ANNUAL REPORT 2022

FIRST ALLIANCE BANK ZAMBIA LIMITED

PROFILE, MISSION, VISION AND VALUES

PROFILE

First Alliance Bank Zambia Limited is a home grown Zambian privately owned Bank which started its operations in 1994 to contribute to the growth of the Zambian economy through the provision of financial services to the public. The Bank has been providing financial services to the public for 28 years now. It has steadily grown with five branches and continues to invest in digital innovation that has allowed its customers to access its banking services from across the globe.

The Bank had 117 employees as of 31st December 2022 and reached the Balance Sheet size of K1.5 billion.

MISSION

"To focus and mobilize the resources of the Bank to provide cost -effective, quality and efficient banking services to its customers which will promote their personal and corporate success"
And, therefore, the Bank's motto is:-
"Committed to your success!" through prompt, efficient and quality services.

VISION

To be the leading financial institution in Zambia, to boost the national economy by providing multifarious banking and financial services to all sectors of the economy.

VALUES

- The Management and Staff of the Bank will work hard to provide prompt, efficient and quality banking and related financial services to our customers so that they succeed in their endeavours.
- The Bank, at all times, will put their "customers first" by providing honest, sincere, personal and friendly service.
- The Bank will always endeavour to enhance its training capacity by training and rewarding its Staff on a continuous basis.
- The Bank will support community projects as the way of showing appreciation for their patronage.
- The Bank will be an active partner in the development of national economy by diligently implementing the monetary policies of the nation.

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FIRST ALLIANCE BANK (Z) LTD.

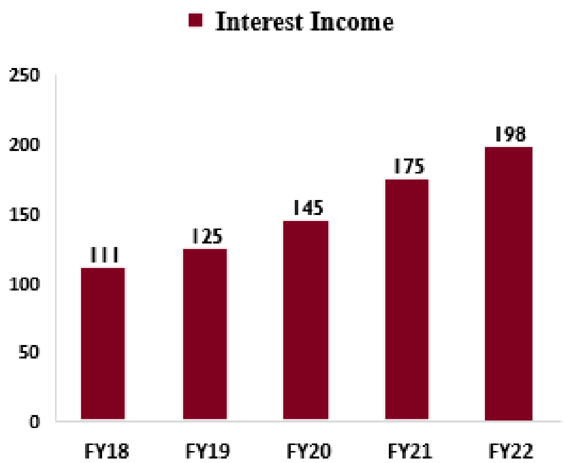
ATTRACTIVE INTEREST RATES ON YOUR SAVINGS

FIXED
DEPOSIT/INVESTMENTS

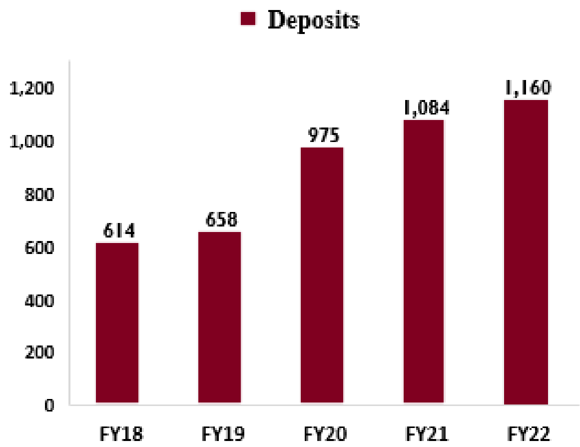
Opening balance: ZMW5,000.00
Minimum balance: ZMW5,000.00
Monthly maintenance fee: Nil
Interest calculated based on Period and amount invested

www.firstalliancebankzambia.com |+260 7635 0 2121 | treasury@fabank.co.zm |

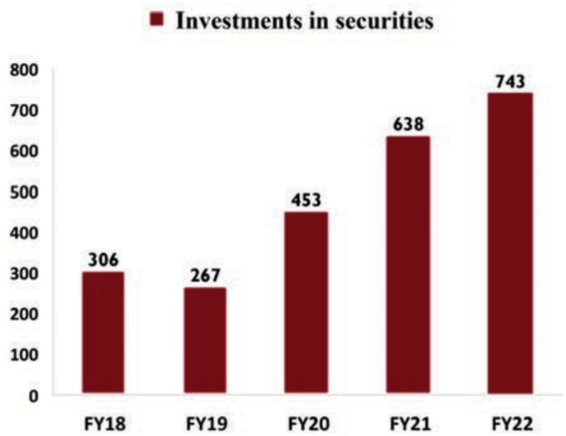
FINANCIAL HIGHLIGHTS (K'million)



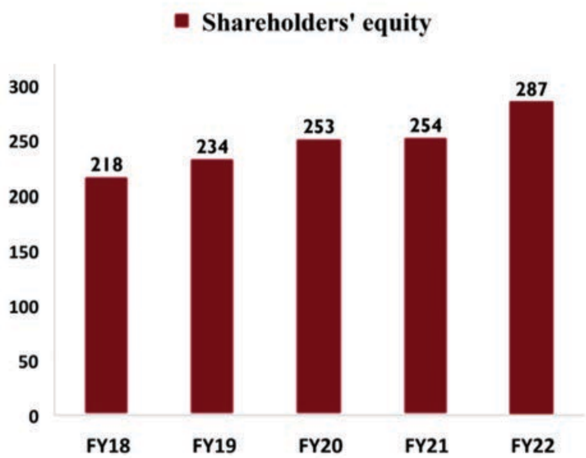
Interest income has maintained steady upward growth over the last five years.



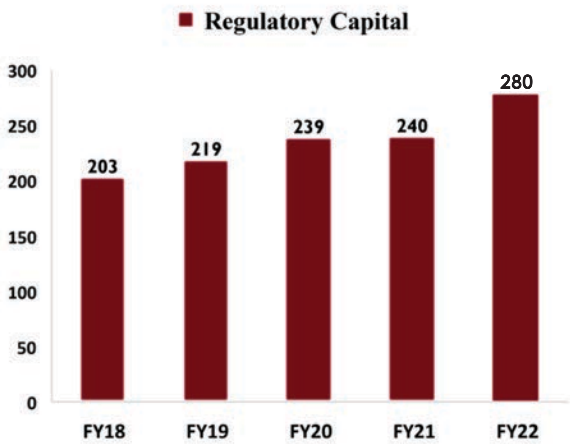
Deposits have maintained steady upward growth over the last five years.



Investments in securities have maintained steady upward growth over the last five years.



Shareholders' equity has maintained steady upward growth over the last five years.



Regulatory capital has maintained steady upward growth over the last five years.

CORPORATE SOCIAL RESPONSIBILITY

Introduction
Our Bank's Corporate Social Responsibility (CSR) initiative extends in the communities in which we operate. Our CSR focus areas include support towards financial literacy aimed at increasing literacy levels among citizens, support towards environmental initiatives, education, support towards preservation of our heritage and culture and support towards health initiatives that promote the well-being of citizens of all ages.

Sustainability
We want to contribute to the sustainable green transition and meet our environmental responsibilities as a responsible company through various CSR initiatives and actions.

Work life
Employees are our most valuable resource, which is why we focus on creating a workplace with a unique culture, where professional development and social well-being are the focus.

Partnerships
To achieve a more significant impact of our efforts, we continuously focus on building and maintaining sustainable and unique CSR partnerships that are meaningful both socially and business-wise. We focus on those areas where we believe we have the potential to make the most significant contributions to the development of society. We continuously adjust the weighting of the different areas to focus on in the light of changes in society needs. We wish to contribute to the transition to a more sustainable society and see long-term potential in making sustainability part of a well-managed and sound business model.

Activities
During the year ended 31st December 2022, the Bank undertook the following corporate social responsibility activities.

(i) The Bank supported AMALA CONVENT MARIAN SHRINE in resolving the water challenges faced by the organization run and managed by the CIC Sisters. In the past, the CIC Sisters had embarked on a fundraising venture to raise enough funds to install a solar pump and pipes at the IMMACULATE WELLNESS SANCTUARY (Natural Learning and Wellness Sanctuary).

(ii) The Bank supported the International Day of Yoga hosted by the High Commission of India to Zambia. The International Day of Yoga aims to raise worldwide awareness about the multiple benefits of practicing yoga and making it a useful contribution to humankind's quest to move towards a lifestyle that is in harmony with nature.

THE BOARD

Non-Executive Director
Acting Chairperson

Mathew M.S.W. Ngulube

Non-Executive Director

Christabel C. Lubinda

Non-Executive Director

Sally L. Dormeyan

Non-Executive Director

Gilford Malenji

Non-Executive Director

Vitalicy Chifwepa

Managing Director & Chief Executive Officer

Kuldip Paliwal

THE EXECUTIVE TEAM

Managing Director & Chief Executive Officer

Kuldip Paliwal

Chief Financial Officer

Peter Mulenga

Deputy General Manager Credit

Ravindra Kumar

Chief Risk Compliance Officer

Chenga Chisha

Chief Internal Auditor

Alepha Phiri

Head of Centralised Operations

Mathius Chikopela

CHAIRMAN'S REPORT

Mathew M.S.W. Ngulube

TO OUR ESTEEMED SHAREHOLDERS,
The Bank's performance was excellent during the year ended 31st December 2022. The Bank achieved Profit After Tax (PAT) of K26.883million (2021: K9.363million), Shareholders Equity of K287.312million (2021: K253.885million). Capital adequacy ratio of 42.3% remained well above the minimum regulatory requirements of 10%. The Bank remained adequately capitalized (K279.991 million) and well above the statutory requirements (K104.000million).

RISK MANAGEMENT AND COMPLIANCE
The Bank continued to take risks on a calculated basis, well within its approved risk appetite to deliver its strategic and business objectives for the year ended 31st December 2022. The Bank continued to promote, improve, and drive a strong risk culture by prioritising risk management and compliance, and recognising its criticality in the financial and operational management of the business through strong oversight by the Board and the Board Risk Management and Compliance Committee (BRC).

TECHNOLOGY INNOVATION AND INVESTMENT
The Bank continued to invest in technology innovation that delivers new value to the Bank and its customers. The Bank decided to strongly invest in Information Technology Infrastructure which has enabled it to increase innovative ways of doing business that have created value for our clients.

The Technology Innovation and Investment has created Operational resilience and provided a platform to test the Business Continuity Plan for the Bank through seamless adaptation to any manner of disruption including pandemics, cyber and natural disasters. During the apex of Covid-19 the Bank tested its systems which proved technical resilience through the continued support to our clients with minimal disruption despite the pandemic.

GOVERNANCE AND BOARD EVALUATION
The Board is committed to ensuring a robust governance structure exists which fosters a valuable culture of the ethical standards, corporate professionalism, teamwork, personal accountability, and respect for others.

As best practice and in compliance with the Bank of Zambia Corporate Governance Directives, the Board conducted its annual performance evaluation process for the year ended 31st December 2022 to assess its performance in January 2023. The results of the Board performance evaluation were satisfactory with all recommendations noted for compliance in the year 2023.

CONCLUSION
The year 2022 was remarkable and a fruitful year for the Bank. I wish to extend my sincere thanks and gratitude to all the stakeholders in the Bank. The Bank of Zambia for their continued prompt and valued guidance to the Bank. The Board of Directors for their continued and valued guidance, and their sincere and active participation directed towards improving the performance of the Bank. Our esteemed clients for their continued preference for our services and not of that of other players in the industry. The Management Team and Staff of the Bank for their unstinting commitment and exceptional effort which has been a major contributory factor for the performance of the Bank.

Mathew M S W Ngulube
ACTING BOARD CHAIRMAN

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Kuldip Paliwal

It is indeed a matter of great pride once again for me to be part of First Alliance Bank Zambia Limited Annual Report for the year ended 31st December 2022.

