
Investments securities	290 567 730	334 093 528	-	13 350 833	244 461 922	32 754 975
Other receivables	20 154 246	20 154 246	2 801 914	11 301 028	6 051 305	-
Loans and advances	680 439 098	690 838 847	344 897 000	34 000	76 329 000	269 578 847
Total financial assets	**1 387 078 699**	**1 441 666 253**	**744 278 545**	**24 685 861**	**326 842 226**	**302 333 822**
Financial liabilities						
Deposits from customers	1 110 306 629	1 110 306 629	569 284 000	60 009 000	293 328 000	187 685 629
Amounts payable to other banks	181 110 677	181 110 677	-	-	181 110 677	-
Amounts payable to group banks	5 465 668	5 465 668	-	-	5 465 668	-
Lease liabilities	26 088 438	-	-	-	-	26 088 438
Other liabilities	30 941 681	30 941 681	-	-	30 941 681	-
Total financial liabilities	**1 353 913 093**	**1 327 824 655**	**569 284 000**	**60 009 000**	**510 846 026**	**213 774 067**
Net liquidity gap	**33 165 606**	**113 841 598**	**174 994 545**	**(35 323 139)**	**(184 003 800)**	**88 559 755**
2018						
Financial assets						
Cash balances with Central bank	94 106 611	94 106 611	94 106 611	-	-	-
Cash and cash equivalents	137 683 268	137 683 268	137 683 268	-	-	-
Placements with other banks	45 046 617	45 046 617	45 046 617	-	-	-
Investments securities	255 438 659	255 438 659	-	22 170 603	201 128 641	32 139 416
Other receivables	37 426 956	37 426 956	2 801 914	28 909 062	5 715 980	-
Loans and advances	567 202 507	567 202 507	363 369 768	598 377	44 914 285	158 320 077
Total financial assets	1 136 904 618	1 136 904 618	643 008 177	51 678 042	251 758 906	190 459 493
Financial liabilities						
Deposits from customers	853 573 088	853 573 088	434 090 913	232 942 800	165 328 328	17 319 409
Amounts payable to other banks	12 000 000	12 000 000	12 000 000	-	-	-
Amounts payable to group banks	156 101 242	156 101 242	-	-	156 101 242	-
Other liabilities	30 342 987	30 342 987	-	27 959 128	-	2 872 539
Total financial liabilities	1 052 017 316	1 052 017 316	446 090 913	260 901 928	321 429 570	20 191 948
Net liquidity gap	84 887 302	84 887 302	196 917 264	(209 223 886)	(69 670 664)	170 267 545

31. Financial risk management review (continued)

31.2.3 Market risk

For the definition of market risk and information on how the Bank manages the market risks of trading and non-trading portfolios, see note 7(vii).

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

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

The table below summaries the Bank's exposure to interest rate risk. Included in the table are the Bank's financial assets and liabilities at carrying amounts, categorised by earlier of contractual repricing or maturity dates.

2019

				Fixed rate instrument		
	Total	Zero rate instruments	Floating rate instruments	Less than three months	Between three months and one year	Between one five years
Financial assets	K	K	K	K	K	K
Cash and balances with Central Bank	122 954 035	122 954 035	-	-	-	-
Cash and short term funds	269 810 087	269 810 087	-	-	-	-
Placements with other banks	3 153 503	-	-	-	3 153 503	-
Investment securities	290 567 730	-	-	13 350 833	244 461 922	32 754 975
Loans and advances to customers	680 439 098	-	680 439 098	-	-	-
Other receivables	20 154 246	2 891 682	-	17 262 564	-	-
Total financial assets	**1 387 078 699**	**395 655 805**	**680 439 098**	**30 613 397**	**247 615 425**	**32 754 975**
Financial liabilities						
Deposits from customers	1 110 306 629	-	-	629 293 000	293 328 000	187 685 629
Amounts payable to other banks	181 110 677	-	-	-	181 110 677	-
Amounts payable to group banks	5 465 668	-	-	-	5 465 668	-
Lease liabilities	26 088 438	-	-	-	-	26 088 438
Other liabilities	30 941 681	30 941 681	-	-	-	-
Total financial liabilities	**1 353 913 093**	**30 941 681**	**-**	**629 293 000**	**479 904 345**	**213 774 067**
GAP	**33 165 606**	**364 714 124**	**680 439 098**	**(598 679 603)**	**(232 288 920)**	**(181 019 092)**

31. Financial risk management review (continued)

31.2.3 Market risk (continued)

Exposure to interest risk – non trading portfolios (continued)

A positive gap indicates that a higher level of assets than liabilities reprice in the time frame of the maturity bucket, a statement of financial position gap that is also referred to as asset-sensitive. This would give rise to higher income should the specific yield increase. The opposite statement of financial position gap is referred to as liability -sensitive or as negative gap, therefore an increase in the yields associated with a specific time interval would produce a decrease in net interest income.

