# FIRST CAPITAL BANK LIMITED

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

FIRST CAPITAL BANK LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

Contents | Page

## REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2020.

### 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 Limited. FMB Capital Holdings Plc is listed on Malawi Stock Exchange; 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%. Shareholding structure remains unchanged from the previous financial year.

### Share capital

During the year 2020, the paid up primary capital of the Bank remained unchanged from the previous year at K104,000,000 and the Share premium is K11,156,599.

### Operating results

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

| | 2020<br>K | 2019<br>K |
|---|---|---|
| Net interest income | 144 324 942 | 90 803 163 |
| Profit before income tax (Note 9) | 64 894 042 | 15 624 830 |
| Income tax expense (Note 10) | (22 442 454) | (7 438 262) |
| Profit for the year | 42 451 588 | 8 186 568 |

### Dividend

The Directors do not recommend the payment of a dividend (2019: 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 |
| Mr. Hitesh Anadkat | Vice Chairman |
| Mr. Terence M. Davidson | Non-Executive Director (Retired 31 December 2020) |
| Mr. Ramesh Patel | Non-Executive Director |
| Mr. James Banda | Non-Executive Director (Appointed 1 January 2020) |
| Mr. Dheeraj Dikshit | Non-Executive Director (Retired 31 May 2020) |
| Mr. Julian Ghui | Non-Executive Director |
| Ms. Debbie Nonde | Non-Executive Director |

### Managing Director

Mr. Edward Marks

### Chief Financial Officer

Mr. Judge Daka

### Developments during the year

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

### Related party transactions

Related party transactions are disclosed in Note 24 to the financial statements.

### Directors' interest and emoluments

No Director had an interest in any significant contract entered into by the Bank during the year (2019: Nil).

The Directors emoluments paid during the year ended 31 December 2020 were K2,580,775 (2019: K1,812,276) as disclosed in note 24 to the financial statements.

### Loans to Directors

Loans and advances disbursed to the Directors and entities connected to directors during the year amounted to K9,787,045 (2019: K800,259). 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 average number of employees in each month of the year was as follows:

| Month | Number | Month | Number |
|---|---|---|---|
| January | 130 | July | 130 |
| February | 131 | August | 129 |
| March | 131 | September | 123 |
| April | 132 | October | 123 |
| May | 133 | November | 123 |
| June | 131 | December | 120 |

The total remuneration of employees during the year amounted to K63,430,139 (2019: K49,330,825). The Bank hired 5 new employees in the year and 15 employees left the Bank.

### Property and equipment and intangible assets

The Bank acquired assets with a value of K6,543,189 during the year (2019: K10,226,086). In the opinion of the Directors, there was no significant difference between the carrying value of property and equipment and its market value.

### Research and Development

During the year the Bank did not incur any research and development costs (2019: Nil)

### Gifts and donations

The Bank made donations during the year amounting to K70,766 (2019: K185,200) 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 32 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 Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its financial performance in accordance with International Financial Reporting Standards and the Zambia Companies Act of 2017.

The financial statements set out on pages 10 to 66 have been approved by the Directors.

### Subsequent events

The Bank secured an additional K61 million Targeted Medium Term Refinancing Facility (BOZ-TMTRF) long term borrowing for on lending to the Bank's customers. The facility carries interest rate linked to Monetary Policy rate which was at 8.5% per annum with interest repayable quarterly in equal instalments. BOZ-TMTRF Disclosure is on note 23 of 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: 25 March 2021**

FIRST CAPITAL BANK LIMITED

## STATEMENT OF DIRECTORS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

The Directors are of the opinion that the financial statements set out on pages 10 to 66 give a true and fair view of the state of the financial affairs of the Company and of its financial performance in accordance with International Financial Reporting Standards and the Zambia Companies Act of 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Zambia Companies Act of 2017.

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

Signed on behalf of the Board of Directors.

Chairman

Director

Director

# Deloitte.

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Lusaka
Zambia

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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 66 which comprise the statement of financial position as at 31 December 2020, 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 2020, 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 the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. 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 year. 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.<br><br>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.<br><br>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.<br><br>We examined a sample of exposures and performed procedures to evaluate the following:<br><br>• Timely identification of exposures with a significant deterioration in credit quality; and<br><br>• 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.<br><br>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. Our procedures in this regard are further discussed in detail below. |

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.<br><br>As at 31 December 2020, the gross loans and advances to customers were K1,118 million against which an impairment provision of K5.5 million was recorded, this is disclosed in note 14 Loans and advances to the financial statements. | With respect to impairment methodology, our audit procedures comprised the following:<br><br>• We read the Bank's IFRS 9 based impairment provisioning policy for loans and advances and compared it with the requirements of IFRS 9;<br><br>• With the involvement of our credit specialist, we reviewed changes in methodology and assumptions underlaying the IFRS 9 impairment model;<br><br>• We reviewed the appropriateness and compliance with the standard regarding the methods used to determine ECL. We validated the data that was used to compute ECL.<br><br>•For a sample of exposures, we checked the appropriateness of the Bank's staging;<br><br>• We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) model used by the Bank to determine impairment provisions;<br><br>We checked the appropriateness of determining Exposure at Default (EAD) and the Loss Given Default (LGD);<br><br>• For Probability of Default (PD) used in ECL calculations, we checked the appropriateness of the system to determine the PD's;<br><br>• 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;<br><br>• 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;<br><br>• We checked the completeness of the loans and advances and off balance sheet items included in the ECL calculations as of 31 December 2020. We understood the theoretical soundness and tested the mathematical integrity of the model; |

| 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; and<br><br>• We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and<br><br>The review of the model revealed certain gaps but the noted gaps were assessed to be insignificant in 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.

## 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.

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

## 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

### 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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

DATE: 13th April 2021

FIRST CAPITAL BANK LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2020

| | Notes | 2020<br>K | 2019<br>K |
|---|---|---|---|
| Interest income | 4 | 230 208 333 | 139 015 389 |
| Interest expense | 4 | (85 883 391) | (48 212 226) |
| **Net interest income** | | 144 324 942 | 90 803 163 |
| Fee and commission income | 5 | 38 544 536 | 21 096 375 |
| Other operating income | 6 | 10 879 481 | 6 800 694 |
| Trading income | | 28 811 811 | 20 405 681 |
| **Total non-interest income** | | 78 235 828 | 48 302 750 |
| **Total operating income** | | 222 560 770 | 139 105 913 |
| Impairment charge | 9 | (15 357 872) | (9 657 997) |
| **Net operating income** | | 207 202 898 | 129 447 916 |
| Personnel expenses | 7 | (63 430 139) | (49 330 825) |
| Other expenses | 8 | (61 989 425) | (48 471 412) |
| Depreciation expense on property and equipment | 19 | (4 397 656) | (5 300 904) |
| Depreciation of right of use assets | 20 | (6 922 849) | (6 749 806) |
| Amortisation of intangible assets | 17 | (3 125 962) | (2 303 311) |
| Finance cost | 25 | (2 442 825) | (1 666 828) |
| **Total operating expenses** | | (142 308 856) | (113 823 086) |
| **Profit before income tax** | | 64 894 042 | 15 624 830 |
| Income tax expense | 10 | (22 442 454) | (7 438 262) |
| **Profit and total comprehensive income for the year** | | 42 451 588 | 8 186 568 |

There were no items of other comprehensive income for the year (2019: Nil).

FIRST CAPITAL BANK LIMITED

## STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2020

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Assets** | | K | K |
| Cash and balances with the Central Bank | 11 | **358,569,812** | 122,954,035 |
| Cash and short term funds | 11 | **138,834,850** | 269,810,087 |
| Placements with other banks | 12 | **4,188,066** | 3,153,442 |
| Investment securities | 13 | **672,814,997** | 290,567,730 |
| Loans and advances to customers | 14 | **1,112,925,785** | 693,413,359 |
| Other receivables | 15 | **9,629,618** | 8,531,825 |
| Current tax asset | 10 | - | 14,699,142 |
| Deferred tax asset | 10 | **20,565,245** | 4,303,960 |
| Property held for sale | 16 | **43,920,431** | 43,920,431 |
| Intangible assets | 17 | **10,929,577** | 7,600,653 |
| Investment property | 18 | **25,042,896** | 16,670,250 |
| Property and equipment | 19 | **8,457,539** | 16,762,319 |
| Right of use assets | 20 | **25,458,087** | 25,446,492 |
| **Total assets** | | **2,431,336,903** | 1,517,833,725 |
| **Liabilities** | | | |
| Amounts payable to other banks | 21 | **62,602,419** | 40,000,000 |
| Deposits from customers | 22 | **1,812,633,162** | 1,110,306,629 |
| Amounts due to related parties | 24 | **10,052,764** | 5,465,668 |
| Lease liabilities | 25 | **36,120,686** | 26,088,438 |
| Other liabilities | 26 | **37,079,164** | 30,941,681 |
| Current tax payable | 10 | **7,558,784** | - |
| Long term borrowings | 23 | **258,917,704** | 141,110,677 |
| **Total liabilities** | | **2,224,964,683** | 1,353,913,093 |
| **Equity** | | | |
| Share capital | 27 | **104,000,000** | 104,000,000 |
| Share premium | 27 | **11,156,599** | 11,156,599 |
| Credit risk reserve | 28 | **4,477,155** | 2,997,263 |
| Retained earnings | | **86,738,466** | 45,766,770 |
| **Total equity** | | **206,372,220** | 163,920,632 |
| **Total liabilities and equity** | | **2,431,336,903** | 1,517,833,725 |

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 66 were approved for issue by the Board of Directors on **25 March 2021** and were signed on its behalf by:

**Director**

**Director**

**Director**

## STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

| | Note | Share capital K | Share premium K | Credit risk reserve K | Retained earnings K | Total K |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 27 | 104,000,000 | 11,156,599 | 13,940,277 | 26,637,188 | 155,734,064 |
| Total comprehensive income for the year | | - | - | - | 8,186,568 | 8,186,568 |
| Transfer to retained earnings | 28 | - | - | (10,943,014) | 10,943,014 | - |
| At 31 December 2019 | | 104,000,000 | 11,156,599 | 2,997,263 | 45,766,770 | 163,920,632 |
| **At 1 January 2020** | | **104,000,000** | **11,156,599** | **2,997,263** | **45,766,770** | **163,920,632** |
| Total comprehensive income for the year | | - | - | - | 42,451,588 | **42,451,588** |
| Transfer from retained earnings | 28 | - | - | 1,479,892 | (1,479,892) | - |
| **Balance at 31 December 2020** | 27 | **104,000,000** | **11,156,599** | **4,477,155** | **86,738,466** | **206,372,220** |

FIRST CAPITAL BANK LIMITED

## STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

| | NOTES | 2020 K | 2019 K |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 42 451 588 | 8 186 568 |
| *Adjustments for:* | | | |
| Impairment charge | 9 | 15 357 872 | 9 657 997 |
| Income tax expense | 10 | 22 442 454 | 7 438 262 |
| Amortisation of intangible assets | 17 | 3 125 962 | 2 303 311 |
| Gain on fair value of investment property | 18 | (4 504 180) | - |
| Depreciation expense on property and equipment | 19 | 4 397 656 | 5 300 904 |
| Depreciation for right of use assets | 20 | 6 922 849 | 6 749 806 |
| Exchange losses on long term loans | 23 | 68 593 190 | - |
| Finance costs | 25 | 2 442 825 | 1 666 828 |
| Exchange losses on lease liabilities | 25 | 11 410 150 | - |
| CWIP expensed during the year | | 65 910 | - |
| **Cashflows from operating activities before changes in working capital** | | 172 706 276 | 41 303 677 |
| **Changes in working capital:** | | | |
| (Increase)/decrease in other receivables | | (1 097 793) | 16 256 193 |
| Increase in loans and advances to customers | | (420 315 883) | (122 894 588) |
| Increase in deposits from customers | | 702 326 532 | 256 620 241 |
| Increase in other liabilities | | 6 137 483 | 4 001 652 |
| Increase (decrease) in amounts payable to other banks | | 22 602 419 | 28 000 000 |
| Increase in property held for sale | | - | (17 761 484) |
| Increase (decrease) in amounts due to related parties | | 4 587 096 | (150 635 574) |
| **Cash generated from operating activities** | | 486 946 131 | 54 890 117 |
| Withholding tax suffered | 10 | (10 301 576) | (14 713 503) |
| Income tax paid | 10 | (6 144 237) | (9 189 678) |
| **Net cash generated from operating activities** | | 470 500 318 | 30 986 936 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 19 | (5 694 856) | (7 263 830) |
| Acquisition of intangible assets | 17 | (848 333) | (2 962 256) |
| Net investment in securities | | (396 956 437) | (35 129 070) |
| **Net cash used in investing activities** | | (403 499 626) | (45 355 156) |
| **Cash flows from financing activities** | | | |
| Lease repayments | 25 | (10 755 764) | (7 774 689) |
| Long term loan repayments | 23 | (13 519 231) | - |
| Proceeds from long term loan | 23 | 62 733 068 | 141 110 677 |
| **Net cash flows generated from financing activities** | | 38 458 073 | 133 335 988 |
| **Net increase in cash and cash equivalents** | | 105 458 765 | 118 967 768 |
| Cash and cash equivalents at beginning of year | | 395 917 564 | 276 836 496 |
| Effects of foreign exchange rate changes | | 216 399 | 113 301 |
| **Cash and cash equivalents at end of the year** | 11.3 | 501 592 728 | 395 917 565 |
| Represented by: | | | |
| Cash and cash equivalents | | 337 453 853 | 292 862 984 |
| Statutory reserves | 11.1 | 164 138 875 | 103 054 580 |
| | 11.3 | 501 592 728 | 395 917 564 |

## 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. Significant accounting policies (continued)

### 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.

### 2.4 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. Significant accounting policies (continued)

### 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. |

### Retail 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 2020 the net carrying amount of loans and advances was K1,101 million (2019: K680 million).

### Investment securities

The Bank holds investment securities measured at amortised cost with a carrying amount of K677 million (2019: K291 million) excluding staff loans.

### 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.

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| Property | 43 920 431 | 43 920 431 |

## 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 K1,159.40 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 Property 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 Property 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

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 five years with the exception of banking software amortised over 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)

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.

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.

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.

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.

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.

## 2. Significant accounting policies (continued)

### 2.19 Leases (continued)

*Right of Use Asset*

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.

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

In determining the appropriate basis of preparation of the Financial Statements, the Directors are required to consider whether the Bank can continue in operational existence for the foreseeable future. The material financial and operational risk and uncertainties that may impact the Bank's performance are outlined, including financial risks, liquidity risk, market risk and credit risks.

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

### 3.1 Going concern (continued)

COVID-19 has heightened the inherent uncertainty in the bank's assessment of factors that affect it's business. Subdued trading activities under COVID-19 increased the Bank's short term sensitivity to loan covenants. Future outbreaks of the disease may cause further disruptions. To assess the bank's resilience to more adverse outcomes, a COVID-19 impact assessment was carried out at a client level which led to an adjustment of the impairment of Loans and advances with an additional K399,510 as disclosed in Note 32.2.1. The assessment included reasonable worst-case scenario in which the Bank's principal risks manifested in aggregate to a severe plausible level on borrowing customers. The stress factors used in the assessment revealed an insignificant impact on our customers.

Accordingly, the Directors consider there to be no material uncertainties that may cause significant doubt on the Bank's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the bank has adequate capital to continue in operational existence for the foreseeable future, being atleast 12 months from the date of signing the Financial statements. For this reason, they continue to adopt the going concern in the preparation of these Financial Statements

### 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)

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 investment property and held for sale assets

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. Significant accounting judgements, estimates and assumptions (continued)

### 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.

### 3.8 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. Significant accounting judgements, estimates and assumptions (continued)

### 3.10 Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale as 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.

## 4. Net interest income

| | 2020 K | 2019 K |
|---|---|---|
| **Interest income** | | |
| Arising from: | | |
| Loans and advances to customers | 112 897 682 | 81 391 374 |
| Investment securities | 113 910 779 | 54 522 533 |
| Placement with Other banks | 3 399 872 | 3 101 482 |
| | 230 208 333 | 139 015 389 |
| **Interest expense** | | |
| Arising on: | | |
| Deposits from customers | (55 888 740) | (34 739 551) |
| Amounts payable to other banks | (29 994 651) | (13 472 675) |
| | (85 883 391) | (48 212 226) |
| **Net interest income** | 144 324 942 | 90 803 163 |

## 5. Fee and commission income

| | 2020 K | 2019 K |
|---|---|---|
| Transfers and remittances | 18 619 898 | 10 037 933 |
| Processing fees and loan documentation | 13 960 199 | 5 717 001 |
| Account services fees | 4 138 100 | 3 806 836 |
| Other fees | 1 826 339 | 1 475 188 |
| | 38 544 536 | 21 096 375 |

## 6. Other operating income

| | 2020 K | 2019 K |
|---|---|---|
| Other income | 5 099 324 | - |
| Fair value gain on investment property | 4 504 180 | - |
| Recoveries from loan loss provisions | 1 275 977 | 6 800 694 |
| | 10 879 481 | 6 800 694 |

## 7. Personnel expenses

| | 2020 K | 2019 K |
|---|---|---|
| Staff salaries and short term benefits | 60 233 448 | 47 044 219 |
| Pension | 3 196 691 | 2 286 606 |
| | 63 430 139 | 49 330 825 |

## 8. Other expenses

| | 2020 K | 2019 K |
|---|---|---|
| Other general expenses | 23 143 810 | 24 603 315 |
| Shared service costs | 21 878 815 | 10 597 132 |
| Swift, Reuters and bank charges | 8 482 108 | 7 802 094 |
| Directors remuneration and other expenses | 3 138 137 | 2 237 322 |
| Supervisory fees | 2 731 070 | 1 830 682 |
| Auditors fees | 2 615 485 | 1 400 868 |
| | 61 989 425 | 48 471 413 |

## 9. Profit before income tax

| | 2020 K | 2019 K |
|---|---|---|
| Profit before income tax is stated after crediting: | | |
| Trading income | 28 811 811 | 20 405 681 |
| Placement with other banks | 3 399 872 | 3 101 482 |
| Recoveries from loan losses | 4 256 856 | 6 800 694 |
| and after charging: | | |
| Emoluments: | | |
| - Key management personnel (Note 24) | 21 734 251 | 22 474 049 |
| - Directors' fees (Note 24) | 2 580 755 | 1 812 276 |
| Interest payable to other banks | 29 994 651 | 13 472 675 |
| Impairment charge | 15 357 872 | 9 657 997 |
| Depreciation of right of use assets (Note 20) | 6 922 849 | 6 749 806 |
| Depreciation expenses - property and equipment (Note 19) | 4 397 656 | 5 300 904 |
| Amortisation of intangible assets (Note 17) | 3 125 962 | 2 303 311 |
| Pension costs | 3 196 691 | 2 286 606 |
| Donations | 70 766 | 185 200 |

