

**FIRST ALLIANCE BANK ZAMBIA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**



FIRST ALLIANCE BANK (Z) LTD
(REGISTERED COMMERCIAL BANK)

Committed to your success

FIRST ALLIANCE BANK ZAMBIA LIMITED

MISSION, VISION AND VALUES

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.



Since 1994

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020

Table of Contents	Pages
The Board and Executive Management	i - ii
Chairman's report	1 - 2
Managing Director's report	3 -4
Directors' report	5 - 7
Statement of Corporate Governance	8 -12
Statement of Directors' responsibilities	13
Independent auditor's report	14-17
Financial statements:	
Statement of comprehensive income	18
Statement of financial position	19
Statement of changes in equity	20
Statement of cash flows	21
Notes to the financial statements	22 - 71

THE BOARD

Chairman



Sanmukh R Patel

Non-Exexutive
Director



Urbano Mutati

Non-Exexutive
Director



Shashikhant Patel

Non-Exexutive
Director



Vincent Malambo

Non-Exexutive
Director



Larry Kalala

Non-Exexutive
Director



Nitesh Patel

Managing Director



Kuldip Paliwal

EXECUTIVE MANAGEMENT TEAM

Managing Director



Kuldip Paliwal

General Manager



Yogesh Bhandari

Chief Financial Officer



Peter Mulenga

Deputy G.M. Credit



Ravindra Kumar

Chief Risk Officer



Dr. Chenga Chisha

Chief Internal Auditor



Alepha Phiri

**Head Corporate
Banking**



Mathius Chikopela

CHAIRMAN'S REPORT



Sanmukh R Patel

On behalf of the Board of Directors, I'm pleased to present the Annual Report of First Alliance Bank (Zambia) Limited for the financial year ended 31st December 2020.

APPOINTMENT OF THE NEW MANAGING DIRECTOR

Firstly, I would like to welcome Mr Kuldip Paliwal who joined the Bank, in September 2020, as Managing Director and a member of the Board. Mr Kuldip Paliwal brings a wealth of experience gained over 22 years as a career banker both in India and outside India. His work experience include Director of Business at Bank of Maldives Plc in Maldives, Head of Corporate and Institutional Banking Division at Exim Bank in Tanzania, various roles at Citibank, IDBI and ICICI Bank in India.

Mr. Kuldip Paliwal holds a Masters Degree in Business Economics (Finance), Masters of Science Degree in Statistics and a Bachelor of Science Degree in Statistics and Mathematics. He is also a Certified Associate of Indian Institute of Bankers, and Certified in Know Your Customer and Anti-Money Laundering.

I would also like to take this opportunity to thank Mr. Inder Mani Malik for his valuable contribution. Mr. Inder Mani Malik decided to step down as Managing Director in order to concentrate on his personal life. I would like to wish him well in his future endeavours.

COVID-19

The Covid-19 Pandemic ravaged the globe, and Zambia was not spared during the 2020 financial year. The Bank was also not spared and experienced their share of challenges, due to Covid-19. I would like to take this opportunity to thank Management and Staff of the Bank for standing together during this Pandemic period and taking active Health Measures that ensured the safety of both the staff and clients of the Bank. It is through these measures that the Bank continued to operate and serve customers despite the risks involved.

FINANCIAL PERFORMANCE

I am pleased to report that the Bank has continued to record profits for the year ended 31st December 2020 despite the challenges the Banking sector faced during this year. The Bank's profit before tax in 2020 stood at K28.202 million (K31.795 million in 2019) and profit after tax in 2020 at K20.739 million (K14.826 million in 2019). Total assets during 2020 were K1.318 billion as compared to the previous years' total assets of K940.577 million. Total liabilities, excluding shareholders' funds, stood at K1.066 billion during 2020 as compared to K706.218 million at the end of the previous year. Total deposits as on 31st December 2020 were K974.928 million as compared to K657.982 million during the previous year. Liquidity has been the Bank's strong point over the past years and in 2020 the liquidity position of the Bank remained satisfactory throughout the year. Capital adequacy ratio of 32.5% during 2020 remained well above the minimum regulatory requirements of 10%.

Shareholders' funds amounted to K252.571 million during 2020, compared to K234.359 million in the previous year.

DIGITAL BANKING

I am happy to inform that the Bank has made tremendous progress in implementing and expanding its digital banking services. The Bank offers internet banking services and is linked to other service providers such as the Zambia Revenue Authority (ZRA) and National Pension Scheme Authority (NAPSA) payment systems. Through internet banking services our clients are able to transact in the comfort of their homes or anywhere in the world as long as they have access to the internet. They can view their account statements, download account statements and perform bank transactions such as transfer of funds from one account to another account within First Alliance Bank, transfer of funds across banks in Zambia, as well as make utility payments.

I am also pleased to inform you that the Bank implemented VISA services as well as NFS services. It has ATMs in place for the convenience of its clients who now have access to banking facilities 24/7. In the year 2021, the Bank will expand its digital platforms to include latest Point-of-Sales facilities. With all these investments, I would safely say the future of banking is here.

CORPORATE GOVERNANCE

The Bank practices good corporate governance in accordance with the Bank of Zambia Corporate Governance Guidelines issued from time to time. It has a competent team of Board of Directors who provide oversight of the Bank's operations, performed by a competent Management team. The Board is committed to ensure a robust governance structure exists which fosters a valuable culture of the ethical standards, corporate professionalism, team work, personal accountability and respect for others.

Our unique approach to team work and respect for our staff is based on the premise that high quality governance not only leads to the creation of a good working environment but ultimately to the creation of shareholders' wealth.

CONCLUSION

In conclusion, I would like to acknowledge that 2020 was challenging and Covid-19 worsened the situation but overall it still remained a fruitful year. I wish to extend my thanks and gratitude to the Bank of Zambia for their prompt and valued guidance that they have continued to provide to the Bank.

I wish also to express my sincere thanks to the Board of Directors for their continued and valued guidance, and their sincere and active participation directed towards improving the performance of the Bank.

On behalf of the Board, I would like to formally thank the Management 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 during this challenging year of Covid-19.



Sanmukh R. Patel
CHAIRMAN OF THE BOARD

MANAGING DIRECTOR'S REPORT



Kuldip Paliwal

It is indeed a matter of great pride for me to be a part of this Annual Report.

OUTLOOK

During the year 2020, our focus continued to be consolidation of business, improving our systems & procedures, credit monitoring, recovery, technological upgrades and providing various technology driven products for the ease of business for our esteemed clients.

Our journey in the year 2020, was satisfying as we accomplished various goals set forth to us for improvement in customer satisfaction and growth of the Bank. In light of the challenges faced by the banking industry as a whole, we moved cautiously and performed reasonably well.

THE CHALLENGES OF 2020 AND FUTURE PROSPECTS

The Covid-19 pandemic brought to the fore the need to assess more fully our banking and operations model. The impact of the pandemic resulted in reduction of mobility and overall demand of goods and services. Furthermore, reduced business activities due to the impact of the pandemic had and in many ways affected the nation's economic output and the Bank's profitability.

The lockdowns in neighboring countries and overseas had effects on the tourism and mining sectors, and have adversely impacted the availability of foreign exchange.

The Bank has been compliant with all Ministry of Health (MoH) directives issued during the period, such as implementation of measures to minimize the spread of the corona virus. The Bank had put in place measures that impinged on business operations, such as restrictions on the numbers of staff available per day at our Head Office and Branch locations, in order to observe the social distancing directive.

With the pandemic reaching uncharted territory, the Bank ensured to continue meeting the demands of its clients by providing safe and easy access to the Bank's facilities, with the assistance of technology.

