

NATSAVE

20 23 | ANNUAL REPORT

WWW.NATSAVE.CO.ZM

DELIVERING FINANCIAL INCLUSION



NATSAVE



**20
23**

NATSAVE
**ANNUAL
REPORT**

TABLE OF CONTENTS

1. Chairperson's Statement
2. Chief Executive Officer's Statement
3. The Board of Directors
4. Management

Major Milestones

5. Corporate Banking
6. Retail
7. Credit
8. Financial Inclusion
9. ICT
10. Corporate Social Responsibility (CSR)

Our Year at a Glance

11. NATSAVE takes a stand to Uphold Financial Security
12. Presidential Spotlight at ZITF
13. NATSAVE stands for Small Scale Farmers
14. NATSAVE and ZNS Collaborate for Mutual Benefit
15. NATSAVE Donated to Zambian Netball Team
16. NATSAVE at the Banker's Association of Zambia Sports Day
17. NATSAVE took a stand to Enhance Teachers Financial Inclusion
18. NATSAVE Scoops Four Awards
19. 2023 Branch Managers Conference
20. Enhancing Access To Finance for the Men and Women in Uniform
21. NATSAVE took Initiative in Financial Literacy Training Across Zambia

Financial Statement

25. Financial Performance Highlights
26. Collaborations

Glossary

Core Values

Accountability
Customer First
Trustworthiness
Inclusive
Innovation
Stewardship

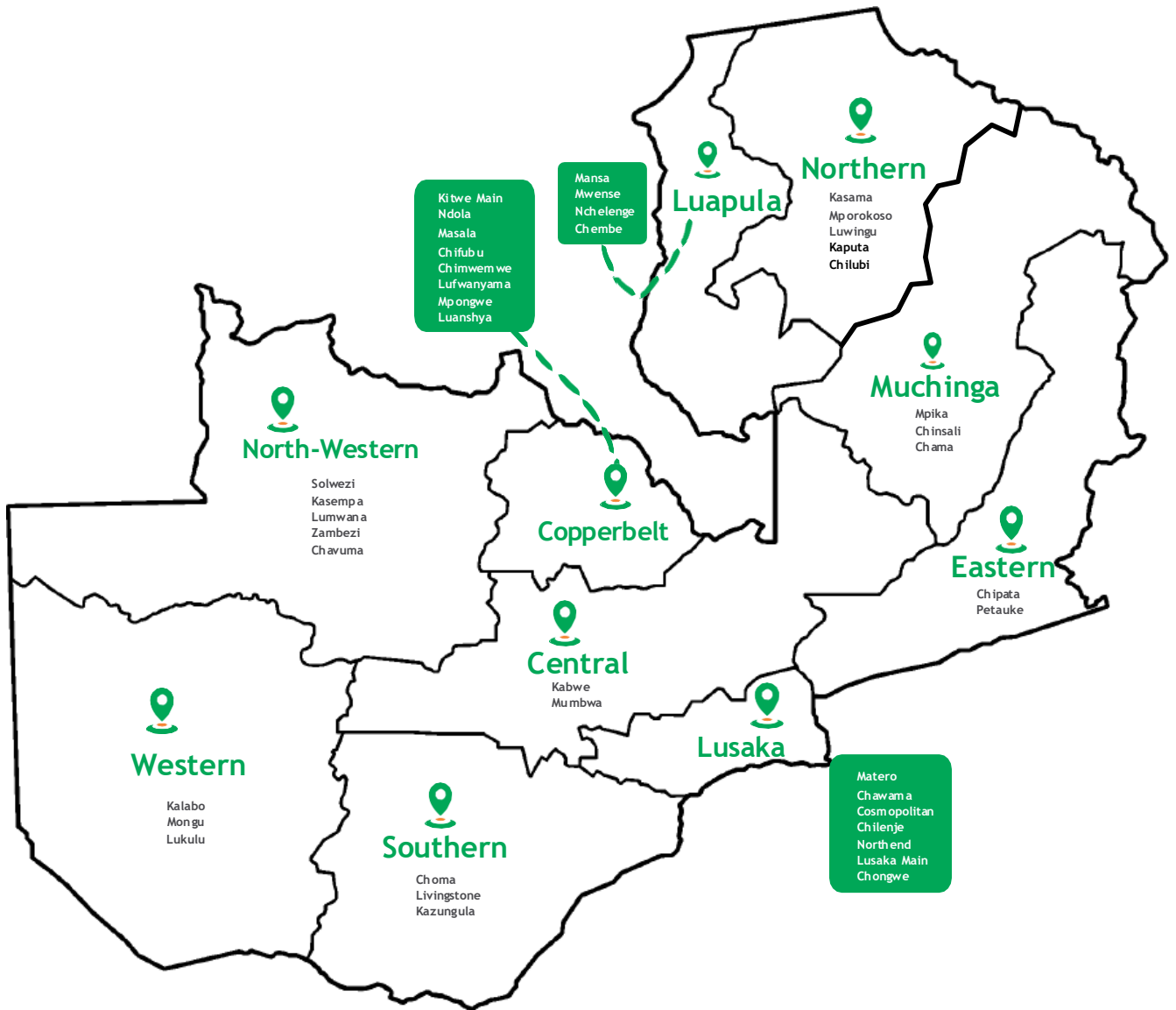
Mission

To provide innovative, convenient and affordable financially inclusive services to our customers

Vision

Delivering Financial Inclusion

Branch Network



10 Provinces

38 Branches

4 money windows

43 ATMs

**Wallet, Agencies, Mobile and
Internet Banking**

Over 300 000 Accounts and Growing



Interim Chairperson's Statement



Danies K Chisenda
Interim Board
Chairperson

On behalf of the Board of Directors, I am pleased to report on the Bank's remarkable progress in 2023. As we reflect on the past year, we are proud of the strides made in our digital transformation journey, which have enhanced both operational efficiency and customer experience.

The year under review marked an important chapter in NATSAVE's transformation journey. The Bank demonstrated resilience, strategic focus, and an unwavering commitment to delivering value to its customers and stakeholders. The Board is encouraged by the progress made across the Bank's strategic priorities, reflecting the collective efforts of Management and staff, guided by sound governance and prudent oversight.

As a Board, our responsibility extends beyond overseeing financial performance. We are entrusted with providing strategic direction, ensuring effective risk management, promoting accountability, and safeguarding the long-term sustainability of the Bank. Throughout the year, we remained focused on strengthening governance structures, monitoring strategic execution, and ensuring that NATSAVE remained responsive to the changing needs of its customers and the broader financial services landscape. One of the most significant areas of progress during the year was the continued advancement of the Bank's transformation agenda. The Board is pleased with the strides made in modernising the Bank's operations through technology and innovation, resulting in improved operational efficiency, enhanced service delivery, and better customer experience. The national recognition received for the Bank's digital banking platform during the year reflects the success of this strategic direction and reinforces our commitment to building a modern, accessible, and customer-centric financial institution.

The Board is equally encouraged by the Bank's financial recovery, which represents a significant milestone in NATSAVE's growth journey. The improved financial performance demonstrates the effectiveness of the Bank's strategic initiatives, prudent financial management, and disciplined execution of its business objectives.

NATSAVE remains committed to supporting Zambia's socio-economic aspirations. During the year under review, the Bank continued to expand access to financial services through initiatives that promote financial inclusion, enterprise development, and sustainable economic growth. The Board is particularly pleased with the continued implementation of strategic programmes such as the Sustainable Agriculture Financing Facility (SAFF), which has strengthened support for the agricultural sector and contributed to improved livelihoods. The Bank also continued to participate in national development initiatives that broaden access to finance and stimulate local economic activity, reinforcing its mandate of empowering communities and fostering inclusive growth.

The Board recognises that sustainable success is measured not only by financial performance but also by the positive impact the Bank creates in society. We therefore commend Management for maintaining a strong commitment to corporate social responsibility through initiatives in health, education, environmental stewardship, and community development. These programmes reflect NATSAVE's enduring commitment to improving lives and contributing meaningfully to the nation's development agenda.

Looking ahead, the Board remains optimistic of the Bank's future. While the operating environment will continue to present both opportunities and challenges, we are confident that NATSAVE is well positioned to sustain its growth trajectory through innovation, sound governance, prudent risk management, and operational excellence.

The Board will continue to provide strategic oversight to ensure that the Bank remains financially resilient, customer-focused, and responsive to the evolving needs of the economy.

On behalf of the Board, I extend my sincere appreciation to the Chief Executive Officer, Management, and every member of staff for their dedication, professionalism, and unwavering commitment throughout the year. Their efforts have been instrumental in the achievements recorded during 2023.

I also wish to express my heartfelt gratitude to our customers, shareholders, regulators, and all stakeholders for their continued trust, confidence, and support. Your partnership remains invaluable as we continue to strengthen NATSAVE's position as a trusted financial institution committed to creating lasting value for our customers, supporting national development, and contributing to the socio-economic prosperity of Zambia.

As we move forward, the Board remains committed to providing strategic leadership that will enable NATSAVE to seize emerging opportunities, deliver sustainable growth, and fulfil its mandate with integrity, innovation, and excellence.



Malcolm Chabala
Chief Executive Officer

Chief Executive Officer's Statement

This report highlights our key achievements and strategic expansion efforts, underscoring our continuous commitment to fulfilling our mandate, saving our customers and creating a meaningful impact in the broader community.

In our pursuit of excellence, we have embarked on a digital transformation journey which has revolutionised the way we serve our customers. A major milestone was the launch of our banking app, a true game-changer. We are honoured to have been awarded the **Best Banking App in 2023** in the Non-bank financial category during the Banking and Financial Awards. This recognition is a testament to our commitment to innovation and customer-centricity.

Our digital transformation has significantly improved operational efficiency and enhanced customer experience, providing convenient, accessible, and secure banking services. We will continue to invest in technology to stay ahead and meet the evolving needs of our customers.

On the financial front, we achieved a remarkable turnaround in 2023, posting an after-tax profit of **K38.3 million**, a significant improvement from the **K91.3 million loss** in 2022. This success was driven by a **41% growth in total operating income**, fueled by a **29% increase in interest income** and a **45% rise in fees and commission income**.

Our lending activities also expanded, with loans and advances growing by **26%**. Investments recorded significant growth, and total assets reached **K2.8 billion**, a **32% increase**, driven by growth in fixed assets and cash and cash equivalents. Additionally, customer deposits rose by **43%**, reflecting customer trust and confidence in NATSAVE.

The Bank delivered outstanding performance, reflecting our strategic focus on innovation, efficiency, and community impact. Through the **Sustainable Agriculture Financing Facility (SAFF)** programme, we disbursed **K69.8 million** in loans to support sustainable agricultural practices. Moreover, our participation in the **Constituency Development Funds (CDF)** initiative resulted in total disbursements of **K77.3 million** by the end of December 2023.

We also made significant strides in loan processing efficiency, reducing the turnaround time (TAT) from two weeks to just 12 hours.

This operational enhancement allowed us to better serve our customers and grow our loan book from **K1 billion in 2022** to **K1.3 billion** by the end of 2023.

The Bank achieved record success, with deposits reaching **K2.1 billion**, representing a **45.2% year-on-year growth**. The retail loan book also expanded significantly, growing by **124%** from **K458.5 million to K1.029 billion**. Headline income from interest rose by **44%**, while non-interest income surged by **60.3%**. Branch profitability hit a record **K245.2 million**, a **187% year-on-year increase**.

Our commitment to **Corporate Social Responsibility (CSR)** remains a cornerstone of our operations. In 2023, we focused on the pillars of **Health, Education, Environment, and Water and Sanitation**, reinforcing our dedication to creating positive impact in our communities.

We contributed to the Neonatal Intensive Care Unit (NICU) at **Kasama General Hospital**, donating baby blankets, water dispensers, washing machines, and medical supplies. This initiative celebrated our cultural heritage during the **Ukusefya Pa N'gwena traditional ceremony** and highlighted our commitment to health.

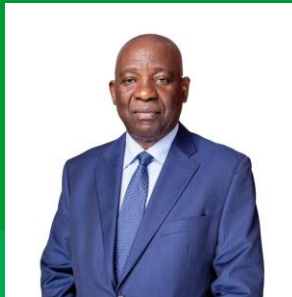
We conducted financial literacy awareness sessions across various schools in Zambia during **Financial Literacy Week**. Additionally, our participation in the **Annual Kids Fun Day** at the **Cancer Diseases Hospital in Lusaka** demonstrated our dedication to the well-being of vulnerable children.

Looking ahead, we remain focused on sustaining our growth trajectory, enhancing operational efficiencies, and deepening our impact through strategic CSR initiatives. We will continue to invest in digital platforms, expand our loan portfolios, and support sustainable development projects.

Our vision is to build a resilient NATSAVE that not only meets the financial needs of our customers but also contributes meaningfully to the socio-economic development of Zambia.

I extend my heartfelt gratitude to our dedicated team, whose hard work and commitment have driven our success. I also thank our customers, partners, and stakeholders for their trust and support. Together, we will continue to build a brighter future for our communities and our nation.

Malcolm Chabala
Chief Executive Officer



Danies K Chisenda
Interim Board Chairperson



Fredrick S Malambo
Vice Board Chairperson



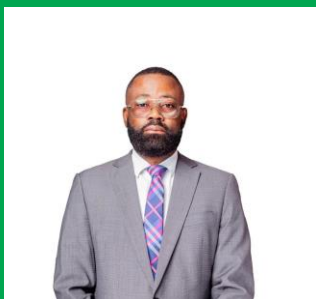
Gladys C Chiwele
Board Member



Nzowwa M. Chomba
Board Member



Nchimunya S Shatontola
Board Member



Boniface Chiwala
Board Member



Dorothy M Mulenga
Board Member



Davies M Sitali
Board Member



Malcolm Chabala
Chief Executive Officer



Sarah Kamoto
Director Corporate Banking



Lucas Hara
Chief Financial Officer



Charles T Sinkala
Company Secretary



Fatma Abad
Chief Operations Officer



Aaron Chongwe
Chief Credit Officer



Keith Hamusute
Chief Risk Officer



Pius M Jere
**Acting Head of Human
Capital and Administration**



Major Milestones

for the year ending 2023



Corporate



Government Business

The Bank successfully renewed the existing Government of the Republic of Zambia (GRZ) Service Level Agreement (SLA) for 2022–2023. Additionally, the Bank tendered and won the bid to provide banking services to the Government for 2024 – 2026 period. This milestone positions NATSAVE as the government’s bank of choice.

Agricultural Sector

The **Farmer Input Support Program (FISP)** SLA was signed to cover services for the 2023/2024 farming season, making it the first time the Bank entered into an SLA with the Ministry of Agriculture under FISP. The Bank successfully facilitated payments to farmers across the country amounting **ZMW 513 million** under the **Food Reserve Agency (FRA)**.

Zambia Credit Guarantee Scheme (ZCGS) MoU

The Bank signed a partnership agreement to participate in the provision of Agri-finance loans under the **Sustainable Agriculture Financing Facility (SAFF)** through the Ministry of Agriculture. Through the SAFF program, the Bank leveraged the Agro-Dealer distribution network enabling it to successfully on-board and open accounts.

Partnerships

The Bank established partnerships aimed at servicing our clients’ transactional needs which facilitated the rollout of **Order Financing** pushing trade finance disbursements to over **ZMW 50 million**.

Constituency Development Fund (CDF)

The Bank Successfully tendered for the CDF SLA, positioning NATSAVE as one of the approved banks to manage CDF empowerment funds, thereby enhancing potential business from Councils. **CDF accounts** were opened in various districts across the country and **CDF beneficiary loans** were processed.

Mobile Network Operators (MNOs)

MNO partnerships substantially expanded thereby elevating business value from **ZMW 50 million** to **ZMW 250 million**.

Pension Houses

The Bank partnered with a pension institution for the payment of partial withdrawal benefits disbursing **ZMW 139 million** to 6,500 beneficiaries.

Ministry of Community Development

The Bank facilitated payments to social cash beneficiaries amounting to **ZMW 313 million**.



RETAIL

RETAIL



The Bank achieved record performance in 2023, driven by targeted investments in assets. Noteworthy milestones included:

Deposits: the Bank achieved a record year-end deposits position of **ZMW 2.038 billion**, reflecting a growth of 45.2% year-on-year (YoY).

Loans: The retail loan book expanded from **ZMW 458.5 million** to **ZMW 1.029 billion**, marking a remarkable growth of 124%.

Organic Growth

The branch network recorded unprecedented profitability, inspite of the challenges posed by the macro-economic environment affecting the general retail business, all branches delivered strong profitability.

Digital Platforms The Bank experienced a substantial increase in customer utilisation of the digital platforms, including Mobile Banking (USSD and Application/wallet), Agency Banking, and ATMs

Mobile Banking: A total of 1,334 million transactions were conducted on the Mobile Banking platform, valued at **ZMW 1.398 billion**, generating an income of **ZMW 12.21 million**, up from **ZMW 8.93 million** in 2022.

ATM Transactions: The year saw over 228,000 transactions on ATM platforms, valued at **K268.6 million**.

Agency Banking: The Bank rolled out Agency Banking, recording a total of 1,693 transactions valued at **ZMW 1.890 million** by the end of the year.

The investment in digital platforms aligns with the Bank's strategic focus on innovation and expanding digital footprint. This strategy aims to drive efficiency, create pathways for additional and diversified income (net funded income), and enhance the overall customer experience.



Credit 

CREDIT



Participation in the Sustainable Agriculture Financing Facility (SAFF) Programme

The Bank successfully participated in the SAFF programme, disbursing a total of **K69.8 million** in SAFF loans. This initiative supports sustainable agricultural practices and contributes to the growth of the agricultural sector.

Constituency Development Funds (CDF)

The Bank actively administered the loan component of the CDF, achieving total disbursements of **ZMW 77.3 million** by the end of December 2023.

This has significantly contributed to community development projects across various constituencies, thereby driving increased utilization of the CDF.

Loan Book Growth

The loan book experienced notable growth, increasing from **ZMW 1 billion** in 2022 to **ZMW 1.3 billion** by the end of 2023.



FINANCIAL INCLUSION

Strengthening Financial Inclusion and Growth

Financial inclusion remains at the heart of NATSAVE's mission to empower individuals, businesses, and communities through accessible, affordable, and innovative financial services. During the year, the Bank strengthened financial access through its digital banking platforms while successfully participating in the Savings and Affordable Finance Facility (SAFF) programme, providing affordable financing that supports sustainable agricultural practices and the growth of the agricultural sector. These initiatives reflect NATSAVE's commitment to expanding access to finance, promoting economic empowerment, and contributing to Zambia's sustainable development.





ICT



Achieved Miles Stones for 2023

During the year under review the Bank recorded significant progress in the digital transformation agenda, highlighted by the mobile banking app receiving a prestigious industry award from Zambia Institute of Banking and Financial Services (ZIBFS). Other key milestones included:

National Financial Switch (NFS)

The Bank successfully connected to the NFS, enabling real-time fund transfers to mobile wallets and bank accounts across other financial institutions.

NATSAVE Wallet

The Bank launched the NATSAVE wallet, enabling the unbanked citizens to access essential banking services through entry level mobile accounts using a tiered KYC approach.

Smartpay

The Bank strengthened its e-Payment platform by integrating DDACC (Direct debit And Credit Clearing) transactions to the existing statutory payments such as ZRA, NAPSA, and NHIMA.

