FIRST CAPITAL BANK LIMITED

REPORT AND ANNUAL FINANCIAL STATEMENT

For The Year Ended 31 December 2023

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FIRST CAPITAL BANK LIMITED

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2023.

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

Share capital and Beneficial owner

The Bank paid up primary capital remained unchanged from the previous year at K104,000,000 ordinary shares and the Share premium of K11,156,599.

The Bank's shareholding and beneficial ownership is presented as follows:

	2023	2022
FMB Capital Holdings Plc	**49%**	49%
Afility Investments TS Limited	**25%**	25%
Sakky Investments Limited	**19%**	19%
Kark Investments Limited	**7%**	7%

The Bank has no natural person that can be deemed as beneficial owner.

Operating results

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

	2023 K	2022 K
Net interest income	**387,493,248**	341,101,727
Profit before income tax	**253,933,839**	241,958,292
Income tax expense	**(75,044,102)**	(72,969,392)
Profit for the year	**178,889,737**	168,988,900

Dividend

The Bank paid dividend of **K86,032,689** (2022:K54,812,500) 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 (Resigned 31 October 2023)
Ms. Debbie Nonde	Non-Executive Director
Mr Mahendra Gursahani	Non-Executive Director
Mr. Edward Marks	Executive Director/CEO (Resigned 31 August 2023)
Mr. Andre Potgieter	Executive Director/Interim CEO (Appointed 31 August 2023)

Interest Register Information

During the year, the Banks' officers (a director, company secretary and chief executive officer) made declarations of interest in the Bank's transactions and business. Refer to Note: 23.

The declaration of interest register, as required by the Companies Act No. 10 of 2017, containing particulars of the above stated interests declared, is available for inspection at the Company's registered office in compliance to Section 278 and 279 of the Act.

Related party transactions

Related party transactions are disclosed in Note 23 to the financial statements.

Directors emoluments

Director emoluments and interest are disclosed in Note 23 to the financial statements.

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	163	July	166
February	168	August	164
March	170	September	168
April	170	October	177
May	167	November	187
June	167	December	189

The total remuneration of employees during the year amounted to **K93,749,846** (2022: K84,565,641).

Property and equipment and intangible assets

The Bank acquired assets with a value of **K94,763,940** during the year (2022: K60,582,058). 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 (2022:Nil), additionally the Bank did not develop any products (2022:Nil).

Gifts and donations

The Bank made donations during the year amounting to **K189,830** (2022: K195,142) after approval from the Board of Directors.

Risk management and control

In its normal operations, the Bank is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. These are described and explained under risk management in note 32 to the financial statements.

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

Prohibited borrowings or lending

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

Corporate governance

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

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

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

The financial statements set out on pages 10 to 83 have been approved by the Directors.

Subsequent events

On 2 February 2024, the bank obtained an Occupancy Certificate from Lusaka City Council after completion of the building project for the new head office. Subsequently the bank will be able to capitalise the Capital work-in-progress under PPE once the formalisation is concluded. The official opening is expected to be in 2024 and the bank is expected to fully operate from the new building.

On 4 March 2024, Mr Ackim Chalwe was appointed as a member of the board of directors

Auditors

The Bank's Auditors, EY Zambia, has indicated their willingness to continue in office and a resolution for their appointment will be proposed at the next Annual General Meeting.

By order of the Board.

Director

Date: 28 March 2024

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 Bank as at the end of the financial year and of its financial performance. It also requires the Directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank. The Directors are further required to ensure the Bank adheres to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the 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 10 to 83 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 Bank 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

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. 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 perform various financial transactions electronically using 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, PIN resets, view account balances and account-to-account transfers.

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 itself on 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 TAP on the go which is a QR based acquiring solution, this is a scan and pay mode of settling payment obligations using a smart phone. 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 conventional use of the physical terminals. The target market will be the Small and Medium Enterprises.

e) Point of sale service

First Capital Bank offers point of sale service to the public. In the bank's 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.

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.

g) First Power Mobile App

First Capital Bank offers Salary advance via a mobile App both to its staff and individual customers. This mobile app based tool enables corporate customers to avail the salary advance to their staff members via mobile app without any form filling.

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EY Zambia
EY Place
Plot No. 354437
P O Box 35483
Alick Nkhata Road
Lusaka 10101, Zambia

Tel: +260 211 378300/1/3/4
Fax: +260 211 378302
www.ey.com
Email: info@zm.ey.com

Independent Auditor's Report

To the Members of First Capital Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Capital Bank Limited ('the Bank') set out on pages 10 to 83 , which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of First Capital Bank Limited as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Banking and Financial Services Act of Zambia and the requirements of the Zambia 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 Bank in accordance with the International Code of Ethics for Professional Accountants and other independence requirements applicable to performing in Zambia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits of First Capital Bank Zambia Limited. The IESBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). 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 judgment, were of most significance in our audit of the financial statements of the current period. We have determined the matter described below to be the key audit matter to be communicated in our report. This matter was 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 this matter.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in our audit
Estimation of Expected Credit Losses - (Impairment of loans and advances and investments securities)	
The disclosures associated with the key audit matter are set out in the financial statements in the following notes: Note 2.7 (ii) – Measurement of expected credit loss allowance; Note 3.1 Critical accounting estimates and judgements (measurement of expected credit loss allowance; Note 13- Net impairment on financial instruments; Note 14 – Loans and advances to customers and Note 32 – Financial risk management.	
As at 31st December 2023, the bank's gross loans and advances as disclosed on note 14 amounted to K2,668 million and the related Expected Credit Losses (ECL) as disclosed on note 13 amounted to K33 million. The bank's gross investment securities amounted to K1,708 million and the related ECL amounted to K21 million.	Our audit procedures included the following: Tested the design and implementation and operating effectiveness of key controls over the approval of credit origination of loans and advances. With the support of our EY specialist we performed the following:

The bank uses an Expected Credit Loss (ECL) model to determine allowance for impairment loss for loans and advances to customers and investment securities. The ECL is estimated by Directors and requires significant judgment to determine the impairment allowance as per the requirements of IFRS 9 - Financial Instruments. Key areas of judgement include:	We performed the review and evaluation of the model documentation including the design, performance, monitoring and governance of the models so as to ensure they are in line with IFRS 9. We evaluated the assumptions, inputs and methodology used in the determination of key ECL variables such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) against the requirements of IFRS 9.
- Interpretation of the requirements to determine impairment under IFRS 9 which is reflected in the bank's expected credit loss models.	We , assessed, evaluated and challenged management on the inputs in the models with respect to the macroeconomic environment as well as inclusion and assessment of forward-looking information embedded in the models.
- The identification of exposures with significant deterioration in credit quality and allocation of assets to stage 1,2, or 3 on a timely basis using criteria in accordance with IFRS 9. This includes allocation of appropriate credit grade ratings to customers.	We assessed the appropriateness of transfers between stages by testing on a sample basis whether the financial assets transferred from stage 1 to stage 2 or stage 3 respectively, met the Bank's definition of significant increase in credit risk or credit impaired.
- The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD")	- We examined a sample of exposures and performed procedures to evaluate the expected credit loss calculation for exposures by assessing the work-out strategies used on the cashflows and collaterals.
- Individually assessed ECL allowances - Management of individual provisions including the assessment of probability weighted recovery scenarios, exit strategies, collateral valuations and time to collect.	- We examined a sample of exposures for completeness by checking that all exposures were included in the ECL model with reference to minutes of loan committee meetings and other supporting documentation.
- Assumptions and data inputs used in the expected credit loss model such as the expected future cash flows and forward-looking macroeconomic factors (Such as foreign exchange rates, inflation, and gross domestic product (GDP)).	- We assessed the data inputs such as macroeconomic indicators used in the model and compared them to the independent statistical analysis for reasonableness.
- Appropriateness, completeness, and valuation of risk event overlays to capture risks not identified by the credit impairment models, including the consideration of the risk of management override as well as the business rationale applied.	- We challenged and reviewed support documentation relating to overlays posted by management.
- Appropriateness of the overall change in ECL in respect to the above risks of which the bank has shown significant releases in the overall ECL in the current year and assessment to this to the macroeconomic factors and sovereign risk.	- Assessed the adequacy of the disclosures made in the financial statements against the requirements from IFRS 9 Financial Instruments.
- Appropriateness and completeness of the banks risk management financial statement disclosures with regards to ECL.	

Other Matter

The financial statements of the Bank for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 March 2023.

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the pages 1-5 of the document titled "First Capital Bank Limited Annual Financial Statements for the year ended 31 December 2023", which includes the Directors report, the statement of directors responsibility for the financial statements and the statement of financial inclusion as required by the Companies Act of Zambia, 2017 and all other information included in the Annual 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 an audit opinion or any form of assurance 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 in the audit, or otherwise appears to be materially misstated.

Responsibilities of the Directors for Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, Banking and Financial Services Act of Zambia , and the requirements of the Companies Act of Zambia 2017 , and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control 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 auditor's report. However, future events or conditions may cause the Bank to cease to
- 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.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the entity to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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 to 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 year 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 consequence 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 of Zambia, 2017.

As required by Section 259(3) Companies Act of Zambia, 2017, we report to you that:

(a) we have no relationship, interest, or debt in the Bank; and

(b) based on our audit, we did not come across any serious breaches of corporate governance principles or practices contained in Part VII, sections 82 to 122 of the Companies Act of Zambia, 2017 by the directors.

Banking and Financial Services Act of Zambia

In accordance with Section 97(2) of the Banking and Financial Services Act of Zambia,2017 we consider and report that:

- The Bank made available all necessary information to enable us to comply with the requirements of this Act.
- The Bank has complied with the provisions, regulations, rules, and regulatory statements specified in or under this Act; and
- There were no transactions or events that came to our attention that affect the wellbeing of the Bank that in our opinion is not satisfactory and require rectification including:

a.) transactions that are not within the powers of the Bank or which is contrary to this Act; or

b.) Any non-performing loan that is outstanding, has been restructured or the terms of the repayment have been extended, whose principal amount exceeds five percent or more of the regulatory capital of the Bank.

EY Zambia

EY Zambia
Chartered Accountants

The engagement partner on the audit resulting in this independent auditors' report is;

Mark Libakeni
Partner – Practicing certificate number: AUD/F000397

28 March 2024
Lusaka

FIRST CAPITAL BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2023

	Notes	2023 K	2022 K
Effective interest income	4	599,446,760	483,056,034
Effective interest expense	4	(211,953,512)	(141,954,307)
Net interest income		387,493,248	341,101,727
Commission and fee income	5	35,311,736	33,258,177
Commission and Fee expense	5	(18,015,380)	(14,199,947)
Net commission and fee income		17,296,356	19,058,230
Other operating income	6	91,103,831	79,958,580
Total operating income		495,893,435	440,118,537
Personnel expenses	7	(93,749,846)	(84,565,641)
Operating expenses	8	(115,535,791)	(84,913,350)
Expected credit losses	9	(15,377,699)	(11,812,711)
Depreciation of right of use assets	18	(7,307,943)	(6,719,847)
Amortisation of intangible assets	16	(2,439,404)	(2,795,173)
Depreciation on property and equipment	17	(4,585,551)	(4,081,314)
Finance cost on leased buildings	18	(2,963,362)	(3,272,209)
Total operating expenses		(241,959,596)	(198,160,245)
Profit before income tax		253,933,839	241,958,292
Income tax expense	10	(75,044,102)	(72,969,392)
Profit and total comprehensive income for the year		178,889,737	168,988,900

There were no items of other comprehensive income for the year (2022: Nil).