**Impairment charge**

| | 2020 K | 2019 K |
|---|---|---|
| Impairment charge on loans and advances (Note 32.2.1) | 803 457 | 9 150 624 |
| Impairment charge on low risk assets and off balance sheets exposures (Note 32.2.1) | 14 554 415 | 507 373 |
| | 15 357 872 | 9 657 997 |

## 10. Income tax expense

Income tax is calculated at the statutory rate of 35% on banking profits (2019: 35%).

| | 2020 K | 2019 K |
|---|---|---|
| Current tax | 38 703 739 | 5 801 081 |
| Deferred tax recognised in profit or loss | (16 261 285) | 1 637 181 |
| **Income tax expense** | 22 442 454 | 7 438 262 |

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

| | 2020 K | 2019 K |
|---|---|---|
| Tax recoverable at beginning of year | 14 699 142 | (3 402 958) |
| Payable in respect of the current year | (38 703 739) | (5 801 081) |
| Tax paid during the year | 6 144 237 | 9 189 678 |
| Withholding tax recoveries in respect of current year | 10 301 576 | 14 713 503 |
| **Current tax (liability)/asset at end of year** | (7 558 784) | 14 699 142 |

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:

| | 2020 K | 2019 K |
|---|---|---|
| Profit before income tax | 64 894 042 | 15 624 830 |
| Tax calculated at the statutory income tax rate of 35% (2019: 35%) | 22 712 915 | 5 468 691 |
| Non-deductible expenses | (270 461) | 1 969 571 |
| **Income tax expense** | 22 442 454 | 7 438 262 |

## 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:

| Recognised deferred tax asset | Assets 2020 K | Assets 2019 K | Liabilities 2020 K | Liabilities 2019 K | Net 2020 K | Net 2019 K |
|---|---|---|---|---|---|---|
| Leasehold improvements and equipment | (3 222 737) | (2 090 956) | - | - | (3 222 737) | (2 090 956) |
| Provisions | (3 883 115) | (693 221) | - | - | (3 883 115) | (693 221) |
| Processing fee received in advance | (1 412 914) | - | - | - | (1 412 914) | - |
| Suspended Interest | (1 271 620) | - | - | - | (1 271 620) | - |
| Tax effect on IFRS 9 transition adjustment | 340 312 | 340 312 | - | - | 340 312 | 340 312 |
| Right of use assets | (3 780 265) | (224 681) | | | (3 780 265) | (224 681) |
| Collective portfolio impairment provision | (7 334 906) | (1 635 414) | - | - | (7 334 906) | (1 635 414) |
| Deferred tax assets | (20 565 245) | (4 303 960) | - | - | (20 565 245) | (4 303 960) |

### Movement in temporary differences

| | 1 January 2019 K | Recognised in profit or loss/Equity K | Balance at 31 December 2019 K | Recognised in profit or loss K | Charged to equity | Balance at 31 December 2020 K |
|---|---|---|---|---|---|---|
| Leasehold improvements and equipment | (902 766) | (1 188 190) | (2 090 956) | (1 131 781) | - | (3 222 737) |
| Provisions | (2 503 413) | 1 810 191 | (693 222) | (3 189 894) | - | (3 883 115) |
| Processing fee received in advance | - | - | - | (1 412 914) | - | (1 412 914) |
| Suspended Interest | - | - | - | (1 271 620) | - | (1 271 620) |
| Tax effect on IFRS 9 transition adjustment | 340 312 | - | 340 312 | - | - | 340 312 |
| Right of use assets | - | (224 681) | (224 681) | (3 555 584) | - | (3 780 265) |
| Collective portfolio impairment provision | (2 875 275) | 1 239 861 | (1 635 414) | (5 699 492) | - | (7 334 906) |
| | (5 941 142) | 1 637 181 | (4 303 961) | (16 261 285) | - | (20 565 245) |

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 and balances with the Central bank and short term funds

### 11.1 Cash and balances with the Central Bank

| | 2020 K | 2019 K |
|---|---|---|
| Cash on hand | 192 129 806 | 34 492 986 |
| *Balances at Bank of Zambia:* | | |
| Statutory deposit | 164 138 875 | 103 054 580 |
| Settlement account | 2 319 375 | (14 585 742) |
| | 166 458 250 | 88 468 838 |
| Loss allowance | (18 244) | (7 788) |
| | 358 569 812 | 122 954 035 |

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 deposits from the public. At 31 December 2020 the percentage was 9% (2019:9%).

### 11.2 Cash and short term funds

| | 2020 | 2019 |
|---|---|---|
| Cash and short term funds | 138 837 205 | 269 816 890 |
| Loss allowance | (2 355) | (6 803) |
| | 138 834 850 | 269 810 087 |

### 11.3 Cash and cash equivalents at end of year

| 2020 | At 1 January K | Cash flow K | At 31 December K |
|---|---|---|---|
| Balances with Central Bank (Note 11.1) | 122 954 035 | 235 615 777 | 358 569 812 |
| Cash and short term funds (Note 11.2) | 269 810 087 | (130 975 237) | 138 834 850 |
| Placements with other banks (Note 12) | 3 153 442 | 1 034 624 | 4 188 066 |
| | 395 917 564 | 105 675 164 | 501 592 728 |

| 2019 | At 1 January | Cash flow | At 31 December |
|---|---|---|---|
| Balances with Central Bank (Note 11.1) | 94 110 004 | 28 844 032 | 122 954 035 |
| Cash and short term funds (Note 11.2) | 137 679 556 | 132 130 531 | 269 810 087 |
| Placements with other banks (Note 12) | 45 046 936 | (41 893 494) | 3 153 442 |
| | 276 836 496 | 119 081 069 | 395 917 564 |

## 12. Placements with other banks

| | 2020 K | 2019 K |
|---|---|---|
| Placement with other banks | 4 201 836 | 3 153 503 |
| Loss allowance | (13 770) | (61) |
| | 4 188 066 | 3 153 442 |
| Current | 4 188 066 | 3 153 442 |
| Non-Current | - | - |
| | 4 188 066 | 3 153 442 |

## 13. Investment securities

| | 2020 K | 2019 K |
|---|---|---|
| Investment securities measured at amortised cost | | |
| Government bonds | 442 410 126 | 32 754 975 |
| Treasury bills | 245 979 289 | 258 678 003 |
| Government securities | 688 389 415 | 291 432 978 |
| Gross amount | 688 389 415 | 291 432 978 |
| Loss allowance | (15 574 418) | (865 248) |
| Net amount | 672 814 997 | 290 567 730 |

| | 2020 K | 2019 K |
|---|---|---|
| Government securities are due to mature as follows: | | |
| Current | 245 979 289 | 258 678 003 |
| Non- Current | 442 410 126 | 32 754 975 |
| | 688 389 415 | 291 432 978 |

Average interest on treasury bills was 26.73% (2019: 25.93%).
Average interest rate on government bonds was 11% (2019: 11%).

**Movements in investment in securities**

| | 2020 K | 2019 K |
|---|---|---|
| At 1 January | 291 432 978 | 253 281 112 |
| Additions | 698 837 270 | 303 392 231 |
| Maturities | (301 880 833) | (265 240 365) |
| At 31 December | 688 389 415 | 291 432 978 |

## 14. Loans and advances to customers

**Net loans and advances**

| | 2020 K | 2019 K |
|---|---|---|
| Gross loans and advances to customers | 1 118 401 853 | 698 085 970 |
| Loss Allowance | (5 476 068) | (4 672 611) |
| | 1 112 925 785 | 693 413 359 |

### 14.1 Analysis of expected credit losses

| | 2020 K | 2019 K |
|---|---|---|
| Stage 1 | (1 602 705) | (1 741 166) |
| Stage 2 | (485 247) | (168 385) |
| Stage 3 | (3 388 116) | (2 763 060) |
| Allowance for impairment (Note32.2.1) | (5 476 068) | (4 672 611) |

14. Loans and advances to customers (continued)

14.2 Net loans and advances

| | Retail Banking | Corporate Banking | Total | Retail Banking | Corporate Banking | Total |
|---|---|---|---|---|---|---|
| | K | K | K | K | K | K |
| | 2020 | 2020 | 2020 | 2019 | 2019 | 2019 |
| Personal and term loans | 11 608 601 | 501 047 076 | 512 655 677 | 9 849 242 | 337 371 792 | 347 221 034 |
| Mortgage loans | 216 928 | - | 216 928 | 499 738 | - | 499 738 |
| Overdrafts | 22 918 267 | 582 610 981 | 605 529 248 | 9 447 809 | 340 917 389 | 350 365 198 |
| Gross loans and advances to customers | 34 743 796 | 1 083 658 057 | 1 118 401 853 | 19 796 789 | 678 289 181 | 698 085 970 |
| Less: allowance for impairment | | | | | | |
| Stage1 | (224 303) | (1 378 402) | (1 602 705) | (10 061) | (1 731 105) | (1 741 166) |
| Stage2 | - | (485 247) | (485 247) | - | (168 385) | (168 385) |
| Stage3 | - | (3 388 116) | (3 388 116) | (766 000) | (1 997 059) | (2 763 060) |
| Allowance for impairment | (224 303) | (5 251 765) | (5 476 068) | (776 061) | (3 896 549) | (4 672 611) |
| Net loans and advances | 34 519 493 | 1 078 406 292 | 1 112 925 785 | 19 020 728 | 674 392 632 | 693 413 359 |

Made up of:

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| Loans and advances to customers | 1 106 913 931 | 684 368 566 |
| Loans and advances to staff | 11 487 922 | 13 717 404 |
| | 1 118 401 853 | 698 085 970 |

Staff loans amounting to K 11,487,922 with related impairment of K145,646 (2019: K13,717,404 with related impairment of K371,571) have been included in the table above.