OUTLOOK
We continued our journey of digitalization strategy focusing on improving our systems & procedures, and technological upgrades and providing various technology driven products for the ease of business for our esteemed clients and harness future opportunities arising from our technological advancements and innovations to further create value for the shareholders.

We are pleased with the results for the year 2022 resulting in the steady growth of majority business lines which was anchored on improved efficient and effective operating systems and procedures above.

The Bank will continue to invest in key latest technologies and in our staff whilst we continue improving service delivery models to our esteemed clients in our quest towards delivering our promise to our clients "Committed to your Success" in the coming year and beyond.

The year 2022 saw the business environment slowly return to semblance of normal business environment coming from the apex of the Covid-19 pandemic in the previous years. Most business resumed operations at their businesses premises though the impact of covid-19 remained and may take few more years to unwind for most businesses.

The Bank ensured that it met the demands of its clients by providing safe and easy access to the Bank's facilities, with the assistance of technology despite existence of Covid-19.

The Bank of Zambia continued with unchanged monetary policy by maintaining the policy rate at 9% despite pressure from the global developments to adjust the policy upwards. This helped the banking environment and businesses at large to access reasonably priced bank products and services.

The Foreign exchange market remained relatively stable at the back of positive developments that improved market sentiments anchored on Zambia's debt restructuring efforts and access to World Bank and International; Monetary Fund (IMF) financial assistance to Zambia.

PERFORMANCE
The year 2022 recorded remarkable results with Profit After Tax (PAT) more than doubled to K26.883 million (2021: K9.363 million), Investment portfolio increased to K743.939 million (2021: K562.798 million), deposits improved to K1.160 billion (2021 K1.083 billion), balance sheet size K1.578 billion (2021: K1.455 billion). Our capital adequacy ratio remained at a comfortable level of over 42.3% as against the regulatory requirement of minimum of 10%.

GRATITUDE
The continued success story of existence of First Alliance Bank Zambia Limited for 28 years would not have been possible without the continued unwavering support and commitment of our dear esteemed clients, the continued enabling environment and key role played by the Board of Directors in ensuring that the Bank navigates the dynamics of the banking industry, the Central Bank guidance from time to time and finally but not least our sincere and dedicated Management and Staff at First Alliance Bank Zambia Limited.

Kuldip Paliwal
MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

The Directors submit their report together with the audited financial statements for the year ended 31st December 2022, which disclose the state of affairs of First Alliance Bank Zambia Limited ("the Bank").

PRINCIPAL ACTIVITIES
The principal activities of the Bank continue to be the provision of commercial banking and related services to the general public. In the opinion of the Directors, the principal activities of the Bank continue to be within the financial services sector.

SHARE CAPITAL AND SHAREHOLDERS
The Bank's share capital structure is detailed in note 27.
The Bank's shareholding and beneficial ownership as at 31st December 2022 is shown below:

Name	Shareholding %	No. of Shares 'ooo
Sanmukh Ramanlal Patel	25	21,000
Daxa Sanmukh Patel	25	21,000
Mahendra Ramanlal Patel	25	21,000
Vasant Kumar Ramanlal Patel	24	20,160
Nitesh Gandubhai Patel	1	840
	100	84,000

There was no change in shareholders and beneficial owners during the year.

RESULTS AND DIVIDEND
The profit for the year of K26.883 million (2021: K9.363 million) has been added to retained earnings. The Directors have not declared dividends for the year ended 31st December 2022 (2021: Nil). Details relating to dividends are disclosed in note 31.

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

Mathew M S W Ngulube	-	Non-Executive Director
Vitalicy Chifwepa	-	Non-Executive Director
Christabel Chanda Lubinda	-	Non-Executive Director
Gilford Malenji	-	Non-Executive Director
Sally Linda Dormeyan	-	Non-Executive Director
Kuldip Paliwal	-	Managing Director & Chief Executive Officer

SECRETARY
The Company Secretary and registered address are:
Peter Mulenga
Company Secretary
Alliance House
Plot 627, Cairo Road
P O Box 33959
Lusaka

EXECUTIVE MANAGEMENT TEAM

The Executive Management who held office during the year and up to the date of this report were:

Kuldip Paliwal	-	Managing Director & Chief Executive Officer
Ravindra Kumar	-	Deputy General Manager - Credit
Peter Mulenga	-	Chief Financial Officer
Chenga Chisha	-	Chief Risk and Compliance Officer
Alepha Phiri	-	Chief Internal Auditor
Mathius Chikopela	-	Head of Centralised Operations

NUMBER OF EMPLOYEES AND REMUNERATION
The total remuneration of employees during the year amounted to K41.552 million (2021: K38.624 million) and the average number of employees per month was as follows:

Month	Number	Month	Number
January	120	July	119
February	120	August	120
March	121	September	120
April	121	October	118
May	120	November	117
June	119	December	117

HEALTH, SAFETY AND STAFF WELFARE
The Bank has policies and procedures to safeguard the occupational health, safety, and welfare of its employees.

GIFTS AND DONATIONS
During the year the Bank made donations of K386,000 (2021: K355,000) to charitable organisations and activities as part of its Corporate Social Responsibility among other activities undertaken in each year.

PROPERTY AND EQUIPMENT
The Bank purchased property and equipment amounting to K1.330 million (2021: K2.045 million) during the year. These represent the aggregate amounts disclosed under notes 18, 19 & 20. In the opinion of the Directors, the carrying value of property and equipment is not less than their recoverable value.

RELATED PARTY TRANSACTIONS
Related party transactions are disclosed in Note 33 of the financial statements.

DIRECTORS' EMOLUMENTS AND INTERESTS
Directors' emoluments and interests are disclosed in Note 33 of the financial statements.

PROHIBITED BORROWINGS OR LENDING
There were no prohibited borrowings or lending as defined under Part VII of the Zambia Banking and Financial Services Act, No. 7 of 2017.

RISK MANAGEMENT AND CONTROL

The Bank through its normal operations is exposed to several risks, the most significant of which are credit, market, operational and liquidity risks. The Bank's risk management objectives, policies and strategies are disclosed in Note 4 of the financial statements.

COMPLIANCE FUNCTION

The Bank has in place a compliance function whose responsibility is to monitor compliance with the regulatory environment and the various internal control processes and procedures.

KNOW YOUR CUSTOMER AND ANTI-MONEY LAUNDERING POLICIES

The Bank has adopted 'Know Your Customer' (KYC) and Anti-money laundering policies and adheres to current legislation in these areas.

AUDITOR REMUNERATION

The auditor remuneration for the year was K1.019million (2021: K0.925million) all relating to external audit services.

AUDITOR APPOINTMENT

A resolution to consider the appointment of the auditor of the Bank for the year ending 31st December 2023 and authorise the Directors to set the Auditor's remuneration will be put to the Annual General Meeting (AGM).

By order of the Board

Company Secretary

Date: 7 March 2023

STATEMENT OF CORPORATE GOVERNANCE

Introduction
There is a common saying “a company without corporate governance is like an aircraft without control of safety mechanism.” Corporate Governance promotes the managing of the Bank’s affairs in a fair and transparent manner. The Bank continues to be committed to healthy corporate governance practices which strengthens and maintains confidence in the Bank, and thereby contributing to optimal long-term value creation for its shareholders and other stakeholders.

The Board
The Shareholders have vested their powers to oversee the implementation of the Bank's strategic objectives in the Board of Directors, and by virtue of the delegation, the Board has continued to perform its oversight role and provide strategic direction to the Executive Management. The Board, in performing its role, considers corporate governance key in achieving the Bank's objectives.

All Board members are appointed based on a fit and proper test by Bank of Zambia, subject to Shareholder approval at subsequent Annual General Meetings. The Chairperson endeavours to ensure that the Board is composed of persons with the appropriate expertise and requisite industry knowledge, in order to maintain the right balance on the Board for efficient and effective discharge of the Board's legal and regulatory responsibilities.

In line with best practice, the activities of the Board are planned and documented to ensure transparency and efficiency. Although the Board has the ultimate responsibility for the success of the Bank, this is managed on a delegated basis. The Board appoints the Managing Director & Chief Executive Officer and monitors his performance in leading the Bank and delivering the strategy.

The Board agrees on its Annual Plan which includes a Strategy Session, review of the Succession Planning, Budgeting and Performance Review of the Bank. The Chairperson, with assistance of the Managing Director & CEO and Company Secretary, ensures that the Directors are provided with timely information to facilitate an interactive dialogue during Board meetings.

The Managing Director & CEO provides a regular report to the Board that includes information on financial performance of the Bank and the achievement of financial objectives, operational matters, the operating environment, strategic development, corporate social responsibility, human resource and stakeholder relations.

The Board continues to guard against the risk of complacency by encouraging openness and appropriate levels of challenge. While engaging with Management both formally and informally, the Board strives to ensure that it remains sufficiently detached to maintain its independence.

The Board Charter
The Board, in compliance with the Bank of Zambia Directives on Corporate Governance, has put in place a Board Charter which sets out the following:

I) The roles, functions, responsibilities and powers of the Board;
ii) The roles, functions, responsibilities and powers of individual Directors;
iii) Stakeholder engagement;
iv) The remuneration principles of the Board of Directors;
v) The annual evaluation process for the Board and Board Committees;
vi) The powers delegated to the various Board Committees;
vii) The roles, functions, responsibilities and powers of the Managing Director and Management; and
viii) The roles, functions and responsibilities of the Company Secretary.

Board Committee Charters
The Board has put in place charters for each of its Committees, in line with the Bank of Zambia Corporate Governance Directives and other relevant legislation.

Board Training and Continuous Development
The Board identifies the training needs from time to time for the continuous development of the Board of Directors in line with Central Bank directives. Board members were trained in Corporate Governance directives during the year ended 31st December 2022.

Board Performance Evaluation
The evaluation of the performance of the Board of Directors is a key principle of Corporate Governance. The Board adheres to conducting annual evaluation of its effectiveness as a Board, the effectiveness of individual Directors, the committees, the Chief Executive Officer as well as the Company Secretary. The process undertaken is facilitated by independent external renowned third parties. The 2022 Board evaluation and appraisal was facilitated by MSK Management & Governance Consultancy, a firm of dedicated professionals in Corporate Governance based in Zambia.

Board Induction
The induction of newly appointed directors enables them to be familiarised with the Bank's strategy, operations, environment, governance structures and frameworks, policies and procedures. The process also provides an overview of the Directors' fiduciary duties, responsibilities, powers and potential liabilities. The process prepares the newly appointed directors for boardroom dynamics and introduces them to the performance indicators against which their value to the Board shall be measured.

Independent Meetings
The Board, Board Audit Committee (BAC) and Board Risk and Compliance Management Committee (BRC) met the Chief internal Auditor and Chief Risk and Compliance Officer independently without Management in line with corporate governance directives.

Board Engagement
At a bare minimum, the Board meets on a quarterly basis. For the year ended 31st December 2022, the Board met as indicated below and attendance by the Directors during the year was as follows:

Director's name	Title	1st	2nd	3rd	4th	5th
Mathew M S W Ngulube	NED/Acting Chairperson	✓	✓	✓	✓	✓
Vitalicy Chifwepa	NED	✓	✓	✓	✓	✓
Christabel Chanda Lubinda	NED	✓	✓	✓	✓	✓
Gilford Malenji	NED	✓	✓	✓	✓	✓
Sally Linda Dormeyan	NED	✓	✓	✓	✓	✓
Kuldip Paliwal	MD & CEO	✓	✓	✓	✓	✓

MD & CEO – Managing Director & Chief Executive Officer
NED – Non-Executive Director

Board Committees
To help the Board discharge its executive functions, the Board has established four principal standing committees, each governed by written committee charters defining the frequency of meetings, power, duties, and reporting obligations. A Non-Executive Director chairs each of the committees. The committees include Audit, Risk and Compliance Management, Credit and Loan Review, and Nominations, Remuneration and Human Resource. Membership comprises of Non-Executive Directors while Management are invited at the meetings.