Agency Banking

The Bank deployed the agency banking app to allow customers to access Banking services such as cash deposits, withdrawals and bill payments.

NAPSA partial payment

NATSAVE integrated with NAPSA to allow name validation for customers accessing partial payment through the Bank. The integration enabled the Bank meet its mandate thereby contributing to Government's economic empowerment agenda.

Website Refresh

The NATSAVE website was revamped with a modern and user-friendly design enhancing ease of navigation and accessibility.

Successful Integrations with Several Government services.

The Bank successfully integrated the Ministry of Agriculture SAFF Project into the FISP for farmer loan disbursements. Successfully participated with in the Zambia Emergency Food Production Facility(ZEFPF) and integrated with third vendors.



Corporate Social Responsibility

Corporate Social Responsibility & Sustainability



Northern Province Minister **Mr. Leonard Mbao** (centre) is flanked by **NATSAVE Bank Chief Executive Officer Mr. Malcolm Chabala** (right), **Ukusefya Pa Ng'wena Organising Committee Chairperson Mr. Davies Kabuswe** (left), and Kasama General Hospital staff during the handover of essential neonatal care items.

The Bank remained committed towards Corporate Social Responsibility(CSR). The initiatives are built upon four fundamental pillars: Health, Education, Environment, and Water and Sanitation. The pillars reflect our commitment to creating a positive impact within the communities we serve, embodying our core values while promoting sustainability and social welfare.

Kasama General Hospital

In a demonstration of our commitment to health, the Bank contributed to the Neonatal Intensive Care Unit (NICU) at Kasama General Hospital. This donation included essential items such as baby blankets, water dispensers, washing machines, paediatric nasal prong cannulas, heaters, diapers, wipes, and handwash. This initiative enhanced healthcare provision while aligning with the Ukusefya Pa N'gwena traditional ceremony, celebrating cultural heritage alongside corporate values.

Additional Support and Donations

Beyond our primary CSR pillars, NATSAVE extended support to various projects through multiple donations. We responded to requests from communities and organisations, providing resources and financial aid to initiatives that align with our mission of fostering community well-being.

Annual Kids Fun Day in Lusaka

NATSAVE contributed towards the purchase of hampers for children during the Annual Kids Fun Day at the Cancer Diseases Hospital in Lusaka. This donation aimed to spread love, hope, and laughter among children with cancer.

Sustainability

The Bank continued to champion sustainability by promoting its digital platforms to reduce the use of paper in transactions, thereby reducing the carbon footprint. From the internal front, the Bank continued to focus on employee development and well-being, workplace diversity and sustainable internal operations. The interventions saw the promotion of gender equality, workplace safety and work family balance.

Impact on Corporate Image

NATSAVE's comprehensive CSR activities significantly enhanced our image as a responsible and caring corporate citizen. By consistently investing in health, education, environment, and water and sanitation we strengthened the Bank's relationship with stakeholders.



The Republican President Mr. Hakainde Hichilema visited the NATSAVE stand during the 57th Zambia International Trade Fair (ZITF) under the theme Stimulating Economic Development Through Partnership, Trade, and Investment.



NATSAVE paid a visit to the Ministry of Commerce, Trade and Industry Permanent Secretary, Ms. Lillian Saili Bwalya on 22nd September 2023 to discuss prudent ways of improving access to finances for farmers small, medium and cooperative enterprises and the Zambian youth.



NATSAVE and the Zambia National Service (ZNS) signed a Memorandum of Understanding (MOU) on 24th August 2023 at the ZNS Headquarters in Lusaka.





NATSAVE participated in the thrilling Zambia Institute of Banking and Financial Services Sports Day on 20th May 2023, at the Olympic Youth Development Centre (OYDC) in Lusaka.



NATSAVE Bank signed a Memorandum of Understanding (MOU) with the Zambia National Union of Teachers (ZNUT) on Thursday, 1st June 2023, aimed at enhancing the support that the Bank provides to the teaching community. "The MOU was a partnership aimed at alleviating financial burdens and providing teachers with the necessary financial support to excel in their profession"



NATSAVE hosted its highly anticipated Branch Managers Conference special training.



NATSAVE paid a courtesy call on the Zambia Army Commander, Lieutenant General Sitali Alibuzwi, to discuss ways that the bank had with the army.



NATSAVE conducted financial literacy training in different schools during Financial Literacy Week. Schools visited include: St.Monica Basic School, Timothy Mwanakatwe Primary School, and Damakiso School in Lusaka.



NATSAVE emerged as one of the biggest winners at the 2023 Banking and Finance Award Ceremony held in Lusaka on the 24th of November 2023, at Intercontinental Hotel. NATSAVE's CEO, Mr. Malcolm Chabala, was declared CEO of the Year in the Non-Bank Financial Institution (NBFI) category. NATSAVE was also honoured with the Corporate Social Responsibility (CSR) award. Additionally, NATSAVE received two more awards for Financial Inclusion - Rural Aspect and for the Most Innovative Banking App, acknowledging the Bank's commitment to digital transformation showcased through cutting-edge applications that simplify and enhance banking experiences for individuals and enterprises working with NATSAVE.





Courtesy call on the Lusaka South Multi-Facility Economic Zone (LSMFEZ) to push financial empowerment for SMEs, as well as financial inclusion.



CAMCO paid a courtesy call on the Bank



Tour of Infratel Zambia Primary Data Centre infrastructure on Tuesday, 22nd August 2023.





NATSAVE donated a cheque worth one hundred and fifty thousand kwacha towards the funeral expense budget of the 14 Seventh Day Adventists youths from Chilubi East who died after their boat capsized on lake Bangweulu.

Liquid Intelligent Technologies visited NATSAVE on 4th March of 2023 to discuss possible further collaborations.



NATSAVE paid a courtesy call Director General of the Drug Enforcement Commission (DEC), Mr. Nason Banda, on Thursday 6th July 2023





FINANCIALS

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

DIRECTOR'S REPORT

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

1.0 Status of the Bank

The Bank was incorporated in 1972 under an Act of Parliament: Chapter 423 of the Laws of Zambia.

2.0 Business and Principal activities

The business of the Bank is the acceptance of deposits, operation of savings schemes and making of loans for such purposes as the Board may approve and as prescribed and approved by the Minister, subject to the provisions of the Banking and Financial Services Act (BSFA). The Bank is 100% owned by the Government of the Republic of Zambia (GRZ) through the Ministry of Finance.

3.0 Share capital

The Bank was established by an Act of Parliament, the share capital represents contributions made by Government towards the setup and continued operations of the Bank.

4.0 Financial results

	2023 ZMW	2022 ZMW
Net interest income	219,761,203	72,300,676
Profit / (loss) for the year	<u>38,309,921</u>	<u>(91,263,164)</u>

The full results of the Bank and its financial position are set out in the accompanying annual financial statements including explanatory notes.

5.0 Dividends

The Directors did not recommend a payment of a dividend for the year ended 31 December 2023 (2022: ZMW

6.0 Directors and Secretary

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

Name	Position	Nationality
Danies Kawama Chisenda	Board Chairperson (Appointed on 14/10/2024)	Zambian
Musata Kaunda Ndhlovu	Vice Board Chairperson (Tenure expired on 21/04/2023)	Zambian
Nchimunya S. Mpabalwani	Board member (Appointed on 03/01/2024)	Zambian
Fredrick Shabano Malambo	Board member (Appointed on 12/04/2024)	Zambian
Davies Sitali	Board member (Appointed on 12/04/2024)	Zambian
Boniface Chiwala	Board member (Appointed on 16/10/2024)	Zambian
Dorothy Musa Mulenga	Board member (Appointed on 16/10/2024)	Zambian
Gladys Chongo Chiwele	Board member (Appointed on 16/10/2024)	Zambian
Nzovwa Chomba Mwela	Board member (Appointed on 16/10/2024)	Zambian
O'Brien Siame Katai	Board Member (Tenure expired on 18/04/2023)	Zambian
Edna Mwala Mudenda	Board Member (Tenure expired on 14/12/2023)	Zambian
Womba Kawanu	Board Member (Tenure expired on 14/12/2023)	Zambian
Meamui Georgina Linyama Kongwa	Board Member (Tenure expired on 14/12/2023)	Zambian
Malcolm Chabala	Chief Executive Officer (Tenure expired on 31/05/2024)	Zambian
Fatma Abad	Acting Chief Executive Officer (Appointed on 17/06/2024)	Zambian
Charles Sinkala	Board Secretary	Zambian

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

DIRECTOR'S REPORT (CONT'D)

7.0 Management Team

The management during the year comprised of the following as at the date of this report were as follows:

Name	Position	Changes
Malcolm Chabala	Chief Executive Officer	
Keith H Hamusute	Chief Risk Officer	
Lucas Hara	Chief Finance Officer	
David Mukwavi	Head - Marketing	Tenure expired on 30 June 2023
Mebelo Mebelo	Head - Retail Banking	Tenure expired on 30 June 2023
Aaron Choongwe	Head - Credit	
Fatma Abad	Chief Operating Officer	
Joshua Milinga	Head – Human Capital and Administration	Tenure expired on 30 June 2023
Sarah B Kamoto	Head - Corporate Banking	
Charles Sinkala	Bank Secretary	

8.0 Directors' emoluments and interests

The emoluments paid to directors during the year amounted to **ZMW 389,875** (2022: ZMW 557,410) as disclosed in schedule I of the financial statements.

There were no Directors' interests in the contributed capital of the Bank in Compliance with Section 38 of the Banking and Financial Services Act, 2017.

9.0 Property, plant and equipment

The Bank purchased property, plant and equipment amounting to **ZMW 37,799,253** (2022: ZMW 9,771,501) during the year and disposed off property, plant and equipment amounting to **ZMW 132,603** (2022: ZMW 4,457,328). In the opinion of the directors, the carrying value of property and equipment is not more than the recoverable value.

10.0 Number of employees and remuneration

The Bank had 462 (2022: 423) full time employees at the year end and the total wages and salaries paid to the employees during the year amounted to **ZMW 198,679,602** (2022: ZMW 185,873,583). The average number of employees for each month of the year was:

Month	Number	Month	Number
January	424 (2022: 415)	July	431 (2022: 420)
February	425 (2022: 423)	August	418 (2022: 429)
March	436 (2022: 431)	September	451 (2022: 428)
April	430 (2022: 424)	October	460 (2022: 427)
May	434 (2022: 413)	November	459 (2022: 428)
June	435 (2022: 421)	December	462 (2022: 423)

11.0 Related party transactions

As required by the Banking and Financial Services Act, 2017 and International Accounting Standard Number 24: ("Related Party Transactions") related party transactions are disclosed in Note 29 of the financial statements.

12.0 Gifts and donations

The Bank made donations during the year amounting to **ZMW 1,746,107** (2022: ZMW 1,024,638).

13.0 Corporate governance

The Directors continue to be committed to high standards of corporate governance which is fundamental to discharging their leadership responsibilities. The Board applies integrity, principles of good governance and accountability in the discharge of its activities.

14.0 Prohibited borrowings or lending

There were no prohibited borrowings or lending as defined under Sections 89 of the Banking and Financial Services Act, 2017.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

DIRECTOR'S REPORT (CONT'D)

15.0 Risk management and control

The Bank, through its normal operations, is exposed to a number of risks, the most significant of which are interest, credit, market, operational and liquidity risks.

The Directors have approved policies to mitigate these risks by applying controls that are designed to safeguard the Bank's assets while allowing sufficient freedom for the normal conduct of business.

The Audit and Risk Committees carry out independent reviews to ensure compliance with financial and operational controls.

16.0 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.

17.0 Research and development

The Bank did not conduct any research and development activities during the year.

18.0 Know your customer and anti-money laundering policies

The Bank has adopted Know Your Customer (or "KYC") and Anti Money Laundering or ("AML") policies and adheres to current legislation in respect of these policies.

19.0 Events after the reporting date

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

20.0 Annual financial statements

The annual financial statements set out on pages 13 to 81 have been approved by the directors.

21.0 Auditors

Having indicated their willingness to continue in office, a resolution proposing the re-appointment of BDO Zambia Audit Services will be put to the Annual General Meeting.

22.0 Going concern

The bank reported:

- A negative equity of **ZMW 81,601,997** (2022: ZMW 107,557,184).
- A capital deficiency in accordance with the Banking and Financial Services Act of **ZMW 275,849,024** (2022: ZMW 239,085,961). The minimum capital requirement is set at the higher of ZMW 50,000,000 or 10% of the total on and off-balance sheet risk-weighted assets.
- A negative regulatory capital adequacy ratio of -8% (2022: -16%), and a negative primary capital ratio of -8% (2022: -16%) expressed as a percentage of risk weighted assets.

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

DIRECTOR'S REPORT (CONT'D)

Recapitalisation of NATSAVE by the Government of the Republic of Zambia through the Ministry of Finance

On 13 July 2020, the Zambian Government through the Ministry of Finance injected ZMW 900 million into the Bank to revamp NATSAVE's operations. The recapitalisation was meant to put the Bank at a more competitive position and to address the Bank's non-compliance with regulatory requirements on Capital Adequacy.

This recapitalisation did initially address the capital deficiency. However, with continued losses in 2020, 2021 and 2022 and growth in assets leading to increase in risk weighted assets and consequently a rise in capital requirements, the Bank has fallen back into capital deficiency. The Board of Directors have brought this position to the attention of the shareholder (Government of the Republic of Zambia). The shareholder has acknowledged the position and committed to continued financial support of the Bank with an endeavour to recapitalise the Bank further as and when funds are available.

As a show of support to the Bank, the government did also advise government departments to open accounts with the Bank, a move that is meant to help the Bank to grow its business and improve profitability. On 10th January 2022, the Ministry of Local Government advised all councils in districts where NATSAVE is the only Bank to open accounts with the Bank and bank locally as opposed to using Banks in other districts with associated high operational costs involved.

In 2022, the directors prepared a detailed strategy paper on how they intend to turn around the profitability of the Bank. This strategy is working as the Bank has managed to record a profit for the year ended 31st December 2023.

Despite the Capital deficiency, the Bank managed to settle all financial obligations. The going concern assumption is considered appropriate for the Bank and the financial statements have been prepared on the basis of accounting policies appropriate to a going concern. The Directors are satisfied that at the time of approval of these financial statements, there is no significant concern that the Shareholder could discontinue providing financial support. Trade payables and other obligations have continued to be settled in the normal course of business.

The directors are of the view that the Bank will be able to meet its short-term obligations based on the forecasted cash flows for the next financial year. On this basis the directors consider it appropriate to prepare these financial statements on a going concern basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Moves to enhance Business Performance and improve competitiveness on the market

Admission to Zambia Electronic Clearing House (ZECHL)

On 10th January 2022, NATSAVE was admitted to the Zambia Electronic Clearing House Limited (ZECHL) Interbank Clearing Platform, after satisfying all entry requirements and subsequent deployment of the Banklink solution. This meant that the Bank could now participate directly on the Interbank Clearing system hosted by ZECHL on the Electronic Funds Transfer (EFT) and Cheque Image Clearing (CIC) streams. This was a big milestone for the Bank as the Bank had looked forward to achieving this for a long time. As a result of the admission to ZECHL, during 2023, the Bank managed to efficiently process GRZ salaries without delays while the bulk reconciliations for GRZ salary files are now a thing of the past. Improvements took place in the electronic funds transfers in and out of the Bank with the Bank even managing to take part in the payments on the National Pension Scheme (NAPSA) Pre-retirement Benefit Claim payments as a total of about ZMW 139 million was withdrawn by approximately 6,500 beneficiaries.

Mastercard Debit Cards Project

The Bank has also been in partnership with the Zambia National Commercial Bank (ZANACO) since April 2021. Under this partnership, ZANACO will be a settlement partner for NATSAVE's Mastercard Debit Cards. The project was expected to be completed and launched during 2023 but unforeseen delays have meant that the launch could not take place. However, transaction testing did commence in October 2023 with 11 cards released in circulation and more cards have now been released in circulation with more staff taking part in the testing. This is a great step in the Bank's journey to migrate its customers to EMV cards and will see customers able to access millions of ATM and POS terminals world-wide.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

DIRECTOR'S REPORT (CONT'D)

22.0 Going concern (Cont'd)

Opening of Trust Accounts for Mobile Network Operators (MNOs)

In 2021, the Bank partnered with the three Mobile Network Operators (MNO) whom it managed to convince to open Trust Accounts with the Bank. This meant that the Bank could now be able to make collections from various agents of these MNOs. During 2023, the Bank saw growth in turnover on the MTN Trust Account by 148% (2022: 103%) and on the Airtel Trust Account by 153% (2022: 85%), a situation that helped to improve liquidity in the Branch network.

Partnership with Zambia Credit Guarantee Scheme (ZCGS)

During the year 2023, the Bank signed a partnership agreement with the Zambia Credit Guarantee Scheme (ZCGS) to participate in the provision of Agri-finance loans under Sustainable Agriculture Financing Facility (SAFF) under the Ministry of Agriculture worth ZMW 250 million.

The Bank also successfully negotiated and increased the guaranteed portfolio limit from ZMW 10 million to ZMW 100 million. Disbursements under the partnership since the start of the relationship in May 2022 represent a 100% utilization of the guarantee.

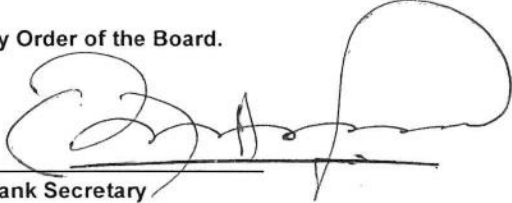
Partnership with Pangaea ADD Capital

The Bank successfully rolled out Invoice Discounting under a partnership with PADDC in April 2022. A total of ZMW 4 million was disbursed in 2022 against a desired appetite of ZMW 100 million. This business continued to grow in 2023 with disbursements in the year growing to ZMW 36 million while the contribution to income amounted to ZMW 3 million. Invoices on these facilities are settled by the off-takers within a period of 6 months.

In August 2023, Order Financing was also introduced under the partnership with disbursements of ZMW 22 million made by 31st December 2023, pushing disbursements in the year to ZMW 58 million on the two types of facilities. The income contribution from order financing as at 31st December 2023 amounted to ZMW 2.4 million.

As of 31 December 2023, the outstanding portfolio for invoice discounting and order finance amounted to ZMW 50.8 million. The Bank sees this as a strategic growth area with healthy margins.

By Order of the Board.


Bank Secretary

19 DEC 2024

Date

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

DIRECTOR'S RESPONSIBILITIES AND APPROVAL

The Banking and Financial Services Act and the National Savings and Credit Act require the directors to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Bank as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and the requirements of the Banking and Financial Services Act and the National Savings and Credit Act of Zambia.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Bank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known forms of risk across the Bank. While operating risk cannot be fully eliminated, the Bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Banks' cash flow forecast for the year to 31 March 2025 and, in the light of this review and the current financial position, they are satisfied that the Bank has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Bank's financial statements. The financial statements have been examined by the Bank's external auditors and their report is presented on pages 8 to 12.

The directors' report and the financial statements set out on pages 13 to 81, which have been prepared on a going concern basis, were approved by the board of directors on 19 DEC 2024 and were signed on its behalf by:



Director



Director

Independent auditor's report

To the members of National Savings and Credit Bank or "NATSAVE"

Report on the audit of the financial statements

Opinion

We have audited the financial statements of NATSAVE, which comprise the statement of financial position, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2023 and notes to the financial statements, including a summary of significant accounting policies as set out on pages 13 to 81.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Banking and Financial Services Act, and the National Savings and Credit Act.

