INDO ZAMBIA BANK

OPEN A TISUNGE SAVINGS ACCOUNT & SECURE YOUR FUTURE.

SUPPORTING YOU. DEVELOPING ZAMBIA.

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Vision

To become the bank of choice for all retail and corporate customers

Mission

To act as a catalyst for the economic development of Zambia.

Brand promise

Supporting You. Developing Zambia.

Commitment to the nation

Supporting the growth and development of the nation is critical to us therefore our brand promise of “Supporting You, Developing Zambia” is indeed evident in all our workings.

Commitment to highest level of Ethical moral standards

Everything we do is done with the highest level of integrity and we shall always remain committed to ensuring that the highest level of ethical behavior prevails in all our conduct and working guided and governed by codified policies.

Commitment to our customers

Our commitment is to be a customer centric bank focused on satisfying and delighting every customer. We want to remain approachable by our customers at all times. Our commitment is to continue investing in building long standing and solid relationships.

Commitment to our communities

We are committed to fulfilling our corporate social responsibilities and to fostering the building of strong communities in which we operate. We will always strive to be a good corporate citizen in society.

Commitment to professionalism

We strive to develop a professional working environment with Team Members who are trusted by our customers and committed to discharging their duties in the true spirit of our core values. Our commitment is to continuously nurture an organisational culture which promotes the highest standard of professionalism and corporate governance.

Our brief timeline

1984
Registered at PACRA on19th October 1984 Lusaka branch opened on 24th December, 1984

1985
Official inauguration of the Lusaka Branch (1st branch) on 1st February, 1985 by the first President HE Dr. K. Kaunda

1986
Deposits: K0.106mn
Advances: K0.49mn
Net Profit: K0.007m

1987
Deposits: K0.189mn
Advances:K0.69mn
Net profit: K0.004mn
Opening of the 2nd branch at Ndola.

1988
Deposits: K0.292mn
Advances: K0.108mn
Net profit: K0.003mn

1989
Change of FY ending from Dec. to March
Opening of the third branch at Kitwe.

1996
Deposits: K14.79mn
Advances: K5.02mn
Net profit: K1.74mn
Opening of 7th branch at Northend, Lusaka

1997
Deposits: K20.84mn
Advances: K6.05mn
Net profit: K2.71mn

1998
Deposits: K33.08mn
Advances: K7.98mn
Net profit: K1.45mn

1999
Deposits: K51.22mn
Advances:K15.19mn
Net profit: K1.70mn

2000
Deposits: K69.60mn
Advances:K12.84mn
Net profit: K4.06mn

2001
Deposits: K84.30mn
Advances: K16.18mn
Net Profit: K10.04mn

1990

Deposits: K0.539mn
Advances: K0.316mn
Net profit: K0.023mn

1991

Deposits: K1.051mn
Advances: K0.496mn
Net profit: K0.036mn

1992

Deposits: K2.305mn
Advances: K0.755mn
Net profit: K0.105mn

1993

Deposits: K3.696mn
Advances: K0.991mn
Net profit: K0.409mn
Opening of 4th branch at Kabwe
Opening of 5th branch at Chilanga

1994

Deposits: K5.21mn
Advances: K1.23mn
Net profit: K1.55mn

1995

Deposits: K10.12mn
Advances: K1.87mn
Net profit: K1.32mn
Opening of 6th Branch at Kamwala, Lusaka

2002

Deposits: K150mn
Advances: K18mn
Net profit: K14mn

2003

Deposits: K273mn
Advances: K25mn
Net profit: K21mn

2004

Deposits: K292mn
Advances: K31mn
Net profit: K21mn
Opening of 8th branch at Chingola
Opening of 9th branch at Livingstone

2005

Deposits: K299mn
Advances: K45mn
Net profit: K10mn

2006

Deposits: K309mn
Advances: K72mn
Net profit: K21mn

2007

Deposits: K452mn
Advances: K130mn
Net profit: K22mn

Our brief timeline cont.

2008

Deposits: K680mn
Advances: K289mn
Net profit: K24mn
Opening of branches:
12th Branch-Chipata
13th Branch-Chawama

2009

Deposits: K554mn
Advances: K186mn
Net profit: K23mn
Opening of 10th branch Industrial Area, Lusaka
Opening of 11th branch (agency) Mulungushi University Agency

2010

Deposits: K766mn
Advances: K337mn
Net profit: K22mn
Opening of 14th branch at Mandahill, Lusaka

2011

Deposits : K833mn
Advances: K416mn
Net Profit: K24mn
Opening of branches:
15th Branch-Nyimba
16th Branch-Chandwe Musonda

2012

Change of FY ending from March to December
Deposits : K1,228mn
Advances: K766mn
Net Profit: K24mn
Opening of branches:
17th Branch - Chililabombwe
18th Branch-Choma

2013

Deposits: K1,512mn
Advances: K864mn
Net profit: K37mn
Opening of branches:
19thBranch-Solwezi
20th Branch-Kasama
21st Branch-Chinsali

2014

Deposits: K1,645mn
Advances: K779mn
Net profit: K46mn
Launch of Visa Card
Opening of branches:
22nd Branch-Jacaranda
23rd Branch-Crossroads
24th Branch-Mansa
25th Branch-Copperhill

2015

Deposits : K1,993mn
Advances: K986mn
Net Profit : K80mn
Opening of branches:
26th Branch-Mongu
27th Branch-Kafue
28th Branch-Chilenje
29th Branch-Zimba
Launch of Mobile Banking
Govt. of Zambia transfers their shares to IDC

2016

Deposits : K2,068mn
Advances: K1,013mn
Net Profit : K84mn
Upgradation of IT Software
Launch of full – fledged Internet Banking
Enhancement of Mobile Banking facility
Operationalisation of Zambia Revenue Authority (ZRA) Tax Online facility

Opening of branches:
30th Branch-Serenje
31st Branch-Lundazi
32nd Branch-Mungwi

2017

Deposits : K2,603mn
Advances: K1,256mn
Net Profit: K109mn
Launch of Point of Sale Terminals Network
An ATM Network of 54 countrywide.
Operationalisation of Napsa Pension Payments Online facility. At present the Bank has 28 branches and 2 agencies.

2018

Deposits: K3,233mn
Advances: K1,683mn
Net profit: K140mn
An ATM Network of 57 countrywide.
At 31st December 2018, the Bank has 30 branches and 3 agencies.

Chairperson's statement

It is indeed a matter of great pride and priviledge for me to place the Annual Report of Indo Zambia Bank for the year ended 31st December 2018 before our valuable shareholders, stakeholders and partners.

We had an excellent 2018 and I am pleased to have this opportunity to report on our accomplishments and on the bank's underlying business strengths along with appropriate strategies employed which successfully navigated the Bank through the dynamic operating environment which characterized 2018 to deliver on our unwavering commitments to Shareholders, Customers, Team members and Communities in which we operate. The Bank's philosophy drove our focus on achieving a strong financial performance and enabled our continued growth and progress.

It was an award winning year as the bank was a recipient of five (5) Industrial Development Corporation (IDC) Group Performance Awards scooping the Enterprise with the highest dividend payout ratio in the IDC group. Further, achieving the 1st Runner up in the categories Most Improved Enterprise; Enterprise with the highest dividend declared and Best Governance Compliant Enterprise.

In a congratulatory message to the bank on this outstanding and unprecedented achievement, His Excellency the President of the Republic of Zambia, Mr Edgar Chagwa Lungu, who is also the IDC Board Chairman, stated that "This positive performance is a clear demonstration of the hard work and commitment of the Board, Management and Staff. I look forward to your continued success and assure you of the support of the IDC Board and Management". This recognition by His Excellency the President was inspiring and attests to the bank's achievements and strengths which I will discuss in greater detail throughout this report.

At Indo Zambia Bank, Serving and meeting our Customer needs has always been our top most priority. We remain firmly true to our Mission of acting as a catalyst for the economic development of Zambia thus fostering the financial success of the society we serve. We are wholly dedicated and steadfast in our commitment to continuing building and protecting the long term value of Indo Zambia Bank. The Board of Directors remains tirelessly supportive of the bank's implementation of the Strategic Plan 2019/ 2023 which enabling the transformation process, enhancement of product offering and fortification of our formitable competitive advantage. We also continued to focus and allot resources to ensure that Indo Zambia Bank sustains its prevailing solid fundamentals.

The Bank remained well capitalized with its capital and reserves recorded at K873million

The Bank's Investment portfolio grew by 26.34% from K1.34Billion in 2017 to K1.70Billion in 2018

Mrs Orlean Y. Moyo,
Board Chairperson

The Group Chief Executive Officer for the Industrial Development Corporation (IDC), Mr. Mateyo Kaluba receiving a dividend cheque from the Board Chairperson, Mrs Orlean Y. Moyo. From left to right is the Managing Director of Indo Zambia Bank, Mr. Maheshkumar M. Bansal and Board Member Mr S. Mukupa.

The performance of the bank in 2018 is therefore a reflection of the successful strategic focus rendered by the Board of Directors and indeed the hard work, passion and resolve of the entire staff in executing our winning strategy which has ensured that the bank continues with its distinguished track record of delivering against set objectives year after year.

I am delighted to report that for the financial year ended 31 st December, 2018. The Bank remained well capitalized with its capital and reserves recorded at K873million as at December 2018 from K776million as at December 2017. This consistent growth in capital was on the back of an increase of 20.22% in retained earnings in comparison to the 2017 figure, representing an unrelenting and sustained commitment by our Shareholders to ensure that the Bank continues to have the necessary muscle to pursue its Mission.

During 2018, we continued to enhance customer engagement, even in the face of the competitive banking and financial services industry. As a result of our adaptability, we recorded 27.39% growth in total Business mix from K3.86Billion in 2017 to K4.92Billion in 2018, further signifying our desire to continually establish ourselves as a core player in the financial industry.

Our engagement with valued customers led to 24.21% growth in total deposits from K2.6Billion in 2017 to K3.23Billion in 2018 while our Gross Advances, grew by 28.95% from K1.33Billion in 2017 to K 1.72Billion in 2018, signified our direct economic participation.

The Bank's Investment portfolio grew by 26.34% from K1.34Billion in 2017 to K1.69Billion in 2018.

The Bank recorded 37.97% growth in Operating Profit from K182Million in 2017 to K251Million in 2018 with Net Profit recording a 28.33% increase from K108.9Million in 2017 to K139.78Million in 2018. As a Board, we are very proud of this historical performance, which further establishes the Bank as a progressive brand dedicated to providing services that create value for its Shareholders and other stakeholders.

we recorded 27.39% growth in total Business mix from K3.86Billion in 2017 to K4.92Billion in 2018

Net Profit recording a 28.33% increase from K108.9Million in 2017 to K139.78Million in 2018.

Standing right to left are the Board of Directors of Indo Zambia Bank, Mr R. C. Thakur (Board Member), Executive Director of the Bank of Baroda Mr. V. S. Kichi, The Board Chairperson Mrs O.Y. Moyo, Mr S. Mukupa (Board Member), Mr A.B. Nair (Board Member), The Managing Director of Indo Zambia Bank Mr M. M. Bansal.

Having recorded sustained profit year on year, and in line with the Bank's Dividend Policy, the Bank's Shareholders approved a Dividend totaling K60 Million for the Financial Year 2018, representing an 8.1% growth over the 2017 figure up to K24million of the declared dividend will be payable to the Government of the Republic of Zambia through the Industrial Development Corporation Limited which holds 40% of the Bank's shares.

On the qualitative front, the bank continued to implement significant initiatives such as the deployment of digital technology to enhance overall customer experience and to harness the benefits of technology by investing in digitization which has seen the enhancement of the bank's Digital platform and continuous upgradation of the bank's Core Banking Solution and IT Infrastructure thus enabling our service delivery through channels such as Internet Banking, Point of Sale Terminals, VISA debit and Prepaid Cards, Mobile Banking, ZRA Tax Online and Prepaid cards, Mobile Banking, ZRA Tax Online, NAPSA Online Pension payment facility to mention a few channels which facilitate the convenience of e-commerce for our customers. The bank has also continued to expand its ATM presence with the provision of ATM facilities at all major shopping malls and trading centres including remote areas of the country.

