FIRST CAPITAL BANK LIMITED

REPORT AND ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2022

FIRST CAPITAL BANK LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2022

Contents | Page

FIRST CAPITAL BANK LIMITED

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2022.

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 2022, 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:

	2022 K	2021 K
Net interest income	341 101 727	282 033 317
Profit before income tax	241 958 292	151 108 426
Income tax expense	(72 969 392)	(57 592 316)
Profit for the year	168 988 900	93 516 110

Dividend

The Bank paid dividend of K54,812,500 (2021: K12,678,750) during the year based on 2022 results.

Directors:

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
Mr. Edward Marks	Executive Director/Chief Executive Officer
Mr. Mahendra Gursahani	Non-Executive Director

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.

Related party transactions

Related party transactions are disclosed in Note 25 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 (2021: Nil).

The Directors emoluments paid during the year ended 31 December 2022 were K2,610,339 (2021: K2,678,897) as disclosed in note 25 to the financial statements.

Loans to Directors

Loans and advances disbursed to the Directors and entities connected to directors during the year amounted to K14,572,234 (2021: K44,372,520). Loans to non-executive Directors are made under commercial terms in the ordinary course of the Bank's business whereas loans to Key Management staff are at discounted rates.

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	145	July	153
February	145	August	149
March	148	September	151
April	147	October	158
May	154	November	166
June	153	December	166

The total remuneration of employees during the year amounted to K84,565,641 (2021: K75,786,195).

Property and equipment and intangible assets

The Bank acquired assets with a value of K60,582,058 during the year (2021: K5,135,264). 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 (2021: Nil)

Gifts and donations

The Bank made donations during the year amounting to K71,385 (2021: K162,961) 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 34 to the financial statements.

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

Prohibited borrowings or lending

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

Corporate governance

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

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

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its financial performance in accordance with International Financial Reporting Standards and the Zambia Companies Act of 2017.

The financial statements set out on pages 9 to 74 have been approved by the Directors.

Subsequent events

The Directors proposed final dividend of K51,694,449 (2021: K20,881,250) for the year 2022 during the meeting held on 22 March 2023.

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: 30 March 2023

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 of 2017.

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 74 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

FIRST CAPITAL BANK LIMITED

STATEMENT OF FINANCIAL INCLUSION

The Financial Sector Development Policy (FISDP) and the National Financial Inclusion Strategy (NFIS) were launched by the Government of the Republic of Zambia in 2017. These policies were predominantly established to increase usage of a broad range of quality and affordable financial products and services. The expectation is that by 2022, 80% of Zambians will be able to use appropriate savings, credit, payment, insurance and investments services. To ensure the implementation of NFIS and FISDP policies are adequately monitored, the Central Bank has requested Financial Service Providers (FISP) to provide an update on their implementation in the annual financial statements.

To promote this agenda, the Bank has embarked on several activities aimed at promoting financial inclusion and has also delivered a good range of digital solutions. Below are some of the products delivered and in pipeline for delivery to the market.

Digital Channels Offered

a) First Capital Mobile App

The mobile App enables various First Capital Bank customers to settle various financial obligations electronically via a smart phone. Using this application, customers can carry out several electronic based transactional activities such as account statements, Funds transfer, Cash out/in, bill payments, account to wallet transfers (mobile money), airtime purchase, ATM card blocking and PIN resets.

b) Internet Banking Solution

First Capital Bank Zambia provides Internet banking solutions to various customers ranging from individuals to corporates. The newly upgraded Internet Banking Solution provides a full array of cash management-based solutions to customers, offering a convinient way of doing business.

The Bank prides in the Internet Banking solution which provides several electronic ways of transacting such as foreign currency conversion, bulk payments, biller payments and management, scheduled payments and transfers.

c) Integrated payment systems

Leveraging on the advanced payment systems, which are fully supported by well-equipped system administrators, First Capital Bank Zambia has successfully undertaken several integration activities with various corporates including government agencies, aimed at simplifying the payment process for the public. Some of these implementations include ZRA Tax Online; Asycuda World; NAPSA and collection of Government Truck toll fees on behalf of Road Transport Agency on all major borders of the countrywide.

d) First Capital Bank Soft POS

First Capital has embarked on a project to provide a QR based acquiring solution, which essentially is just a scan and pay mode of settling payment obligations. With the various advantages that this mode of payment has over the traditional use of point of sale terminals, the Bank is quite optimistic that once the product is well entrenched on the market, will be able to address the various challenges associated with the conversional use of the physical terminals. The target market will the Small and Medium Enterprises and this will be in production before the end of quarter two of 2023 .

e) Point of sale service

First Capital Bank will begin to provide point of sale service to the public. In the banks quest to try and support the government through the Zambia Revenue Authority (ZRA) to ensure that all VAT qualified customers can aptly provide this service, the Bank has acquired android terminals that have simplified the way of doing business on the local market. This investment is aimed at promoting an easy means of doing business for both the consumers as well as the suppliers. This is currently in pilot phase and will be in production before end of quarter one of 2023.

f) eCommerce services

First Capital Bank will be providing a web-based collection/payment solutions to various corporates as well as Governmental agencies, which allow members of the general public to seamlessly settle their various payable needs via the internet. This contrasts with a POS Terminal where a user needs to physically swipe his/her card, the available eCommerce solution allows the payer to only enter the card details over the web. This avenue allows payments to be settled remotely from the comfort of the paying customers premises.

Deloitte.

PO Box 30030
Lusaka
Zambia

Deloitte & Touche
Deloitte Square
Plot No 2374/B
Thabo Mbeki Road
Lusaka, Zambia

Tel: +260 211 232 313
Tel: +260 (211) 228677/8/9
www.deloitte.co.zm

INDEPENDENT AUDITOR'S REPORT

To the Shareholders 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 74 which comprise the statement of financial position as at 31 December 2022, 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 2022, 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 K14.8 million has been considered to be an area where significant judgements were applied. Management exercise significant judgment when determining both when and how much to record as loan impairment. This is because a number of significant assumptions and inputs go into the determination of expected credit loss (ECL) impairment amounts on loans and advances to customers as required by IFRS 9 Financial Instruments. The determination of the ECL provision was considered a key audit matter to our current year audit due to significant judgements and estimates made in the modelling for estimation of ECL parameters for probability of default, loss given default and the classification of loans and advances.	Our audit of the impairment of advances consisted of several audit procedures carried out with the assistance of our Quantitative Credit Risk Modelling Specialists • Obtained an understanding of management's process t estimate the ECL for loans and advances; • Tested the design and implementation of controls over th classification of loans and advances; • Tested the accuracy and completeness of underlying dat inputs used in the model; • Assessed the reasonableness of the inputs and assumption used in the ECL model; and • Involved of our Quantitative Credit Risk Modellin 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 procedures outlined, the ECL has been determined in compliance with IFRS 9

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' report and the Statement of directors' responsibilities as required by the Companies Act, 2017, Statement of Financial Inclusion, as required by the Banking and Financial Service 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 skepticism throughout the audit. We also:

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Charles Luo

CHARLES LUO
PARTNER
Practicing Certificate Number: AUD/F000802

Partner signing on behalf of the firm

DATE: 30 March 2023

FIRST CAPITAL BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2022

	Notes	2022 K	2021 K
Interest income	4	483 056 034	382 846 505
Interest expense	4	(141 954 307)	(100 813 188)
Net interest income		341 101 727	282 033 317
Net Fee and commission income	5	19 058 230	16 055 585
Other operating income	6	79 958 580	56 671 190
Total non-interest income		99 016 810	72 726 775
Total operating income		440 118 537	354 760 092
Impairment charge	9	(11 812 711)	(14 529 377)
		428 305 826	340 230 715
Personnel expenses	7	(84 565 641)	(75 786 195)
Other expenses	8	(84 913 350)	(75 057 007)
Loss on disposal of assets held for sale	16	-	(21 320 924)
Depreciation of right of use assets	20	(6 719 847)	(6 902 039)
Amortisation of intangible assets	17	(2 795 173)	(3 808 524)
Depreciation on property and equipment	19	(4 081 314)	(3 790 472)
Finance cost	26	(3 272 209)	(2 457 128)
Total operating expenses		(186 347 534)	(189 122 289)
Profit before income tax		241 958 292	151 108 426
Income tax expense	10	(72 969 392)	(57 592 316)
Profit and total comprehensive income for the year		168 988 900	93 516 110

There were no items of other comprehensive income for the year (2021: Nil).

The notes on pages 13 to 74 form an intergral part of these financial statements.