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 Accountants' 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 and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 31 December 2023 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Material uncertainty related to going concern

We draw attention to note 3(e) of the financial statements, which indicates that the bank has:

- A profit for the period of ZMW 38,309,921 (2022: loss of ZMW 91,263,164).
- A negative equity of ZMW 81,601,997 (2022: ZMW 107,557,184).
- A capital deficiency in accordance with the Banking and Financial Services Act of ZMW 275,849,024 (2022: ZMW 239,085,961). The minimum capital requirement is set at the higher of ZMW 50,000,000 or 10% of the total on and off-balance sheet risk-weighted assets.
- A negative regulatory capital adequacy ratio of -8% (2022: -16%), and a negative primary capital ratio of -8% (2022: -16%) expressed as a percentage of risk weighted assets.

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters (or "KAM")

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.

KAM Title	Description of Key Audit Matter	How our Audit Procedure Addressed The KAM
IFRS 9, Financial Instruments, Expected Credit Losses - Impairment of loans and advances	The allowance for impairment losses on loans and advances to customers is a significant matter as it requires the application of judgement and use of subjective assumptions by management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty and the timing and amount of expected future cash flows. The Bank records allowances of loans and advances to customers. In accordance with IFRS 9 Financial Instruments: Recognition and Measurement, impairment provisions are measured according to a 3-stage credit loss impairment model under which each financial asset is classified in one of those stages. This requires an estimation of expected credit losses to be unbiased and probability weighted, including information about the past, current conditions and reasonable supportable forecasts of future events at the reporting date.	Our audit procedures included: We assessed the reasonableness of the expected credit loss model methodology and related parameters, including; a) probability of default, b) loss given default, c) significant increase in credit risk, d) recovery rates, and e) projected or expected cash receipts amongst other factors, f) re-computation of the expected credit loss using a challenger model g) evaluated the completeness and accuracy of the inputs used in the model.. We evaluated the models and the related assumptions used in individual impairment assessments and analysed the amounts, timing, and likelihood of management's estimated future cash flows, especially cash flows from collateral of IFRS 9. We reviewed the IFRS 9 required disclosures in the financial statements. Details of the ECL are included in Note 5(a), and 19 of the financial statements.
Valuations of defined benefit obligations as at 31 December 2023	The Bank operates a defined benefit scheme which in total is significant in the context of both the overall balance sheet and results of the Bank. The valuations of the pension obligations are calculated with reference to a number of actuarial assumptions and inputs including discount rate, rate of inflation and mortality rates. The treatment of curtailments, settlements, past service costs and measurements and other amendments can significantly impact the balance sheet and results of the Bank, as demonstrated by the curtailment gain recognised in the year. Small changes in assumptions can result in material impacts to the net pension liability or asset.	In our audit we have involved our technical defined benefit specialist to assess the appropriateness of the actuarial assumptions and calculations performed by the Bank's actuary. We obtained the report from management that was prepared by a professional actuarial consultant (Quantum Consultants and Actuaries) and performed the following procedures: a) We further performed re-computations of the defined benefits obligation. b) Finally, we considered the completeness and accuracy of the disclosures relating to pension plans to assess compliance with disclosure requirements included in the financial statements. c) We critically assessed discount rate applied. d) We also established that other assumptions were consistently applied compared to market developments. Details of the defined benefit obligation is disclosed in Note 26 of the financial statements.

KAM Title	Description of Key Audit Matter	How our Audit Procedure Addressed The KAM
Treatment of staff loans below market rate	IFRS 9 requires that staff loans at below market rates are discounted using the effective interest rate (EIR). This process is complex and significant management judgement is involved. Specific factors management considers include the discount rate or the market rate, and the time to maturity of the staff loan. The Mark to Market staff loans have been assessed as a key audit matter due to the significant judgement and the complexity involved in establishing the fair value of these loans.	Our audit procedures included: a) We reviewed the computations provided to us by management. b) We further re-computed the marked to market loans as at 31 December 2023. Details of this have been disclosed in Note 19 (g) of the financial statements
Internal Controls – Information Technology IT systems and controls	As our audit sought to place a high level of reliance on the Bank's IT systems and key internal controls upon which management rely, IT environment plays a significant role in our audit of the Bank's financial statements. A large proportion of this work was conducted at the Bank's finance department where finance transactions are processed. In the prior period audit, IT was a major issue and the IT auditors spent significant amount of time. Several issues were raised with the major issue being the Super user. Our work has also focused on other control enhancements undertaken by management during the current year: - General ledger accounts – enhancements were made to controls over general ledger accounts including central reconciliation tracking, quality control measures and refined policies and procedures. - Controls over user access – a detailed review of access rights to the Bank's common ERP system was conducted by management during the year, with enhancements being made to both ongoing controls and certain compliance focused tools being utilised.	Our audit procedures included: a) An assessment of the IT environment was done by our internal IT audit specialists. b) Our work also focused on other control enhancements undertaken by management during the current year: c) General ledger accounts – enhancements were made to controls over general ledger accounts including central reconciliation tracking, quality control measures and refined policies and procedures. d) Controls over user access – a detailed review of access rights to the Bank's common ERP system was conducted by management during the year, with enhancements being made to both ongoing controls and certain compliance focused tools being utilized.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), the Banking and Financial Services Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the bank's financial reporting process.

Auditor's responsibility for the audit of financial statements

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

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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Banking and Financial Services Act

In accordance with the Banking and Financial Services Act, we report that, in our opinion:

- The bank made available all necessary information to enable us to comply with the requirement of this Act;
- The bank has complied with the provisions, regulations rules and regulatory statements specified in or under this Act.

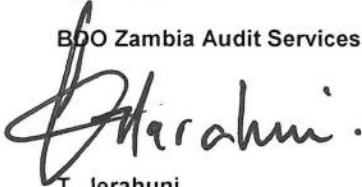
Qualified opinion on non-compliance with the Banking and Financial Services Act and the National Savings and Credit Bank Act

The bank is not compliant with the capital adequacy required by the act:

- A capital deficiency in accordance with the Banking and Financial Services Act of ZMW 275,849,024 (2022: ZMW 239,085,961). The minimum capital requirement is set at the higher of ZMW 50,000,000 or 10% of the total on and off-balance sheet risk-weighted assets.
- A negative regulatory capital adequacy ratio of -8% (2022: -16%), and a negative primary capital ratio of -8% (2022: -16%) expressed as a percentage of risk weighted assets.

BDO

BDO Zambia Audit Services



T. Jerahuni

Partner

AUD/F008775

Date:

19 DEC 2024

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

STATEMENT OF COMPREHENSIVE INCOME

Figures in Zambian Kwacha	NOTES	2023	2022
Interest income calculated using the effective interest rate	8	360,958,169	279,959,556
Other interest income on credit impaired loans	10a	716,912	333,568
Interest expense calculated using the effective interest rate	9	(141,913,878)	(207,992,448)
Net interest income		219,761,203	72,300,676
Expected credit (loss) / gain on financial assets	19d	(19,936,870)	6,891,292
Net trading income		199,824,333	79,191,968
Net fees and commissions income	11	88,139,666	60,626,098
Foreign exchange loss	18	(13,102,005)	(224,573)
Other operating income	12	122,410,429	148,824,466
Staff mark to market charge	19g	(1,688,963)	(7,575,117)
Total income		395,583,460	280,842,842
Operating expenses			
Salaries and employee benefits	13	(198,679,602)	(185,873,583)
Depreciation and amortisation	14	(16,429,607)	(17,151,221)
Administrative expenses	15a	(121,105,688)	(92,572,847)
Loan receivable balances write off	15b	-	(46,957,668)
Finance costs - Leases IFRS 16	23(iii)	(4,803,574)	(5,577,412)
Total operating expenses		(341,018,471)	(348,132,731)
Profit / (loss) before tax		54,564,989	(67,289,889)
Withholding tax	24	(16,255,068)	(23,973,275)
Profit / (loss) for the year		38,309,921	(91,263,164)
Other comprehensive income / (loss)			
Revaluation gains on property, plant and equipment		-	11,325,807
Fair value gain / (loss)	17	824,422	(21,619,105)
Defined benefit remeasurement gains / (loss)	26	(13,179,156)	21,381,061
Total comprehensive income / (loss)		25,955,187	(80,175,401)

The accounting policies and notes on pages 17 to 81 are an integral part of these financial statements.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

STATEMENT OF FINANCIAL POSITION

Figures in Zambian Kwacha	Notes	2023	2022
Assets			
Cash and cash equivalents	16	265,565,887	213,868,074
Investment securities	17	883,104,761	698,296,207
Loans and advances	19	1,312,032,841	1,037,604,475
Staff loans	19g	25,391,632	25,875,873
Other assets	20	178,229,171	37,395,975
Property, plant and equipment	22	101,488,021	73,489,553
Right of use asset	23(i)	9,617,734	11,284,706
Intangible assets	21	18,962,044	15,218,632
Total assets		2,794,392,091	2,113,033,495
Liabilities			
Lease liabilities	23(ii)	28,158,162	21,924,919
Other liabilities	27	106,932,432	126,629,486
Deposits from customers	25	2,100,521,662	1,473,081,396
Employee benefits provision	26	72,902,296	65,171,479
Term loan	28	500,000,000	500,000,000
Deferred revenue	10b	67,479,536	33,783,399
Total liabilities		2,875,994,088	2,220,590,679
Shareholders' equity			
Share capital		1,038,382,644	1,038,382,644
Property revaluation reserves		35,299,414	35,299,414
Available for sale reserves		4,604,970	3,780,548
Accumulated losses		(1,159,889,025)	(1,185,019,790)
Total equity		(81,601,997)	(107,557,184)
Total liabilities and equity		2,794,392,091	2,113,033,495

The responsibilities of the Bank's Directors with regard to the preparation of the financial statements are set out on page 7. The financial statements on pages 13 to 81 were approved by the Board of Directors on **19 DEC 2024** and were signed on its behalf by:



DIRECTOR



DIRECTOR

The accounting policies and notes on pages 17 to 81 are an integral part of these financial statements.

NATIONAL SAVINGS AND CREDIT BANK
Financial statements for the year ended 31 December 2023

STATEMENT OF CHANGES IN EQUITY

Figures in Zambian Kwacha

	Share capital	Fair value reserve	Revaluation reserves	Accumulated losses	Total
Balance at 31 December 2021 - restated	1,038,382,644	25,399,654	23,973,607	(1,115,137,687)	(27,381,782)
Adjustments					
Loss for the year - restated	-	-	-	(91,263,164)	(91,263,164)
Other comprehensive income net of tax					
Net change in fair value on available for sale financial assets	-	(21,619,105)	-	-	(21,619,105)
Revaluation gains	-	-	11,325,807	-	11,325,807
Remeasurement of defined benefit obligation	-	-	-	21,381,061	21,381,061
Total comprehensive income	-	(21,619,105)	11,325,807	(69,882,103)	(80,175,401)
Balance at 31 December 2022	1,038,382,644	3,780,548	35,299,414	(1,185,019,790)	(107,557,184)
Adjustments					
Profit for the year	-	-	-	38,309,921	38,309,921
Other comprehensive income net of tax					
Net change in fair value on available for sale financial assets	-	824,422	-	-	824,422
Remeasurement of defined benefit obligation	-	-	-	(13,179,156)	(13,179,156)
Total comprehensive income	-	824,422	-	25,130,765	25,955,187
Balance at 31 December 2023	1,038,382,644	4,604,970	35,299,414	(1,159,889,025)	(81,601,997)

The accounting policies and notes on pages 17 to 81 are an integral part of these financial statements.

Fair value reserve

The available for sale comprises the fair value movement of financial assets classified as fair value through other comprehensive income (FVOCI) (previously as available-for-sale). Gains and losses including Expected Credit Losses (ECL) are deferred to this reserve until such time as the underlying asset is sold.

Revaluation reserves

Gains/losses arising on the revaluation of the Bank's property (other than investment property).

Accumulated losses

Accumulated losses are the brought forward recognised income net of expenses of the bank plus current year losses.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

STATEMENT OF CASH FLOWS

Figures in Zambian Kwacha	Notes	2023	2022
OPERATING ACTIVITIES			
Profit / (loss) before tax		54,564,989	(67,289,889)
Adjusted for:			
Expected credit loss expense on financial assets	19d	19,936,870	(6,891,297)
Loans written off during the year	15b	-	46,957,668
IAS 19 employee benefit	19g	1,688,963	7,575,117
Depreciation and amortisation	14	16,429,607	17,151,221
Defined benefit scheme adjustment	26	(29,281,872)	(30,680,593)
(Profit) on disposal		(80)	(548,752)
Unrealised foreign exchange losses on leases	23	8,136,604	980,178
Termination of lease contract	23	(16,119)	-
Operating profit / (loss) before changes in operating funds		71,458,962	(32,746,347)
(Increase) / decrease in investments	17	(183,984,132)	97,628,776
(Increase) / decrease in other receivables	20	(140,833,196)	2,055,548
(Increase) in loans and advances to customers	19	(294,365,236)	(93,441,100)
(Increase) in staff loans	19g	(1,204,722)	(13,572,032)
Increase in employee benefit provision	26	23,833,533	46,075,890
Increase in customer deposits	25	627,440,266	94,051,366
(Decrease) in other payables	27	(19,697,054)	(149,883,560)
Increase in deferred income	10	33,696,137	6,492,777
Cash generated from / (used) in operations		116,344,558	(43,338,682)
Withholding tax paid		(16,255,068)	(23,973,275)
Cash generated from / (used) in operating activities		100,089,490	(67,311,957)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	22	(37,799,253)	(9,771,501)
Proceeds from disposal of assets		68,439	3,206,386
Purchase of intangible assets	21	(7,053,072)	(2,405,488)
Finance lease obligations paid	23(ii)	(8,411,365)	(8,512,645)
Net cash utilised in investing activities		(53,195,251)	(17,483,248)
FINANCING ACTIVITIES			
Interest on lease liabilities	23(ii)	4,803,574	5,577,412
Term loan received	28	-	-
Net cash used in financing activities		4,803,574	5,577,412
Net increase / (decrease) in cash and cash equivalents		51,697,813	(79,217,793)
Cash and cash equivalents at beginning of the year		213,868,074	293,085,867
Cash and cash equivalents at end of the year		265,565,887	213,868,074
COMPRISE OF:			
Cash balances held	16	61,402,077	47,480,493
Balances with other banks	16	204,163,810	166,387,581
		265,565,887	213,868,074

The accounting policies and notes on pages 17 to 81 are an integral part of these financial statements.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES

1.0 THE BANK

National Savings and Credit Bank (the "Bank") was established in 1972 under an Act of Parliament of the Republic of Zambia. The Bank is 100% owned by the Government of the Republic of Zambia (or "GRZ") through the Ministry of Finance.

2.0 PRINCIPAL ACTIVITIES

The Bank's main objective is to provide distinctive, customer-focused banking services in order to foster financial inclusion and economic development. In the opinion of the Directors, all the activities of the Bank fall within the financial services sector.

3.0 BASIS OF ACCOUNTING

(a) Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Banking and Financial Services Act and the National Savings and Credit Act.

(b) Board of Directors' approvals

There were no approved write offs by the board during the year.

(c) Basis of measurement

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis except for debt and equity financial assets and contingent consideration that have been measured at fair value.

The financial statements provide comparative information in respect of the previous period. In addition, the bank presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

(d) Functional and presentation currency

These financial statements are presented in Zambian Kwacha (ZMW) which is the Bank's functional currency and the presentation currency.

(e) Going concern

The bank incurred:

- A profit for the year of ZMW 38,309,921 (2022: loss of ZMW 91,263,164).
- A negative equity of ZMW 81,601,997 (2022: ZMW 107,557,184).
- A capital deficiency in accordance with the Banking and Financial Services Act of ZMW 275,849,024 (2022: ZMW 239,085,961). The minimum capital requirement is set at the higher of ZMW 50,000,000 or 10% of the total on and off-balance sheet risk-weighted assets.
- A negative regulatory capital adequacy ratio of -8% (2022: -16%), and a negative primary capital ratio of -8% (2022: -16%) expressed as a percentage of risk weighted assets.

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

3.0 BASIS OF ACCOUNTING (CONT'D)

(e) Going concern (Cont'd)

Mitigating factors

Recapitalisation of NATSAVE by the Government of the Republic of Zambia through the Ministry of Finance

On 13 July 2020, the Zambian Government through the Ministry of Finance injected ZMW 900 million into the Bank to revamp NATSAVE's operations. The recapitalisation was meant to put the Bank at a more competitive position and to address the Bank's non-compliance with regulatory requirements on Capital Adequacy.

This recapitalisation did initially address the capital deficiency. However, with continued losses in 2020, 2021 and 2022 and growth in assets leading to increase in risk weighted assets and consequently a rise in capital requirements, the Bank has fallen back into capital deficiency. The Board of Directors have brought this position to the attention of the shareholder (Government of the Republic of Zambia). The shareholder has acknowledged the position and committed to continued financial support of the Bank with an endeavour to recapitalise the Bank further as and when funds are available.

As a show of support to the Bank, the government did also advise government departments to open accounts with the Bank, a move that is meant to help the Bank to grow its business and improve profitability. On 10th January 2022, the Ministry of Local Government advised all councils in districts where NATSAVE is the only Bank to open accounts with the Bank and bank locally as opposed to using Banks in other districts with associated high operational costs involved.

In 2022, the directors prepared a detailed strategy paper on how they intend to turn around the profitability of the Bank. This strategy is working as the Bank has managed to record a profit for the year ended 31st December 2023.

Despite the Capital deficiency, the Bank managed to settle all financial obligations. The going concern assumption is considered appropriate for the Bank and the financial statements have been prepared on the basis of accounting policies appropriate to a going concern. The Directors are satisfied that at the time of approval of these financial statements, there is no significant concern that the Shareholder could discontinue providing financial support. Trade payables and other obligations have continued to be settled in the normal course of business.

The directors are of the view that the Bank will be able to meet its short-term obligations based on the forecasted cash flows for the next financial year. On this basis the directors consider it appropriate to prepare these financial statements on a going concern basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Partnership with Pangaea ADD Capital

The Bank successfully rolled out Invoice Discounting under a partnership with PADDC in April 2022. A total of ZMW 4 million was disbursed in 2022 against a desired appetite of ZMW 100 million. This business continued to grow in 2023 with disbursements in the year growing to ZMW 36 million while the contribution to income amounted to ZMW 3 million. Invoices on these facilities are settled by the off-takers within a period of 6 months.

In August 2023, Order Financing was also introduced under the partnership with disbursements of ZMW 22 million made by 31st December 2023, pushing disbursements in the year to ZMW 58 million on the two types of facilities. The income contribution from order financing as at 31st December 2023 amounted to ZMW 2.4 million.

As of 31 December 2023, the outstanding portfolio for invoice discounting and order finance amounted to ZMW 50.8 million. The Bank sees this as a strategic growth area with healthy margins.

ACCOUNTING POLICIES (CONT'D)

The principal accounting policies are set out below:

4.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Interest income and expense

Recognition of interest income: The effective interest rate method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. 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.

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 the 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.

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.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in Note 8.