(a) Board Audit Committee (BAC)
The purpose of the Board Audit Committee is to evaluate, among other things, accounting practices, the internal control systems, statutory auditing and financial reporting.

The Committee is governed by a charter approved by the Board. Some members of Management are invited to attend and give feedback at committee meetings. The Board Audit Committee also recommends to the Board the remuneration of the external auditors. The Committee also holds separate meetings with the Chief Internal Auditor and the external auditors when required, in order to ensure that matters are considered without undue influence.

The Committee meets at least quarterly and at such other times as may be required. The attendance by the Members during the year was as follows:

Director's name	Title	1st	2nd	3rd	4th
Mathew M S W Ngulube	Chairperson	✓	✓	✓	✓
Vitalicy Chifwepa	NED	✓	✓	✓	✓
Christabel Chanda Lubinda	NED	✓	✓	✓	✓

(b) Board Risk and Compliance Management Committee (BRC)
The Board Risk and Compliance Management Committee has been vested with the oversight responsibility of the risk management of the Bank on behalf of the Board. The functions of the Committee include

- To consider and recommend to the Board the Bank's enterprise-wide risk management policy and ensure an effective risk governance framework is in place;
- To oversee the identification, evaluation and mitigation of actual and potential risks as they pertain to the Bank;
- To review Management's recommendations on risk management; and
- Ensure that a robust risk management and compliance culture prevails in the Bank.

In line with its responsibilities, the Committee approves the Risk Appetite Framework and reviews the Risk Appetite Statement to ensure that they remain consistent with the Bank's strategy, business, capital plans and risk capacity. The Committee meets on a quarterly basis and at such other times as may be required.

The attendance by the Members during the year was as follows

Director's name	Title	1st	2nd	3rd	4th
Sally Linda Dormeyan	Chairperson	✓	✓	✓	✓
Mathew M S W Ngulube	NED	✓	✓	✓	✓
Christabel Chanda Lubinda	NED	✓	✓	✓	✓

(c) Board Credit and Loan Review Committee (BCC)

The Committee is chaired by one of the Non-Executive Directors. The functions of the Credit and Loan Review Committee include:

- review and approve the lending strategies and policies of the Bank, including appropriate loan limits to Management and classification of loans requiring Board or Committee approval;
- assist the Board in fulfilling its oversight responsibilities with respect to the Bank's lending and credit risk functions;
- consider all credit risk proposals exceeding credit approval limits delegated to Management;
- Review the bank's credit quality including but not limited to trends in loan quality, classification of loans, charge-offs and delinquencies; and
- fulfill such other responsibilities as assigned to it by the Board.

The Committee meets on a quarterly basis and at such other times as may be required. In some cases, the Committee conducts their business via round robin.

The attendance by the Members during the year was as follows:

Director's name	Title	1st	2nd	3rd	4th
Gilford Malenji	Chairperson	✓	✓	✓	✓
Vitalicy Chifwepa	NED	✓	✓	✓	✓
Sally Linda Dormeyan	NED	✓	✓	✓	✓

(d) Board Nominations, Remuneration and Human Resource Committee (BNC)

- The Committee is responsible for the management of human resource of the Bank and provides oversight over the remuneration and compensation for all staff in the Bank.
- reviews and approves management strategies for ensuring balance in workforce capabilities.
- approves succession plans for all staff;
- ensures effective implementation and execution of robust people management and performance management systems which include key risk indicators; and
- makes recommendations to the Board regarding the use of incentive compensation plans.

The Committee meets on a quarterly basis and at such other times as may be required. The attendance by the Members during the year was as follows:

Director's name	Title	1st	2nd	3rd	4th
Vitalicy Chifwepa	NED/Acting Chairperson	✓	✓	✓	✓
Gilford Malenji	NED	✓	✓	✓	✓

Company Secretary
The Board appoints the Company Secretary, and all Board Members have access to the services of the Company Secretary. Where necessary, the Board may seek independent professional advice on any matter.

The Company Secretary:
- Provides the Directors, collectively and individually, with guidance as to their duties, responsibilities and powers;
- Informs the Board of Directors on-
  - all legislation relevant to or affecting the meetings of members and the Board;
  - the reports relating to the operations of the company; and
  - submission of documents to relevant authorities, as required by statute, as well as the implications of failure to comply with such requirement.
- Ensures that minutes of the members' meetings and of the meetings of the Board of Directors are properly recorded and registers are properly maintained;
- Ensuring that the company maintains and updates information on the beneficial ownership of all the shares of the company and their associated voting rights;
- Ensures that the company is in compliance with the Companies Act 2017 in relation to lodging of documents with the Registrar; and
- Brings to the attention of the Board of Directors any failure on the part of the Company or a Director to comply with the Articles or the Companies Act 2017.\

External Audit
The external auditors are responsible for reporting on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards and in the manner required by the Zambian Companies Act and the Banking and Financial Services Act.

Internal Audit
Internal audit is an independent, objective assurance and consulting activity designed to add value to the Bank as well as to improve its operations. It helps the Bank accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving Risk Management, Control and Governance processes.

The Internal Audit Department (IAD) evaluates and makes appropriate recommendations for improving the governance process in promoting appropriate ethical values in the Bank as well as ensuring effective Bank performance management and accountability.

The IAD evaluates the effectiveness and adequacy of the Risk Management Framework of the Bank and contributes to the improvement of Risk Management processes. IAD provides the Board with the objective assurance that the major business risks are being managed appropriately and the Risk Management and Internal Control Framework is operating effectively. The IAD also evaluates the risk involved in governance, operations, AML/KYC, and information systems that relate to compliance with laws, regulations, policies, procedures and contracts. Internal audit plans are prepared annually using a risk assessment model that ensures audit resources are directed towards high-risk areas that are consistent with the Bank's strategic and operational goals. The plan is developed in consultation with Management and the Audit Committee to ensure their input and expectations are considered in the planning process.

The Internal Audit function is governed by an Internal Audit Charter which defines its purpose, authority and responsibility. The Internal Audit Charter is reviewed and updated to meet best international practices at least once a year. The Head Internal Audit functionally reports to the Audit Committee and, administratively, to the Managing Director.

Risk and Compliance Function
The Bank has an independent Compliance Function with overall responsibility for coordinating the identification and management of compliance risk. The Compliance Function is guided by a Compliance Charter, which defines the fundamental principles, roles and responsibilities of the Compliance Function within the Bank, as well as its relationship with Executive Management, the Board of Directors, other control functions and the business.

The Charter is updated periodically to reflect the legal and regulatory evolution. The Board of Directors is responsible for formally approving the Compliance Charter. In line with the Compliance Charter, the Compliance Function independently reports to the Board Risk Management Committee on material compliance issues in the Bank through a Compliance quarterly report to enable the Board appreciate the level of compliance risk and solicit their timely guidance.

The objectives of the independent Compliance Function are to:
- Identify and evaluate the compliance risks within the Bank;
- Organise, co-ordinate and structure compliance related risks and controls;
- Monitor all measures taken to mitigate compliance risks;
- Report to the Executive Management and the Board of Directors as appropriate; and
- Act as the compliance advisor within the Bank.

To help guide the Risk and Compliance Function, the Risk and Compliance Charter is complemented by the Anti-Money Laundering Policy and Whistleblowing Policy. The Compliance Function and Compliance programme are subject to an independent review by both an internal and external audit for the appropriateness of the policies and their implementation.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Zambia Companies Act 2017 and the Banking and Financial Services Act 2017 require the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank as at the end of the financial year and of its profit or loss and its cash flows for the year then ended. In preparing such financial statements, the Directors are responsible for:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error;
- selecting appropriate accounting policies and applying them consistently;
- making judgements and accounting estimates that are reasonable in the circumstances; and
- preparing the financial statements in accordance with International Financial Reporting Standards, and the requirements of the Zambia Companies Act and the Banking and Financial Services Act and on the going concern basis unless it is inappropriate to presume that the bank will continue in business.

It also requires the Directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The internal control systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Directors are further required to ensure the Bank adheres to the corporate governance principles or practices contained in Part VII Section 82 to 112 of the Zambia Companies Act of 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 profit in accordance with International Financial Reporting Standards and the Zambian Companies Act of 2017 as well as the Banking and Financial Services Act No. 7 of 2017.

At the date of this statement there are reasonable grounds to believe that the Bank will be able to pay its debts as and when these fall due. 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.

The Directors further confirm that they have implemented and adhered to the corporate governance principles or practices contained in the Zambia Companies Act of 2017 and those contained in the Banking and Financial Services Act No. 7 of 2017.

Director

Director

Date: 7 March 2023

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Lusaka, Zambia

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Alliance Bank Zambia Limited, which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of First Alliance Bank Zambia Limited as of 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Key Audit Matters (continued)

Description of matter	How matter was addressed
Classification, measurement and impairment of financial assets	
The Bank classified, measured and assessed impairment of the Bank's assets in accordance with **IFRS** 9 "financial instruments"	We reviewed the classification of the financial assets to ensure compliance with the reporting standards and Bank of Zambia regulations. We used our internal expert to review and assess the reasonableness of the assumptions used.
The Directors are required to review the classifications of assets and align the classifications to the requirements of the reporting standards. The Directors also reviewed the fair valuations and impairment models.	We reviewed the valuation and verified the calculation of the fair values. We also verified the inputs used in the valuations.
Due to the complex and subjective judgements required in estimating the timing and valuation of impairment and in estimating the fair value of assets, this was considered a key audit matter.	In considering the reasonableness of the impairment provision, we reviewed the assumptions used in impairment calculations. Based on the procedures performed, we are satisfied that the impairment provision is reasonable and the financial assets were properly classified and valued.

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 management.
- Conclude on appropriateness of management's 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 continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

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

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

Report on Other Legal and Regulatory Requirements

As required in Section 259 (3) of the Companies Act 2017, we consider and report to you that:

- There is no relationship, interest or debt which we have, as the Bank Auditors, with the Bank; and
- There are no serious breaches of corporate governance principles or practices by the directors.

In accordance with the requirements of the Banking and Financial Services Act. 2017, we report that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- There were no transactions that were not within the powers of the Bank or which was contrary to the Act;
- The Bank has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act, and
- There are no transactions or conditions affecting the wellbeing of the Bank which have come to our attention that in our opinion are not satisfactory and require rectification.