Notwithstanding the adverse effects of the Covid-19 pandemic, the Bank is taking all reasonable steps to protect itself against any threats that may arise in the 'new normal' as it continues to abide by the MoH's directives to slow down the spread of the virus. The Bank had accessed Covid-19 stimulus funds under the Bank of Zambia stimulus dubbed "the Targeted Medium-Term Refinancing Facility" or "TMRF" to help mitigate the credit risk.

Although the future outlook for business looks depressed with potential Covid-19 waves still on the way, the Bank is ready to take on the challenge to address the risks associated with the virus, and to continue banking profitably.

PERFORMANCE

During the year 2020, we recorded an improved performance over the previous year. Despite various challenges faced by the banking industry, we improved upon our deposits, total assets & total liabilities. Our capital adequacy ratio was at a comfortable level of 32.5% as against the regulatory requirement of minimum of 10%. Our Shareholders' funds recorded an increase over the previous year.

GRATITUDE

The success story of existence of the Bank for 26 years would not have been possible without the continued whole-hearted support and commitment of our esteemed clients, the able guidance of our highly professional Board, and our sincere and dedicated Management and Staff at First Alliance Bank.

We, therefore, appreciate all the stakeholders for being with the bank all through its journey of 26 years and bringing the Bank thus far. We shall continue to look forward to our esteemed clients for their continuous support for us to march ahead with leaps and bounds during the year 2021 & beyond.



Kuldip Paliwal
MANAGING DIRECTOR

**First Alliance Bank Zambia Limited
Directors' Report
For the year ended 31 December 2020**

The Directors submit their report together with the audited financial statements for the year ended 31 December 2020, 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 29.

The Bank's shareholding and beneficial ownership as at 31st December 2020 is shown below:

Name	Shareholding %	No. of Shares '000
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
	<u>100</u>	<u>84,000</u>

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

RESULTS AND DIVIDEND

The profit for the year of K 20.739 million (2019: K 14.826 million) has been added to retained earnings. The Directors have not declared any dividend for the year ended 31 December 2020 (2019: Nil).

DIRECTORS

The Directors who held office during the year and upto the date of this report were:

Sanmukh Ramanlal Patel	- Chairman	
Kuldip Paliwal	- Managing Director	(Appointed: September 2020)
Inder Mani Malik	- Managing Director	(Resigned: June 2020)
Urbano Mutati	- Non-Executive Director	(Retired: March 2021)
Shashikhant Patel	- Non-Executive Director	(Retired: March 2021)
Vincent Malambo	- Non-Executive Director	(Retired: March 2021)
Larry Feston Kalala	- Non-Executive Director	(Retired: March 2021)
Nitesh Gandubhai Patel	- Non-Executive Director	(Resigned: October 2020)
Mathews M S W Ngulube	- Non- Executive Director	(Appointed: March 2021)
Vitalicy Chifwepa	- Non- Executive Director	(Appointed: March 2021)
Christabel Chanda Lubinda	- Non- Executive Director	(Appointed: March 2021)
Gilford Malenji	- Non- Executive Director	(Appointed: March 2021)
Sally Linda Dormeyan	- Non- Executive Director	(Appointed: March 2021)
Peter Mulenga	- Company Secretary	

**First Alliance Bank Zambia Limited
Directors' Report
For the year ended 31 December 2020**

EXECUTIVE MANAGEMENT TEAM

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

Kuldip Paliwal	- Managing Director (Appointed: September 2020)
Inder Mani Malik	- Managing Director (Resigned: June 2020)
Yogesh Bhandari	- General Manager
Peter Mulenga	- Chief Financial Officer
Ravindra Kumar	- Deputy General Manager - Credit
Dr. Chenga Chisha	- Chief Risk Officer
Alepha Phiri	- Chief Inspector
Mathius Chikopela	- Head Corporate Banking

NUMBER OF EMPLOYEES AND REMUNERATION

The total remuneration of employees during the year amounted to K 33.477 million (2019: K 23.587 million) and the average number of employees per month was as follows:

Month	Number	Month	Number
January	111	July	115
February	113	August	115
March	116	September	117
April	116	October	119
May	116	November	120
June	115	December	120

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 K97,000 (2019: K72,000) to charitable organisations and activities.

PROPERTY AND EQUIPMENT

The Bank purchased property and equipment amounting to K10.327 million (2019: K1,316 million) during the year. These represent the aggregate amounts disclosed under note 19, 20 & 21. In the opinion of the Directors, the carrying value of property, plant and equipment is not less than their recoverable value.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 34 of the financial statements.

DIRECTORS' EMOLUMENTS AND INTERESTS

Directors' emoluments and interests are disclosed in Note 34 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 a number of 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

The Bank's auditor, Grant Thornton, has indicated willingness to continue in office and a resolution for their reappointment will be proposed at the annual general meeting.

By order of the Board



Bank Secretary

21st May, 2021
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**First Alliance Bank Zambia Limited
Statement of Corporate Governance
For the year ended 31 December 2020**

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 and monitors the Managing Director's 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 and Company Secretary, ensures that the Directors are provided with timely information to facilitate an interactive dialogue during Board meetings.

The Managing Director 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:

- a) The roles, functions, responsibilities and powers of the Board;
- b) The roles, functions, responsibilities and powers of individual Directors;
- c) Stakeholder engagement;
- d) The remuneration principles of Board of Directors;
- e) The annual evaluation process for the Board and Board Committees;
- f) The powers delegated to the various Board Committees;
- g) The roles, functions, responsibilities and powers of the Managing Director and Management; and
- h) 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.

First Alliance Bank Zambia Limited
Statement of Corporate Governance
For the year ended 31 December 2020

Board Engagement

At a bare minimum, the Board meets on a quarterly basis. For the year ended 31st December 2020, 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
Sanmukh Ramanlal Patel	NED/ Chairperson	✓	✓	✓	✓
Kuldip Paliwal (1)	MD		✓	✓	✓
Inder Mani Malik (2)	MD	✓			
Urbano Mutati	NED	✓	✓	✓	✓
Shashikhant Patel	NED	✓	✓	✓	✓
Vincent Malambo	NED	✓	✓	✓	✓
Larry Feston Kalala	NED	✓	✓	✓	✓
Nitesh Gandubhai Patel	NED	✓	✓	X	X

MD-Managing Director

NED- Non-Executive Director

(1) - Appointed: September 2020

(2) - Resigned: June 2020

Board Committees

To help the Board discharge its executive functions, the Board has established five 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 Management, Credit, Loans Review and Nominations and Remuneration. Membership is comprised of Non-Executive Directors while Management is invited at the meetings.

(a) Board Audit Committee

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. In 2020, the Committee had four (4) scheduled quarterly meetings

The attendance by the Members during the year was as follows

Director's name	Title	1st	2nd	3rd	4 th
Vincent Malambo	NED/ Chairperson	✓	✓	✓	✓

(b) Board Risk Management Committee

The Board Risk 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

- i) 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;
- ii) To oversee the identification, evaluation and mitigation of actual and potential risks as they pertain to the Bank;
- iii) To review Management's recommendations on risk management; and
- iv) Ensure that a robust risk management and compliance culture prevails in the Bank.

First Alliance Bank Zambia Limited
Statement of Corporate Governance
For the year ended 31 December 2020

(b) Board Risk Management Committee (Continued)

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	4 th
Larry Feston Kalala	NED/ Chairperson	✓	✓	✓	✓

(c) Board Credit Committee

The Committee consists of four Non-Executive Directors and is chaired by one of the Non-Executive Directors. Some Executive Management members are invited to attend the meetings.