The notes on pages 14 to 83 form an intergral part of these financial statements.

FIRST CAPITAL BANK LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

Assets	Notes	2023 K	2022 K
Cash and balances with Bank of Zambia	11	**1,078,789,595**	424,838,505
Balances with other banks	12	**499,954,513**	267,127,677
Derivative financial assets	19	**101,550,000**	34,414,712
Investment securities	13	**1,686,951,078**	1,431,458,620
Loans and advances to customers	14	**2,634,886,714**	1,633,528,380
Other receivables	15	**116,389,451**	71,459,886
Amounts due from related parties	23	**223,498**	365,139
Current tax asset	10	**17,578,875**	6,160,751
Deferred tax asset	10	**29,634,088**	26,751,130
Intangible assets	16	**12,616,462**	5,626,088
Property and equipment	17	**169,551,153**	89,715,665
Right of use assets	18	**13,890,473**	18,663,981
Total assets		6,362,015,901	4,010,110,534
Liabilities			
Amounts payable to other banks	20	**408,853,811**	78,638,331
Deposits from customers	21	**5,192,229,071**	3,206,086,982
Amounts due to related parties	23	**2,958,685**	6,413,306
Derivative financial liabilities	19	**101,622,540**	36,220,000
Lease liabilities	18	**24,903,629**	25,860,188
Other liabilities	24	**63,293,731**	63,986,984
Long term borrowings	22	**73,911,405**	191,518,763
Total liabilities		5,867,772,873	3,608,724,554
Equity			
Share capital	26	**104,000,000**	104,000,000
Share premium	26	**11,156,599**	11,156,599
Statutory reserves	27	**52,000,000**	52,000,000
General banking reserve	28	**7,101,622**	7,101,622
Retained earnings		**319,984,807**	227,127,759
Total equity		494,243,028	401,385,980
Total liabilities and equity		6,362,015,901	4,010,110,534

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 4. The financial statements on pages 10 to 83 were approved for issue by the Board of Directors on **28 March 2024** and were signed on its behalf by:

Director

Director

Director

The notes on pages 14 to 83 form an intergral part of these financial statements.

FIRST CAPITAL BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2023

	Note	Share capital K	Share premium K	Statutory reserve K	General reserve K	Retained earnings K	Total K
At 1 January 2022		104,000,000	11,156,599	52,000,000	6,882,103	113,170,878	287,209,580
Total comprehensive income for the year		-	-	-	-	168,988,900	168,988,900
* Statutory reserves transfer	27	-	-	-	-	-	-
General reserves transfer	28	-	-	-	219,519	(219,519)	-
Dividend Paid		-	-		-	(54,812,500)	(54,812,500)
At 31 December 2022		104,000,000	11,156,599	52,000,000	7,101,622	227,127,759	401,385,980
At 1 January 2023		**104,000,000**	**11,156,599**	**52,000,000**	**7,101,622**	**227,127,759**	**401,385,980**
Total comprehensive income for the year		-	-	-	-	**178,889,737**	**178,889,737**
Statutory reserves transfer	27	-	-	-	-	-	-
General reserves transfer	28	-	-	-	-	-	-
Dividend Paid		-	-	-	-	**(86,032,689)**	**(86,032,689)**
Balance at 31 December 2023		**104,000,000**	**11,156,599**	**52,000,000**	**7,101,622**	**319,984,807**	**494,243,028**

* This amount represents an appropriation from retained earnings relating dividends in line with SI No. 182. This is a new disclosure in the current year that was not present in the prior period, which management has voluntarily made.

The notes on pages 14 to 83 form an intergral part of these financial statements.

FIRST CAPITAL BANK LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2023

	NOTES	2023	2022
Cash flows from operating activities		K	K
Profit before tax		**253,933,839**	241,958,292
Adjustments for:			
Impairment charge	9	**15,377,699**	11,812,711
Amortisation of intangible assets	16	**2,439,404**	2,795,173
Profit on disposal of fixed assets		-	(114,000)
Depreciation on property and equipment	17	**4,585,551**	4,081,314
Depreciation for right of use assets	18	**7,307,943**	6,719,847
Exchange losses (gains) on long term loans	22	**6,352,294**	5,397,037
Finance cost on lease liabilities	18	**2,963,362**	3,272,209
Exchange losses (gains) on lease liabilities	18	**7,009,012**	2,313,899
Modification losses (gains) on lease liabilities	18	**(1,438,107)**	571,003
Write-off for property and equipment	17	-	17,827
Write-off for intangibles	16	**913,123**	-
Effects of foreign exchange rate changes		-	744,074
Cashflows from operating activities before changes in working capital		**299,444,119**	279,569,386
Changes in working capital:			
Increase in other receivables	15	**(45,642,096)**	(35,623,424)
Increase in loans and advances to customers	14	**(1,019,491,206)**	(642,614,933)
Increase in deposits from customers	21	**1,986,142,089**	1,019,863,391
Increase in financial derivatives asset	19	**(67,135,288)**	(34,414,712)
Increase in financial derivatives liability	19	**65,402,540**	36,220,000
(Decrease)/Increase in other liabilities	24	**(693,253)**	6,851,018
Increase in amounts payable to other banks	20	**330,215,480**	58,596,550
Increase/(Decrease) in amounts from related parties	23	**141,641**	(365,139)
(Decrease)/Increase in amounts due to related parties	23	**(3,454,621)**	4,753,375
Cash generated from operating activities		**1,544,929,405**	692,835,512
Withholding tax paid	10	**(34,378,225)**	(31,230,634)
Income tax paid	10	**(54,966,938)**	(57,023,091)
Net cash generated from operating activities		**1,455,584,242**	604,581,787
Cash flows from investing activities			
Purchase of property and equipment	17	**(84,421,039)**	(59,648,712)
Proceeds from sale of fixed assets		-	114,000
Acquisition of intangible assets	16	**(10,342,901)**	(933,346)
Purchase of investment securities	13	**(958,371,260)**	(887,943,317)
Maturities of investment securities	13	**708,726,092**	469,061,895
Net cash used in investing activities		**(344,409,108)**	(479,349,480)
Cash flows from financing activities			
Lease principal repayments	18	**(10,229,519)**	(7,466,321)
Finance cost on lease liabilities	18	**(2,963,362)**	(3,272,209)
Long term loan repayments	22	**(136,030,777)**	(67,240,829)
Proceeds from long term loan	22	**12,071,125**	23,315,511
Dividends paid		**(86,032,689)**	(54,812,500)
Net cash flows used in financing activities		**(223,185,222)**	(109,476,348)
Net increase in cash and cash equivalents		**887,989,912**	15,755,959
Cash and cash equivalents at beginning of year		**692,079,256**	677,067,371
Effects of foreign exchange rate changes		**(681,505)**	(744,074)
Cash and cash equivalents at end of the year	12.1	**1,579,387,664**	692,079,256
Additional information from operational cashflows from interest			
Interest paid		**211,953,512**	141,954,307
Interest received		**599,446,760**	483,056,034

The notes on pages 14 to 83 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. Material 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). Additionally, the financial statements comply with the requirements of the Banking and Financial Services Act and the Zambian Company's Act of 2017.

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 and presentation currency.All amounts have been rounded to the nearest Zambian kwacha unless otherwise stated.

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

2. Material accounting policies (continued)

2.2 Basis of preparation and presentation of financial statements (contunued)

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.

2.3 Transaction and balances

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. 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.

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.

2. Material accounting policies (continued)

2.4 Interest income and interest expense (continued)

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.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate Banking service	The Bank provides Banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place

2. Material 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 Financial assets and liabilities

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

(a) Financial assets

(i) Classification and subsquent measurement of financial instruments

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL).

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

* the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
* the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI

Debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

* the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
* the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI).

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. Material accounting policies (continued)

2.7 Financial assets and liabilities (continued)

(a) Financial assets (continued)

(i) Classification and subsquent measurement of financial instruments

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

* the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

* how the performance of the portfolio is evaluated and reported to the Banks Management;

* the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
* how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
* the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts and unsecured personal lending.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are Solely Payments Of Principal and Interest (SPPI test).

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

(i) contingent events that would change the amount and timing of cash flows;

(ii) leverage features;

(iii) prepayment and extension terms;

(iv) terms that limit the Bank's claim to cash flows from specified assets; and

(v) features that modify consideration of the time value of money

2. Material accounting policies (continued)

2.7 Financial assets and liabilities (continued)

(a) Financial assets (continued)

(i) Classification and subsquent measurement of financial instruments (continued)

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income

Other receivables

These are assets that are short term in nature and arise in the normal course of business of the Bank. These instruments are measured at amortised cost as the characteristics of the cash flows from these instruments. The Bank has assessed the impairment of these instruments using the loss rate model that takes into account historical experience/losses incurred and forward looking information. The impairment of these balances has been deemed to be immaterial in the current year.

Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with the Bank of Zambia and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions. Cash and balances with other banks are carried at amortised cost in the stâtement of financial position.

Related party transactions (due and receivable from related party)

Related party transactions are transfers of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged. They include commitments to do something if a particular event occurs (or does not occur) in the future and executory contracts (recognised or unrecognised). As per IAS 37, executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

Loans and advances

Loans and advances include term loans, scheme loans, overdrafts and mortgages and other such similar products. Loans and advances have a contractual tenor over which the Group recovers its contractual principle and interest. The cash flow characteristics meet the definition of "SPPI". The Bank does not provide loans and advances with an intention to sell to other third parties at a period before these facilities mature and as such, are held to collect.

Investment securities

The Bank invests in treasury bills and bonds. These instruments are measured at amortised cost and held in the business model, "Held to Collect. Cash flows from these instruments are mainly the contractual principle and interest. These cash flow characteristics pass the SPPI test. The Bank does not hold these instruments for the purposes of selling in the secondary market but rather holds them to maturity.