Grant Thornton

Grant Thornton
Chartered Accountants

Rodia Milumbe Musonda (AUD -F000367)
Name of Partner signing on behalf of the Firm
Lusaka

Date: 7 March 2023

(All amounts are in thousands of Kwacha unless otherwise stated)

Statement of comprehensive income

	Notes	2022	2021
Interest income	5	198,163	174,741
Interest expense	6	(67,759)	(78,010)
Net interest income		130,404	96,731
Net fees and commission income	7	15,588	16,800
Other income	8	6,497	5,156
Total Operating Income		152,489	118,687
Impairment credits/(charges) on financial instruments	16	10,980	(4,885)
Net operating income after loan impairment credits/(charges)		163,469	113,802
Fair value gain/(loss) on equity	15 (b)	1,198	-
Operating expenses	9	(108,497)	(92,149)
Loss on distribution of non-current asset		(19,830)	-
Finance cost		(2,933)	(1,382)
Profit before income tax		33,407	20,271
Income tax expense	11	(6,524)	(10,908)
Profit for the year		26,883	9,363
Other Comprehensive income			
Items that will not be classified to profit or loss			
Tax relating to items that will not be classified to profit or loss	25	6,544	2,003
Other comprehensive income net of tax		6,544	2,003
Total Comprehensive Income		33,427	11,366

(All amounts are in thousands of Kwacha unless otherwise stated)

Statement of financial position

	Notes	2022	2021
ASSETS			
Cash and balances with Bank of Zambia	12	233,828	315,671
Balances with other banks	14	52,166	15,547
Investment in securities	15(a)	738,997	562,798
Investment in equity	15(b)	4,942	-
Loans and advances to customers	16	417,828	447,577
Other investments	17	837	837
Property and equipment	18	58,489	57,355
Intangible assets	19	3,880	5,250
Deferred income tax	25	19,919	11,157
Other assets	22	38,142	37,566
Current income tax	11	8,679	1,272
Total assets		1,577,707	1,455,030
LIABILITIES			
Deposits from customers	24	1,160,410	1,083,859
Deposits from other banks	23	53,837	58,511
Lease liability	21	49,354	10,578
Other liabilities	26	26,794	38,145
Dividend Payable	31	-	10,052
Total liabilities		1,290,395	1,201,145
EQUITY			
Share capital	27	84,000	84,000
Revaluation reserves	28	548	23,515
Statutory reserves	29	84,000	84,000
Credit risk reserves	30	6,992	22,524
Retained earnings		111,772	39,846
Total equity		287,312	253,885
Total equity and liabilities		1,577,707	1,455,030

The financial statements on pages 17 to 73 were approved for issue by the Board of Directors on 7 March 2023 and signed on its behalf by:

Director **Director**

Director **Director**

(All amounts are in thousands of Kwacha unless otherwise stated)

Statement of changes in equity

	Share Capital (note 27)	Revaluation reserves (note 28)	Statutory reserves (note 29)	Credit risk Reserves (note 30)	Retained earnings	Total equity
Year ended 31 December 2021						
At start of year	84,000	22,365	55,682	46,160	44,364	252,571
Comprehensive income						
Profit for the year	-	-	-	-	9,363	9,363
Tax on revaluation gain	-	2,003	-	-	-	2,003
Total Comprehensive Income	-	2,003	-	-	9,363	11,366
Transfer of excess depreciation on revaluation reserve	-	(853)	-	-	853	-
Transfer to retained earnings	-	-	-	(23,636)	23,636	-
Transfer to statutory reserves	-	-	28,318	-	(28,318)	-
Dividends	-	-	-	-	(10,052)	(10,052)
At end of year	84,000	23,515	84,000	22,524	39,846	253,885
Year ended 31 December 2022						
At start of year	84,000	23,515	84,000	22,524	39,846	253,885
Comprehensive income						
Profit for the year	-	-	-	-	26,883	26,883
Tax on revaluation gain	-	-	-	-	6,544	6,544
Total Comprehensive Income	-	-	-	-	33,427	33,427
Transfer of excess depreciation on revaluation reserve	-	(11)	-	-	11	-
Revaluation reserve realized	-	(22,956)	-	-	22,956	-
Transfer to retained earnings	-	-		(22,524)	22,524	-
Transfer to credit risk reserves	-	-	-	6,992	(6,992)	-
At end of year	84,000	548	84,000	6,992	111,772	287,312

(All amounts are in thousands of Kwacha unless otherwise stated)

Statement of cash flows

	Note	2022	2021
Cash flows from operating activities			
Profit before tax		33,407	20,271
Adjust:			
Depreciation charge on property, plant and equipment	18	28,247	6,386
Amortisation of intangible assets	19	1,355	77
Lease liability charge	21 (b)	2,933	1,382
Loss on disposal of property, plant and equipment		19,830	-
Fair value gain/(loss) on equity	15(a)	(1,198)	-
Impairment charges		3,276	4,885
Impact of exchange difference and lease modifications		4,938	27,756
Income tax paid	11	(16,149)	(20,037)
Cash flows from operating activities before changes in operating assets and liabilities		**76,639**	**40,720**
Changes in operating assets and liabilities:			
- (Increase)/decrease- other assets		(576)	17,680)
- Increase/(decrease)-deposits from other banks		(4,674)	15,147
- Increase/(decrease)-customer deposits		76,551	108,931
-(Increase)/decrease- loans and advances to customers		29,749	83,877
- Increase/(decrease)-other liabilities		(11,351)	21,686
Net cash generated from operating activities		**166,338**	**252,681**
Cash flows from investing activities			
Purchase of property, plant and equipment	18,19,20	(1,330)	(2,045)
Proceeds from disposal of property, plant and equipment		10,077	-
(Purchase)/redemption of government securities		(192,523)	(117,720)
Proceeds from maturity of corporate bond		14,752	-
Net cash (used in)/ generated from investing activities		**(169,024)**	**(119,765)**
Cash flows from financing activities			
Principal lease payment	21(b)	(25,314)	(5,293)
Interest paid on lease	21(b)	(2,933)	(1,382)
Dividends paid	31	(10,052)	-
Net cash used in financing activities		**(38,299)**	**(6,675)**
Net (decrease)/ increase in cash and cash equivalents		(40,985)	126,241
Cash and cash equivalents at start of year		444,721	318,480
Cash and cash equivalents at end of year	13	**403,736**	**444,721**

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Notes to the financial statements

1 General information

First Alliance Bank Zambia Limited (the Bank) is a registered commercial bank domiciled in Zambia. The Bank is involved in investment, corporate and retail banking.

The address of the registered office is:

Plot No 627
P.O. Box 33959
Cairo Road
LUSAKA

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

(i) Compliance with IFRS

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements are presented in Kwacha (K), rounded to the nearest thousand.

(ii) Going concern.

The Directors of the Bank have made an assessment of the Bank's ability to continue as a going concern and are satisfied that the Bank has resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on a going concern basis.

(iii) Historical cost convention

The financial statements have been prepared on a historical cost basis as modified by the revaluation of property and equipment.

(iv) New accounting standards adopted by the Bank

Some accounting pronouncements which have become effective from 1 January 2022 and have therefore been adopted do not have a significant impact on the Bank's financial results or position. Other Standards and amendments that are effective for the first time in 2022 and could be applicable to the Bank are:

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- COVID-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements (2018-2020 Cycle): – Subsidiary as a First-time Adopter (Amendments to IFRS 1) – Fees in the '10 per cent' Test for Derecognition of Liabilities (Amendments to IFRS 9) – Lease Incentives (Amendments to IFRS 16) –
- Taxation in Fair Value Measurements (Amendments to IAS 41).

These amendments do not have a significant impact on these financial statements and therefore the disclosures have not been made.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank.

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Bank.

- IFRS 17 'Insurance Contracts' - IFRS 17 'Insurance Contracts' will have a major impact on entities issuing insurance contracts, however, it will not affect the Bank
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- References to the Conceptual Framework
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Definition of Accounting Estimates (Amendments to IAS 8)

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Bank's financial statements.

(b) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Kwacha ("K") which is the Bank's functional currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.
Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income and are accumulated in the fair value reserve in equity.

(c) Recognition of interest income and expenses

(i) The effective interest rate (EIR) method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(c) Recognition of interest income and expenses (continued)

(i) The effective interest rate (EIR) method (continued)

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the statement of financial position with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

(ii) Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

Other interest income/expense includes interest on derivatives in economic hedge relationships and all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in Net trading income.

The Bank calculates interest income on financial assets, other than those considered credit- impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(d) Fees and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included using the effective interest rate.

Other fee and commission income is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. IFRS 9 fees are accounted for as part of the EIR. These fees include arrangement and commitment fees that are collected at the start of the facility and amortised over the term of the instruments, while IFRS 15 related fees are collected after performance obligations have been rendered.

The fees collected by the Bank that meet the criteria under IFRS 15 include account maintenance fees, ATM issuer fees, real gross settlement (RTGS) money transfer fees, electronic funds transfer commission, reference commission, drafts, point of sale commission, commission on encashment of salary cheques etc. These fees are all collected at a point in time whenever the service is rendered.

(i) Performance Obligations and Revenue Recognition Policies

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

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers i.e, including significant payment terms, and the related revenue recognition policies.

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 recognized over time as the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

(e) Dividend income

Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

(f) Financial instruments

Recognition and derecognition
Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

(a) Classification and initial measurement of financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Bank has applied the practical expedient, the Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.Trade receivables that do not contain a significant financing component or for which the Bank hasapplied the practical expedient are measured at the transaction price determined under IFRS 15.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(a) Classification and initial measurement of financial assets (continued)

Financial assets, other than those designated and effective as hedging instruments, are classifiedinto one of the following categories:

- amortised cost
- fair value through profit or loss (FVTPL), or
- fair value through other comprehensive income (FVOCI).

In the periods presented the Bank does not have any financial assets categorised as FVOCI. The classification is determined by both:

- the entity's business model for managing the financial asset, and
- the contractual cash flow characteristics of the financial asset.

All revenue and expenses relating to financial assets that are recognised in profit or loss arepresented within finance costs, finance income or other financial items.

In order for a financial asset to be classified and measured at amortised cost or fair value throughOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' onthe principal amount outstanding. This assessment is referred to as the SPPI test and is performedat an instrument level.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

(b) Subsequent measurement of financial assets

(i) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(b) Subsequent measurement of financial assets (continued)

(i) Financial assets at fair value through other comprehensive income (FVOCI) (debt instruments)

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell, and the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, any gains or losses recognised in OCI is recycled to profit or loss.

(ii) Financial assets designated at fair value through other comprehensive income (FVOCI) (equity) instruments

Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 and are not held for trading. The classification is determined on an instrument-by- instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

(iii) Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (Continued)

(c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired Or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass- through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(d) Impairment of financial assets

(i) Impairment and provisioning policies

The Bank recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at fair value through profit and loss (FVTPL):

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(d) Impairment of financial assets

(i) Impairment and provisioning policies (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12- month ECL is recognised are referred to as 'Stage 1 financialinstruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments for which a lifetime ECL is recognised and which are credit impaired are referred to as 'stage 3 financial instruments'.

(ii) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cashflows;

undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

(iii) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the Modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(d) **Impairment of financial assets (continued)**

(iv) Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Objective evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties;
- default or delinquency by a borrower;
- observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

(e) **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify
- the ECL on the loan commitment component separately from those on the drawn component: the Bank presents
- a combined loss allowance for both components. The combined amount is presented as a deduction from the
- gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

(f) Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included m 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(g) Derivatives and hedge accounting

The Bank uses derivative financial instruments, such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

(h) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other Banks, deposits from Banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to customers or placements with other Banks, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(g) Property and equipment

Buildings comprise mainly Head office premises. All property and equipment is stated at historical cost or valuation less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses ' during the period in which they are incurred. Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to profit or loss.

Depreciation on assets is calculated on the straight-line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	2%
Fixtures, fittings and equipment	25%
Motor vehicles	20%

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

The Bank assesses at each reporting period whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are recorded at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in "other income" in profit or loss.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(h) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (four years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding four years).

(i) Income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the statement of financial position date.

(i) Recognition of deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax liability is settled, or the related deferred income tax asset is realised.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(i) Income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with other banks, other short term highly liquid investments with maturities of three months or less and cash and non- restricted balances with the Bank of Zambia.

(k) Employee benefits

(i) Retirement benefit obligations

The Bank contributes to the statutory scheme in Zambia namely National Pension Scheme Authority (NAPSA) which is a defined contribution plan where the Bank pays an amount equal to the employees' contributions. Employees' contribution is 5% of their gross earnings up to a maximum of K1,221.80 per month during the year 2022.

Contributions to NAPSA are recognised in the profit or loss in the year in which they fall due. The Bank has no legal or 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.

(ii) Other entitlements

The estimated monetary liability for employees such as accrued annual leave entitlement and gratuity at the statement of financial position date is recognised as an expense accrual.

(l) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(m) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(n) Statutory Reserves

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

(o) Revaluation Reserves

The revaluation reserve arises from the periodic revaluation of buildings and represents the excess of the revalued amount over the carrying value of buildings at the date of valuation.

(p) Credit Risk Reserves

The regulatory loan loss reserve represents 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).