The functions of the Credit Committee include:

- (i) review and approve the lending strategies and policies of the Bank, including delegated authority to Management;
- (ii) assist the Board in fulfilling its oversight responsibilities with respect to the Bank's lending and credit risk functions;
- (iii) consider all credit risk proposals exceeding credit approval limits delegated to Management; and
- (iv) 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. In 2020, the Committee had meetings as follows.

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

Director's name	Title	1st	2nd	3rd
Urbano Mutati	NED/Chairperson	✓	✓	✓
Shashikhant Patel	NED	✓	✓	✓
Larry Feston Kalala	NED	✓	✓	✓
Nitesh Gandubhai Patel	NED	✓	✓	X

(d) Board Loans Review Committee

The Committee is responsible for evaluating the quality of the advances portfolio of the Bank and collateral held by the Bank.

The Committee meets on a quarterly basis and at such other times as may be required. In 2020, the Committee had meetings as indicated below.

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

Director's name	Title	1st	2nd	3rd	4 th
Urbano Mutati	NED/Chairperson	✓	✓	✓	✓
Shashikhant Patel	NED	✓	✓	✓	✓

(e) Board Nominations and Remuneration Committee

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, except the Managing Director whose

**First Alliance Bank Zambia Limited
Statement of Corporate Governance
For the year ended 31 December 2020**

(e) Board Nominations and Remuneration Committee (Continued)

package is considered by the main Board. Its duties include:

- i) reviews and approves management strategies for ensuring balance in workforce capabilities;
- ii) approves succession plans for all staff;
- iii) ensures effective Implementation and execution of robust people management and performance management systems which include key risk indicators; and
- iv) 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. In 2020, the Committee has meetings as indicated below:

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

Director's name	Title	1st	2nd	3rd	4th
Sanmukh Ramanlal Patel	NED/ Chairperson	✓	✓	✓	✓
Larry Feston Kalala	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—
 - (i) all legislation relevant to or affecting the meetings of members and the Board
 - (ii) the reports relating to the operations of the company; and
 - (iii) 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.

Internal Audit (continued)

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, 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.

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 Compliance Function, the 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.

First Alliance Bank Zambia Limited
Statement of Director's responsibility
For the year ended 31 December 2020

The Zambia Companies Act 2017 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. 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, 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.

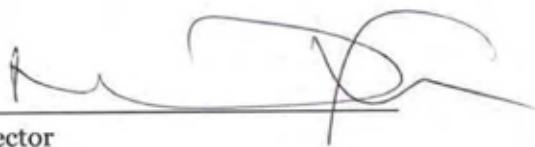
The internal control systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has 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 VIII 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 Zambia Companies Act of 2017 as well as the Banking and Financial Services Act No. 7 of 2017.

The Directors further report 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.

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.



Director



Director

21st May, 2021
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Grant Thornton
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Lusaka, Zambia

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E gtlusaka.mailbox@zm.gt.com

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 2020, 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 2020, 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.

Partners

Edgar Hamuwele (Managing)
Christopher Mulenga
Wesley Beene
Rodia Musonda
Chilala Banda

Audit. Tax. Advisory

Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Key Audit Matters (continued)

Description of matter	How matter was addressed
<p>Classification, measurement and impairment of financial assets</p> <p>The Bank classified, measured and assessed impairment of the Bank's assets in accordance with IFRS 9 "financial instruments"</p> <p>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.</p> <p>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.</p>	<p>We reviewed the classification of the financial assets to ensure compliance with the reporting standards.</p> <p>We reviewed the valuation and verified the calculation of the fair values. We also verified the inputs used in the valuations.</p> <p>In considering the reasonableness of the impairment provision, we reviewed the assumptions used in impairment calculations.</p> <p>Based on the procedures performed, we are satisfied that the impairment provision is reasonable and the financial assets were properly classified and valued.</p>

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.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST ALLIANCE BANK ZAMBIA LIMITED

Report on Other Legal and Regulatory Requirements

The Companies Act, 2017 requires that in carrying out our audit, we consider and report to you on whether:

As required in Section 259 (3) of the Companies Act 2017;

- There is a relationship, interest or debt which we have, as the Bank Auditors, with the Bank; and
- There are 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 are required to report whether:

- 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 any 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 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
Chartered Accountants



Chilala Banda (AUD/F004257)
Name of Partner signing on behalf of the Firm

Lusaka

Date: 21 May 2021

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of comprehensive income

	Notes	2020	2019
Interest income	5	144,871	125,105
Interest expense	6	<u>(67,878)</u>	<u>(54,563)</u>
Net interest income		76,993	70,542
Impairment (charges)/recoveries on/from financial instruments	16	<u>(6,107)</u>	<u>(14,784)</u>
Net interest income after loan impairment charges		<u>70,886</u>	<u>55,758</u>
Fees and commission income	7	18,869	14,515
Fees and commission expense	7	<u>(346)</u>	<u>(852)</u>
Net fees and commission income		18,523	13,663
Net exchange gain/ (loss)	8	11,810	17,250
Other income	9	15	5
Operating expenses	10	<u>(70,774)</u>	<u>(53,587)</u>
Profit before finance costs		30,460	33,089
Finance costs			
Interest expenses for leasing arrangement		<u>(2,258)</u>	<u>(1,294)</u>
Profit before income tax		28,202	31,795
Income tax expense	12	<u>(7,463)</u>	<u>(16,969)</u>
Profit for the year		<u>20,739</u>	<u>14,826</u>
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	26	<u>(2,527)</u>	<u>1,467</u>
Other comprehensive income net of tax		(2,527)	1,467
Total Comprehensive income		<u>18,212</u>	<u>16,293</u>

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of financial position

	Note	2020	2019
ASSETS			
Cash and balances with Bank of Zambia	13	160,271	144,291
Balances with other banks	15	75,508	52,539
Investment in securities	17	453,060	266,886
Loans and advances to customers	16	531,454	415,034
Other investments	18	837	837
Property and equipment	19	56,954	45,833
Intangible assets	20	198	1,262
Work in Progress	21	8,952	-
Deferred income tax	26	11,135	-
Other assets	23	19,886	13,895
Total assets		1,318,255	940,577
LIABILITIES			
Deposits from customers	25	974,928	657,982
Deposits from other banks	24	43,364	22,268
Current income tax	12	9,838	4,381
Deferred income tax	26	-	858
Lease liability	27	21,095	9,403
Other liabilities	28	16,459	11,326
Total liabilities		1,065,684	706,218
EQUITY			
Share capital	29	84,000	84,000
Revaluation reserves	30	22,365	25,745
Statutory reserves	31	55,682	45,312
Credit reserves	32	46,160	46,160
Retained earnings		44,364	33,142
Total equity		252,571	234,359
Total equity and liabilities		1,318,255	940,577

The financial statements on pages 18 to 71 were approved for issue by the Board of Directors on 21st May, 2021 and signed on its behalf by:

Director

Director

Director

Secretary

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of changes in equity

	Share Capital	Revaluation reserves	Statutory reserves	Credit Reserves	Retained earnings	Total equity
Year ended 31 December 2019	(Note 29)	(Note 30)	(Note 31)	(Note 32)		
At start of year	84,000	25,131	37,899	46,160	24,876	218,066
Comprehensive income						
Profit for the year	-	-	-	-	14,826	14,826
Tax on revaluation gain	-	1,467	-	-	-	1,467
Total Comprehensive Income	-	1,467	-	-	14,826	16,293
Revaluation reserve transfer relating to liability for distribution	-	(853)	-	-	853	-
Transfer to statutory reserves	-	-	7,413	-	(7,413)	-
At end of year	84,000	25,745	45,312	46,160	33,142	234,359
Year ended 31 December 2020						
At start of year	84,000	25,745	45,312	46,160	33,142	234,359
Comprehensive income						
Profit for the year	-	-	-	-	20,739	20,739
Tax on revaluation gain	-	(2,527)	-	-	-	(2,527)
Total Comprehensive Income	-	(2,527)	-	-	20,739	18,212
Revaluation reserve transfer relating to liability for distribution	-	(853)	-	-	853	-
Transfer to statutory reserves	-	-	10,370	-	(10,370)	-
At end of year	84,000	22,365	55,682	46,160	44,364	252,571