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 asset is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.1 Interest income and expense (Cont'd)

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

4.2 Fees and commission income and expense

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income are recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Bank has generally concluded that it is the principal in its revenue arrangements because it typically

The Bank's fee and commission income from services where performance obligations are satisfied over time include the following:

- **Loan commitment fees:** These are fixed annual fees paid by customers for loan and other credit facilities with the Bank, but where it is unlikely that a specific lending arrangement will be entered into with the customer and the loan commitment is not measured at fair value. The Bank promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis. Payment of the fees is due and received monthly in arrears.
- **Loan arrangement fees:** These are fixed fees paid by customers for loan and other credit facilities with the Bank. The Bank provides a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis. Payment of the fees is due and received monthly in arrears.
- **Fee and commission income from providing services where performance obligations are satisfied at a point in time;** Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from fixed monthly account maintenance fees.
- The Bank typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

4.3 Financial instruments

Date of recognition

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

Initial measurement

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

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost,
- Fair Value through Other Comprehensive Income (or "FVTOCI"),
- Fair Value Through Profit or Loss or (or "FVTPL"),

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

Classification and subsequent measurement

The classification of financial assets and liabilities is disclosed in Note 34 of the financial statements.

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 19. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets

4.3.1 Investment securities

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

The Bank currently invests in Treasury bills. These instruments are measured at fair value less cost to sale and held in the business model, "Available for Sale". Cash flows from these instruments are mainly the contractual principle and interest. These cash flow characteristics pass the "SPPI" test. The Bank does not hold these instruments for purposes of selling in the secondary market but rather holds them to maturity. The Bank does not acquire any investments with an intention to engage in trading to realise value from favourable movements in market price.

4.3.2 Other assets

These are assets that are short term in nature and arise in the normal course of business of the Bank. These instruments are measured at amortised cost as the characteristics of the cash flows from these instruments. The credit risk exposure to these financial assets is negligible due to their short-term nature.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

4.3.3 Cash and balances with other banks

Cash and cash equivalents include notes and coins on hand and balances held at other banks. All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions. Cash and balances with other banks are carried at amortised cost in the statement of financial position.

4.3.4 Loans and advances

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

The classification requirements for debt and equity instruments are described below:

(a) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

4.3.5 Staff loans

The Bank operates a staff loans scheme for its employees. Under the scheme, the Bank provides facilities such as house, household, multi-purpose, car, and other personal loans. From time to time, the Board determines the terms and conditions for granting of the loans and may determine different rates and maturities for different types of loans.

In cases where the interest rates on staff loans are below market rates, a fair value calculation is performed using appropriate market rates. The Bank recognises, in the profit or loss, the resulting staff loan benefit arising as a result of marked to market adjustment, on a straight-line basis over the remaining period to maturity. The marked to market staff loans are included under staff loans while the unamortised staff benefit is included under other assets in the statement of financial position.

(b) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

(i) Classification and subsequent measurement

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income (FVOCI). A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a Business Model whose objective is achieved by both collecting Contractual Cash Flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (the SPPI condition) on the principal amount outstanding.

The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss. In the year ended, the Bank had no equity investments designated at FVPL.

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

(ii) Impairment of financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Provision for expected credit losses of Other receivables and contract assets

The Bank uses a provision matrix to calculate ECLs for Other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Bank's historical observed default rates. The Bank will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Bank's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 34.

The 12m-ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12m-ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for Banking financial assets measured on a collective basis is explained in Note 34.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 34.

Based on the above process, the Bank categorises its loans into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12m-ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit impaired. The Bank records an allowance for the LTECLs.

The Bank did not have any POCI assets during the year and it's the Bank's policy not to transact/enter into POCI.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset. The bank writes off all loans that are deemed as irrecoverable. All write offs are approved by the board.

The calculation of ECLs

The Bank calculates ECLs based on three-probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 34.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 34.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 34.

When estimating the ECLs, the Bank considers three scenarios (a base case, best case and worst case). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12m-ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12m-ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 2A: loans outstanding for than 30 days but less than 60 days.
Stage 2B: loans outstanding for more than 60days but less than 90 days.
- Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- Inflation
- Sector beta's

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 34.

Credit enhancements: collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

If modifications are substantial, the loan is derecognised.

(iii) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (a) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (b) Is prohibited from selling or pledging the assets; and
- (c) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

4.3.6 Property and equipment

(i) Recognition and measurements

All property and equipment except buildings is stated at historical cost. Items of property and equipment are subsequently measured at cost less accumulated depreciation and accumulated impairment losses and property is subsequently measured at fair value less accumulated depreciation.

Buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses. It is the Bank's policy to perform revaluations with regularity such that the carrying amounts do not differ materially from those that would be determined using fair values every three years. The revaluation differences are credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease previously recognized as an expense, in which case it should be recognized as income. A decrease as a result of revaluation is recognized as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

When a revalued asset is disposed, any revaluation surplus is transferred directly to retained earnings.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are shown as separate items of property and equipment.

Capital work in progress relates to items of property and equipment that are under construction and are yet to be commissioned for use. Work in progress is measured at the cost incurred in relation to the construction up to the reporting date.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property and equipment, and is recognized net within other operating income in the statement of profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of the asset less its residual value. Components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Capital work in progress is not depreciated.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

The estimated useful lives are as follows:

Item	Average useful life
Properties	50 years
Office equipment	5 years
Office furniture	5 years
Motor vehicles	4 years
Computer hardware	3 years

The Bank assesses at each reporting date 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 assessed at the lowest levels for which there are separately identifiable cash flows (cash-generating units). A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

4.3.7 Intangible assets

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licenses are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Bank and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use. Expenditure subsequently incurred on computer software is capitalised only amortisation is recognised in operating expenses on a straight-line basis at rates appropriate to the expected lives of the assets from the date that the asset is available for use.

Item	Average useful life
Computer software	5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary useful life is tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets.

The Bank reviews assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying amount. The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified assets' future cash flows in order to derive the asset's recoverable amount.

The recoverable amount is determined as the higher of an assets' fair value less costs to sell and its value in use. The value in use is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate. These impairments are excluded from the Bank's headline earnings.

4.3.8 Employee benefits

(i) Retirement benefit obligations:

Defined contribution plan

The Bank and all its employees contribute to the National Pension Scheme, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity.

The Bank's contributions to the defined contribution schemes are charged to profit or loss in the year in which they fall due.

Defined benefit plan

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of Government bonds in currencies consistent with the currencies of the post-employment benefit obligation, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

(ii) Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the bank in respect of services provided by employees up to the reporting date.

(iii) Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered / reduces service cost by attributing contributions to the employees' periods of service in accordance with IAS 19 paragraph 70.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

Financial liabilities

Financial liabilities are classified as borrowed funds, customer deposits, other payables, other liabilities and amounts due to related parties.

Borrowed funds, other payables and other liabilities are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

4.3.8 Employee benefits (cont'd)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

4.3.9 Financial liabilities and equity

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4.3.10 Offsetting

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.

4.3.11 Share capital

The share capital represents the contributions made by Government towards the setup and continued operations of the Bank.

4.3.12 Provisions

Provisions are recognised when: The Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. 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.

The Bank recognises no provisions for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

4.3.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings. Borrowings are classified as current liabilities unless the bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

4.3.14 Customer deposits

Deposits form an integral part of the Bank's source of debt funding. Deposits are initially measured at value minus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest cost method.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3 Financial instruments (cont'd)

4.3.15 Leases

The Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

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

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

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

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3.15 Leases (cont'd)

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other expenses' in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

4.3.16 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Non-derivative financial assets

A financial asset not classified at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Bank on terms that the Bank would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Bank, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

4.3.17 Impairment

Financial assets measured at amortised cost

The Bank considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) on a specific asset level. All individually significant assets are assessed for specific impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3.17 Impairment (cont'd)

Non financial assets

The carrying amounts of the Bank's non-financial assets, other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Bank's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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

4.3.18 COVID-19-Related Rent Concessions (Amendments to IFRS 16)

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

The Bank has elected not to utilise the practical expedient for all rent concessions that meet the criteria. Accounting for the rent concessions as lease modifications would have resulted in the Bank remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

4.3.18 COVID-19-Related Rent Concessions (Amendments to IFRS 16) (cont'd)

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimates at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.3.19 Fair value measurement

The measures financial assets such as property, plant and equipment at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability Or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability
- c) The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset 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.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The company's directors determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets.

- a) Disclosures for valuation methods, significant estimates and assumptions
- b) Quantitative disclosures of fair value measurement hierarchy
- c) Property plant and equipment

ACCOUNTING POLICIES (CONT'D)

5. Significant accounting judgements, estimates and assumptions

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 34, which also sets out key sensitivities of the ECL to changes in these elements.

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

ECL measurement period

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

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

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised.

The Bank ordinarily considers a facility to have SICR when the facility has been outstanding for 30 days or more, however, qualitative criteria set out in note 34 are also considered.

Forward-looking expectations

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

- The Bank's ALCO determines the macroeconomic outlook over a planning horizon of at least five years.
- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation and exchange rates;
- Probabilities are assigned to each of the best, base and worst cases based on primary macroeconomic drivers and are reviewed monthly;
- The forward-looking economic expectations are updated on an annual basis or more regularly when deemed appropriate.

Lifetime LGD work out

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

Default

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

- where, in the Bank's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

5. Significant accounting judgements, estimates and assumptions (cont'd)

The Bank has not rebutted IFRS 9 90 days past due rebuttable presumption. Descriptions of EAD, LGD, PD and SICR are stated on note 34.

(a) Impairment sensitivity analysis

The most significant macro-economic assumptions affecting the ECL allowance are: Real GDP growth rate, year on year inflation, year on year USD to ZMW ratio and year on year lending rate. To test the sensitivity of the impairment to changes in the relevant macro-economic factors, an assumption that an improvement or downturn in these factors would result in a 1% decrease or increase, respectively, in the forecast probabilities of default has been made. Set out in note 34 (iii) are the changes to the ECL as at 31 December 2023 that would result from a decrease or increase of 10% in PDs.

To test the sensitivity of the impairment to changes in the value of security held as well as the segment to recovery rates an assumption that an increase or decrease in these factors would result in a 10% decrease or increase, respectively, in the forecast LGDs has been made. Set out in note 34 (iii) are the changes to the ECL as at 31 December 2023 that would result from a decrease or increase of 10% in LGDs.

(b) Revaluation of property

The Bank reviews the fair value of its property after a period of three (3) years. An independent valuation of the Bank's properties to determine fair value is carried out by independent valuers. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. A number of significant judgments are used in revaluation of properties such as:

- The use of estimated selling prices of similar properties in the same area;
- The estimate of the rental value of the property in determining the market value using the revenue method; and
- The use of discount rates to estimate the forced-sale value which indicates the price that would reasonably be expected to be recovered in an event of disposal of the property to an unwilling buyer.
- Significant accounting judgments, estimates and assumptions in determining fair value of property remain consistent with prior year.

(c) Discount rate used to determine the carrying amount of the Bank's defined benefit obligation

The Bank's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality government bonds (Refer to note 26 for discount rate used). Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the government bonds, quality of the bonds and the identification of outliers which are excluded.

(d) Post-employment benefits

The Bank's post-employment benefits consist of both post-employment retirement funds and healthcare benefits. The Bank's obligations to fund these benefits are derived from actuarial valuations performed by the appointed actuaries taking into account various assumptions.

The fund is subject to a statutory financial review by the Bank's independent actuaries on an annual basis. The principle assumptions used in the determination of the Bank's obligation include the following:

Financial assumptions	31 December 2023
Discount rate - permanent	26.70%
Discount rate - contract	17.00%
Long term inflation	13.10%
Salary increase	13.10%

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

5. Significant accounting judgements, estimates and assumptions (cont'd)

Financial assumptions	31 December 2022
Discount rate - permanent	27.75%
Discount rate - contract	17.50%
Long term inflation	10.00%
Salary increase	10.00%

Going concern

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

6.0 Change in accounting policies

New and amended standards and interpretations

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

These amendments do not have a material impact on the Bank's accounting policy disclosures.

The Bank has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these financial statements.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

7. New and revised standards in issue but not yet effective

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of

As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2024. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback)

The IFRS Interpretations Committee issued an agenda decision in June 2020 – Sale and leaseback with Variable Payments. This matter was referred to the IASB for standard setting for some aspects. The IASB issued the final amendments in September 2022.

The Amendments provide a requirement for the seller-lessee to determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

IAS 1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants)

Subsequent to the release of amendments to IAS 1 Classification of Liabilities as Current or Non-Current, the IASB amended IAS 1 further in October 2022.

If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period.

The amendments also provide clarification on the meaning of 'settlement' for the purpose of classifying a liability as current or non-current.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

The amendments are not expected to have a material impact on the Bank.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

ACCOUNTING POLICIES (CONT'D)

7. New and revised standards in issue but not yet effective (cont'd)

IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures (Amendment – Supplier

In May 2023, the IASB issued amendments to IAS 7 and IFRS 7. The amendments introduce additional disclosure requirements about an entity's supplier finance arrangements. The amendments also provide clarification on characteristics of supplier finance arrangements.

In a supplier finance arrangement, the finance provider offers to pay amounts owed by the entity to its suppliers and the entity pays the finance provider, according to the terms and conditions of the arrangement, at the same date as or a date later than the suppliers are paid. As a result, these arrangements provide the entity with extended payment terms or the entity's suppliers with early payment terms, compared to the related invoice payment due date.

The Amendments also clarify that the following are not supplier finance arrangements:

- Arrangements that are solely credit enhancements for the entity such as financial guarantees including letters of credit used as guarantees; and
- Instruments used by the entity to settle directly with a supplier the amounts owed such as credit cards.

The Amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. It is assumed that the entity applies the Amendments for annual reporting periods beginning on or after 1 January 2024 i.e. the Amendments are not early adopted.

NATIONAL SAVINGS AND CREDIT BANK
Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha		2023	2022
8	NET INTEREST INCOME		
	Interest on loans and advances to customers	310,638,986	249,551,141
	Loan arrangement fees	31,214,301	19,529,733
	Commission on insurance	2,565,686	1,213,343
	Other interest income	16,539,196	9,665,339
		360,958,169	279,959,556
	Other interest income on credit impaired loans (Note 10a) below	716,912	333,568
	Total interest income	361,675,081	280,293,124
9	INTEREST EXPENSES		
	Interest on customer deposits	141,913,878	207,992,448
10	DEFERRED REVENUE		
	(a) Other interest income on credit impaired loans		
	Interest income using the effective interest rate (EIR)	716,912	333,568
	(b) Deferred revenue		
	Deferred income on loans and advances	62,291,536	30,223,399
	Deferred income on Mastercard	5,188,000	3,560,000
		67,479,536	33,783,399
	Reconciliation of expended funds		
	Opening balance	7,298,000	6,765,000
	Total amounts received	-	-
	Amounts expended (amounts recognised as intangible assets)	-	-
	Deferred income	-	-
	Exchange differences	3,870,400	533,000
	Total unexpended funds	11,168,400	7,298,000
11	FEES AND COMMISSION INCOME		
	Credit related fees and commissions	7,620,604	5,488,349
	Account management fees	51,575,263	43,185,059
	Transaction fees and commissions	28,943,799	11,952,690
		88,139,666	60,626,098
12	OTHER OPERATING INCOME		
	Rental income	386,955	543,970
	Interest income from investments	122,023,474	148,280,496
		122,410,429	148,824,466

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****13 SALARIES AND EMPLOYEE BENEFITS**

Salaries and allowances	159,726,884	151,567,209
Compulsory social security obligations (or "NAPSA")	5,360,563	4,913,484
Gratuity accrual	16,593,080	18,136,951
Employee benefits	16,999,075	11,255,939
	198,679,602	185,873,583

14 DEPRECIATION AND AMORTISATION

Depreciation on property and equipment (note 22)	9,732,427	7,822,625
Amortisation of intangible assets (note 21)	3,309,660	4,239,030
Amortisation of right-of-use assets (note 23)	3,387,520	5,089,567
	16,429,607	17,151,222

15 (a) OPERATING EXPENSES

Printing and stationery	4,848,198	3,876,283
Travelling expenses	6,607,809	4,959,037
Cash in transit costs	3,771,914	2,627,889
Computer expenses	2,637,981	1,474,985
Credit checks expense	2,861,488	2,070,611
Premises and equipment repairs	5,587,365	4,838,496
Security	8,139,343	7,596,856
Office expenses	575,271	607,629
Telephone and fax	405,533	420,668
Rent and rates	3,636,118	263,241
Wide area network access circuit rentals	6,276,697	4,065,775
Penalties and interest charges	-	204,797
Motor vehicle fuels and lubricants	5,573,614	4,604,338
Business promotion	3,404,330	2,209,078
Bank charges	1,604,660	2,237,727
Other commission and merchant fees	13,001,919	5,752,113
Advertisements	2,003,978	494,743
Automated teller machine expenses	2,716,333	3,276,911
Training	2,168,210	1,613,901
Others (Schedule I)	45,284,927	39,377,769
	121,105,688	92,572,847

15 (b) LOAN RECEIVABLE BALANCES WRITE OFF

Charge offs	-	22,014,523
Loan write offs	-	24,943,145
	-	46,957,668

Charge offs are amounts charged to profit and loss to fully provision for accounts that were approved for write off but were not 100% provisioned for at the time of write off.

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha	2023	2022
----------------------------------	-------------	-------------

15 (b) LOAN RECEIVABLE BALANCES WRITE OFF (Cont'd)

There were no approved write offs by the board during the year.

16 CASH AND CASH EQUIVALENTS

Cash in hand	61,402,077	47,480,493
Balances with other banks	204,163,810	166,387,581
	<u>265,565,887</u>	<u>213,868,074</u>

From time to time Bank of Zambia prescribes the minimum required statutory deposit ratio as a means of protecting customers' deposits. The statutory deposits are restricted and not available for the Bank's day-to-day operations. Cash on hand and current account balances are non-interest bearing. This is a requirement for commercial banks and currently the bank is classified as a Non-Bank Financial Institution and thereby is not required to have funds in reserve with Bank of Zambia.

17 INVESTMENT SECURITIES

Treasury bills	632,512,742	476,979,495
Government bonds	182,426,039	-
Term deposits	68,165,980	221,316,712
	<u>883,104,761</u>	<u>698,296,207</u>

Included in the investment securities are fixed deposits amounting to ZMW 42,402,144 (2022: ZMW 200,739,736) and treasury bills amounting to ZMW 152,452,498 (2022: ZMW 88,335,686) that are less than three(3) months to maturity post year end.

The bank currently invests in Treasury Bills and Bonds. These instruments are measured at fair value and held in the business model "Held to Collect".