2018

				Fixed rate instrument		
	Total	Zero rate instruments	Floating rate instruments	Less than three months	Between three months and one year	Between one five years
	K	K	K	K	K	K
Financial assets						
Cash and balances with Central Bank	94 110 004	94 110 004	-	-	-	-
Cash and short term funds	137 679 556	137 679 556	-	-	-	-
Placements with other banks	45 046 936	-	-	-	45 046 936	-
Investment securities	255 438 659	-	-	22 170 603	201 128 641	32 139 416
Loans and advances to customers	567 202 507	-	567 202 507	-	-	-
Other receivables	37 762 280	2 891 682	-	34 870 598	-	-
Total financial assets	1 137 239 942	234 681 242	567 202 507	57 041 201	246 175 577	32 139 416
Financial liabilities						
Deposits from customers	849 681 450	-	-	434 090 913	398 271 128	17 319 409
Amount payable to other banks	12 000 000	-	-	12 000 000	-	-
Amounts payable to non group banks	156 101 242	-	-	-	156 101 242	-
Other liabilities	30 831 667	30 831 667	-	-	-	-
Total financial liabilities	1 048 614 359	30 831 667	-	446 090 913	554 372 370	17 319 409
GAP	88 625 583	203 849 575	567 202 507	(389 049 712)	(308 196 793)	14 820 007

A positive gap indicates that a higher level of assets than liabilities reprice in the timeframe of the maturity bucket, a statement of financial position gap that is also referred to as asset-sensitive. This would give rise to higher income should the specific yield increase. The opposite statement of financial position gap is referred to as liability-sensitive or as negative gap, therefore increase in the yields associated with a specific time interval would produce a decrease in net interest income.

31. Financial risk management review (continued)

31.2.3 Market risk (continued)

Exposure to interest risk – non trading portfolios (continued)

ii) Currency risk

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

2019	**USD**	**GBP**	**ZAR**	**Euro**	**K**	**Total**
Monetary assets	1 008 658 831	4 440 317	13 428 696	16 137 461	1 042 665 426	**2 085 330 731**
Monetary liabilities	(1 011 853 504)	(4 458 214)	(13 381 909)	(16 066 728)	(1 045 760 475)	**(2 091 520 830)**
Net position	**(3 194 672)**	**(17 897)**	**46 787**	**70 732**	**(3 095 049)**	**(6 190 099)**
2018	USD	GBP	ZAR	Euro	Kwacha	
Monetary assets	437 225 250	4 327 481	3 765 571	7 316 020	436 284 994	**888 919 315**
Monetary liabilities	(436 974 017)	(4 504 081)	(3 561 889)	(7 315 644)	(426 925 951)	**(879 281 582)**
Net position	251 233	(176 600)	203 682	375	9 359 043	9 637 733

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

Exchange rate sensitivity

A strengthening (weakening) of the Kwacha by 10 percent, as indicated below against the USD, GBP, Euro, Rupee and ZAR at 31 December 2019 would have increased (decreased) equity and profit or loss by the amounts shown below. This computation is based on the foreign exchange rate variance that the bank considered reasonably possible at the reporting date. The computation assumes all the other variables remain constant.