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Statement of cash flows

	Note	2020	2019
Cash flows from operating activities			
Profit before tax		28,202	31,795
Adjust:			
Depreciation charge on property, plant and equipment	19	6,343	6,935
Amortisation of intangible assets	20	1,067	1,825
Interest on lease liability		2,258	1,294
Exchange movement on investment in securities		(12,200)	(3,392)
Income tax paid	12	(16,526)	(23,883)
		<hr/>	<hr/>
Cash flows from operating activities before changes in operating assets and liabilities		9,144	14,574
Changes in operating assets and liabilities:			
- (Increase)/decrease- other assets		(5,991)	(4,029)
- Increase/(decrease)-deposits from other banks		21,096	(18,971)
- Increase/(decrease)-customer deposits		316,946	43,876
-(Increase)/decrease- loans and advances to customers		(116,420)	(7,832)
- Increase/(decrease)-other liabilities		5,133	(787)
		<hr/>	<hr/>
Net cash generated from operating activities		229,908	26,831
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	19,	(10,327)	(1,316)
(Purchase)/redemption of treasury bills	20,21	(147,037)	18,899
		<hr/>	<hr/>
Net cash (used in)/ generated from investing activities		(157,364)	17,583
		<hr/>	<hr/>
Cash flows from financing activities			
Lease liability payments		(4,455)	(4,048)
Dividends paid		-	(20,000)
Interest paid on lease liability		(2,258)	(1,294)
		<hr/>	<hr/>
Net cash (used in)/ generated from financing activities		(6,713)	(25,342)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		65,831	19,072
Cash and cash equivalents at start of year		252,649	233,577
		<hr/>	<hr/>
Cash and cash equivalents at end of year	14	318,480	252,649
		<hr/>	<hr/>

Notes to the financial statements

1 General information

First Alliance Bank Zambia Limited (the Bank) is a limited 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 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 2020 and have therefore been adopted do not have a significant impact on the Bank's financial results or position.

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.

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

(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 (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 balance sheet 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

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportion basis. Asset management fees related to investment funds are recognised ratably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(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 has applied 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 classified into 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 are presented 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 through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at 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)

ii) 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.

(iii) 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.

(iv) 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 (continued)

(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 financial instruments'.

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 cash flows;
- 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 in '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)

(j) 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	1.15% - 2.7%
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)

(k) 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).

(l) 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.

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)

(l) 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.

(m) 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.

(n) 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 K1,073.80 per month during the year 2020.

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.

(o) 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.

(p) 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.

(q) 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)

(r) 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.

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)

(r) Leased assets (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.

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 incidental to ownership of the underlying asset and classified as an operating lease if it does not.

(s) 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.

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(s) Investment properties (continued)

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.

(t) 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.

(u) 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

(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
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Internally collected data on customer behaviour – e.g. utilisation of credit facilities • External data from credit reference agencies, including industry-standard 	<ul style="list-style-type: none"> • 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.

(ii) Significant management judgement

The following are the judgements made by management in applying the accounting policies of the Bank that may have the most significant effect on the financial statements:

(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.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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

Financial assets	Loans and Receivables
At 31 December 2020	
Cash and bank balances with Bank of Zambia	160,271
Balances with other banks-domestic	58,614
Balances with other banks-abroad	16,894
Loans and advances	531,454
Securities	453,060
Other assets	18,253
	<hr/> 1,238,546 <hr/>
At 31 December 2019	
Cash and bank balances with Bank of Zambia	144,291
Balances with other banks-domestic	37,825
Balances with other banks-abroad	14,714
Loans and advances	415,034
Securities	266,886
Other assets	13,514
	<hr/> 892,264 <hr/>
Financial liabilities	
At 31 December 2020	
Customer deposits	974,928
Deposits from banks	43,364
Lease liability	21,095
Other liabilities	16,459
	<hr/> 1,055,846 <hr/>
At 31 December 2019	
Customer deposits	657,982
Deposits from banks	22,268
Lease liability	9,403
Other liabilities	11,326
	<hr/> 700,979 <hr/>

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 15.8% probability of occurring, and two less likely scenarios, best case and one worst case, each assigned a 73.7% and 10.5% 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 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.

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:

	2020	2019
Credit risk exposure relating to off-balance sheet		
Guarantees and performance bonds	<u>21,362</u>	<u>10,293</u>

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 (2019: 75%)
- 95% of the loans and advances portfolio are backed by collateral (2019: 95%)
- 92% of the investments in debt securities are government securities (2019: 92%)

i) Loans and advances

	2020	2019
(a) Credit quality analysis at gross carrying amounts		
Stage 1	303,670	228,450
Stage 2	160,412	113,105
Stage 3	141,421	118,926
Gross advances	<u>605,503</u>	<u>460,481</u>

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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)

(b) Loss allowances

At 31 December 2020

	Stage 1	Stage 2	Stage 3	Total
Balance at January	-	-	45,447	45,447
Charge for the year	-	1,000	7,714	8,714
Recoveries during the year	-	-	(2,607)	(2,607)
Impact of exchange rate movements	-	-	22,495	22,495
	-	1,000	73,049	74,049

(b) Loss allowances

At 31 December 2019

	Stage 1	Stage 2	Stage 3	Total
Balance at January	-	-	24,358	24,358
Charge for the year	-	-	16,479	16,479
Recoveries during the year	-	-	(1,695)	(1,695)
Impact of exchange rate movements	-	-	6,305	6,305
	-	-	45,447	45,447

(ii) Other financial instruments

All other financial instruments below were neither past due nor impaired

	2020	2019
Cash and Balances with Bank of Zambia	160,271	144,291
Balances with other Banks- domestic	58,614	37,825
Balances with other Banks-abroad	16,894	14,714
Securities with Government of the Republic of Zambia	418,952	244,978
Corporate Bonds	34,108	21,908
	<u>688,839</u>	<u>463,716</u>

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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)

Concentrations of risk of financial assets with credit risk exposure

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 2020								
Loans and advances to customers	-	85,763	18,974	258,110	20,166	143,649	4,792	531,454
Balances with Bank of Zambia	128,839	-	-	-	-	-	-	128,839
Placements with other Banks- abroad	16,894	-	-	-	-	-	-	16,894
Placements with other Banks- domestic	58,610	-	-	-	-	-	-	58,610
Investment in Securities	-	-	-	-	-	453,060	-	453,060
Other assets	-	-	-	-	-	18,253	-	18,253
Total	204,343	85,763	18,974	258,110	20,166	614,962	4,792	1,207,110
%	17%	7%	2%	21%	2%	51%	-	100%
At 31 December 2019								
Loans and advances to customers	3,479	41,406	21,031	162,143	15,393	170,416	1,166	415,034
Balances with Bank of Zambia	69,608	-	-	-	-	-	-	69,608
Placements with other Banks- abroad	14,714	-	-	-	-	-	-	14,714
Placements with other Banks- domestic	37,825	-	-	-	-	-	-	37,825
Other assets	-	-	-	-	-	13,514	-	13,514
Total	125,626	41,406	21,031	162,143	15,393	183,930	1,166	550,695
%	23%	8%	4%	29%	3%	33%	0%	100%