Trading assets

Trading assets are those assets that the Bank acquires principally for the purpose of selling or repurchasing in the near team, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

2. Material accounting policies (continued)

2.7 Financial assets and liabilities (continued)

(a) Financial assets (continued)

(i) Classification and subsquent measurement of financial instruments (continued)

Derivative assets and liabilities

Derivatives held for risk management purposes include all derivatives assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the statement of financial position. All changes in fair value are recognised immediately in profit or loss

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

* Stage 1: Credit risk has not increased significantly since initial recognition – recognise 12 months ECL, and recognise interest on a gross basis

* Stage 2: Credit risk has increased significantly since initial recognition – recognise Lifetime ECL, and recognise interest on a gross basis. A rebuttable presumption exists which states that the latest point of entry to Stage 2 is at 30 Days past due (DPD).
* Stage 3: Financial asset is credit impaired (in default). 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

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.

2. Material accounting policies (continued)

2.7 Financial assets and liabilities (continued)

(ii) Expected credit losses on financial assets (continued)

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 IFRS 9 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).

2. Material accounting policies (continued)

2.7 Financial assets and liabilities (continued)

(ii) Expected credit losses on financial assets (continued)

Modification of financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Bank performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors.When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

* If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
* Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
* Significant change in the interest rate
* Change in the currency the loan is denominated in.
* Significant extension of the financial asset's term when the borrower is not in financial difficulty.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of negotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when the Bank transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank may enter into transactions whereby it transfers assets retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

2. Material accounting policies (continued)

2.7 Financial assets and liabilities (continued)

Write offs of financial assets

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are considered as other income.

Financial liability

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

The 'amortised cost' of a financial liability is the amount at which the financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

Financial liabilities that are not classified at fair value through profit or loss are measured at amortised cost using the effective interest rate method. Financial liabilities measured at amortised cost are deposits from banks and customers.

The Bank classifies financial liabilities as held for trading when they have issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in other operating income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions that have been acquired principally for the purpose of selling or repurchasing in the near term. As at the reporting date the Bank did not have financial liabilities measured at fair value.

IFRS 9 requires financial instruments to be classified based on a combination of the entity's business model for managing the instruments' contractual cash flow characteristics.

Financial liabilities	Amortized cost	Other liabilities
		Customer deposits
		Balance due to other banks
		Long term borrowings

Modification of financial liabilities

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognised immediately in profit or loss. For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

2. Material accounting policies (continued)

2.7 Financial assets and liabilities (continued)

Derecognition of other than for substantial modification - Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

* the amount of the loss allowance and :
* the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

Deposits from customers

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

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

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.

2.8 Property and equipment

Recognition and measurement

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

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

2. Material accounting policies (continued)

2.8 Property and equipment (continued)

Subsequent costs

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

Depreciation

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

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

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

2.9 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.

2.10 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. Material accounting policies (continued)

2.11 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

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 their amounts used for taxation purposes.

Deferred tax is not recognised for:

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

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

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

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

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

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

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

2.12 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.

2. Material accounting policies (continued)

2.12 Leases (continued)

The Bank as a lessee(continued)

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

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

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

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

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

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

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

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

2 Material accounting policies (continued)

2.12 Leases (continued)

Right of Use Asset

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying

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.

2.13 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.14 Employee benefits

The Bank operates a defined contribution plan. A defined contribution plan is a plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal and constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's contributions to the defined contribution scheme are charged to the statement of profit or loss in the year to which they relate.

Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term employee benefits 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.

2.15 Capital and reserves

Share capital represents ordinary shares issued to the Bank's shareholders in exchange for funds invested in the Bank. Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

2 Material accounting policies (continued)

2.16 Statutory reserves

The statutory reserve is established in accordance with section 69 of the Banking and Financial Services Act of Zambia

2.17 General banking reserves

The general reserves represent the excess of impairment provisions determined in accordance with the Bank of Zambia prudential regulations over the impairment provisions recognised in accordance with International Financial Reporting Standards (IFRS).

2.18 Retained earnings

Retained earnings are carried forward, recognised income, net of expenses of the Bank, plus current period profit attributable to shareholders, less distributions to shareholders. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

2.19 Comparatives

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

3. Critical accouting estimates and judgements

In preparing the financial statements the Bank makes estimates and makes assumptions that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances..

Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

3.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.7, which also sets out key sensitivities of the ECL to changes in these elements.

ECL measurement period

The ECL measurement period at a minimum, is equal to the 12-month ECL of the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition, including where a default has occurred.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

* Determining criteria for significant increase in credit risk;
* Choosing appropriate models and assumptions for the measurement of ECL;
* Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
* Establishing groups of financial assets for the purposes of measuring ECL.

3. Critical accouting estimates and judgements (continued)

3.1 Measurement of the expected credit loss allowance (continued)

Significant increase in credit risk (SICR) and low credit risk

The assessment of significant increase in credit risk requires significant judgment. The Bank's process to assess changes in credit risk is based on the use 'backstop' indicators. Instruments which are more than 30 days past due may be credit-impaired. There is a rebuttable presumption that the credit risk has increased significantly if contractual payments are more than 30 days past due; this presumption is applied unless the Bank has reasonable and supportable information demonstrating that the credit risk has not increased significantly since initial recognition.

The following are considered as exception:

(a) Outstanding obligation is a result of an amount being disputed between the bank and obligor where the dispute is not more than 90 days.

(b) Outstanding obligation is an insignificant amount compared to the total amount due. Any amount not more than 10% of the total amount due is considered insignificant. Only applicable where there is no significant increase in credit risk and analysed on a case by case basis.

The assessment is generally performed at the instrument level and it is performed at least on quarterly basis. If any of the factors above indicate that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2. The assessments for significant increases in credit risk since initial recognition and credit-impairment are performed independently at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1 after 90 days.

Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired after 90 days. An asset will not move back from stage 3 to stage 1 until after a minimum of 180 days, if it is no longer considered to be credit impaired.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfil their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment.

Forward-looking expectations

Forward looking economic expectations are included in the ECL by adjusting the probability of default (PD) and LGD. Adjustments are made based on the bank's macro-economic outlook, using models that correlate these parameters with macro-economic variables. The process of including forward-looking variables is as listed below:

* Macroeconomic outlooks take into account various variables such as government spending, tax revenue and current account balances;

* Probabilities are assigned to each of the best, base and worst cases based on primary macroeconomic drivers.

* The forward-looking economic expectations are updated on an annual basis or more regularly when deemed appropriate.

3. Critical accouting estimates and judgements (continued)

3.1 Measurement of the expected credit loss allowance (continued)

Lifetime LGD work out

Increased lifetime period over which subsequent cures and re-defaults are considered to result in higher credit impairments for credit- impaired financial assets. The impact of the lifetime loss given default (LGD) workout, being an increase in the lifetime period over which subsequent cures and re-defaults are considered.

Default

The Bank's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, as occurring at the earlier of:

* Where, in the bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
* • When the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in exce of the current limit).

The Bank has not rebutted IFRS 9 90 days past due rebuttable presumption.

3.2 Determination of incremental borrowing rate used for discounting lease liabilities

The incremental borrowing rate is defined by IFRS 16 as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.

The Incremental borrowing rate used for discounting the future lease payments to present value was determined by using the BOZ policy rate with the outstanding lease terms adjusted for the Bank's risk premium. Hence, the bank applied a single discount rate to a portfolio of leases with reasonably similar characteristics but matched with their relevant lease terms

For rentals quoted in kwacha the incremental borrowing rate is determined as BOZ policy rate plus a credit risk premium of ten (10) per cent whereas for lease payments quoted in dollar, the incremental borrowing rate is determined as SOFR rate plus credit risk premium of 3.5%.

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 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.

3.5 Provisions and other contingent liabilities

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

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in statement of profit or loss.

4. Net interest income

	2023	2022
	K	K
Interest income using the effective interest rate method		
Arising from:		
Investment securities	**329,267,592**	287,893,927
Loans and advances to customers	**230,918,327**	168,833,907
Credit related fees	**24,367,408**	23,281,377
Placement with other banks	**14,893,433**	3,046,823
	599,446,760	483,056,034
Interest expense using the effective interest rate method		
Arising on:		
Deposits from customers	**(188,420,481)**	(123,263,563)
Long term borrowings	**(12,671,084)**	(15,103,078)
Interbank borrowings	**(10,861,947)**	(3,587,667)
	(211,953,512)	(141,954,308)
Net interest income	**387,493,248**	341,101,726

		2023	2022
5.	**Net Fee and commission income**	K	K
	Telegraphic transfer charges	**24,428,716**	22,893,900
	Monthly service fee	**4,442,211**	3,431,173
	Bank guarantees	**1,974,591**	3,761,731
	RTGS fee income	**1,618,705**	1,310,070
	Point of sale commission	**1,805,427**	
	Other fees	**561,778**	889,545
	ATM transaction charges	-	543,160
	Cheque books issued	**271,100**	292,050
	DDAC charges	**133,618**	87,560
	Bankers cheques issued	**1,000**	27,400
	Sundry commission	**74,590**	21,588
		35,311,736	33,258,177
	Fees and commission expense	**(18,015,380)**	(14,199,947)
		17,296,356	19,058,230
6.	**Other operating income**		
	Trading Income	**83,886,412**	71,010,457
	Other income	**6,550,945**	8,056,587
	Recoveries from loan loss provisions	**666,474**	891,536
		91,103,831	79,958,580
	Trading income is summarized as follows:		
	Foreign currency transactions	**75,305,165**	63,821,213
	Gains on sale of securities	**8,581,248**	7,189,244
		83,886,412	71,010,457
7.	**Personnel expenses**		
	Staff salaries and short term benefits	**87,732,458**	79,458,184
	Pension	**6,017,388**	5,107,457
		93,749,846	84,565,641
8.	**Operating expenses**		
	Management fees	**47,183,349**	29,395,340
	Information technology	**19,276,042**	11,825,232
	Other general expenses	**19,950,698**	23,614,220
	Supervisory fees	**7,608,249**	5,103,232
	Marketing and advertising	**5,752,029**	2,152,433
	Legal and professional fees	**4,719,144**	3,521,087
	Swift, Reuters and bank charges	**4,717,282**	3,544,502
	Non executive directors remuneration and other expenses	**2,478,886**	2,610,339
	Auditors fees	**2,357,019**	1,772,397
	Training	**1,493,093**	1,374,568
		115,535,791	84,913,350

		2023	2022
9.	**Profit before income tax**	K	K
9.a	Profit before income tax is stated after crediting:		
	Trading income	83,886,412	71,010,457
	Placement with other banks	14,893,433	3,046,823
	Recoveries from loan losses	666,474	891,536
	and after charging:		
	Emoluments:		
	- Key management personnel (Note 23)	27,351,590	19,218,244
	- Directors' fees (Note 23)	2,478,886	2,610,339
	Interest payable to other banks (Note 4)	10,861,947	3,587,667
	Impairment charge (Note 9.b)	15,377,699	11,812,711
	Depreciation of right of use assets (Note 18)	7,307,943	6,719,847
	Depreciation on property and equipment (Note 17)	4,585,551	4,081,314
	Amortisation of intangible assets (Note 16)	2,439,404	2,795,173
	Pension costs (Note 7)	6,017,388	5,107,457
	Donations	189,831	195,142
9.b	**Impairment charge**		
	Impairment charge on loans and advances (Note 32.2)	20,154,134	10,444,437
	Impairment (reversal)/charge on low risk assets and off balance sheet (Note 32.2)	(4,776,435)	1,368,274
		15,377,699	11,812,711

10. Income tax expense

Income tax is calculated at the statutory rate of 30% on banking profits (2022: 30%).