(q) 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 and non-distributable services. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(r) Dividends payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(s) Leased assets

The Bank makes the use of leasing arrangements principally for the provision of the office space. The rental contracts for offices are typically negotiated for terms of between 1 and 5 years and some of these have extension terms. The Bank does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as escalation clauses. The Bank assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Some lease contracts contain both lease and non-lease components. These non-lease components are usually associated with facilities management services at offices. The lease components are split into their lease and non-lease components based on their relative stand-alone prices.

(i) Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognises a right-of-use asset and a lease liability in its consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Bank's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Bank would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Bank.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is reassessed when there is a change in the lease payments. Changes in lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The revised lease payments are discounted using the Bank's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of- use asset has been reduced to zero then any excess is recognised in profit or loss.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(s) Leased assets (continued)

(i) Measurement and recognition of leases as a lessee (continued)

Payments under leases can also change when there is either a change in the amounts expected to be paid under residual value guarantees or when future payments change through an index or a rate used to determine those payments, including changes in market rental rates following a market rent review. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. Except for where the change in lease payments results from a change in floating interest rates, in which case the discount rate is amended to reflect the change in interest rates.

To respond to business needs particularly in the demand for office space, the Bank will enter into negotiations with landlords to either increase or decrease available office space or to renegotiate amounts payable under the respective leases. In some instances, the Bank is able to increase office capacity by taking additional floors available and therefore agrees with the landlord to pay an amount that is commensurate with the stand-alone pricing adjusted to reflect the particular contract terms. In these situations, the contractual agreement is treated as a new lease and accounted for accordingly.

In other instances, the Bank is able to negotiate a change to a lease such as reducing the amount of office space taken, reducing the lease term or by reducing the total amount payable under the lease. Both of which were not part of the original terms and conditions of the lease. In these situations, the Bank does not account for the changes as though there is a new lease. Instead, the revised contractual payments are discounted using a revised discount rate at the date that the lease is effectively modified. For the reasons explained above, the discount rate used is the Bank's incremental borrowing rate determined at the modification date, as the rate implicit in the lease is not readily determinable.

The remeasurement of the lease liability is dealt with by a reduction in the carrying amount of the right- of-use asset to reflect the full or partial termination of the lease for lease modifications that reduce the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. The right-of-use asset is adjusted for all other lease modifications.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. These leases relate to items of office equipment such as desks, chairs, and certain IT equipment. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

(ii) The Bank as a lessor

As a lessor the Bank classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidentalto ownership of the underlying asset and classified as an operating lease if it does not.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

(t) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(u) Fiduciary activities

The Bank commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

	2022	2021
Assets held on behalf of Clients at cost		
Treasury Bills	8,724	4,721
Government Bonds	10,943	7,606
Total	19,667	12,327

(v) Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Bank has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote then they are not disclosed.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements in applying accounting policies

The Bank makes a number of judgements, estimates and assumptions concerning the recognition and measurement of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

(i) Estimation uncertainty

The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Extension options for leases

When the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

(b) Impairment losses on loans and advances

Inputs, assumptions and techniques used for estimating impairment.

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default **(PD)** as at the reporting date; with
- the remaining lifetime **PD** for this point in time that was estimated at the time of initial recognition of the
- exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 90 days past due.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

(i) Estimation uncertainty (continued)

(b) Impairment losses on loans and advances (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Exposures are subject to ongoing monitoring and the monitoring typically involves use of the following data.

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files -e.g. audited financial statements, management accounts, budgets and projections. Data from credit reference agencies, press articles, changes in external credit ratings Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	Internally collected data on customer behaviour - e.g. utilisation of credit facilities External data from credit reference agencies, including industry-standard	Payment record This includes overdue status as well as a range of variables about payment ratios Utilisation of the granted limit Requests for and granting of forbearance Existing and forecast changes in business, financial and economic conditions

Definition of default

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

- 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 is more than 90 days past due on any material credit obligation to the Bank. (Overdrafts are
- considered as being past due once the customer has breached approved limit); or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's
- inability to pay its credit obligations.

(c) Recognition of deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management

The Bank 's primary business model is to collect deposits and use these funds to provide loans and other funding products and debt instruments to its customers. The Bank currently is only involved with the Banking book and no trading book. The Bank's activities expose it to a variety of financial risks: market risk (including foreign exchange, interest rate risk and price risk), credit risk and liquidity risk. These activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

Financial instruments by category included at carrying amount (Amortised Cost)

Financial assets	**Loans and Receivables**
At 31 December 2022	
Cash and bank balances with Bank of Zambia	233,828
Balances with other banks-domestic	43,185
Balances with other banks-abroad	8,981
Loans and advances	417,828
Securities	738,997
Other assets	36,200
	1,479,019
At 31 December 2021	
Cash and bank balances with Bank of Zambia	315,671
Balances with other banks-domestic	1,661
Balances with other banks-abroad	13,886
Loans and advances	447,577
Securities	562,798
Other assets	37,115
	1,378,708

Financial liabilities	**Cost**
At 31 December 2022	
Customer deposits	1,160,410
Deposits from banks	53,837
Lease liability	49,354
Other liabilities	26,794
	1,290,395
At 31 December 2021	
Customer deposits	1,083,859
Deposits from banks	58,511
Lease liability	10,578
Other liabilities	48,197
	1,201,145

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages the exposure to credit risk. Credit exposures arise principally from lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and guarantees.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Loss (ECL). The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 3.6% probability of occurring, and two less likely scenarios, best case and one worst case, each assigned a 42.9% and 53.6% probability of occurring respectively.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk for portfolios include but are not limited to: GDP growth, unemployment rates, interest rates, real estate prices, etc.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy of the Bank.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime probability of default at the reporting date based on the modified terms; with
- the remaining lifetime probability of default estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Modified financial assets (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank's Credit and Loan Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers as stipulated by the Central Bank. Industry segments risk levels are monitored on a revolving basis and subject to annual or more frequent review as deemed necessary by the Board of Directors.

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

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

Longer-term finance and lending to corporate entities are generally secured, revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

Financial instruments whose carrying amount represent exposure to credit risk without taking into account of any collateral held or other credit enhancements are disclosed below:

	2022	2021
Credit risk exposure relating to off-balance sheet		
Guarantees and performance bonds	1,845	7,973

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans
- 77% of the loans and advances portfolio are not impaired (2021: 79%)
- 99% of the loans and advances portfolio are backed by collateral (2021: 95%)
- 98% of the investments in debt securities are government securities (2021: 95%)

i) Loans and advances

(a) Credit quality analysis at gross carrying amounts	**2022**	**2021**
Stage 1	310,996	288,052
Stage 2	54,943	117,993
Stage 3	108,014	105,246
Gross advances	473,953	511,291

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

i) Loans and advances (continued)

(b) Loss allowances

At 31 December 2022	**Stage1**	**Stage2**	**Stage3**	**Total**
Balance at January	-	1,000	62,714	63,714
Charge for the year	-	-	3,276	3,276
Transfer	474	(474)	-	-
Recoveries during the year	-	-	(14,256)	(14,256)
Impact of exchange rate movements	-	-	3,391	3,391
	474	526	55,125	56,125

At 31 December 2021	**Stage1**	**Stage2**	**Stage3**	**Total**
Balance at January	-	1,000	73,049	74,049
Charge for the year	-	-	4,885	4,885
Impact of exchange rate movements	-	-	(15,220)	(15,220)
	-	1,000	62,714	63,714

ii) Other financial instruments

All other financial instruments below were neither past due nor impaired

	2022	**2021**
Cash and Balances with Bank of Zambia	233,828	315,671
Balances with other Banks - domestic	43,185	1,661
Balances with other Banks - abroad	8,981	13,886
Securities with Government of the Republic of Zambia	729,195	536,672
Corporate Bonds	9,802	26,126
	1,024,991	894,016

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

iii) Concentrations of risk of financial assets with credit risk exposures

Industry sector risk concentrations were as follows for on and off-balance sheet items:

	Financial institutions	Manufacturing	Transport and communication	Wholesale and Retail Trade	Agricultural	Other	Individual	Total
At 31 December 2022								
Loans and advances to customers		51,939	8,466	196,465	35,864	106,040	19,054	417,828
Balances with Bank of Zambia	193,640	-	-	-	-	-	-	193,640
Placements with other Banks- abroad	8,981	-	-	-	-	-	-	8,981
Placements with other Banks- domestic	43,185	-	-	-	-	-	-	43,185
Investment in Securities	729,195	-	-	-	-	14,744	-	743,939
Other assets	-	-	-	-	-	36,200	-	36,200
Total	**975,001**	**51,939**	**8,466**	**196,465**	**35,864**	**156,984**	**19,054**	**1,443,773**
%	**68%**	**4%**	**-**	**14%**	**2%**	**11%**	**1%**	**100%**
At 31 December 2021								
Loans and advances to customers		60,870	15,636	177,240	37,148	145,494	11,189	447,577
Balances with Bank of Zambia	295,999	-	-	-	-	-	-	295,999
Placements with other Banks- abroad	13,886	-	-	-	-	-	-	13,886
Placements with other Banks- domestic	1,661	-	-	-	-	-	-	1,661
Investment in Securities	-	-	-	-	-	562,798	-	562,798
Other assets	-	-	-	-	-	37,115	-	37,115
Total	**311,546**	**60,870**	**15,636**	**177,240**	**37,148**	**745,407**	**11,189**	**1,359,036**
%	**23%**	**4%**	**1%**	**13%**	**3%**	**55%**	**1%**	**100%**

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

iii) Concentrations of risk of financial assets with credit risk exposures (continued)

Investments in Securities

	2022	**2021**
Securities with Government of the Republic of Zambia	729,195	536,672
Corporate Bonds	9,802	26,126
Equity	4,942	-
	743,939	562,798

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Central Bank requires that the Bank maintains a cash reserve ratio. In addition, the Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter- Bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. Sources of liquidity are regularly reviewed by a separate team in Bank Treasury to maintain a wide diversification by provider, product and term.

i) Non-derivative financial liabi lities and assets held for managing liquidity risk

The table below presents the undiscounted cash flows payable by the Bank under non -derivative financial liabilities and assets categorised by;

- remaining contractual maturities; and
- expected maturity dates.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

i) Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

At 31 December 2022	**Up to 1 Month**	**2-3 Months**	**4-12 Months**	**1-5 Years**	**Over 5 Years**	**Total**
Liabilities						
Customer deposits	675,911	187,893	296,606	-	-	1,160,410
Deposits from other Banks	2,345	-	12,258	39,234	-	53,837
Lease liability	6,448	376	20,075	24,917	-	51,816
Other financial liabilities	26,794	-	-	-	-	26,794
Total financial liabilities	711,498	188,269	328,939	64,151	-	1,292,857
Assets						
Cash and balances with Bank of Zambia	233,828	-	-	-	-	233,828
Balances with other Banks	52,166	-	-	-	-	52,166
Loans and advances	123,253	47,803	161,951	83,243	1,577	417,828
Investment in securities	65,191	81,954	409,772	182,080	4,942	743,939
Other Financial assets	36,200	-	-	-	-	36,200
Total financial assets	510,638	129,757	571,723	265,323	6,519	1,483,961

At 31 December 2021	**Up to 1 Month**	**2-3 Months**	**4-12 Months**	**1-5 Years**	**Over 5 Years**	**Total**
Liabilities						
Customer deposits	484,483	199,430	399,946	-	-	1,083,859
Deposits from other Banks	6,943	-	-	51,568	-	58,511
Lease liability	795	795	795	8,193	-	10,578
Other financial liabilities	48,197	-	-	-	-	48,197
Total financial liabilities	540,418	200,225	400,741	59,761		1,201,145
Assets						
Cash and balances with Bank of Zambia	315,671	-	-	-	-	315,671
Balances with other Banks	15,547	-	-	-	-	15,547
Loans and advances	89,515	111,894	179,031	67,137	-	447,577
Investment in securities	61,091	52,412	384,099	65,196	-	562,798
Other Financial assets	37,115	-	-	-	-	37,115
Total financial assets	518,939	164,306	563,130	132,333		1,378,708

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

ii) Assets held for managing liquidity risk

The Bank holds a diverse portfolio of cash and high quality liquid securities to support payment obligations and contingent funding in stress market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with Bank of Zambia
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Banks portfolios.

iii) Off balance sheet items

Outstanding Guarantees

	2022	2021
Outstanding Guarantees	1,845	7,973

iv) Capital commitments

There were no capital commitments for the acquisition of property and equipment during the year (2021: Nil).

