FIRST CAPITAL BANK LIMITED

REPORT AND ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2021

FIRST CAPITAL BANK LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2021

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FIRST CAPITAL BANK LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2021.

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

Share capital

During the year 2021, 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:

	2021	2020
	K	K
Net interest income	282 033 317	158 285 141
Profit before income tax	151 108 426	64 894 042
Income tax expense	(57 592 316)	(22 442 454)
Profit for the year	93 516 110	42 451 588

Dividend

The Bank paid an interim dividend of K12, 678,750 (2020: 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. Ramesh Patel	Non-Executive Director
Mr. James Banda	Non-Executive Director
Mr. Julian Ghui	Non-Executive Director
Ms. Debbie Nonde	Non-Executive Director

Chief Executive Officer

Mr. Edward Marks

Chief Financial Officer

Mr. Judge Daka (Resigned 5 May 2021)

Acting Chief Financial Officer

Mr. Tinashe Howe (Appointed 23 July 2021 to 22 October 2021)

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 (2020: Nil).

The Directors emoluments paid during the year ended 31 December 2021 were K2,678,897 (2020: K2,580,775) 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 K44,372,520 (2019: K9,787,045). 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	121	July	130
February	121	August	133
March	125	September	134
April	125	October	136
May	125	November	136
June	125	December	140

The total remuneration of employees during the year amounted to K75,786,195 (2020: K63,430,139).

Property and equipment and intangible assets

The Bank acquired assets with a value of K5,135,264 during the year (2020: K6,543,189). 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 (2020: Nil)

Gifts and donations

The Bank made donations during the year amounting to K162,961 (2020: K70,766) 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

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 9 to 65 have been approved by the Directors.

Subsequent events

The Directors proposed and approved dividend of K20,881,250 (2020: K12,678,750).

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: 10 March 2022

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 9 to 64 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 9 to 64 which comprise the statement of financial position as at 31 December 2021, 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 2021, 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 period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed on our audit
Valuation of expected credit losses (ECL) on loans and receivables	
As included in notes 14 and 3.2 the ECL on loans and advances amounting to K4.4million has been considered to be an area where significant judgements were applied. In determining the ECL provision, management applies judgement and assumptions to estimate amounts that are doubtful. The determination of the ECL provision was considered a matter of utmost significance to our current year audit due to significant judgements and estimates made in determining probability of default, loss given default and forward-looking information and the classification of loans and advances.	We performed the following procedures: •Obtained an understanding of management's process to estimate the ECL for loans and advances •Tested the design and implementation of controls over the assessment of the ECL for loans and advances •Assessed the ECL model against the requirements of IFRS 9 •Tested the accuracy and completeness of underlying data inputs used in the model •Tested the arithmetical accuracy of the ECL model •Reviewed changes made to the ECL model in respect of methodology and assumptions •Assessed the reasonableness of the inputs and assumptions used in the ECL model by independently comparing them with external sources, historical data adjusted for current market condition and forward-

Key audit matter	How the matter was addressed on our audit
Valuation of expected credit losses (ECL) on loans and receivables	
	•Independently assessed the reasonability of significant increase in credit trigger points •Involved our Financial Services Advisory and Quantitative Credit Modelling Specialists (IFRS9 specialists) who performed an assessment of the modelling methodology, and the assumptions applied and reperformed the computation taking into account the requirements of IFRS 9 Based on the work done, we concur with management that the judgements and assertions used in the ECL model were appropriate

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.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

- 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.

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

ANDREW NJOVU
PARTNER
AUD/F000802

DATE: 30/03/2022

FIRST CAPITAL BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2021

	Notes	2021 K	2020 K
Interest income	4	382 846 505	244 168 532
Interest expense	4	(100 813 188)	(85 883 391)
Net interest income		282 033 317	158 285 141
Fee and commission income	5	29 385 379	24 584 337
Other operating income	6	533 522	10 879 481
Trading income		56 137 668	28 811 811
Total non-interest income		86 056 568	64 275 629
Total operating income		368 089 885	222 560 770
Impairment charge	9	(14 529 377)	(15 357 872)
		353 560 508	207 202 898
Personnel expenses	7	(75 786 195)	(63 430 139)
Other expenses	8	(88 386 802)	(61 989 425)
Loss on disposal of assets held for sale	16	(21 320 924)	-
Depreciation of right of use assets	20	(6 902 039)	(6 922 849)
Amortisation of intangible assets	17	(3 808 523)	(3 125 962)
Depreciation expense on property and equipment	19	(3 790 472)	(4 397 656)
Finance cost	25	(2 457 128)	(2 442 825)
Total operating expenses		(202 452 082)	(142 308 856)
Profit before income tax		151 108 426	64 894 042
Income tax expense	10	(57 592 316)	(22 442 454)
Profit and total comprehensive income for the year		93 516 110	42 451 588

There were no items of other comprehensive income for the year (2020: Nil).

The notes on pages 13 to 64 form an intergral part of these financial statements

FIRST CAPITAL BANK LIMITED

STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2021

Assets	Notes	2021	2020
		K	K
Cash and balances with the Central Bank	11	312 723 968	358 569 812
Cash and short term funds	11	309 428 910	138 834 850
Placements with other banks	12	54 848 317	4 188 066
Investment securities	13	1 014 918 884	672 814 997
Loans and advances to customers	14	1 001 357 882	1 112 925 785
Other receivables	15	35 836 462	9 629 618
Deferred tax asset	10	20 059 476	20 565 245
Property held for sale	16	-	43 920 431
Intangible assets	17	7 487 915	10 929 577
Investment property	18	-	25 042 896
Property and equipment	19	34 166 096	8 457 539
Right of use assets	20	31 478 032	25 458 087
Total assets		2 822 305 943	2 431 336 903
Liabilities			
Amounts payable to other banks	21	20 041 781	62 602 419
Deposits from customers	22	2 186 223 591	1 812 633 162
Amounts due to related parties	24	1 659 931	10 052 764
Lease liabilities	25	36 535 813	36 120 686
Other liabilities	26	58 156 275	37 079 164
Current tax payable	10	2 431 927	7 558 784
Long term borrowings	23	230 047 044	258 917 704
Total liabilities		2 535 096 363	2 224 964 683
Equity			
Share capital	27	104 000 000	104 000 000
Share premium	27	11 156 599	11 156 599
Credit risk reserve	28	6 882 103	4 477 155
Retained earnings		165 170 878	86 738 466
Total equity		287 209 580	206 372 220
Total liabilities and equity		2 822 305 943	2 431 336 903

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 9 to 64 were approved for issue by the Board of Directors on 10 March 2022 and were signed on its behalf by:

Director

Director

Director

The notes on pages 13 to 64 form an intergral part of these financial statements

FIRST CAPITAL BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2021

	Note	Share capital K	Share premium K	Credit risk reserve K	Retained earnings K	Total K
At 1 January 2020	27	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 to retained earnings	28	-	-	1 479 892	(1 479 892)	-
At 31 December 2020		104 000 000	11 156 599	4 477 155	86 738 466	206 372 220
At 1 January 2021		**104 000 000**	**11 156 599**	**4 477 155**	**86 738 466**	**206 372 220**
Total comprehensive income for the year		-	-	-	93 516 110	**93 516 110**
Transfer from retained earnings	28	-	-	2 404 948	(2 404 948)	-
Dividend Paid					(12 678 750)	(12 678 750)
Balance at 31 December 2021	27	104 000 000	11 156 599	6 882 103	165 170 878	287 209 580

The notes on pages 13 to 64 form an intergral part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