The following were the parameters used in determining the marked to market fair values at the year end:

Interest rate

Tenor	Rate	Rate
91	9.50%	10.00%
182	9.50%	11.50%
273	10.65%	12.50%
364	15.45%	15.00%

Fair value gains / (losses)

Additions of treasury bills during the year	4,604,970	3,780,549
Treasury bills realised during the year	(3,780,548)	(25,399,654)
Net (losses) / gains	<u>824,422</u>	<u>(21,619,105)</u>

Fair value gains or losses arise from fair value movements on government bonds and treasury bills that were purchased and realised during the year.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha		2023	2022
18	FOREIGN EXCHANGE GAINS / (LOSSES)		
	Foreign exchange gain / (loss) on lease liabilities (note 23)	(8,136,604)	(980,178)
	Other foreign exchange gains (losses)	(4,965,401)	755,605
		(13,102,005)	(224,573)
19	LOANS AND ADVANCES		
	(a) Loans and advances		
	Loans and advances to customers at amortised cost		
	Stage 1 - Performing	1,196,186,034	618,734,114
	Stage 2A - Insignificant increases	88,399,558	417,802,140
	Stage 2B - Significant increases	26,072,462	11,568,117
	Stage 3 - Credit Impaired	14,977,816	17,185,180
	Overdraft	61,910,354	27,891,437
	Gross loans and advances to customers	1,387,546,224	1,093,180,988
	Allowance on impairment		
	Stage 1 - Performing	55,177,947	43,531,244
	Stage 2A - Insignificant increases	7,989,183	457,698
	Stage 2B - Significant increases	3,783,279	1,116,355
	Stage 3 - Credit Impaired	8,562,974	7,765,621
	Overdraft	-	2,705,595
	Total allowance for impairment	75,513,383	55,576,513
	Net loans and advances to customers	1,312,032,841	1,037,604,475

Included in loans and advances are loans to National Road Fund Agency (NRFA) amounting to **ZMW 267,020,075** (2022: ZMW 596,747,752). These are securitized by an Escrow account, which is a ring-fenced account at the Bank of Zambia consisting of all Road Sector Funds.

The Minister of Finance through the Treasury guaranteed repayment of the loan facility through ring fencing the revenue collected from road charges by the National Road Fund Agency.

The Escrow Bank Account is domiciled at Bank of Zambia and the Bank will ensure that all monies deposited in the escrow account are disbursed in accordance with the instructions from the Borrower and the Lender.

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

19 LOANS AND ADVANCES (CONT'D)

19. (b) Credit loss expense

The table below shows the expected credit loss charges on financial instruments for the year recorded in the income statement:

31 December 2023

Sectors	Stage 1	Stage 2A	Stage 2B	Stage 3	Total
Agriculture	330,572	-	-	7,218	337,790
Community, social and personal services	-	-	-	16,909	16,909
Salaried	54,781,428	7,988,995	3,783,279	7,412,121	73,965,823
SME	65,947	188	-	1,126,726	1,192,861
Corporate	-	-	-	-	-
Overdraft	-	-	-	-	-
Total	55,177,947	7,989,183	3,783,279	8,562,974	75,513,383

31 December 2022

Sectors	Stage 1	Stage 2A	Stage 2B	Stage 3	Total
Community, social and personal services	-	-	-	23,573	23,573
Salaried	43,279,200	457,698	1,116,355	7,565,788	52,419,041
SME	252,043	-	-	176,261	428,304
Overdraft	2,705,595	-	-	-	2,705,595
Total	46,236,838	457,698	1,116,355	7,765,622	55,576,513

The table below shows the breakdown of the number of ECL counts on financial instruments for the year recorded in the income statement:

31 December 2023

Sectors	Count	Stage 1	Stage 2A	Stage 2B	Stage 3
Corporate loans	7	6	-	1	-
Agriculture	2	1	-	-	1
Community, social and personal services	17	-	-	-	17
Salaried	32,388	28,062	2,422	807	1,097
SME	109	78	18	1	12
Overdraft	166	166	-	-	-
Total	32,689	28,313	2,440	809	1,127

31 December 2022

Sectors	Count	Stage 1	Stage 2A	Stage 2B	Stage 3
Corporate loans	5	4	1	-	-
Agriculture	-	-	-	-	-
Community, social and personal services	19	-	-	-	19
Salaried	20,285	18,566	323	421	975
SME	43	36	-	-	7
Overdraft	76	76	-	-	-
Total	20,428	18,682	324	421	1,001

NATIONAL SAVINGS AND CREDIT BANK
Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

19 LOANS AND ADVANCES (CONT'D)

19. (c) Credit collateral held

The table below shows the analysis of collateral held on the financial instruments as at 31 December:

31 December 2023

Sectors	Stage 1	Stage 2A	Stage 2B	Stage 3	Total
Agriculture	402,400	-	-	25,736	428,136
Community, social and personal services	-	-	-	-	-
Salaried	7,515	-	-	-	7,515
SME	15,317,272	3,081,095	5,670	4,327,085	22,731,122
Overdraft	56,024,361	-	-	-	56,024,361
Corporate	738,136,850	-	2,916,200	-	741,053,050
Total	809,888,398	3,081,095	2,921,870	4,352,821	820,244,184

31 December 2022

Sectors	Stage 1	Stage 2A	Stage 2B	Stage 3	Total
Agriculture	-	-	-	-	-
Salaried	-	-	-	-	-
SME	14,812,122	-	-	1,610,096	16,422,218
Overdraft	25,169,548	-	-	-	25,169,548
Corporate	182,117,019	331,964,031	-	-	514,081,050
Total	222,098,689	331,964,031	-	1,610,096	555,672,816

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha	2023	2022
---------------------------	------	------

19 LOANS AND ADVANCES (CONT'D)
(d) Credit loss expense

The summary of the Expected Credit Loss (or "ECL") charges and the ratios of NPL recorded in the income statement are shown below:

31 December 2023	EAD	ECL
Stage 1	1,196,186,034	55,177,947
Stage 2A	88,399,558	7,989,183
Stage 2B	26,072,462	3,783,279
Stage 3	14,977,816	8,562,974
Overdraft	61,910,354	-
Total	1,387,546,224	75,513,383
31 December 2022	EAD	ECL
Stage 1	618,734,114	43,531,244
Stage 2A	417,802,140	457,698
Stage 2B	11,568,117	1,116,355
Stage 3	17,185,180	7,765,621
Overdraft	27,891,437	2,705,595
Total	1,093,180,988	55,576,513
31 December 2023	NPL ratio per value	NPL ratio per count
Stage 1	73.1%	86.6%
Stage 2A	10.6%	7.5%
Stage 2B	5.0%	2.5%
Stage 3	11.3%	3.4%
Overdraft	0.0%	0.0%
Total	100%	100%
31 December 2022	NPL ratio per value	NPL ratio per count
Stage 1	78.3%	91.5%
Stage 2A	0.8%	1.6%
Stage 2B	2.0%	2.1%
Stage 3	14.0%	4.9%
Overdraft	4.9%	0.0%
Total	100%	100%

Loss allowance

The tables below show reconciliations from the opening balance to the closing balance of the loss allowance by class of financial instrument.

Balance 1 January	55,576,513	62,467,805
Net impaired loss recognised	19,936,870	(6,891,292)
Write offs (see below)	-	-
Balance at 31 December	75,513,383	55,576,513

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****19 LOANS AND ADVANCES (CONT'D)****(e) Credit risk reserves**

BOZ provision	11,130,914	17,323,000
IFRS 9 Provision	75,513,383	55,576,513
Credit risk reserve	-	-

The credit risk reserve is nil (2022: nil) as the IFRS 9 provision is higher than the BOZ provision.

Balance at 1 January	-	-
Transfer to retained earnings	-	-
Balance at 31 December	-	-

The balance in the credit risk reserves represent the excess of impairment provisions determined in accordance with the Bank of Zambia prudential regulations over the impairment provisions recognised in accordance with IFRS. Where the IFRS impairment exceeds the Bank of Zambia provisioning, a reversal is done from regulatory reserves to revenue reserves.

(f) Sensitivity analysis for changes in key model inputs

Refer to note 34 (iii).

(g) Staff loans

Staff advances	55,458,043	54,253,321
Less: fair value adjustment	(30,066,411)	(28,377,448)
	25,391,632	25,875,873

Employee loans and advances are offered at concessionary rates. Where staff loans are issued to members of staff at concessionary rates, fair value is calculated based on market rates. This will result in the long-term staff loans benefit as shown above. The concessionary rates applied in the year were as follows:

Multi-purpose loans	10%	10%
Household loans	10%	10%
Vehicle loans	10%	10%
Personal loans	10%	10%
Interest income earned on staff loans and advances	(5,645,901)	(4,811,185)

The following were the parameters used in determining the marked to market:

	Rates	Rates
Interest rates	22.0%	30.0%

NATIONAL SAVINGS AND CREDIT BANK
Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha	2023	2022
19 LOANS AND ADVANCES (CONT'D)		
Reconciliation of staff marked to market		
Opening balance	28,377,448	20,802,331
Fair value adjustment	1,688,963	7,575,117
Closing balance	30,066,411	28,377,448
Charge to profit or loss		
Fair value adjustment	1,688,963	7,575,117
Total charge for the year	1,688,963	7,575,117

(h) Partnership with Pangaea ADD Capital

The Bank successfully rolled out Invoice Discounting under a partnership with PADDC in April 2022. A total of ZMW 4 million was disbursed in 2022 against a desired appetite of ZMW 100 million. This business continued to grow in 2023 with disbursements in the year growing to ZMW 36 million while the contribution to income amounted to ZMW 3 million. Invoices on these facilities are settled by the off-takers within a period of 6 months.

In August 2023, Order Financing was also introduced under the partnership with disbursements of ZMW 22 million made by 31st December 2023, pushing disbursements in the year to ZMW 58 million on the two types of facilities. The income contribution from order financing as at 31st December 2023 amounted to ZMW 2.4 million.

As of 31 December 2023, the outstanding portfolio for invoice discounting and order finance amounted to ZMW 50.8 million. The Bank sees this as a strategic growth area with healthy margins.

20 OTHER ASSETS

Accrued interest income	54,482,748	7,884,932
Interest receivable	-	-
Net receivable balance	54,482,748	7,884,932
Prepayments	21,559,338	16,530,448
Other receivables	99,869,093	10,631,786
Staff advances	2,317,992	2,348,809
Net receivable balance	123,746,423	29,511,043
Total other receivables	178,229,171	37,395,975

Prepayments relate to amounts paid in advance for rent, the use of computer and banking software, security on the mastercard project, gym subscription and subscription to professional bodies.

Other receivables includes (Government receivables) which are non-interest bearing and generally are of 30-90 days. These amounts are a result of civil servants' payroll deductions made on the Bank's clients through the centralised payroll system (PEMEC) in Government. These amounts have not yet been remitted to the Bank as of the reporting

Included in other receivables is an amount of ZMW 77,725,319 due from cellulant for the advance payment of mobile money transactions.

In determining the recoverability of accrued loan interest receivable, the Bank considers any changes in the payment pattern of the interest receivable from the date credit was initially granted to the reporting date. The concentration of the credit risk is limited due to the customer base being large and unrelated.

Accordingly, other than the receivables already impaired and accounted for in these financial statements, the directors believe that there is no further provision required in excess of the allowance for credit losses.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha	2023	2022
----------------------------------	-------------	-------------

20 OTHER ASSETS (CONT'D)

The Bank applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging.

NATIONAL SAVINGS AND CREDIT BANK
Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

		2023		2022	
		Cost	Amortisation	Carrying value	Carrying value
21	INTANGIBLES				
	Computer software	55,441,453	(48,102,482)	7,338,971	10,183,631
	Work in progress	11,623,073	-	11,623,073	5,035,001
		67,064,526	(48,102,482)	18,962,044	15,218,632
	Reconciliation of intangible assets - 2023				
				Opening balance	Closing balance
	Computer software			10,183,631	7,338,971
	Work in progress			5,035,001	11,623,073
				15,218,632	18,962,044
	Reconciliation of intangible assets - 2022				
				Opening balance	Closing balance
	Computer software			12,530,174	10,183,631
	Work in progress			4,522,000	5,035,001
				17,052,174	15,218,632

As at 31 December 2023, there were no fully depreciated assets included in cost of intangible assets (2022: nil).

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

22 PROPERTY, PLANT AND EQUIPMENT

Description	2023			2022		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land and buildings	55,230,892	(4,188,192)	51,042,700	55,221,692	(2,978,257)	52,243,435
Furniture & office equipment	69,319,713	(48,653,704)	20,666,009	57,853,974	(44,078,601)	13,775,373
Computer equipment	24,905,754	(21,549,074)	3,356,680	23,460,280	(19,354,308)	4,105,972
Motor vehicles	22,589,349	(4,012,679)	18,576,670	2,323,903	(2,323,903)	-
Capital work in progress	7,845,962	-	7,845,962	3,364,773	-	3,364,773
Total	179,891,670	(78,403,649)	101,488,021	142,224,622	(68,735,069)	73,489,553

Reconciliation of property, plant and equipment - 2023

Description	Opening Balance	Additions	Disposals	Eliminated on disposal	Depreciation Charge	Closing Balance
Land and buildings	52,243,435	9,200	-	-	(1,209,935)	51,042,700
Furniture & office equipment	13,775,373	11,465,341	-	-	(4,574,705)	20,666,009
Computer equipment	4,105,972	1,578,077	(132,603)	64,245	(2,259,011)	3,356,680
Motor vehicles	-	20,265,446	-	-	(1,688,776)	18,576,670
Capital work in progress	3,364,773	4,481,189	-	-	-	7,845,962
Total	73,489,553	37,799,253	(132,603)	64,245	(9,732,427)	101,488,021

Reconciliation of property, plant and equipment - 2022

Description	Opening Balance	Additions	Revaluation surplus	Disposals	Eliminated on revaluation	Eliminated on disposal	Depreciation Charge	Closing Balance
Land and buildings	45,068,200	28,318	8,516,189	(3,312,588)	2,809,619	528,114	(1,394,417)	52,243,435
Furniture & office equipment	11,794,819	6,435,201	-	(357,130)	-	357,131	(4,454,648)	13,775,373
Computer equipment	3,112,075	2,970,209	-	(173,138)	-	170,386	(1,973,560)	4,105,972
Motor vehicles	-	-	-	(614,472)	-	614,472	-	-
Capital work in progress	3,027,000	337,773	-	-	-	-	-	3,364,773
Total	63,002,094	9,771,501	8,516,189	(4,457,328)	2,809,619	1,670,103	(7,822,625)	73,489,553

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

2023

2022

22 PROPERTY, PLANT EQUIPMENT (CONT'D)

- (a) The Bank's properties were revalued during the year ended 31 December 2022 by an independent valuer. The valuation of the properties was performed by Sherwood Greene, a qualified property valuer, on 25 April 2022. The method applied was open market valuations. The directors are of the opinion that the assumptions made on 25 April 2022 are reflective of the market conditions prevailing as at 31 December 2022. The revalued land and buildings consist of the office properties in Lusaka, Eastern, Southern, Central, Western, Northern, Copperbelt, Luapula, Muchinga and North Western Provinces of Zambia. Management determined that these constitute one class of asset under International Financial Reporting Standards 13 (or "Fair Value Measurement"), based on the nature, characteristics and risk of property. The fair value of the properties was determined using either:
- 1 Land value by Market (sales) comparison;
 - 2 Property value by market comparison; and
 - 3 Property value by income approach.
- (b) The following assumptions were used by the valuer:
- 1 Property location - whether the property is located in a central business district, less populated or undeveloped area.
 - 2 Land size features - size, shape and topography.
 - 3 Zoning - whether property is zoned for commercial use.
 - 4 Vehicle impact - the vehicular traffic moving past the property if is adequate for its visibility.
 - 5 State of repair and quality of finishes of the building.
 - 6 Net income receivable for the property.
 - 7 Demographics - population likely to demand banking services which will relate to the value of existing use.
 - 8 Competition - properties around that can be used for the same purpose.
- (c) No asset property, plant and equipment has been pledged as security to secure a borrowing.

23 LEASES

(i) Right-of-use asset (ROU)

	Automated Teller Machines	Office buildings	Total
Balance at 1 January 2022	22,780	14,985,953	15,008,733
Additions	987,331	378,209	1,365,540
Amortisation charge for the year	(603,952)	(4,485,615)	(5,089,567)
Balance at 1 January 2023	406,159	10,878,547	11,284,706
Additions	878,471	854,735	1,733,206
Termination	-	(12,658)	(12,658)
Amortisation charge for the year	(331,287)	(3,056,233)	(3,387,520)
Balance at 31 December 2023	<u>953,343</u>	<u>8,664,391</u>	<u>9,617,734</u>

(ii) Lease liabilities

1 January	21,924,919	22,644,024
Additions during the year	1,733,207	1,235,950
Termination	(28,777)	-
Payments	(8,411,365)	(8,512,645)
Interest expense	4,803,574	5,577,412
Foreign exchange losses	8,136,604	980,178
31 December	<u>28,158,162</u>	<u>21,924,919</u>

(iii) Amounts recognised in profit or loss

Depreciation expense for right-of-use asset	3,387,520	5,089,567
Interest expense on lease liabilities	4,803,574	5,577,412
Termination	(16,119)	-
Foreign exchange losses	8,136,604	980,178
	<u>16,311,579</u>	<u>11,647,157</u>

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****24 WITHHOLDING TAX**

The Bank is exempt from income tax under the terms of the Second Schedule to the Income Tax Act, 1996 (as amended) except as follows: under the terms of the income tax amendment Act 3 of 2003 interest arising from Treasury Bills ("TB") or Government bonds is subject to withholding tax at source at 15% with effect from 1 April 2003; the tax withheld at source is also the final tax. Furthermore, the Bank is required to pay withholding tax on rental receipts at a rate of 10% following the removal of the exemption on withholding tax on rent for statutory bodies.

Withholding tax @ 15% on interest on Treasury Bills and Government bonds	<u>16,255,068</u>	<u>23,973,275</u>
Tax paid during the year	<u>16,255,068</u>	<u>23,973,275</u>
Current tax liabilities/(receivables)	<u>-</u>	<u>-</u>

25 CUSTOMER DEPOSITS

Demand deposits (collection accounts)	407,443,461	311,382,732
Savings accounts	960,242,001	696,934,652
Fixed deposit accounts	<u>732,836,200</u>	<u>464,764,012</u>
	<u>2,100,521,662</u>	<u>1,473,081,396</u>
With agreed maturity dates or periods of notice, by residual maturity:		
• Repayable on demand	1,369,060,805	659,622,468
• Three months or less	276,346,818	495,387,595
• Between three months and one year	<u>455,114,039</u>	<u>318,071,333</u>
	<u>2,100,521,662</u>	<u>1,473,081,396</u>

The Bank has financial risk management policies in place to ensure that all term deposits are paid on maturity.

Included in fixed deposits is a deposit from National Health Insurance Management Authority (or "NHIMA") amounting to **ZMW 22,450,806** (2022: ZMW 27,804,499), Workers Compensation Fund Control Board (WCFCB) **ZMW 176,341,801** (2022: ZMW 245,573,154), Public Service Pension Fund (PSPF) **ZMW 7,000,000** and National Pension Scheme Authority (NAPSA) **ZMW 350,000,000**. These amounts are securitised as follows;

NHIMA

- ZM3000011061 Treasury Bill with a Face Value of ZMW 28,700,000 maturing on 09/09/2024;

WCFCB

- ZM3000010543 Treasury Bill with a Face Value of ZMW 4,000,000 maturing on 12/03/2024
- ZM3000010469 Treasury Bill with a Face Value of ZMW 3,200,000 maturing on 12/02/2024
- ZM3000011228 Treasury Bill with a Face Value of ZMW 200,000,000 maturing on 11/04/2024

NAPSA

- ZM3000010428 Treasury Bill with a Face Value of ZMW 80,500,000 maturing on 29/01/2024
- ZM3000010865 Treasury Bill with a Face Value of ZMW 100,000,000 maturing on 03/07/2024
- ZM3000011061 Treasury Bill with a Face Value of ZMW 76,100,000 maturing on 09/09/2024
- ZM3000010543 Treasury Bill with a Face Value of ZMW 51,000,000 maturing on 12/03/2024
- ZM3000011103 Treasury Bill with a Face Value of ZMW 44,149,314 maturing on 23/09/2024
- ZM3000010469 Treasury Bill with a Face Value of ZMW 7,500,000 maturing on 12/02/2024
- ZM3000011301 Treasury Bill with a Face Value of ZMW 52,000,000 maturing on 12/02/2024

PSPF

- ZM3000011061 Treasury bill with a Face Value of ZMW 8,200,000 maturing on 09/09/24

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

2023

2022

26 PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Bank operates a defined benefit pension plan in Zambia. These benefits are not funded for in advance. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Bank recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Bank recognises the following changes in the net defined benefit obligation under 'salaries and employee benefits' in the statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;
- Interest cost.