	2023	2022
Current tax	77,927,060	79,661,046
Deferred tax recognised in profit or loss	(2,882,958)	(6,691,654)
Income tax expense	75,044,102	72,969,392

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

	2023	2022
Current tax (liability) asset at the start of ther year	6,160,751	(2,431,928)
Payable in respect of the current year	(77,927,060)	(79,661,046)
Under provision of taxes in prior year	21	-
Tax paid during the year	54,966,938	57,023,091
Withholding tax recoveries in respect of current year	34,378,225	31,230,634
Current tax assets (liability) at end of year	17,578,875	6,160,751

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:

	2023	2022
Profit before income tax	253,933,839	241,958,292
Tax calculated at the statutory income tax rate of 30% (2022: 30%)	76,180,152	72,587,488
Permanent differences	(1,136,050)	381,904
Income tax expense	75,044,102	72,969,392

10. Income tax expense (continued)	2023	2022
	K	K

Deferred tax asset

Deferred income tax is calculated using the enacted income tax rate of 30% (2022:30%). The movement on the deferred income tax account is as follows.

	2023 K	2022 K
At 1 January	**26,751,130**	20,059,476
Charge to profit or loss	**2,844,288**	6,691,654
At 31 December	**29,595,418**	26,751,130

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

Recognised deferred tax asset:

	1 January 2023	**Charge/(Credit) to P&L**	**31 December 2023**
Leasehold improvements and equipment	**3,149,569**	**(670,090)**	**2,479,479**
Provisions	**6,510,182**	**(2,188,647)**	**4,321,535**
Processing fee received in advance	**2,599,953**	**589,681**	**3,189,634**
Right of use assets	**2,158,864**	**1,145,083**	**3,303,947**
Collective portfolio impairment provision	**12,332,562**	**4,006,931**	**16,339,493**
	26,751,130	**2,882,958**	**29,634,088**

	1 January 2022	Charge/(Credit) to P&L	31 December 2023
Leasehold improvements and equipment	2,955,216	194,353	3,149,569
Provisions	5,590,130	920,052	6,510,182
Processing fee received in advance	1,626,491	973,462	2,599,953
Right of use assets	1,517,336	641,528	2,158,864
Collective portfolio impairment provision	8,370,303	3,962,259	12,332,562
	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 Bank of Zambia

	2023	2022
	K	K
Cash on hand	139,923,967	65,245,725
Current account	34,546,422	80,739,371
	174,470,389	145,985,096
Mandatory reserve deposits with Bank of Zambia	904,961,750	278,952,090
Total gross (Note 32.2.1)	1,079,432,139	424,937,186
Impairment loss allowance	(642,544)	(98,681)
	1,078,789,595	424,838,505

From time to time the Bank of Zambia prescribes the minimum required statutory deposit ratio as a means of protecting customers' deposits. The amount was determined as 17% (2022:9%) of the average outstanding customer deposits over a cash reserve cycle period of one week. The statutory deposits are available for use in the Bank's day-to-day operations and is non-interest bearing.

12 Balances with other banks

	2023	2022
Balances with bank abroad	422,602,139	160,081,753
Placements with other banks	77,353,386	107,060,317
Total gross (Note 32.2.1)	499,955,525	267,142,070
Impairment loss allowance	(1,012)	(14,393)
	499,954,513	267,127,677

12.1 Gross cash and cash equivalents at end of year

	2023	2022
	K	K
Balances with Central Bank (Note 11)	1,079,432,139	424,937,186
Balances with bank abroad	422,602,139	160,081,753
Placements with other banks (Note 12)	77,353,386	107,060,317
	1,579,387,664	692,079,256

13. Investment securities

Investment securities measured at amortised cost	2023 K	2022 K
Government bonds	176,110,789	842,431,493
Government bonds pledged as collateral	933,125,569	-
Total gross	1,109,236,358	842,431,493
Impairment loss allowance	(17,822,483)	(22,884,001)
	1,091,413,875	819,547,492
Treasury bills	114,900,962	616,089,637
Treasury bills pledged as collateral	484,028,978	-
Total gross	598,929,940	616,089,637
Impairment loss allowance	(3,392,737)	(4,178,510)
	595,537,203	611,911,127
Total	1,686,951,078	1,431,458,620

	2023	2022
13. Investment securities (Continued)		
Investment securities measured at amortised cost (Continued)	**K**	K

Investment Securities at amortised cost comprises Government bonds and treasury bills issued by the Bank of Zambia. The weighted average effective rate of interest earned was 24.70% per annum. Included in this balance are securities pledged as collateral for Fixed deposits and other open market operations. The Securities are pledged in accordance with Bank of Zambia guidelines.

	As at 31 December 2023		As at 31 December 2022	
	Government Bonds	**Treasury Bills**	Government Bonds	Treasury Bills
Current		**598,929,940**	-	616,089,637
Non-Current	**1,109,236,358**	**-**	842,431,493	-
	1,109,236,358	**598,929,940**	842,431,493	616,089,637

All Treasury bills are deemed current as they all mature within 12 months.

Reconciliation of financial assets measured at amortised cost

	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2023	**1,458,521,130**	**-**	**-**	**1,458,521,130**
Changes in gross carrying amoun				**-**
- Transfer to stage 1	**-**	**-**	**-**	**-**
- Transfer to stage 2	**-**	**-**	**-**	**-**
- Transfer to stage 3	**-**	**-**	**-**	**-**
New financial assets originated	**958,371,260**	**-**	**-**	**958,371,260**
Financial assets derecognised	**(708,726,092)**	**-**	**-**	**(708,726,092)**
As at 31 December 2023	**1,708,166,298**	**-**	**-**	**1,708,166,298**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	315,776,925	723,862,783	-	1,039,639,708
Changes in gross carrying amount				-
- Transfer to stage 1	723,862,783	(723,862,783)	-	-
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	-	-	-	-
New financial assets originated	887,943,317	-	-	887,943,317
Financial assets derecognised	(469,061,895)	-	-	(469,061,895)
As at 31 December 2022	1,458,521,130	-	-	1,458,521,130

13. Investment securities (Continued) | **2023** K | 2022 K

Reconciliation of financial assets measured at amortised cost (Continued)

Bank's internal credit risk rating

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal risk category				**-**
Grades 1-3: Low to fair risk	**1,708,166,298**	**-**	**-**	**1,708,166,298**
Grades 4-6: Monitoring	**-**	**-**	**-**	**-**
Grades 7-8: Substandard	**-**	**-**	**-**	**-**
Grade 9: Doubtful	**-**	**-**	**-**	**-**
Grade 10: Impaired	**-**	**-**	**-**	**-**
	1,708,166,298	**-**	**-**	**1,708,166,298**

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Internal risk category				-
Grades 1-3: Low to fair risk	1,458,521,130			1,458,521,130
Grades 4-6: Monitoring	-	-	-	-
Grades 7-8: Substandard	-	-	-	-
Grade 9: Doubtful	-	-	-	-
Grade 10: Impaired	-	-	-	-
	1,458,521,130	-	-	1,458,521,130

Analysis of Expected Credit Loss (ECL) for financial assets

	Stage 1	**Stage 2**	**Stage 3**	**Total**
At 1 January 2023	**27,175,583**	**-**	**-**	**27,175,583**
- Transfer to stage 1	**-**	**-**	**-**	**-**
- Transfer to stage 2	**-**	**-**	**-**	**-**
- Transfer to stage 3	**-**	**-**	**-**	**-**
Total transfers	**27,175,583**	**-**	**-**	**27,175,583**
New financial assets originated	**10,554,576**	**-**	**-**	**10,554,576**
Financial assets derecognised	**(5,543,944)**	**-**	**-**	**(5,543,944)**
Changes in ECL due to	**-**	**-**	**-**	**-**
Exchange Movements and Others	**(9,614,909)**	**-**	**-**	**(9,614,909)**
Write offs	**-**	**-**	**-**	**-**
Charge/(Release) to Profit and Loss	**(4,604,277)**	**-**	**-**	**(4,604,277)**
At 31 December 2023	**22,571,307**	**-**	**-**	**22,571,307**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
At 1 January 2022	31,003	24,417,408	338,589	24,787,000
- Transfer to stage 1	338,589	-	(338,589)	-
- Transfer to stage 2	24,417,408	(24,417,408)	-	-
- Transfer to stage 3	-	-	-	-
Total transfers	24,787,000	-	-	24,787,000
New financial assets originated	15,692,863	-	-	15,692,863
Financial assets derecognised	(1,541,859)	-	-	(1,541,859)
Changes in ECL due to	(11,762,421)	-	-	(11,762,421)
Charge/(Release) to Profit and Loss	2,388,583	-	-	2,388,583
At 31 December 2022	27,175,583	-	-	27,175,583

	2023	2022
	K	K

14. Loans and advances to customers

2023

On balance sheet	Gross carrying amount	Expected credit losses	Carrying Amount
Corporate lending	2,632,517,858	(31,961,937)	2,600,555,921
Retail lending	35,308,657	(977,864)	34,330,793
	2,667,826,515	(32,939,801)	2,634,886,714

2022	Gross carrying amount	Expected credit losses	Carrying Amount
Corporate lending	1,609,685,469	(14,248,490)	1,595,436,979
Retail lending	38,649,840	(558,439)	38,091,401
	1,648,335,309	(14,806,929)	1,633,528,380

Off balance sheet	Gross carrying amount	Expected credit losses	Carrying Amount
Financial guarantees	161,864,953	(146,493)	161,718,460
Letters of credit	-	-	-
Undrawn commitments	553,285,163	-	553,285,163
	715,150,117	(146,493)	715,003,623

2022	Gross carrying amount	Expected credit losses	Carrying Amount
Financial guarantees	181,073,488	(318,651)	180,754,837
Letters of credit	-	-	-
Undrawn commitments	347,187,080	-	347,187,080
	528,260,568	(318,651)	527,941,917

Reconciliation of Gross loans and advances (on balance sheet)