FIRST CAPITAL BANK LIMITED

STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2022

	Notes	2022 K	2021 K
Assets			
Cash and balances with the Central Bank	11	424 838 505	312 723 968
Cash and short term funds	11	160 079 544	309 428 910
Placements with other banks	12	107 048 133	54 848 317
Investment securities	13	1 431 458 620	1 014 918 884
Derivative financial assets	21	34 414 712	-
Loans and advances to customers	14	1 633 528 380	1 001 357 882
Other assets and prepayments	15	71 459 886	35 836 462
Amounts due from related parties	25	365 139	-
Current tax asset	10	6 160 751	-
Deferred tax asset	10	26 751 130	20 059 476
Property held for sale	16	-	-
Intangible assets	17	5 626 088	7 487 915
Investment property	18	-	-
Property and equipment	19	89 715 665	34 166 096
Right of use assets	20	18 663 981	31 478 032
Total assets		4 010 110 534	2 822 305 942
Liabilities			
Amounts payable to other banks	22	78 638 331	20 041 781
Deposits from customers	23	3 206 086 982	2 186 223 591
Amounts due to related parties	25	6 413 306	1 659 931
Derivative financial liabilities	21	36 220 000	-
Lease liabilities	26	25 860 188	36 535 813
Other liabilities	27	63 986 984	58 156 275
Current tax payable	10	-	2 431 927
Long term borrowings	24	191 518 763	230 047 044
Total liabilities		3 608 724 554	2 535 096 362
Equity			
Share capital	29	104 000 000	104 000 000
Share premium	29	11 156 599	11 156 599
Credit risk reserve	30	7 101 622	6 882 103
Retained earnings		279 127 759	165 170 878
Total equity		401 385 980	287 209 580
Total liabilities and equity		4 010 110 534	2 822 305 942

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 74 were approved for issue by the Board of Directors on **30 March 2023** and were signed on its behalf by:

Director

Edward A. Mel

Director

Director

The notes on pages 13 to 74 form an intergral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

	Note	Share capital K	Share premium K	Credit risk reserve K	Retained earnings K	Total K
At 1 January 2021	29	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 to retained earnings	30			2 404 948	(2 404 948)	-
Dividend Paid		-	-	-	(12 678 750)	(12 678 750)
At 31 December 2021		104 000 000	11 156 599	6 882 103	165 170 878	287 209 580
At 1 January 2022		**104 000 000**	**11 156 599**	**6 882 103**	**165 170 878**	**287 209 580**
Total comprehensive income for the year		-	-	-	168 988 900	**168 988 900**
Transfer from retained earnings	30	-	-	219 519	(219 519)	-
Dividend Paid					(54 812 500)	**(54 812 500)**
Balance at 31 December 2022	29	**104 000 000**	**11 156 599**	**7 101 622**	**279 127 759**	**401 385 980**

The notes on pages 13 to 74 form an intergral part of these financial statements.

FIRST CAPITAL BANK LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2022

	NOTES	2022 K	2021 K
Cash flows from operating activities			
Profit for the year		168 988 900	93 516 110
Adjustments for:			
Impairment charge	9	11 812 711	14 529 377
Income tax expense	10	72 969 392	57 592 316
Amortisation of intangible assets	17	2 795 173	3 808 523
Loss on disposal of assets held for sale	16	-	21 320 924
Profit on disposal of fixed assets		(114 000)	-
Depreciation on property and equipment	19	4 081 314	3 790 472
Depreciation for right of use assets	20	6 719 847	6 902 039
Exchange losses (gains) on long term loans	24	5 397 037	(17 107 236)
Exchange losses		744 074	-
Finance cost on leased buildings	26	3 272 209	2 457 128
Exchange losses (gains) on lease liabilities	26	2 313 899	(6 950 293)
Loss on modification of leases	26	571 003	-
Capital work in progress expensed during the year		-	312 270
Loss on write off of Property and equipment		17 827	-
Cashflows from operating activities before changes in working capital		279 569 386	180 171 630
Changes in working capital:			
Increase in other receivables		(35 623 424)	(26 206 844)
(Increase) decrease in loans and advances to customers		(642 614 933)	112 681 477
Disposal of property held for sale	16	-	22 599 507
Increase in deposits from customers		1 019 863 391	373 590 430
Increase in financial derivatives asset	21	(34 414 712)	-
Increase in financial derivatives liability	21	36 220 000	-
Increase in other liabilities		6 851 018	21 077 111
Increase (Decrease) in amounts payable to other banks		58 596 550	(42 560 638)
(Decrease) Increase in amounts from related parties		(365 139)	-
Increase (Decrease) in amounts due to related parties		4 753 375	(8 392 833)
Cash generated from operating activities		692 835 512	632 959 840
Withholding tax paid	10	(31 230 634)	(20 296 356)
Income tax paid	10	(57 023 091)	(42 354 521)
Net cash generated from operating activities		604 581 787	570 308 963
Cash flows from investing activities			
Purchase of property and equipment	19	(59 648 712)	(4 768 402)
Proceeds from sale of fixed assets		114 000	-
Acquisition of intangible assets	17	(933 346)	(366 862)
Purchase of investment securities	13	(887 943 317)	(630 700 293)
Maturities of investment securities	13	469 061 895	279 450 000
Net cash used in investing activities		(479 349 480)	(356 385 557)
Cash flows from financing activities			
Lease principal repayments	26	(7 466 321)	(5 432 651)
Finance cost	26	(3 272 209)	(2 457 128)
Long term loan repayments	24	(67 240 829)	(87 016 381)
Proceeds from long term loan	24	23 315 511	75 252 957
Dividends paid		(54 812 500)	(12 678 750)
Net cash flows generated from financing activities		(109 476 348)	(32 331 953)
Net increase in cash and cash equivalents		15 755 959	181 591 453
Cash and cash equivalents at beginning of year		677 067 371	501 592 728
Effects of foreign exchange rate changes		(744 074)	(6 116 810)
Cash and cash equivalents at end of the year	11.3	692 079 256	677 067 371
	11.3	692 079 256	677 067 371

The notes on pages 13 to 74 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 statements 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 expense

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 K1,221.80 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, 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)

2.15 Intangible assets

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

2.16 Investment property

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

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

2.17 Impairment of non-financial assets

The carrying amounts of non-financial assets, other than deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the assets.

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

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

2.18 Income tax

Income tax

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

Current tax

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

Deferred tax

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

Deferred tax is not recognised for:

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

2. Significant accounting policies (continued)

2.18 Income tax (continued)

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

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

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

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

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

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

2.19 Leases

The Bank 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.

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.

2 Significant accounting policies (continued)

2.19 Leases (continued)

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.

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

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

2.20 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.

2.21 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Critical accouting estimates and judgements

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

3.1 Going concern

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

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

3.2 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
- multiplying that loss by the probability of the default happening; and
- summing the results of all such possible default events.

The bank applies a 3 staged impairment model taking account of whether there has been a 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. 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. 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

3. Critical accouting estimates and judgements (continued)

3.2 Expected credit losses on financial assets (continued)

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.

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. Critical accouting estimates and judgements (continued)

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
- Charges over financial instruments such as debt instruments; and
- Cash cover.

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

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

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

3.6 Effective Interest Rate (EIR) method

The Bank's EIR methodology, as explained in Note 2.4 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.

3. Critical accouting estimates and judgements (continued)

3.9 Provisions and other contingent liabilities

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.

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

4. Net interest income

	2022	2021
Interest income	K	K
Arising from:		
Investment securities	287 893 927	225 829 232
Loans and advances to customers	168 833 907	140 795 048
Credit related fees	23 281 377	15 119 247
Placement with other banks	3 046 823	1 102 978
	483 056 034	382 846 505
Interest expense		
Arising on:		
Deposits from customers	(123 263 563)	(75 023 089)
Long term borrowings	(15 103 078)	(16 496 841)
Interbank borrowings	(3 587 666)	(9 293 258)
	(141 954 307)	(100 813 188)
Net interest income	341 101 727	282 033 317

5. Net Fee and commission income

	2022	2021
Telegraphic transfer charges	22 893 900	19 980 527
Monthly service fee	3 431 173	3 731 988
Bank guarantees	3 761 731	1 957 554
RTGS fee income	1 310 070	1 020 307
Other fees	889 545	1 770 639
ATM transaction charges	543 160	501 792
Cheque books issued	292 050	310 000
DDAC charges	87 560	75 115
Bankers cheques issued	27 400	29 500
Sundry commission	21 588	7 958
	33 258 177	29 385 380
Fees and commission expense	(14 199 947)	(13 329 795)
	19 058 230	16 055 585

		2022	2021
6.	**Other operating income**	K	K
	Trading Income	71 010 457	56 137 668
	Other income	8 056 587	278 292
	Recoveries from loan loss provisions	891 536	255 230
		79 958 580	56 671 190
	Trading income is summarized as follows:		
	Foreign currency transactions	63 821 213	56 137 668
	Gains on sale of securities	7 189 244	-
		71 010 457	56 137 668
7.	**Personnel expenses**		
	Staff salaries and short term benefits	79 458 184	72 206 474
	Pension	5 107 457	3 579 721
		84 565 641	75 786 195
8.	**Other expenses**		
	Other general expenses	23 614 220	20 247 211
	Management fees	29 395 340	25 991 934
	Swift, Reuters and bank charges	3 544 502	4 352 561
	Information technology	11 825 232	11 458 973
	Supervisory fees	5 103 232	4 131 709
	Legal and professional fees	3 521 087	2 488 999
	Non executive directors remuneration and other expenses	2 610 339	3 050 730
	Marketing and advertising	2 152 433	1 096 259
	Auditors fees	1 772 397	1 308 776
	Training	1 374 568	929 855
		84 913 350	75 057 007
9.	**Profit before income tax**		
	Profit before income tax is stated after crediting:		
	Trading income	71 010 457	56 137 668
	Placement with other banks	3 046 823	1 102 978
	Recoveries from loan losses	891 536	255 230
	and after charging:		
	Emoluments:		
	- Key management personnel (Note 25)	19 218 244	27 359 799
	- Directors' fees (Note 25)	2 610 339	2 678 897
	Interest payable to other banks	3 587 666	25 790 099
	Loss on disposal of assets held for sale (Note 16)	-	21 320 924
	Impairment charge	11 812 711	14 529 377
	Depreciation of right of use assets (Note 20)	6 719 847	6 902 039
	Depreciation on property and equipment (Note 19)	4 081 314	3 790 472
	Amortisation of intangible assets (Note 17)	2 795 173	3 808 523
	Pension costs (Note 7)	5 107 457	3 579 721
	Donations	195 142	162 551
	Impairment charge		
	Impairment charge on loans and advances (Note 34.2)	10 444 437	4 098 522
	Impairment charge on low risk assets and off balance sheets items (Note 34.2)	1 368 274	10 430 855
		11 812 711	14 529 377