The Bank also makes contributions according to the National Pension Scheme Authority (or "NAPSA") which is a defined contribution scheme. Membership to NAPSA is compulsory and monthly contributions by both employer and employee are made. The employer's contribution is accounted for in profit or loss as soon as it arises.

Short-term benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided services in the year. Bonuses are recognised to the extent that the Bank has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recognised in the profit or loss in staff benefit expenses, which is included within operating expenses.

Present value of obligations	72,902,296	65,171,479
Recognised liability for defined benefit obligations	<u>72,902,296</u>	<u>65,171,479</u>
Benefits paid by the plan	<u>(34,730,211)</u>	<u>(15,285,296)</u>

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and the funded status and amounts recognised in the statement of financial position for the respective plans:

Expense recognised in profit or loss		
• Current service costs	12,837,598	12,983,003
• Interest costs	<u>16,444,274</u>	<u>17,697,590</u>
Recognised expense for defined benefit obligations	<u>29,281,872</u>	<u>30,680,593</u>
Return on plan assets (excluding amounts in net interest)	-	-
Loss from change in demographic assumptions	-	-
(Gain) / loss from change in financial assumptions	13,656,611	(3,990,384)
Experience losses	(477,455)	(17,390,678)
Change in impact of asset ceiling	<u>-</u>	<u>-</u>
Defined benefit remeasurement gain / (loss)	<u>13,179,156</u>	<u>(21,381,062)</u>
Opening balance	65,171,479	71,157,243
Service cost	12,837,598	12,983,003
Interest cost	16,444,274	17,697,590
Actuarial (gain) / loss	13,179,156	(21,381,061)
Benefits paid	<u>(34,730,211)</u>	<u>(15,285,296)</u>
Recognised liability for defined benefit obligations	<u>72,902,296</u>	<u>65,171,479</u>

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****26 PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS (CONT'D)**

The split between permanent and contract employees is as follows:

Permanent employees	63,972,503	49,163,565
Contract employees	8,929,793	16,007,914
Recognised liability for defined benefit obligations	72,902,296	65,171,479

Actuarial assumptions

Actuarial assumptions are the Employer's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions allowed for include:

- The discount rate (the rate used to discount post-employment benefit obligation)
- The rate at which salaries increase into the future;
- The mortality (deaths) expected of the members in the Fund before retirement;
- The rates of employee turnover and disability;

Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

Discount rate

The discount rate reflects the time value of money and the estimated timing of benefit payments.

According to IAS 19, the rate used to discount terminal benefit obligations shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used.

Zambia does not have an active developed market for corporate bonds. The actuaries investigated the state of development of the Government Bond market in Zambia.

The results of the latest GRZ Bond Tender as at 22 December 2023 disclosed yields ranging from 15% for a 2 year bond to 26.70% for a 15 year bond. The discount rate based on these figures as they are the latest recorded values for December 2023 according to the information at hand.

The discount rate assumptions adopted at the previous valuation as at 31 December 2023 was 26.70% for the Permanent Employees and a rate of 17% for the Contract Employees.

Key valuation assumptions

Discount rate at 31 December:

• Permanent employees	26.70%	27.75%
• Contract employees	17.00%	17.50%
Expected return on plan assets at 1 January:		
Future salary increases	13.10%	10.00%
Medical cost trend rate	N/A	N/A
Future pension increases	N/A	N/A
Inflation	13.10%	10.00%

Long service awards payable on the 10th, 15th, 20th and 25th anniversary of service will increase in future in line with salary escalation assumptions and will be subject to a marginal rate of tax equal to 30%. The Actuaries increased the long service benefit amount with the estimated tax rate as the full liability is payable by the employer.

The table below summarises the financial assumptions adopted as at 31 December 2023 and 31 December 2022.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha	2023	2022
---------------------------	------	------

26 PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS (CONT'D)
Key valuation assumptions
Financial assumptions

Discount rate - permanent	26.70%	27.75%
Discount rate - contract	17.00%	17.50%
Long term inflation	13.10%	10.00%
Salary increase	13.10%	10.00%

Assumption	Change	Impact on DBO 2023 ZMW	Impact on DBO 2022 ZMW
Discount rate	+1%	(3,478,262)	(2,230,458)
	-1%	3,845,671	2,440,547
Salary increase	+1%	4,288,684	2,822,037
	-1%	(3,900,440)	(2,588,161)

The sensitivity of the defined benefit obligation (DBO) to significant actuarial assumptions has been calculated using the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) used when calculating the pension liability recognised within the statement of financial position.

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Asset-liability risk management

The plan is unfunded so does not apply any risk-management strategies.

Effect of the defined benefit plan on the entity's future cash flows

The plan is unfunded. No contributions will be paid into the plan over the next reporting period except for benefits that will be paid by the employer as and when they fall due.

The actuaries have estimated the weighted average duration of the plan (for permanent employees) to be 19.80 years (2022: 20.53 years).

27 OTHER LIABILITIES

Interest payable	5,997,619	25,907,301
Interest payable on Bank Of Zambia loan (note 28)	40,000,000	40,000,000
Unclaimed funds	8,993,899	9,626,706
Accrued expenses	586,205	800,186
Provision for penalties and interest	257,163	257,163
NAPSA contributions	976,256	819,916
Employees' pay as you earn (or "PAYE")	3,625,854	3,151,281
Provisions	11,195,909	12,546,539
Automated Teller Machines Settlements	1,228,930	2,294,810
Natpay payables	-	542,762
Other	34,070,597	30,682,822
	106,932,432	126,629,486

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****27 OTHER LIABILITIES (CONT'D)**

Accrued expenses comprise of amounts due to suppliers of various services and equipment which are expected to be settled within 90 days of receipt of invoices.

Other liabilities also include withholding tax and VAT liabilities ZMW 1,134,750 (2022: ZMW 722,916) and sundry creditors ZMW 49,957 (2022: ZMW 1,617) and some accruals for medical aid and security expenses.

28 TERM LOAN

1 January	500,000,000	500,000,000
Loan amount	-	-
Interest accrued for the period (refer to note 27)	40,000,000	40,000,000
Capital repayment	-	-
Interest paid	(40,000,000)	(40,000,000)
31 December	500,000,000	500,000,000

The Bank of Zambia approved a ZMW 500 million loan to NATSAVE under the Targeted Medium Term Refinancing Facility (TMTRF). The loan is secured by assignment of receivables by NRFA through the Escrow account held with BOZ and a sovereign guarantee issued by the Ministry of Finance. This loan accrues interest at a rate of 8% per annum and payable once yearly, with a 12 month grace period. As at 31 December 2023, the outstanding balance as at year end is amounting to ZMW 507,232,877.

29 AMOUNTS DUE FROM RELATED PARTIES

The Bank is controlled by the Government of Zambia which owns 100% of the shares. The Bank has a related party relationship with the Government, key management and directors.

The volumes of related party transactions, outstanding balances at the year end, and the related interest expense and income for the year are as follows:

Loans due from key management personnel

1 January	898,677	551,913
Loans availed during the year	2,211,000	1,075,000
Loan recoveries during the year	(363,945)	(728,236)
31 December	2,745,732	898,677

There were no loans due from the Directors (2022: nil).

Key management personnel compensation

Salaries and allowances	14,192,868	15,270,175
Pensions contributions	136,884	146,616
Non-executive director's fees and benefits	362,706	557,410
	14,692,458	15,974,201
Short term employment benefits	14,692,458	15,270,175
Post-employment benefits	2,730,972	5,084,137
	17,423,430	20,354,312

Loans and advances are offered to staff on concessionary rates. Fair value is calculated based on market rates which result in the long-term staff loans benefit as shown above under loans due from key management personnel. Details of the concessionary rates are disclosed in note 19(g).

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTSFigures in **Zambian Kwacha****2023****2022****29 AMOUNTS DUE FROM RELATED PARTIES (CONT'D)**

Related party transactions	Nature of transaction	Amount	Amount
National Road Fund Agency	Loan outstanding balance	267,020,075	410,142,421
Bank of Zambia	Loan outstanding balance	507,232,876	507,232,876
Government guarantee	Government guarantee	-	350,000,000

30 CONTINGENCIES AND COMMITMENTS**Contingent assets**

As at 31 December 2023, the Bank had no known contingent assets (2022: Nil).

Contingent liabilities**Legal proceedings**

The bank has some on-going legal cases reported during lawyers' confirmations where it has been sued by some former employees and a customer. In three matters where some former employees have sued, the lawyers estimate that the worst possible outcome for the Bank would be payment of damages and costs amounting to ZMW 1,100,000. Another three cases involve amounts to the value of ZMW 6,200,000. These cases are for:

- John Mayanga and 49 others who have sued the Bank claiming about ZMW 3,700,000 in pension scheme benefits from a defunct pension scheme. The matter is awaiting commencement of the arbitration process and the Complainants have not yet appointed arbitrators in line with the arbitration rules.
- James Mushanga who is claiming ZMW 500,000 as damages for loss of business and expected income. It arose from a dispute at Lusaka Main Branch in 2019 wherein the Plaintiff's vehicle was clamped by security staff. The matter was decided in favour of the Bank. The plaintiff appealed but the appeal was dismissed. Therefore, the matter is disposed of.
- Maxwell Saya who is claiming damages amounting to ZMW 2,000,000 for breach of statutory duty, mental torture and injury occasioned by the Bank's actions. The matter is still at trial stage.

At the date of this report, the judgement had not been passed in all of the above matters.

Off-balance sheet financial instruments

As at 31 December 2023, the Bank had no contingent liabilities related to off-balance sheet arrangements.

As at 31 December 2023, the Bank had no undrawn loan facilities (2022: three (3) undrawn loan facilities amounting to ZMW 10,650,000).

Commitments**Assets pledged**

As at 31 December 2023, the Bank had not pledged any assets for operations including those related to settlements as it was not required to do so.

31 CAPITAL COMMITMENTS

The Bank had capital commitments as disclosed in note 33 as at 31 December 2023 amounting to **ZMW 8,065,900** (2022: ZMW 7,728,500).

32 COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in accounting policies and presentation in the current year and to correct prior period errors.

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

2023

2022

33 MASTER CARD CAPITAL COMMITMENT

Memorandum of Understanding

- (i) On 13th January 2019 National Savings Credit Bank (NATSAVE) entered into a commercial agreement with MASTERCARD who are licensed to issue MASTERCARD debit cards in the territory pursuant to the standards. As per the agreement Mastercard will provide NATSAVE with financial and other support for over 5 years commencing 1 July 2019. Under the agreement NATSAVE has the potential to earn additional support subject to the achievement of certain annual performance targets. NATSAVE is also entitled to the international GDV support which is based on NATSAVE achieving a minimum of 75% of the MASTERCARD GDV performance targets as specified in exhibit A of the contract.

With effect from 1st February 2022, the terms of the contract were amended as follows;

- 1 The agreement support date was amended from 1st October 2021 to 1st October 2022.
 - 2 Contract year 1 shall commence on 1st October 2022 and the support period shall commence on the target's commencement date; accordingly, and Mastercard shall not be liable to pay any support to the Bank for the period starting from the commencement date of the agreement and ending on the target's support start date as defined.
 - 3 A total of \$1,182,898 has already been paid by Mastercard to the Bank in respect of the advisors, sign on bonus and technical support and the Bank will not be entitled to these payments again. The \$1,182,898 total amount paid is broken down as follows: \$572,898 Advisors support, \$200,000 Sign-on bonus, and \$410,000 Technical support.
- (ii) The Bank has also been in partnership with the Zambia National Commercial Bank (ZANACO) since April 2021. Under this partnership, ZANACO will be a settlement partner for NATSAVE's Mastercard Debit Cards. The project was expected to be completed and launched during 2023 but unforeseen delays have meant that the launch could not take place. However, transaction testing did commence in October 2023 with 11 cards released in circulation and more cards have now been released in circulation with more staff taking part in the testing. This is a great step in the Bank's journey to migrate its customers to EMV cards and will see customers able to access millions of ATM and POS terminals world-wide.

Reconciliation of expended funds

Opening balance	7,728,500	6,765,000
Total amounts received	-	-
Amounts expended (amounts recognised as intangible assets)	-	-
Deferred income	-	-
Exchange differences	337,400	963,500
Total unexpended funds	8,065,900	7,728,500

Mastercard will be entitled to set-off or recover any amount which:

- 1 Mastercard may have paid in advance if it is later determined that the customer is not entitled to such amount whether as differential or whole, due to non-performance, under-performance or violation of the terms of agreement; or
- 2 is otherwise due to Mastercard under or arising out of the agreement.

Mastercard may make that set-off through Customer's MCBS account and, if necessary, may do so at any time during the term of the agreement and after the expiry of the agreement.

In November 2022, the Bank went live on its Bank Identification Number. During 2023, the Bank continued to pay charges on the BIN even before the actual go-live date. These costs have been included as part of Capital Work in Progress (CWIP) on Intangible Assets.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

2023

2022

34 FINANCIAL RISK MANAGEMENT

The Bank is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk and market risk. Strict and effective management of these risks is a priority for the Bank, its purpose being to support its orientations, particularly regarding financial stability and sustained and profitable growth.

It is within this context that the members of the Bank's Board of Directors have defined and adopted a Risk Management Framework which is being implemented, monitored and controlled closely by the Management.

To provide benchmarks for sound and prudent management, the Bank's Board of Directors relies, among other things, on laws and regulations, the Code of Ethics and its own policies. This risk management approach is based on principles that encourage the Bank to take responsibility for the quality of risk management.

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers, short term investments, other receivables and amounts due from related parties. The carrying amount of financial assets represents the maximum exposure.

(b) Credit risk management

Credit risk makes up for the largest part of the Bank's risk exposures. The Bank's credit process is governed by centrally established credit policies and procedures, rules and guidelines whose main objective is to maintain a well-diversified credit portfolio. Credit risk policies and procedures are reviewed by Management and are approved by the Board of Directors.

(i) Framework

The Bank has implemented fundamental segregation of duties underlying the credit-granting process:

- an independent credit analysis function;
- credit approval process by a committee made of at least two Management Officers;
- independent audit, risk review and compliance function.

The Bank's credit policy reflects its risk tolerance i.e. credit risk appetite. This, as a minimum, reflects a strategy to grant loans based on various products, economic sectors, client segments and target markets giving due consideration to risks specific to the target markets.

Salient features of the Bank's risk approval process are delineated below:

- every extension of credit requires approval by various pre-defined levels of approving authorities as defined in the Credit Handbook
- every material change to a credit facility requires approval at the appropriate/pre-defined level.
- The disbursement of credit facilities is managed by a centralized Loan Disbursement Department, reporting directly to the Head of credit department. This department is also responsible for collateral/documents management including safekeeping.
- The Bank monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problematic loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure.

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

2023

2022

34 FINANCIAL RISK MANAGEMENT (CONT'D)

(ii) Analysis of credit quality

The table below sets out information about the credit quality of loans and advances to customers and the allowance for impairment/ loss held by the Bank against those assets.

The carrying amount of loans and advances to customers represents the main credit exposure. The maximum exposure to credit risk on these assets at the reporting date was:

Stage 1 - Performing	1,196,186,034	618,734,114
Stage 2A - Insignificant increases	88,399,558	417,802,140
Stage 2B - Significant increases	26,072,462	11,568,117
Stage 3 - Credit Impaired	14,977,816	17,185,180
Overdraft	61,910,354	27,891,437
Gross loans and advances to customers	<u>1,387,546,224</u>	<u>1,093,180,988</u>
Allowance on impairment		
Stage 1 - Performing	55,177,947	43,531,244
Stage 2A - Insignificant increases	7,989,183	457,698
Stage 2B - Significant increases	3,783,279	1,116,355
Stage 3 - Credit Impaired	8,562,974	7,765,621
Overdraft	0	2,705,595
Total allowance for impairment	<u>75,513,383</u>	<u>55,576,513</u>
Net loans and advances to customers	<u>1,312,032,841</u>	<u>1,037,604,475</u>

Loan approvals

All customers are subject to the Credit Reference Bureau (CRB) checks before the issue of new facilities. This process is carried out in order to ascertain whether the applicant has any credit facilities with other banking and financial institutions and the general performance of such facilities including bounced cheques or arrears. In addition, consideration of the sector risk of the applicant and the general prevailing external conditions in the country that might have significant impact on the performance of the facility are also considered before a customer is issued with a loan.

(iii) Amounts arising from Expected Credit Loss

Inputs, assumptions and techniques used for estimating impairment

- Significant increase in credit risk
- When determining whether the credit risk (i.e., 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 qualitative and quantitative information and analysis based on the Bank's experience, expert credit assessment and forward-looking information.

The Bank primarily identifies 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 on initial recognition of the exposure.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

2023

2022

34 FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) Amounts arising from Expected Credit Loss (Cont'd)

Because of the absence of credit ratings in Zambia, the Bank allocates exposure to a credit risk grade based on data that is determined to be predictive of the risk of default (including but not limited to audited financial statements, management accounts, cash flow projections, available regulatory and press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

The Bank has assumed that the credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 60 days past due. At 60 days past due (two months of non-payment consequently), non-payment by the borrower can no longer be attributable to any administrative inconvenience but rather possible financial stress or character issues and the likelihood of catching up is remote with a possibility of the arrears remaining permanently. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 60 days past due;
- The average time between the identification of significant increase in credit risk and default appears reasonable;

Modified financial assets

The contractual terms of the financial assets may be modified for a number of reasons, including changing the market conditions and other factors not related to a current or potential credit deterioration of the borrower. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value.

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

- Its remaining lifetime PD as at the reporting date based on modified terms; with
- The remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Significant Increase in Credit Risk (or "SICR")

Definition of default, impaired and cure.