(c) Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of the financial instrument. Market risk arises from open position in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in levels of exchange volatility. The objective of the market risk management is to manage and control market risk exposures within acceptable limits, while optimising the returns on the risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO).

The Treasury Department in consultations with the senior management reviews the foreign exchange buying and selling rates on a daily basis and decisions are made as to how to proceed in time within the limits stipulated by the Bank of Zambia.

Similarly, the Assets and Liabilities Committee monitors the interest rates on a monthly basis and adjustments are made on interest chargeable on loans and advances, if deemed necessary. The monitoring process pays attention to Treasury bill rates and base rates changes announced by the other Banks.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

i) Exposure to foreign exchange risk

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 Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by management through treasury. The table below summarises the Bank 's exposure to foreign currency exchange rate risk at 31 December 2022 and 2021. Figures in the table below are in thousands.

	USD	GBP	ZAR	Euro	INR
At 31 December 2022					
Assets					
Cash and balances with Banks abroad	8,610	48	1,863	35	7,838
Loans and advances to customers	19,119	-	-	-	-
Other assets	7,262	-	-	-	-
Total assets	34,991	48	1,863	35	7,838
Liabilities					
Customer deposits	23,967	45	670	136	-
Deposits from other banks	-	-	-	-	-
Other liabilities	11,226	-	-	-	-
Total liabilities	35,193	45	670	136	-
Net on-balance sheet position	(202)	3	1,193	(101)	7,838
Off balance sheet (Net)	-	-	-	-	-
Overall open position	(202)	3	1,193	(101)	7,838
At 31 December 2021					
Assets					
Cash and balances with Banks abroad	9,015	126	4,214	184	5,559
Loans and advances to customers	22,412	-	-	-	-
Other assets	6,055	-	-	-	-
Total assets	37,482	126	4,214	184	5,559
Liabilities					
Customer deposits	27,432	113	1,070	170	-
Deposits from other banks	-	-	-	-	-
Other liabilities	9,541	2	-	-	-
Total liabilities	36,973	115	1,070	170	-
Net on-balance sheet position	509	11	3,144	14	5,559
Off balance sheet (Net)	-	-	-	-	-
Overall open position	509	11	3,144	14	5,559

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

ii) Foreign currency sensitivity

The following shows the currency sensitivity to the Bank's exposure to a 15% appreciation or depreciation of the Kwacha against the relevant foreign currencies, translated at a statement financial position date. 15% represents management's assessment of a reasonably possible change in foreign currency rates taking into account recent developments in the economy.

Only net open position has been used in performing the sensitivity analysis. A negative number indicates a decrease in the net asset position there by increasing the exposure where the Kwacha appreciates and the opposite is the impact when the Kwacha depreciates.

Change	**US$**	**GBP**	**ZAR**	**EUR**	**INR**
2022-15%	30	(0)	(179)	15	(1,176)
2021-25%	(127)	(3)	(786)	(4)	(1,390)

iii) Interest rate risk

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 or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken. This is monitored daily by management.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

iii) Interest rate risk (continued)

	Up to 3 Months	3-6 Months	6-12 Months	Over 1 Year	Non-interest bearing	Total
At 31 December 2022						
Cash and balances with Central bank	-	-	-	-	233,828	233,828
Balances with other banks — domestic	41,031	-	-	-	2,154	43,185
Balances with other banks — abroad	8,981	-	-	-	-	8,981
Loans and advances to customers	172,458	27,771	132,779	84,820	-	417,828
Investment in Securities	147,145	144,351	265,420	187,022	-	743,939
Other assets	-	-	-	-	36,200	36,200
Total financial assets	369,615	172,122	398,199	271,842	272,182	1,483,961
Liabilities						
Customer deposits	514,039	98,164	193,661	-	354,546	1,160,410
Deposits from other banks	-	1,000	10,950	38,250	3,637	53,837
Lease liabilities	6,824	10,038	10,038	24,917	-	51,817
Other liabilities	-	-	-	-	26,794	26,794
Total financial liabilities	520,863	109,202	214,649	63,167	384,977	1,292,858
Interest re-pricing gap	(151,248)	(88,328)	95,223	299,437	195,304	
Impact of 10% increase in rates	(15,125)	(8,833)	9,522	29,944	19,530	
Impact of 7.5% decrease in rates	11,344	6,625	(7,142)	(22,458)	(14,648)	

	Up to 3 Months	3-6 Months	6-12 Months	Over 1 Year	Non-interest bearing	Total
At 31 December 2021						
Cash and balances with Central bank	-	-	-	-	315,671	315,671
Balances with other banks — domestic	28	-	-	-	1,633	1,661
Balances with other banks — abroad	13,886	-	-	-	-	13,886
Loans and advances to customers	201,409	89,515	89,516	67,137	-	447,577
Investment in Securities	113,503	129,151	254,948	65,196	-	562,798
Other assets	-	-	-	-	37,115	37,115
Total financial assets	328,826	218,666	344,464	132,333	354,419	1,378,708
Liabilities						
Customer deposits	683,913	139,817	260,129	-	-	1,083,859
Deposits from other banks	-	-	-	51,718	6,793	58,511
Lease liabilities	795	795	795	8,193	-	10,578
Other liabilities	-	-	-	-	48,197	48,197
Total financial liabilities	684,708	140,612	260,924	59,911	54,990	1,201,145
Interest re-pricing gap	(355,882)	(277,828)	(194,288)	(121,866)	177,563	-
Impact of 10% increase in rates	(35,588)	(27,783)	(19,429)	(12,187)	17,756	-
Impact of 7.5% decrease in rates	26,691	20,837	14,572	9,140	(13,317)	-

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Market risk (continued)

iii) Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

(d) Fair values of financial instruments

The fair values of the Bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available to the Bank at the statement of financial position date.

Assets and liabilities measured at fair value

	Carrying Amount 2022	**Fair Value** 2022	**Carrying Amount 2021**	**Fair Value 2021**
Assets				
Cash and balances with Bank Zambia	233,828	233,828	315,671	315,671
Balances with other Banks- domestic	43,185	43,185	1,661	1,661
Balances with other Banks- abroad	8,981	8,981	13,886	13,886
Loans and advances	417,828	417,828	447,577	447,577
Other Assets	775,197	775,197	599,913	599,913
Total	1,479,019	1,479,019	1,378,708	1,378,708
Liabilities				
Deposits from customers	1,160,410	1,160,410	1,083,859	1,083,859
Deposits from other Banks	53,837	53,837	58,511	58,511
Other Liabilities	26,794	26,794	48,197	48,197
Total	1,241,041	1,241,041	1,190,567	1,190,567

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Fair values of financial instruments (continued)

Fair value hierarchy

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Banks' market assumptions. These two types of inputs have created the following fair value hierarchy:

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

This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

For assets whose fair value is equal to the carrying amounts, the fair value disclosures as above are analysed as follows in the fair value hierarchy;

	Level 1	Level 2	Level 3
At 31 December 2022			
Balances with other banks - domestic	-	43,185	-
Balances with other banks - abroad	-	8,981	-
Loans and advances	-	417,828	-
Investment in securities	4,942	738,997	-
Total Assets	4,942	1,208,991	-
At 31 December 2021			
Balances with other banks - domestic	-	1,661	-
Balances with other banks - abroad	-	13,886	-
Loans and advances	-	447,577	-
Investment in securities	-	562,798	-
Total Assets	-	1,025,922	-

At 31 December 2022, the Bank did not have financial liabilities measured at fair value (2021: nil)

Fair V alue Estimation of Non-financial assets

When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(d) Fair values of financial instruments (continued)

Fair Value Estimation of Non-financial assets (continued)

An independent valuation of the Bank's property was performed by valuers to determine the fair-value of the buildings. The following table analyses by hierarchy.

	Level 1	Level 2	Level 3
31 December 2022			
Property	-	58,489	-
31 December 2021			
Property	-	57,355	-

All fair value measurements disclosed are recurring fair value measurements, required for the purposes of measuring the Bank's assets at fair value. During the year no transfers were made amongst the different levels.

(e) Capital management

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

- to comply with the capital requirements set by the Banking and Financial Services Act;
- 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;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Zambia for supervisory purposes. The required information is laid with the Bank of Zambia on a monthly basis.

The Bank of Zambia requires local owned Banks to: (a) hold the minimum level of regulatory capital of K104,000,000; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk- weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%;

(c) maintain primary or tier 1 capital of not less than K 104,000,000 of which 80% should be share capital and 20% audited retained earnings. The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (primary capital): common shareholders' equity, qualifying preferred shares and minority interests in the equity of subsidiaries that are less than wholly owned.
- Tier 2 capital (secondary capital): qualifying preferred shares, 40% of revaluation reserves, subordinated term debt or loan stock with a minimum original term of maturity of over five years (subject to a straight-line amortisation during the last five years leaving no more than 20% of the original amount outstanding in the final year before redemption) and other capital instruments which the Bank of Zambia may allow. The maximum amount of secondary capital is limited to 100% of primary capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of - and reflecting an estimate of the credit risk associated with - each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

FIRST ALLIANCE BANK (Z) LTD.

PREMIUM
CORPORATE ACCOUNT

Interest Bearing

Non-Interest Bearing

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(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4. Financial risk management (continued)

(d) Capital management

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December 2022:

	2022	2021
Regulatory Capital		
Tier 1 capital	279,772	230,370
Tier 1 + Tier 2 capital	279,991	239,776
Risk-weighted assets		
On-balance sheet	660,705	643,492
Off-balance sheet	1,845	7,973
Total risk-weighted assets	662,550	651,465
Basel ratio		
Tier 1 (Regulatory minimum - 5%)	42.2%	35.4%
Tier 1 + Tier 2 (Regulatory minimum - 10%)	42.3%	36.8%

5. Interest income

	2022	2021
Loans and advances to customers	78,921	74,567
Government and other securities	116,504	98,040
Advances to banks and other financial institutions	2,738	2,134
	198,163	174,741

6. Interest expense

	2022	2021
Customer deposits	62,309	74,904
Deposits from other banks	5,450	3,106
	67,759	78,010

7. Fees and commission income

	2022	2021
Credit related fees and commission	16,023	17,204
Customer transaction and activity fees	(435)	(404)
	15,588	16,800

8. Other income

	2022	2021
Realized gains/(losses)	6,820	9,996
Un realized gains/(losses)	(323)	(4,853)
Rental income	-	13
	6,497	5,156