10. Income tax expense

	2022	2021
	K	K
Income tax is calculated at the statutory rate of 30% on banking profits (2021: 35%).		
Current tax	79 661 046	57 086 547
Deferred tax recognised in profit or loss	(6 691 654)	505 769
Income tax expense	72 969 392	57 592 316
The movement during the year in the current tax balance is as follows:		
Current tax (liability) asset at the start of ther year	(2 431 928)	(7 558 784)
Payable in respect of the current year	(79 661 046)	(57 086 547)
Under provision of taxes in prior year	-	(437 474)
Tax paid during the year	57 023 091	42 354 521
Withholding tax recoveries in respect of current year	31 230 634	20 296 356
Current tax assets (liability) at end of year	6 160 751	(2 431 928)
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:		
Profit before income tax	241 958 292	151 108 426
Tax calculated at the statutory income tax rate of 30% (2021: 35%)	72 587 488	52 887 949
Permanent differences	381 904	(1 014 028)
Effects of changes in the tax rate	-	5 718 395
Income tax expense	72 969 392	57 592 316

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	
	2022	2021	2022	2021	2022	2021
	K	K	K	K	K	K
Recognised deferred tax asset						
Leasehold improvements and equipment	(3 149 569)	(2 955 216)	-	-	(3 149 569)	(2 955 216)
Provisions	(6 510 182)	(5 590 130)	-	-	(6 510 182)	(5 590 130)
Processing fee received in advance	(2 599 953)	(1 626 491)	-	-	(2 599 953)	(1 626 491)
Suspended Interest	-	-	-	-	-	-
Right of use assets	(2 158 864)	(1 517 336)			(2 158 864)	(1 517 336)
Collective portfolio impairment provision	(12 332 562)	(8 370 303)	-	-	(12 332 562)	(8 370 303)
Deferred tax assets	(26 751 130)	(20 059 476)	-	-	(26 751 130)	(20 059 476)

Movement in temporary differences

	1 January 2021	Recognised in profit or loss	Balance at 31 December 2021	Recognised in profit or loss	Charged to equity	Balance at 31 December 2022
	K	K	K	K		K
Leasehold improvements and equipment	(3 222 737)	267 521	(2 955 216)	(194 353)	-	(3 149 569)
Provisions	(3 883 116)	(1 707 014)	(5 590 130)	(920 052)	-	(6 510 182)
Processing fee received in advance	(1 412 914)	(213 577)	(1 626 491)	(973 462)	-	(2 599 953)
Suspended Interest	(1 271 620)	1 271 620	-	-	-	-
Right of use assets	(3 780 265)	2 262 929	(1 517 336)	(641 528)	-	(2 158 864)
Collective portfolio impairment provision	(6 994 594)	(1 375 709)	(8 370 303)	(3 962 259)	-	(12 332 562)
	(20 565 246)	505 770	(20 059 476)	(6 691 654)	-	(26 751 130)

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

	2022 K	2021 K
Cash on hand	65 245 725	82 412 088
Balances at Bank of Zambia:		
Statutory deposit	278 952 090	206 482 860
Settlement account	80 739 371	23 834 309
	359 691 461	230 317 169
Impairment loss allowance (Note 34.2.1)	(98 681)	(5 289)
	424 838 505	312 723 968

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 2022 the percentage was 9% (2021:9%).

11.2 Cash and short term funds

	2022 K	2021 K
Cash and short term funds	160 081 753	309 453 481
Impairment loss allowance (Note 34.2.1)	(2 209)	(24 571)
	160 079 544	309 428 910

11.3 Gross Cash and cash equivalents at end of year

	2022 K	2021 K
Balances with Central Bank (Note 11.1)	424 937 186	312 729 257
Cash and short term funds (Note 11.2)	160 081 753	309 453 481
Placements with other banks (Note 12)	107 060 317	54 884 633
	692 079 256	677 067 371

12. Placements with other banks

	2022 K	2021 K
Placement with other banks	107 060 317	54 884 633
Impairment loss allowance (Note 34.2.1)	(12 184)	(36 316)
	107 048 133	54 848 317
Current	107 048 133	54 848 317
Non-Current	-	-
	107 048 133	54 848 317

13. Investment securities

	2022 K	2021 K
Investment securities measured at amortised cost		
Government bonds	842 431 493	723 862 783
Treasury bills	616 089 637	315 776 925
	1 458 521 130	1 039 639 708
Gross amount	1 458 521 130	1 039 639 708
Impairment loss allowance (Note 34.2.1)	(27 062 510)	(24 720 824)
Net amount	1 431 458 620	1 014 918 884
Government securities are due to mature as follows:		
Current	769 640 572	341 653 723
Non-Current	688 880 558	697 985 985
	1 458 521 130	1 039 639 708

Average interest on treasury bills was 15% (2021: 25%). Average interest rate on government bonds was 24% (2021: 34%).

Movements in investment in securities

	2022 K	2021 K
At 1 January	1 039 639 708	688 389 415
Additions	887 943 317	630 700 293
Maturities	(469 061 895)	(279 450 000)
At 31 December	1 458 521 130	1 039 639 708

14. Loans and advances to customers

Net loans and advances

	2022 K	2021 K
Gross loans and advances to customers	1 648 335 309	1 005 720 376
Loss Allowance	(14 806 929)	(4 362 494)
	1 633 528 380	1 001 357 882

14.1 Analysis of expected credit losses

	2022 K	2021 K
Stage 1	(2 539 366)	(2 214 473)
Stage 2	(34 494)	(396 403)
Stage 3	(12 233 069)	(1 751 618)
Impairment loss allowance (Note 34.2.1)	(14 806 929)	(4 362 494)

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
	2022	2022	2022	2021	2021	2021
Personal and term loans	11 760 098	892 887 834	904 647 932	6 159 363	470 207 784	476 367 147
Mortgage loans	13 870 736	-	13 870 736	12 032 344	-	12 032 344
Overdrafts	13 019 006	716 797 635	729 816 641	13 511 065	503 809 820	517 320 885
Gross loans and advances to customers	38 649 840	1 609 685 469	1 648 335 309	31 702 772	974 017 604	1 005 720 376
Less: allowance for impairment						
Stage1	(40 795)	(2 498 571)	(2 539 366)	(71 482)	(2 142 991)	(2 214 473)
Stage2	(2 480)	(32 014)	(34 494)	-	(396 403)	(396 403)
Stage3	(515 164)	(11 717 905)	(12 233 069)	(299 621)	(1 451 997)	(1 751 618)
Allowance for impairment	(558 439)	(14 248 490)	(14 806 929)	(371 103)	(3 991 391)	(4 362 494)
Net loans and advances	38 091 401	1 595 436 979	1 633 528 380	31 331 669	970 026 213	1 001 357 882

14.3 Maturity analysis of loans and advances

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

	2022	2021
	K	K
One month	732 559 844	517 866 295
Less than three months (two to three months)	3 695 441	46 744 075
Maturity between four months to one year	222 790 293	127 523 397
Maturity between two year to five years	677 384 983	301 712 499
Maturity over five years	11 904 748	11 874 110
	1 648 335 309	1 005 720 376

Loans and advances to related parties as at year ended 31 December 2022 amounted to K11,875,199 (2021: K58,302,149).

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 34.2.1.

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 34.2.1.

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		
	2022	stage1	stage2	stage3	2021
	K	K	K	K	K
Loans and advances to customers (including staff loans)	1 648 335 309	1 553 538 834	14 120 714	80 675 761	1 005 720 376
Guarantees and Letters of credit	181 073 488	181 073 488	-	-	169 369 676
Investment securities	1 458 521 130	1 458 521 130	-	-	1 039 639 708
Cash and balances with Central Bank	424 937 186	424 937 186	-	-	312 729 257
Cash and short term funds	160 081 753	160 081 753	-	-	309 453 481
Placements with other banks	107 060 317	107 060 317	-	-	54 884 633
Derivative financial assets	34 414 712	-	-	-	-
Amounts due from related parties	365 139	-	-	-	-
Other assets	71 459 886	71 459 886	-	-	35 836 462
	4 086 248 920	3 956 672 594	14 120 714	80 675 761	2 927 633 593

14. Loans and advances to customers (continued)

14.5 Credit quality (continued)

Maximum exposure to credit risk

2022	ECL grade	Placements with other banks	Loans and advances to customers & staff	Guarantees provided	Investment securities	Cash and cash equivalents	Other financial assets	Total
Credit exposure		K	K	K	K	K	K	K
Investment grade	1-3	107 060 317	1 553 538 834	181 073 488	1 458 521 130	585 018 939	106 239 737	3 991 452 445
Standard monitoring	4-7	-	14 120 714	-	-	-	-	14 120 714
Non-performing loans	8-10	-	80 675 761	-	-	-	-	80 675 761
Gross exposure		107 060 317	1 648 335 309	181 073 488	1 458 521 130	585 018 939	106 239 737	4 086 248 920