Corporate lending

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	1,512,262,967	14,104,351	75,572,565	1,601,939,882
Changes in gross carrying amount				-
- Transfer to stage 1	8,179,528	(8,179,528)		-
- Transfer to stage 2	(52,977,364)	52,977,364		-
- Transfer to stage 3	(33,266,736)		33,266,736	-
New financial assets originated	1,359,628,115	37,732,635	50,939,954	1,448,300,705
Financial assets derecognised	(381,864,529)	(5,924,822)	(29,933,377)	(417,722,729)
As at 31 December 2023	2,411,961,982	90,709,999	129,845,877	2,632,517,858

14. Loans and advances to customers (Continued)

Reconciliation of Gross loans and advances (on balance sheet) (continued)

Corporate lending

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	942,633,401	23,445,706	7,963,663	974,042,771
Changes in gross carrying amount				-
- Transfer to stage 1				-
- Transfer to stage 2	(11,340,562)	11,340,562		-
- Transfer to stage 3	(36,620,546)		36,620,546	-
New financial assets originated	952,334,637	6,814,916	32,937,270	992,086,823
Financial assets derecognised	(334,743,963)	(27,496,835)	(1,948,915)	(364,189,712)
As at 31 December 2022	1,512,262,967	14,104,351	75,572,565	1,601,939,882

Retail lending

	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2023	**37,528,840**	**16,363**	**1,104,637**	**38,649,840**
Changes in gross carrying amount				**-**
- Transfer to stage 1				**-**
- Transfer to stage 2	**(501,181)**	**501,181**		**-**
- Transfer to stage 3	**(127,109)**		**127,109**	**-**
New financial assets originated	**11,056,840**			**11,056,840**
Financial assets derecognised	**(14,079,135)**	**(228,087)**	**(90,800)**	**(14,398,023)**
As at 31 December 2023	**33,878,255**	**289,457**	**1,140,945**	**35,308,657**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	30,585,459	-	1,117,313	31,702,772
Changes in gross carrying amount				-
- Transfer to stage 1				-
- Transfer to stage 2	-			-
- Transfer to stage 3	(53,925)		53,925	-
New financial assets originated	12,707,872	16,363	9,613	12,733,849
Financial assets derecognised	(5,710,567)		(76,214)	(5,786,781)
As at 31 December 2022	37,528,840	16,363	1,104,637	38,649,840

Reconciliation of Gross off balance sheet items

	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2023	**181,523,288**	-	-	**181,523,288**
Changes in gross carrying amount				-
- Transfer to stage 1				-
- Transfer to stage 2				-
- Transfer to stage 3				-
New financial assets originated	**139,952,456**			**139,952,456**
Financial assets derecognised	**(159,610,791)**			**(159,610,791)**
As at 31 December 2023	**161,864,953**	-	-	**161,864,953**

14. Loans and advances to customers (Continued)

Reconciliation of Gross off balance sheet items (continued)

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2022	178,992,934			178,992,934
Changes in gross carrying amount				-
- Transfer to stage 1				-
- Transfer to stage 2				-
- Transfer to stage 3				-
New financial assets originated	159,732,603			159,732,603
Financial assets derecognised	(157,202,248)			(157,202,248)
As at 31 December 2022	181,523,288	-	-	181,523,288

Bank's internal credit risk rating

Corporate lending
31 December 2023

	Stage 1	Stage 2	Stage 3	Total
Internal risk category				-
Grades 1-3: Low to fair risk	2,455,892,083	-	-	2,455,892,083
Grades 4-6: Monitoring	-	90,709,999	-	90,709,999
Grades 7-8: Substandard	-	-	46,202,827	46,202,827
Grade 9: Doubtful	-	-	39,712,948	39,712,948
Grade 10: Impaired	-	-	15,560,633	15,560,633
	2,455,892,083	90,709,999	85,915,775	2,632,517,857

31 December 2022

	Stage 1	Stage 2	Stage 3	Total
Internal risk category				-
Grades 1-3: Low to fair risk	1,508,407,405	-	-	1,508,407,405
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
	1,508,407,405	14,104,351	79,428,126	1,601,939,882

Retail lending
31 December 2023

	Stage 1	Stage 2	Stage 3	Total
Internal risk category				-
Grades 1-3: Low to fair risk	33,878,255	-	-	33,878,255
Grades 4-6: Monitoring	-	-	-	-
Grades 7-8: Substandard	-	289,457	8,894	298,351
Grade 9: Doubtful	-	-	44,149	44,149
Grade 10: Impaired	-	-	1,087,903	1,087,903
	33,878,255	289,457	1,140,945	35,308,657

14. Loans and advances to customers (Continued)

Reconciliation of Gross off balance sheet items (continued)

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Internal risk category				-
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
	37,385,842	16,363	1,247,635	38,649,840

Credit quality of loans and advances to customers

Corporate lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Current	2,191,666,657	16,573,271	9,396,013	2,217,635,940
Past due 1-30 days	220,295,325	42,098,014	13,311,393	275,704,732
Past due 31-60 days	-	10,774,522	-	10,774,522
Past due 61-90 days	-	21,264,191	69,956	21,334,147
Past due more than 90 days	-	-	107,068,515	107,068,515
Total gross carrying amount	2,411,961,981	90,709,999	129,845,877	2,632,517,857
Retail lending				
Gross carrying amount				
Current	32,260,313	-	-	32,260,313
Past due 1-30 days	1,617,943	-	-	1,617,943
Past due 31-60 days	-	289,457	-	289,457
Past due 61-90 days	-	-	-	-
Past due more than 90 days	-	-	1,140,945	1,140,945
Total gross carrying amount	33,878,255	289,457	1,140,945	35,308,657
At 31 December 2023	2,445,840,237	90,999,456	130,986,822	2,667,826,515

Corporate lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
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
Retail lending				
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
At 31 December 2022	1,553,538,834	14,120,714	80,675,760	1,648,335,308

14. Loans and advances to customers (Continued)

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:

Loan portfolio in default (Stage 3)	Gross carrying amount	Expected credit Loss allowance	Carrying amount	Fair value of collateral
Retail	1,390,647	(696,041)	694,606	1,379,000
Corporate	129,596,175	(30,161,966)	99,434,209	357,229,200
As at 31 Decemeber 2023	130,986,822	(30,858,007)	100,128,815	358,608,200

Loan portfolio in default (Stage 3)	Gross carrying amount	Expected credit Loss allowance	Carrying amount	Fair value of collateral
Retail	1,247,635	(515,164)	732,471	1,379,000
Corporate	79,428,126	(11,717,905)	67,710,221	281,204,990
As at 31 Decemeber 2022	80,675,761	(12,233,069)	68,442,692	282,583,990

Analysis of Expected Credit Losses (ECL) for loans and advances

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	6,550,994	34,494	8,221,441	14,806,929
- Transfer to stage 1	-	11,737	6,259	17,995
- Transfer to stage 2	(11,737)	-	-	(11,737)
- Transfer to stage 3	406,426	-	(412,685)	(6,259)
Total transfers	6,945,683	46,231	7,815,015	14,806,929
New financial assets originated	496,185	28,154	13,324,135	13,848,474
Financial assets derecognised	(86,438)	(6,730)	(727,240)	(820,409)
Changes in ECL due to Modification	-	-	7,126,069	7,126,069
Exchange Movements and Others	-	-	-	-
Write offs	-	-	(2,021,262)	(2,021,262)
Charge/(Release) to Profit and Loss	409,747	21,423	19,722,964	20,154,134
At 31 December 2023	6,945,683	67,654	25,516,717	32,939,801

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	3,082,733	538,190	741,569	4,362,492
- Transfer to stage 1	-	1,321	-	1,321
- Transfer to stage 2	(1,321)	-	22,827	21,506
- Transfer to stage 3	-	(22,827)	-	(22,827)
Total transfers	3,081,412	516,684	764,396	4,362,492

14. Loans and advances to customers (Continued)
Credit quality of loans and advances to customers (continued)

New financial assets originated	4,340,484	7,157	7,705,712	12,053,353
Financial assets derecognised	(870,902)	(489,347)	(71,429)	(1,431,678)
Changes in ECL due to Modification	-	-	-	-
Exchange Movements and Others	-	-	(177,238)	(177,238)
Write offs				-
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

Analysis of Expected Credit Losses (ECL) for off balance sheet items

	Stage 1	**Stage 2**	**Stage 3**	**Total**
At 1 January 2023	**318,652**	**-**	**-**	**318,652**
- Transfer to stage 1	**-**	**-**	**-**	**-**
- Transfer to stage 2				**-**
- Transfer to stage 3				**-**
Total transfers	**318,652**	**-**	**-**	**318,652**
New financial assets originated	**-**	**-**	**-**	**-**
Financial assets derecognised	**(172,158)**			**(172,158)**
Changes in ECL due to Modification			**-**	**-**
Exchange Movements and Others				**-**
Write offs			**-**	**-**
Charge/(Release) to Profit and Loss	**(172,158)**	**-**	**-**	**(172,158)**
At 31 December 2023	**146,494**	**-**	**-**	**146,494**

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	1,338,961			1,338,961
- Transfer to stage 1	-		-	-
- Transfer to stage 2		-		-
- Transfer to stage 3	-		-	-
Total transfers	1,338,961	-	-	1,338,961
New financial assets originated		-	-	-
Financial assets derecognised		-	-	-
Changes in ECL due to Modification	-	-	-	-
Exchange Movements and Others	(1,020,309)	-	-	(1,020,309)
Write offs				-
Charge/(Release) to Profit and Loss	(1,020,309)	-	-	(1,020,309)
At 31 December 2022	318,652	-	-	318,652

15. Other receivables

	2023	2022
	K	K
Other assets (i)	**99,578,001**	58,196,249
Prepayments	**8,845,056**	4,595,265
Interest receivable	**4,128,855**	2,927,307
Staff loans-Mark-to-Market (iii)	**3,242,679**	5,146,205
Investment in Zambia Electronic Clearing House Limited (ii)	**594,860**	594,860
	116,389,451	71,459,886
Current	**49,789,220**	36,144,578
Non-current	**66,600,231**	35,315,308
	116,389,451	71,459,886
Other assets (i)	**100,290,532**	58,196,249
Impairment loss allowance	**(712,531)**	-
	99,578,001	58,196,249

(i) Other assets

Included in other assets is cash collateral **K41,264,511** (2022: K29,175,801), balances receivable for pledged government securities **K26,378,322** (2022:K19,866,085), and non-customer account **Nil** (2022: K4,595,931)

(ii) Investment in Zambia Electronic Clearing House Limited

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.

(ii) Staff loans-Mark-to-Market

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

The prevailing interest rates on staff loans were as follows:

	2023	2022
	%	%
Personal loan	**10.5**	9.5
Car loan	**10.5**	9.5
House loan	**10.5**	9.5
Interest income earned on staff loans and advances	**1,653,388**	947,701

For staff loans issued in the year, the Bank had used a market rate of **23.5%** (2022:29.5%) to calculate the staff benefit asset.