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

		2022	2021
9.	**Operating expenses**	**2022**	**2021**
	Employee benefits expense (note 10)	41,552	38,624
	Depreciation on property and equipment (note 18)	28,247	6,386
	Computer expenses	7,107	9,533
	Misc office expenses	4,669	1,681
	ATM expenses	3,964	2,222
	Directors fees	2,576	1,873
	Auditor's remuneration	1,660	1,169
	Rates and Taxes	1,554	124
	Regulatory supervision fees	1,407	2,392
	Consultancy fees	1,377	70
	Property and equipment maintenance expenses	1,375	568
	Amortisation of intangible property and equipment (note 19)	1,355	77
	Swift expenses	1,310	1,418
	Reuters expenses	1,117	554
	Regulatory Handling fees - Government Securities	1,054	815
	Travel expenses	1,038	1,005
	Security charges	923	880
	NOSTRO Account CHGS	723	848
	Printing & stationery	564	370
	Insurance expenses	545	882
	Business Promotion expenses	521	1,640
	Fuel & maintenance	490	-
	Water, lighting and newspapers	462	452
	Cleaning materials	442	342
	Telephone expenses	426	360
	Donations	386	355
	Advertisements	367	635
	Subscription fees	325	238
	Staff refreshments	278	78
	Clearing House expenses	247	208
	Equipment Repairs	171	70
	Training	108	130
	Generator expenses	95	85
	Postages	46	60
	Cash shortage	16	5
	Provisions for rental payments	-	16,000
		108,497	92,149
10.	**Employee benefits expense**		
	Salaries and wages	40,847	37,331
	Other Staff benefit costs	705	1,293
		41,552	38,624
11.	**(a) Income tax expense**		
	Current tax	8,742	8,927
	Deferred tax (credit)/charge (note 25)	(2,218)	1,981
		6,524	10,908

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

11. Income tax expense (continued)

	2022	2021
(b) Current income tax movement		
At start of year (asset)/liability	(1,272)	9,838
Current income tax charge	8,742	8,927
Payments during the year	(16,149)	(20,037)
At end of year - (asset)/liability	(8,679)	(1,272)

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

	2022	2021
Profit before income tax	32,709	20,271
Tax calculated at the statutory income tax rate of 30% (2021: 35%)		
Tax effect of:	9,813	7,095
Net adjusted expenses for tax purposes	(1,071)	3,835
Net deferred tax asset movement (Note 25)	(2,218)	(22)
Income tax expense	6,524	10,908

12. Cash and balances with Bank of Zambia

	2022	2021
Cash in hand	40,188	19,672
Balances with Bank of Zambia	193,640	295,999
-Open Market Operations	-	90,000
-Current account	40,640	19,380
-Statutory reserves	153,000	186,361
Total	233,828	315,671
Current	233,828	315,671

Statutory reserve deposits are not available for use in the Bank's day-to-day operations. Cash-in- hand and balances with the Central Bank and statutory reserve deposits are non-interest bearing.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

13. Cash and cash equivalents

The analysis of cash and cash equivalents at year end was as follows;

	2022	2021
Cash and balances with Bank of Zambia	233,828	315,671
Balances with other Banks (Note 14)	52,166	15,547
Securities maturing before 90 days	117,742	113,503
	403,736	444,721

Banks are required to maintain a prescribed minimum cash balance with the Bank of Zambia as statutory reserves. The amount is determined as 9% (2021: 9%)of the average outstanding customer deposits over a cash reserve cycle period of one week.

14. Balances with other banks

	2022	2021
Balances with local Banks	2,154	1,633
Balances with Banks abroad	8,981	13,886
Inter-bank placements	41,031	28
	52,166	15,547
Current	50,563	13,944
Non-current	1,603	1,603
	52,166	15,547

Included in balances with local Banks are items in course of collection relating to un-reconciled CTS clearing amount of K1.063 million (2021: K1.063 million) which has been provided for in full.

15. (a) Investment in securities at amortised cost

	2022	2021
Treasury Bills	514,445	477,999
Corporate Bonds (Note(i))	9,802	26,126
Government Bonds	214,750	58,673
At 31 December 2022	738,997	562,798
Current	555,037	479,001
Non-current	183,960	83,797
	738,997	562,798

(i) The Bank rolled over US Dollar denominated secured redeemable bonds with a total face value of $544,579 issued by the Real Estates Investments Zambia Plc (REIZ) for 5 years (26th November 2022 to 25th November 2027) bearing interest at 5.5% per annum payable half yearly. The roll-over represents 35% of the initial Bond held for 12 years by the Bank with a total face value of $1,555,941.45 that matured on 26th November 2022.Upon maturity, 50% of the value of the Bond was paid, 15% was converted to equity stake in REIZ and 35% was rolled over.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

15 (a) Investment securities at amortised cost (continued)

The movement in Investment securities at amortised costs

Analysis of Expected Credit Loss (ECL) of gross carrying amount of Investments at amortised cost

	Stage 1	Stage 2	Stage 3	Total
At January 2022	562,798	-	-	562,798
Transfer to stage 1	176,199	-	-	176,199
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At December 2022	738,997	-	-	738,997
At January 2021	453,060	-	-	453,060
Transfer to stage 1	109,738	-	-	109,738
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At December 2021	562,798	-	-	562,798

Directors remain of the considered view that these investment securities are of high quality given that the Government of the Republic of Zambia has no history of defaulting on its local currency denominated sovereign debt. The above expected credit losses have been recognised for purposes of compliance with the requirements of IFRS 9.

15. (b) Investment in equity

	2022	2021
At 1st January	-	-
Conversion	3,744	-
Fair value movement	1,198	-
At 31 December 2022	4,942	-

The Bank converted 15% of $1,555,941.45 bonds into equity holding in Real Estate Investments Zambia PLC in November 2022. This resulted in number of shares of 3,032,018 (2021:Nil) issued to the Bank at the conversion price of K1.235/share. The share price at the reporting date was K1.630/share.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

16. Loans and advances to customers

	2022	2021
Overdrafts	392,675	459,688
Commercial loans	75,921	46,970
Personal loans	5,357	4,633
Gross loans and advances	473,953	511,291
Less:		
- Provision for impairment of loans and advances	(56,125)	(63,714)
Net loans and advances	417,828	447,577
Current	333,008	380,440
Non-current	84,820	67,137
	417,828	447,577

Movements in provisions for impairment of loans and advances are as follows:

	2022	2021
At 1 January	63,714	74,049
(Credit)/charge to the income statement	(10,980)	4,885
Charge	3,276	4,885
Recovery during the year	(14,256)	-
Impact of exchange rate movements	3,391	(15,220)
At 31 December	56,125	63,714

All impaired loans have been written down to their estimated recoverable amount.

17. Other Investments

	2022	2021
National Switch	837	837
Non-current	837	837

This is an investment or contribution by the Bank towards the set-up costs of the establishment of the National Switchto enhance Zambia Electronic Clearing House Limited (ZECHL) functionality, more especially to support electronic point of sale transactions. This investment is carried at cost and is reviewed for impairment at each reporting date.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

18. Property and equipment

	Buildings	Motor vehicles	Furniture, Fittings & Equipment	Total
Year ended 31 December 2022				
Opening net book amount	44,314	1,595	11,446	57,355
Additions	55,998	-	1,325	57,323
Disposals (At Cost)	(33,500)	-	(2,133)	(35,633)
Depreciation charge	(24,171)	(820)	(3,256)	(28,247)
Depreciation on disposal	3,619	-	2,100	5,719
IFRS 16 modification	1,639	-	-	1,639
Impact of exchange rate movement	333	-	-	333
Closing net book amount	48,232	775	9,482	58,489
At 31 December 2022				
Cost/ Valuation	88,030	5,579	20,584	114,193
Accumulated depreciation	(40,131)	(4,804)	(11,102)	(56,037)
Impact of exchange rate movement	333	-	-	333
Total	48,232	775	9,482	58,489
Year ended 31 December 2021				
Opening net book amount	52,869	2,581	1,504	56,954
Additions	-	-	2,045	2,045
Capitalisation of WIP	-	-	8,952	8,952
Depreciation charge	(4,345)	(986)	(1,055)	(6,386)
Impact of exchange rate movement	(4,210)	-	-	(4,210)
Closing net book amount	44,314	1,595	11,446	57,355
At 31 December 2021				
Cost/ Valuation	63,893	5,579	21,392	90,864
Accumulated depreciation	(15,369)	(3,984)	(9,946)	(29,299)
Impact of exchange rate movement	(4,210)	-	-	(4,210)
Net book amount	44,314	1,595	11,446	57,355

Revaluation of the Bank's building

The last valuation was carried out in December 2017 by BLK REAL ESTATE CONSULTANTS an independent valuer to determine the fair value of the land and building as at 31st December 2017. The purpose of the valuation was to determine the Current Open Market Value of the property for asset value purpose. The valuation was done on direct comparisons to other similar available property transactions in the vicinity and considerations were made with reference to location, accessibility, age, condition, etc, and the prevailing market trends. Sales were analyzed and processed to form units of the value per metre square of the floor areas of the buildings which were compared with the subject property on the basis to arrive at an adjusted unit value/per metre and applied the same to the subject property allowing similarities and dissimilarities accordingly. The revaluation surplus was credited to other comprehensive income and is included in shareholders' equity. The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable. The movement in the revaluation surplus on buildings is shown in note 28.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

18. Property and equipment (continued)

The carrying amount of the revalued properties if carried under cost model would be as follows:

	2022	2021
Cost	675	3,547
Accumulated depreciation	(135)	(1,632)
Net book value	540	1,915

19. Intangible assets

	Computer software & licenses
At 1st January 2021	
Carrying value at start of year	198
Additions	5,129
Amortisation	(77)
At year end	5,250
At 31st December 2021	
Accumulated cost	12,700
Accumulated amortization	(7,450)
Carrying value at end of year	5,250
At 1st January 2022	
Carrying value at start of year	5,250
Additions	5
Amortisation	(1,355)
Transfer	(20)
At year end	3,880
At 31st December 2022	
Accumulated cost	12,685
Accumulated amortization	(8,805)
Carrying value at end of year	3,880

20. Work in progress

	2022	2021
Carrying value at start of year	-	8,952
Capitalised	-	(8,952)
At year end	-	-

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

21. Leases

(a) Right-of-use assets

	2022	2021
Building		
Gross carrying value at start of year	29,543	29,543
Additions	55,998	-
Modifications	1,639	-
At year end	87,180	29,543
Accumulated depreciation at the start of year	15,922	8,282
Depreciation charge	24,118	3,430
Impact of exchange rate movement	(333)	4,210
At year end	39,707	15,922
Net carrying amount	47,473	13,621

The Right of use assets are included under property and equipment note 18.

(b) Lease liabilities

	2022	2021
At 1st January	10,578	21,095
Additions	55,998	-
Lease payments	(25,314)	(6,680)
Lease liability charges	2,933	1,382
Lease modifications	4,336	-
Impact of exchange rate movements	823	(5,219)
At 31st December	49,354	10,578
Current	26,899	1,914
Non-current	22,455	8,664
At year end	49,354	10,578

Lease activities

The Bank leases properties which include Office Space, Data Recovery Site and Information Technology Equipment Leases are negotiated on an individual basis and contain a range of different terms and conditions. The main lease features for building include:

- Refundable Security deposits ranging from one month to three months lease payment equivalent.
- Termination and renewal options ranging between one month to six months' notice.
- Advance quarterly lease payments.
- Currency of lease agreements are mostly United States Dollars or Zambian Kwacha
- Annual lease escalation ranging between 3% and 5%
- Fixed contract period of between three and five years with an option to renew.

The lease agreements do not impose any covenants, but leased assets are not used as security for borrowing purposes.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

21. Leases (continued)

Variable lease payments

The Bank did not have any variable lease agreements in 2022 (2021: K16.014 million)

The undiscounted minimum future lease payments are indicated as below:	**2022**	**2021**
1 year	26,899	5,451
2-5 Years	24,917	24,668
	51,816	30,119

22. Other assets

	2022	**2021**
Prepayments	1,942	451
Withholding Tax receivable	16,187	12,822
Recoverable Deposit	10,795	9,804
Other	9,218	14,489
	38,142	37,566
Current	38,127	-
Non-current	15	37,566
	38,142	37,566

23. Deposits from other banks

	2022	**2021**
Overnight borrowing	150	-
Term Relief Funds	51,559	51,718
Items in course of collection	2,128	6,793
	53,837	58,511
Current	15,587	7,850
Non current	38,250	50,661
	53,837	58,511

Deposits from other banks are held at variable interest rates.