	NOTES	2021 K	2020 (Restated) K
Cash flows from operating activities			
Profit for the year		93 516 110	42 451 588
Adjustments for:			
Impairment of loans and advances and other low risk assets	9	14 529 377	15 357 872
Income tax expense	10	57 592 316	22 442 454
Amortisation of intangible assets	17	3 808 523	3 125 962
Loss on disposal of assets held for sale	16	21 320 924	-
Gain on fair value of investment property	18	-	(4 504 180)
Depreciation expense - property and equipment	19	3 790 472	4 397 656
Depreciation for right of use assets	20	6 902 039	6 922 849
Exchange (gains) losses on long term loans	23	(17 107 236)	68 593 190
Finance cost on lease buildings	25	2 457 128	2 442 825
Exchange (gains) losses on lease liabilities	25	(6 950 293)	11 410 150
Capital work in progress expensed during the year		312 270	65 910
Cashflows from operating activities before changes in working capital		180 171 629	172 706 276
Changes in working capital:			
Increase in other receivables		(26 206 844)	(1 097 793)
Decrease (Increase) in loans and advances to customers		112 681 477	(420 315 883)
Disposal of property held for sale	16	22 599 507	-
Increase in deposits from customers		373 590 430	702 326 532
Increase in other liabilities		21 077 111	6 137 483
(Decrease) Increase in amounts payable to other banks		(42 560 638)	22 602 419
(Decrease) Increase in amounts due to related parties		(8 392 833)	4 587 096
Cash generated from operating activities		632 959 839	486 946 131
Withholding tax paid	10	(20 296 356)	(10 301 576)
Income tax paid	10	(42 354 521)	(6 144 237)
Net cash generated from operating activities		570 308 961	470 500 318
Cash flows from investing activities			
Purchase of property and equipment	19	(4 768 402)	(5 694 856)
Acquisition of intangible assets	17	(366 862)	(848 333)
Purchase of investment securities*		(630 700 293)	(698 837 270)
Maturities of investment securities*		279 450 000	301 880 833
Net cash used in investing activities		(356 385 557)	(403 499 626)
Cash flows from financing activities			
Lease principal repayments*	25	(5 432 651)	(8 312 939)
Finance Cost*	25	(2 457 128)	(2 442 825)
Long term loan repayments	23	(87 016 381)	(13 519 231)
Proceeds from long term loan	23	75 252 957	62 733 068
Dividends paid		(12 678 750)	-
Net cash flows generated from financing activities		(32 331 953)	38 458 073
Net increase in cash and cash equivalents		181 591 452	105 458 765
Cash and cash equivalents at beginning of year		501 592 728	395 917 564
Effects of foreign exchange rate changes		(6 182 985)	216 400
Cash and cash equivalents at end of the year	11.3	677 001 195	501 592 728
Represented by:			
Balances with Central Bank		312 723 968	358 569 812
Cash and short term funds		309 428 910	138 834 850
Placements with other banks		54 848 317	4 188 066
	11.3	677 001 195	501 592 728

*See note 35 for details regarding the restatement of cashflows from investment in investment securites and lease repayments.

The notes on pages 13 to 64 form an intergral part of these financial statements

1. Reporting entity

First Capital Bank Limited ("the Bank") is licensed under the Banking and Financial Services Act, 2017 of the laws of Zambia. The Bank is incorporated and domiciled in Zambia under company's act 2017 (amended). 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 Statement of compliance

The financial statemetn of the bank have been prepared in accordance with international financial reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB).

2.2 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's functional currency.

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)

2.3 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.

2.4 Interest income and interest

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.

2.5 Fee and commission income and expense

Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). Fee and commission collected by the bank that meet IFRS 15 criteria are account maintenance, drafts and transfers, salary processing, ATM issuer fees, visa card fees and trade service fees. The fees are collected at a point in time wherever the service is provided.

2. Significant accounting policies (continued)

2.6 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.

2.7 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	Contractual cashflow	IFRS9 subsequent measurement
Loans and advances to customers	Hold to collect – contractual cashflows	Cashflows represents solely payments of principal and interest on the principal amount outstanding	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	Cashflows represents solely payments of principal and interest on the principal amount outstanding	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.
Investment securities – (held for liquidity purposes)	Hold to collect – contractual cashflows and sell	Cashflows represents solely payments of principal and interest on the principal amount outstanding	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 – debt (held for trading)	Hold to sell	Fair value gains or loss on trading of investment securities	These assets are subsequently measured at fair value. Net gains are recognised in profit or loss.
Equity investment	Other business model	Dividends	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss.

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. Significant accounting policies (continued)

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.

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.

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. Significant accounting policies (continued)

2.16 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.

2.17 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.

2.18 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.

2.19 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.

2. Significant accounting policies (continued)

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.

2.20 Leases

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.

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.

2. Significant accounting policies (continued)

2.20 Leases (continued)

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.

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.

2 Significant accounting policies (continued)

2.20 Leases (continued)

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

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

2.21 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.

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. Critical accouting estimates and judgements

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. Financial risks including liquidity risk, market risk and credit risks are outlined in the Financial statements.

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, the bank continues to assess the COVID impact on its portfolio as part of it stress testing and credit risk management.

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 Expected credit losses on financial assets

The Bank assesses on forward looking basis the expected credit losses associated with financial instruments carried at amortized costs and FVOCI and with exposure arising from loan commitments and financial guarantees. The Bank recognised credit loss allowance at the end of each reporting period.

The Bank calculates loss allowances by:

- identifying scenarios in which a loan or receivable defaults;
- estimating the cash shortfall that would be incurred in each scenario if a default were to happen;
- multiplying that loss by the probability of the default happening; and
- summing the results of all such possible default events.

3. Critical accouting estimates and judgements

3.2 Expected credit losses on financial assets

The bank applies a 3 staged impairment model based on whether there significant increase in credit risk of a financial asset since its initial recognition. These 3 stages determine the amount to of impairment to be recognised as expected credit losses at each reporting date.

- Stage 1: Credit risk has not increased significantly since initial recognition – recognise 12 months ECL, and recognise interest on a gross basis
- Stage 2: Credit risk has increased significantly since initial recognition – recognise Lifetime ECL, and recognise interest on a gross basis. A rebuttable presumption exists which states that the latest point of entry to Stage 2 is at 30 Days past due (DPD).
- Stage 3: Financial asset is credit impaired (using the criteria currently included in IAS 39 Financial Instruments: Recognition and Measurement). Credit-impaired financial assets are those for which one or more events that have a detrimental effect on the estimated future cash flows have already occurred. This is equivalent to the point at which an incurred loss would have been recognised under IAS 39. The assumption is that the Stage 3 impaired definition would equate to default.

  IFRS9 provides a rebuttable presumption that default would not occur later than 90 Days past due (DPD). Under Stage 3 the Bank will recognise Lifetime ECLs and will recognise interest only to the extent that it expects interest to be received.

  Indicators that an asset is credit-impaired would include observable data concerning the following events:
  - Actual breach of contract (e.g. default or delinquency in payments)
  - Granting of a concession to the borrower due to the borrower's financial difficulty
  - Probability that the borrower will enter bankruptcy or other financial reorganisation

Additionally, judgements around the inputs and calibration of the expected credit loss 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 to which haircuts are applied, 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.

For structured repayments, such as Loans, Lifetime would likely equate to the maximum repayment term plus the period to recognise loss and the subsequent cash flows. For revolving products Lifetime is less clear and would need to be argued by each entity and evidenced based on typically observed repayment periods.

Lifetime credit loss would consider default, cash flows between default and the write off event and recoveries post write off.

A further consideration under revolving credit facilities is that the expected utilisation of undrawn limits must be considered. This could be achieved through a proxy of expected balance at default in relation to limit. However, providing for expected utilisation of unused limits beyond the current limit at reporting date is not required. Where an accounts spend is systematically or operationally blocked, a zero spend assumption would likely be acceptable (possibly the case for stage 2 and 3).

For Stage 1 the recognition of impairment uses the 12-month expected credit losses model. The 12-month expected credit losses are calculated by multiplying the probability of a default occurring in the next 12 months with the total (Lifetime) expected credit losses that would result from that default, regardless of when those losses occur. Therefore, 12-month expected credit losses represent a financial asset's Lifetime expected credit losses that are expected to arise from default events that are possible within the 12month period following origination of an asset, or from each reporting date for those assets in Stage 1.