	Strengthening		**Weakening**	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
2019	**K**	**K**	**K**	**K**
USD	**(319 467)**	**(319 467)**	**319 467**	**319 467**
GBP	**(1 790)**	**(1 790)**	**1 790**	**1 790**
ZAR	**4 679**	**4 679**	**(4 679)**	**(4 679)**
Euro	**7 073**	**7 073**	**(7 073)**	**(7 073)**
2018				
USD	25 123	25 123	(25 123)	(25 123)
GBP	(17 660)	(17 660)	17 660	17 660
ZAR	20 368	20 368	(20 368)	(20 368)
Euro	38	38	(38)	(38)
INR	935 904	935 904	(935 904)	(935 904)

31 Financial risk management and review (continued)

31.2.3 Market risk (continued)

Curreny risk (continued)

The following significant exchange rates applied during the year:

	2019		2018	
Currency	Average rate	**Reporting date**	Average rate	Reporting date
USD	**12.922**	**14.070**	10.530	11.945
ZAR	**0.894**	**0.997**	0.716	0.832
Euro	**14.458**	**15.787**	12.370	13.653
GBP	**16.486**	**18.467**	13.980	15.146

31.2.4 Capital management

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

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

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

i) Regulatory capital

The Bank's regulator, the Bank of Zambia sets and monitors capital requirements for the banks.

In implementing current capital requirements, the Bank of Zambia requires the banks to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- tier 1 capital, which includes ordinary share capital, statutory reserves, retained earnings after deductions for intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- tier 2 capital, which includes the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale (maximum of 40%).

The Bank complied with externally imposed primary capital requirements for the year and there have been no material changes in the Bank's management of capital during the year.

The Board of Directors through the Management Committee monitors capital requirements for the Bank and ensures that it is within the guidelines of the Banking and Financial Services Act. The Minimum total capital requirement should be 10% of the total on and off statement of financial position risk – weighted assets or K104 million whichever is higher.

ii)	**Computation of regulatory capital position**	**2019**	2018
1	**Primary (Tier 1) capital**	**K**	K
(a)	Paid-up common shares	**104 000 000**	104 000 000
(b)	Share Premium	**11 156 599**	11 156 599
(c)	Advance capital contribution	**-**	-
(d)	Retained earnings	**45 766 770**	26 637 188
(e)	Credit Risk reserve	**2 997 263**	13 940 277
(f)	Statutory reserve	**-**	-
(g)	Minority interest (common shareholders' equity)	**-**	-
(h)	***Sub-total A (items a to g)***	**163 920 632**	155 734 064
	Less		
(i)	Goodwill and other intangible assets	**-**	-
(j)	Investments in unconsolidated subsidiaries and associates	**-**	-
(k)	Lending of a capital nature to subsidiaries and associates	**-**	-
(l)	Holding of other Banks' or financial institutions' capital instruments	**-**	-
(m)	Assets pledged to secure liabilities	**-**	-
(n)	**Sub-total (B) (items i to m)**	**-**	-

		2 019	2 018
31	**Financial risk management and review (continued)**	K	K
31.2.4	**Capital management (continued)**		
ii)	**Computation of regulatory capital position (continued)**		
	Other adjustments		
	Provisions	-	-
	Assets of little or no realised value	-	-
	Stationery stocks, sundry debtors, cash advances, product project accounts	-	-
	Other adjustments - (unrealised exchange gains - Tax asset)	-	-
(o)	**Sub-total (C) (other adjustments)**	-	-
(p)	**Total primary capital [(h – (n to o)]**	**163 920 632**	155 734 064
II	**Secondary (Tier 2) capital**		
(a)	Eligible preference shares	-	-
(b)	Eligible subordinated term debt	-	-
(c)	Eligible loan stock/capital	-	-
(d)	Revaluation reserves (Maximum is 40% of revaluation reserves)	-	-
(e)	Other	-	-
(f)	Total secondary capital	-	-
III	**Eligible secondary capital**		
	(The maximum amount of secondary capital is limited to 100% of primary capital)	-	-
IV	**Eligible total capital (I (p) + III) (Regulatory capital)**	**163 920 632**	155 734 064
V	**Minimum total capital requirement**		
	10% of total on and off statement of financial position risk - weighted assets or K104,000,000 whichever is higher	**104 000 000**	104 000 000
VI	**Excess (IV minus V)**	**59 920 632**	51 734 064

On 30 January 2015, the Bank of Zambia issued Circular 02/2015 on a new capital adequacy framework. This entailed reclassification of commercial banks into locally owned banks and foreign banks. The minimum capital was revised upwards to K520 million for foreign-owned banks and K104 million for locally-owned banks.