On the Credit and Financing front, the bank has continued with its strategic focus on credit products for both retail and corporate customers. Some of these products include the following:

- IZB Business Finance Scheme for SME's
- Asset Finance
- Agriculture Finance
- Working Capital Support
- MSME Composite Loan
- Equity Release Finance

We also continued to nourish and strengthen our fundamental beliefs and culture of pursuing a Customer Centric business model which puts our customers at the Centre of everything we do, prudent risk management which keep our workings within our defined risk framework and focus on growing a strong balance sheet while ensuring that the bank's customers and all stakeholders are served consistent with our brand promise of "Supporting You, Developing Zambia". I am therefore convinced that this foundation is what will support and sustain the long term success of Indo Zambia Bank.

It is also gratifying to report that in 2018 the bank has kept up the thrust of supporting the Bank of Zambia call for the promotion of financial inclusion and this important effort will continue in 2019. The bank also remains fully committed to supporting the Government's employment creation efforts by contributing to the growth and development of the small and medium scale enterprises (SME) sector including the provision of special Micro Financing Schemes to support and empower the under privileged and vulnerable especially women in society.

I am very proud of the countless ways our 300 workforce delivered on our strategic objectives in 2018 and therefore recognize that an important component of the bank remaining sustainable rests in our Human Capital thus the Bank has continued to build and invest in a strong foundation for future growth by continuously working on enhancing human resource capabilities. Taking into account the critical fact that our people are a rich source of competitive advantage as they have accomplished extraordinary performance during often challenging circumstances thus the need to develop and nurture their skills, talents and competences. To achieve this, the bank has continued to impart training in general banking operations and specialized functions to the staff at all levels on an ongoing basis. The bank will continue to leverage on human resources capabilities and abilities as our dedicated staff members live by our vision and values and have the character, intellect and essential expertise necessary to meet our customer's expectations and to sustain the prevailing growth momentum.

The bank has continued to build and invest in a strong foundation for future growth by continuously working on enhancing human resource capabilities.

The Board Chairperson Mrs O.Y. Moyo with the Guest of Honor Dr. John Kunda, Director Communications at Millennium Challenge Account during the International Women's Day celebrations organised for Indo Zambia Bank members of staff, at Taj Pamodzi Hotel.

The bank has a long standing commitment of fulfilling its corporate social responsibilities by earmarking a definite portion of its profit for supporting various deserving and noble causes at a National level. In 2018 for example, our branches across the country undertook various social responsibility initiatives aimed at supporting the communities in their localities. We remain firmly committed to helping address challenges facing our society through a sustained commitment to our financial inclusion and Corporate Social Investment programmes.

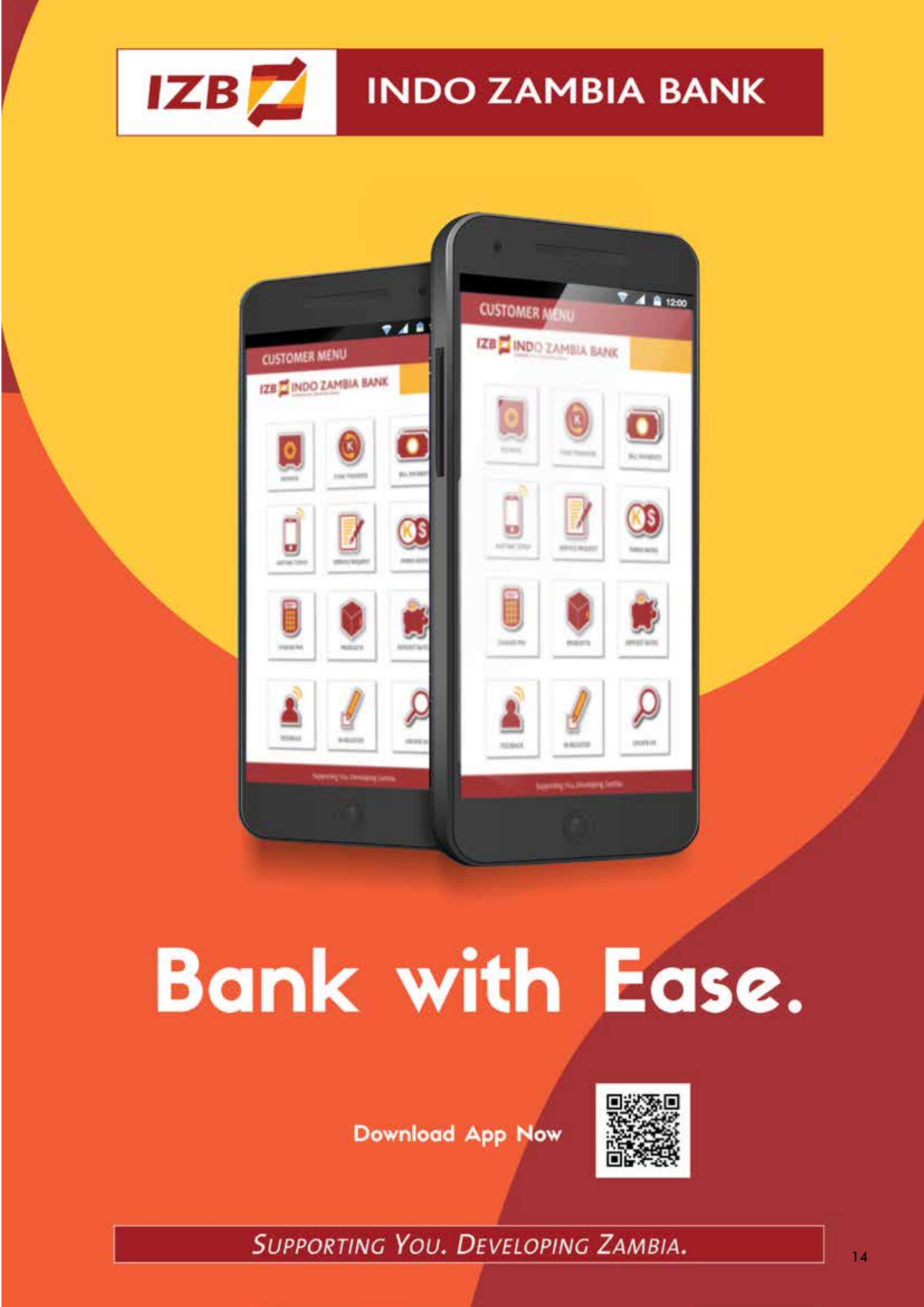
Whereas 2019 will continue to be a challenging year for the banking sector, using our forward-looking approach to business, we shall continue to be driven by the desire to help our customers achieve their aspirations by providing financial services that are efficient, add value and are convenient to use. With a strong balance sheet, the Board and Management will continue to prudently leverage the Bank's competitive advantages including our consistent brand, sizable distribution network and bespoke technology and systems that are focused on delivering "Smart Banking solutions".

The Board and Management will ensure that the Bank continues to be an employer of choice by continuously improving staff engagement, providing the necessary work place environment, support and career development opportunities that our staff need to reach their potential, enjoy job satisfaction and become great ambassadors of our Brand.

In conclusion, I wish to compliment the Government of Zambia for maintaining conducive and stable economic conditions, which have helped the growth and development of the bank.

Finally, please allow me to take this opportunity to thank all our shareholders and our valued customers for their wholehearted support in 2018. I also acknowledge with distinction the support and valuable guidance rendered by our Regulators, the Bank of Zambia which has ensured stability of the financial sector. I further wish to express my appreciation to the Board of Directors and the entire rank and file of the Bank for their commitment, dedication and hard work, which has set the bank in very good stead.
The future is bright for our Shareholders, Customers and Employees and I am as optimistic as ever about the future of Indo Zambia Bank because we are operating from a position of capabilities and proven strength.

Mrs Orlean Y Moyo
Board Chairperson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Board of directors

Mrs. Orlean Y. Moyo, Board Chairperson

Mrs Orlean Y. Moyo took over as the Board Chairperson of Indo Zambia Bank in February, 2002. Mrs. Moyo has a Bachelor of Arts Degree from University of Zambia and is a Diploma holder in Banking from Manchester Business School, U.K. Mrs. Moyo has over 37 years of rich experience in the Banking and Financial Industry. Mrs Moyo is a Fellow of the Zambia Institute of Banking and Financial Services. Mrs Moyo Chaired the National Economic and Business Conference Forum in 2017, organised by the Ministry of Trade & Industry, the Zambia Association Chambers of Commerce & Industry and Black Dot.

Mr. Rajeev Rishi, Director

Mr R. Rishi is Chairman and Managing Director of Central Bank of India. Prior to assuming his position, Mr Rishi served as Executive Director of Indian Bank and as General Manager in Oriental Bank. Mr Rishi holds a Bachelor of Arts and Bachelor of Laws Degrees. His banking career spans over 32 years with extensive exposure in Corporate Finance and Credit, Risk Management, Business Process Re-engineering, Technology Management, Information System Security and MIS.

Mr. Maheskumar M. Bansal, Managing Director

Mr. Bansal took over as the Managing Director of Indo Zambia Bank in June 2016. He holds a Bachelor Degree of Science and Laws respectively. He is also a Certifed Associate of Indian Institute of Bankers (CAIIB). Mr. Bansal is a seasoned Banker who has held several distinguished positions in the Bank of Baroda in India with a career spanning 34 years which includes international experience managing branches of Bank of Baroda in Uganda

Mr. Samuel Mukupa, Director

Mr. Samuel Mukupa, a qualifed Teacher/ Lecturer by profession was appointed as a Director on the Board of Indo Zambia Bank on17th February 2012. He has served as a Member of Parliament from 1991-2000. During his tenure as a legislator he served as an Executive Member of the Commonwealth Parliamentary Association/ Union from 1998 to 2000. In 1998 he was appointed Head of Parliamentary Delegation, Election Observer Mission to Germany. Mr Mukupa is also an illustrious businessman and he is serving as the Board Chairperson of the Road Development Agency in Zambia

Mr. Mayank K. Mehta, Director

Mr Mayank K Mehta is Executive Director of Bank of Baroda. Prior to assuming his position, Mr Mehta served as General Manager at Union Bank of India. Mr Mehta is a graduate with B.Sc. Degree and a Certifed Associate of Indian Institute of Bankers (CAIIB). Having joined the bank in 1977, he brings with him more than three decades of experience in Commercial banking with extensive exposure in International Banking and Technological Management and Development

Mr. Godwin C. Ngoma, Board Secretary & General Manager

Mr. Godwin C. Ngoma took over as the General Manager of Indo Zambia Bank in April, 2011. He holds a Masters in Business Administration (MBA) and Bachelor of Business Administration (BBA) Degrees and a Diploma in HRM. He had held several positions in the Bank's hierarchy in a career spanning over 27 years in the areas of General Banking, Administration and Services, Marketing and Public Relations.

Executive management

Sitting left to right : Mr. Maheshkumar Bansal, Managing Director and Mr. Godwin C. Ngoma, General Manager. Standing from left to right: Mr Ravender Singh Chief Manager- Foreign Business, Mr. Deepak Wahal, Chief Manager- Risk Management, Mr. Bomareddy Harikrishna Chief Manager- Finance, Mr. Jyoti Sinha, Chief Manager- Information Technology , Mr. Chenjelani C Banda, Chief Manager- Corporate Services & Admin, Mr. Jagdish Prasad, Chief Manager –Operations, Mr. Christopher Wakung'uma, Chief Manager- Human Resources, Mr. Ravi Shanker, Chief Manager – Credit.


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Statement on corporate governance

Indo Zambia Bank is committed to ethical practices in the conduct of its business while striving to enhance the Shareholder's values as well as protecting the best interest of all its stakeholders in consonance with the guidelines laid down by the regulator as stipulated in the, Bank of Zambia Banking and Financial Services Corporate Governance Directives of 2016.
The Board of Directors of Indo Zambia Bank are also committed to maintaining the highest standards of integrity and professional conduct in its business operations.

Board of directors

The Board of Directors has the overall responsibility for the bank including approving and overseeing the implementation of the bank's strategic objectives, risk strategy, governance framework and corporate values and culture. The Board is also responsible for providing oversight to senior Management.

The general superintendence, direction and management of the affairs and business of the Bank is vested in the Board of Directors. The Board of Directors of the Bank presently comprises of seven Directors out of which six are independent Non-Executive Directors including the Chairperson of the Board. The composition of Board ensures that the powers are well spread out and not concentrated in one individual/group. The depth of experience of each of the Director ensures quality and prompt decision-making as well as effective supervision over the affairs of the Bank.

The Board of Directors undertakes an evaluation of its performance in accordance with the Bank of Zambia Banking and Financial Services Corporate Governance Directives.