Notes to the financial statements (continued)

4 Financial risk management (continued)

(a) Credit risk (continued)

Concentrations of risk of financial assets with credit risk exposure (continued)

Other financial assets

All other financial instruments below were neither past due nor impaired:

	2020	2019
Securities with Government of the Republic of Zambia	418,952	244,978
Corporate Bonds	<u>34,108</u>	<u>21,908</u>
	<u>453,060</u>	<u>266,886</u>

(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 liabilities 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.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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)

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

At 31 December 2020	Up to 1	2-3	4-12	1-5	Over 5	
	Month	months	months	Years	Years	Total
Liabilities						
Customer deposits	368,163	292,363	314,402	-	-	974,928
Deposits from other Banks	22,322	-	-	21,042	-	43,364
Lease liability	1,208	1,208	2,419	16,260	-	21,095
Other financial liabilities	16,459	-	-	-	-	16,459
Total financial liabilities	408,152	293,571	316,821	37,302		1,055,846
Assets						
Cash and balances with						
Bank of Zambia	160,271	-	-	-	-	160,271
Balances with other Banks	75,508	-	-	-	-	75,508
Loans and advances	105,292	131,614	294,548	-	-	531,454
Investment in securities	22,311	88,344	305,357	37,048	-	453,060
Other Financial assets	18,253	-	-	-	-	18,253
Total financial assets	381,635	219,958	599,905	37,048		1,238,546

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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)

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

At 31 December 2019	Up to 1	2-3	4-12	1-5	Over 5	
	Month	months	months	Years	Years	Total
Liabilities						
Customer deposits	281,659	148,627	227,696	-	-	657,982
Deposits from other Banks	22,268	-	-	-	-	22,268
Lease liability	254	507	2,284	6,358	-	9,403
Other financial liabilities	11,326	-	-	-	-	11,326
Total financial liabilities	315,507	149,134	229,980	6,358	-	700,979
Assets						
Cash and balances with						
Bank of Zambia	144,291	-	-	-	-	144,291
Balances with other Banks	52,539	-	-	-	-	52,539
Loans and advances	87,309	102,456	163,529	61,740	-	415,034
Investment in securities	21,868	33,951	186,271	21,908	2,888	266,886
Other Financial assets	13,514	-	-	-	-	13,514
Total financial assets	319,521	136,407	349,800	83,648	2,888	892,264

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.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(b) Liquidity risk (continued)

Off balance sheet items

(ii) Outstanding Guarantees

	2020	2019
Outstanding Guarantees	<u>21,362</u>	<u>10,293</u>

(iii) Capital commitments

There were no capital commitments for the acquisition of property and equipment during the year (2019: 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.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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)

(a) 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 2020 and 2019. Figures in the table below are in thousands.

	USD	GBP	ZAR	Euro	INR
At 31 December 2020					
Assets					
Cash and balances with Banks abroad	4,304	122	2,486	192	12,678
Loans and advances to customers	21,904	-	-	-	-
Other assets	6,221	-	-	-	-
Total assets	32,429	122	2,486	192	12,678
Liabilities					
Customer deposits	23,024	89	439	136	-
Deposits from other banks	-	-	-	-	-
Other liabilities	9,368	3	-	-	-
Total liabilities	32,392	92	439	136	-
Net on-balance sheet position	37	30	2,047	56	12,678
Off balance sheet (Net)	-	-	-	2	-
Overall open position	37	30	2,047	58	12,678
At 31 December 2019					
Assets					
Cash and balances with Banks abroad	4,584	121	4,897	218	12,331
Loans and advances to customers	22,653	-	-	-	-
Other assets	7,416	-	-	-	-
Total assets	34,653	121	4,897	218	12,331
Liabilities					
Customer deposits	28,700	115	216	127	-
Deposits from other banks	-	-	-	-	-
Other liabilities	6,526	-	-	-	-
Total liabilities	35,226	115	216	127	-
Net on-balance sheet position	(573)	6	4,681	91	12,331
Off balance sheet (Net)	-	-	-	-	-
Overall open position	(573)	6	4,681	91	12,331

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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)

(b) Foreign currency sensitivity

The following shows the currency sensitivity to the Bank's exposure to a 45% appreciation or depreciation of the Kwacha against the relevant foreign currencies, translated at a statement financial position date. 45% 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
2020- 45%	(17)	(14)	(921)	(26)	(5,705)
2019- 10%	57	(1)	(468)	(9)	(1,233)

(c) 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.

	Up to 3 months	3-6 months	6-12 months	Over 1 year	Non- interest bearing	Total
At 31 December 2020						
Assets						
Cash and balances with Central bank	-	-	-	-	160,271	160,271
Balances with other banks – domestic	20,004	-	-	-	38,610	58,614
Balances with other banks – abroad	16,894	-	-	-	-	16,894
Loans and advances to customers	236,906	105,291	189,257	-	-	531,454
Investment in Securities	22,311	88,344	305,357	37,048	-	453,060
Other assets	-	-	-	-	18,253	18,253
Total financial assets	296,115	193,635	494,614	37,048	217,134	1,238,546
Liabilities						
Customer deposits	660,526	196,725	117,677	-	-	974,928
Deposits from other banks	150	-	-	21,042	22,172	43,364
Lease liabilities	1,208	1,208	2,419	16,260	-	21,095
Other liabilities	-	-	-	-	16,459	16,459
Total financial liabilities	661,884	197,933	120,096	37,302	38,631	1,055,846
Interest re-pricing gap	(365,769)	(370,067)	4,451	4,197	182,700	
Impact of 10% increase in rates	(36,577)	(37,007)	445	420	18,270	
Impact of 7.5% decrease in rates	27,433	27,755	(334)	(315)	(13,703)	

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(c) Interest rate risk (continued)

At 31 December 2019	Up to 3	3-6	6-12	Over 1	Non- interest	Total
Assets	months	months	months	year	bearing	
Cash and balances with Central bank	-	-	-	-	144,291	144,291
Balances with other banks – domestic	15,000	-	-	-	22,825	37,825
Balances with other banks – abroad	14,714	-	-	-	-	14,714
Loans and advances to customers	189,098	82,098	82,099	61,739	-	415,034
Other assets	-	-	-	-	13,514	13,514
Total financial assets	218,812	82,098	82,099	61,739	180,630	625,378
Liabilities						
Customer deposits	427,828	149,145	78,552	-	2,457	657,982
Deposits from other banks	20,000	-	-	-	2,268	22,268
Lease liabilities	761	761	1,523	6,358	-	9,403
Other liabilities	-	-	-	-	11,326	11,326
Total financial liabilities	448,589	149,906	80,075	6,358	16,051	700,979
Interest re-pricing gap	(229,777)	(297,585)	(295,561)	(240,180)	(75,600)	
Impact of 10% increase in rates	(22,978)	(29,759)	(29,556)	(24,018)	(7,560)	
Impact of 7.5% decrease in rates	17,233	22,319	22,167	18,014	5,670	

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.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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

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 2020	Fair Value 2020	Carrying Amount 2019	Fair Value 2019
Assets				
Cash and balances with Bank Zambia	160,271	160,271	144,291	144,291
Balances with other Banks- domestic	58,614	58,614	37,825	37,825
Balances with other Banks- abroad	16,894	16,894	14,714	14,714
Loans and advances	531,454	531,454	415,034	415,034
Other Assets	471,313	471,313	280,400	280,400
Total	<u>1,238,546</u>	<u>1,238,546</u>	<u>892,264</u>	<u>892,264</u>
Liabilities				
Deposits from customers	974,928	974,928	657,982	657,982
Deposits from other Banks	43,364	43,364	22,268	22,268
Other Liabilities	16,459	16,459	12,184	12,184
Total	<u>1,034,751</u>	<u>1,034,751</u>	<u>692,434</u>	<u>692,434</u>

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.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(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 (continued)

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
31 December 2020			
Balances with other banks - domestic	-	58,614	-
Balances with other banks - abroad	-	16,894	-
Loans and advances	-	531,454	-
Investment in securities	-	453,060	-
Total Assets	-	1,060,022	-
31 December 2019			
Balances with other banks - domestic	-	37,825	-
Balances with other banks - abroad	-	14,714	-
Loans and advances	-	415,034	-
Investment in securities	-	266,886	-
Total Assets	-	734,459	-

At 31 December 2020, the Bank did not have financial liabilities measured at fair value (2019: nil).