16 Intangible assets

Cost	2023	2022
	K	K
At 1 January	**24,599,302**	23,665,956
Additions	**10,342,901**	933,346
Write off	**(2,878,794)**	-
At 31 December	32,063,409	24,599,302
Amortisation		
At 1 January	**(18,973,214)**	(16,178,041)
Amortisation for the year	**(2,439,404)**	(2,795,173)
Write off	**1,965,671**	-
At 31 December	(19,446,947)	(18,973,214)
Carrying amount	12,616,462	5,626,088

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

17 Property and equipment

Cost	Land and Buildings	Leasehold improvements	Capital Work in Progress	Furniture and fitting	Motor vehicle	Office equipment	Computer hardware	ATM machines	Total
		K	K	K	K	K	K	K	K
Balance at 1 January 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
Balance at 1 January 2023	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
Additions	-	333,897	78,215,402	-	1,067,885	1,529,957	3,202,210	71,688	84,421,039
Transfer*	-	-	(4,658,856)	8,299		(8,299)	4,658,856	-	-
At 31 December 2023	21,174,430	20,928,742	131,292,815	3,052,339	4,974,517	11,813,005	17,409,675	1,973,741	212,619,263
Accumulated depreciation									
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
Balance at 1 January 2023	-	19,544,379	-	2,674,581	1,267,554	7,887,910	5,689,778	1,418,357	38,482,559
Depreciation for the year	-	675,821	-	138,208	741,160	1,072,314	1,927,057	30,991	4,585,551
At 31 December 2023	-	20,220,200	-	2,812,789	2,008,714	8,960,224	7,616,835	1,449,348	43,068,110
Carrying amounts									
At 31 December 2023	21,174,430	708,542	131,292,815	239,550	2,965,803	2,852,781	9,792,840	524,393	169,551,153
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

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.

18. Leases

(i) Right of use assets

	2023	2022
	K	K
At 1 January	**45,958,522**	52,052,727
Additions	**3,750,484**	-
Gain/(losses)on Modifications	**(1,216,050)**	(6,094,205)
At 31 December	**48,492,957**	45,958,522
Amortisation		
At 1 January	**(27,294,541)**	(20,574,694)
Amortisation for the year	**(7,307,943)**	(6,719,847)
At 31 December 2022	**(34,602,484)**	(27,294,541)
Carrying amount	**13,890,473**	18,663,981

(ii) Lease liabilities

	2023	2022
	K	K
At 1 January	**25,860,190**	36,535,814
Additions	**4,918,103**	-
Gain/(losses) Modifications	**(2,654,157)**	(5,523,202)
Finance cost	**2,963,362**	3,272,209
Lease payments	**(13,192,881)**	(10,738,530)
Exchange revaluation losses	**7,009,012**	2,313,899
At 31 December	**24,903,629**	25,860,190
Current	**5,677,644**	7,194,572
Non-Current	**19,225,985**	18,665,616
	24,903,629	25,860,188
Maturity Analysis		
Less than one year	**2,810,478**	-
Later than one year but not later than two years	**3,939,465**	7,194,572
Later than two years but not later than five years	**18,153,686**	18,665,616
Later than five years	**-**	-
	24,903,629	25,860,188

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

The Company's weighted average incremental borrowing rates applied to lease liabilities recognised in the statement of financial position on 1 January 2023 are **22.5%** for leases in Zambian Kwacha and **5%** for leases in US Dollar.

	2023	2022
	K	K
Gains/(Loss) on modification of leases	**1,438,107**	(571,003)

19. Derivative financial Intruments

	Nominal Amount	Fair value
2023		
Derivative financial assets:		
Foreign currency swap	**100,400,000**	**101,550,000**
Current	**100,400,000**	**101,550,000**
Derivative financial liabilitiies:		
Foreign currency swap	**100,400,000**	**101,622,540**
Current	**100,400,000**	**101,622,540**
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 carrying amounts represents the fair value of foreign exchange contracts. The derivative assets and liabilities are measured at fair value through profit and loss. The valuation technique and fair value hierarchy is disclosed in note 33.

20. Amounts payable to other banks

	2023	2022
	K	K
Amounts payable to other banks	**408,853,811**	78,638,331
Current	**408,853,811**	78,638,331

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

21. Deposits from customers

	2023	2022
	K	K
Current accounts	**2,080,639,843**	1,318,862,907
Savings accounts	**296,600,186**	221,070,813
Fixed deposits	**2,814,989,042**	1,666,153,262
	5,192,229,071	3,206,086,982
Current	**2,740,927,969**	1,479,067,226
Non-current	**2,451,301,102**	1,727,019,756
	5,192,229,071	3,206,086,982

		2023	2022
22.	**Long term borrowings**	K	K
	At 1 January 2022	**191,518,763**	230,047,044
	Additions	**12,071,125**	23,315,511
	Repayments	**(136,030,777)**	(67,240,829)
	Effects of changes in exchange rates	**6,352,294**	5,397,037
	At 31 December 2023	**73,911,405**	191,518,763

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

Reconciliation long term borrowings	**FMO Facility**	**BOZ - TMTRF**
At 1 January 2023	**55,981,820**	135,536,943
Additions	**3,386,526**	8,684,599
Repayments	**(65,720,640)**	(70,310,137)
Effects of changes in exchange rates	**6,352,294**	-
At 31 December 2023	-	73,911,405
Current	-	62,884,315
Non-Current	-	11,027,090
	-	73,911,405
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

23. Related party transactions

Below are transactions and balances with related parties:

Amounts payable to other banks		
FCB Botswana	**257,610,972**	-
FCB Malawi	**128,754,167**	-
	386,365,139	-

Amounts due from related parties		
FCB Botswana	-	127,998
FCB Mozambique	-	109,180
FCB Zimbabwe	**223,498**	106,769
FCSSL Mauritius	-	21,192
	223,498	365,139

23. Related party transactions (continued)

	2023	2022
	K	K
Amounts due to related parties		
FMBCH Mauritius	**2,025,006**	2,727,509
FCSSL Mauritius	**781,987**	1,300,609
FCB Malawi	**87,310**	2,385,188
FCB Botswana	**64,382**	
	2,958,685	6,413,306

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

Transactions with related parties in 2023

Nature of transaction	Name of the Related Party	Relationship	Base Currency	Amount
Income				K
Commission on cash sales	FCB Zimbabwe	Affliate	USD	**1,808,711**
Commission on cash sales	FCB Malawi	Affliate	USD	**1,934,052**
			Total	**3,742,762**
Expenses				
Management fees	FMBCH	Parent company	USD	**(25,834,369)**
Support services fees	FCSSL	Affliate	USD	**(10,607,124)**
Interest expense on borrowings	FCB Malawi	Affliate	USD	**(2,123,629)**
Interest expense on borrowings	FCB Botswana	Affliate	USD	**(3,121,562)**
			Total	**(41,686,684)**

Transactions with related parties in 2022

Nature of transaction	Name of the Relati	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)

	2023	2022
	K	K
Key management personnel compensation		
Salaries and other short-term employment benefits	**27,351,590**	19,218,244
Directors' emoluments		
Directors' fees	**2,478,886**	2,610,339

23. Related party transactions (continued)

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

2023	Directors	Entities connected to Directors & Affiliates	Key management staff	Total
	K	K	K	K
At 1 January	-	11,875,199	6,672,392	18,547,591
Issued during the year	-	777,141	2,988,833	3,765,974
Repayments during the year	-	(6,642,835)	(2,073,992)	(8,716,827)
At 31 December	**-**	**6,009,505**	**7,587,233**	**13,596,739**
Interest income earned	**-**	**1,814,699**	**699,467**	**2,514,166**

2022	Directors	Entities connected to Directors & Affiliates	Key management staff	Total
	K	K	K	K
At 1 January	-	58,302,149	6,827,908	65,130,057
Loans 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 and fee income earned	-	1,888,146	212,708	2,100,854

Deposit	K	K	K	K
2023				
At 1 January	5,870,069	113,517,485	743,038	120,130,592
Deposits during the year	106,329,408	753,619,605	44,244,835	904,193,848
Withdrawals	(92,232,018)	(756,659,751)	(44,372,303)	(893,264,072)
At 31 December	**19,967,459**	**110,477,339**	**615,571**	**131,060,369**
Interest paid	**141,179**	**441,859**	**28,692**	**611,730**
2022				
Deposits 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

24 Other liabilities and accrued expenses

	2023	2023
	K	K
Accrued expenses	**13,147,608**	21,300,418
Provisions (Note 25)	**14,405,126**	16,442,250
Deferred income	**10,632,115**	8,698,816
Sundry payables	**14,949,259**	7,389,807
Staff loans market-to-market adjustment	**3,242,679**	5,146,205
Statutory payments	**6,916,944**	5,009,488
	63,293,731	63,986,984
Current	**49,866,507**	12,399,295
Non-Current	**13,427,224**	51,587,689
	63,293,731	63,986,984

25. Provisions

	Staff incentives and Leave	Legal cases and others	Total
	K	K	K
At 1 January 2023	**13,915,821**	**2,526,429**	**16,442,250**
Provisions	**8,676,920**	**-**	**8,676,920**
Payment	**(10,714,043)**	**-**	**(10,714,043)**
At 31 December 2023	**11,878,697**	**2,526,429**	**14,405,126**
Current	**11,878,697**	**2,526,429**	**14,405,126**
	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

26. Share capital

	2023	2022
	K	K
Authorised, issued and fully paid up		
104,000,000 (2022:104,000,000) ordinary shares of K1.00 each	**104,000,000**	104,000,000
Share premium	**11,156,599**	11,156,599

27. Statutory reserves

At 1 January	**52,000,000**	52,000,000
Transfer from (to) retained earnings	**-**	-
At 31 December	**52,000,000**	52,000,000

This amount represents an appropriation from retained earnings relating dividends in line with SI No. 182. This is a new disclosure in the current year that was not present in the prior period, which management has voluntarily made.

		2023 K	2022 K
28.	**General reserve**		
	At 1 January	**7,101,622**	6,882,103
	Transfer from (to) retained earnings	**-**	219,519
	At 31 December	**7,101,622**	7,101,622

General banking reserves 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.

General banking reserves are determined when Bank of Zambia provisions are more/less than provisions determined by international financial reporting standards (IFRS).

As at reporting date, the provisions based on the international reporting standards (IFRS) were higher than provisions based on Bank of Zambia prudential guidelines. Therefore the directors have opted to maintain the general reserve balance from the previous year.

		2023	2022
29.	**Contingent liabilities and commitments**		
	Finacial guarantees	**161,864,953**	181,073,488
	Undrawn commitments	**553,285,163**	347,187,080
		715,150,117	528,260,568

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.