The Bank considers a financial instrument defaulted for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

2023

2022

34 FINANCIAL RISK MANAGEMENT (CONT'D)

Significant Increase in Credit Risk (or "SICR") (Cont'd)

The Bank has aligned its definition of credit impaired assets under International Financial Reporting Standard 9 (or "Financial Instruments") to the European Banking Authority (EBA) definition of non-performing loans (or "NPLs"). As a part of a qualitative assessment of whether an exposure is credit-impaired, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decreases in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decreases in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary
- Exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The Bank's internal rating

The Bank's independent Credit Risk Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from Good Rating Agency. The internal credit grades are then assigned into IFRS 9 stages as appropriate as shown in the table below:

Internal risk category	Internal rating description	Stage 1	Stage 2	Stage 3
Performing				
Standard	No arrears	√		
Satisfactory risk	Arrears over 1 day but less than 30 days	√		
Watch risk	Arrears over 29 days but less than 60 days		√	
Unacceptable risk	Arrears over 59 days but less than 90 days		√	
Non-performing				
Sub standard	Arrears over 89 day but less than 120 days			√
Doubtful	Arrears over 119 day but less than 180 days			√
Loss	Arrears over 179 days			√

PD estimation process

These information sources are first used to determine the probability of defaults (PDs) within the Bank's Basel framework. The internal credit grades are assigned based on these Based II grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****34 FINANCIAL RISK MANAGEMENT (CONT'D)****Significant Increase in Credit Risk (or "SICR") (Cont'd)****Exposure at default**

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12m ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Loss given default

For corporate and investment Banking financial instruments, LGD values are assessed at least every three months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Collateral

Although repayment capacity of loans are the primary criterion in assessing the credit applications, the Bank expect that security in an acceptable form will be provided as a secondary source of repayment. The nature and level of security will depend upon the extent of the exposure, type of facility being provided, term of facility, borrower's own cash input, and the level of risk involved in the proposal.

To determine the value of the collateral of the asset against the value of the loan, the following haircut ratios are observed.

Cash	100%	100%
Residential property	70%	100%
Commercial property	60%	100%
Agriculture properties	60%	100%
Other type of properties	50%	100%
Moveable assets	30%	100%

NATIONAL SAVINGS AND CREDIT BANK
Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

34 FINANCIAL RISK MANAGEMENT (CONT'D)

Sectors	2023					2022				
	Gross Carrying amount					Gross Carrying amount				
	Stage 1	Stage 2A	Stage 2B	Stage 3	Total	Stage 1	Stage 2A	Stage 2B	Stage 3	Total
Agriculture	835,341	-	-	10,974	846,315	-	-	-	-	-
Community, social and Personal services	-	-	-	26,479	26,479	-	-	-	35,841	35,841
Salaried	903,621,886	87,301,024	25,138,785	12,664,402	1,028,726,097	428,352,061	3,063,468	10,900,965	15,543,413	457,859,907
SME	4,785,677	1,098,535	780	2,275,961	8,160,953	2,802,015	-	-	492,929	3,294,944
Corporate	286,943,129	-	932,897	-	287,876,026	193,723,075	410,142,421	-	-	603,865,496
Overdraft	61,910,354	-	-	-	61,910,354	27,891,437	-	-	-	27,891,437
Total	1,258,096,387	88,399,559	26,072,462	14,977,816	1,387,546,224	652,768,588	413,205,889	10,900,965	16,072,183	1,092,947,625

Sectors	Collateral					Gross Collateral				
	Stage 1	Stage 2A	Stage 2B	Stage 3	Total	Stage 1	Stage 2A	Stage 2B	Stage 3	Total
Agriculture	402,400	-	-	25,736	428,136	-	-	-	-	-
Community, social and Personal services	-	-	-	-	-	-	-	-	-	-
Salaried	7,515	-	-	-	7,515	-	-	-	-	-
SME	15,317,272	3,081,095	5,670	4,327,085	22,731,122	14,812,122	-	-	1,610,096	16,422,218
Corporate	738,136,850	-	2,916,200	-	741,053,050	182,117,019	331,964,031	-	-	514,081,050
Overdraft	56,024,361	-	-	-	56,024,361	25,169,548	-	-	-	25,169,548
Total	809,888,398	3,081,095	2,921,870	4,352,821	820,244,184	222,098,689	331,964,031	-	1,610,096	555,672,816

Sectors	Net exposure					Net exposure				
	Stage 1	Stage 2A	Stage 2B	Stage 3	Total	Stage 1	Stage 2A	Stage 2B	Stage 3	Total
Agriculture	432,941	-	-	-	432,941	-	-	-	-	-
Community, social and Personal services	-	-	-	26,479	26,479	-	-	-	35,841	35,841
Salaried	903,614,371	87,301,024	25,138,785	12,664,402	1,028,718,582	428,352,061	3,063,468	10,900,965	15,543,413	457,859,907
SME	-	-	-	-	-	-	-	-	-	-
Corporate	-	-	-	-	-	11,606,056	78,178,390	-	-	89,784,446
Overdraft	5,885,993	-	-	-	5,885,993	2,721,889	-	-	-	2,721,889
Total	909,933,305	87,301,024	25,138,785	12,690,881	1,035,063,995	442,680,006	81,241,858	10,900,965	15,579,254	550,402,083

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha	2023	2022
---------------------------	------	------

34 FINANCIAL RISK MANAGEMENT (CONT'D)**(iii) Amounts arising from Expected Credit Loss (Cont'd)****Incorporation of forward-looking information**

The Bank incorporates forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and representative range of other possible forecast scenarios based on advice from the risk committee and economic experts and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by the government and monetary authorities and selected private-sector and academic forecasters.

The base case represents a best estimate and is aligned with information used by the Bank for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios. The Bank has identified and documented key drivers of credit risk and ECL 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 economic scenarios used as at 31 December 2023 included the following ranges of key indicators for the years ending 31 December 2022 and 2023.

Retail loans

Effective interest rate (average)	77%	74%
GDP growth	4%	3%
Recovery rates (average)	81%	76%

Corporate loans

Effective interest rate (average)	35%	45%
GDP growth	4%	3%
Recovery rates (average)	86%	62%

Overdrafts

Effective interest rate (average)	47%	50%
GDP growth	4%	3%
Recovery rates (average)	6%	8%

The predicted relationships between the key indicators and the default and loss rates on various portfolios of financial assets have been developed by analysing historical data over the past 3 to 5 years.

Measurement of ECL

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

Retail loans

• Probability of Default (PD);	79%	65%
• Loss given default (LGD); and	18%	24%
• Exposure at default (EAD).	1,036,913,529	461,190,692

Corporate loans

• Probability of Default (PD);	2%	3%
• Loss given default (LGD); and	0%	0%
• Exposure at default (EAD).	287,876,026	603,865,496

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****34 FINANCIAL RISK MANAGEMENT (CONT'D)****(iii) Amounts arising from Expected Credit Loss (Cont'd)****Overdrafts**

• Probability of Default (PD);	20%	100%
• Loss given default (LGD); and	36%	49%
• Exposure at default (EAD).	61,910,354	27,891,437

To determine lifetime and 12-month PDs, the Bank uses the average quotient of principal amounts impaired and delinquent trade receivables based on the five-year default history. Beyond a point of uncollectability, 100% PD is assumed. The PDs are adjusted to reflect forward-looking information as described above. Changes in the rating for the counterparty or exposure lead to a change in the estimate of the associated PD. 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 and the expected cashflows from realisability of collateral discounted at the effective interest rate. The LGD models consider the structure, seniority of the claim and counterparty industry. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as a discounting.

EAD represents the expected exposure in the event of a default. The Bank derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of the financial asset is its gross carrying amount.

As described above the subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, 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 risk management purposes, the Bank considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped in the basis of shared risk characteristics, which include:

- Instrument type;
- Credit risk gradings;
- Date of initial recognition;
- Industry; and geographic location of the customer.
- The groupings are subject to regular review to ensure that exposures within the particular group remain appropriately homogeneous.

Loss allowance

The following tables show reconciliations from the opening balance to the closing balance of the loss allowance by class of financial instrument.

Balance 1 January	55,576,518	62,467,810
Net impaired loss/(credit) recognised	19,936,870	(6,891,292)
Balance at 31 December	75,513,388	55,576,518

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTSFigures in **Zambian Kwacha****2023****2022****34 FINANCIAL RISK MANAGEMENT (CONT'D)****(iii) Amounts arising from Expected Credit Loss (Cont'd)****Impairment sensitivity analysis**

A quantitative sensitivity analysis for significant assumptions as at 31 December is, as shown below:

31 December 2023

Model input	% change	Impact on profit before tax	Impact on equity
Probability of default	10%	6,250,554	6,250,554
	-10%	(5,996,667)	(5,996,667)
Loss given default	10%	(2,962,291)	(2,962,291)
	-10%	3,640,242	3,640,242

31 December 2022

Model input	% change	Impact on profit before tax	Impact on equity
Probability of default	10%	1,556,102	1,556,102
	-10%	(7,304,530)	(7,304,530)
Loss given default	10%	(530,253)	(530,253)
	-10%	(5,806,296)	(5,806,296)

Grouping financial assets measured on a collective basis

The Bank calculates the allowance for ECL either on a collective or an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The large and unique exposures of the Small business lending portfolio

Exposures that have been classified as POCI when the original loan was derecognised, and a new loan was recognised as a result of a credit driven debt restructuring

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's Small business lending
- Stage 1 and 2 Consumer lending
- Purchased POCI exposures managed on a collective basis

NATIONAL SAVINGS AND CREDIT BANK
Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS
Figures in Zambian Kwacha

34 FINANCIAL RISK MANAGEMENT (CONT'D)

Risk concentration

31 December 2023

Assets	Financial Services	Community, social and personal services	Small and Medium Enterprises	Agriculture Industry	Other industries	Corporate Entities	Government institutions	Salaried	Total
Cash and bank	265,565,887	-	-	-	-	-	-	-	265,565,887
Loans and advances to customers	-	26,479	8,160,953	846,315	61,910,354	287,876,026	-	1,028,726,097	1,387,546,224
Investments in securities	883,104,761	-	-	-	-	-	-	-	883,104,761
31 December 2023	1,148,670,648	26,479	8,160,953	846,315	61,910,354	287,876,026	-	1,028,726,097	2,536,216,872
% of total	45%	0%	0%	0%	2%	11%	0%	41%	

31 December 2022

Assets	Financial Services	Community, social and personal services	Small and Medium Enterprises	Agriculture Industry	Other industries	Corporate Entities	Government institutions	Salaried	Total
Cash and bank	213,868,074	-	-	-	-	-	-	-	213,868,074
Loans and advances to customers	-	35,841	3,294,944	-	27,891,437	7,117,744	596,747,752	457,859,907	1,092,947,625
Investments in securities	698,296,207	-	-	-	-	-	-	-	698,296,207
31 December 2022	912,164,281	35,841	3,294,944	-	27,891,437	7,117,744	596,747,752	457,859,907	2,005,111,905
% of total	45%	0%	0%	0%	1%	0%	30%	23%	

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet cash flow obligations as they become due because of an inability to generate sufficient cash inflows to liquidate assets or to obtain adequate funding.

At management level, the Chief Executive Officer has the responsibility for the design and management of the overall strategy and oversight of the asset-liability management function. At Board level, oversight and direction is provided on a periodic basis.

The Bank follows a comprehensive liquidity risk management policy and procedures as recommended by the Chief Executive Officer reviewed and approved by the Board. The policy stipulates maintenance of various ratios and funding preferences.

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

34 FINANCIAL RISK MANAGEMENT (CONT'D)

The table below presents the undiscounted cash flows receivable and payable by the Bank under financial assets and liabilities by remaining contractual maturities at the financial position date.

Liquidity risk maturity analysis

31 December 2023

	1 - 3 months	3 - 12 months	1 - 5 years	Total
Financial assets				
Cash and cash equivalents	265,565,887	-	-	265,565,887
Investment securities		883,104,761	-	883,104,761
Loans and advances	285,734,952	532,254,749	494,043,140	1,312,032,841
Staff loans	1,947,108	5,548,804	17,895,720	25,391,632
Total assets	553,247,947	1,420,908,314	511,938,860	2,486,095,121
Financial liabilities				
Deposits from customers	1,369,060,805	276,346,818	455,114,039	2,100,521,662
Employee benefits provision	-	-	72,902,296	72,902,296
Deferred revenue	4,312,072	12,871,256	16,600,072	33,783,400
Total liabilities	1,373,372,877	289,218,074	544,616,407	2,207,207,358
Net liquidity gap	(820,124,930)	1,131,690,240	(32,677,547)	278,887,763
Cumulative liquidity gap	(820,124,930)	311,565,310	278,887,763	-

31 December 2022

	1 - 3 months	3 - 12 months	1 - 5 years	Total
Financial assets				
Cash and cash equivalents	213,868,074	-	-	213,868,074
Investment securities	289,075,412	409,220,795	-	698,296,207
Loans and advances	176,427,876	299,052,545	562,124,053	1,037,604,474
Staff loans	1,934,494	5,502,163	18,439,216	25,875,873
Total assets	681,305,856	713,775,503	580,563,269	1,975,644,628
Financial liabilities				
Deposits from customers	659,622,468	495,387,595	318,071,333	1,473,081,396
Employee benefits provision	-	-	65,171,479	65,171,479
Deferred revenue	4,312,072	12,871,256	16,600,071	33,783,399
Total liabilities	663,934,540	508,258,851	399,842,883	1,572,036,274
Net liquidity gap	17,371,316	205,516,652	180,720,386	403,608,354
Cumulative liquidity gap	17,371,316	222,887,968	403,608,354	-

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

2023

2022

34 FINANCIAL RISK MANAGEMENT (CONT'D)

Types of financial instruments

Non-derivative financial liabilities and financial assets

Basis on which amounts are compiled

- Undiscounted cash flows, which include estimated interest payments
- Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. The principal differences are as follows:

- Demand deposits from customers are expected to remain stable or increase; and
- Unrecognised loan commitments are not all expected to be drawn down immediately.

As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and debt securities which can be readily sold to meet liquidity requirements. In addition, the Bank maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks (these amounts are referred to as Bank's liquidity

Exposure to liquidity risk

An overall balance sheet approach, which consolidates all sources and uses of liquidity and aims to maintain a balance between liquidity and profitability (cost of funding), is applied in terms of managing the banks liquidity risk. That is, in order to effectively manage liquidity risk, the bank is required to measure, monitor and manage on-balance sheet and off-balance sheet liquidity mismatch risk taking cognisance of business as usual liquidity conditions, stress liquidity scenarios, guidelines and limits as set by the Board Risk Committee, regulatory requirements and requirements in terms of best practice liquidity contingency planning.

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 a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO).

The table below sets out the allocation of assets and liabilities subject to market risk:

31 December 2023

	Market risk measure	
	Carrying amount	Non-trading portfolio
Assets subject to market risk		
Cash	265,565,887	265,565,887
Loans and advances to customers	1,312,032,841	1,312,032,841
Staff loans	25,391,632	25,391,632
Investment in securities	883,104,761	883,104,761
	2,486,095,121	2,486,095,121
Liabilities subject to market risk		
Customer deposits	2,100,521,662	2,100,521,662
	2,100,521,662	2,100,521,662

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha** 2023 2022

34 FINANCIAL RISK MANAGEMENT (CONT'D)

Market risk (Cont'd)

31 December 2022

	Market risk measure	
	Carrying amount	Non-trading portfolio
Assets subject to market risk		
Cash	213,868,074	213,868,074
Loans and advances to customers	1,037,604,474	1,037,604,474
Staff loans	25,875,873	25,875,873
Investment in securities	698,296,207	698,296,207
	1,975,644,628	1,975,644,628
Liabilities subject to market risk		
Customer deposits	1,473,081,396	1,473,081,396
	1,473,081,396	1,473,081,396

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market rates on both its fair value and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The ALCO sets limits on the levels of mismatch of interest rate repricing that may be undertaken, which is monitored daily. 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.

35 CAPITAL MANAGEMENT

Capital management is focused on maximising shareholder value by optimising the level and mix of capital resources required to be held against identified material risks. The Banks objective when it comes to managing capital, which is a broader concept than the 'equity' on the statement of financial position are:

- (i) to meet individual capital ratios required in terms of the Banking and Financial Services Act and Bank of Zambia directives and guidelines;
- (ii) to meet the Board approved target capital ratios;
- (iii) to generate sufficient capital to support overall business strategy;
- (iv) to make risk-based capital allocation decisions as part of the strategic and financial planning review, taking into consideration the return on regulatory capital;
- (v) to achieve a return above the cost of equity;
- (vi) to declare a dividend in terms of the Board approved Dividend Policy; and
- (vii) to safeguard the bank as a going concern, so that it continues to provide returns to shareholders and benefits to others.

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 filed with the Bank of Zambia on a monthly basis.

Regulatory Capital

The bank manages its capital to meet the Bank of Zambia guidelines as required below:

- (i) hold the minimum level of regulatory capital of ZMW 50,000,000.
- (ii) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets (the 'Basel ratio') at or above the required minimum of 10%;
- (iii) maintain primary or tier 1 capital of not less than 5% of total risk weighted assets; and maintain total capital of not less than 10% of risk-weighted assets plus risk-weighted off-statement of financial position items.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

NOTES TO THE FINANCIAL STATEMENTS**Figures in Zambian Kwacha****2023****2022****35 CAPITAL MANAGEMENT (CONT'D)**

1. 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.
2. 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.

Risk-weighted assets are determined on a granular basis by using risk weights calculated from internally derived risk parameters within the regulatory requirements.