For Stage 2 the recognition of impairment uses the Lifetime expected credit losses model. The Lifetime expected credit losses are the present value of expected credit losses that arise if a borrower defaults on its obligation at any point throughout the term of a lender's financial asset. This requires an entity to consider all possible default events during the term of the financial asset in the analysis. Lifetime expected credit losses are calculated based on a weighted average of the expected credit losses, with the weightings being based on the respective probabilities of default.

3. Critical accouting estimates and judgements

3.2 Expected credit losses on financial assets (continued)

The transition from recognising 12-month ECLs (i.e. Stage 1) to Lifetime ECLs (i.e. Stage 2) in IFRS9 is based on the notion of a significant increase in credit risk over the remaining life of the instrument in comparison with the credit risk on initial recognition. The focus is on the relative changes in the risk of a default, and not the changes in the amount of ECLs. For example, for highly collateralised financial assets such as real estate backed loans, when a borrower is expected to be affected by the downturn in its local economy with a consequent increase in credit risk, that loan would move to Stage 2, even though the actual loss suffered may be small because the lender may recover most of the amount due by selling the collateral.

A significant increase in credit risk (moving from Stage 1 to Stage 2) may include:

- Changes in general economic and/or market conditions (e.g. expected increase in unemployment rates, interest rates) – Significant changes in the operating results or financial position of the borrower.
- Changes in the amount of financial support available to an entity (e.g. from its parent).
- Expected or potential breaches of covenants.
- Expected delay in payment (Note: Actual payment delay may not arise until after there has been a significant increase in credit risk).

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.

3.5 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. Critical accouting estimates and judgements (continued)

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. 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. Provisions are recognised when the Bank has a present obligation (legal or constructive) 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 can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

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.

		2021	2020
		K	K
4.	**Net interest income**		
	Interest income		
	Arising from:		
	Loans and advances to customers	155 914 294	126 857 881
	Investment securities	225 829 232	113 910 779
	Placement with Other banks	1 102 978	3 399 872
		382 846 505	244 168 532
	Interest expense		
	Arising on:		
	Deposits from customers	(75 023 089)	(55 888 740)
	Amounts payable to other banks	(25 790 099)	(29 994 651)
		(100 813 188)	(85 883 391)
	Net interest income	282 033 317	158 285 141
5.	**Fee and commission income**		
	Transfers and remittances	21 000 834	18 619 898
	Account services fees	4 233 779	4 138 100
	Other fees	4 150 766	1 826 339
		29 385 379	24 584 337
6.	**Other operating income**		
	Other income	278 292	5 099 324
	Recoveries from loan loss provisions	255 230	1 275 977
	Fair value gain on investment property	-	4 504 180
		533 522	10 879 481
7.	**Personnel expenses**		
	Staff salaries and short term benefits	72 206 474	60 233 448
	Pension	3 579 721	3 196 691
		75 786 195	63 430 139
8.	**Other expenses**		
	Other general expenses	35 196 296	23 143 810
	Management fees	25 991 934	21 878 815
	Swift, Reuters and bank charges	18 707 357	8 482 108
	Supervisory fees	4 131 709	2 731 070
	Non executive directors remuneration and other expenses	3 050 730	3 138 137
	Auditors fees	1 308 776	2 615 485
		88 386 802	61 989 425

9. Profit before income tax

	2021 K	2020 K
Profit before income tax is stated after crediting:		
Trading income	56 137 668	28 811 811
Placement with other banks	1 102 978	3 399 872
Recoveries from loan losses	255 230	1 275 977
and after charging:		
Emoluments:		
- Key management personnel (Note 24)	27 359 799	21 734 251
- Directors' fees (Note 24)	2 678 897	2 580 755
Interest payable to other banks	25 790 099	29 994 651
Loss on disposal of assets held for sale	21 320 924	-
Impairment charge	14 529 377	15 357 872
Depreciation of right of use assets (Note 20)	6 902 039	6 922 849
Depreciation expenses - property and equipment (Note 19)	3 790 472	4 397 656
Amortisation of intangible assets (Note 17)	3 808 523	3 125 962
Pension costs (Note 7)	3 579 721	3 196 691
Donations	162 551	70 766

Impairment charge

	2021 K	2020 K
Impairment charge on loans and advances (Note 32.2.1)	4 098 522	803 457
Impairment charge on low risk assets and off balance sheets items (Note 32.2.1)	10 430 855	14 554 415
	14 529 377	15 357 872

10. Income tax expense

Income tax is calculated at the statutory rate of 35% on banking profits (2020: 35%).

	2021 K	2020 K
Current tax	57 086 547	38 703 739
Deferred tax recognised in profit or loss	505 769	(16 261 285)
Income tax expense	57 592 316	22 442 454

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

	2021 K	2020 K
Current tax (liability) asset at the start of ther year	(7 558 784)	14 699 142
Payable in respect of the current year	(57 086 547)	(38 703 739)
Under provision of taxes in prior year	(437 474)	-
Tax paid during the year	42 354 521	6 144 237
Withholding tax recoveries in respect of current year	20 296 356	10 301 576
Current tax liability at end of year	(2 431 927)	(7 558 784)

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

	2021 K	2020 K
Profit before income tax	151 108 426	64 894 042
Tax calculated at the statutory income tax rate of 35% (2020: 35%)	52 887 949	22 712 915
Permanent differences	(1 014 028)	(270 461)
Effects of changes in the tax rate	5 718 395	-
Income tax expense	57 592 316	22 442 454

10. **Income tax (continued)**

Deferred tax

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

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
	K	K	K	K	K	K
Recognised deferred tax asset						
Leasehold improvements and equipment	(2 955 216)	(3 222 737)	-	-	(2 955 216)	(3 222 737)
Provisions	(5 590 130)	(3 883 116)	-	-	(5 590 130)	(3 883 116)
Processing fee received in advance	(1 626 491)	(1 412 914)	-	-	(1 626 491)	(1 412 914)
Suspended Interest	-	(1 271 620)	-	-	-	(1 271 620)
Right of use assets	(1 517 336)	(3 780 265)			(1 517 336)	(3 780 265)
Collective portfolio impairment provision	(8 370 303)	(6 994 594)	-	-	(8 370 303)	(6 994 594)
Deferred tax assets	(20 059 476)	(20 565 246)	-	-	(20 059 476)	(20 565 246)

Movement in temporary differences

	1 January 2020	Recognised in profit or loss/Equity	Balance at 31 December 2020	Recognised in profit or loss	Charged to equity	Balance at 31 December 2021
	K	K	K	K		K
Leasehold improvements and equipment	(2 090 956)	(1 131 781)	(3 222 737)	267 521	-	(2 955 216)
Provisions	(693 222)	(3 189 894)	(3 883 116)	(1 707 015)	-	(5 590 130)
Processing fee received in advance	-	(1 412 914)	(1 412 914)	(213 577)	-	(1 626 491)
Suspended Interest	-	(1 271 620)	(1 271 620)	1 271 620	-	-
Right of use assets	(224 681)	(3 555 584)	(3 780 265)	2 262 929	-	(1 517 336)
Collective portfolio impairment provision	(1 295 102)	(5 699 492)	(6 994 594)	(1 375 709)	-	(8 370 303)
	(4 303 961)	(16 261 285)	(20 565 246)	505 769	-	(20 059 476)

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

	2021 K	2020 K
Cash on hand	82 412 088	192 129 807
Balances at Bank of Zambia:		
Statutory deposit	206 482 860	164 138 875
Settlement account	23 834 308	2 319 375
	230 317 168	166 458 250
Impairment loss allowance	(5 289)	(18 244)
	312 723 968	358 569 812

The statutory deposit held with Bank of Zambia, as a minimum reserve requirement, is not available for the Bank's day to day operations. The reserve represents a requirement by the Central Bank and is a percentage of the Bank's local currency and foreign currency liabilities to the public. At 31 December 2021 the percentage was 9% (2020:9%).