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.

14.3 Maturity analysis of loans and advances

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

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| One month | 667 036 123 | 347 499 753 |
| Less than three months (two to three months) | 1 055 765 | 17 646 872 |
| Maturity between four months to one year | 69 269 266 | 76 748 605 |
| Maturity between two year to five years | 373 256 207 | 256 002 367 |
| Maturity over five years | 7 784 492 | 188 373 |
| | 1 118 401 853 | 698 085 970 |

Loans and advances to related parties as at year ended 31 December 2020 amounted to K20,049,774 (2019: K13,418,397).

## 14. Loans and advances to customers (continued)

### 14.3 Maturity analysis of loans and advances (continued)

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 32.2.1.

### 14.4 Collateral against exposure

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| Neither past due nor impaired | 2 745 478 710 | 2 027 591 424 |
| Past due but not impaired | 571 252 173 | 289 655 396 |
| Non-performing loans | 78 068 000 | 272 334 815 |
| | 3 394 798 883 | 2 589 581 635 |

### 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 | | | |
|---|---|---|---|---|---|
| | 2020 | stage1 | stage2 | stage3 | 2019 |
| | K | K | K | K | K |
| Loans and advances to customers (including staff loans) | 1 118 401 853 | 871 862 486 | 201 889 797 | 44 649 571 | 698 085 970 |
| Guarantees and Letters of credit | 108 089 359 | 108 089 359 | - | - | 110 803 515 |
| Investment securities | 688 389 415 | 688 389 415 | - | - | 291 432 978 |
| Cash and balances with Central Bank | 358 588 056 | 358 588 056 | - | - | 122 961 823 |
| Cash and short term funds | 138 837 205 | 138 837 205 | - | - | 269 816 890 |
| Placements with other banks | 4 201 836 | 4 201 836 | - | - | 3 153 503 |
| Other assets | 9 629 618 | 9 629 618 | - | - | 8 531 825 |
| | 2 426 137 342 | 2 179 597 975 | 201 889 797 | 44 649 571 | 1 504 786 504 |

14. Loans and advances to customers (continued)

14.5 Credit quality (continued)

Maximum exposure to credit risk

2020

| Credit exposure | ECL grade | Loans and receivables from banks | Loans and advances to customers and staff | Guarantees provided | Investment securities | Cash and balances with central bank and short term funds | other assets | Total |
|---|---|---|---|---|---|---|---|---|
| | | K | K | K | K | K | K | K |
| Investment grade | 1-3 | 4 201 836 | 1 029 825 871 | 108 089 359 | 688 389 415 | 497 425 261 | 9 629 618 | 2 337 561 360 |
| Standard monitoring | 4-7 | - | 51 966 813 | - | - | - | - | 51 966 813 |
| Non-performing loans | 8-10 | - | 36 609 169 | - | - | - | - | 36 609 169 |
| Gross exposure | | 4 201 836 | 1 118 401 853 | 108 089 359 | 688 389 415 | 497 425 261 | 9 629 618 | 2 426 137 342 |

2019

| Credit exposure | ECL grade | Loans and receivables from banks | Loans and advances to customers and staff | Guarantees provided | Investment securities-debt | Cash and balances with central bank and short term funds | Other assets | Total |
|---|---|---|---|---|---|---|---|---|
| | | K | K | K | K | K | K | K |
| Investment grade | 1-3 | 3 153 503 | 641 648 665 | 110 803 515 | 291 432 978 | 392 778 713 | 8 531 825 | 1 448 349 199 |
| 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 | 698 085 970 | 110 803 515 | 291 432 978 | 392 778 713 | 8 531 825 | 1 504 786 504 |

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | K | % | K | % |
| Agriculture, forestry, fishing and hunting | 20 011 738 | 1.79 | 11 843 620 | 1.68 |
| Mining and quarrying | 48 464 063 | 4.33 | 61 043 802 | 8.66 |
| Manufacturing | 386 056 722 | 34.52 | 196 653 030 | 28.34 |
| Electricity, gas, water and energy | 14 737 901 | 1.32 | 29 369 591 | 4.17 |
| Construction | 70 539 796 | 6.31 | 25 342 413 | 3.60 |
| Wholesale and retail trade | 412 416 773 | 36.88 | 281 662 471 | 40.47 |
| Restaurants and hotels | 429 768 | 0.04 | 1 464 784 | 0.21 |
| Transport, storage and communications | 90 163 513 | 8.06 | 39 553 023 | 5.61 |
| Financial services | - | - | 454 435 | 0.06 |
| Community, social and personal services | 11 042 031 | 0.99 | 14 583 852 | 2.07 |
| Real estate | 4 658 078 | 0.42 | 3 067 374 | 0.44 |
| Personal and Other sectors | 48 393 548 | 4.33 | 19 330 171 | 2.74 |
| Staff | 11 487 922 | 1.03 | 13 717 404 | 1.95 |
| | 1 118 401 853 | 100 | 698 085 970 | 100 |

14. Loans and advances to customers (continued)

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

| 2020 | Total loans K | impaired loans K | Write offs K | Recoveries K | Loss allowance K |
|---|---|---|---|---|---|
| Agriculture, forestry, fishing and hunting | 20 011 738 | - | - | - | 245 348 |
| Mining and quarrying | 48 464 063 | - | 3 | 3 312 089 | 53 228 |
| Manufacturing | 386 056 722 | 5 332 326 | - | 24 228 | 756 368 |
| Electricity, gas, water and energy | 14 737 901 | - | - | - | 19 185 |
| Construction | 70 539 796 | 9 862 425 | 6 | - | 499 717 |
| Wholesale and retail trade | 412 416 773 | 22 576 581 | 976 560 | 500 222 | 3 042 534 |
| Restaurants and hotels | 429 768 | - | 1 020 490 | - | - |
| Transport, storage and communications | 90 163 513 | 4 102 363 | 270 | 17 341 | 532 741 |
| Financial services | - | - | - | - | - |
| Community, social and personal services | 11 042 031 | - | - | 136 404 | 19 845 |
| Real estate | 4 658 078 | 4 658 078 | - | - | - |
| Personal and other sectors | 48 393 548 | 1 750 998 | 578 968 | 193 929 | 161 456 |
| Staff | 11 487 922 | - | 21 702 | 72 643 | 145 646 |
| | 1 118 401 853 | 48 282 771 | 2 597 999 | 4 256 856 | 5 476 068 |

| 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 quarrying | 61 043 802 | 3 | 409 | 103 536 | 584 439 |
| Manufacturing | 196 653 030 | 442 870 | 1 993 488 | 213 611 | 25 645 |
| Electricity, gas, water and energy | 29 369 591 | - | 1 | 58 131 | - |
| Construction | 25 342 413 | 7 771 949 | - | 4 353 221 | 6 |
| Wholesale and retail trade | 281 662 471 | 22 492 343 | 1 820 113 | 1 470 451 | 1 707 915 |
| Restaurants and hotels | 1 464 784 | 1 020 490 | - | 961 | 1 020 490 |
| Transport, storage and communications | 39 553 023 | 582 906 | - | 203 934 | 30 074 |
| Financial services | 454 435 | 454 435 | - | - | - |
| Community, social and personal services | 14 583 852 | - | 375 480 | 33 407 | 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 |
| | 698 085 970 | 37 468 976 | 6 881 897 | 6 800 694 | 4 672 611 |

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | 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 | 609 162 445 | 4 424 191 | 350 638 501 | 2 739 439 |
| - Term Loans | 501 454 916 | 1 008 093 | 337 249 736 | 1 249 662 |
| - Mortgage | 7 784 492 | 43 784 | 9 743 298 | 683 509 |
| Loans and advances to financial institutions | - | - | 454 435 | - |
| | 1 118 401 853 | 5 476 068 | 698 085 970 | 4 672 611 |
| Other financial assets measured at amortised cost | | | | |
| - Cash | 192 129 806 | - | 34 492 985 | - |
| - Central bank balances | 166 458 250 | 18 244 | 88 468 838 | 7 788 |
| | 358 588 056 | 18 244 | 122 961 823 | 7 788 |
| - Balances with other banks | | | | |
| - Cash and short term funds | 138 837 205 | 2 355 | 269 816 890 | 6 803 |
| - Placement with other banks | 4 201 836 | 13 770 | 3 153 503 | 61 |
| | 143 039 041 | 16 124 | 272 970 393 | 6 864 |
| - Treasury bills | 245 979 289 | 1 005 157 | 258 678 003 | 716 385 |
| - Government bonds | 442 410 126 | 14 569 261 | 32 754 975 | 148 863 |
| | 688 389 415 | 15 574 418 | 291 432 978 | 865 248 |
| Total gross on-balance sheet exposures | 2 308 418 365 | 21 084 855 | 1 385 451 164 | 5 552 510 |
| Off balance sheet exposures | | | | |
| - Financial guarantees | 93 646 472 | 64 782 | 67 338 626 | 150 488 |
| - Performance guarantees | 14 442 887 | 21 537 | 43 464 889 | 110 304 |
| Total off-balance sheet exposures | 108 089 359 | 86 319 | 110 803 515 | 260 791 |
| Total loss allowance on loans and advances (Note 32.2.1) | | 5 476 068 | | 4 672 611 |
| Total loss allowance on low risk financial assets and off-balance sheet exposures (Note 32.2.1) | | 15 695 106 | | 1 140 691 |

## 15. Other receivables

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| Prepayments | 3 115 801 | 5 930 395 |
| Other debtors | 5 039 360 | 371 571 |
| Interest receivable | 879 597 | 1 351 841 |
| Investment in Zambia Electronic Clearing House Limited | 594 860 | 594 860 |
| Clearing main | - | 283 158 |
| | 9 629 618 | 8 531 825 |
| Current | 9 034 758 | 7 936 965 |
| Non-current | 594 860 | 594 860 |
| | 9 629 618 | 8 531 825 |

The investment in Zambia Electronic Clearing House Limited ("ZECHL") represents the Bank's contribution to the set up costs for the establishment of the National Switch to enhance ZECHL functionality, more specifically to support electronic point of sale transactions to help minimise cash based transactions and their attendant costs and risks. The principal activity of ZECHL is the electronic clearing of cheques and direct debits and credits in Zambia for its member banks. The ZECHL is funded by contributions from member banks. As there is no reliable measure of the fair value of this investment, it is carried at cost, and regularly reviewed for impairment at each reporting date.