The Chairperson is responsible for leading and managing the affairs of the Board to ensure that it operates effectively and discharges the fiduciary responsibility to shareholders and all other stakeholders. The other independent Non-Executive Directors supplement the efforts of the Chairperson, while assessing various operational and policy related recommendations of the Management/ other sub-Committees of Board. The performance of the Bank is reviewed by Board on a regular ongoing basis.

Board meetings

The Board of Directors comprises of seven members including Chairperson. Mrs. Orlean Y. Moyo, a non-executive Director is the Chairperson of the Board of Indo-Zambia Bank. The composition of the Board of Directors is given in the Director's report on page 2. Mr. Maheshkumar Bansal is the Managing Director and Mr. Godwin C. Ngoma is the Board Secretary. The Board of Indo Zambia Bank meets on quarterly intervals. During the financial year ended 31 st December 2018, the Board met four times as per details given below:

Board meeting held on	Number of directors attending the board meeting	Number of Directors absent during the board meeting
27th February 2018	-5-	NIL
31st May 2018	-5-	NIL
27th August, 2018	-4-	NIL
28th November, 2018	-5-	NIL

*Pending appointment of 2 replacement Directors by Shareholders.

The Board is vested with the powers of overall supervision of management and is also responsible for the formulation of policies of the Bank. The Board is assisted by a number of Sub-Committees in discharging its obligations in an effective manner. The Sub-Committees that are accountable to the Board are Audit, Loans Review, Risk Management Committees and Remunerations Committee. The Chairman of the Audit Committee, Loans Review Committee, Risk Management Committee and Remunerations Committee regularly report to the Board. In addition there are three (3) Management Committees namely; Assets Liability Management Committee (ALCO), Credit and Operational Risk Management Committees. The decisions taken at these Management Committee meetings are reported to the Board.

Audit committee of the board

The Audit Committee is constituted in accordance with section 67 of the Banking and Financial Services Act, 1994 (as amended) and as per section 9 of the Bank of Zambia, Corporate Governance Directives of 2016. The Audit Committee comprises of three members including Chairman. Mr. Mayank Mehta, a non-executive Director was the Chairman of the Audit Committee. The committee assists the Board in the discharge of its duties relating to audit and financial reporting to the stakeholders of the Bank, Risk Management and formulating the policy guidelines on the adequacy of internal controls, systems and procedures. The Committee also interacts with the Internal and External Auditors of the Bank.

The Audit Committee of the Board as on 31 st December 2018 comprised of the following members:

1. Mr M.K Mehta (Chairman)
2. Mr R. Rishi
3. Mr S. Mukupa

The Audit Committee of Indo Zambia Bank meets on quarterly intervals. During the financial year ended 31 st December 2018 the Committee met four times as per details given below:

Audit Committee meeting held on	Number of members attending the meeting	Number of members absent during the meeting
27 th February 2018	-3-	Nil
31 st May 2018	-3-	Nil
27 th August, 2018	-3-	Nil
27 th September 2018	-3-	Nil
28 th November 2018	-3-	Nil

Loans review committee of the board

The Loans Review Committee is constituted pursuant to section 6 of the Statutory Instrument no. 142 of 1996 of the Banking and Financial Services Act, 1994 (as amended) and as per section 9 of the Bank of Zambia, Corporate Governance Directives of 2016. The Loans Review Committee comprises of four members including the Chairman. Mr R. Rishi, a non-executive Director is the Chairman of the Loans Review Committee. The committee reviews the quality and collectability of loans at quarterly intervals and reports to the Board.

The Loans Review Committee of the Board as on 31 st December 2018 comprised of the following members:

1. Mr R. Rishi – Chairman
2. Mr M.K Mehta
3. Mr M.M. Bansal

The Loans Review Committee of Indo Zambia Bank meets on quarterly intervals. During the financial year ended 31 st December 2018, the Committee met four times as per details given below:

Loans Review meeting held on	Number of members attending the meeting	Number of members absent during the meeting
28 th February 2018	-3-	Nil
31 st May 2018	-3-	Nil
27 th August 2018	-3-	Nil
28 th November 2018	-3-	Nil

* Pending appointment of one (1) replacement Director.

Risk management committee of the board

Risk Management committee was constituted in compliance of the Risk Management Guidelines issued by the Bank of Zambia in the year 2008 and as per section 9 of the Bank of Zambia Corporate Governance Directives of 2016. The Committee comprises of four members including the Chairman. Mr.S.Mukupa, a non-executive Director is the Chairman of the Risk Management Committee. The Committee formulates policies and strategies for integrated risk management, monitors bank's exposures – both credit as well as investments, reviews adequacy of risk management processes and internal control systems and ensures compliance of the regulatory framework. The Committee reports its observations and actions taken to the board.

The Risk Management Committee of the Board as on 31 st December 2018 comprised of the following members:

1. Mr S. Mukupa – Chairman
2. Mr R. Rishi
3. Mr. M.K Mehta
4. Mr M.M. Bansal

The Risk Management Committee of the Bank meets on quarterly intervals. During the financial year ended 31 st December 2018, the Committee met four times as per details given below:

Risk management committee meeting held on	Number of members attending the meeting	Number of members absent during the meeting
28 th February 2018	-3-	Nil
31 st May 2018	-3-	Nil
27 th August 2018	-3-	Nil
28 th November 2018	-3-	Nil

*Pending appointment of replacement Director by Shareholder

Nominations and Remunerations Committee

The Nominations and Remunerations Committee was constituted in compliance with section 9 Bank of Zambia Corporate Governance Directives of 2016. The Committee comprises of three members including the Chairman. Mrs Orlean Y. Moyo, Board Chairperson is the Chairperson of the Nominations and Remunerations Committee. The Committee provides oversight of nominations and remuneration and compensation of Directors, Senior Management and other key personnel. The Committee provides it's recommendations to the Board of Directors. The Remunerations Committee of the Board as on 31 st December, 2018 comprised of the following members:-

1. Mrs. O.Y. Moyo – Chairperson
2. Mr S Mukupa
3. Mr M K Mehta
4. Mr. M.M. Bansal

During the financial year ended 31 st December, 2018 the Committee met as per details given below:-

Risk management committee meeting held on	Number of members attending the meeting	Number of members absent during the meeting
28 th February 2018	-4-	Nil
31 st May 2018	-3-	Nil
27 th August 2018	-3-	Nil
28 th December 2018	-3-	Nil

Management committees

There are three Management Committees namely Asset Liability Management Committee, Credit and Operational Risk Management Committees.

Asset liability management committee (ALMO)

The Committee reviews the liquidity position of the Bank based on the maturity profile of Bank's assets and liabilities so as to ensure adequate liquidity and to plan the maturity of assets and liabilities in such a manner that mismatch levels are within the manageable limits, evaluate, monitor and control various risks arising from day-to-day operations, viz Interest Rate Risk, Liquidity Risk, Market Risk etc., reviews the interest rate scenario, transfer price mechanism, service charges for various products etc. and takes necessary decisions to maximise the earnings as well as to attain a healthy Capital Adequacy Ratio. The deliberations of ALCO are subsequently reported to the Board. Mr. Maheshkumar Bansal, the Managing Director is the Chairman of this committee.

The Asset Liability Management committee as on 31 st December 2018 comprised of following members:

1. Mr. Maheshkumar Bansal, Managing Director
2. Mr. Godwin C. Ngoma, General Manager
3. Mr. Harikrishna Bommareddy, Chief Manager (Finance)
4. Mr. Deepak Wahal, Chief Manager (Risk Management & Inspection)
5. Mr. C. C. Banda, Chief Manager (Corporate Services & Administration)
6. Mr. Ravi Shanker- Chief Manager (Credit)
7. Mr. C. Wakung'uma, Chief Manager (Human Resources)
8. Mr. J. Sinha, Chief Manager (IT)
9. Mr. S. Anand, Chief Manager (Lusaka Main)
10. Mr. J. Prasad, Chief Manager (Operations)

Credit risk management committee (CRMC)

The Committee reviews and recommends Credit Risk Management Policies, Procedures and Strategies for approval by the Board. The Committee also reviews the Bank's credit functioning as well as monitoring the overall credit portfolio for identification, assessment, monitoring and management of credit risks, monitors large NPA accounts, besides reviewing the existing credit products and consider/ approve new credit products from time to time. Mr. Maheshkumar Bansal, the Managing Director is the Chairman of this committee. The Credit Risk Management committee as on 31 st December 2018comprised of following members:

1. Mr. Maheshkumar Bansal, Managing Director
2. Mr. Godwin. C. Ngoma, General Manager
3. Mr. Deepak Wahal, Chief Manager (Risk Management & Inspection)
4. Mr. Ravi Shanker, Chief Manager (Credit)
5. Mr. Harikrishna Bommareddy, Chief Manager (Finance)
6. Mr. C. C. Banda, Chief Manager (Corporate Services & Admin.)
7. Mr. S. Anand, Chief Manager (Lusaka Main)
8. Mr J. Prasad, Chief Manager (Operations)

Operations risk management committee (ORMC)

The Committee reviews the systems and procedures of the bank to identify operational weaknesses and suggests measures to rectify the same. The committee also reviews the functioning of application software of the bank and suggests measures to ensure smooth and flawless performance of the application software. The Committee also deliberates on housekeeping issues and devises mechanisms to ensure that all operational issues related to housekeeping are in order. The committee also reviews various reports on cash shortages, ATM cash shortages, revenue leakages, frauds outstanding, etc. Mr. M heshkumar Bansal, the Managing Director is the Chairman of this committee.

As on 31 st December 2018, the Operational Risk Management committee comprised of the following members:

1. Mr. Maheshkumar Bansal, Managing Director
2. Mr. Godwin C Ngoma, General Manager
3. Mr. Deepak Wahal, Chief Manager, (Risk Mgmt Inspection)
4. Mr. Harikrishna Bommareddy, Chief Manager, (Finance)
5. Mr. C C Banda, Chief Manager, (Corporate Services & Admin.)
6. Mr. Christopher Wakung'uma, Chief Manager, (Human Resources)
7. Mr. Jyotinath Sinha, Chief Manager, (IT)
8. Mr. S. Anand, Chief Manager, (Lusaka Main)
9. Mr. J. Prasad, Chief Manager (Operations)

Audit Committee for Closure of Audit Reports

Management has constituted a Committee of senior management officials which meets at regular intervals to discuss audit reports along with replies/rectification done by the branches/H O departments. Based on the observations of the inspectors in the audit reports and replies from the branches/H O departments, the committee decides to either close the Audit Report or advises to get the irregularities rectified and then discusses the report for closure.

The following senior management officials are the members of the committee:

1. Managing Director
2. General Manager
3. Chief Manager – Risk Management & Inspection
4. Chief Manager – Credit
5. Chief Manager – Operations Bank's

Bank's Commitment on Corporate Governance

Indo Zambia Bank is fully committed to upholding the principles of Corporate Governance, as this is central to our Core Values to ensure safety and soundness of the bank while enhancing Shareholder value, protecting the best interest of depositors and other stakeholders. It is the objective of the Board and Management to scrupulously adhere to the fundamentals of Corporate Governance with a view to protect the interest of all stakeholders and to adopt the best possible practices on Corporate Governance. The Bank strives to ensure the adoption of integrity with a professional approach towards business policy and towards practising the methods of doing the business, leading towards development of business of clients as well as meeting their entrepreneurship requirements by benchmarking the level of customer service, built on foundation of Service, Trust and Partnership, thereby fulfilling the Bank's Brand promise of "SUPPORTING YOU, DEVELOPING ZAMBIA" in letter and spirit.

Global growth developments

In 2018, global growth is estimated to have slowed down to 3.7% from 3.8% in 2017. Underlying the slowdown in global growth in 2018 were faster than anticipated slowdown in advanced and emerging economies, slowdown in global trade and uncertainties surrounding the Brexit negotiations.

In 2019, global growth is projected to decline to 3.5% driven largely by reduction in global trade due to on-going trade disputes between the USA and China, continued Brexit uncertainties, declining investment and demand across advanced and emerging economies and rising geopolitical tensions in the Middle east.

The slowdown in global growth particularly driven by the on-going trade dispute between the USA and China will lead to a fall in commodity prices with Copper and Oil likely to be the most affected.