11.2 Cash and short term funds

	2021	2020
Cash and short term funds	309 453 481	138 837 205
IFRS 9 Impairment loss allowance	(24 571)	(2 355)
	309 428 910	138 834 850

11.3 Cash and cash equivalents at end of year

2021	At 1 January K	Cash flow K	At 31 December K
Balances with Central Bank (Note 11.1)	358 569 812	(45 845 844)	312 723 968
Cash and short term funds (Note 11.2)	138 834 850	170 594 059	309 428 910
Placements with other banks (Note 12)	4 188 066	50 660 252	54 848 317
	501 592 728	175 408 466	677 001 195

2020	At 1 January	Cash flow	At 31 December
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

12. Placements with other banks

	2021 K	2020 K
Placement with other banks	54 884 633	4 201 836
IFRS 9 Impairment loss allowance	(36 316)	(13 770)
	54 848 317	4 188 066
Current	54 848 317	4 188 066
Non-Current	-	-
	54 848 317	4 188 066

13. Investment securities

	2021 K	2020 K
Investment securities measured at amortised cost		
Government bonds	723 862 783	442 410 126
Treasury bills	316 022 979	245 979 289
	1 039 639 708	688 389 415
Gross amount	1 039 639 708	688 389 415
Impairment loss allowance	(24 720 824)	(15 574 418)
Net amount	1 014 918 884	672 814 997
Government securities are due to mature as follows:		
Current	341 653 723	245 979 289
Non-Current	697 985 985	442 410 126
	1 039 639 708	688 389 415

Average interest on treasury bills was 25% (2020: 26.73%). Average interest rate on government bonds was 34% (2020: 32%).

Movements in investment in securities

	2021 K	2020 K
At 1 January	688 389 415	291 432 978
Additions	630 700 293	698 837 270
Maturities	(279 450 000)	(301 880 833)
At 31 December	1 039 639 708	688 389 415

14. Loans and advances to customers

Net loans and advances

	2021 K	2020 K
Gross loans and advances to customers	1 005 720 376	1 118 401 853
Loss Allowance	(4 362 494)	(5 476 068)
	1 001 357 882	1 112 925 785

14.1 Analysis of expected credit losses

	2021 K	2020 K
Stage 1	(2 214 473)	(1 602 707)
Stage 2	(396 403)	(485 247)
Stage 3	(1 751 618)	(3 388 115)
Impairment loss allowance (Note32.2.1)	(4 362 494)	(5 476 068)

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
	2021	2021	2021	2020	2020	2020
Personal and term loans	6 159 363	470 207 784	476 367 147	4 041 037	501 047 076	505 088 113
Mortgage loans	12 032 344		12 032 344	7 784 492	-	7 784 492
Overdrafts	13 511 065	503 809 821	517 320 885	22 918 267	582 610 981	605 529 248
Gross loans and advances to customers	**31 702 772**	**974 017 604**	**1 005 720 376**	34 743 796	1 083 658 057	1 118 401 853
Less: allowance for impairment						
Stage1	(71 482)	(2 142 991)	(2 214 473)	(224 303)	(1 378 403)	(1 602 706)
Stage2	-	(396 403)	(396 403)	-	(485 247)	(485 247)
Stage3	(299 621)	(1 451 997)	(1 751 618)	-	(3 388 115)	(3 388 115)
Allowance for impairment	**(371 103)**	**(3 991 392)**	**(4 362 494)**	(224 303)	(5 251 765)	(5 476 068)
Net loans and advances	**31 331 669**	**970 026 213**	**1 001 357 882**	34 519 493	1 078 406 292	1 112 925 785

14.3 Maturity analysis of loans and advances

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

	2021	2020		
	K	K		
One month	**517 866 295**	667 036 123		
Less than three months (two to three months)	**46 744 075**	1 055 765		
Maturity between four months to one year	**127 523 397**	69 269 266		
Maturity between two year to five years	**301 712 499**	373 256 207		
Maturity over five years	**11 874 111**	7 784 492		
	1 005 720 376	1 118 401 853	-	-

Loans and advances to related parties as at year ended 31 December 2021 amounted to K58,302,149 (2020: K20,049,774).

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 Analysis of collateral and other enhancements

The bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company 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 as disclosed in note 32.2.1

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		
	2021	stage1	stage2	stage3	2020
	K	K	K	K	K
Loans and advances to customers (including staff loans)	1 005 720 376	976 627 635	20 011 765	9 080 976	1 118 401 853
Guarantees and Letters of credit	169 369 676	169 369 676	-	-	108 089 360
Investment securities	1 039 639 708	-	1 039 639 708	-	688 389 415
Cash and balances with Central Bank	312 729 257	312 729 257	-	-	358 588 057
Cash and short term funds	309 453 481	309 453 481	-	-	138 837 205
Placements with other banks	54 884 633	54 884 633	-	-	4 201 836
Other assets	35 836 462	35 836 462	-	-	9 629 618
	2 927 633 593	1 858 901 144	1 059 651 473	9 080 976	2 426 137 344

14. Loans and advances to customers (continued)

14.5 Credit quality (continued)

Maximum exposure to credit risk

2021

	ECL grade	Loans and receivables from banks	Loans and advances to customers & staff	Guarantees provided	Investment securities	Cash and cash equivalents	Other assets	Total
Credit exposure		K	K	K	K	K	K	K
Investment grade	1-3	54 884 633	993 641 153	169 369 676	1 039 639 708	622 182 738	35 836 462	2 915 554 370
Standard monitoring	4-7	-	4 234 289	-	-	-	-	4 234 289
Non-performing loans	8-10	-	7 844 934	-	-	-	-	7 844 934
Gross exposure		54 884 633	1 005 720 376	169 369 676	1 039 639 708	622 182 738	35 836 462	2 927 633 593

2020

	ECL grade	Loans and receivables from banks	Loans and advances to customers & staff	Guarantees provided	Investment securities-debt	Cash & Cash Equivalents	Other assets	Total
Credit exposure		K	K	K	K	K	K	K
Investment grade	1-3	4 201 836	1 029 825 871	108 089 359	688 389 415	497 404 664	9 629 618	2 337 540 763
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	497 404 664	9 629 618	2 426 116 745

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

	2021 K	%	2020 K	%
Agriculture, forestry, fishing and hunting	30 469 224	3.03	20 011 738	1.68
Mining and quarrying	41 698 465	4.15	48 464 063	8.66
Manufacturing	312 004 871	31.02	386 056 722	28.34
Electricity, gas, water and energy	18 088 593	1.80	14 737 901	4.17
Construction	36 826 624	3.66	70 539 796	3.60
Wholesale and retail trade	252 365 739	25.09	412 416 773	40.47
Restaurants and hotels	21 532 393	2.14	429 768	0.21
Transport, storage and communications	100 352 119	9.98	90 163 513	5.61
Financial services	41 762 500	4.15	-	0.06
Community, social and personal services	-	-	11 042 031	2.07
Real estate	96 323 807	9.58	4 658 078	0.44
Personal and Other sectors	38 171 957	3.80	48 393 548	2.74
Staff	16 124 083	1.60	11 487 922	1.95
	1 005 720 376	100	1 118 401 853	100

14. Loans and advances to customers (continued)

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

2021	Total loans	impaired loans	Write offs	Recoveries	Loss allowance
	K	K	K	K	K
Agriculture, forestry, fishing and hunting	30 469 224	-	-	-	369 441
Mining and quarrying	41 698 465	-	-	-	122 129
Manufacturing	312 004 871	42 366	-	-	659 684
Electricity, gas, water and energy	18 088 593	-	-	-	24 440
Construction	36 826 624	6 019 940	-	-	1 119 609
Wholesale and retail trade	252 365 739	224 268	5 603 928	255 230	605 973
Restaurants and hotels	21 532 393	7 035	-	-	18 962
Transport, storage and communications	100 352 119	434 012	-	-	248 045
Financial services	41 762 500	-	-	-	450 184
Community, social and personal services	-	-	-	-	
Real estate	96 323 807	-	-	-	305 676
Personal and other sectors	38 171 957	1 117 313	-	-	403 613
Staff	16 124 083	-	-	-	34 739
	1 005 720 376	7 844 934	5 603 928	255 230	4 362 494