Fair Value 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.

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 2020			
Property	-	-	56,954
31 December 2019			
Property	-	-	45,833

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.

Notes to the financial statements (continued)

4 Financial risk management (continued)

(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 Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

4 Financial risk management (continued)

(e) Capital management (continued)

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

	2020	2019
Tier 1 capital	230,206	208,614
Tier 1 + Tier 2 capital	<u>239,152</u>	<u>218,912</u>
Risk-weighted assets		
On-balance sheet	714,292	530,798
Off-balance sheet	<u>21,362</u>	<u>10,293</u>
Total risk-weighted assets	<u>735,654</u>	<u>541,091</u>
Basel ratio		
Tier 1 (Regulatory minimum – 5%)	<u>31.3%</u>	<u>38.6%</u>
Tier 1 + Tier 2 (Regulatory minimum – 10%)	<u>32.5%</u>	<u>40.5%</u>
5 Interest income		
Loans and advances to customers	75,109	69,607
Government and other securities	68,955	54,276
Advances to banks	807	1,222
	<u>144,871</u>	<u>125,105</u>
6 Interest expense		
Customer deposits	66,347	52,791
Deposits from other banks	<u>1,531</u>	<u>1,772</u>
	<u>67,878</u>	<u>54,563</u>
7 Fees and commission income		
Credit related fees and commission	18,869	14,515
Customer transaction and activity fees	<u>(346)</u>	<u>(852)</u>
	<u>18,523</u>	<u>13,663</u>
8 Net Exchange gains/(losses)		
Realized gains/(losses)	11,494	16,610
Un realized gains/(losses)	<u>316</u>	<u>640</u>
	<u>11,810</u>	<u>17,250</u>
9 Other income		
Rental and other income	<u>15</u>	<u>5</u>
	<u>15</u>	<u>5</u>

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

10. Operating expenses	2020	2019
Employee benefits expense (note 11)	33,477	23,587
Depreciation on property and equipment (note 19)	6,343	6,935
Amortisation of intangible property and equipment (note 20)	1,067	1,825
Property and equipment maintenance expenses	385	472
Donations	97	72
Insurance expenses	561	467
Computer expenses	5,457	4,403
Clearing House expenses	179	214
Telephone expenses	367	508
Regulatory supervision fees	1,333	2,019
Travel expenses	3,944	602
Training	64	53
Subscription fees	234	214
Security charges	838	872
Swift expenses	1,211	960
Reuters expenses	559	377
Generator expenses	216	143
Directors fees	665	650
Business Promotion expenses	3,840	2,729
Auditor's remuneration	358	1,636
ATM expenses	4,531	2,947
Education expenses	-	(1,697)
Printing & stationery	873	692
Water, lighting and newspapers	608	446
Cleaning materials	467	224
Misc office expenses	864	562
Regulatory Handling fees – Treasury Bills	570	370
Advertisements	147	168
Rates and Taxes	89	150
Consultancy fees	531	166
NOSTRO Account CHGS	698	469
Medical Levy paid – Treasury Bills	-	114
Other expenses	433	238
	<u>70,774</u>	<u>53,587</u>
11. Employee benefits expense		
Salaries and wages	32,936	22,359
Other Staff benefit costs	541	1,228
	<u>33,477</u>	<u>23,587</u>
12. (a) Income tax expense		
Current tax	21,983	17,311
Deferred tax charge/(credit) (note 26)	(14,520)	(342)
	<u>7,463</u>	<u>16,969</u>

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

12 Income tax expense (continued)

	2020	2019
(b) Current income tax movement		
At start of year (asset)/liability	4,381	10,953
Current income tax charge	21,983	17,311
Payments during the year	<u>(16,526)</u>	<u>(23,883)</u>
At end of year – (asset)/liability	<u>9,838</u>	<u>4,381</u>

(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:

	2020	2019
Profit before income tax	<u>28,202</u>	<u>31,795</u>
Tax calculated at the statutory income tax rate of 35%	9,871	11,128
Tax effect of:		
Net adjusted expenses for tax purposes	12,112	6,525
Net deferred tax asset movement (Note 26)	<u>(14,520)</u>	<u>(342)</u>
Income tax (credit)/expense	<u>7,463</u>	<u>17,311</u>

13 Cash and balances with Bank of Zambia

	2020	2019
Cash in hand		
-Local currency	9,314	11,790
-Foreign currency	<u>22,118</u>	<u>62,893</u>
	<u>31,432</u>	<u>74,683</u>
Balances with Bank of Zambia		
-Local currency current account	21,583	1,414
-Foreign currency current account	1,134	726
-Local currency statutory reserves	39,500	20,300
-Foreign currency statutory reserves	<u>66,622</u>	<u>47,168</u>
	<u>128,839</u>	<u>69,608</u>
	<u>160,271</u>	<u>144,291</u>
Split as follows:		
Current	160,271	144,291
Non-current	-	-
	<u>160,271</u>	<u>144,291</u>

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.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

14 Cash and cash equivalents

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

	2020	2019
Cash and balances with Bank of Zambia (Note 13)	160,271	144,291
Balances with other Banks (Note 15)	75,508	52,539
Securities maturing before 90 days	<u>82,701</u>	<u>55,819</u>
	<u>318,480</u>	<u>252,649</u>

Banks are required to maintain a prescribed minimum cash balance with the Bank of Zambia as statutory reserves. The amount is determined as 9% (2019: 9%) of the average outstanding customer deposits over a cash reserve cycle period of one week.

15 Balances with other banks

	2020	2019
Nostro accounts	16,894	14,714
Items in course of collection	38,610	22,367
Inter bank placements	20,004	15,458
	<u>75,508</u>	<u>52,539</u>
	73,905	51,476
Current	1,603	1,063
	<u>75,508</u>	<u>52,539</u>
Non current	73,905	51,476
	<u>1,603</u>	<u>1,063</u>

Included in items in course of collection is un-reconciled CTS clearing amount of K1.063 million (2019: K1.063 million) which has been provided for in full.

16 Loans and advances to customers

	2020	2019
Overdrafts	526,688	417,466
Commercial loans	74,023	37,113
Personal loans	<u>4,792</u>	<u>5,902</u>
Gross loans and advances	605,503	460,481
Less:		
- Provision for impairment of loans and advances	<u>(74,049)</u>	<u>(45,447)</u>
	<u>531,454</u>	<u>415,034</u>

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

At 1 January	45,447	24,358
Charge/(Recovery) to the income statement	6,107	14,784
Charge	<u>8,714</u>	<u>16,479</u>
Recovery during the year	<u>(2,607)</u>	<u>(1,695)</u>
Impact of exchange rate movements	<u>22,495</u>	<u>6,305</u>
At 31 December	<u>74,049</u>	<u>45,447</u>

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

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

17 Investment in Securities

	2020	2019
Treasury Bills	416,012	242,090
Corporate Bonds (a)	34,108	21,908
Government of the Republic of Zambia Bonds	<u>2,940</u>	<u>2,888</u>
At 31 December	<u>453,060</u>	<u>266,886</u>

(a) The Bank holds US Dollar denominated unsecured redeemable bonds with a total face value of US\$ 1,555,941.45 issued by the Farmers House Plc for 12 years (Nov 2010 to Nov 2022) bearing interest at 8.75% per annum payable half yearly.