In 2018 and 2019, global growth projection has been revised upward to 3.9%

2018 Economic performance of Zambia

i) Real Sector Developments

In the domestic economy, real GDP growth is projected at 3.9 percent in 2018, indicators of economic activity suggest positive year on year growth in the fourth quarter, albeit at a reduced pace. Growth was on the back of increased mining output, electricity generation, consumer spending and tourist arrivals. Real GDP is projected to grow by about 4.0% in 2019. The mining, manufacturing, construction, and wholesale and real trade sectors are expected to continue to be the major sectors driving growth in the near-term, supported by relatively stable power supply. Down side risks to the growth outlook include delayed effective implementation of fiscal adjustment measures by Government, weak credit growth, and lower than anticipated copper prices.

ii) Inflation Developments

Annual overall inflation edged up to an average 8.0% in the fourth quarter of 2018 from 7.9% the previous quarter. Pass-through effects of the depreciation of the exchange rate of the kwacha against the US dollar, the increase in transport costs, following the 21.3% upward adjustment in fuel prices, and reduced supply of selected food items were the major contributing factors. In October 2018, inflation rose to 8.3% breaching the upper bound of the target range, but reverted into the target range much faster than earlier projected. Inflation closed the year at 7.9%.

iii) Foreign Exchange Market Development

The Kwacha depreciated by 15.3% against the US dollar to a quarterly average of K11.89 per US dollar from K10.31 per US dollar in the third quarter. The depreciation was mainly on account of a higher net demand for foreign exchange, mainly for oil procurement. In addition, the strengthening of the US dollar triggered by the hike of the Federal Funds Rate, and negative market sentiments arising from Zambia's credit rating downgrade, contributed to the weakening of the Kwacha.

iii) Balance of Payments Developments

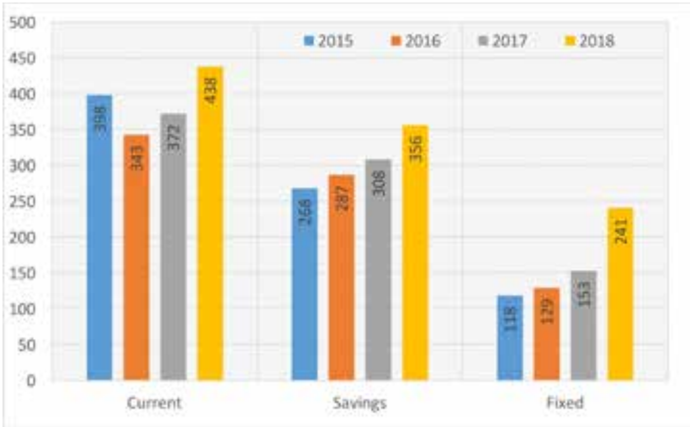
Preliminary data indicate that the current account recorded a deficit of US$328.1 million against a surplus of US$160.8 million in the third quarter of 2018 owing to unfavourable performance of the balances on primary income, services and goods sub accounts.

The deficit on the balance of goods account of US$98.7% million was due to reduction in export earnings against a growth in imports. Export earnings declined by 8.5% to US$2,094.6 million mainly due to lower copper and non-traditional export earnings (NTEs). Copper exports declined by 9.1% to US$1,480.5 million, driven by a reduction in export volumes.

The current account deficit was financed by a surplus on the financial account and a draw down in international reserves. Gross international reserves declined to US$1.57 billion (representing 1.8 months of import cover) from US$1.63 billion (1.9 months of import cover) recorded at end 4\September 2018. External debt service payments were the primary drivers of the drawdown in international reserves.

TOTAL BUSINESS:

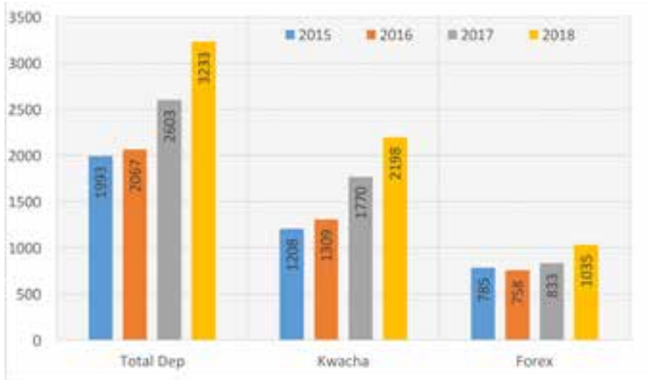
FOREX DEPOSITS



DEPOSITS

Bank's total deposits increased from K2,603 million as at 31st December, 2017 to K3,233 million as at 31st December, 2018 recording a growth of 24.20%. The Kwacha deposits as at 31st December, 2018 stood at K2,198 million and Forex deposits at K 1,035 million (approx $86.87 million).

TOTAL DEPOSITS



KWACHA DEPOSITS

ADVANCES

The Gross Advances of the Bank stood at K1,725 million as at 31st December, 2018 as against K1,293 million as at 31st December, 2017. The bank has made provision for Non-performing assets as per the requirement of the Bank of Zambia / IFRS and also made adequate provision on standard advances to ensure compliance under IFRS. The total provision made on advances as at 31st December, 2018 was K42 million as against K37 million as at 31st December, 2017.

Non-Performing Advances:

The total non-performing advances as at 31st December, 2018 was K114 million (in compliance with Bank of Zambia guidelines) as against K33.25 million as at 31st December, 2017. The bank has been consistently classifying its non-performing assets proactively to ensure compliance with Bank of Zambia guidelines and IFRS in full. As against the gross non-performing advances, the bank has made an overall As at 31st December 2017, the bank made an overall provision of K36.91 million which consist of K31.03 million towards specific impairment and K5.88 million towards collective impairment.

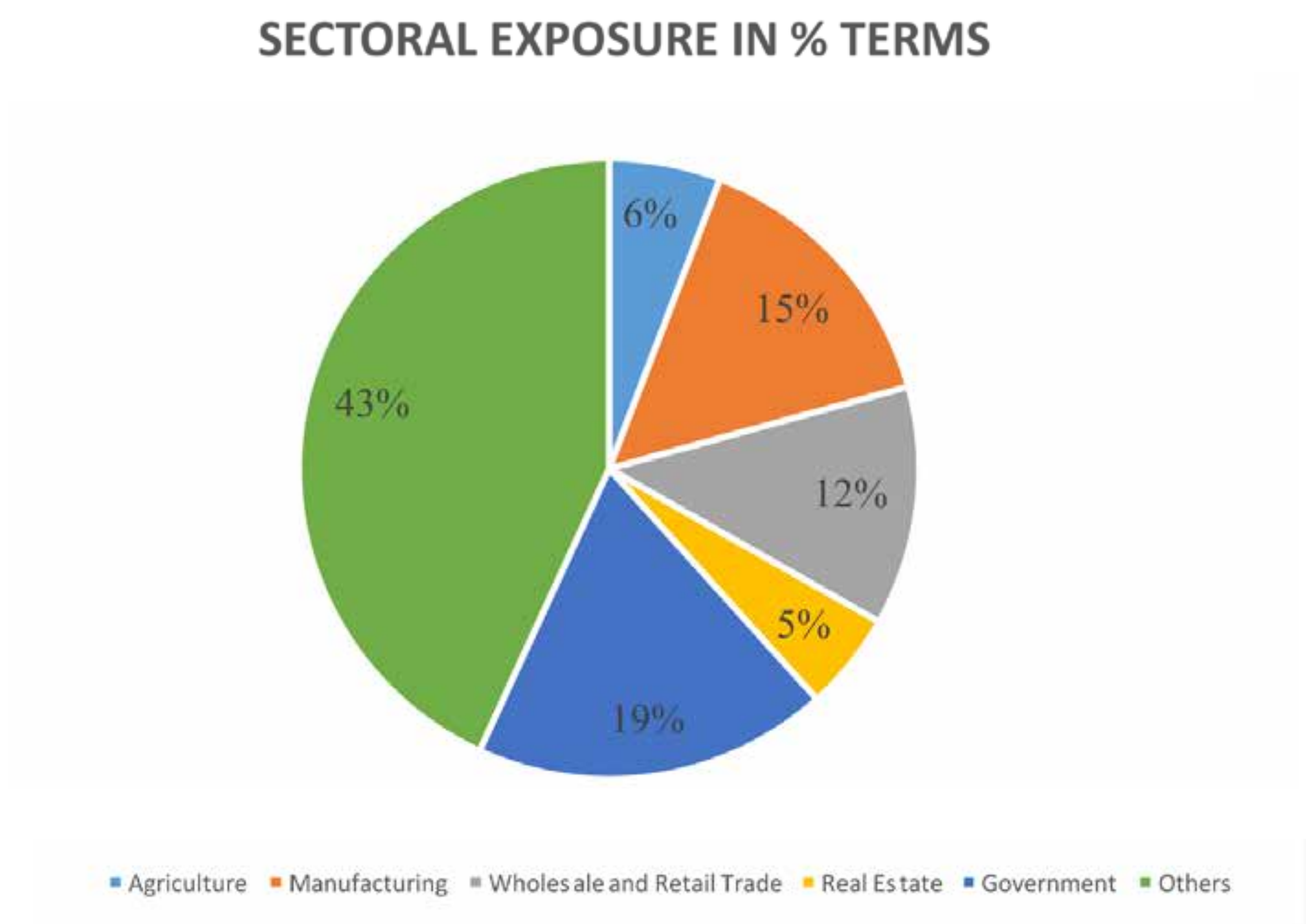
The Gross and net NPA as at 31st December, 2018 was 6.60% (2017-2.55%) and 2.38% (2017-0.00%) respectively. The provision coverage ratio as at 31st December, 2018 was 65.1%. The effect of implementation of IFRS-9 is well detailed in the audited financial statements.

INVESTMENTS

The banks investments are in Government Treasury Bills and Government Bonds. The Investment portfolio reached K1,699 million as at 31st December, 2018 from K1,345 million as at 31st December, 2017.

PROFITABILITY

The Bank achieved an Operating Profit of K251 million for the year ended 31st December, 2018 as against K182 million for the year ended 31st December, 2017, a growth of 37.91%. The net profit grew by 28.31% from K109 million for year ended 31st December, 2017 to K140 million for the year ended 31st December, 2018.

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AND DOUBLE YOUR
INTERESTS
SUPPORTING YOU. DEVELOPING ZAMBIA.

The Board of Directors (seated) with the Executive Management (standing) and Branch Heads during the presentation of the 2018 Top Performing Branches Awards Ceremony.

The Branch Managers who received awards from left to right are Mr. Ocean Samu – Chilenje Branch, Mr. Lloyd Chisapi – Solwezi Branch, Mr. Oscar Ndalama – Chawama Branch, Mrs Annette Haangala – Mandahill Branch, Mr. Kakungu Mwila – Mungwi Branch, Mr. Knox Banda – Chinsali Branch, Mr. Mwamba Mbolela – Kasama Branch, Mr. Humphrey Sililo – Chililabombwe Branch and Mr. Choolwe Hamweemba – Choma Branch.

Performance of the Bank

Position as on

	31-12-2016 (K Millions)	31-12-2017 (K Millions)	31-12-2018 (K Millions)
Business Mix	3,081	3,859	4,916
Deposits	2,068	2,603	3,233
Advances (Net)	1,013	1,256	1,683
Net Profit	84	109	140
Capital Adequacy Ratio	58.56	49.50	41.76

Business mix

The Bank's total business grew by 27.39% to reach K4,916 million as at 31st December, 2018 from K3,859 million as at 31st December, 2017 despite several constraints in the financial sector.

Risk management

The Board of Directors of the Bank has the authority and responsibility to implement the Risk Management Architecture of the Bank. Risk Management Committee of Executives and Risk Management Committee of the Board are looking after the implementation of Integrated Risk Management systems in the Bank. The overall Risk level of the Bank was low during 2018. The Bank has a full-fl edged Risk Management Department headed by a Chief Manager. The Bank has set up separate committees of top Executives of the Bank to supervise the respective risk management functions as under:
Asset Liability Management Committee (ALCO) is a decision making unit responsible for balance sheet planning from a risk-return perspective including the strategic management of interest rate and liquidity risks. The business issues that an ALCO would consider, inter alia, typically include product pricing for both deposits and advances, desired maturity profiles of the incremental assets and liabilities, etc. It also plans out strategies to meet asset-liability mismatches. Loans Review Committee (LRC) has the responsibility to formulate and implement various enterprise-wide credit risk strategies including lending policies and also to monitor the Bank's credit risk management functions on a regular basis. Risk Management Committee (RMC) has the responsibility of evaluating and taking necessary steps for mitigation of risks including operational risk by designing and maintaining an explicit operational risk management process. It also ensures that the norms, policies and guidelines laid down in Operational Risk Management Policy are strictly adhered to.