On 26 December 2015, Bank of Zambia confirmed in writing that it had no objection for Sakky Investments Limited (19%), Kark Investments Limited (7%) and Affility Investments Limited (25%) (all Zambian companies) to acquire shares in First Capital Bank. Therefore, 51% of the Bank's shares is held by local Zambian companies, making First Capital Bank a locally owned bank.

The circular states that at least eighty percent of the minimum capital requirement shall be in nominal paid up common shares. FIRST CAPITAL BANK LIMITED has K104 million paid up common shares and K11 million Share Premium giving a total of K115 million in share capital.

31.2.5 Financial assets and financial liabilities

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

31 December 2019	Loans and receivables	Other carried at amortised	Total carrying amounts	Fair value
	K	K	K	K
Cash balances with central Bank	122 961 823	-	122 961 823	122 961 823
Cash and cash equivalents	269 816 890	-	269 816 890	269 816 890
Investment securities	-	290 567 730	290 567 730	290 567 730
Placements with other banks	-	3 153 442	3 153 442	3 153 442
Loans and advances to customers	680 439 098	-	680 439 098	680 439 098
Other receivables	20 154 246	-	20 154 246	20 154 246
Total financial assets	1 093 372 056	293 721 171	1 387 093 228	1 387 093 228
Financial liabilities				
Deposits from customers	-	1 110 306 629	1 110 306 629	1 110 306 629
Amounts payable to other banks	-	181 110 677	181 110 677	181 110 677
Amounts payable to group banks	-	5 465 668	5 465 668	5 465 668
Other liabilities	30 941 681	-	30 941 681	30 941 681
Total	30 941 681	1 296 882 974	1 327 824 655	1 327 824 655

31 Financial risk management and review (continued)

31.2.5 Financial assets and financial liabilities (continued)

31 December 2018	Loans and receivables	Other assets carried at amortised cost	Total carrying amounts	Fair value
	K	K	K	K
Cash balances with central Bank	94 106 611	-	94 106 611	94 106 611
Cash and cash equivalents	137 683 268	-	137 683 268	137 683 268
Investment securities	-	255 438 659	255 438 659	255 438 659
Placements with other banks	-	45 046 617	45 046 617	45 046 617
Loans and advances to customers	567 202 507	-	567 202 507	567 202 507
Other receivables	37 762 280	-	37 762 280	37 762 280
Total financial assets	836 754 666	300 485 276	1 137 239 942	1 137 239 942
Financial liabilities				
Deposits from customers	-	853 573 088	853 573 088	853 573 088
Amount payable to other banks	-	12 000 000	12 000 000	12 000 000
Amounts payable to group banks		156 101 242	156 101 242	156 101 242
Other liabilities	26 940 029	-	26 940 029	26 940 029
Total	26 940 029	1 021 674 329	1 048 614 358	1 048 614 358

32 Fair values of financial instruments

i. Valuation models

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

- *Level 1* : Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- *Level 2* : Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3* : Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

32. Fair values of financial instruments (continued)

ii. Financial instruments not measured at fair value

Recurring fair value measurements at 31 December 2019

	Level 1 K	Level 2 K	Level 3 K	Total fair value K	Total Carrying amount K
Financial assets					
Cash and cash equivalents	-	122 954 035	-	122 954 035	269 810 087
Cash and balances with banks (central and other)	-	269 810 087	-	269 810 087	272 963 529
Money market placements	-	3 153 442	-	3 153 442	3 153 442
Loans and advances to customers at amortised cost	-	680 439 098	-	680 439 098	680 439 098
Investments securities measured at amortised cost	-	290 567 730	-	290 567 730	290 567 730
	-	1 366 924 392	-	1 366 924 392	1 516 933 885
Financial Liabilities					
Deposits from banks	-	40 000 000	-	40 000 000	40 000 000
Balances due to other financial institutions	-	141 110 677	-	141 110 677	141 110 677
Savings account deposits	-	59 626 602	-	59 626 602	59 626 602
Term deposits	-	481 229 056	-	481 229 056	481 229 056
Current account deposits	-	569 450 971	-	569 450 971	569 450 971
Lease liabilities		26 088 438		26 088 438	26 088 438
	-	1 291 417 306	-	1 291 417 306	1 291 417 306