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 Statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

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

Tier 1 capital	(121,506,381)	(146,637,146)
Tier 1 + Tier 2 capital	(121,506,381)	(146,637,146)
Risk-weighted assets		
On-balance sheet	1,543,426,434	924,488,148
Off-balance sheet	-	-
Total risk-weighted assets	1,543,426,434	924,488,148
Regulatory ratios		
Tier 1 (Regulatory minimum - 5%)	-8%	-16%
Tier 1 + Tier 2 (Regulatory minimum - 10%)	-8%	-16%

Computation of regulatory capital (under the Banking and Financial Services Act 2017, as amended)**Primary (tier 1) capital**

(a) Paid up common shares	1,038,382,644	1,038,382,644
(b) Eligible preferred shares	-	-
(c) Retained earnings	-	-
(d) Retained earnings	(1,159,889,025)	(1,185,019,790)
(e) General reserves	-	-
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Shareholders' loan capital	-	-
Total	(121,506,381)	(146,637,146)

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

35 CAPITAL MANAGEMENT (CONT'D)

Calculation of risk-weighted assets as at 31 December 2023

	Risk weight %	Balance (net of allowance for losses)	Risk-weighted assets (1 x 2)
ASSETS			
Notes and coin			
- Domestic	0.0%	61,402,077	-
- Foreign	0.0%	-	-
Balances held with commercial banks:			
(a) Domestic			
- with residual maturity of up to 12 months	20.0%	204,163,810	40,832,762
- with residual maturity of more than 12 months	100.0%	-	-
(b) Foreign			
- with residual maturity of up to 12 months	20.0%	-	-
- with residual maturity of more than 12 months	100.0%	-	-
Assets in transit			
- From other commercial banks	50.0%	-	-
- From branches of reporting financial service provider	20.0%	-	-
Investment in debt securities			
- Treasury bills	0.0%	883,104,761	-
- Other government securities	20.0%	-	-
- Issued by Local Government units	100.0%	-	-
- Private securities	100.0%	-	-
Bills of Exchange			
- Portion secured by cash or treasury bills	0.0%	-	-
- Others	100.0%	-	-
Loans and advances			
- Portion secured by cash or treasury bills	0.0%	-	-
- Loans to or guaranteed by the Government	50.0%	267,020,075	133,510,038
- Loans repayable in instalments and secured by a mortgage on owner-occupied residential property	50.0%	-	-
- Loans to or guaranteed by the Government	100.0%	-	-
- Loans to parastatals	100.0%	-	-
- Others	100.0%	1,070,404,398	1,070,404,398
Inter-bank advances and loans/advances guaranteed by other banks:			
- with residual maturity of up to 12 months	20.0%	-	-
- with residual maturity of more than 12 months	100.0%	-	-
Bank premises	100.0%	120,450,065	120,450,065
Acceptances	100.0%	-	-
Other assets	100.0%	178,229,171	178,229,171
Investment in equity of other companies	100.0%	-	-
TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)		2,784,774,357	1,543,426,434

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

35 CAPITAL MANAGEMENT (CONT'D)

Calculation of risk-weighted assets as at 31 December 2023 (Cont'd)

OFF BALANCE SHEET OBLIGATIONS

	Risk weight %	Balance (net of allowance for losses)	Risk-weighted assets (1 x 2)
Letters of credit			
- sight import letters of credit	20.0%	-	-
- portion secured by Cash/Treasury bills	0.0%	-	-
- standby letters of credit	100.0%	-	-
- portion secured by Cash/Treasury bills	0.0%	-	-
- export letters of credit confirmed	20.0%	-	-
Guarantees and indemnities			
- guarantees for loans, trade and securities	100.0%	-	-
- portion secured by Cash/Treasury bills	0.0%	-	-
- performance bonds	50.0%	-	-
- securities purchased under resale agreement	100.0%	-	-
- other contingent liabilities	100.0%	-	-
- net open position in foreign currencies	100.0%	-	-

TOTAL RISK-WEIGHTED ASSETS (off-balance sheet)	2,784,774,357	1,543,426,434
---	----------------------	----------------------

	2023	2022
Tier 1 capital	(121,506,381)	(146,637,146)
Tier 1 + Tier 2 capital	(121,506,381)	(146,637,146)

Risk-weighted assets		
On-balance sheet	1,543,426,434	924,488,148
Off-balance sheet	-	-

Total risk-weighted assets	1,543,426,434	924,488,148
-----------------------------------	----------------------	--------------------

Regulatory ratios		
Tier 1 (Regulatory minimum - 5%)	-8%	-16%
Tier 1 + Tier 2 (Regulatory minimum - 10%)	-8%	-16%

Computation of regulatory capital (under the Banking and Financial Services Act 2017, as amended)

I Primary (tier 1) capital

(a) Paid up common shares	1,038,382,644	1,038,382,644
(b) Eligible preferred shares	-	-
(c) Contributed surplus	-	-
(d) Retained earnings	(1,159,889,025)	(1,185,019,790)
(e) General reserves	-	-
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Shareholders' loan capital	-	-
(i) Sub-total	(121,506,381)	(146,637,146)

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha** 2023 2022

35 CAPITAL MANAGEMENT (CONT'D)

Calculation of risk-weighted assets as at 31 December 2023 (Cont'd)

Less

(j) Goodwill and other intangible assets	-	-
(k) Investments in unconsolidated subsidiaries and associates	-	-
(l) Lending of a capital nature to subsidiaries and associates	-	-
(m) Holding of other bank's or financial institutions' capital instruments	-	-
(n) Assets pledged to secure liabilities	-	-

Sub-total (A) (items i to n)	(121,506,381)	(146,637,146)
-------------------------------------	----------------------	----------------------

Other adjustments

Provisions

(o) Assets of little or no realisable value (prepaid expenses)	-	-
(p) Other adjustments	-	-

Sub-total (B) (items o to p)

Total Subtractions: (Sub-total A above + Sub-total B)

Total primary capital (i - o)	(121,506,381)	(146,637,146)
--------------------------------------	----------------------	----------------------

(121,506,381)	(146,637,146)
----------------------	----------------------

II Secondary (tier 2)

(q) Eligible preferred shares (regulations 13 and 17)	-	-
(r) Eligible subordinated term debt (regulation 17 (b))	-	-
(s) Eligible loan stock/capital (regulation 17(b))	-	-
(t) Revaluation reserves (regulation 17 (a) (Max. is 40% of revaluation reserve)	14,119,766	14,119,765
(u) Other (regulation 17)	-	-
(v) Total secondary capital	14,119,766	14,119,765

III Eligible secondary capital

(the maximum amount of secondary capital is limited to 100% of primary capital)

-	-
---	---

IV Eligible total capital (i) (o)

(121,506,381)	(146,637,146)
----------------------	----------------------

V Minimum capital requirement:

(10% of total on and off-balance sheet risk-weighted assets as established in the first schedule, or ZMW 50,000,000, whichever is higher)

On-balance sheet	154,342,643	92,448,815
Off-balance sheet	-	-
	154,342,643	92,448,815

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

35 CAPITAL MANAGEMENT (CONT'D)

Calculation of risk-weighted assets as at 31 December 2023 (Cont'd)

VI Excess (deficiency) - (IV minus V)	(275,849,024)	(239,085,961)
VII Total regulatory capital	(121,506,381)	(146,637,146)
Regulatory capital as % risk weighted assets	-8%	-16%
Primary capital as % of risk weighted assets	-8%	-16%

36 FAIR VALUE HIERARCHY

The table below sets out the components of the Bank's fair value of its financial instruments

	2023 Carrying value	2023 Fair value	2022 Carrying value	2022 Fair value
Financial assets				
Cash and bank	265,565,887	265,565,887	213,868,074	213,868,074
Loans and advances	1,312,032,841	1,312,032,841	1,037,604,475	1,037,604,475
Investment securities	878,499,791	883,104,761	694,515,660	698,296,207
Staff loans	55,458,043	25,391,632	54,253,321	25,875,873
Other assets	56,800,740	56,800,740	10,233,741	10,233,741
	2,568,357,302	2,542,895,861	2,010,475,271	1,985,878,370
Financial Liabilities				
Lease liabilities	28,158,162	28,158,162	21,924,919	21,924,919
Other liabilities	85,256,531	85,256,531	101,904,268	101,904,268
Deposits from customers	2,100,521,662	2,100,521,662	1,473,081,396	1,473,081,396
Employee benefits provision	59,723,140	72,902,296	86,552,540	65,171,479
Term loan	500,000,000	500,000,000	500,000,000	500,000,000
	2,773,659,495	2,786,838,651	2,183,463,123	2,162,082,062

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank market assumptions. The two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchanges (for example, Lusaka Stock Exchange).

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

NOTES TO THE FINANCIAL STATEMENTS

Figures in Zambian Kwacha

36 FAIR VALUE HIERARCHY (CONT'D)

(i) Fair value of financial assets and financial liabilities measured at fair value on a recurring basis.

31 December 2023

Financial assets	Level 1	Level 2	Level 3	Total
Treasury bills	883,104,761	-	-	883,104,761
Staff loans	-	-	25,391,632	25,391,632
Loans and borrowings	-	-	1,312,032,841	1,312,032,841
Cash and cash equivalents	265,565,887	-	-	265,565,887
	<u>1,148,670,648</u>	<u>-</u>	<u>1,337,424,473</u>	<u>2,486,095,121</u>
Financial liabilities				
Lease liability	-	-	28,158,162	28,158,162
Deferred revenue	-	-	67,479,536	67,479,536
	<u>-</u>	<u>-</u>	<u>95,637,698</u>	<u>95,637,698</u>
Total	<u>1,148,670,648</u>	<u>-</u>	<u>1,241,786,775</u>	<u>2,390,457,423</u>

31 December 2022

Financial assets	Level 1	Level 2	Level 3	Total
Treasury bills	698,296,207	-	-	698,296,207
Staff loans	-	-	25,875,873	25,875,873
Loans and borrowings	-	-	1,037,604,475	1,037,604,475
Cash and cash equivalents	213,868,074	-	-	213,868,074
	<u>912,164,281</u>	<u>-</u>	<u>1,063,480,348</u>	<u>1,975,644,629</u>
Financial liabilities				
Lease liability	-	-	21,924,919	21,924,919
Deferred revenue	-	-	33,783,399	33,783,399
	<u>-</u>	<u>-</u>	<u>55,708,318</u>	<u>55,708,318</u>
Total	<u>912,164,281</u>	<u>-</u>	<u>1,007,772,030</u>	<u>1,919,936,311</u>

Valuation techniques

The fair value of the assets represents, for unquoted instruments, the present value of the positive or negative cash flows, which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly market place transaction at year end.

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instrument.

All of the resulting fair value estimates are included in level 2, a contingent consideration receivable and certain

NOTES TO THE FINANCIAL STATEMENTS

Figures in **Zambian Kwacha**

36 FAIR VALUE HIERARCHY (CONT'D)

(ii) Fair value of non financial assets that are measured at fair value

Assets	Fair value as at 31 December		Fair value hierarchy
	2023	2022	
Buildings	101,488,021	73,489,553	3

Buildings - An independent valuation of the Bank's buildings was performed as at 31 December 2022 by an independent valuer. The fixed asset policy provides that buildings should be revalued every after 3 years.

Valuation techniques used to derive level 3 fair values

Level 3 fair values of buildings are based on prevailing market prices determined by prices obtained for similar buildings in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The most significant input into this valuation approach is the valuation of similar buildings based on recent transactions.

The fair value of the properties was determined using either:

1. Land value by Market (sales) comparison;
2. Property value by market comparison;
3. Property value by income approach.

Category (as defined by IFRS 9)

The Bank classifies the financial instruments into classes that react to the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as

Category (as defined by)		Class (as determined by Bank)	Sub classes
Held to collect		Financial assets at amortised cost	Loans and advances
Financial assets	Financial assets at fair value through profit or loss	Cash and cash equivalents	Cash and balances with other banks
		Other assets	Items in the course of collections Treasury bills Staff loans
Financial liabilities	Other financial liabilities at amortised cost	Other liabilities	Other payables
		Customer deposits	Fixed term deposits
	Financial liabilities at fair value through profit or loss	Deposits from other depositors	Savings accounts

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 discount rates based upon the yield rates on similar financial assets at reporting date.

NATIONAL SAVINGS AND CREDIT BANK

Financial statements for the year ended 31 December 2023

SCHEDULE I - OTHER EXPENSES

Figures in Zambian Kwacha	2023	2022
Courier services expenses	342,034	490,255
Frauds and losses	24,647	72,663
Insurances	2,597,093	1,906,173
Meal and accommodation expenses	609,815	1,066,667
Postages and stamp expenses	262,173	219,034
Licenses	20,226,055	18,990,607
Subscription expenses	1,147,048	1,174,751
Electricity	2,451,339	2,455,839
Office cleaning materials	4,105,794	3,830,474
Water	384,529	293,720
Directors allowances	389,875	557,410
Consultancy	5,203,472	3,099,482
Legal fees expenses	1,003,793	351,893
Other professional fees	824,057	578,369
Hire of Venues and conferencing	1,229,747	792,626
Audit fees	1,910,258	1,638,050
Donations	1,746,107	1,024,638
Sundry expenses	252,650	261,018
Other expenses	574,264	573,750
Rebranding expenses	177	350
TOTAL OTHER EXPENSES	45,284,927	39,377,769

NATSAVE Branch Network

Chama	Box 540083,	Chama	T: 0216-482117/8
Chavuma	Box 15,	Chavuma	T: 260-969-222550
Chilubi Island	Box 720017	Chilubi	T: 260-977-961655/0973212695/
Cosmopolitan	Box 30067,	Lusaka	T: 260974758056
Chimwemwe	Box 280157,	Kitwe	T: 0212-214111
Chinsali	Box 480028,	Chinsali	T: 0979-194991
Chipata	Box 511158,	Chipata	T: 0216-221170/223421
Choma	Box 630488,	Choma	T: 0213-221130
Chongwe	Box 198,	Chongwe	T: 0211-620081
Kabwe	Box 81070,	Kabwe	T: 0215-224332/224612
Kalabo	Box 930046	Kalabo	T: 260-968-458898
Kaputa	Box 490055,	Kaputa	T: 0211-480007
Kasama	Box 410529,	Kasama	T: 0214-222571/221038
Kasempa	Box 120111,	Kasempa:	T: 021-8-251059
Kazungula	Box Kz 063,	Kazungula	T: 0967-633469/0954-057757
Kitwe	Box 22125,	Kitwe	T: 0212-232044/224281
Livingstone	Box 60999,	Livingstone	T: 0213-320074
Luanshya	Box 90933,	Luanshya	T: 0212-510761/510255
Lumwana	Box 110544	Lumwana	T: 0260967018359
Lufwanyana	Box 84	Lumwana	T: 260-978-485701
Lukulu	Box 950093,	Lukulu	T: 0217-250023
Lsk Chilenje	Box 39568,	Lusaka	T: 0211-232333/4
Lsk Matero	Box 30067,	Lusaka	T: 0211-2471568
Lsk Main	Box 39568,	Lusaka	T: 0211-232333/4
Lsk Northend	Box 30067,	Lusaka	T: 0211-223298
Luwingu	Box 460132,	Luwingu	T: 0214-235019
Mansa	Box 910518,	Mansa	T: 0212-821977/821231
Mongu	Box 910106,	Mongu	T: 0217-221830/221813
Mpika	Box 450255,	Mpika	T: 0214-370245
Mporokoso	Box 470109,	Mporokoso	T: 0214-680045/222274
Mpongwe	Box 141,	Mpongwe	T: 260-977-403360
Mumbwa	Box 830061,	Mumbwa	T: 0211-800061
Mwense	Box 760039,	Mwense	T: 0212-970042
Nchelenge	Box 740107,	Nchelenge	T: 0217-221830/221813
Ndola	Box 70845,	Ndola	T: 0212-671532
Petauke	Box 56002,	Petauke:	T: 021-6-371022/371554
Solwezi	Box 110222,	Solwezi:	T: 021-8-821118
Zambezi	Box 150016,	Zambezi:	T: 021-8-371060

MONEY WINDOW

Chawama
Chembe
Chifubu
Masala

Head Office
Plot No. 248B, Cairo Road | P.O Box 30067
Lusaka-Zambia



1. Economics Association of Zambia (EAZ)

- Engaged in revitalization and collaboration with stakeholders and government institutions to contribute to Zambia's economic ecosystem.

2. NATSAVE Bank

- National Savings and Credit Bank involved in various initiatives to support the economic and social development of Zambia.

3. NATSAVE Donations

- Contributions to various causes, including the Zambian Netball National team and children battling cancer.

4. Bankers Association of Zambia (BAZ) Sports Day

- An event promoting physical activities among bankers to prevent non-communicable diseases.

5. Zambia National Union of Teachers (ZNUT)

- Partnered with NATSAVE to provide financial support and literacy to teachers.

6. Lusaka South Multi-Facility Economic Zone (LSMFEZ)

- Engaged in financial empowerment initiatives with NATSAVE.

7. Branch Managers Conference

- A gathering of NATSAVE staff to align with the Bank's vision, mission, and values.

8. Financial Literacy Training

- NATSAVE's initiative to teach financial literacy and entrepreneurship to children across Zambia.

9. National Pension Scheme Authority (NAPSA)

- Enabled NATSAVE customers to access partial lump sum withdrawals.

10. Drug Enforcement Commission (DEC)

- Collaborated with NATSAVE to enhance banking security and anti-money laundering measures.

11. Zambia National Service (ZNS)

- Signed an MOU with NATSAVE to ensure easy access to financing for servicemen and women.

12. Zambia International Trade Fair (ZITF)

- An event where NATSAVE showcased its offerings and received commendation from the President.

13. Corporate Social Responsibility (CSR)

- NATSAVE's commitment to community development, recognized through awards and contributions.

14. Digital Transformation

- NATSAVE's efforts to enhance customer experience through digital platforms like the NATSAVE wallet, Mastercard, and mobile banking.

15. Financial Inclusion

- NATSAVE's initiatives to provide accessible financial solutions, particularly in rural areas.

16. Memorandum of Understanding (MOU)

- Agreements signed with various organizations to support financial inclusion and empowerment.

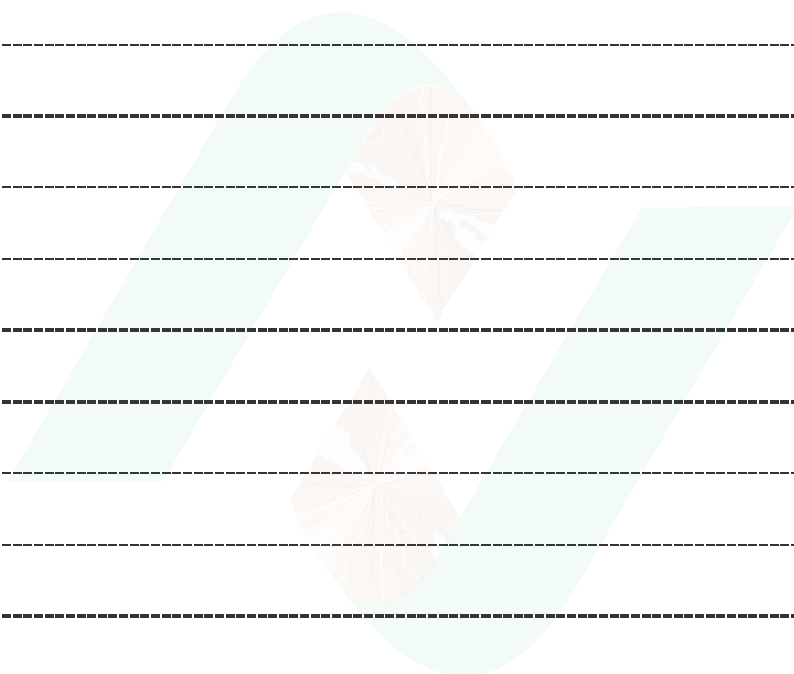
17. NATSAVE Website Refresh

- A comprehensive redesign to enhance functionality, accessibility, and user experience.

18. Banking and Finance Award Ceremony

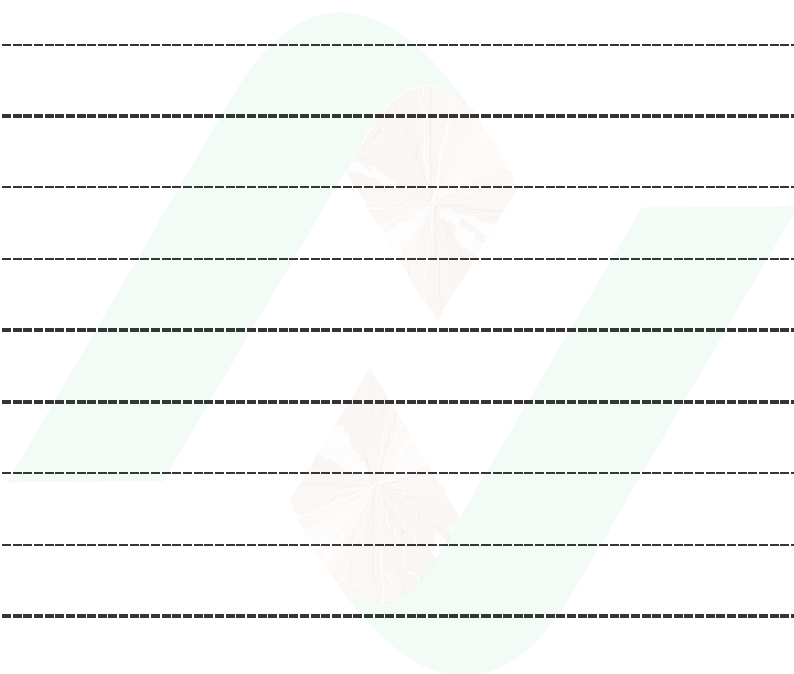
- NATSAVE received multiple awards, including CEO of the Year and recognition for financial inclusion and innovation.

Notes



NATSAVE

Notes



NATSAVE