Basel II framework implementation

As per Bank of Zambia regulations, under BASEL II framework, in the banking industry in Zambia, the Bank is required to make submissions for the Internal Capital Adequacy Assessment Process (ICAAP) and Pillar 3 Disclosures documents to the Bank of Zambia on a yearly basis, for 2018 the Bank submitted the documents on the following dates:
The Internal Capital Adequacy Assessment Process (ICAAP) and Pillar III Disclosures Documents as at 31st December 2018 were successfully submitted on the 28 th June, 2019 and Bank of Zambia acknowledged the receipt of the documents on the 3 rd July, 2019.
Before submission of the internal capital adequacy assessment process (ICAAP) document to the Bank of Zambia it was placed before the Board of Directors for discussion, challenging and approval as part of Board's effort to enhance the Bank's risk management capabilities

Bank's digital business platform

The Bank's technology initiatives are clearly focussed on the customer. The Business Transformation Programme, encompassing technology, is being implemented by the Bank with a view to providing the customer, convenience banking on 24 X 7 basis through deployment of Core Banking Solution with integrated delivery channels like ATM/Visa Debit Cards, POS, Internet, Mobile, SMS, e-Statements etc. The Bank's ultimate objective is to reorient itself as a highly technology enabled Bank and Bank of first choice for its customers in order to emerge as a leader in the market place on every single parameter including technology.
The Bank has built and commissioned its own State-of-the-Art Data Centre (DC) for running its centralized banking solution and other applications for all branches. The Data Centre is functioning as a central data hub of the Bank. The Bank is also having full-fleshed Disaster Recovery site with real time data replication. The Bank is having following distinguished IT initiatives for our esteemed customers.

Upgrade of core banking solution & it infrastructure

- The Bank has upgraded Core Banking System, being a modern and robust system tailored to meet your needs and to accord you superior & efficient banking services with enhanced customer experience.
- Data Centre & Disaster Recovery Centre have been commissioned towards hosting of Bank's Core Banking & critical IT infrastructure including security, meeting High Availability & uptime as per 99.9% standards.

Internet banking

- The Bank has a fully-fledged transaction-enabled Internet Banking. Through this platform, customers have the facility to make payment of utility bills, and also inter/intra Bank fund transfer including international fund transfer. Corporate customers have the facility of direct salary uploads, etc.
- To protect our customers from phishing attempts Bank has a 2nd factor authentication (2FA) for online transactions along with beneficiary registration for third party fund transfer activities.
- Our esteemed customers are enabled to initiate International Transfer using our Internet Banking.

Mobile banking

- The Bank has a featured rich mobile Banking solution which can perform banking tasks such as fund transfer-domestic/international, DSTv / GoTv, ZESCO, airtime payment, online fixed deposits, etc from the palm of hand, from anywhere and at anytime!
- Bank's Mobile Banking provides access to banking services at 24x7 through Apps (Android, IOS, Blackberry, Windows, J2ME) or USSD i.e. with no internet required (*232#)

Point of sale

- A point-of- sale (POS) terminal is a computerised replacement for a cash register. The POS system can include the ability to record and track customer orders, process credit and debit cards, connect to other systems in a network, and manage inventory. The Bank has deployed over 900 Point of Sale (POS) terminals has on 31 st December 2018 out of about 400 were deployed to Agro-Dealers under Farmer Input Support Programme 2017/2018 farming season. We are acquiring Visa transactions on our POS terminal and NFS transactions once it is fully implemented. Our POS Terminal has two sim slots and have provide two internet network connections to the each terminal so that it can work 24X7without network disruption.

Verified by VISA authentication

- The Bank provides Visa Consumer Authentication Service (VCAS/VBV) to its clients as an additional VISA authentication measure for e-commerce transactions. VBV is a security feature that helps ensure that online payments are made by the rightful owner of the Visa card, to make online purchases more secure. VBV is a fraud prevention tool for online Visa transactions that sends One Time Password (OPT) to the registered email address and mobile number of the cardholder. Customers should have valid email and mobile number in our system for them to receive OTP The Bank has gone LIVE for NAPSA payments towards online Pension Contribution by employers (Bank's customers) as on 10th August'2017.

ZRA tax - online

- Zambia Revenue Authority (ZRA) Tax online facility has been operationalised for online tax/duties assessment and payments.
- With Indo Zambia Bank e-Payment System (epay.izb.co.zm) our customers are able to: View ZRA Tax Obligations, Pay for Taxes Online, View Tax historical payments, Print Tax Obligations & Payment Receipts.

Teller POS project

- With the use of the Bank's Teller POS, customers can get their PIN's for debit card instantly. There is no waiting time for ATM PIN. This functionality is available in case of both, New PIN and Old PIN.

Visa debit cards

- Bank's Debit Card holders can use their card at all VISA ATMs around the world. Bank's Debit Cards are also accepted at Points of Sale (POS) terminals world- wide.
- Enhanced security on Visa Debit chip and Customers had facilitated with enhanced benefits of VISA network.
- Verified by Visa for better security feature over e-commerce transaction, is being put in place.

ATM network

- Our total ATMs network was 57 as on 31st December 2018.
- The Bank's has been extending it's ATM network on an ongoing basis for customer convenience.
- The Bank is also a member of National Financial Switch (NFS). This shall ultimately enable our customers to use ATMs of other banks who are members of NFS.
- Our ATM's accept any Visa enabled card.

Bank's Inspection & Audit Department has played an important role in protecting the standards of control and compliance for your Bank without hurting its business growth. The Bank's Inspection & Audit department located at its Head Office conducts its audit of the internal control system through Risk Based Internal Audit of all the branches. The Regular Branch Inspection Reports is a comprehensive feed-back and monitoring tool for the Management on the degree of compliance of the Bank's systems and procedures and guidelines at the operational level and hence, the most important tool for exercising control. An Audit Committee of the management screens each report with the respective manager, before submitting the same to the Audit committee of the Board. The compliance is further monitored through submission of Rectification Certificate by the branches.

All the branches are covered under the Bank's Risk Based Internal Audit (RBIA). This helps the Management in identifying areas of high risk requiring attention on priority basis. The position of the risk categorisation of the branches is reviewed by Audit Committee of the Board on quarterly basis. The audit calendar for 2017 was completed as per schedule within given time frame.

SMS Banking, SMS Alerts, E-Statements:

- Our SMS Alerts include various customer awareness along with instant alerts on transactions.
- With frequency based sending of e-statements to registered customer's mail-ids, customers get the statements on-demand through our mobile banking/e-banking channels as well.
- Our SMS Banking has featured such as : Balance Enquiry, Mini Statement, Cheque Status, online Debit Card Blocking facility.

Real Time Gross Settlement System (RTGS) & Electronic Fund Transfer (EFT)/DDACC:

- Bank has straight through processing for RTGS transfer and hence effectively reducing the turn around time with efficient operational controls
- All our branches are RTGS and EFT enabled. RTGS and EFT have been implemented with Straight through Process (STP).
- Also customers are being provided the facility of RTGS/EFT transfers online using Internet banking and mobile banking.

SMS banking, SMS alerts, e - statements:

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- All our branches are RTGS and EFT enabled. RTGS and EFT have been implemented with Straight through Process (STP).
- Also customers are being provided the facility of RTGS/EFT transfers online using Internet banking and mobile banking.

SWIFT

- SWIFT facility for worldwide inter-bank financial communication is also being provided through Straight through Process (STP) implementation.

Uses of National Financial Switch:

- The Bank is a member of the National Financial Switch (NFS) project initiated by Bank of Zambia to facilitate our customers to use other member banks' ATMs.
- The Bank has successfully rolled out the NFS project on 15th November 2018.

Information Security:

- Bank has put in place robust Information Security Management System to ensure confidentiality, integrity, and availability of its IT resources.
- Bank has an upgraded IT Security infrastructure with our CBS upgrade to address the evolving threat landscape and Bank's endeavour to provide safe technology enabled services to its customers.

Online Customer Complain

Bank has put in place online customer module where customer may register complain and provide feedback on services offered by Bank.

Further, the Bank is striving towards continuous improvement in customer experience by offering digital enabled product and for the convince of our Customer in a secure manner.

Human resources

The total staff strength as at December 2018 was:

Gender	Male	Female	Grand Total
Management Staff	78	35	113
Unionized staff	88	93	181
Sub-Total	166	128	294

Staff professional development

In accordance with the Bank's Policy on supporting and enhancing professional development, below is a summary of fifteen (15) qualifications that twenty (20) members of staff have attained in 2017 with the support of the Bank as per provisions contained in the prevailing Conditions of Service

Our bright looking staff members at the Labour Day match past event.


IZB Football team during the ZUFIAW annual sports festival where the team was awarded second position and a runners up trophy.

Qualifications	Number of staff who attained this qualification in 2018
Masters Degree : Business Administration / Human Resources	3
Advanced Professional Diploma In Banking And Finance	2
Professional Diploma In Bankinf And Finance	3
Total	8

	PROMOTION PROCESS	NUMBER PROMOTED
1	Promotion from MS8 to MS7	1
2	Promotion from MS9 to MS8	4
3	Promotion from MS10 to MS9	3
4	Promotion from MS11 to MS10	8
5	Promotion from Supervisor to MS11	1
6	Promotion from Clerk to MS11	14
	TOTAL	31

Bank's Inspection & Audit Department has played an important role in protecting the standards of control and compliance for your Bank without hurting its business growth. The Bank's Inspection & Audit department located at its Head Office conducts its audit of the internal control system through Risk Based Internal Audit of all the branches.

The Regular Branch Inspection Reports is a comprehensive feed-back and monitoring tool for the Management on the degree of compliance of the Bank's systems and procedures and guidelines at the operational level and hence, the most important tool for exercising control. An Audit Committee of the management screens each report with the respective manager, before submitting the same to the Audit committee of the Board. The compliance is further monitored through submission of Rectification Certificate by the branches.

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Compliance

The Bank adheres to a robust compliance function policy. The scope of compliance covers all statutory, regulatory and internal guidelines of the Bank. KYC and AML norms are observed and checked by inspections and the staff is kept updated with the norms and regulations in this regard.

Marketing and customer relationship management

Marketing and Customer Relationship Management is one of the thrust areas of the Bank for acquisition of new customers, servicing the existing customers and creation of customer centric products/processes to enhance value. In 2018, the bank deployed a product and marketing development strategy yielding significant outcomes. Further, the Bank intensified its marketing of IT enabled products like ATMs, Visa cards, Point of Sales Terminals, Mobile banking, SMS alerts, e-statements, E-Banking services and Digital Channels such as internet banking and ZRA Tax online and NAPSA Online payments facilities. On the Credit products, we have intensified promotions of products such as the IZB Auto Finance, IZB Business Finance products. The ATM network of the bank has grown to 57 and they have been attractively cladded with Bank's brand colours and they are located at all branches and other off-site centres like shopping malls/ university campus/ hospitals etc. The bank also ran several multi-media corporate campaigns using the channels of print and electronic media, radio, stalls at malls and participation at various business events, etc.

Indo Zambia Bank ATM at Woodlands Pinacle Shopping Mall, Lusaka

Promoting our various products and services at the 92nd Agricultural Commercial Show in Lusaka at the bank's stand 2018.


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OPEN A PRIVILEGE SAVINGS ACCOUNT
&EARN DOUBLE INTEREST.
SUPPORTING YOU. DEVELOPING ZAMBIA.

The District Commissioner for Kitwe Mr Binwell Mpundu interacting with our staff Mr David Fundanga, during the financial literacy week in held Kitwe.

Fostering Financial Inclusion

Promoting Financial Literacy The Bank has been actively involved in activities aimed at promoting financial literacy recognising that is fosters financial inclusion in Zambia.

The bank is fully committed to supporting the Government's and the Bank of Zambia strategies of having a financially educated Zambian population with knowledge and skills to help them secure positive financial outcomes. Consistent with our Brand Promise of "SUPPORTING YOU, DEVELOPING ZAMBIA" the Bank has been playing its due role in this regard by upholding the value of approachability in its workings and by creating a product array, which inculcates a culture of savings across the demographics of the country's population, therefore, accelerating the achievements of Government's and Bank of Zambia's aspirations on financial inclusion.

Branch Manager Mrs Peggy Mubanga Hamukoma with her staff during the financial literacy week held in Kafue district.