30. Capital commitments

	2023	2022

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows

Property and equipment	-	107,678,338
Authorised and contracted for	-	107,678,338
Current	-	107,678,338

31. Events after the reporting date

On 2 February 2024, the bank obtained an Occupancy Certificate from Lusaka City Council after completion of the building project for the new head office. Subsequently the bank will be able to captilise the Capital work-in-progress under PPE once the formalisation is concluded. The official opening is expected to be in 2024 and the bank is expected to fully operate from the new building.

On 4 March 2024, Mr Ackim Chalwe was appointed as a member of the board of directors.

32. Financial risk management review

32.1 Financial risk management

(i) Introduction and overview

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

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

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

Risk management framework

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

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.

32. Financial risk management review

32.1 Financial risk management

(i) Introduction and overview

Credit risk

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

Management of credit risk

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

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

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

32. Financial risk management review

32.1 Financial risk management

(i) Introduction and overview

Management of credit risk (continued)

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

- 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

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.

32. Financial risk management review (continued)

32.1 Financial risk management (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

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 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.

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

32. Financial risk management review (continued)

32.1 Financial risk management (continued)

32.2.1 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.
- 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.

32. Financial risk management review (continued)

32.1 Financial risk management (continued)

32.2.1 Credit risk management

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

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)

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'.

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Expected Credit Losses measurement (ECLs)

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 Exposure at default (EAD), defined as follows:

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

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

Customer loans and advances

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

Low risk financial instruments

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

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

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

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

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Expected Credit Losses measurement (ECLs) (continued)

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

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

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

ii) Life time ECLs (Stage 2 - SICR)

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

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

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.

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Expected Credit Losses measurement (ECLs) (continued)

iii) Stage 3: Lifetime ECL – credit impaired (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

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

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

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

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

32. **Financial risk management review (continued)**

32.2 **Financial risk review (continued)**

32.2.1 **Credit risk management (continued)**

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

Corporate exposures and low risk financial instruments: (continued)

Default

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

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

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

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

Forward–looking information incorporated in the ECL model

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

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2023 for the years 2023 to 2024, 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%	4.8%	5%
Downside	2.8%	3.6%	3.8%
Current Account Balances	$m	$m	$m
Base case	32.9	31.8	34
Upside	33.6	32.4	34.7
Downside	32.2	31.2	33.3
General Government Revenues	$m	$m	$m
Base case	21.4	22.3	22.7
Upside	21.8	22.7	23.2
Downside	21.0	21.9	22.2

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Corporate exposures and low risk financial instruments: (continued)

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2023

32. **Financial risk management review (continued)**

32.2 **Financial risk review (continued)**

32.2.1 **Credit risk management (continued)**

Fair Value of Collateral held (continued)

2023

Financial Assets	Maximum exposure to credit risk	Cash	Property	Other	Total Collateral	Net exposure	ECLs
	K	K	K	K	K	K	K
Cash and balances with Central Bank	1,079,432,139	-	-	-	-	1,078,789,595	642,544
Balances with other banks	499,955,525	-	-	-	-	499,954,513	1,012
Investment securities	1,708,166,298	-	-	-	-	1,686,951,078	21,215,220
Derivative financial assets	101,550,000	-	-	-	-	101,550,000	-
Amounts due from related parties	223,498	-	-	-	-	223,498	-
Other receivables	100,290,532	-	-	-	-	99,578,001	712,531
Loans and advances to customers:							
Corprate lending	2,632,517,858	127,608,822	7,174,058,039	6,488,468,918	13,790,135,779	2,600,555,921	31,961,937
Retail lending	35,308,657	15,050,875	72,384,069	3,970,946	91,405,890	34,330,793	977,864
Total Financial Assets	6,157,444,507	142,659,697	7,246,442,108	6,492,439,864	13,881,541,669	6,101,933,399	55,511,108
Off Balance sheet							
Financial guarantees	161,864,953	32,676,650	61,156,345	174,652,058	268,485,053	161,718,460	146,494
Undrawn commitments	553,285,163	-	-	-	-	553,285,163	-
Total Off Balance sheet	715,150,117	32,676,650	61,156,345	174,652,058	268,485,053	715,003,623	146,494
Total (Including Off Balance sheet)	6,872,594,624	175,336,347	7,307,598,453	6,667,091,922	14,150,026,722	6,816,937,022	55,657,601

32 Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Fair Value of Collateral held (continued)

2022

Financial Assets	Maximum exposure to credit risk	Cash	Property	Other	Total Collateral	Net exposure	ECLs
	K	K	K	K	K	K	K
Cash and balances with Central Bank	424,937,186	-	-	-	-	424,838,505	98,681
Balances with other banks	267,142,070	-	-	-	-	267,127,677	14,393
Investment securities	1,458,521,130	-	-	-	-	1,431,458,620	27,062,510
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	22,345,431	5,472,088,328	653,138,168	6,147,571,926	1,595,436,979	558,439
Retail lending	38,649,840	10,413,250	63,782,350	3,719,946	77,915,546	38,091,401	14,248,490
Total Financial Assets	3,905,175,432	32,758,681	5,535,870,678	656,858,114	6,225,487,473	3,863,192,919	41,982,513
Off Balance sheet							
Financial guarantees	181,073,488	32,676,650	61,156,345	174,652,058	268,485,053	180,754,837	318,651
Undrawn commitments	347,187,080	-	-	-	-	347,187,080	-
Total Off Balance sheet	528,260,568	32,676,650	61,156,345	174,652,058	268,485,053	527,941,917	318,651
Total (Including Off Balance sheet)	4,433,436,000	65,435,331	5,597,027,022	831,510,172	6,493,972,526	4,391,134,836	42,301,164

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Concentration risk

2023

Financial Assets	Financial Institutions	Manufacturing	Wholesale and retail trade	Transport and communications	Agriculture	Other Industries	Individuals
	K	K	K	K	K	K	K
Cash and balances with Central Bank	1,079,432,139	-	-	-	-	-	-
Balances with other banks	499,955,525	-	-	-	-	-	-
Investment securities	1,708,166,298	-	-	-	-	-	-
Derivative financial assets	101,550,000	-	-	-	-	-	-
Amounts due from related parties	223,498	-	-	-	-	-	-
Other receivables	100,290,532	-	-	-	-	-	-
Loans and advances to customers:							
Corprate lending	-	724,770,274	668,710,050	455,298,466	147,145,546	636,593,523	-
Retail lending	-	-	-	-	-	-	35,308,657
Total Financial Assets	**3,489,617,992**	**724,770,274**	**668,710,050**	**455,298,466**	**147,145,546**	**636,593,523**	**35,308,657**
Off Balance sheet							
Financial guarantees	-	37,248,238	63,637,499	10,873,865		50,105,351	-
Undrawn commitments	-	165,985,549	248,978,324	138,321,291	-	-	-
Total Off Balance sheet	**-**	**203,233,787**	**312,615,823**	**149,195,156**	**-**	**50,105,351**	**-**
Total (Including Off Balance sheet)	**3,489,617,992**	**928,004,060**	**981,325,873**	**604,493,622**	**147,145,546**	**686,698,874**	**35,308,657**

32. Financial risk management review (continued)

32.2 Financial risk review (continued)

32.2.1 Credit risk management (continued)

Concentration risk
2022

Financial Assets	Financial Institutions	Manufacturing	Wholesale and retail trade	Transport and communications	Agriculture	Other Industries	Individuals
	K	K	K	K	K	K	K
Cash and balances with Central Bank	424,937,186	-	-	-	-	-	-
Balances with other banks	267,142,070	-	-	-	-	-	-
Investment securities	1,458,521,130	-	-	-	-	-	-
Derivative financial assets	34,414,712	-	-	-	-	-	-
Amounts due from related parties	365,139	-	-	-	-	-	-
Other receivables	71,459,886	-	-	-	-	-	-
Loans and advances to customers:							
Corprate lending	-	589,869,775	417,816,933	171,559,379	60,113,812	370,325,570	-
Retail lending	-	-	-	-	-	-	38,649,840
Total Financial Assets	2,256,840,123	589,869,775	417,816,933	171,559,379	60,113,812	370,325,570	38,649,840
Off Balance sheet							
Financial guarantees	181,073,488	32,676,650	61,156,345	174,652,058	268,485,053	180,754,837	318,651
Undrawn commitments	-	-	-	-	-	347,187,080	-
Total Off Balance sheet	181,073,488	32,676,650	61,156,345	174,652,058	268,485,053	527,941,917	318,651
Total (Including Off Balance sheet)	2,437,913,611	622,546,425	478,973,278	346,211,437	328,598,865	898,267,487	38,968,491

32.2.2 Liquidity risk

Exposure to liquidity risk

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

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

	2023	2022
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:

2023	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 withBank of Zambia	1,079,432,139	1,079,432,139	-	-	-	-
Balances with other banks	499,955,525	499,955,525	-	-	-	-
Investments securities	1,708,166,298	287,450,000	-	430,735,000	599,765,000	410,025,421
Derivative financial assets	101,550,000		-	101,550,000	-	-
Other receivables*	107,544,395	38,107,394.00	11,681,825.59	-	57,160,315.34	594,860.00
Amounts due from related parties	223,498	-	223,498	-	-	-
Loans and advances	2,667,826,515	1,419,541,481	9,110,488	52,907,090	1,168,380,561	17,886,895
Total financial assets	**6,164,698,370**	**3,324,486,539**	**21,015,812**	**585,192,090**	**1,825,305,876**	**428,507,176**
Financial liabilities						
Deposits from customers	5,192,229,071	2,451,301,102	1,005,757,653	1,726,028,405	9,141,910	-
Long term borrowings	73,911,405	-	64,089,863	-	9,821,542	-
Amounts payable to other banks	408,853,811	148,772,249	-	260,081,563	-	-
Derivative financial liabilities	101,622,540	36,220,000	-	-	-	-
Amounts due to related parties	2,958,685	-	6,413,306	-	-	-
Lease liabilities	24,903,629	1,172,928	3,518,784	3,846,500	3,885,695	37,327,537
Other liabilities**	56,376,787	19,065,315	-	32,235,882	5,075,591	-
Total financial liabilities	**5,860,855,929**	**2,656,531,594**	**1,079,779,607**	**2,022,192,350**	**27,924,738**	**37,327,537**
Net liquidity gap	**303,842,441**	**667,954,945**	**(1,058,763,795)**	**(1,437,000,259)**	**1,797,381,138**	**391,179,639**

32.2.2 Liquidity risk

Exposure to liquidity risk

2022						
Financial assets						
Cash balances with Bank of Zambia	424,937,186	424,937,186	-	-	-	-
Balances with other banks	267,142,070	267,142,070	-	-	-	-
Investments securities	1,458,521,130	57,955,591	143,070,797	487,948,097	529,399,359	240,147,286
Derivative financial liabilities	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	152,990,482	-	-	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	-	-	-	-

Exposure to liquidity risk (continued)

2022	Gross carrying amount K	up to 1 month K	1 - 3 months K	3 - 12 months K	1 - 5 years K	Over 5 years K
Amounts due to related parties	6,413,306	-	6,413,306	-	-	-
Lease liabilities	25,860,188	-	-	71,945,712		-
Other liabilities**	60,785,972	5,009,488	-	53,968,008		-
Total financial liabilities	3,566,995,261	1,846,887,575	581,040,496	1,075,720,169	73,499,721	-
Net liquidity gap	333,584,906	(330,496,363)	(367,703,822)	(482,467,956)	1,067,596,308	252,646,894

** Excludes prepayments*
*** Excludes statutory obligations*

32. Financial risk management review (continued)

32.2.3 Market risk

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

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

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

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.