Recurring fair value measurements at 31 December 2018

	Level 1 K	Level 2 K	Level 3 K	Total fair value K	Total Carrying amount K
Financial assets					
Cash and cash equivalents	-	137 679 556	-	137 679 556	137 679 556
Cash and balances with banks (central and other)	-	182 726 491	-	182 726 491	182 726 491
Money market placements	-	45 046 936	-	45 046 936	45 046 936
Loans and advances to customers at amortised cost	-	567 202 507	-	567 202 507	567 202 507
Investments securities measured at amortised cost	-	255 438 659	-	255 438 659	255 438 659
	-	1 188 094 149	-	1 188 094 149	1 188 094 149
Financial Liabilities					
Deposits from banks	-	12 000 000	-	12 000 000	12 000 000
Money market deposits	-	156 101 242	-	156 101 242	156 101 242
Savings account deposits	-	50 567 799	-	50 567 799	50 567 799
Term deposits	-	408 583 244	-	408 583 244	408 583 244
Current account deposits	-	390 530 407	-	390 530 407	390 530 407
	-	1 017 782 692	-	1 017 782 692	1 017 782 692

32. Fair values of financial instruments (continued)

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

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

The carrying amounts of financial assets and liabilities are representative of the Bank's position at 31 December 2019 and are in the opinion of the Directors not significantly different from their respective fair values due to generally short periods to maturity dates. Fair values are generally determined using valuation techniques or where available, published price quotations from an active market.

33. Adoption of New and Revised Standards

33.1 New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 16 leases

In the current year, the Company, has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3(g). The impact of the adoption of IFRS 16 on the Company's financial statements is described

The date of initial application of IFRS 16 for the Company is 1 January 2019.
The Company has applied IFRS 16 using the modified retrospective approach as per para C8(b)(ii) of IFRS 16 which:

- requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact on the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.
Applying IFRS 16, for all leases (except as noted below), the Company:

33. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

33.1 New and amended IFRS Standards that are effective for the current year (Continued)

(b) Impact on Lessee Accounting (continued)

(a) recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
(b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
(c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of- use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Company has used the following practical expedients when applying the modified retrospective approach to leases previously classified as operating leases applying IAS 17.

- The Company has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company has elected to apply the low-value lease and short term lease recognition exemptions.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

(d) Financial impact of initial application of IFRS 16

(ii) Impact on profit

	K
Increase in depreciation	**6 749 806**
Increase in Interest expense	**1 666 828**
Increase/(Decrease) in profit for the year	**8 416 635**

(ii) Impact on profit for the year

Increase in depreciation	**(6 749 806)**
Increase in finance costs	**(1 666 828)**
Decrease in operating leases	**7 520 224**
Increase/(Decrease) in profit for the year	**(896 411)**

33. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

33.1 New and amended IFRS Standards that are effective for the current year (Continued)

(iii) Impact on Assets, Liabilities and Equity as at 31 December, 2019

	K
Right-of-Use assets	**28 075 757**
Additions	**4 120 541**
Accumulated depreciation Right-of-Use assets	**(6 749 806)**
Net impact on total assets	**25 446 492**
Lease Liabilities	**26 088 438**
Net impact on total liabilities	**26 088 438**

The Bank leases buildings which were previously classified as operating leases under IAS 17. Application of IFRS 16 resulted in recognition of K28.3 million as Right-of-Use Assets and Lease Liabilities of K28.3 million. During the year, one lease contract expired. The expired contract was replaced by a new agreement for underlying asset and resulted in additional K3.87 million.

During the year, the Bank recognised K6.7 million and K1.7 million for depreciation for Right-of-use Assets interest expense for lease liability respectively. Actaul lease payments during the year were K7.52 million.

The Company's weighted average incremental borrowing rates applied to lease liabilities recognised in the statement of financial position on 1 January 2019 are 12.5% for leases in Zambian Kwacha and 5% for leases in US Dollar. It also resulted in reduction in rent expenses K7.029 million

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015-2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The Company has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

33. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

33.1 New and amended IFRS Standards that are effective for the current year (Continued)

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement	The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset).
IFRIC 23 Uncertainty over Income Tax Treatments	The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to: • determine whether uncertain tax positions are assessed separately or as a group; and • assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: - If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. - If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

33.2 New and revised Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

Amendments to IAS 1 and	*Definition of material*
Conceptual Framework	*Amendments to References to the* Conceptual Framework in IFRS Standards

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

Amendments to IAS 1 and IAS 8 *Definition of material*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.