Awards and accolades

1. Senior Golfers Association of Zambia support appreciation trophy 2018

2. 3rd place 400m track and field Zambia Union of Financial Institutions and Allied Workers (ZUFIAW) Sports Festival 2018

3. 3rd Position -Commercial Banks/ Inter-company Relay

4. 2nd Position Netball/ Bank of Zambia Annual Bankers Tournament 2018


iDC Industrial Development Corporation
Certificate of Recognition
this award is presented to
Indo - Zambia Bank
for
Enterprise With Highest Dividend Pay - Out Ratio
Winner
27th October 2018
MATEYO C. KALUBA
Group Chief Executive Officer
DAVID KOMBE
Chairperson - Finance & Administration Committee


iDC Industrial Development Corporation
Certificate of Recognition
Indo - Zambia Bank
for
Best Governance Compliant Enterprise
First Runner Up


iDC Industrial Development Corporation
Certificate of Recognition
Indo - Zambia Bank
for
Overall Best Performing Enterprise
Second Runner Up


iDC Industrial Development Corporation
Certificate of Recognition
Indo - Zambia Bank
for
Enterprise With Highest Dividend Declared in 2018
Second Runner Up


iDC Industrial Development Corporation
Certificate of Recognition
Indo - Zambia Bank
for
Most Improved Enterprise
Second Runner Up

Corporate social responsibility

The Provincial Minister for Southern Province Hon. Dr. Edify Hamukale receiving a donation on behalf of Chipepo Secondary School of Gwembe District from Indo Zambia Bank Choma Branch.

The Provincial Minister for Southern Province Hon. Dr. Edify Hamukale receiving a donation on behalf of Chipepo Secondary School of Gwembe District from Indo Zambia Bank Choma Branch.


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CONVENIENTLY,
ANYWHERE ONLINE.
SUPPORTING YOU. DEVELOPING ZAMBIA.

Indo Zambia Bank Limited

Financial statements
for the year ended 31 December 2018

Indo Zambia Bank Limited

Directors' report

for the year ended 31 December 2018

The Directors of Indo Zambia Bank Limited (the "Bank") are pleased to submit their report and the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of the Bank.

General information

Indo Zambia Bank Limited is incorporated under the Companies Act of Zambia, as a limited liability company and is domiciled in the Republic of Zambia. The Bank is also licensed under the Banking and Financial Services Act of Zambia, to conduct commercial banking services. The Bank commenced operations on 19 October, 1984.

The Bank's business activities are the provision of retail and corporate banking services.

Shareholding

Indo Zambia Bank Limited's shareholding consists of the Government of Zambia through the Industrial Development Corporation holding 40% and Bank of India, Bank of Baroda and Central Bank of India holding 20% each. The total number of authorised ordinary shares is 420,000,000 with a par value of K1 per share.

Details of the Bank's authorised and issued share capital are included in note 25 of the financial statements.

Operating results

	2018	2017
Net interest income	**418,927,862**	343,328,196
Profit before income tax	**226,497,044**	170,427,418
Income tax expense	**(86,736,416)**	(61,509,324)
Profit for the year	**139,760,628**	108,918,094

Dividends

During the year, K 55,548,227 was paid as dividends to the shareholders for the year ended 31 December 2018 (2017: K33,353,413). After the reporting date, a dividend of K60,000,000 was proposed (2017: K55,548,227). This dividend is subject to approval by the shareholders at the Annual General Meeting.

Reserves

	2018	2017
Statutory reserve	**15,000,000**	15,000,000
Fidelity reserve	**126,369**	126,369
Revaluation reserves	**19,109,220**	19,538,840
Credit risk reserve	**31,513,275**	-
Retained earnings	**391,354,718**	325,515,356
	457,103,582	360,180,565

Directors' report *(continued)*
for the year ended 31 December 2018

Developments during the year

At 31 December 2018, the Bank had a total of 30 branches and 3 retail agencies.

Directors

The Directors who held office during the year were:

Mrs O Y Moyo	Chairperson
Mr S Mukupa	Director
Mr R Rishi	Director – Retired 31 August 2018
Mr M K Mehta	Director – Retired 30 September 2018
Mr A B Nair	Director – Appointed on 18 November 2018
Mr R C Thakur	Director – Appointed on 09 November 2018
Mr M M Bansal	Managing Director

Board secretary

Mr G C Ngoma.

Directors' interests and emoluments

Except for the Managing Director, no other Director has a service contract with the Bank. No Director had an interest in any significant contract entered into by the Bank during the year (2017: Nil).

Directors' emoluments paid during the year ended 31 December 2018 were K 4.72 million (2017: K2.55 million) as disclosed in notes 14 and 29(e) of the financial statements.

Directors' fees paid during the year ended 31 December 2018 were K 5.50 million (2017: K4.11 million) as disclosed in notes 13 and 29(e) of the financial statements.

Property and equipment

During the year, the Bank purchased property and equipment amounting to K 6.13 million (2017: K8.80 million) which included K 0.11 million (2017: K0.22 million) on leasehold improvements as disclosed in note 21 of the financial statements.

Research and developments

During the year, the Bank did not conduct any research and development activities (2017: Nil).

Related party transactions

As required by the Banking and Financial Services Act, related party transactions are disclosed in note 29 of the financial statements.

Employees

The average number of employees for each month during the period amounted to 297 (2017: 302).

The total remuneration to employees during the year amounted to K190.20 million (2017: K170.49 million) as disclosed in note 14 of the financial statements and the total number of employees was as follows:

January	300	July	297
February	299	August	298
March	299	September	297
April	298	October	297
May	298	November	296
June	296	December	294

Health and safety of employees

The Directors are aware of their responsibilities regarding the safety and health of employees and have put appropriate measures in place to safeguard the safety and health of the Bank's employees.

Gifts and donations

The Bank made donations during the year amounting to K0.39 million (2017: K0.39 million) in order to support various charitable organization's and events.

Other material facts, circumstances and events

The Directors are not aware of any material fact, circumstance or event which occurred between the reporting date and the date of this report which might influence an assessment of the Bank's financial position or the results of its operations.

Prohibited borrowings or lending

There were no prohibited borrowings or lending as defined under Sections 81 and 82 of the Banking and Financial Services Act No.7 of 2017.

Corporate governance

The Bank has put in place measures and processes to ensure that it is in compliance with the Corporate Governance Directives as issued by the Bank of Zambia, which were effective 1 November 2017.

Board of Directors

The Board of Directors has been appointed by and is responsible to the shareholders for the performance and direction of Indo Zambia Bank Limited through the establishment of strategic objectives and key policies as well as approving major business decisions in accordance with its mandate.

Duties and functions specified in the Companies Act No.10 of 2017, and the Banking and Financial Services Act No.7 of 2017:

- Formulation of policies for the Bank;
- Ensuring corporate governance and business performance of the bank
- Directing the affairs and business operations of the bank
- Ensuring that the business of the bank is carried on in compliance with all applicable laws and regulations and is conducive to safe and sound practices;
- Constituting committees of the Board as prescribed;
- Reporting to the shareholders, at an annual general meeting, on the internal controls and systems and information management systems of the bank;
- Reporting to the Bank of Zambia on any material changes in the activities, structure and condition of the Bank; and
- Reporting to the Bank of Zambia on matters that may affect the suitability of shareholders, directors and senior managers.

Other responsibilities and duties:

The Board has overall responsibility over the bank, including approving and overseeing the implementation of its strategic objectives, risk strategy, governance framework and corporate values and culture. The Board is also responsible for providing oversight to senior management. In executing its mandate, the Board;

- Approve the overall business strategy of the bank, taking into account the Banks long term financial interests and its ability to manage risk effectively.
- Establishes and oversees the implementation and embedment of the Bank's:
  - Overall business objectives and strategy;
  - Corporate culture and values;
  - Risk culture;
  - Risk management function and an appropriate risk governance framework. The Board has developed, along with senior management and the Chief Risk Officer, the Bank's risk appetite, taking into consideration the competitive and regulatory landscape, long-term interests, exposure to risk and the ability to manage risk effectively; and
  - Corporate governance framework, principles and corporate values, including a code of conduct or comparable document and compensation system.
- Approves and oversees the implementation of the Bank's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations and the internal control system.

Other responsibilities and duties *(continued)*

- Ensures that shareholders have the opportunity to participate effectively and vote at general meetings. Additionally, the Board ensures that shareholders are informed of the rules, including voting procedures that govern general meetings.
- Is accountable to shareholders and responsible for the efficient and effective governance of the bank.
- Facilitates questioning of external auditors on their opinion at annual general meetings or extraordinary meetings when deemed necessary by the shareholders.
- Has established an effective process for the selection and appointment of key senior management officers that are qualified, professional and competent to administer the affairs of the bank, approves the succession planning policy and monitor senior management performance on an on-going basis.
- Has ensured that the bank operates prudently and complies with relevant laws, supervisory directives, codes of business practice and its own policies and directives.
- Has ensured that management has established an effective compliance function that monitors adherence to laws, regulations and policies to which the institution is subject and ensured that any deviations are reported and corrected.
- Has ensured that senior management implements policy to identify, prevent or manage and disclose, as appropriate, any conflicts of interest that may arise.
- Has established a disclosure policy that enhances transparency.
- Oversees the design and operation of the bank's compensation system, and monitor and review the system to ensure that it is aligned with the bank's desired risk appetite and risk culture.
- Has ensured that transactions with related parties (including internal group transactions) are reviewed to assess risk and are subject to appropriate restrictions (e.g. by requiring that such transactions are conducted at arm's length terms).

Board Committees

The Board has established the following committees:

i. Audit Committee;
ii. Risk Management Committee;
iii. Loans Review Committee; and
iv. Nominations and Remunerations Committee.

The committee-wise responsibilities are as follows:

Board Audit Committee

- Provide oversight over the bank's financial reporting process;
- Provide oversight of the institutions internal and external auditors, approving their appointment, compensation and dismissal;
- Review and approve audit scope and frequency;
- Receive audit reports and ensuring that senior management is taking appropriate corrective actions in a timely manner to address control weaknesses, non-compliance with laws and regulations and other problems identified by auditors;
- Satisfy itself that accounting principles, policies and practices are adequate to ensure resources are safeguard; laws are followed; reliable data is disclosed; and internal control systems are adequate;
- The appointment or dismissal of external auditors is only be made by a decision of the independent, non-executive audit committee members;
- Ensure that the internal audit adopts a risk-based approach in the development of its audit programmes and the annual work plan; and
- Approve the internal audit annual work plan, which shall include for each assignment, the scope, objectives, timing and resources needed to carry out the assignment.

Board Risk Management Committee

- Provide oversight on senior management in the management of credit risk, market risk, liquidity risk, operational risk, legal risk, compliance risk reputational risk, strategic risk and other risk that the institution is exposed to.
- Advising the Board on the institutions overall current and future risk tolerance/appetite and strategy and for overseeing senior management's implementation of that strategy. This include strategies for capital and liquidity management as well as credit, market, operational, compliance, reputational and other risks of the bank.
- In order to enhance effectiveness of the committee, it receives formal and informal communication from the risk management function and the Chief Risk Officer and where appropriate receives external expert advice, particularly in relation to proposed strategic transactions such as mergers and acquisitions.
- Ensuring the bank's risk governance framework includes policies, supported by appropriate control procedures and processes, designed to ensure that its risk identification, aggregation, mitigation and monitoring capabilities are commensurate with its size, complexity and risk profile.
- Ensuring the risk identification processes encompass all material risks that the bank is exposed to, both on- and off-balance sheet.
- Ensuring the risk identification and measurement include both quantitative and qualitative elements including bank-wide views of risk relative to the bank external operating environment.
- Ensuring the bank's internal controls are designed to assure that each key risk has a policy, process or other measure and that these are being applied and working as intended.
- Ensuring the bank has accurate internal and external data to identify and assess risk, make strategic business decisions and determine capital and liquidity adequacy.
- Ensuring the internal controls place reasonable checks on managerial and employee discretion in order to avoid actions beyond the authority of the individual.

Loans Review Committee

- Review and approve lending strategies and policies including appropriate loan limits;
- Approve asset quality standards with respect to all lending areas and monitor concentration of credit by product, industry and geographic areas;
- Approve appropriate general underwriting guidelines with respect to all lending areas and ensure institutional adherence to such guidelines;
- Review institution's lending activities and ensure compliance with approved internal policies and all applicable laws;
- Review and if appropriate, approve all loans recommended by the management credit committee and where appropriate approve exceptions to defined policies;
- Review compliance exceptions matters arising from supervisory, internal audit and external audit findings that pertain to the bank's credit portfolio and monitors how they are being addressed;
- Review the bank's credit quality including but not limited to trends in loan quality, classification of loans, charge-offs and delinquencies.