2021	ECL grade	Placements with other banks	Loans and advances to customers & staff	Guarantees provided	Investment securities-debt	Cash & Cash Equivalents	Other financial 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

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

	2022		2021	
	K	%	K	%
Agriculture, forestry, fishing and hunting	60 113 812	3.65	30 469 224	3.03
Mining and quarrying	73 212 937	4.44	41 698 465	4.15
Manufacturing	589 869 775	35.79	312 004 871	31.02
Electricity, gas, water and energy	65 342 415	3.96	18 088 593	1.80
Construction	70 550 567	4.28	36 826 624	3.66
Wholesale and retail trade	417 816 933	25.35	252 365 739	25.09
Restaurants and hotels	14 742 041	0.89	21 532 393	2.14
Transport, storage and communications	171 559 379	10.41	100 352 119	9.98
Financial services	-	-	41 762 500	4.15
Real estate	127 568 197	7.74	96 323 807	9.58
Personal and Other sectors	39 876 617	2.42	38 171 957	3.80
Staff	17 682 636	1.07	16 124 084	1.60
	1 648 335 309	100	1 005 720 376	100

14. Loans and advances to customers (continued)

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

2022	Total loans	impaired loans	Write offs	Recoveries	Loss allowance
	K	K	K	K	K
Agriculture, forestry, fishing and hunting	60 113 812	8 507 814	-	-	794 056
Mining and quarrying	73 212 937	-	-	-	24 194
Manufacturing	589 869 775	20 278 377	64 596	-	782 252
Electricity, gas, water and energy	65 342 415	-	-	-	38 310
Construction	70 550 569	22 041 956	3 339	-	11 286 593
Wholesale and retail trade	417 816 933	994 023	-	-	257 061
Restaurants and hotels	14 742 041	45	7 585	-	64 256
Transport, storage and communications	171 559 379	-	-	-	53 661
Real estate	127 568 196	27 585 442	-	-	833 014
Personal and other sectors	39 876 619	1 268 104	101 718	-	622 208
Staff	17 682 633	-	-	-	51 324
	1 648 335 309	**80 675 761**	**177 238**	**-**	**14 806 929**

2021	Total loans	impaired loans	Write offs	Recoveries	Loss allowance
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	1 460 310	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
Real estate	96 323 807	-	-	-	305 676
Personal and other sectors	38 171 957	1 117 313	-	-	403 613
Staff	16 124 084	-	-	-	34 738
	1 005 720 376	**9 080 976**	**5 603 928**	**255 230**	**4 362 494**

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

	2022		2021	
	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	729 816 641	12 734 987	517 320 885	2 622 396
- Term Loans	904 647 932	1 483 988	476 367 147	1 455 016
- Mortgage	13 870 736	587 954	12 032 344	285 082
	1 648 335 309	14 806 929	1 005 720 376	4 362 494
Other financial assets measured at amortised cost				
- Cash	65 245 725	4 599	82 412 088	-
- Central bank balances	359 691 461	94 082	230 317 168	5 289
	424 937 186	98 681	312 729 256	5 289
- Balances with other banks				
- Cash and short term funds	160 081 753	2 209	309 453 481	24 571
- Placement with other banks	107 060 317	12 184	54 884 633	36 316
	267 142 070	14 393	364 338 114	60 887
- Treasury bills	616 089 637	4 178 510	316 022 979	1 875 000
- Government bonds	842 431 493	22 884 000	723 862 783	22 845 824
	1 458 521 130	27 062 510	1 039 885 762	24 720 824
Total gross on-balance sheet exposures	3 798 935 695	41 982 513	2 722 673 508	29 149 494
Off balance sheet exposures				
- Financial guarantees	148 573 963	261 459	144 510 618	1 056 418
- Performance guarantees	32 499 525	57 192	24 859 058	282 543
Total off-balance sheet exposures	181 073 488	318 651	169 369 676	1 338 961

15. Other assets and prepayments

	2022 K	2021 K
Other assets	63 342 454	29 747 569
Prepayments	4 595 265	4 025 386
Interest receivable	2 927 307	1 468 647
Investment in Zambia Electronic Clearing House Limited	594 860	594 860
	71 459 886	35 836 462
Current	36 144 578	27 474 111
Non-current	35 315 308	8 362 351
	71 459 886	35 836 462

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 assets is cash collateral K29,175,801 (2021: K634,595), balances receivable for pledged government securities K19,866,085 (2021:K15,000,000), staff loan mark to market K5,146,205 (2021: K7,132,895) and non-customer account K4,595,931 (2021: K5,585,650)

16. Property held for sale

	2022 K	2021 K
Balance at 1 January	-	43 920 431
Loss on disposal	-	(21 320 924)
Sale proceeds	-	(22 599 507)
Balance at 31 December	-	-

17. Intangible assets

	K
Cost	
At 1 January 2021	23 299 094
Additions	366 862
At 31 December 2021	23 665 956
At 1 January 2022	23 665 956
Additions	933 346
At 31 December 2022	24 599 302
Amortisation	
At 1 January 2021	12 369 517
Amortisation for the year	3 808 524
At 31 December 2021	16 178 041
At 1 January 2022	16 178 041
Amortisation for the year	2 795 173
At 31 December 2022	18 973 214
Carrying amount	
At 31 December 2021	7 487 915
At 31 December 2022	5 626 088

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

18. Investment property

	2022 K	2021 K
Balance at beginning of year	-	25 042 896
Transfer to land and buildings	-	(21 174 430)
Transfer to capital work in progress	-	(3 868 466)
Balance at end of year	-	-

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	K
Balance at 1 January 2021	-	20 129 161	297 469	2 698 116	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	-	4 768 401
Transfer	21 174 430	-	3 556 196	-	-	-	-	-	24 730 626
Disposal	-	-	-	-	-	-	-	-	-
At 31 December 2021	21 174 430	20 444 845	3 944 045	2 827 216	1 735 243	9 226 394	8 460 450	1 458 454	69 271 077
Balance at 1 January 2022	21 174 430	20 444 845	3 944 045	2 827 216	1 735 243	9 226 394	8 460 450	1 458 454	69 271 077
Additions	-	150 000	49 133 368	216 824	2 871 439	1 064 953	5 768 529	443 599	59 648 712
Transfer*	-	-	4 658 856	-	-	-	(4 658 856)	-	-
Write off	-	-	-	-	-	-	(21 515)	-	(21 515)
Disposal	-	-	-	-	(700 050)	-	-	-	(700 050)
At 31 December 2022	21 174 430	20 594 845	57 736 269	3 044 040	3 906 632	10 291 347	9 548 608	1 902 053	128 198 224
Accumulated depreciation									
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	-	2 517 984	1 504 076	6 929 271	4 520 721	1 356 029	35 104 983
Balance at 1 January 2022	-	18 276 902	-	2 517 984	1 504 076	6 929 271	4 520 721	1 356 029	35 104 983
Depreciation for the year	-	1 267 477	-	156 597	463 528	958 639	1 172 745	62 328	4 081 314
Write off	-	-	-	-	-	-	(3 688)	-	(3 688)
Disposal	-	-	-	-	(700 050)	-	-	-	(700 050)
At 31 December 2022	-	19 544 379	-	2 674 581	1 267 554	7 887 910	5 689 778	1 418 357	38 482 559
Carrying amounts									
At 31 December 2022	21 174 430	1 050 466	57 736 269	369 459	2 639 078	2 403 437	3 858 830	483 696	89 715 665
At 31 December 2021	21 174 430	2 167 943	3 944 045	309 232	231 167	2 297 123	3 939 729	102 425	34 166 094

The capital work in progress relates to all capital expenditure items on head office construction and computer equipment that are yet to be completed or brought into use. Capital work in progress is not depreciated until it is capitalised and brought into use.

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 2021	39 130 742
Additions	6 189 555
Modifications	6 732 430
At 31 December 2021	52 052 727
At 1 January 2022	**52 052 727**
Additions	
Modifications	(6 094 205)
At 31 December 2022	**45 958 522**
Depreciation	
At 1 January 2021	13 672 655
Depreciation for the year	6 902 039
At 31 December 2021	20 574 694
At 1 January 2022	**20 574 694**
Depreciation for the year	6 719 847
At 31 December 2022	**27 294 541**
Carrying amount	
At 31 December 2021	31 478 033
At 31 December 2022	**18 663 981**

The Bank has 8 leases and average lease term is 3 years (2021: 5 years). There were modifications of K6,094,205 in the current year which were as a result of changes to contract terms on some of the leases (2021:K6,732,430).

21. Derivative financial Intruments

	Nominal Amount	Fair value
	K	K
2022		
Derivative financial assets:		
Foreign currency swap	30 000 000	34 414 712
Current	30 000 000	34 414 712
Derivative financial liabilitiues:		
Foreign currency swap	34 370 000	36 220 000
Current	34 370 000	36 220 000

A foreign exchange swap (also known as an FX swap) is an agreement to simultaneously borrow one currency and lend another at an initial date, then exchanging the amounts at maturity.

The amounts represents the fair value of foreign exchange contracts. The derivative assets and liabilities are measured at fairvalue through profit and loss. Nominal principal amounts underlying contracts at the date of reporting.