## 16. Property held for sale

| | 2020 | 2019 |
|---|---|---|
| Balance at 1 January | 43 920 431 | 26 158 947 |
| Additions | - | 17 761 484 |
| Balance at 31 December | 43 920 431 | 43 920 431 |

The fair value of the Bank's Held for Sale asset was arrived at on the basis of valuation carried out by Messrs Seeff Zambia, independent valuers not related to the Bank. Seeff Zambia 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 Bank carries assets that are held for sale at the lower of its carrying amount and fair value less costs to sell. No impairment was taken as at 31 December 2020 as the carrying amount was lower than the fair value less cost to sell.

## 17. Intangible assets

| | |
|---|---|
| **Cost** | |
| | K |
| At 1 January 2019 | 13 881 951 |
| Additions | 2 962 256 |
| At 31 December 2019 | 16 844 207 |
| **At 1 January 2020** | **16 844 207** |
| Transfers | 5 606 554 |
| Additions | 848 333 |
| **At 31 December 2020** | **23 299 094** |
| **Amortisation** | |
| At 1 January 2019 | 6 940 243 |
| Amortisation for the year | 2 303 311 |
| At 31 December 2019 | 9 243 554 |
| **At 1 January 2020** | **9 243 554** |
| Amortisation for the year | 3 125 962 |
| **At 31 December 2020** | **12 369 517** |
| **Carrying amount** | |
| At 31 December 2019 | 7 600 653 |
| **At 31 December 2020** | **10 929 577** |

Intangible assets relate to externally purchased software from third parties that supports the operations of the Bank.

## 18. Investment property

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| Balance at beginning of year | 16 670 250 | 16 670 250 |
| Construction related costs | 3 868 466 | - |
| Fair value gain | 4 504 180 | - |
| **Balance at end of year** | 25 042 896 | 16 670 250 |

Construction related costs related to site preparation costs for the investment property reallocated from capital work in progress to investment property during the year.

The fair value of the Bank's investment property was arrived at on the basis of valuation carried out by Messrs SEEFF, independent valuers not related to the Bank. SEEF is 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 the last valuation being done in December 2020. the next assessment is due on 30 November 2021. Management has maintained the Land as investment property as the intention still remains to collect rentals and capital appreciation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2020

## 19. Property and equipment

| *Cost* | Leasehold improvements | Capital Work in Progress | Furniture and fitting | Motor vehicle | Office equipment | Computer hardware | ATM machines | Total |
|---|---|---|---|---|---|---|---|---|
| | K | K | K | K | K | K | K | K |
| 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** |
| Balance at 1 January 2020 | 20 129 161 | 5 392 034 | 2 689 029 | 1 370 243 | 7 714 853 | 4 954 967 | 1 428 887 | 43 679 174 |
| Additions | - | 4 568 465 | 9 088 | 365 000 | 178 146 | 544 591 | 29 567 | 5 694 856 |
| Transfer | - | (9 663 029) | - | - | - | 61 050 | - | (9 601 980) |
| **At 31 December 2020** | **20 129 161** | **297 469** | **2 698 117** | **1 735 243** | **7 892 999** | **5 560 608** | **1 458 454** | **39 772 050** |
| ***Accumulated depreciation*** | | | | | | | | |
| 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** |
| Balance at 1 January 2020 | 14 417 972 | - | 2 310 377 | 1 246 630 | 4 650 293 | 3 226 910 | 1 064 673 | 26 916 855 |
| Depreciation for the year | 2 235 699 | | 81 663 | 190 037 | 1 110 311 | 614 455 | 165 490 | 4 397 656 |
| **At 31 December 2020** | **16 653 672** | **-** | **2 392 040** | **1 436 668** | **5 760 604** | **3 841 365** | **1 230 162** | **31 314 511** |
| ***Carrying amounts*** | | | | | | | | |
| **At 31 December 2020** | **3 475 489** | **297 469** | **306 077** | **298 575** | **2 132 395** | **1 719 243** | **228 291** | **8 457 539** |
| 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 |

K5,606,554 was transferred to intangible assets associated with computer software, K61,050 was transferred to computer hardware and K3,868,466 was transferred to Investment property related to costs associated with the construction of the building. K65,910 was expensed during the year.

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 |
|---|---|
| **Cost** | K |
| At 1 January 2019 | 28 075 757 |
| Additions | 4 120 541 |
| At 31 December 2019 | 32 196 298 |
| **At 1 January 2020** | **32 196 298** |
| Additions and modification | 6 934 444 |
| **At 31 December 2020** | **39 130 742** |
| **Depreciation** | |
| At 1 January 2019 | - |
| Depreciation for the year | 6 749 806 |
| At 31 December 2019 | 6 749 806 |
| **At 1 January 2020** | **6 749 806** |
| Depreciation for the year | 6 922 849 |
| **At 31 December 2020** | **13 672 655** |
| **Carrying amount** | |
| At 31 December 2019 | 25 446 492 |
| **At 31 December 2020** | **25 458 087** |

The Bank occupies 8 buildings with on average 5 year lease periods. During the year, one lease contract expired. The expired contract was replaced by a new agreement for the underlying asset which resulted in an addition recognised of K5.6 million.

## 21. Amounts payable to other banks

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| Bank of Zambia | 40 597 501 | - |
| Indo Zambia Bank Limited | 22 004 918 | 30 000 000 |
| AB Bank Zambia Limited | - | 10 000 000 |
| | 62 602 419 | 40 000 000 |
| Current | 62 602 419 | 40 000 000 |
| Non-Current | - | - |
| | 62 602 419 | 40 000 000 |

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

## 22. Deposits from customers

| | 2020 | 2019 |
|---|---|---|
| Current accounts | 887 828 064 | 736 879 617 |
| Savings accounts | 128 600 206 | 324 470 811 |
| Fixed deposits | 796 204 892 | 48 956 201 |
| | 1 812 633 162 | 1 110 306 629 |
| Current | 1 810 173 560 | 922 621 000 |
| Non-current | 2 459 602 | 187 685 629 |
| | 1 812 633 162 | 1 110 306 629 |

## 23. Long term borrowings

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| At 1 January 2020 | 141 110 677 | 141 110 677 |
| Additions | 62 733 068 | - |
| loan repayments | (13 519 231) | - |
| Exchange losses | 68 593 190 | - |
| At 31 December 2020 | 258 917 704 | 141 110 677 |

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

**Reconciliation long term borrowings**

| | FMO Facility | BOZ - TMTRF |
|---|---|---|
| At 1 January 2020 | 141 110 677 | - |
| Additions | - | 62 733 068 |
| loan repayments | (13 520 022) | - |
| Exchange losses | 68 593 190 | - |
| At 31 December 2020 | 196 183 846 | 62 733 068 |
| Current | 65 246 154 | - |
| Non-Current | 130 937 692 | 62 733 068 |
| | 196 183 846 | 62 733 068 |

During the year, the Bank secured Targeted Medium term refinancing facility (BOZ-TMTRF) for on lending to the Bank's customers. The facility carries interest rate linked to Monetary Policy Rate which was at 8% per annum. Interest is repayable quarterly in equal instalments.

The Bank secured USD10 million credit facility in December 2019 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.

## 24. Related party transactions

**Parent and ultimate controlling party**

FMB Capital Holdings Plc incorporated and domiciled in Mauritius holds 49% shareholding in First Capital Bank Limited; 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:

| Amounts due to related parties | 2020 | 2019 |
|---|---|---|
| | K | K |
| FMBCH Mauritius | 7 896 342 | 3 569 480 |
| FCB Malawi | 2 156 422 | 1 851 082 |
| FCB Botswana | - | 45 106 |
| | 10 052 764 | 5 465 668 |

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

**Transactions with related parties**

| Nature of transaction | Counter party | LCY 2020 | LCY 2019 |
|---|---|---|---|
| Cash Swap | Zimbabwe | 185 800 000 | - |
| Placement in group bank | Malawi | 92 900 000 | 61 750 000 |
| Borrowing from Group Bank | Mozambique | 83 610 000 | - |

## 24. Related party transactions (continued)

### 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 K9,787,045 (2019: K800,259). 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 | 2020<br>K | 2019<br>K |
|---|---|---|
| Salaries and other short-term employment benefits | 21 734 251 | 22 474 049 |
| **Directors' emoluments** | | |
| Directors' fees | 2 580 755 | 1 812 276 |