Nominations and Remuneration Committee

- Identify and assist with the recruitment of competent and qualified candidates for Board membership, Chairpersons of the Board, and of the Boards committees and of committee members and members of senior management;
- Establish a formal selection criteria for prospective Directors and participate in the evaluation of Board and senior management effectiveness;
- Assess the effectiveness of the Board and direct the process of renewing and replacing Board members;
- Recommend to the Board to accept or decline any tendered resignation of a Director;
- Ensure a review at least annually of incumbent Directors' performance and attendance at Board and committee meetings;
- Ensure that the Board members receive thorough orientation on Board governance and key strategic issues facing the institution;
- Review and reassess the adequacy of the institution's corporate governance principles and practices for the Board of Directors at least annually and recommend proposed changes to the board;
- Provide oversight of remuneration and compensation of Directors, senior management and other key personnel;
- Provide oversight of the remuneration system's design and operation and ensure that it is consistent with the institution's culture, long-term objectives, business and risk strategy, performance and control environment; and
- Make recommendations to the Board regarding the use of incentive compensation plans and equity bases remuneration plans.

Board of Directors evaluation

Whereas the Board has put in place a framework for conducting a self-evaluation, the Directors are yet to conduct the evaluation. This exercise has been scheduled to take place during the first quarter of 2019.

Risk management and control

In its normal operations, the Bank is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. These are described and explained in greater detail in notes 6 and 30.

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

The Board is satisfied with adequacy of accounting records and effectiveness of the system of governance and risk management.

Code of ethics

The Bank has developed the code of ethics that stipulate the specific guidelines, ethical values or standards guiding the Bank in the interaction with its internal and external stakeholders. The Bank is in compliance with Code of ethics and there are no instances of unethical behaviour during the period under review.

Indo Zambia Bank Limited

Directors' report *(continued)*
for the year ended 31 December 2018

Corporate governance *(continued)*

Stakeholder's interest

The Bank has served the interests of the shareholders by ensuring the following:

- Compliance with all the regulatory requirements of Bank of Zambia, Zambia Revenue Authority, Companies Act and other requirements.
- Performance beyond budget projections.
- Good corporate governance.
- Timely reporting to the shareholders on quarterly financials and other returns.
- Reporting to the Board on instances of fraud and action taken.

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

The financial statements set out on pages 14 to 108 have been approved by the Board of Directors.

Auditors

In accordance with the provision of the Articles of Association of the Bank, the auditors Messrs KPMG Chartered Accountants ("KPMG") will retire at the forthcoming Annual General Meeting. A resolution for appointing external auditors for the forthcoming year and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By order of the Board.

O Y Moyo
Chairperson

Indo Zambia Bank Limited

Statement of Directors' responsibilities in respect of the preparation of financial statements

The Bank's directors are responsible for the preparation and fair presentation of the financial statements of Indo Zambia Bank Limited ("the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act and the Banking and Financial Services Act of Zambia. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as they determine necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Bank to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework as described above.

Approval of the financial statements

The financial statements of Indo Zambia Bank Limited, as identified in the first paragraph, were approved by the board of directors on 21 March 2019 and are signed on its behalf by:

O Y Moyo
Chairperson

S Mukupa
Director

A B Nair
Director

R C Thakur
Director

M M Bansal
Managing Director

KPMG

KPMG CHARTERED ACCOUNTANTS
6th floor Sunshare Towers,
Cnr Lubasenshi / Katima Mulilo Roads,
Olympia Park,
P O Box 31282
Lusaka, Zambia

Telephone +260 211 372 900
Website www.kpmg.com

Independent auditor's report

To the shareholders of Indo Zambia Bank Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Indo Zambia Bank Limited ("the Bank") set out on pages 14 to 108, which comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, the and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Indo Zambia Bank Limited as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, and the Banking and Financial Services Act of Zambia.

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)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

The key audit matters set out below relate to our audit of the financial statements.

KPMG

Impairment of loans and advances to customers including IFRS 9 transition	
See note 4 use of judgements and estimates, note 6(a) credit risk, note 16b. classification of financial assets and financial liabilities on the date of initial application of IFRS 9, note 19 loans and advances to customers, note 30 (b) credit risk section of the financial risk management, note 32(g(vii)) loans and advances and note 32(g) (vii) financial assets and financial liabilities, impairment accounting policies.	
Key audit matter	*How the matter was addressed*
Loans and advances amounting to ZMW1, 682,698,226 as at 31 December 2018. During the year, the Bank adopted IFRS 9: *Financial Instruments* (IFRS 9). Management exercises significant judgement, using subjective assumptions and complex models, when determining both the timing and the amounts of the expected credit loss for loans and advances ("ECL") in line with IFRS 9. Key areas of judgement and estimation include: - Interpretation of the requirements to determine impairment in terms of IFRS 9 which is reflected in the Bank's ECL. - The identification of exposures with significant deterioration in credit quality. - Assumptions used in the ECL model such as the expected future cashflows and forward looking macroeconomics factors (e.g. foreign exchange rates, inflation and gross domestic product (GDP)). - The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") In addition, the Bank is required under IAS 8 to disclose the impact of IFRS 9 adoption for accounting periods beginning on or after 1 January 2018. This is a new and complex accounting standard, which has required considerable judgement and interpretation in its implementation and in the development of new models to calculate the IFRS 9 impairment allowances. Due to the significant judgement required in a number of significant areas, in particular around the calculation of the ECL and the development of new models the impairment of loans and advances to customers including the IFRS 9 transition has been considered to be a key audit matter.	Our audit procedures included the following: ▪ We tested the design, implementation and operating effectiveness of relevant controls over: - management approval of origination of loans and advances; - approval of loan risk ratings and credit rate monitoring assessments performed by management; and - monitoring of facilities issued (i.e. early identification of impaired accounts and approval of manual impairments/write-offs); ▪ With the support of our internal valuation specialists we assessed the modelling techniques for appropriateness and assessed whether the assumptions in respect of probability of default (PD), loss given default (LGD) and exposure at default (EAD) met the requirements of IFRS 9. ▪ We tested the data inputs such as macro-economic factors used in the ECL models and compared them to an independent statistical analyses for reasonableness. ▪ We examined a sample of exposures and checked whether the staging of loans into stage 1, 2, 3 was allocated to the appropriate stage. ▪ We examined a sample of exposures and performed procedures to evaluate whether the expected credit loss calculation for exposures assessed on an individual basis was reasonable. ▪ We examined a sample of exposures for data reliability by checking whether all exposures were included in the ECL model. With the support of our internal valuation specialist we evaluated the assumptions, inputs and formulas used in a sample of ECL models. ▪ We assessed the accuracy and adequacy of the disclosures in the financial statements in accordance with the requirements of IFRS 9: *Financial Instruments.*

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of Zambia and the Statement of Directors' responsibilities in respect of preparation of financial statements. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment 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.

KPMG

- 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.

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 consequence of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Companies Act of Zambia

In accordance with section 259 (3) of the Companies Act of Zambia (the Act), we report that in our opinion:

- there is no relationship, interest or debt we have with the Bank; and
- there were no serious breaches of corporate governance principles or practices by the Directors. In the absence of the Act specifying the criteria for purposes of reporting on serious breaches of corporate governance principles or practices by the Directors, as required by section 259 (3)(b) of the Act, we express our opinion based on the corporate governance provisions of the Act, Part IIV – Corporate Governance of the Companies Act of Zambia No. 10 of 2017.

Banking and Financial Services Act of Zambia

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

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

a.) transactions that are not within the powers of the Bank or which is contrary to this Act; or
b.) a non-performing loan that is outstanding, has been restructured or the terms of the repayment have been extended, whose principal amount exceeds five percent or more of the regulatory capital of the Bank

KPMG

KPMG Chartered Accountants — **21 March 2019**

Jason Kazilimani, Jr — **AUD/F000336**
Partner

Indo Zambia Bank Limited

Statement of financial position
as at 31 December 2018

In Zambian Kwacha

	Notes	2018	2017
Assets			
Cash balances at Bank of Zambia	17	264,727,058	256,703,252
Cash and cash equivalents	17	542,144,997	525,716,248
Investment securities	18	1,698,923,493	1,344,702,485
Loans and advances to customers	19	1,682,698,226	1,255,716,151
Other assets	20	126,688,293	92,613,888
Property and equipment	21	121,462,455	133,537,616
Deferred tax asset	15d	4,509,610	3,051,180
Total assets		4,441,154,132	3,612,040,820
Liabilities			
Deposits from customers	22	3,233,189,031	2,603,013,122
Other liabilities	23	296,152,645	213,515,541
Provisions	24	48,915	-
Current tax liabilities	15c	38,659,959	19,331,592
Total liabilities		3,568,050,550	2,835,860,255
Equity			
Share capital	25	416,000,000	416,000,000
Statutory reserve		15,000,000	15,000,000
Fidelity reserve		126,369	126,369
Credit risk reserve		31,513,275	-
Revaluation reserve		19,109,220	19,538,840
Retained earnings		391,354,718	325,515,356
Total equity attributable to the equity holders of the bank		873,103,582	776,180,565
Total liabilities and equity		4,441,154,132	3,612,040,820

These financial statements were approved by the board of directors on 21 March, 2019 and were signed on its behalf by:

O Y Moyo
Chairperson

S Mukupa
Director

A B Nair
Director

R C Thakur
Director

M M Bansal
Managing Director

G C Ngoma
General Manager/ Board Secretary

B Harikrishna
Chief Financial Officer

The notes on pages 19 to 108 are an integral part of these financial statements.

Indo Zambia Bank Limited

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018

In Zambian Kwacha

		2018	2017
Interest income calculated using the effected interest method	*8*	**552,984,543**	470,652,350
Interest expense	*9*	**(134,056,681)**	(127,324,154)
Net interest income		**418,927,862**	343,328,196
Fee and commission income	*10*	**87,870,823**	78,347,893
Net trading income	*11*	**40,842,694**	32,032,717
		128,713,517	110,380,610
Revenue		**547,641,379**	453,708,806
Other income	*12*	**13,374,751**	8,644,508
Impairment loss on financial instruments	*6a(iii)*	**(24,755,536)**	(11,687,524)
Operating expenses	*14*	**(239,010,041)**	(209,288,498)
Administrative expenses	*13*	**(70,753,509)**	(70,949,874)
Profit before income tax		**226,497,044**	170,427,418
Income tax expense	*15a*	**(86,736,416)**	(61,509,324)
Profit for the year		**139,760,628**	108,918,094
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Amortisation of revaluation surplus		**660,954**	660,954
Deferred tax on amortisation of revaluation	*15d*	**(231,334)**	(231,334)
Other comprehensive income net of tax		**429,620**	429,620
Total comprehensive income for the year		**140,190,248**	109,347,714

The notes on pages 19 to 108 are an integral part of these financial statements.

Indo Zambia Bank Limited

Statement of changes in equity

for the year ended 31 December 2018

In Zambian Kwacha

	Share capital	Statutory reserve	Fidelity reserve	Revaluation reserve
Balance at 1 January 2017	416,000,000	15,000,000	126,369	19,968,460
Total comprehensive income				
Profit for the year	-	-	-	-
Other comprehensive income				
Amortisation of revaluation surplus	-	-	-	(660,954)
Deferred tax on amortisation of revaluation surplus	-	-	-	231,334
Total comprehensive income for the year, net of tax	-	-	-	(429,620)
Transactions with owners recorded directly in equity				
Dividend paid	-	-	-	-
Balance at 31 December 2017	416,000,000	15,000,000	126,369	19,538,840
Balance at 1 January 2018 as originally stated	**416,000,000**	**15,000,000**	**126,369**	**19,538,840**
Adjustment on initial application of IFRS-9, net of tax (See note 16b)	-	-	-	-
Restated balance 1 January 2018	**416,000,000**	**15,000,000**	**126,369**	**19,538,840**
Total comprehensive income for the year				
Profit for the year	-	-	-	-
Other comprehensive income				
Amortisation of revaluation surplus	-	-	-	**(660,954)**
Deferred tax on amortisation of revaluation surplus				**231,334**
Transfer to credit risk reserve	-	-	-	-
Total comprehensive income for the year, net of tax	-	-	-	**(429,620)**
Transactions with owners, recorded directly in equity				
Dividend paid	-	-	-	-
Balance at 31 December 2018	**416,000,000**	**15,000,000**	**126,369**	**19,109,220**

Indo Zambia Bank Limited

Statement of changes in equity *(continued)*

for the year ended 31 December 2018

Statutory reserve

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

Fidelity reserve

The fidelity reserve arises from compliance with section 82 of the Banking and Financial Services Act, which requires the Bank to maintain a special reserve account for the purpose of making good any loss resulting from potential negligence and dishonesty of directors, the chief executive officer, managers or employees. In addition, the Bank has taken out an insurance policy with an approved insurer for this purpose.