2020	Total loans	impaired loans	Write offs	Recoveries	Loss allowance
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

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

	2021		2020	
	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	517 320 885	2 622 396	609 162 445	4 424 191
- Term Loans	476 367 147	1 455 017	501 454 916	1 008 093
- Mortgage	12 032 344	285 082	7 784 492	43 784
Loans and advances to financial institutions		-		-
	1 005 720 376	4 362 494	1 118 401 853	5 476 068
Other financial assets measured at amortised cost				
- Cash	82 412 088	-	192 129 807	-
- Central bank balances	230 317 168	5 289	166 458 250	18 244
	312 729 257	5 289	358 588 057	18 244
- Balances with other banks				
- Cash and short term funds	309 453 481	24 571	138 837 205	2 355
- Placement with other banks	54 884 633	36 316	4 201 836	13 770
	364 338 114	60 887	143 039 041	16 124
- Treasury bills	316 022 979	1 875 000	245 979 289	1 005 157
- Government bonds	723 862 783	22 845 824	442 410 126	14 569 261
	1 039 885 762	24 720 824	688 389 415	15 574 418
Total gross on-balance sheet exposures	2 722 673 509	29 149 494	2 308 418 366	21 084 855
Off balance sheet exposures				
- Financial guarantees	144 510 618	1 056 418	93 646 472	64 782
- Performance guarantees	24 859 058	282 543	14 442 887	21 537
Total off-balance sheet exposures	169 369 676	1 338 961	108 089 359	86 319

15. Other receivables

	2021	2020
	K	K
*Other debtors	29 747 569	3 115 801
Prepayments	4 025 386	5 039 360
Interest receivable	1 468 647	879 597
Investment in Zambia Electronic Clearing House Limited	594 860	594 860
	35 836 462	9 629 618
Current	27 474 111	9 034 758
Non-current	8 362 351	594 860
	35 836 462	9 629 618

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.

*Included in other debtors is staff loan mark to market adjustment K7,132,895 (2020: K3,406,142) and balances receivable for pledged government securities K15,000,000 (2020: Nil)

16. Property held for sale

	2021	2020
Balance at 1 January	43 920 431	43 920 431
Loss on disposal	(21 320 924)	-
Sale proceeds	(22 599 507)	-
Balance at 31 December	-	43 920 431

17. Intangible assets

	K
Cost	
At 1 January 2020	16 844 207
Transfers	5 606 554
Additions	848 333
At 31 December 2020	23 299 094
At 1 January 2021	**23 299 094**
Additions	366 862
At 31 December 2021	**23 665 955**
Amortisation	
At 1 January 2020	9 243 554
Amortisation for the year	3 125 962
At 31 December 2020	12 369 517
At 1 January 2021	**12 369 517**
Amortisation for the year	3 808 523
At 31 December 2021	**16 178 040**
Carrying amount	
At 31 December 2020	10 929 577
At 31 December 2021	**7 487 915**

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

18. Investment property

	2021 K	2020 K
Balance at beginning of year	**25 042 896**	16 670 250
Fair value gain	-	4 504 180
Construction related costs	-	3 868 466
Transfer to land and buildings	(21 174 430)	-
Transfer to capital work in progress	(3 868 466)	-
Balance at end of year	-	25 042 896

Management elected to reclassify land from investement property to land and buildings because the land will be used to erect a head office building which will be owner occupied. The fair value of land of K21,174,430 was transferred to land and buildings and construction costs of K3,868,466 was transfered to capital work in progress. The fair value of investment property as at the date of reclassification was K21,174,430.

19. Property and equipment

Cost	Land and Buildings	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 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)
Disposal	-	-	-	-	-	-	-	-	-
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**
Balance at 1 January 2021	-	20 129 161	297 469	2 698 117	1 735 243	7 892 999	5 560 608	1 458 454	39 772 050
Additions	-	315 684	90 380	129 100	-	1 333 395	2 899 842	-	4 768 402
Transfer*	21 174 430	-	3 556 196	-	-	-	-	-	24 730 626
At 31 December 2021	**21 174 430**	**20 444 845**	**3 944 046**	**2 827 217**	**1 735 243**	**9 226 394**	**8 460 450**	**1 458 454**	**69 271 079**
Accumulated depreciation									
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**
Balance at 1 January 2021	-	16 653 672	-	2 392 040	1 436 668	5 760 604	3 841 365	1 230 162	31 314 511
Depreciation for the year	-	1 623 230	-	125 944	67 408	1 168 667	679 356	125 867	3 790 472
At 31 December 2021	-	**18 276 902**	-	**2 517 983**	**1 504 075**	**6 929 271**	**4 520 721**	**1 356 030**	**35 104 983**
Carrying amounts									
At 31 December 2021	**21 174 430**	**2 167 943**	**3 944 046**	**309 234**	**231 168**	**2 297 123**	**3 939 729**	**102 424**	**34 166 096**
At 31 December 2020	-	3 475 489	297 469	306 077	298 575	2 132 395	1 719 243	228 291	8 457 539

*The fair value of land of K21,174,430 was transferred to land and buildings and construction costs K3,868,466 was transfered to capital work in progress from investment property. K297,467 from capital work in progress 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

Cost	Buildings K
At 1 January 2020	32 196 298
Additions	6 934 444
At 31 December 2020	39 130 742
At 1 January 2021	**39 130 742**
Additions	6 189 555
Modifications	6 732 430
At 31 December 2021	**52 052 726**
Depreciation	
At 1 January 2020	6 749 806
Depreciation for the year	6 922 849
At 31 December 2020	13 672 655
At 1 January 2021	**13 672 655**
Depreciation for the year	6 902 039
At 31 December 2021	**20 574 694**
Carrying amount	
At 31 December 2020	25 458 087
At 31 December 2021	**31 478 032**

The Bank has 8 leases. The average lease term is 5 years (2020: 5 years). One lease contract expired in the current year and this was replaced by a new lease. This resulted in a right of use asset of K6,189,555 (2020:6,934,444). The modifications of K6,732,430 (2020:Nil) in the current year was as result of changes to contract terms on some of the leases.

21. Amounts payable to other banks

	2021 K	2020 K
AB Bank Zambia Limited	10 039 452	-
Zambia Industrial Commercial Bank	10 002 329	-
Bank of Zambia	-	40 597 501
Indo-Zambia Bank Limited	-	22 004 918
	20 041 781	62 602 419
Current	20 041 781	62 602 419

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

22. Deposits from customers

	2021	2020
Current accounts	1 144 496 594	887 828 064
Savings accounts	159 229 358	128 600 206
Fixed deposits	882 497 639	796 204 892
	2 186 223 591	1 812 633 162
Current	2 186 223 591	1 810 173 560
Non-current	-	2 459 602
	2 186 223 591	1 812 633 162

23. Long term borrowings

	2021	2020
	K	K
At 1 January	258 917 704	141 110 677
Additions	75 252 957	62 733 068
Repayment	(87 016 381)	(13 519 231)
Effects of changes in exchange rates	(17 107 236)	68 593 190
At 31 December	230 047 044	258 917 704

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

Reconciliation long term borrowings	FMO Facility	BOZ - TMTRF
At 1 January 2021	196 183 846	62 733 068
Additions	5 775 888	69 477 069
Repayment	(81 830 591)	(5 185 000)
Effects of changes in exchange rates	(17 107 236)	-
At 31 December 2021	103 021 907	127 025 137
Current	51 400 000	-
Non-Current	51 621 907	127 025 137
	103 021 907	127 025 137

In 2020, the Bank secured 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% per annum with interest 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 Zambia; the rest of the 51% shareholding is held by local Zambian companies as follows: Afility Investments TS Limited 25%, Sakky Investments Limited 19% and Kark Investments Limited 7%.