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**

| 2020 | Directors<br>K | Entities connected to Directors<br>K | Key management staff<br>K | Total<br>K |
|---|---|---|---|---|
| At 1 January | 34 689 | 13 418 397 | 8 801 278 | 22 254 364 |
| Issued during the year | | 9 787 045 | 1 372 848 | 11 159 893 |
| Repayments during the year | (23 818) | (3 155 668) | (2 719 571) | (5 899 057) |
| Write-offs during the year | (10 871) | - | - | (10 871) |
| **At 31 December** | 0 | 20 049 774 | 7 454 554 | 27 504 329 |
| **Interest income earned** | 3 457 | 3 833 814 | 658 985 | 4 496 256 |
| 2019 | | | | |
| At 1 January | 93 028 | 25 482 830 | 6 155 945 | 31 731 803 |
| Loans issued during the year | - | 800 259 | 4 291 804 | 5 092 064 |
| Repayments during the year | (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 and fee income earned | 26 870 | 3 189 809 | 524 644 | 3 741 323 |

| **Deposits** | K | K | K | K |
|---|---|---|---|---|
| **2020** | | | | |
| At 1 January | 25 654 833 | 15 782 914 | (3 547 406) | 37 890 341 |
| Deposits during the year | 53 552 889 | 180 587 815 | 16 831 232 | 22 197 478 |
| Withdrawals | (75 926 895) | (159 912 273) | (12 409 428) | (28 042 546) |
| **At 31 December** | 3 280 827 | 36 458 455 | 874 398 | 32 045 273 |
| **Interest paid** | 26 857 | 61 | 5 403 | 32 321 |
| 2019 | | | | |
| Deposits 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 | 128 765 111 |
| Withdrawals | (13 214 162) | (116 363 388) | (2 460 671) | (132 038 221) |
| At 31 December | 25 654 833 | 15 782 914 | (3 547 405) | 37 890 342 |
| Interest paid | 1 698 130 | 8 965 | 20 963 | 1 728 058 |

## 25. Lease liabilities

| | 2020 | 2019 |
|---|---|---|
| | | K |
| At 1 January | 26 088 438 | 28 075 757 |
| Additions and lease modifications | 6 935 037 | 4 120 541 |
| Finance cost | 2 442 825 | 1 666 828 |
| Lease payments | (10 755 764) | (7 774 689) |
| Exchange losses | 11 410 150 | - |
| At 31 December | 36 120 686 | 26 088 438 |
| Current | 10 631 102 | 6 327 414 |
| Non-Current | 25 489 584 | 19 761 024 |
| | 36 120 686 | 26 088 438 |
| **Maturity Analysis** | | |
| Less than one year | - | - |
| Later than one year but not later than two years | 1 609 004 | 1 609 004 |
| Later than two years but not later than five years | 8 673 125 | 8 673 125 |
| Later than five years | 25 838 557 | 15 806 309 |
| | 36 120 686 | 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.

## 26. Other liabilities

| | 2020 | 2019 |
|---|---|---|
| | K | K |
| Sundry liabilities | 37 079 164 | 30 941 681 |

The analysis of sundry liabilities is shown below:

| | | |
|---|---|---|
| Current | 29 075 740 | 23 133 387 |
| Non-Current | 8 003 424 | 7 808 294 |
| | 37 079 164 | 30 941 681 |

## 27. Share capital

**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 |

## 28 Credit risk reserve

| | | |
|---|---|---|
| At 1 January | 2 997 263 | 13 940 277 |
| Transfer from (to) retained earnings | 1 479 892 | (10 943 014) |
| At 31 December | 4 477 155 | 2 997 263 |

The credit risk reserve (loan loss reserve) is a non-distributable reserve (loan loss reserve) that relates to the excess of impairment provision as required by the Bank of Zambia prudential regulations and the impairment provision recognised in accordance with International Financial Reporting Standards.

29. **Contingent liabilities**

The Bank has outstanding bank guarantees amounting to K108 million in the year under review (2019: K111. million).

30. **Capital commitments**

There were no significant capital commitments as at 31 December 2020 and 2019.

31. **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 2021 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. During the year, the Bank carried out a COVID-19 impact assessment which had shown that with regards to risk, the credit portfolio was split 41% categorized High Risk, 12% Medium Risk and 47% Low Risk. It was largely expected that COVID-19 would have a more severe impact on most borrowing customers, demonstrated by the expectation that 41% would be deemed High Risk.

The following projections and assumptions were made in 2020:

- Country lockdowns would curtail supply chains;
- Retail consumer behaviour would be significantly shifted;
- Economic macros would deteriorate far more significantly; and
- Business operations would be severely hampered by health risks

However, subsequently the re-assessment revealed that credit portfolio split was 6% categorised High Risk, 39% Medium Risk and 55% Low Risk which resulted in the Bank taking on additional impairment on account of COVID-19 amount to K 399,510 as at 31 December 2020.

The Bank has continued to encourage 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 continue to carry out 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 cashflows.

32. Financial risk management review

32.1 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.

32. Financial risk management review (continued)

32.1 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.

32. Financial risk management review (continued)

32.1 Financial risk management (continued)

*Management of credit risk (continued)*

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.

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.

32. Financial risk management review (continued)

32.1 Financial risk management (continued)

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.

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.

32.2 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.

32.2.1 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.

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

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.

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 60 days past due

Category 2 (sub categories 6a -7c): 61 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 Probability 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.

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

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 |

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. It 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

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Low risk financial instruments (continued)

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.

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, predominantly collateral held.

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.

## 32.2 Financial risk review (continued)

### 32.2.1 Credit risk management (continued)

#### 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; and
- Salary diversion

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 days past due 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.

## 32.2 Financial risk review (continued)

### 32.2.1 Credit risk management (continued)

### 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 judgement by way of adjustments to the PD and LGD levers built into the ECL model for this purpose.

The Bank considered the composition of its customer loans and advances portfolio, which experienced a limited number of defaults and the unique causes of defaults led to the conclusion 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.

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.

32. Financial risk review (continued)

32.2.1 Credit risk management (continued)

Credit quality of loans to customers

| Year ended 31 December 2020 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| RETAIL | K | K | K | K |
| Gross Carrying amount | | | | |
| Current | 34 594 600 | - | - | 34 594 600 |
| Past due 1-30 days | 121 185 | - | - | 121 185 |
| Past due 31-60 days | - | - | - | - |
| Past due 61-90 days | 28 012 | - | - | 28 012 |
| Past due more than 90 days | - | - | - | - |
| **Total gross carrying amount** | 34 743 797 | - | - | 34 743 797 |
| CORPORATE | Stage 1 | Stage 2 | Stage 3 | Total |
| Gross Carrying amount | K | K | K | K |
| Current | 722 588 616 | 138 655 012 | - | 861 243 628 |
| Past due 1-30 days | 114 524 911 | 20 735 835 | 2 238 913 | 137 499 659 |
| Past due 31-60 days | 160 | 42 498 950 | - | 42 499 110 |
| Past due 61-90 days | 5 002 | - | 9 434 687 | 9 439 689 |
| Past due more than 90 days | - | - | 32 975 970 | 32 975 970 |
| **Total gross carrying amount** | 837 118 689 | 201 889 797 | 44 649 570 | 1 083 658 056 |
| **Total gross carrying amount as of 31 December 2020** | 871 862 486 | 201 889 797 | 44 649 570 | 1 118 401 853 |

| Year ended 31 December 2019 | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| RETAIL | K | K | K | K |
| Gross Carrying amount | | | | |
| Current | 23 913 235 | 375 398 | | 24 288 633 |
| Past due 1-30 days | 33 838 | - | 93 890 | 127 729 |
| Past due 31-60 days | 34 689 | - | | 34 689 |
| Past due 61-90 days | - | - | | - |
| Past due more than 90 days | | - | 1 542 717 | 1 542 717 |
| **Total gross carrying amount** | 23 981 763 | 375 398 | 1 636 607 | 25 993 768 |

32. Financial risk review (continued)

32.2.1 Credit risk management (continued)

| CORPORATE | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross Carrying amount** | K | K | K | K |
| Current | 279 387 670 | 241 217 208 | | 520 604 877 |
| Past due 1-30 days | 49 124 662 | 54 066 935 | | 103 191 597 |
| Past due 31-60 days | 3 138 | 18 910 461 | - | 18 913 600 |
| Past due 61-90 days | 20 040 | | | 20 040 |
| Past due more than 90 days | - | - | 29 362 087 | 29 362 087 |
| **Total gross carrying amount** | **328 535 510** | **314 194 604** | **29 362 087** | **672 092 202** |
| **Total gross carrying amount as of 31 December 2019** | **352 517 273** | **314 570 002** | **30 998 694** | **698 085 970** |

**Credit quality of loans to customers**

**Analysis of collateral and other credit enhancements**

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

**Year ended 31 December 2020**

| | Gross Carrying Amount | Loss Allowance | Amortized Cost | Fair Value of Collateral |
|---|---|---|---|---|
| | K | K | K | K |
| **Loan portfolio in default (Stage 3)** | | | | |
| Retail | - | - | - | - |
| Corporate | 48 282 770 | (3 388 115) | - | 104 708 000 |
| **Total** | **48 282 770** | **(3 388 115)** | **-** | **104 708 000** |

**Year ended 31 December 2019**

| | Gross Carrying amount | Loss Allowance | Amortized Cost | Fair Value of Collateral |
|---|---|---|---|---|
| **Loan portfolio in default (Stage 3)** | K | K | K | K |
| Retail | 1 636 607 | (766 000) | - | 2 964 915 |
| Corporate | 35 832 369 | (6 864 095) | - | 269 251 900 |
| **Total** | **37 468 976** | **(7 630 095)** | **-** | **272 216 815** |

32. Financial risk review (continued)

32.2.1 Credit risk management (continued)

Movements in impairment for overall loans and advances for the year ended 31 December 2020 are as follows:

**Year ended 31 December 2020**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | K | K | K | K |
| Loss Allowance as of 1 January 2020 | 1 741 166 | 168 385 | 2 763 060 | 4 672 611 |
| Transfer from Stage 1 | 141 787 | (141 787) | - | - |
| Transfer from Stage 2 | - | - | - | - |
| Transfer from Stage 3 | (3 421) | - | 3 421 | - |
| Write-offs | - | - | - | - |
| **Total transfers** | 138 366 | (141 787) | 3 421 | 4 672 611 |
| **Movement with income statement impact** | | | | |
| New financial instrument originated or purchased | 1 310 873 | 485 247 | 3 384 694 | 5 180 814 |
| Repayment of principal amount | (1 580 647) | (26 598) | (190 714) | (1 797 959) |
| Changes in ECL due to modifications | - | - | - | - |
| Write-offs | (7 053) | - | (2 572 345) | (2 579 398) |
| **Charge/(Release) to Profit and Loss** | (276 827) | 458 649 | 621 635 | 803 457 |
| **Total loss allowance as of 31 December 2020** | 1 602 705 | 485 247 | 3 388 116 | 5 476 068 |

32. Financial risk review (continued)

32.2.1 Credit risk management (continued)

Movements in impairment for low risk assets for the year ended 31 December 2020 are as follows:

Low Risk Assets - Cash & Cash Equivalents

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Loss Allowance as of 1 January 2020 | 1 140 691 | - | - | 1 140 691 |
| **Movement without income statement impact** | | | | |
| Transfer from Stage 1 | (338 589) | - | 338 589 | - |
| Transfer from Stage 2 | - | - | - | - |
| Transfer from Stage 3 | - | - | - | - |
| Write-offs | - | - | - | - |
| **Total transfers** | **(338 589)** | **-** | **338 589** | **1 140 691** |
| **Movement with income statement impact** | | | | |
| New financial instrument originated or purchased | - | 15 381 863 | - | 15 381 863 |
| Financial assets that have been derecognised | (802 102) | - | - | (802 102) |
| Changes in ECL due to modification | (25 346) | - | - | (25 346) |
| Write-offs | - | - | - | - |
| **Charge/(Release) to Profit and Loss** | **(827 448)** | **15 381 863** | **-** | **14 554 415** |
| **Total Charge/(Release) to Profit and Loss** | (1 104 275) | 15 840 512 | 621 635 | 15 357 872 |
| **Total loss allowance as of 31 December** | **(25 346)** | **15 381 863** | **338 589** | **15 695 106** |

Management has undertaken an analytical exercise to assess the appropriateness of the risk categorisation in relation to the impact of COVID-19 on borrowing Clients. Whereas the general levels of Stages 1 and 2 remain unchanged, Stage 3 sees an increase from K37million to K48million as a result of downgrade of staging on borrowing names identified as showing significantly increased Credit risk in respect to COVID-19. The additional impairment charge taken in respect to this is K399,510.

## 32. Financial risk management review (continued)

### 32.2.1 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.

### 32.2.2 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:

| | 2020 | 2018 |
|---|---|---|
| At 31 December | 44% | 10% |
| Average for the year | 86% | 28% |
| Maximum for the year | 126% | 65% |

The Bank of Zambia requirement is that the Bank should have a ratio of at least 6% (2019: 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:

32. Financial risk management review (continued)

32.2.2 Liquidity risk management (continued)

Exposure to liquidity risk (continued)

| 2020 | 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 | 358 569 812 | 358 569 812 | 358 569 812 | - | - | - |
| Cash and short term funds | 138 834 850 | 138 837 205 | 138 837 205 | - | - | - |
| Placements with other banks | 4 188 066 | 4 201 836 | - | - | 4 201 836 | - |
| Investments securities | 672 814 997 | 688 389 415 | - | 15 978 727 | 229 969 162 | 442 410 126 |
| Other receivables* | 6 513 817 | 6 513 817 | - | 5 918 957 | - | 594 860 |
| Loans and advances to customers | 1 112 925 785 | 1 118 401 853 | 668 091 889 | 34 000 | 76 329 000 | 373 946 964 |
| Total financial assets | 2 293 847 327 | 2 314 913 938 | 1 165 498 906 | 21 931 684 | 310 499 998 | 816 951 950 |
| Financial liabilities | | | | | | |
| Deposits from customers | 1 812 633 162 | 1 812 633 162 | 1 217 483 830 | 119 114 324 | 473 575 405 | 2 459 602 |
| Long term borrowings | 258 917 704 | 258 917 704 | - | 32 623 077 | 32 623 077 | 193 671 550 |
| Amounts payable to other banks | 62 602 419 | 62 602 419 | 22 004 918 | 40 597 501 | - | - |
| Amounts due to related parties | 10 052 764 | 10 052 764 | - | 10 052 764 | - | - |
| Lease liabilities | 36 120 686 | 36 120 686 | - | - | 10 631 102 | 25 489 584 |
| Other liabilities** | 37 079 164 | 37 079 164 | - | 29 075 740 | 8 003 424 | - |
| Total financial liabilities | 2 217 405 899 | 2 217 405 899 | 1 239 488 749 | 231 463 406 | 524 833 008 | 221 620 736 |
| Net liquidity gap | 76 441 428 | 97 508 039 | (73 989 842) | (209 531 723) | (214 333 010) | 595 331 214 |
| 2019 | | | | | | |
| Financial assets | | | | | | |
| Cash balances with Central bank | 122 954 035 | 122 961 823 | 122 954 035 | - | - | - |
| Cash and short term funds | 269 810 087 | 269 816 890 | 269 810 087 | - | - | - |
| Placements with other banks | 3 153 442 | 3 153 503 | - | - | 3 153 442 | - |
| Investments securities | 290 567 730 | 291 432 978 | - | 13 350 833 | 244 461 922 | 32 754 975 |
| Other receivables* | 2 601 430 | 2 601 430 | - | 2 006 570 | - | 594 860 |
| Loans and advances to customers | 693 413 359 | 698 085 970 | 347 499 753 | 17 646 872 | 76 748 605 | 256 190 740 |
| Total financial assets | 1 382 500 083 | 1 388 052 594 | 740 263 875 | 33 004 275 | 324 363 968 | 289 540 575 |
| 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 |
| Long term borrowings | 141 110 677 | 141 110 677 | - | - | - | 141 110 677 |
| Amounts payable to other banks | 40 000 000 | 40 000 000 | 40 000 000 | - | - | - |
| Amounts due to related parties | 5 465 668 | 5 465 668 | - | - | 5 465 668 | - |
| Lease liabilities | 26 088 438 | 26 088 438 | - | - | 6 327 414 | 19 761 024 |
| Other liabilities** | 30 941 681 | 30 941 681 | - | 23 133 387 | 7 808 294 | - |
| Total financial liabilities | 1 353 913 093 | 1 353 913 093 | 609 284 000 | 83 142 387 | 312 929 375 | 348 557 330 |
| Net liquidity gap | 28 586 989 | 34 139 501 | 130 979 875 | (50 138 113) | 11 434 593 | (59 016 755) |

32. Financial risk management review (continued)

32.2.3 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.

2020

| | | | | 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 | 358 569 812 | 358 569 812 | - | - | - | - |
| Cash and short term funds | 138 834 850 | 138 834 850 | - | - | - | - |
| Placements with other banks | 4 188 066 | - | - | - | 4 188 066 | - |
| Investment securities | 672 814 997 | - | - | 15 978 727 | 229 969 162 | 442 410 126 |
| Loans and advances to customers | 1 112 925 785 | - | 1 112 925 785 | - | - | - |
| Other receivables* | 6 513 817 | 6 513 817 | - | - | - | - |
| Total financial assets | 2 293 847 327 | 503 918 479 | 1 112 925 785 | 15 978 727 | 234 157 228 | 442 410 126 |
| Financial liabilities | | | | | | |
| Deposits from customers | 1 812 633 162 | 887 828 064 | - | 448 770 091 | 473 575 405 | 2 459 602 |
| Long term borrowings | 258 917 704 | - | 258 917 704 | - | - | - |
| Amounts payable to other banks | 62 602 419 | - | - | 62 602 419 | - | - |
| Amounts due to related parties | 10 052 764 | 10 052 764 | - | - | - | - |
| Lease liabilities | 36 120 686 | - | - | - | 10 631 102 | 25 489 584 |
| Other liabilities** | 37 079 164 | 37 079 164 | - | - | - | - |
| Total financial liabilities | 2 217 405 899 | 934 959 992 | - | 511 372 510 | 484 206 507 | 27 949 186 |
| GAP | 76 441 428 | (431 041 513) | 1 112 925 785 | (495 393 784) | (250 049 279) | 414 460 940 |

** Excludes prepayments*

*** Excludes statutory obligations*

32. Financial risk management review (continued)

32.2.3 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.

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 | 3 153 442 | - | - | - | 3 153 503 | - |
| Investment securities | 290 567 730 | - | - | 13 350 833 | 244 461 922 | 32 754 975 |
| Loans and advances to customers | 693 413 359 | - | 693 413 359 | - | - | - |
| Other receivables* | 2 601 430 | 2 601 430 | - | - | - | - |
| Total financial assets | 1 382 500 083 | 395 365 553 | 693 413 359 | 13 350 833 | 247 615 425 | 32 754 975 |
| Financial liabilities | | | | | | |
| Deposits from customers | 1 110 306 629 | - | - | 629 293 000 | 293 328 000 | 187 685 629 |
| Long term borrowings | 141 110 677 | - | 141 110 677 | - | - | - |
| Amount payable to other banks | 40 000 000 | - | - | 40 000 000 | - | - |
| Amounts due to related parties | 5 465 668 | 5 465 668 | - | - | - | - |
| Lease liabilities | 26 088 438 | - | - | - | 6 327 414 | 19 761 024 |
| Other liabilities** | 30 941 681 | 30 941 681 | - | - | - | - |
| Total financial liabilities | 1 353 913 093 | 36 407 349 | 141 110 677 | 669 293 000 | 299 655 414 | 207 446 653 |
| GAP | 28 586 990 | 358 958 204 | 552 302 682 | (655 942 167) | (52 039 989) | (174 691 678) |

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.