22. Amounts payable to other banks

	2022	2021
Amounts payable to other banks	78 638 331	20 041 781
Current	78 638 331	20 041 781

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

23. Deposits from customers

	2022	2021
	K	K
Current accounts	1 318 862 907	1 144 496 594
Savings accounts	221 070 813	159 229 358
Fixed deposits	1 666 153 262	882 497 639
	3 206 086 982	2 186 223 591
Current	1 479 067 226	2 186 223 591
Non-current	1 727 019 756	-
	3 206 086 982	2 186 223 591

24. Long term borrowings

	2022	2021
At 1 January 2021	230 047 044	258 917 704
Additions	23 315 511	75 252 957
Repayments	(67 240 829)	(87 016 381)
Effects of changes in exchange rates	5 397 037	(17 107 236)
At 31 December 2022	191 518 763	230 047 044

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

Reconciliation long term borrowings	FMO Facility	BOZ - TMTRF
At 1 January 2022	103 021 907	127 025 137
Additions	4 600 089	18 715 422
Repayments	(57 037 213)	(10 203 616)
Effects of changes in exchange rates	5 397 037	-
At 31 December 2022	55 981 820	135 536 943
Current	55 981 820	62 884 315
Non-Current	-	72 652 628
	55 981 820	135 536 943
At 1 January 2021	196 183 846	62 733 068
Additions	5 775 888	69 477 069
Repayments	(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 with Bank of Zambia 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 loan was disbursed in 3 tranches whose maturity dates are 1 September 2023, 24 February 2024 and 8 February 2025.

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.

25. 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:

	2022 K	2021 K
Amounts due from related parties		
FCB Botswana	127 998	-
FCB Mozambique	109 180	-
FCB Zimbabwe	106 769	-
FCSSL Mauritius	21 192	-
	365 139	-
Amounts due to related parties		
FMBCH Mauritius	2 727 509	720 353
FCB Malawi	2 385 188	746 602
FCSSL Mauritius	1 300 609	192 976
	6 413 306	1 659 931

The amounts due to and from related parties are payable on demand.

Transactions with related parties in 2022

Nature of transaction	Name of the Related Party	Relationship	Base Currency	Amount
Income				
Commission on cash sales	FCB Zimbabwe	Affliate	USD	4 297 447
Commission on cash sales	FCB Malawi	Affliate	USD	1 864 036
Interest Income on loans	FMBCH	Parent company	USD	893 844
			Total	7 055 327
Expenses				
Management fees	FMBCH	Parent company	USD	(14 213 508)
Support services fees	FCSSL	Affliate	USD	(6 536 059)
Interest expense on borrowings	FCB Malawi	Affliate	USD	(504 471)
Interest expense on borrowings	FCB Mozambique	Affliate	USD	(326 437)
			Total	(21 580 475)

Transactions with related parties in 2021

Nature of transaction	Name of the Related F	Relationship	Base Currency	Amount
Income				
Commission on cash sales	FCB Zimbabwe	Affliate	USD	965 681
Commission on cash sales	FCB Malawi	Affliate	USD	560 633
Interest Income on loans	FMBCH	PARENT	USD	307 418
			Total	1 833 732
Expenses				
Management fees	FMBCH	Parent company	USD	(12 481 587)
Support services fees	FCSSL	Affliate	USD	(5 485 577)
			Total	(17 967 164)

25. Related party transactions

	2022 K	2021 K
Key management personnel compensation		
Salaries and other short-term employment benefits	19 218 244	27 359 799
Directors' emoluments		
Directors' fees	2 610 339	2 678 897

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 Loans to Directors and entities connected to directors and affiliates

2022	Directors K	Entities connected to Directors & Affiliates K	Key management staff K	Total K
At 1 January	-	58 302 149	6 827 908	**65 130 057**
Issued during the year	-	14 572 234	2 678 198	**17 250 432**
Repayments during the year	-	(60 999 184)	(2 833 714)	**(63 832 898)**
At 31 December	-	11 875 199	6 672 392	18 547 591
Interest income earned	-	1 888 146	212 708	2 100 854

2021	Directors K	Entities connected to Directors & Affiliates K	Key management staff K	Total K
At 1 January	-	20 049 774	7 454 554	27 504 328
Loans 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	65 130 057
Interest and fee income earned	-	3 371 690	425 417	3 797 107

Deposit

	Directors K	Entities connected to Directors & Affiliates K	Key management staff K	Total K
2022				
At 1 January	24 854 712	14 937 731	(3 410 251)	36 382 192
Deposits during the year	30 059 677	418 640 287	28 811 448	477 511 412
Withdrawals	(49 044 320)	(320 060 533)	(24 658 159)	(393 763 012)
At 31 December	5 870 069	113 517 485	743 038	120 130 592
Interest paid	11 339	95 269	15 477	122 086
2021				
Deposits 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	65 617 027
Withdrawals	(22 538 149)	(24 333 305)	(20 253 723)	(67 125 177)
At 31 December	24 854 712	14 937 730	(3 410 251)	36 382 191
Interest paid	-	-	8 546	8 546

26. Lease liabilities

	2022	2021
	K	K
At 1 January	36 535 814	36 120 686
Additions	-	8 029 514
Modifications	(5 523 202)	4 768 557
Finance cost	3 272 209	2 457 128
Lease payments	(10 738 530)	(7 889 778)
Exchange revaluation losses	2 313 899	(6 950 293)
At 31 December	25 860 190	36 535 814
Current	7 194 572	9 573 978
Non-Current	18 665 616	26 961 835
	25 860 188	36 535 813
Maturity Analysis		
Less than one year	-	-
Later than one year but not later than two years	7 194 572	1 061 934
Later than two years but not later than five years	18 665 616	30 159 632
Later than five years	-	5 314 247
	25 860 188	36 535 813

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 in 2022 are 22.5% for leases in Zambian Kwacha and 5% for leases in US Dollar.

	2022	2021
(Loss)/gains on modification of leases	(571 003)	1 963 873

27. Other liabilities and accrued expenses

	2022	2021
	K	K
Accrued expenses	21 300 418	22 314 944
Provisions	16 442 250	14 633 774
Deferred income	8 698 816	5 425 790
Sundry payables	7 389 807	5 378 327
Staff loans market-to-market adjustment	5 146 205	7 132 895
Statutory payments	5 009 488	3 270 545
	63 986 984	58 156 275
Current	12 399 295	14 737 782
Non-Current	51 587 689	43 418 493
	63 986 984	58 156 275

28 Provisions

2022	Staff incentives and Leave	Legal cases and others	Total
	K	K	K
At 1 January 2022	12 107 345	2 526 429	14 633 774
Provisions	11 015 745	-	11 015 745
Payment	(9 207 269)	-	(9 207 269)
At 31 December 2022	13 915 821	2 526 429	16 442 250
Current	13 915 821	2 526 429	16 442 250

28 Provisions (Continued)

2021	K	K	K
At 1 January 2021	7 123 309	1 068 339	8 191 648
Provisions	13 801 977	1 458 090	15 260 067
Payment	(8 817 941)	-	(8 817 941)
At 31 December 2021	12 107 345	2 526 429	14 633 774
Current	12 107 345	2 526 429	14 633 774

29 Share capital

	2022	2021
	K	K
Authorised, issued and fully paid up		
104,000,000 (2021:104,000,000) ordinary shares of K1.00 each	**104 000 000**	104 000 000
Share premium	**11 156 599**	11 156 599

30 Credit risk reserve

At 1 January	**6 882 103**	4 477 155
Transfer from (to) retained earnings	**219 519**	2 404 948
At 31 December	**7 101 622**	6 882 103

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.

31 Contingent liabilities and commitments

	2022	2021
	K	K
Finacial guarantees	**181 073 488**	169 369 676
Undrawn commitments	**347 187 080**	344 632 375
	528 260 568	514 002 051

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. The nominal values of such commitments are listed above.

32. Capital commitments

	2022	2021
	K	K
Construction of head office building	**107 678 338**	131 000 000

33. Events after the reporting date

The Directors proposed final dividend of **K51,694,449** (2021: K20,881,250) for the year 2022 during the meeting held on 22 March 2023.

34. Financial risk management review

34.1 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

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;

34. Financial risk management review (continued)

34.1 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.

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.

34. Financial risk management review (continued)

34.1 Financial risk management (continued)

Market risk (continued)

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.

34.2 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.

34.2.1 Credit risk management

The Bank's credit committee is responsible for managing the Bank's credit risk by:

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Bank against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Bank's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

a) Risk limit and mitigation policies

- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

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:

- 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.

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

a) Risk limit and mitigation policies

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

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

Expected Credit Losses measurement (ECLs)

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

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

The Expected Credit Loss (ECL) is measured on either a 12 - month (12 M) or Lifetime basis depending on whether a Significant Increase in Credit Risk (SICR) has occurred since initial recognition or whether an asset is considered to be credit impaired. ECLs are the discounted product of the 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.

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

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

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

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

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

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

ii) Life time ECLs (Stage 2 - SICR)

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

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

Benchmarking ECL

* 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.

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

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

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

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

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

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

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

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

EAD is determined as below:

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

Significant increase in credit risk (SICR)

The Bank analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Bank generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarises per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed .

Retail Exposures:

- Internally collected data on customer behaviour – e.g. utilisation of credit card facilities
- Affordability metrics
- External data from credit reference agencies, including industry-standard credit scores

Corporate exposures and low risk financial instruments:

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of S&P

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

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

Corporate exposures and low risk financial instruments: (continued)

Corporate

The corporate portfolio of the Bank is comprised of loans and advances to banks, public sector entities, corporates and other businesses.