18 Other Investments

	2020	2019
National Switch	<u>837</u>	<u>837</u>
Split as follows:		
Current	-	-
Non current	<u>837</u>	<u>837</u>
	<u>837</u>	<u>837</u>

This is an investment or contribution by the Bank towards the set up costs of the establishment of the National Switch to 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.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

19 Property and equipment

	Buildings	Motor vehicles	Furniture, Fittings & Equipment	Total
Year ended 31 December 2019				
Opening net book amount	33,436	3,240	1,629	38,305
Additions	-	-	1,012	1,012
Adjustment on transition to IFRS16	13,451	-	-	13,451
Depreciation charge	(4,963)	(822)	(1,150)	(6,935)
Closing net book amount	41,924	2,418	1,491	45,833
At 31 December 2019				
Cost/ Valuation	47,801	4,557	10,045	62,403
Accumulated depreciation	(5,877)	(2,139)	(8,554)	(16,570)
Net book amount	41,924	2,418	1,491	45,833
Year ended 31 December 2020				
Opening net book amount	41,924	2,418	1,491	45,833
Additions	16,092	1,022	350	17,464
Depreciation charge	(5,147)	(859)	(337)	(6,343)
Closing net book amount	52,869	2,581	1,504	56,954
As at 31 December 2020				
Cost/ Valuation	63,893	5,579	10,395	79,867
Accumulated depreciation	(11,024)	(2,998)	(8,891)	(22,913)
Total	52,869	2,581	1,504	56,954

Revaluation of the Bank's building

The last valuation was carried out in December 2017 by BLK REAL ESTATE CONSULTANTS an independence 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 30.

Restrictions on property

A third-party has registered caveat on Alliance House, the Bank's Head Office Building, for US dollar 4,500,000 with Ministry of Lands and the Patent and Registration Agency.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

19 Property and equipment (continued)

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

	2020	2019
Cost	3,547	3,547
Accumulated depreciation	<u>(1,536)</u>	<u>(1,440)</u>
Net book value	<u>2,011</u>	<u>2,107</u>

20 Intangible assets

	Computer software & licenses
At 1st January 2019	
Carrying value at start of year	2,783
Additions	304
Amortisation	<u>(1,825)</u>
At year end	<u>1,262</u>
At 31st December 2019	
Accumulated cost	7,568
Accumulated amortisation	<u>(6,306)</u>
Carrying value at end of year	<u>1,262</u>
At 1st January 2020	
Carrying value at start of year	1,262
Additions	3
Amortisation	<u>(1,067)</u>
At year end	<u>198</u>
At 31st December 2020	
Accumulated cost	7,571
Accumulated amortization	<u>(7,373)</u>
Carrying value at end of year	<u>198</u>

21 Work in Progress

	2020	2019
Carrying value at start of year	-	-
Additions	<u>8,952</u>	-
At year end	<u>8,952</u>	-

Work in Progress relates to the Mobile Point of Sales Project (MPoS) that the Bank is undertaking which is expected to be completed early in 2021.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

22 Leases

Right-of-use assets	2020	2019
Building		
Gross carrying value at start of year	13,451	-
Additions / Adjustment on transition to IFRS 16	<u>16,092</u>	<u>13,451</u>
At year end	<u>29,543</u>	<u>13,451</u>
Accumulated depreciation at the start of year	4,049	-
Depreciation charge	<u>4,233</u>	<u>4,049</u>
At year end	<u>8,282</u>	<u>4,049</u>
Net carrying amount	<u>21,261</u>	<u>9,402</u>

Lease liabilities

Lease liabilities are presented in the consolidated statement of financial position as follows:

	2020	2019
Current	4,835	4,031
Non-current	<u>16,260</u>	<u>5,372</u>
At year end	<u>21,095</u>	<u>9,403</u>

The Bank is currently leasing office space and server room for its operations by way of lease rentals for some of its Branch network. The leases are negotiated for an average term of between 3 years and 5 years with a renewable option. The majority leases have an annual escalation clause ranging between 3% and 5%. The leases have a termination clause by way of giving notice to each party ranging from one month notice to three months' notice. The lease rental terms range from one month to three months payable in advance. The lease terms contain upfront payment of a security deposit refundable at the end of the lease relationship on condition the premises are returned to the lessor in good condition as at the time of the lease agreement.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on the statement of financial position:

Right-of-use asset	No. of right-of-use assets leased	Range of remaining term	Average remaining lease term	No. of leases with extension options	No. of leases with options to purchase	No. of lease with variable payments linked to an index	No. of leases with termination options
Office space	4	1 to 5 years	4 years	4	Nil	Nil	4
Server room	1	1 year	1 year	1	Nil	Nil	1

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

22 Leases (continued)

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December:

2019

	Minimum lease payments due						Total
	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years	
Lease payments	3,930	2,528	2,528	2,528	-	-	11,514
Finance charges	1,140	958	958	958	-	-	4,015
Net present value	4,031	2,076	1,727	1,569	-	-	9,403

2020

	Minimum lease payments due						Total
	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	After 5 years	
Lease payments	6,821	7,162	7,520	7,896	8,291	-	37,690
Finance charges	2,268	2,381	2,501	2,626	2,757	-	12,533
Net present value	4,835	5,153	4,684	4,259	2,164	-	21,095

23 Other assets

	2020	2019
Prepayments	1,633	381
Withholding Tax receivable	8,782	7,145
Recoverable Deposit	7,606	5,056
Other	<u>1,865</u>	<u>1,313</u>
	<u>19,886</u>	<u>13,895</u>
Split as follows:		
Current	19,886	13,895
Non-current	<u>-</u>	<u>-</u>
	<u>19,886</u>	<u>13,895</u>

24 Deposits from other banks

	2020	2019
Overnight borrowing	150	20,161
Term Relief Funds	21,042	-
Items in course of collection	<u>22,172</u>	<u>2,107</u>
	<u>43,364</u>	<u>22,268</u>
Split as follows:		
Current	22,322	22,268
Non current	<u>21,042</u>	<u>-</u>
	<u>43,364</u>	<u>22,268</u>

Deposits from other banks are held at variable interest rates.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

25 Deposits from Customers	2020	2019
Current and demand deposits	422,528	255,980
Savings accounts	1,418	734
Fixed deposit accounts	<u>550,982</u>	<u>401,268</u>
	974,928	657,982
Split as follows:		
Current	974,928	657,982
Non-current	-	-
	<u>974,928</u>	<u>657,982</u>