** Excludes prepayments*

*** Excludes statutory obligations*

32. Financial risk management review (continued)

32.2.3 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:

| 2020 | USD | GBP | ZAR | Euro | K | Total |
|---|---|---|---|---|---|---|
| Monetary assets | 1 280 813 161 | 1 529 887 | 18 478 375 | 29 964 801 | 1 330 786 224 | 2 661 572 448 |
| Monetary liabilities | (1 280 066 924) | (1 354 903) | (17 552 594) | (29 733 335) | (1 328 707 756) | (2 657 415 511) |
| Net position | 746 237 | 174 984 | 925 782 | 231 466 | 2 078 468 | 4 156 937 |
| 2019 | USD | GBP | ZAR | Euro | Kwacha | |
| 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) |

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 and ZAR at 31 December 2020 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 |
| 2020 | K | K | K | K |
| USD | 74 624 | 74 624 | (74 624) | (74 624) |
| GBP | 17 498 | 17 498 | (17 498) | (17 498) |
| ZAR | 92 578 | 92 578 | (92 578) | (92 578) |
| Euro | 23 147 | 23 147 | (23 147) | (23 147) |
| 2019 | | | | |
| 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) |

32 Financial risk management and review (continued)

32.2.3 Market risk (continued)

Currency risk (continued)

The following significant exchange rates applied during the year:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Currency | Average rate | Reporting date | Average rate | Reporting date |
| USD | 18.564 | 21.205 | 12.922 | 14.070 |
| ZAR | 1.135 | 1.452 | 0.894 | 0.997 |
| Euro | 21.350 | 26.082 | 14.458 | 15.787 |
| GBP | 23.902 | 28.945 | 16.486 | 18.467 |

32.2.4 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.

| | | 2020 | 2019 |
|---|---|---|---|
| ii) | Computation of regulatory capital position | | |
| 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 | 86 738 466 | 45 766 770 |
| (e) | Credit Risk reserve | 4 477 155 | 2 997 263 |
| (f) | Statutory reserve | - | - |
| (g) | Minority interest (common shareholders' equity) | - | - |
| (h) | *Sub-total A (items a to g)* | 206 372 220 | 163 920 632 |
| | 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) | - | - |

| | | 2020 | 2019 |
|---|---|---|---|
| 32 | **Financial risk management and review (continued)** | | |
| 32.2.4 | **Capital management (continued)** | K | K |
| 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)]** | 206 372 220 | 163 920 632 |
| 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)** | 206 372 220 | 163 920 632 |
| 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)** | 102 372 220 | 59 920 632 |

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.

### 32.2.5 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:

| | Total carrying amounts | Fair value |
|---|---|---|
| 31 December 2020 | K | K |
| Cash balances with Central Bank | 358 569 812 | 358 569 812 |
| Cash and short term funds | 138 834 850 | 138 834 850 |
| Investment securities | 672 814 997 | 672 814 997 |
| Placements with other banks | 4 188 066 | 4 188 066 |
| Loans and advances to customers | 1 112 925 785 | 1 112 925 785 |
| Other receivables* | 6 513 817 | 6 513 817 |
| **Total financial assets** | 2 293 847 327 | 2 293 847 327 |

32 Financial risk management and review (continued)

32.2.5 Financial assets and financial liabilities (continued)

Financial liabilities

| | Total carrying amounts | Fair value |
|---|---|---|
| **31 December 2020** | K | K |
| Deposits from customers | 1 812 633 162 | 1 812 633 162 |
| Long term borrowings | 258 917 704 | 258 917 704 |
| Amounts payable to other banks | 62 602 419 | 62 602 419 |
| Amounts due to related parties | 10 052 764 | 10 052 764 |
| Lease liabilities | 36 120 686 | 36 120 686 |
| Other liabilities** | 37 079 164 | 37 079 164 |
| Total | **2 217 405 899** | 2 217 405 899 |
| 31 December 2019 | | |
| Cash balances with Central Bank | 122 954 035 | 122 954 035 |
| Cash and short term funds | 269 810 087 | 269 810 087 |
| Investment securities | 290 567 730 | 290 567 730 |
| Placements with other banks | 3 153 442 | 3 153 442 |
| Loans and advances to customers | 693 413 359 | 693 413 359 |
| Other receivables* | 2 601 430 | 2 601 430 |
| **Total financial assets** | 1 382 500 083 | 1 382 500 083 |
| **Financial liabilities** | | |
| Deposits from customers | 1 110 306 629 | 1 110 306 629 |
| Long term borrowings | 40 000 000 | 40 000 000 |
| Amount payable to other banks | 141 110 677 | 141 110 677 |
| Amounts due to related parties | 5 465 668 | 5 465 668 |
| Lease liabilities | 26 088 438 | 26 088 438 |
| Other liabilities** | 30 941 681 | 30 941 681 |
| Total | 1 353 913 093 | 1 353 913 093 |

## 33 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.

## 33. Fair values of financial instruments (continued)

### ii. Financial instruments not measured at fair value

Recurring fair value measurements at 31 December 2020

| | Level 1 K | Level 2 K | Level 3 K | Total fair value K | Total Carrying amount K |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with Central Bank | - | 358 569 812 | - | 358 569 812 | 358 569 812 |
| Cash and short term funds | - | 138 834 850 | - | 138 834 850 | 138 834 850 |
| Placement with other banks | - | 4 188 066 | - | 4 188 066 | 4 188 066 |
| Loans and advances to customers | - | 1 112 925 785 | - | 1 112 925 785 | 1 112 925 785 |
| Other receivables* | - | 6 513 817 | | 6 513 817 | 6 513 817 |
| Investments securities | - | 672 814 997 | - | 672 814 997 | 672 814 997 |
| | - | 2 293 847 327 | - | 2 293 847 327 | 2 293 847 327 |
| **Financial Liabilities** | | | | | |
| Amounts payable to banks | - | 62 602 419 | - | 62 602 419 | 62 602 419 |
| Amounts due to related parties | - | 10 052 764 | - | 10 052 764 | 10 052 764 |
| Long term borrowings | - | 258 917 704 | - | 258 917 704 | 258 917 704 |
| Deposits from customers | - | 1 812 633 162 | - | 1 812 633 162 | 1 812 633 162 |
| Other liabilities** | - | 37 079 164 | - | 37 079 164 | 37 079 164 |
| Lease liabilities | - | 36 120 686 | | 36 120 686 | 36 120 686 |
| | - | 2 217 405 899 | - | 2 217 405 899 | 2 217 405 899 |

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 balances with Central Bank | - | 122 954 035 | - | 122 954 035 | 122 954 035 |
| Cash and short term funds | - | 269 810 087 | - | 269 810 087 | 269 810 087 |
| Placement with other banks | - | 3 153 442 | - | 3 153 442 | 3 153 442 |
| Loans and advances | - | 693 413 359 | - | 693 413 359 | 693 413 359 |
| Other receivables* | - | 2 601 430 | | 2 601 430 | 2 601 430 |
| Investments securities | - | 290 567 730 | - | 290 567 730 | 290 567 730 |
| | - | 1 382 500 083 | - | 1 382 500 083 | 1 382 500 083 |
| **Financial Liabilities** | | | | | |
| Amounts payable to banks | - | 40 000 000 | - | 40 000 000 | 40 000 000 |
| Long term borrowings | - | 141 110 677 | - | 141 110 677 | 141 110 677 |
| Amounts due to related parties | - | 5 465 668 | - | 5 465 668 | 5 465 668 |
| Other liabilities** | - | 30 941 681 | - | 30 941 681 | 30 941 681 |
| Deposits from customers | - | 1 110 306 629 | - | 1 110 306 629 | 1 110 306 629 |
| Lease liabilities | - | 26 088 438 | - | 26 088 438 | 26 088 438 |
| | - | 1 353 913 093 | - | 1 353 913 093 | 1 353 913 093 |

## 33. 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 2020 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.

## 34. Adoption of New and Revised Standards

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

#### Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID- 19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c There is no substantive change to other terms and conditions of the lease.

**In the current financial year, the Company has not been impacted by the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.**

#### Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| *Amendments to References to the Conceptual Framework in IFRS Standards* | The Company has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. 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. |

## 34. Adoption of New and Revised Standards

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

### 34.2 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 | *Classification of Liabilities as Current or Non-current* |
| Amendments to IFRS 3 | *Reference to the Conceptual Framework* |
| Amendments to IAS 16 | *Property, Plant and Equipment—Proceeds before Intended Use* |
| Amendments to IAS 37 | *Onerous Contracts—Cost of Fulfilling a Contract* |
| Annual Improvements to IFRS Standards 2018-2020 | *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments and IFRS 16 Leases* |

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.

#### Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an Company will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

#### Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an Company also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

#### Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an Company recognises such sales proceeds and related costs in profit or loss. The Company measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the Company's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

## 34. Adoption of New and Revised Standards

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

### 34.2 New and revised Standards in issue but not yet effective

The Company shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

#### Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.