Grading	12 Months weighted-Average PD	External rating
Grades 1-6: Low-fair risk	2.62%	B to B+
Grades 1-6: Higher risk	3.73%	B- to CCC+
Grades 1-6: Substandard, doubtful, loss	100%	CCC- to D

Retail

The retail portfolios are comprised of mortgage lending, personal loans and car loans.

Grading	12 Months weighted-Average PD
Grades 1-6: Low-fair risk	1.28%
Grades 1-6: Higher risk	45.31%
Grades 1-6: Substandard, doubtful, loss	100%

Loan commitments are assessed along with the category of loan the Bank is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Bank performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

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. The bank uses gross domestic product, inflation, current account balance and general government revenues as macro economic variables to determine expected credit losses.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

Corporate exposures and low risk financial instruments: (continued)

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2018 for the years 2020 to 2023, for Zambia that has a material impact in ECLs.

ECL Scenario	2022	2023	2024
Domestic GDP			
Base case	3.1%	3.9%	4.1%
Upside	4.0%	4.8%	5.0%
Downside	2.8%	3.6%	3.8%
Inflation			
Base case	9.9%	11%	10.1%
Upside	11.9%	13.1%	12.1%
Downside	8%	7.5%	6.0%
Current Account Balances	$m	$m	$m
Base case	32.9	31.8	34.0
Upside	33.6	32.4	34.7
Downside	32.2	31.2	33.3
	$m	$m	$m
General Government Revenues	21.4	22.3	22.7
Upside	21.8	22.7	23.2
Downside	21.0	21.9	22.2

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.

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

Fair Value of Collateral held

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is detailed financial analysis (for corporates) as well as 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, commercial and agricultural 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 in certain instances, may seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances

Collateral values are determined through professional appraisals commissioned by the Bank at origination of credit facilities. Assessed open market values (OMV) of collateral are subject to internal haircuts in determining collateral adequacy for lending purposes. For IFRS 9 impairment considerations, it is the Bank's policy to use the forced sale values (FSV) of collateral less the estimated allocated costs to dispose of collateral. The Bank is not permitted to sell or repledge the collateral in the absence of default by owner.

Repossessed properties are managed off Balance sheet and only get recognised on Balance sheet when the property has been sold.

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

Fair Value of Collateral held (continued)

2022

Financial Assets	Maximum exposure to credit risk	ECLs	Net Carrying Amount	Cash Collateral	Property Collateral	Other Collateral	Total Collateral
	K	K	K	K	K	K	K
Cash and balances with Central Bank	424 937 186	98 681	424 838 505	-	-	-	-
Cash and short term funds	160 081 753	2 209	160 079 544	-	-	-	-
Placements with other banks	107 060 317	12 184	107 048 133	-	-	-	-
Investment securities	1 458 521 130	27 062 510	1 431 458 620	-	-	-	-
Derivative financial assets	34 414 712	-	34 414 712	-	-	-	-
Amounts due from related parties	365 139	-	365 139	-	-	-	-
Other receivables	71 459 886	-	71 459 886	-	-	-	-
Loans and advances to customers:							
Corprate lending	1 609 685 469	558 439	1 595 436 979	22 345 431	5 472 088 328	653 138 168	6 147 571 926
Retail lending	38 649 840	14 248 490	38 091 401	10 413 250	63 782 350	3 719 946	77 915 546
Total Financial Assets	3 905 175 432	41 982 513	3 863 192 919	32 758 681	5 535 870 678	656 858 114	6 225 487 473
Off Balance sheet							
Financial guarantees	181 073 488	318 651	180 754 837	32 676 650	61 156 345	174 652 058	268 485 053
Undrawn commitments	347 187 080	-	347 187 080	-	-	-	-
Total Off Balance sheet	528 260 568	318 651	527 941 917	32 676 650	61 156 345	174 652 058	268 485 053
Total (Including Off Balance sheet)	4 433 436 000	42 301 164	4 391 134 836	65 435 331	5 597 027 022	831 510 172	6 493 972 526

34. Financial risk management review (continued)

34.2 Financial risk review (continued)

34.2.1 Credit risk management (continued)

Fair Value of Collateral held (continued)

2021

Financial Assets	Maximum exposure to credit risk	ECLs	Net Carrying Amount	Cash Collateral	Property Collateral	Other Collateral	Total Collateral
	K	K	K	K	K	K	K
Cash and balances with Central Bank	312 729 257	5 289	312 723 968	-	-	-	-
Cash and short term funds	309 453 481	24 571	309 428 910	-	-	-	-
Placements with other banks	54 884 633	36 316	54 848 317	-	-	-	-
Investment securities	1 039 639 708	24 720 824	1 014 918 884	-	-	-	-
Derivative financial assets	-	-	-	-	-	-	-
Amounts due from related parties	-	-	-	-	-	-	-
Other receivables	35 836 462	-	35 836 462	-	-	-	-
Loans and advances to customers:							
Corporate lending	974 017 604	3 991 391	974 017 604	24 311 027	456 488 145	1 561 813 728	2 042 612 900
Retail lending	31 702 772	371 103	31 702 772	8 095 250	56 365 000	3 401 375	67 861 626
Total Financial Assets	2 758 263 917	29 149 494	2 733 476 917	32 406 277	512 853 145	1 565 215 103	2 110 474 525
Off Balance sheet							
Financial guarantees	169 369 676	1 338 961	168 030 715	71 032 182	581 839 709	1 670 705 729	2 323 577 621
Undrawn commitments	344 632 375	-	344 632 375	36 335 734	73 125 529	40 465 739	149 927 002
Total Off Balance sheet	514 002 051	1 338 961	512 663 090	107 367 917	654 965 238	1 711 171 468	2 473 504 623
Total (Including Off Balance sheet)	3 272 265 968	30 488 455	3 246 140 007	139 774 194	1 167 818 383	3 276 386 571	4 583 979 148

34. Financial risk review (continued)

34.2.1 Credit risk management (continued)

Credit quality of loans to customers

RETAIL

At 31 December 2022	Stage 1 12-Months ECL K	Stage 2 12-Lifetime ECL K	Stage 3 12-Lifetime ECL K	Total K
Gross Carrying amount				
Grades 1-3: Low to fair risk	37 385 842	-	-	37 385 842
Grades 4-6: Monitoring	-	16 363	-	16 363
Grades 7-8: Substandard	-	-	-	-
Grade 9: Doubtful	-	-	19 728	19 728
Grade 10: Impaired	-	-	1 227 907	1 227 907
Total gross carrying amount	37 385 842	16 363	1 247 635	38 649 840
Loss allowance	(40 795)	(2 480)	(515 164)	(558 439)
Carrying amount	37 345 047	13 883	732 471	38 091 401

RETAIL

At 31 December 2021	Stage 1 12-Months ECL K	Stage 2 12-Lifetime ECL K	Stage 3 12-Lifetime ECL K	Total K
Gross Carrying amount				
Grades 1-3: Low to fair risk	30 529 015	-	-	30 529 015
Grades 4-6: Monitoring	-	-	-	-
Grades 7-8: Substandard	-	-	-	-
Grade 9: Doubtful	-	-	-	-
Grade 10: Impaired	-	-	1 173 757	1 173 757
Total gross carrying amount	30 529 015	-	1 173 757	31 702 772
Loss allowance	(71 482)	-	(299 621)	(371 103)
Carrying amount	30 457 533	-	874 136	31 331 669

34. Financial risk review (continued)

34.2.1 Credit risk management (continued)

Credit quality of loans to customers

CORPORATE

At 31 December 2022	Stage 1 12-Months ECL K	Stage 2 12-Lifetime ECL K	Stage 3 12-Lifetime ECL K	Total K
Gross Carrying amount				
Grades 1-3: Low to fair risk	1 516 152 992	-	-	1 516 152 992
Grades 4-6: Monitoring	-	14 104 351	-	14 104 351
Grades 7-8: Substandard	-	-	68 545 381	68 545 381
Grade 9: Doubtful	-	-	20 178	20 178
Grade 10: Impaired	-	-	10 862 567	10 862 567
Total gross carrying amount	1 516 152 992	14 104 351	79 428 126	1 609 685 469
Loss allowance	(2 498 571)	(32 014)	(11 717 905)	(14 248 490)
Carrying amount	1 513 654 421	14 072 337	67 710 221	1 595 436 979

CORPORATE

At 31 December 2021	Stage 1 12-Months ECL K	Stage 2 12-Lifetime ECL K	Stage 3 12-Lifetime ECL K	Total K
Gross Carrying amount				
Grades 1-3: Low to fair risk	924 774 754	-	-	924 774 754
Grades 4-6: Monitoring	-	42 342 889	-	42 342 889
Grades 7-8: Substandard	-	-	1 023 248	1 023 248
Grade 9: Doubtful	-	-	567 155	567 155
Grade 10: Impaired	-	-	5 309 558	5 309 558
Total gross carrying amount	924 774 754	42 342 889	6 899 961	974 017 604
Loss allowance	(2 142 991)	(396 403)	(1 451 997)	(3 991 391)
Carrying amount	922 631 763	41 946 486	5 447 964	970 026 213