2023

	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	1,079,432,139	1,079,432,139	-	-	-	-
Cash and short term funds	499,955,525	422,602,139	-	77,353,386	-	-
Investment securities	1,708,166,298	-	-	430,735,000	599,765,000	410,025,421
Derivative financial assets	101,550,000	-	-	101,550,000	-	-
Amounts due to related parties	223,498	223,498	-	-	-	-
Loans and advances to customers	2,667,826,515	-	2,667,826,515	-	-	-
Other receivables*	107,544,395	107,544,395	-	-	-	-
Total financial assets	6,164,698,370	1,609,802,171	2,667,826,515	609,638,386	599,765,000	410,025,421

32. Financial risk management review (continued)

32.2.3 Market risk (continued)

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

2023		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	5,192,229,071	2,080,639,843	-	1,726,028,405	9,141,910	-
Long term borrowings	73,911,405		-			73,911,405
Amounts payable to other banks	408,853,811	-	-	408,853,811	-	-
Derivative financial liabilities	101,622,540	-	-	101,622,540	-	-
Amounts due to related parties	2,958,685	2,958,685	-	-	-	-
Lease liabilities	24,903,629	-	-	-	-	24,903,629
Other liabilities**	56,376,787	56,376,787	-	-	-	-
Total financial liabilities	**5,860,855,929**	**2,139,975,316**	**-**	**2,236,504,756**	**9,141,910**	**98,815,034**
GAP	303,842,441	(530,173,145)	2,667,826,515	(1,626,866,371)	590,623,090	311,210,387

** 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.

2022	Total	Zero rate instruments	Floating rate instruments	Fixed rate instrument: Less than three months	Between three months and one	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	267,142,070	160,081,753	-	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	772,493,923	529,399,359	240,147,286

32. Financial risk management review (continued)

32.2.3 Market risk (continued)

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

2022		Zero rate instruments	Floating rate instruments	Fixed rate instrument: Less than three months	Fixed rate instrument	Fixed rate instrument: 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	152,990,482		8,941,733			144,048,749
Amount 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**	60,785,972	60,785,972	-	-	-	-
Total financial liabilities	3,566,995,261	1,386,062,185	8,941,733	1,019,298,366	-	169,908,937
GAP	333,584,906	(733,813,486)	1,639,393,576	(246,804,443)	529,399,359	70,238,349

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):

2023	USD	GBP	ZAR	Euro	Others	Total
Monetary assets	3,710,277,874	3,755,428	29,360,439	31,822,082	2,764,933	**3,777,980,757**
Monetary liabilities	(3,718,856,507)	(3,378,018)	(28,095,611)	(31,047,562)	(3,325,648)	**(3,784,703,346)**
Net position	**(8,578,633)**	**377,411**	**1,264,828**	**774,520**	**(560,715)**	**(6,722,589)**
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

32. Financial risk management review (continued)

32.2.3 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 2023 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
2023	K	K	K	K
USD	857,863	857,863	(857,863)	(857,863)
GBP	37,741	37,741	(37,741)	(37,741)
ZAR	126,483	126,483	(126,483)	(126,483)
Euro	77,452	77,452	(77,452)	(77,452)
2022				
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)

32. Financial risk management and review (continued)

32.2.3 Market risk (continued)

Currency risk (continued)

The following significant exchange rates applied during the year:

	2023		2022	
Currency	Average rate	**Reporting date**	Average rate	Reporting date
USD	**20.25**	**25.75**	16.91	18.11
ZAR	**1.10**	**1.40**	1.09	1.07
Euro	**21.89**	**28.46**	17.85	19.30
GBP	**25.18**	**32.75**	20.96	21.77

32.2.4 Capital management

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

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

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

i) Regulatory capital

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

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

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

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

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

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

		2023	2022
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	**319,984,807**	227,127,759
(e)	Credit Risk reserve	**7,101,622**	7,101,622
(f)	Minority interest (common shareholders' equity)	**-**	-
(g)	*Sub-total A (items a to g)*	**442,243,028**	349,385,980

		2023	2022
32.	**Financial risk management and review (continued)**		
32.2.4	**Capital management (continued)**	K	K
ii)	**Computation of regulatory capital position (continued)**		
	Other adjustments		
(p)	**Total primary capital [(h – (n to o)]**	**442,243,028**	349,385,980
2	**Secondary (Tier 2) capital**		
3	**Eligible secondary capital**		
	(The maximum amount of secondary capital is limited to 100% of primary capital)	-	-
4	**Eligible total capital (I (p) + III) (Regulatory capital)**	**442,243,028**	349,385,980
5	**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
6	**Excess (IV minus V)**	**338,243,028**	245,385,980

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

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

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

32.2.5 Financial assets and financial liabilities

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

Financial assets

	Totals	Assets carried at amortised cost	Fair value
31 December 2023	K	K	K
Cash balances with Bank of Zambia	1,078,789,595	1,078,789,595	
Balances with other banks	499,954,513	499,954,513	
Investment securities	1,686,951,078	1,686,951,078	
Derivative financial assets	101,550,000	-	101,550,000
Loans and advances to customers	2,634,886,714	2,634,886,714	
Amounts due from related parties	223,498	223,498	
Other receivables	99,578,001	99,578,001	
Total financial assets	6,101,933,399	6,000,383,399	101,550,000

32. Financial risk management and review (continued)

32.2.5 Financial assets and financial liabilities (continued)

Financial liabilities	Totals	Assets carried at amortised cost	Fair value
31 December 2023	K	K	K
Deposits from customers	5,192,229,071	5,192,229,071	
Amounts payable to other banks	408,853,811	408,853,811	
Derivative financial liabilities	101,622,540		101,622,540
Long term borrowings	73,911,405	73,911,405	
Amounts due to related parties	2,958,685	2,958,685	
Other liabilities	63,293,731	63,293,731	
Total finnacial liabilities	5,842,869,244	5,741,246,704	101,622,540

Financial asset	Totals	Assets carried at amortised cost	Fair value
31 December 2022			
Cash balances with Bank of Zambia	424,937,186	424,937,186	
Balances with other banks	267,129,886	267,129,886	
Investment securities	1,431,458,620	1,431,458,620	
Derivative financial assets	34,414,712		34,414,712
Loans and advances to	1,633,528,380	1,633,528,380	
Other receivables	66,864,621	66,864,621	
Total financial assets	3,858,333,406	3,823,918,694	34,414,712

Financial liabilities	Totals	Liabilities carried at amortised cost	Fair value
Deposits from customers	3,206,086,982	3,206,086,982	
Amount payable to other banks	78,638,331	78,638,331	
Derivative financial liabilities	36,220,000		36,220,000
Amounts due to related parties	152,990,482	152,990,482	
Lease Liability	6,413,306	6,413,306	
Other liabilities	65,795,460	65,795,460	
Total financial liabilities	3,546,144,561	3,509,924,561	36,220,000

33. Fair values of financial instruments

i. Valuation models

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

- *Level 1* : Inputs that are quoted market prices (unadjusted) in active markets for identical
- *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.

33. Fair values of financial instruments (continued)

i. Valuation models (continued)

- *Level 3* : Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

	Level 1	Level 2	Level 3	Total
2023	K	K	K	K
Financial Assets				
Derivative financial assets	-	101,550,000	-	101,550,000
	-	**101,550,000**	-	**101,550,000**
2023	K	K	K	K
Financial liabilities				
Derivative financial liabilities	-	101,622,540	-	101,622,540
	-	**101,622,540**	-	**101,622,540**

	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**

33. Fair values of financial instruments (continued)

i. Valuation models (continued)

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

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

The carrying amounts of financial assets and liabilities are representative of the Bank's position at 31 December 2023 and are in the opinion of the Directors not significantly different from their respective fair values due to generally short periods to maturity dates. Fair values are generally determined using valuation techniques or where available, published price quotations from an active market.

34. Adoption of New and Revised Standards

34.1 New Standards and Interpretations

In the current year, the Bank has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2024. The Bank has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective:

Number	*Effective Date*	*Summary*
Amendments to IAS 1-Non current liabilities with convenants	*Annual periods beginning on or after 1 January 2024(Published January 2020 and November 2022)*	*These amendements clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.The amendments also aim to improve information an entity provides related to liabities subject to these conditions. The impact on the financial statements has not been fully determined, however not expected to have significant impact on the entity.*

34. Adoption of New and Revised Standards (continued)

34.1 New Standards and Interpretations (continued)

Amendments to IAS 16 - Lease on sale and leaseback	*Annual periods beginning on or after 1 January 2024(Published September 2022)*	*These amendments include requirements for sale and leaseback transacations in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction.Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. The impact on the financial statements has not been fully determined, however not expected to have significant impact on the entity.*
Amendments to supplier finance Arrangements (IAS 7 and IFRS 17)	*Annual periods beginning on or after 1 January 2025(Published May 2024)*	*These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities,cash flows and exposure to liquidity risk.The disclosure requirements are the IASB's response to investor's concerns that some companies supplier finance arrangements are not sufficiently visible,hindering investor analysis. The impact on the financial statements has not been fully determined, however not expected to have significant impact on the entity.*
Amendment to IAS 21 Lack of Exhangeability(Amendments to IAS 21)	*Annual periods beginning on or after 1 January 2025(Published August 2023)*	*An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified period.A currency is exhangebale when there is an ability to obtain the other currency(with a normal administrative delay),and the transaction would take place through market or exchange mechanism that create enforceable rights and obligations.*

34. Adoption of New and Revised Standards (continued)

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

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

Number	*Effective Date*	*Summary*
IFRS 17 Insurance Contracts	*Annual periods beginning on or after 1 January 2023*	*The standard does not apply to the bank.*
Disclosures of Accounting Policies-amendements to IAS 1 and IFRS Practice Statement 2	*Annual periods beginning on or after 1 January 2023*	*The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies.* *The bank has adopted this standard and addittional disclousres have been made to the financial statements other than significant accounting policies.*
Definition of Accounting Estimates-amendements to IAS 8	*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 bank has adopted this standard and it did not have a material impact.*
Deferred Tax related to Assets and Liailities arising from a single transaction - amendments to IAS 12	*Annual periods beginning on or after 1 January 2023*	*The amendments do not have a material impact on the Bank.*