Below are transactions and balances with related parties:

Amounts due to related parties		
FCB Malawi	746 602	2 156 422
FMBCH Mauritius	720 353	7 896 342
FCSSL	192 976	-
	1 659 931	10 052 764

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

24. Related party transactions (continued)

Transactions with related parties 2021

Nature of transaction	Name of the Related Party	Relationship	Base Currency	Amount
Interest Income on loans	FMBCH	PARENT	USD	**307 418**
Commission on cash swaps	FCB Malawi	AFFLIATE	USD	**560 633**
Commission on cash swaps	FCB Zimbabwe	AFFLIATE	USD	**965 681**
Management fees	FMBCH	PARENT	USD	**(12 481 587)**
Support services fees	FCSSL	AFFLIATE	USD	**(5 485 577)**
				(16 133 432)

Transactions with related parties 2020

Nature of transaction	Name of the Related	Relationship	Base Currency	Amount
Interest income on placements	FCB Malawi	AFFLIATE	USD	1 509 670
Interest expense on borrowings	FCB Mozambique	AFFLIATE	USD	(304 876)
Management fees	FMBCH	PARENT	USD	(8 884 535)
Support services fees	FCSSL	AFFLIATE	USD	(5 125 648)
				(12 805 389)

Loans to Directors and entities connected to directors and affiliates

Loans and advances disbursed to the Directors and entities connected to directors during the year amounted to K2,610,020 (2020: K9,787,045). 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	**2021**	2020
	K	K
Salaries and other short-term employment benefits	**27 359 799**	21 734 251

Directors' emoluments

Directors' fees	**2 678 897**	2 580 755

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 to customers

2021	Directors	Entities connected to Directors & Affiliates	Key management staff	Total
	K	K	K	K
At 1 January	-	20 049 774	7 454 554	**27 504 329**
Issued during the year	-	44 372 520	2 304 638	**46 677 158**
Repayments during the year	-	(6 120 145)	(2 931 284)	**(9 051 429)**
At 31 December	-	**58 302 149**	**6 827 908**	**65 130 058**
Interest income earned	-	**3 371 690**	**425 417**	**3 797 106**

During the year, the Bank entered into loan agreement with FMB Capital Holdings Plc amounting to K41,762,500.00 (2020:Nil) at an interest rate of 5% with the maturity date of 22 October 2022.

24. Related party transactions (continued)

Loans and advances to customers (continued)

	Directors	Entities connected to Directors & Affiliates	Key management staff	Total
2020	K	K	K	K
At 1 January	34 689	13 418 397	8 801 278	22 254 364
Loans issued during the year		9 787 045	1 372 848	11 159 893
Repayments during the	(23 818)	(3 155 668)	(2 719 571)	(5 899 057)
Write-offs during the year	(10 871)	-	-	(10 871)
At 31 December	-	20 049 774	7 454 554	27 504 329
Interest and fee income earned	3 457	3 833 814	658 985	4 496 256

Deposit	K	K	K	K
2021				
At 1 January	25 654 833	15 782 914	(3 547 406)	37 890 341
Deposits during the year	21 738 028	23 488 121	20 390 878	22 197 478
Withdrawals	(22 538 149)	(24 333 305)	(20 253 723)	(28 042 546)
At 31 December	**24 854 712**	**14 937 731**	**(3 410 251)**	**32 045 273**
Interest paid	-	-	**8 546**	**8 546**
2020				
Deposits 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	250 971 936
Withdrawals	(75 926 895)	(159 912 273)	(12 409 428)	(248 248 596)
At 31 December	3 280 827	36 458 455	874 398	40 613 680
Interest paid	26 857	61	5 403	32 321

25. Lease liabilities

	2021	2020
		K
At 1 January	36 120 686	26 088 438
Additions and modifications	12 798 071	6 935 037
Finance cost	2 457 128	2 442 825
Lease payments	(7 889 778)	(10 755 764)
Exchange revaluation losses	(6 950 293)	11 410 150
At 31 December	36 535 813	36 120 686
Current	9 573 978	10 631 102
Non-Current	26 961 835	25 489 584
	36 535 813	36 120 686
Maturity Analysis		
Less than one year	-	-
Later than one year but not later than two years	1 061 934	1 609 004
Later than two years but not later than five years	30 159 632	8 673 125
Later than five years	5 314 247	25 838 557
	36 535 813	36 120 686

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 2021 are 22.5% for leases in Zambian Kwacha and 5% for leases in US Dollar.

26. Other liabilities

	2021	2020
	K	K
Sundry liabilities	58 156 275	37 079 164
Current	14 737 781	29 075 740
Non-Current	43 418 493	8 003 424
	58 156 275	37 079 164

Included in sundry liabilities are accrued expenses, provisions, PAYE, VAT and Withholding taxes

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	4 477 155	2 997 263
Transfer from (to) retained earnings	2 404 948	1 479 892
At 31 December	6 882 103	4 477 155

The credit risk 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 over the impairment provision recognised in accordance with International Financial Reporting Standards.

29. Contingent liabilities

The Bank issued and outstanding bank guarantees amounting to K169 million in the year under review (2020: K108. million).

30. Capital commitments

The bank has capital commitment of K131 million for the construction of head office building (2020:Nil)

31. Events after the reporting date

The Directors proposed and approved dividend of **K20,881,250** (2020: K12,678,750).

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 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 cash-flows.

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.

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;

32. Financial risk management review (continued)

32.1 Financial risk management (continued)

Management of credit risk (continued)

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to credit committee, which may require appropriate corrective action to be taken; and
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank's in the management of credit risk.

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

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.

32. Financial risk management review (continued)

32.1 Financial risk management (continued)

Management of market risk

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

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

Interest rate risk

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

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

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

a) Risk limit and mitigation policies

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

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

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

Internal credit risk ratings

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

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

Behavioural:

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

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

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

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

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.

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.

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

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

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.

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

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.

Significant increase in credit risk (SICR)

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

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

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

Retail:

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

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.

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Default

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

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

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

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

Forward–looking information incorporated in the ECL model

The Bank subscribes to a forward looking view informed by the identification and use of economic factors which demonstrate a strong correlation with default experience. The ECL model allows the Bank to develop potential future scenarios, attach probabilities thereto and to incorporate this into the calculation of ECL.

However in the absence of strongly correlating factors, allowance is also made for the use of Management's expert view in a holistic manner; implemented by way of adjustment of the PD/LGD/EAD levers built into the ECL model for this purpose.

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

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

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

At 31 December 2021	Stage 1	Stage 2	Stage 3	Total
RETAIL	K	K	K	K
Gross Carrying amount				
Current	29 812 212	-	-	29 812 212
Past due 1-30 days	773 247	-	-	773 247
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due more than 90 days	-	-	1 117 313	1 117 313
Total gross carrying amount	30 585 459	-	1 117 313	31 702 772
CORPORATE	Stage 1	Stage 2	Stage 3	Total
Gross Carrying amount	K	K	K	K
Current	808 860 587		-	808 860 587
Past due 1-30 days	133 687 188	20 507 919	-	154 195 106
Past due 31-60 days	85 626	2 912 621	-	2 998 247
Past due 61-90 days	-	-	-	-
Past due more than 90 days	-	-	7 963 663	7 963 663
Total gross carrying amount	942 633 401	23 420 540	7 963 663	974 017 604
At 31 December 2021	973 218 860	23 420 540	9 080 976	1 005 720 376

At 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

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	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
At 31 December 2020	871 862 486	201 889 797	44 649 570	1 118 401 853

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 Company 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:

At 31 December 2021

	Gross Carrying Amount	Loss Allowance	Carrying Amount	Fair Value of Collateral
	K	K	K	K
Loan portfolio in default (Stage 3)				
Retail	1 117 313	(299 621)	817 692	1 379 000
Corporate	7 963 663	(441 948)	7 521 715	27 863 814
Total	9 080 976	(741 569)	8 339 407	29 242 814