34. Financial risk review (continued)

34.2.1 Credit risk management (continued)

Credit quality- Low Risk Assets and off balance sheet items

Low Risk Assets and off balance sheet items

At 31 December 2022	Stage 1 12-Months ECL	Stage 2 12-Lifetime ECL	Stage 3 12-Lifetime ECL	Total
	K	K	K	K
Gross Carrying amount				
Grades 1-3: Low to fair risk	2 331 673 874	-	-	2 331 673 874
Grades 4-6: Monitoring	-	-	-	-
Grades 7-8: Substandard	-	-	-	-
Grade 9: Doubtful	-	-	-	-
Grade 10: Impaired	-	-	-	-
Total gross carrying amount	2 331 673 874	-	-	2 331 673 874
Loss allowance	(27 494 235)	-	-	(27 494 235)
Carrying amount	2 304 179 639	-	-	2 304 179 639

Low Risk Assets and off balance sheet items

At 31 December 2021	Stage 1 12-Months ECL	Stage 2 12-Lifetime ECL	Stage 3 12-Lifetime ECL	Total
	K	K	K	K
Gross Carrying amount				
Grades 1-3: Low to fair risk	1 162 460 025	723 862 783	-	1 886 322 808
Grades 4-6: Monitoring	-	-	-	-
Grades 7-8: Substandard	-	-	-	-
Grade 9: Doubtful	-	-	-	-
Grade 10: Impaired	-	-	-	-
Total gross carrying amount	1 162 460 025	723 862 783	-	1 886 322 808
Loss allowance	(1 369 964)	(24 755 997)	-	(26 125 961)
Carrying amount	1 161 090 061	699 106 786	-	1 860 196 847

34. Financial risk review (continued)

34.2.1 Credit risk management (continued)

Credit quality of loans to customers

At 31 December 2022	Stage 1	Stage 2	Stage 3	Total
RETAIL	K	K	K	K
Gross Carrying amount				
Current	36 757 552	-	-	36 757 552
Past due 1-30 days	628 290	-	-	628 290
Past due 31-60 days	-	16 363	-	16 363
Past due 61-90 days	-	-	-	-
Past due more than 90 days	-	-	1 247 635	1 247 635
Total gross carrying amount	**37 385 842**	**16 363**	**1 247 635**	**38 649 840**
CORPORATE	Stage 1	Stage 2	Stage 3	Total
Gross Carrying amount	K	K	K	K
Current	1 351 480 864	2 621 771	1 998 320	1 356 100 955
Past due 1-30 days	164 672 128	4 915 790	8 507 366	178 095 284
Past due 31-60 days	-	4 041 136		4 041 136
Past due 61-90 days	-	2 525 654	39 352 413	41 878 067
Past due more than 90 days	-	-	29 570 026	29 570 026
Total gross carrying amount	**1 516 152 992**	**14 104 351**	**79 428 125**	**1 609 685 468**
At 31 December 2022	**1 553 538 834**	**14 120 714**	**80 675 760**	**1 648 335 308**

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**

34. Financial risk review (continued)

34.2.1 Credit risk management (continued)

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	1 336 871 878	20 507 919	-	1 357 379 797
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	2 145 818 091	23 420 540	7 963 663	2 177 202 294
At 31 December 2021	2 176 403 550	23 420 540	9 080 976	2 208 905 066

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 2022

	Gross Carrying Amount	Loss Allowance	Carrying Amount	Fair Value of Collateral
	K	K	K	K
Loan portfolio in default (Stage 3)				
Retail	1 247 635	(515 164)	732 471	1 379 000
Corporate	79 428 126	(11 717 905)	67 710 221	281 204 990
Total	80 675 761	(12 233 069)	68 442 692	282 583 990

At 31 December 2021

	Gross Carrying Amount	Loss Allowance	Carrying Amount	Fair Value of Collateral
Loan portfolio in default (Stage 3)	K	K	K	K
Retail	1 117 313	(299 621)	817 692	1 379 000
Corporate	7 963 663	(1 451 997)	7 521 715	27 863 814
Total	9 080 976	(1 751 618)	8 339 407	29 242 814

34. Financial risk review (continued)

34.2.1 Credit risk management (continued)

Movements in impairment for overall loans and advances for the year ended 31 December 2022 are as follows:

At 31 December 2022	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance at 1 January 2022	3 082 733	538 190	741 569	4 362 492
Transfer from Stage 1	(1 321)	1 321	-	-
Transfer from Stage 2	-	(22 827)	22 827	-
Transfer from Stage 3	-	-	-	-
Write offs	-	-	-	-
Total transfers	(1 321)	(21 506)	22 827	-
Movement with income statement impact				
New financial instrument originated	4 340 484	7 157	7 705 712	12 053 353
Repayment of principal amount	(870 902)	(489 347)	(71 429)	(1 431 678)
Changes in ECL due to modification	-	-	-	-
Write-offs	-	-	(177 238)	(177 238)
Exchange movements and others		-	-	-
Charge/(Release) to Profit and Loss	3 469 582	(482 190)	7 457 045	10 444 437
At 31 December 2022	6 550 994	34 494	8 221 441	14 806 929

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)	6 080	368 721	-
Transfer from Stage 2	44 955	(44 955)	-	-
Transfer from Stage 3	350 535	-	(350 535)	-
Write offs	-	-	-	-
Total transfers	20 689	(38 875)	18 186	5 476 067
Movement with income statement impact				
New financial instrument originated	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	3 082 733	538 190	741 569	4 362 493

34. Financial risk management review (continued)

34.2.1 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 2022 are as follows:

Low Risk Assets and off balance sheet items

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	1 369 964	24 417 408	338 589	26 125 961
Movement without income statement impact				
Transfer from Stage 1	338 589	-	(338 589)	-
Transfer from Stage 2	24 417 408	(24 417 408)	-	-
Transfer from Stage 3	-	-	-	-
Write offs	-	-	-	-
Total transfers	24 755 997	(24 417 408)	(338 589)	-
	Stage 1	Stage 2	Stage 3	Total
Movement with income statement impact				
New financial instrument originated or	15 692 863	-	-	15 692 863
Financial assets that have been derecognised	(2 562 168)	-	-	(2 562 168)
Changes in ECL due to Modification	(11 762 421)	-	-	(11 762 421)
Exchange Movements and Others	-	-	-	-
Write offs	-	-	-	-
Charge/(Release) to Profit and Loss	1 368 274	-	-	1 368 274
At 31 December 2022	27 494 235	-	-	27 494 235

	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	-	-	-	-

34. Financial risk management review (continued)

34.2.1 Credit risk management (continued)

	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	338 589	26 125 961

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.

34.2.2 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:

	2022	2021
At 31 December	**48%**	44%

The Bank of Zambia requirement is that the Bank should have a ratio of at least 6% (2021: 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:

34. Financial risk management review (continued)

34.2.2 Liquidity risk management (continued)

Exposure to liquidity risk (continued)

2022	Gross carrying amount	up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Financial assets	K	K	K	K	K	K
Cash balances with Central bank	424 937 186	424 937 186	-	-	-	-
Cash and short term funds	160 081 753	160 081 753	-	-	-	-
Placements with other banks	107 060 317	107 060 317	-	-	-	-
Investments securities	1 458 521 130	57 955 591	143 070 797	487 948 097	529 399 359	240 147 286
Derivative financial assets	34 414 712	34 414 712	-	-	-	-
Other receivables*	66 864 621	-	66 269 761	-	594 860	594 860
Amounts due from related parties	365 139	-	365 139	-	-	-
Loans and advances	1 648 335 309	731 941 652	3 630 977	105 304 116	611 101 810	11 904 748
Total financial assets	**3 900 580 167**	**1 516 391 212**	**213 336 674**	**593 252 213**	**1 141 096 029**	**252 646 894**
Financial liabilities						
Deposits from customers	3 206 086 982	1 727 019 756	574 627 190	904 440 035		-
Long term borrowings	191 518 763	-	-	45 366 414	73 499 721	-
Amounts payable to other banks	78 638 331	78 638 331	-	-	-	-
Derivative financial liabilities	36 220 000	36 220 000	-	-	-	-
Amounts due to related parties	6 413 306	-	6 413 306	-	-	-
Lease liabilities	25 860 188	-	-	71 945 712		-
Other liabilities**	58 977 496	5 009 488	-	53 968 008		-
Total financial liabilities	**3 603 715 066**	**1 846 887 575**	**581 040 496**	**1 075 720 169**	**73 499 721**	**-**
Net liquidity gap	**296 865 101**	**(330 496 363)**	**(367 703 822)**	**(482 467 956)**	**1 067 596 308**	**252 646 894**
2021						
Financial assets						
Cash balances with Central bank	312 729 257	312 729 257	-	-	-	-
Cash and short term funds	309 453 481	309 453 481	-	-	-	-
Placements with other banks	54 884 633	54 884 633	-	4 769 439	-	-
Investments securities	1 039 639 708	48 009 476	25 871 652	484 374 902	278 928 651	202 455 027
Other receivables*	35 836 462	-	35 241 602	-	594 860	-
Loans and advances	1 001 357 882	506 362 001	43 840 293	57 888 376	301 712 499	91 554 714
Total financial assets	2 753 901 423	1 231 438 848	104 953 547	547 032 717	581 236 010	294 009 741
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	201 176 385	-	12 850 000	38 550 000	127 078 548	22 697 837
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	-	-

34. Financial risk management review (continued)

34.2.2 Liquidity risk management (continued)

Exposure to liquidity risk (continued)

2021

	Gross carrying amount	up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
	K	K	K	K	K	K
Lease liabilities	36 535 813	36 535 812	-	-	-	36 535 813
Other liabilities**	58 156 275	58 156 275	5 107 712	8 130 434	44 918 129	-
Total financial liabilities	2 503 793 776	2 302 617 390	1 574 310 275	195 124 054	675 125 798	59 233 650
Net liquidity gap	250 107 647	(1 071 178 542)	(1 469 356 728)	351 908 663	(93 889 788)	234 776 091

34.2.3 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.