24. Deposits from customers

	2022	**2021**
Current and demand deposits	616,129	576,341
Savings accounts	1,361	1,606
Fixed deposit accounts	542,920	505,912
	1,160,410	1,083,859
Current	1,160,410	1,083,859

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

25. Deferred income tax

The deferred income tax liability/(asset) recognised income statement/statement of financial position are attributable to the following items:

Year ended 31 December 2022	Deferred tax at start of year	Movement in deferred tax	(Credit)/ charge to profit or loss	(Credit)/charge to other comprehensive income	At end of year
Deferred income tax liabilities					
Plant and equipment Cost	11,056	(9,565)	(9,565)	-	1,491
Valuation	6,709	(6,544)	-	(6,544)	165
Lease asset	-	14,242	14,242	-	14,242
	17,765	(1,867)	4,677	(6,544)	15,898
Deferred income tax assets					
Provision for impairment	(18,402)	2,582	2,582	-	(15,820)
Other provisions	(10,520)	5,329	5,329	-	(5,191)
Lease liability	-	(14,806)	(14,806)	-	(14,806)
	(28,922)	(6,895)	(6,895)	-	(35,817)
Net deferred tax	(11,157)	(8,762)	(2,218)	(6,544)	(19,919)

Year ended 31 December 2021	Deferred tax at start of year	Movement in deferred tax	(Credit)/ charge to profit or loss	(Credit)/charge to other comprehensive income	At end of year
Deferred income tax liabilities					
Plant and equipment Cost	18,236	(7,180)	(7,180)	-	11,056
Valuation	8,712	(2,003)	-	(2,003)	6,709
	26,948	(9,183)	(7,180)	(2,003)	17,765
Deferred income tax assets					
Provision for impairment	(25,917)	7,515	7,515	-	(18,402)
Other provisions	(12,166)	1,646	1,646	-	(10,520)
	(38,083)	9,161	9,161	-	(28,922)
Net deferred tax	(11,135)	(22)	1,981	(2,003)	(11,157)

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

25. Deferred income tax (continued)

Deferred income tax is calculated using the enacted income tax rate of 30% (2021: 35%). The movement on the deferred income tax account is as follows:

Year ended 31 December 2022	**At the start of the year**	**Recognised in terms of prior year**	**Recognised in current year**	**Total**	**Movement to other comprehensive income**	**Movement to profit & loss**	**At the end of the year**
Deferred income liabilities							
Plant & equipment							
Cost	11,056	(8,659)	(906)	1,491	(8,659)	(906)	1,491
Valuation	6,709	(6,544)	-	165	(6,544)	-	165
Lease Asset	-	4,767	9,475	14,242	4,767	9,475	14,242
	17,765	(10,436)	8,569	15,898	(10,436)	8,569	15,898
Assets							
impairment	(18,402)	(3,898)	6,480	(15,820)	(3,898)	6,480	(15,820)
Other provisions	(10,520)	(1,753)	7,082	(5,191)	(1,753)	7,082	(5,191)
Lease Liability	-	(3,702)	(10,361)	(14,806)	(3,702)	(11,104)	(14,806)
	(28,922)	(9,353)	2,458	(35,817)	(9,353)	2,458	(35,817)
Net deferred tax	(11,157)	(19,789)	11,027	(19,919)	(19,789)	11,027	(19,919)

Year ended 31 December 2021	**At the start of the year**	**Recognised in terms of prior year**	**Recognised in current year**	**Total**	**Movement to other comprehensive income**	**Movement to profit & loss**	**At the end of the year**
Deferred income liabilities							
Plant & equipment							
Cost	18,236	-	(7,180)	11,056	-	(7,180)	11,056
Valuation	8,712	(2,003)	-	6,709	(2,003)	-	6,709
	26,948	(2,003)	(7,180)	17,765	(2,003)	(7,180)	17,765
Assets							
impairment	(25,917)	-	7,515	(18,402)	-	7,515	(18,402)
Other provisions	(12,166)	-	1,646	(10,520)	-	1,646	(10,520)
	(38,083)	-	9,161	(28,922)	-	9,161	(28,922)
Net deferred tax	(11,135)	(2,003)	1,981	(11,157)	(2,003)	1,981	(11,157)

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

26. Other liabilities

	2022	2021
Bills payables	240	280
Cheque Truncation System	1,200	1,200
Statutory payments	422	203
Provision for lease rentals	-	16,000
Terminal benefits provision	14,364	10,491
Other accrued expenses	10,568	9,971
	26,794	38,145
Current	19,180	38,145
Non-current	7,614	-
	26,794	38,145

27. Share capital

	2022	2021
Issued and fully paid		
84,000 ordinary shares of K1 per share	84,000	84,000

The total authorised number of ordinary shares is 104 million with a par value of Kl per share.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

28. Revaluation reserves

	2022	2021
At start of year	23,515	22,365
Deferred tax liability	-	2,003
Transfer to retained earnings	(22,956)	-
Transfer of excess depreciation	(11)	(853)
At end of year	548	23,515

The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable.

29. Statutory reserves

	2022	2021
At start of year	84,000	55,682
Transfer from retained earnings	-	28,318
At end of year	84,000	84,000

The statutory reserve is established in accordance with the Banking and Financial Services Act (SI 182), which stipulates that a bank or financial institution shall maintain a reserve fund and shall, out of its retained earnings of distributable profits from the current financial year, befo re any dividend is declared, transfer to that fund a sum equal to not less than fifty per centum of such profits, whenever the amount of the reserve fund does not exceed half of its paid-up equity capital; or twenty per centum of such profits or such sum as shall make the amount of the reserve fund equal to the paid-up equity capital, whenever the amount of the reserve fund exceeds half of its paid-up equity capital, but is less than the paid-up equity capital.

30. Credit risk reserves

(a) General loss reserve	2022	2021
At start of year	22,524	46,160
Transfer to retained earnings	(22,524)	(23,636)
At end of year	-	22,524

The general reserve represents 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). In 2022, Bank's discretion balance stood at K Nil (2021: K22.524 million). This reserve is included in regulatory capital computation.

(b) Regulatory Loan Loss reserves

	2022	2021	Movement
Bank of Zambia impairment provision	63,117	63,714	(597)
IFRS impairment provision	(56,125)	(63,714)	7,589
Balance at year end	6,992	-	6,992

Regulatory Loan Loss reserve relates to the difference between IFRS accounting provision and Bank of Zambia provisioning requirement where IFRS provision requirement is lower compared to Bank of Zambia provision requirement. This reserve is not included in regulatory capital computation.

(All amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

31. Dividends

	2022	2021
At start of year	10,052	-
Payment during the year	(10,052)	-
Payable during the year	-	10,052
Balance at year end	-	10,052

There were no dividends declared for the financial year ended 31st December 2022. However, dividend distribution of non-current asset which was declared in 2018 was executed during the year.

32. Off-balance sheet financial instruments, contingent liabilities and commitments

Nature of contingent liabilities

Guarantees

Guarantees are generally written by a Bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default.

	2022	2021
Guarantees and performance bonds	1,845	7,973

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. Guarantees and performance bonds are secured.

33. Related party transactions

(a) Significant shareholding

None of the shareholders have more than 50% controlling shares, neither does any of them have defined control of the Board through appointed Directors.

(b) Dividends paid

No dividend was declared during the year. However, dividend distribution of non-current asset which was declared in 2018 was executed during the year.

(c) Transactions with shareholders and entities controlled by shareholders

(i) **Lease Rentals:** The Bank is renting three office premises, one from the shareholders and two from entities controlled by the shareholders. Lease payments to shareholders amounted to K18.320million (2021: K17.628million) and to entities controlled by shareholders amounted to K3.489million (2021: K3.472). Lease rentals are priced on market terms.

(ii) **Deposits:** The shareholders and entities controlled by the shareholders have banking relationship with the Bank. Outstanding deposits from Shareholders stood at K3.725million (2021: K0.773million) and outstanding deposits from entities controlled by shareholders stood at K2.881million (2021: K0.417million).

Notes to the financial statements (continued)

33. Related party transactions (continued)

(c) Transactions with shareholders and entities controlled by shareholders (continued)

(iii) Loans & Advances: There were no loans & advances availed to the shareholders during the year, (2021: K Nil). The entities controlled by the shareholders accessed loans and advance facilities. Amount outstanding at year end was K62.306million (2021: K55.262million). Loans and Advances availed to entities controlled by the shareholders are priced at arm's length.

(iv) Interest paid: The Bank paid interest amounting to K1.288 million (2021: K0.089million) on deposits of the shareholder relating to entities controlled by the shareholders.

(v) Interest income and fees: Bank earned K2.810million (2021: K2.692million) on loans and advances to entities controlled by the Shareholders.

(vi) Off Balance Sheet: Guarantee standing at K1.096million (2021: K1.096million) was availed to entities controlled by the Shareholders.

(vii) Goods and Services: Entities controlled by Shareholders do supply their goods and services to the Bank during the normal course of doing business. Total business opportunities provided by the Bank amounted to K1.455million (2021: K0.517million). Goods and Services from entities controlled by Shareholders are subject to due diligence as appropriate.

(d) Transactions with Board of Directors and entities associated/ controlled by Directors

(i) Deposits: The Directors and entities controlled by the Directors have banking relationship with the Bank. Outstanding Directors' deposits stood at K0.055million (2021: K0.153million) and outstanding deposits from entities controlled by Directors stood at K Nil (2021: K Nil)

(ii) Loans & Advances: Outstanding loans & advances availed to Directors during the year stood at K0.714million, (2021: K 0.094million). There were no loans & advances availed to entities controlled by Directors (2021: K Nil). Loans and Advances availed to entities controlled by Directors are priced at arm's length.

(iii) Interest paid: The Bank paid interest amounting to K0.005million (2021: K0.005million) on deposits of the Directors and K Nil (2021: K Nil) on deposits relating to entities controlled by the Directors.

(iv) Interest income and fees: Bank earned K0.036million (2021: K 0.039million) on loans and advances to Directors.

(v) Off Balance Sheet: There were no guarantees availed to Directors or entities controlled by them during the year (2021: Nil).

(vi) Goods and Services: Entities controlled by Directors did not supply any goods and services to the Bank during the year.

(vii) Emoluments: Directors fees were K2.576million (2021: K1.873million)

Notes to the financial statements (continued)

33. Related party transactions (continued)

(e) Transactions with Key Management Personnel and entities associated/ controlled by Key Management Personnel.

(i) **Deposits:** Key Management personnel and entities controlled by key management personnel have banking relationship with the Bank. Outstanding key Management personnel's deposits stood at K5.362million (2021: K3.121million) and outstanding deposits from entities controlled by Key management personnel stood at K Nil (2021: K Nil)

(ii) **Loans & Advances:** Amounts outstanding on loans & advances to key management personnel during the year stood at K0.610million (2021: K0.494million). The entities controlled by key management personnel were not availed any loans and advance facilities during the year (2021: K Nil). Loans and Advances availed to Key Management Personnel are at staff rate of 15% and entities controlled by the key management personnel are priced at arm's length transaction.

(iii) **Interest paid:** The Bank paid interest amounting to K0.042 million (2021: K 0.101million) on deposits of key management personnel and KNil (2021: K Nil) on deposits relating to entities controlled by the key management personnel.

(iv) **Interest income and fees:** Bank earned K0.086million (2021: K0.031million) on loans and advances to key management personnel.

(v) **Off Balance Sheet:** The Bank did not avail any guarantees to key management personnel or to entities controlled by the key management personnel.

(vi) **Compensation:** Total emoluments amounted to K9.377million (2021: K9.536million)

(vii) **Goods and Services:** Entities controlled by key management personnel did not supply any goods and services to the Bank during the year.

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