At 31 December 2020

	Gross Carrying Amount	Loss Allowance	Carrying Amount	Fair Value of Collateral
Loan portfolio in default (Stage 3)	K	K	K	K
Retail	-	-	-	2 964 915
Corporate	48 282 770	(3 388 115)	44 894 656	269 251 900
Total	48 282 770	(3 388 115)	44 894 656	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 2021 are as follows:

At 31 December 2021	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance at 1 January 2021	1 460 918	627 034	3 388 115	5 476 067
Transfer from Stage 1	(374 801)	6 081	368 720	-
Transfer from Stage 2	44 955	(44 955)	-	-
Transfer from Stage 3	350 535	-	(350 535)	-
Write Offs	-	-	-	-
Total transfers	20 690	(38 875)	18 185	-
Movement with income statement impact				
New financial instrument originated or purchased	2 630 008	339 730	8 569 901	11 539 639
Repayment of principal amount	(1 028 882)	(389 699)	(418 608)	(1 837 189)
Changes in ECL due to Modification		-	-	-
Write-offs	-	-	(5 603 928)	(5 603 928)
Exchange Movements and Others		-	391 832	391 832
Charge/(Release) to Profit and Loss	1 601 126	(49 969)	2 547 365	4 098 522
At 31 December 2021	3 082 734	538 190	741 569	4 362 493

At 31 December 2020	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance at 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 Modification		-	-	-
Write-offs	(7 053)	-	(2 572 345)	(2 579 398)
Exchange Movements and Others		-	-	-
Charge/(Release) to Profit and Loss	(276 827)	458 649	621 635	803 457
At 31 December 2020	1 602 705	485 247	3 388 116	5 476 068

32. Financial risk management review (continued)

32.2.1 Credit risk management (continued)

Low Risk Assets and off balance sheet items

Movements in impairment for low risk assets for the year ended 31 December 2021 are as follows:

Low Risk Assets and off balance sheet items

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	(25 346)	15 381 863	338 589	15 695 106
Movement without income statement impact				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Write Offs	-	-	-	-
Total transfers	-	-	-	-
	Stage 1	Stage 2	Stage 3	Total
Movement with income statement impact				
New financial instrument originated or	2 205 836	9 035 545		11 241 381
Financial assets that have been derecognised	(810 526)			(810 526)
Changes in ECL due to Modification	-		-	-
Exchange Movements and Others	-	-		-
Write-offs		-		-
Charge/(Release) to Profit and Loss	1 395 310	9 035 545	-	10 430 855
At 31 December 2021	1 369 964	24 417 408	-	26 125 961
	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	1 140 691	-	-	1 140 691
Movement without income statement impact				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	(338 589)	-	338 589	-
Transfer from Stage 3	-	-	-	-
Write Offs	-	-	-	-
Total transfers	(338 589)	-	338 589	-

32. Financial risk management review (continued)

32.2.1 Credit risk management (continued)

	Stage 1	Stage 2		Total
Movement with income statement impact				
New financial instrument originated or	-	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)
Exchange Movements and Others		-		-
Write-offs		-		-
Charge/(Release) to Profit and Loss	(827 448)	15 381 863	-	14 554 415
At 31 December 2020	(25 346)	15 381 863	338 589	15 695 106

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:

	2021	2020
At 31 December	**48%**	44%

The Bank of Zambia requirement is that the Bank should have a ratio of at least 6% (2020: 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)

2021	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	312 723 968	312 723 968	312 723 968	-	-	-
Cash and short term funds	309 428 910	309 453 481	309 453 481	-	-	-
Placements with other banks	54 848 317	54 884 633	50 115 194	-	4 769 439	-
Investments securities	1 014 918 884	1 039 639 708	48 009 476	25 871 652	484 374 902	481 383 679
Other receivables*	35 836 462	35 836 462	-	35 241 602	-	594 860
Loans and advances	1 001 357 882	1 005 720 376	-	-	-	1 005 720 376
Total financial assets	**2 729 114 423**	**2 758 258 628**	**720 302 119**	**61 113 254**	**489 144 340**	**1 487 698 915**
Financial liabilities						
Deposits from customers	2 186 223 591	2 186 223 591	1 536 310 782	146 783 689	503 129 121	-
Long term borrowings	230 047 044	230 047 044	-	12 850 000	38 550 000	178 647 044
Amounts payable to other banks	20 041 781	20 041 781	20 041 781	-	-	-
Amounts due to related parties	1 659 931	1 659 931	-	1 659 931	-	-
Lease liabilities	36 535 813	36 535 813	-	-	-	36 535 813
Other liabilities**	58 156 275	58 156 275	5 107 712	8 130 434	44 918 129	-
Total financial liabilities	**2 532 664 436**	**2 532 664 436**	**1 561 460 275**	**169 424 054**	**586 597 250**	**215 182 857**
Net liquidity gap	**196 449 987**	**225 594 193**	**(841 158 155)**	**(108 310 800)**	**(97 452 910)**	**1 272 516 058**
2020						
Financial assets						
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*	9 629 618	9 629 618	-	9 034 757	-	594 861
Loans and advances	1 112 925 785	1 118 401 853	344 897 000	34 000	76 329 000	697 141 853
Total financial assets	2 296 963 128	2 318 029 739	842 304 017	25 047 484	310 499 998	1 140 146 840
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	79 557 229	100 623 840	(397 184 732)	(206 415 922)	(214 333 010)	918 526 104

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.

2021

				Fixed rate instrument		
	Total	Zero rate instruments	Floating rate instruments	Less than three months	Between three months and one year	Between one and five years
Financial assets	K	K	K	K	K	K
Cash and balances with Central Bank	312 723 968	312 723 968	-	-	-	-
Cash and short term funds	309 428 910	309 428 910	-	-	-	-
Placements with other banks	54 848 317	-	-	50 115 194	4 769 439	-
Investment securities	1 014 918 884	-	-	73 881 128	484 374 902	481 383 679
Loans and advances to customers	1 001 357 882	-	1 001 357 882	-	-	-
Other receivables*	35 836 462	35 836 462	-	-	-	-
Total financial assets	**2 729 114 423**	**657 989 340**	**1 001 357 882**	**123 996 322**	**489 144 340**	**481 383 679**
Financial liabilities						
Deposits from customers	2 186 223 591	1 144 496 594	-	146 783 689	503 129 121	-
Long term borrowings	230 047 044		103 021 907			127 025 137
Amounts payable to other banks	20 041 781	-	-	20 041 781	-	-
Amounts due to related parties	1 659 931	1 659 931	-	-	-	-
Lease liabilities	36 535 813	-	-	-	-	36 535 813
Other liabilities**	58 156 275	58 156 275	-	-	-	-
Total financial liabilities	**2 532 664 436**	**1 204 312 800**	**-**	**166 825 469**	**503 129 121**	**163 560 950**
GAP	**196 449 987**	**(546 323 461)**	**1 001 357 882**	**(42 829 147)**	**(13 984 781)**	**317 822 729**

** 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.

2020

	Total	Zero rate instruments	Floating rate instruments	Fixed rate instrument Less than three months	Between three months and one year	Between one and 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	426 867 109
Loans and advances to customers	1 112 925 785	-	1 112 925 785	-	-	-
Other receivables*	9 629 618	9 629 618	-	-	-	-
Total financial assets	2 296 963 128	507 034 280	1 112 925 785	15 978 727	234 157 228	426 867 109
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			
Amount 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 financial liabilities	2 217 405 899	934 959 992	258 917 704	511 372 510	473 575 405	38 580 288
GAP	79 557 229	(427 925 712)	854 008 081	(495 393 784)	(239 418 177)	388 286 821

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 terms):