2022

	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	424 937 186	424 937 186	-	-	-	-
Cash and short term funds	160 081 753	160 081 753	-	-	-	-
Placements with other banks	107 060 317	-	-	- -	-	-
Investment securities	1 458 521 130	-	-	631 018 894	529 399 359	240 147 286
Derivative financial assets	34 414 712	-	-	34 414 712	-	-
Amounts due to related parties	365 139	365 139	-	-	-	-
Loans and advances to customers	1 648 335 309	-	1 648 335 309	-	-	-
Other receivables*	66 864 621	66 864 621	-	-	-	-
Total financial assets	3 900 580 167	652 248 699	1 648 335 309	665 433 606	529 399 359	240 147 286

34. Financial risk management review (continued)

34.2.3 Market risk (continued)

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

2022

		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 liabilities	K	K	K	K	K	K
Deposits from customers	3 206 086 982	1 318 862 907	-	904 440 035	-	-
Long term borrowings	191 518 763		55 981 820			135 536 943
Amounts payable to other banks	78 638 331	-	-	78 638 331	-	-
Derivative financial liabilities	36 220 000	-	-	36 220 000	-	-
Amounts due to related parties	6 413 306	6 413 306	-	-	-	-
Lease liabilities	25 860 188	-	-	-	-	25 860 188
Other liabilities**	58 977 496	58 977 496	-	-	-	-
Total financial liabilities	3 603 715 066	1 384 253 709	-	1 019 298 366	-	161 397 131
GAP	296 865 101	(732 005 010)	1 648 335 309	(353 864 760)	529 399 359	78 750 155

** Excludes prepayments*

*** Excludes statutory obligations*

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.

2021

	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	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	489 144 341	481 383 679

34. Financial risk management review (continued)

34.2.3 Market risk (continued)

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

2021

		Zero rate instruments	Floating rate instruments	Fixed rate instrument: Less than three months		Between one and five years
Financial liabilities	K	K	K	K	K	K
Deposits from customers	2 186 223 591	1 144 496 594	-	146 783 689	503 129 121	-
Long term borrowings	201 176 385		74 151 248			127 025 137
Amount 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	2 503 793 776	1 204 312 800	74 151 248	166 825 470	503 129 121	163 560 950
GAP	225 320 647	(546 323 460)	927 206 634	(42 829 148)	(13 984 780)	317 822 729

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*

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):

2022	USD	GBP	ZAR	Euro	Others	Total
Monetary assets	1 982 284 976	2 049 312	17 834 530	21 287 605	3 489 069	**2 026 945 492**
Monetary liabilities	(1 973 781 036)	(1 570 974)	(17 814 884)	(21 169 643)	(2 415 810)	**(2 016 752 346)**
Net position	**8 503 940**	**478 339**	**19 646**	**117 962**	**1 073 259**	**10 193 146**
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)	(2 112 521)	(610 841)	**(1 389 020 871)**
Net position	(9 550 082)	277 540	61 341	19 134 502	-	9 923 301

34. Financial risk management review (continued)

34.2.3 Market risk (continued)

ii) Currency risk (continued)

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 2022 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
2022	K	K	K	K
USD	850 394	850 394	(850 394)	(850 394)
GBP	47 834	47 834	(47 834)	(47 834)
ZAR	1 965	1 965	(1 965)	(1 965)
Euro	11 796	11 796	(11 796)	(11 796)
2021				
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)

34 Financial risk management and review (continued)

34.2.3 Market risk (continued)

Currency risk (continued)

The following significant exchange rates applied during the year:

	2022		2021	
Currency	Average rate	Reporting date	Average rate	Reporting date
USD	16.91	18.11	19.84	16.71
ZAR	1.09	1.07	1.35	1.05
Euro	17.85	19.30	23.65	18.91
GBP	20.96	21.77	27.47	22.57

34.2.4 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.

		2022	2021
ii)	**Computation of regulatory capital position**		
1	**Primary (Tier 1) capital**	K	K
(a)	Paid-up common shares	104 000 000	104 000 000
(b)	Share Premium	11 156 599	11 156 599
(c)	Advance capital contribution	-	-
(d)	Retained earnings	279 127 759	165 170 878
(e)	Credit Risk reserve	7 101 622	6 882 103
(f)	Statutory reserve	-	-
(g)	Minority interest (common shareholders' equity)	-	-
(h)	*Sub-total A (items a to g)*	401 385 980	287 209 580

		2022	2021
34	**Financial risk management and review (continued)**		
34.2.4	**Capital management (continued)**	K	K
ii)	**Computation of regulatory capital position (continued)**		
	Other adjustments		
(p)	**Total primary capital [(h – (n to o)]**	**401 385 980**	287 209 580
II	**Secondary (Tier 2) 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)**	**401 385 980**	287 209 580
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)**	**297 385 980**	183 209 580

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.

34.2.5 Financial assets and financial liabilities

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

	Totals	Other carried at amortised cost	Total carrying amounts
31 December 2022	K	K	K
Cash balances with central Bank	424 937 186	-	424 937 186
Cash and cash equivalents	160 081 753	-	160 081 753
Investment securities	-	1 431 458 620	1 431 458 620
Placements with other banks	-	107 048 133	107 048 133
Derivative financial assets	34 414 712	-	34 414 712
Loans and advances to customers	1 633 528 380	-	1 633 528 380
Other receivables	66 864 621	-	66 864 621
Total financial assets	2 319 826 653	1 538 506 753	3 858 333 406

34. **Financial risk management and review (continued)**

34.2.5 **Financial assets and financial liabilities (continued)**

Financial liabilities

		Other assets carried at amortised cost	Total carrying amounts
31 December 2022	-	K	K
Deposits from customers		3 206 086 982	3 206 086 982
Amounts payable to other banks		78 638 331	78 638 331
Derivative financial liabilities		-	36 220 000
Long term borrowings		191 518 763	191 518 763
Amounts due to related parties		6 413 306	6 413 306
Other liabilities		63 986 984	63 986 984
Total		3 546 644 366	3 582 864 366
31 December 2021			
Cash balances with central Bank	312 729 257	-	312 729 257
Cash and cash equivalents	309 453 481	-	309 453 481
Investment securities	-	1 014 918 884	1 014 918 884
Placements with other	-	54 848 317	54 848 317
Loans and advances to	1 001 357 882	-	1 001 357 882
Other receivables	35 836 462	-	35 836 462
Total financial assets	1 659 377 082	1 069 767 202	2 729 144 283
Financial liabilities			
Deposits from customers		2 186 223 591	2 186 223 591
Amount payable to other		20 041 781	20 041 781
Amounts due to related parties		201 176 385	201 176 385
Lease Liability		1 659 931	1 659 931
Other liabilities		58 156 275	58 156 275
Total		2 467 257 963	2 467 257 963

35. **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.

35 **Fair values of financial instruments (continued)**

i. **Valuation models (continued)**

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.

	Level 1	Level 2	Level 3	Total
2022	K	K	K	K
Financial Assets				
Derivative financial assets	-	34 414 712	-	34 414 712
	-	**34 414 712**	-	**34 414 712**
2022	K	K	K	K
Financial liabilities				
Derivative financial liabilities	-	36 220 000	-	36 220 000
	-	**36 220 000**	-	**36 220 000**

There were no financial instruments measured at fair value in 2021

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 2022 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.

36. **Adoption of New and Revised Standards**

36.1 **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 2022.

36.2 **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.

36. Adoption of New and Revised Standards (continued)

36.2 New and revised Standards and Interpretations that are effective and adopted in the current year (Continued)

Number	*Effective Date*	*Summary*
Amendment to IFRS 3,'Business combinations' Asset or liability in a business combination clarity.	*Annual periods beginning on or after 1 January 2022*	*"The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination.* *In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework.* *The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.* *The amendments to the standard has been applied and does not have a material impact on the bank as the Bank has no Business conmbinations that fall within the requirements of the standard."*
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	*Annual periods beginning on or after 1 January 2022*	*"The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.* *The amendments to the standard has been applied and does not have a material impact on the Bank.*
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	*Annual periods beginning on or after 1 January 2022*	*"The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.* *The amendments do not have any impact on the Bank.*

36. Adoption of New and Revised Standards (continued)

36.2 New and revised Standards and Interpretations that are effective and adopted in the current year (Continued)

Number	*Effective Date*	*Summary*
Annual improvements cycle 2018 -2020	*Annual periods beginning on or after 1 January 2022*	*"These amendments include minor changes to:* *• IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS* *• IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.* *• IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.* *• IAS 41, 'Agriculture' has been amended to align the requirements for measuring fair value with those of IFRS 13. The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value. "*
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non current	*Annual periods beginning on or after 1 January 2022*	*The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).*

36.3 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:

Number	*Effective Date*	*Summary*
Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	*Annual periods beginning on or after 1 January 2023*	*The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment.* *The amendments are not likely to have a material impact on the Bank.*

36. Adoption of New and Revised Standards (continued)

Number	*Effective Date*	*Summary*
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	*Annual periods beginning on or after 1 January 2023*	*The amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.* *The amendments are not likely to have a material impact on the Bank.*
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	*Annual periods beginning on or after 1 January 2023*	*The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.* *The amendments are not likely to have a material impact on the Bank.*

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.