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

26 Deferred income tax

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

Year ended 31 December 2020	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
<i>Deferred income tax liabilities</i>					
Plant and equipment Cost	11,125	7,011	7,011		18,236
Valuation	6,185	2,527		2,527	8,712
	<u>17,410</u>	<u>9,538</u>	<u>7,011</u>	<u>2,527</u>	<u>26,948</u>
<i>Deferred income tax assets</i>					
Provision for impairment other provisions	(13,700)	(12,217)	(12,217)		(25,917)
	<u>(2,852)</u>	<u>(9,314)</u>	<u>(9,314)</u>		<u>(12,166)</u>
Net deferred tax	<u>(16,552)</u>	<u>(21,531)</u>	<u>(21,531)</u>		<u>(38,083)</u>
	<u>858</u>	<u>(11,993)</u>	<u>(14,520)</u>	<u>2,527</u>	<u>(11,135)</u>
Year ended 31 December 2019					
	Unrecognised deferred tax at start of year	Movement in unrecognised deferred tax	(Credit)/ charge to profit or loss	(Credit)/charge to other comprehensive income	At end of year
<i>Deferred income tax liabilities</i>					
Plant and equipment Cost	6,072	5,153	5,153	-	11,225
Valuation	7,652	(1,467)	-	(1,467)	6,185
	<u>13,724</u>	<u>3,686</u>	<u>5,153</u>	<u>(1,467)</u>	<u>17,410</u>
<i>Deferred income tax assets</i>					
Provision for impairment	(8,525)	(5,175)	(5,175)	-	(13,700)
Other provisions	(2,532)	(320)	(320)	-	(2,852)
	<u>(11,057)</u>	<u>(5,495)</u>	<u>(5,495)</u>	<u>-</u>	<u>(16,552)</u>
Net deferred tax	<u>2,667</u>	<u>(1,809)</u>	<u>(342)</u>	<u>(1,467)</u>	<u>858</u>

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

26 Deferred income tax (continued)

Deferred income tax is calculated using the enacted income tax rate of 35% (2019: 35%). The movement on the deferred income tax account is as follows:

Year ended 31 December 2020	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
<i>Deferred income liabilities</i>							
<i>Plant & equipment</i>							
Cost	11,225	-	7,011	18,236	-	7,011	18,236
Valuation	6,185	-	2,527	8,712	2,527	-	8,712
	17,410	-	9,538	26,948	2,527	7,011	26,948
<i>Assets</i>							
impairment	(13,700)	-	(12,217)	(25,917)	-	(12,217)	(25,917)
Other provisions	(2,852)	-	(9,314)	(12,166)	-	(9,314)	(12,166)
	(16,552)	-	(21,531)	(38,083)	-	(21,531)	(38,083)
Net deferred tax	858	-	(11,993)	(11,135)	2,527	(14,520)	(11,135)
Year ended 31 December 2019	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
<i>Deferred income liabilities</i>							
<i>Plant & equipment</i>							
Cost	6,072	-	5,153	11,225	-	5,153	11,225
Valuation	7,652	-	(1,467)	6,185	(1,467)	-	6,185
	13,724	-	3,686	17,410	(1,467)	5,153	17,410
<i>assets</i>							
impairment	(8,525)	-	(5,175)	(13,700)	-	(5,175)	(13,700)
Other provisions	(2,532)	-	(320)	(2,852)	-	(320)	(2,852)
	11,057	-	(5,495)	(16,552)	-	(5,495)	(16,552)
Net deferred tax	2,667	-	(1,809)	858	(1,467)	(342)	858

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

Notes to the financial statements (continued)

27 Lease liabilities

The lease liability is measured at the present value of the fixed and variable lease payments net of cash lease incentives that are not paid at the balance sheet date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental rate implicitly in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees for cleaning and other costs. Lease modifications are accounted for as new lease with effective date of the modification by liquidating the current lease in full and recognise the new lease.

	2020	2019
Current		
Within 1 year	<u>4,835</u>	<u>4,031</u>
	4,835	4,031
Non current		
2 to 5 years	<u>16,260</u>	<u>5,372</u>
Total	<u><u>21,095</u></u>	<u><u>9,403</u></u>

28 Other liabilities

	2020	2019
Bills payables	253	274
Cheque Truncation System	1,200	1,200
WHT & VAT payable	312	199
Provision for gratuity	6,240	2,121
Other	<u>8,454</u>	<u>7,532</u>
	16,459	11,326
	<u>16,459</u>	<u>11,326</u>
Split as follows:		
Current	16,459	11,326
Non-current	-	-
	<u>16,459</u>	<u>11,326</u>

29 Share capital

	2020	2019
Issued and fully paid	<u>84,000</u>	<u>84,000</u>

The total authorised number of ordinary shares is 1.04 million with a par value of K1 per share.

First Alliance Bank Zambia Limited
Financial Statements
For the year ended 31 December 2020
(all amounts are in thousands of Kwacha unless otherwise stated)

30 Revaluation reserves

	2020	2019
At start of year	25,745	25,131
Deferred tax liability	(2,527)	1,467
Transfer to retained earnings	(853)	(853)
At end of year	<u>22,365</u>	<u>25,745</u>

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

31 Statutory reserves

	2020	2019
At start of year	45,312	37,899
Transfer from retained earnings	<u>10,370</u>	<u>7,413</u>
At end of year	<u>55,682</u>	<u>45,312</u>

The statutory reserve is established in accordance with the Banking and Financial Services Act, which stipulates that a Bank shall set aside at least fifty percentum of the net profit, before declaring any dividend and after due provision has been made for tax, until such a time when the reserve equals the paid up share capital after which a bank can at its discretion set aside any amount into statutory reserves. Statutory reserves are not available for distribution as dividends.

32 Credit reserves

	2020	2019
At start of year	46,160	46,160
At the end of year	<u>46,160</u>	<u>46,160</u>

The Bank has charged the impairment losses on financial instruments in accordance with IFRSs. The difference of the charge for impairment on loans and advances based on Bank of Zambia regulatory requirements under statutory instrument No.142 and the charge under IFRSs is recorded under credit reserves.

33 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

	2020	2019
Guarantees and performance bonds	<u>21,362</u>	<u>10,293</u>

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.

Notes to the financial statements (continued)

34 Related party transactions

The Bank is related to Astro Holdings Limited and its subsidiary companies by way of common shareholding. Astro Holdings Limited is one of Zambia's largest privately owned companies. It is the holding Company of a large and diversified leading group of companies in Zambia with a wide and varied operational base. The Group has ventured into various sectors namely furniture, motor, steel, construction and hardware, pharmaceuticals amongst others and very recently into mining and quarrying.

In the normal course of doing business, a number of banking transactions and other transactions were entered into with related parties during the year under review. These include loans and advances, deposits, foreign currency and other transactions for goods and services. The relevant balances at the yearend are shown below:

	2020	2019
Directors emoluments		
Fees & allowances	<u>665</u>	<u>650</u>
Deposits		
Directors & Key Management Personnel	16,703	6,644
Entities connected to Directors	<u>3,294</u>	<u>6,292</u>
	<u>19,997</u>	<u>12,936</u>

Advances to customers at 31 December 2020 and 31 December 2019 include advances to Directors and advances to entities controlled by Directors or their families as follows:

(a) Advances to Directors & connected entities	2020	2019
Credit line limits	<u>95,950</u>	<u>77,164</u>
Outstanding Balance	<u>74,956</u>	<u>71,028</u>
Fees & Interest received	<u>19,298</u>	<u>12,903</u>

Loans to entities controlled or related to the Directors are given at commercial terms and conditions.

(b) Loans to Key Management Personnel

At 31 December 2020 loans and advances to key management amounted to K0.985 million (2019: K0.662 million). Loans & advances to all staff are given at an interest rate of 15% to 22% per annum.

	2020	2019
(c) Guarantees		
Entities connected to Directors	<u>1,321</u>	<u>2,513</u>

No impairment provisions have arisen on loans to related parties (2019: K nil)

(d) Key management compensation	2020	2019
Salaries and other short-term employment benefits	<u>5,492</u>	<u>3,869</u>

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