2021	USD	GBP	ZAR	Euro	Others	Total
Monetary assets	1 363 780 417	2 402 708	10 903 183	21 247 023	610 841	1 398 944 172
Monetary liabilities	(1 373 330 499)	(2 125 168)	(10 841 842)	(21 125 281)	(610 841)	(1 408 033 631)
Net position	(9 550 082)	277 540	61 341	121 742	-	(9 089 459)
2020	USD	GBP	ZAR	Euro	Others	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

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

Exchange rate sensitivity

A strengthening (weakening) of the Kwacha by 10 percent, as indicated below against the USD, GBP, Euro, Rupee and ZAR at 31 December 2021 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
2021	K	K	K	K
USD	955 008	955 008	(955 008)	(955 008)
GBP	27 754	27 754	(27 754)	(27 754)
ZAR	6 134	6 134	(6 134)	(6 134)
Euro	12 174	12 174	(12 174)	(12 174)
2020				
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)

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:

	2021		2020	
Currency	Average rate	Reporting date	Average rate	Reporting date
USD	19.840	16.705	18.564	21.205
ZAR	1.350	1.052	1.135	1.452
Euro	23.650	18.910	21.350	26.082
GBP	27.470	22.569	23.902	28.945

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.

ii)	Computation of regulatory capital position	2021	2020
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	165 170 878	86 738 466
(e)	Credit Risk reserve	6 882 103	4 477 155
(f)	Statutory reserve	-	-
(g)	Minority interest (common shareholders' equity)	-	-
(h)	*Sub-total A (items a to g)*	287 209 580	206 372 220
	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)	-	-

		2021	2020
32	**Financial risk management and review (continued)**	K	K
32.2.4	**Capital management (continued)**		
ii)	**Computation of regulatory capital position (continued)**		
	Other adjustments		
	Provisions	-	-
	Assets of little or no realised value	-	-
	Stationery stocks, sundry debtors, cash advances, product project accounts	-	-
	Other adjustments - (unrealised exchange gains - Tax asset)	-	-
(o)	**Sub-total (C) (other adjustments)**	-	-
(p)	**Total primary capital [(h – (n to o)]**	287 209 580	206 372 220
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)**	287 209 580	206 372 220
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)**	183 209 580	102 372 220

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:

	Totals	Other carried at amortised cost	Total carrying amounts	Fair value
31 December 2021	K	K	K	K
Cash balances with central Bank	312 729 257	-	312 729 257	312 729 257
Cash and cash equivalents	309 453 481	-	309 453 481	309 453 481
Investment securities	-	1 014 918 884	1 014 918 884	1 014 918 884
Placements with other banks	-	54 848 317	54 848 317	54 848 317
Loans and advances to customers	1 001 357 882	-	1 001 357 882	1 001 357 882
Other receivables	35 836 462	-	35 836 462	35 836 462
Total financial assets	1 659 377 082	1 069 767 202	2 729 144 283	2 729 144 283

32 Financial risk management and review (continued)

32.2.5 Financial assets and financial liabilities (continued)

Financial liabilities

		Other assets carried at amortised cost	Total carrying amounts	Fair value
31 December 2021		K	K	K
Deposits from customers		2 186 223 591	2 186 223 591	2 186 223 591
Amounts payable to other banks		20 041 781	20 041 781	20 041 781
Long term borrowings		230 047 044	230 047 044	230 047 044
Amounts due to related parties		1 659 931	1 659 931	1 659 931
Other liabilities		58 156 275	58 156 275	58 156 275
Total		2 496 128 623	2 496 128 623	2 496 128 623
31 December 2020				
Cash balances with central Bank	358 588 057	-	358 588 057	358 588 057
Cash and cash equivalents	138 837 205	-	138 837 205	138 837 205
Investment securities	-	672 814 997	672 814 997	672 814 997
Placements 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	9 629 618	-	9 629 618	9 629 618
Total financial assets	1 619 980 665	677 003 063	2 296 983 728	2 296 983 728
Financial liabilities				
Deposits from customers		1 812 633 162	1 812 633 162	1 812 633 162
Amount payable to other banks		376 724 732	376 724 732	376 724 732
Amounts due to related parties		10 052 764	10 052 764	10 052 764
Lease Liability				
Other liabilities		37 079 164	37 079 164	37 079 164
Total		2 236 489 822	2 236 489 822	2 236 489 822

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.

There were no financial instruments measured at fair value (2020:Nil)

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 Standards and Interpretations

In the current year, the Company has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2021.

34.2 New and revised Standards and Interpretations that are effective and adopted in the current year

The following relevant Standards and Interpretations have been applied in these financial statements. However, they did not have any impact on the Company's financial statements but may impact the accounts for future transactions or arrangements.

IFRS 4	*Insurance contracts Amendments regarding replacement issues in the context of IBOR reform*
IFRS 7	*Financial Instruments: Disclosures Amendments regarding replacement issues in the context of the IBOR reform*
IFRS 9	*Financial Instruments Amendments regarding replacement issues in the context of the IBOR reform*
IFRS 16	*Leases Amendments regarding replacement issues in the context of the IBOR reform*
IFRS 16	*Leases Amendments regarding impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021*

34.3 Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but effective on annual period on or after the respective dates as indicated:

IFRS 1	*First time Adoption of International Financial Reporting Standards Amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (subsidiary as a first time adopter) (effective 1 January 2022)*
IFRS 4	*Insurance contracts Amendments regarding the expiry date of the deferred approach (effective 1 January 2023)*
IFRS 9	*Financial Instruments Amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (fees in the '10 per cent' test for derecognition of financial liabilities) (effective 1 January 2022)*

34. Adoption of New and Revised Standards (continued)

34.3 Standards and Interpretations in issue but not yet effective (continued)

IFRS 9	*Financial Instruments Amendments resulting from Annual Improvements to IFRS Standards (fees in the '10 per cent' test for derecognition of financial liabilities) (effective 1 January 2022)*
IFRS 17	*Insurance Contracts original issue (effective 1 January 2023)*
IFRS 17	*Insurance Contracts Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published published (effective 1 January 2023)*
IAS 1	*Presentation of Financial Statements Amendment to defer the effective date of the January 2020 amendments (effective 1 January 2023)*
IAS 1	*Presentation of Financial Statements: Amendments regarding the classification of liabilities (effective 1 January 2023)*
IAS 8	*Accounting policies, Changes in Accounting Estimates and Errors Amendments regarding the definition of accounting estimates (effective 1 January 2023)*
IAS 12	*Income Taxes Amendments regarding deferred tax on leases and decommissioning obligations (effective 1 January 2023)*
IAS 12	*Income Taxes Amendments to Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023)*
IAS 16	*Property, Plant and Equipment Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use (effective 1 January 2022)*
IAS 37	*Provisions, Contingent Liabilities and Contingent Assets Amendments regarding the costs to include when assessing whether a contract is onerous (effective 1 January 2022)*

The directors anticipate that these amendments will be applied in the Company annual financial statements for the annual periods beginning on the respective dates as indicated above. The directors have not yet assessed the potential impact of the application of these amendments.

35 Restatement on Statement of Cashflows

During the period under review, it was discovered that there was an error in the presentation of purchases and maturities of investments in investing activities, and lease repayments. The error resulted in incorrect disclosure of investment securities within investing activities and lease repayments within financing activities on a net basis on the face of the statement of cashflows, instead of showing them on a gross basis. The restatement of the statement of cashflows was made in order to correct the presentation error. There is no impact on the overall amounts included in the statement of cashflows.

Statement of Cashflows for the year ended 31 December 2020 as previously stated	
Cash flows from investing activities	
Net investment in securities	(396 956 437)
Cash flows from financing activities	
Lease repayments	(10 755 764)
Statement of Cashflows for the year ended 31 December 2020 as restated	
Cash flows from investing activities	
Purchase of investment securities	(698 837 270)
Maturities of investment securities	301 880 833
Cash flows from financing activities	
Lease principal repayments	(8 312 939)
Finance Cost	(2 442 825)