Revaluation reserve

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

Credit risk reserve

The credit risk reserve is a loan loss reserve that relates to the excess of the impairment provision as required by the Banking and Financial Services Act of Zambia, over the impairment provision computed in terms of International Financial Reporting Standards.

Retained earnings

Retained earnings are the carried forward recognised income, net of expenses of the Bank, plus current period profit attributable to shareholders, less distributions to shareholders.

The notes on pages 19 to 108 are an integral part of these financial statements.

Indo Zambia Bank Limited

Statement of cash flows

for the year ended 31 December 2018

In Zambian Kwacha

	Note	2018	2017
Cash flow from operating activities			
Profit for the year		**139,760,628**	108,918,094
Adjustment for			
▪ Profit on sale of property, plant and equipment	*12*	**(96,190)**	(146,446)
▪ Depreciation	*21*	**18,200,923**	20,797,656
▪ Exchange differences		**(3,170,823)**	(1,089,266)
▪ Tax expense	*15(a)*	**86,736,416**	61,509,324
▪ Interest expense	*9*	**134,056,681**	127,324,154
▪ Interest income	*8*	**(552,984,543)**	(470,652,350)
		(177,496,908)	(153,338,834)
Changes in:			
▪ Loans and advances to customers		**(407,783,180)**	(243,123,267)
▪ Other assets		**(34,074,405)**	3,419,440
▪ Customer deposits		**630,175,909**	535,142,486
▪ Provisions		**48,915**	-
▪ Deposits from banks		**-**	(596,592)
▪ Other liabilities		**82,637,104**	36,378,327
		93,507,435	177,881,560
Tax paid	*15(c)*	**(75,354,758)**	(47,854,966)
Interest paid	*9*	**(134,056,681)**	(127,324,154)
Interest received	*8*	**552,984,543**	470,652,350
Net cash generated from operating activities		**437,080,539**	473,354,790
Cash flows from investing activities			
Acquisition of property and equipment	*21*	**(6,125,762)**	(8,796,484)
Acquisition of investment securities		**(354,221,008)**	(566,336,525)
Proceeds from disposal of property and equipment		**96,190**	153,156
Net cash utilised in investing activities		**(360,250,580)**	(574,979,853)
Cash flows from financing activities			
Dividends paid		**(55,548,227)**	(33,353,413)
Net cash flows utilised in financing activities		**(55,548,227)**	(33,353,413)
Net increase/(decrease) in cash and cash equivalents		**21,281,732**	(134,978,476)
Cash and cash equivalents at 1 January		**782,419,500**	916,308,710
Effect of exchange rate fluctuations on cash held		**3,170,823**	1,089,266
Cash and cash equivalents at 31 December	*17*	**806,872,055**	782,419,500
Represented by:			
Cash and cash equivalents		**623,833,879**	555,645,084
Statutory reserves*	*17*	**183,038,176**	226,774,416
		806,872,055	782,419,500

*The total statutory reserve held with Bank of Zambia, as a minimum reserve requirement, is not available for the Bank's daily business.

The notes on pages 19 to 108 are an integral part of these financial statements.

Indo Zambia Bank Limited

Notes to the financial statements

for the year ended 31 December 2018

1 Reporting entity

Indo Zambia Bank Limited ("the Bank") is a limited liability company incorporated under the Companies Act of Zambia and is domiciled in the Republic of Zambia. In addition, the Bank is licensed under the Banking and Financial Services Act of Zambia to provide commercial banking services. The Bank commenced operations on 19 October, 1984. The Bank's activities are the provision of retail and corporate banking services and investment of surplus funds in various financial instruments. The registered office of the Bank is Plot 6907, Cairo Road, Lusaka.

2 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act and the Banking and Financial Services Act of Zambia. They were approved by the Bank's Board of Directors in its meeting held on 21 March 2019.

Details of the Bank's significant accounting policies are included in note 32.

3 Functional and presentation currency

These financial statements are presented in Zambian Kwacha ("Kwacha"), which is the Bank's functional currency. All amounts have been rounded to the nearest Kwacha, except when otherwise indicated.

4 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- **Applicable to 2018 only:**

- Note 32(g)(ii) and Note 16b: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

4 Use of judgements and estimates *(continued)*

(a) Judgements *(continued)*

- Note 6(a)(iii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes.

- **Applicable to 2018 only:**

- Note 6(a)(iii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

- **Applicable to 2018 and 2017:**

- Note 26: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

- Note 32(g)(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

- Note 15d: Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.

5 Changes in accounting policies

The Bank has initially adopted IFRS 9 (see a) and IFRS 15 (see b) from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 6(iii);
- additional disclosures related to IFRS 9 (see Notes 6(a)(iii), 16 and 32g); and
- additional disclosures related to IFRS 15 (see Note 10 and 32c).

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 32 to all periods presented in these financial statements.

5 Changes in accounting policies *(continued)*

a. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Additionally, the Bank has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in note 16b.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 32(g)(ii).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

There has been no change to the requirements in respect of the classification and measurement of financial liabilities.

The derecognition requirements have also been carried forward unchanged from IAS 39.

Where the contractual terms of financial assets are modified, and that modification does not result in derecognition, a modification gain or loss is recognised in the profit or loss and the gross carrying amount of the asset adjusted accordingly.

5 Changes in accounting policies *(continued)*

a. IFRS 9 *Financial Instruments* *(continued)*

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 32(g)(vii).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 16(b).

b. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018. The standard applies to fees and commission income but not to financial instruments or lease contracts. IFRS 15 had no material impact on the Bank's consolidated financial statements and there will not be an adjustment to retained earnings in respect of adoption.

The impact of IFRS 15 was limited to the new disclosures requirements (see Note 10 and 32c).

The Bank initially applied IFRS 15 on 1 January 2018. The standard applies to fees and commission income but not to financial instruments or lease contracts. IFRS 15 had no material impact on the Bank's consolidated financial statements and there will not be an adjustment to retained earnings in respect of adoption.

The impact of IFRS 15 was limited to disclosures to placement (see Note 32(c)).

6 Financial risk review

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

For information on the Bank's financial risk management framework, see Note 30.

a) Credit risk

For the definition of credit risk and information on how credit risk is mitigated by the Bank, see Note 30(b).

i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 32(g)(vii).

				2018		2017
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to customers at amortised cost						
Grades 1: Low–fair risk		**1,555,474,250**	-	-	**1,555,474,250**	**1,010,254,937**
Grades 2: Medium risk		-	**27,093,172**	-	**27,093,172**	**98,772,675**
Grades 3: Higher risk		-	**13,869,137**	-	**13,869,137**	**150,349,849**
Grade 4: Substandard		-	-	**18,337,197**	**18,337,197**	-
Grade 5: Doubtful		-	-	**68,293,285**	**68,293,285**	-
Grade 6: Loss		-	-	**42,047,213**	**42,047,213**	**33,246,993**
Gross carrying amount	*19*	**1,555,474,250**	**40,962,309**	**128,677,695**	**1,725,114,254**	**1,292,624,454**
Loss allowance	*19*	**(4,978,563)**	**(844,249)**	**(36,593,216)**	**(42,416,028)**	**(36,908,303)**
Carrying amount	*19*	**1,550,495,687**	**40,118,060**	**92,084,479**	**1,682,698,226**	**1,255,716,151**

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

		2017			2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to customers at amortised cost – gross carrying amount					
Current & Overdue < 30 days	1,555,474,250	-	-	1,555,474,250	1,010,254,937
Overdue > 30 days	-	40,962,309	128,677,695	169,640,004	282,369,517
Total	1,555,474,250	40,962,309	128,677,695	1,725,114,254	1,292,624,454
Debt investment securities at amortised cost (2017: held-to-maturity)					
Grades 1: Low–fair risk	1,698,923,493	-	-	1,698,923,493	1,344,702,485
Loss allowance	-	-	-	-	-
Carrying amount	1,698,923,493	-	-	1,698,923,493	1,344,702,485
Carrying amount (provision)	-	-	-	-	-
Financial guarantee contracts					
Grades 1: Low–fair risk	42,438,636	-	-	42,438,636	52,489,000
Loss allowance	(48,915)	-	-	(48,915)	-
Carrying amount (provision)	42,389,721	-	-	42,389,721	52,489,000

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

i) Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

Exposure that is subject to collateral requirements

	Note	2018	2017	Principal type of collateral held
Loans and advances to retail customers	19			
Mortgage lending		**136,005,525**	126,762,953	Residential property
Other retail lending		**82,169,191**	65,069,898	Underlying asset
Loans and advances to corporate customers	19			
Other		**1,084,556,340**	794,664,247	Commercial property, floating charges over movable assets

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

In Zambian Kwacha

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

ii) Collateral held and other credit enhancements *(continued)*

	2018	2017
LTV ratio		
Less than 50%	**37,557,999**	18,065,217
51–70%	**30,859,403**	29,438,085
71–90%	**26,891,272**	30,004,609
91–100%	**10,892,183**	13,192,988
More than 100%	**831,211**	320,311
Total	**107,032,068**	91,021,210

Credit-impaired loans

	2018
Less than 50%	**412,193**
51–70%	**764,194**
More than 70%	**1,116,220**
Total	**2,292,607**

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it (see Note 30(b)). However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2018, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to K 51.39 million (2017: K 48.15 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to K 24.92 million (2017: K 23.65 million). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Other types of collateral and credit enhancements

In addition to the collateral included in the tables above, the Bank holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

ii) Collateral held and other credit enhancements *(continued)*

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the yearend are shown below.

	2018	2017
Property	**5,395,000**	3,415,000

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations.

iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 32(g)(vii).

Significant increase in credit risk

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

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

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

A significant in credit risk has occurred if the change in above comparison exceeds by 50%.

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

- a backstop of 30 days past due or loan is default or otherwise impaired
- quantitative test based on movement in PD; and
- qualitative indicators.

Credit risk grades

The Bank allocates each exposure to a credit risk grade as per internal grading system based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Credit risk grades *(continued)*

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate exposures	**Retail exposures**	**All exposures**
– Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, , senior management changes quality of management	– Internally collected data on customer behaviour – e.g. utilisation of retail loan facilities	– Payment record – this includes overdue status as well as a range of variables about payment ratios
– Data from credit reference agencies, press articles, changes in external credit ratings.	– External data from credit reference agencies, including industry-standard credit scores.	– Utilisation of the granted limit
– Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		– Existing and forecast changes in business, financial and economic conditions

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Credit risk grades *(continued)*

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD and, for the Corporate portfolio.

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

Grading	12-month weighted-average	Internal rating
Grades 1: Low–fair risk	3.00	AAA to AA
Grades 2: Medium risk	20.94	A
Grades 3: Higher risk	16.75	A
Grades 4–6: Substandard, doubtful, loss	100.000	B-C (Default)

Retail

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

Grading	12-month weighted-average PD
Grades 1: Low–fair risk	2.17
Grades 2: Medium risk	16.15
Grades 3: Higher risk	20.99
Grades 4–6: Substandard, doubtful, loss	100.000

Debt investment securities at amortised cost:

Debt investment securities with Government Republic of Zambia are graded as low-fair risk. The Bank has no other debt investment securities other than with the Government Republic of Zambia.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading.

The Bank generates probabilities of default using the migration matrix. 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.

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as below:

- internal rating of the borrower indicating default or near – default;
- the borrower is deceased;
- the borrower is in the process of, or files for bankruptcy;
- the borrower is undergoing significant restructuring as a result of financial stress;
- the borrower goes into receivership

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms. The Bank's probation periods are set out below:

- 3 months out of default status reclassified from stage 3 to stage 2
- 3 months out of default reclassified from stage 2 to stage 1

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 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit- impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Significant increase in credit risk *(continued)*

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

Quantitative criteria:

- the borrower is more than 90 days past due on any material credit obligation to the Bank.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- It is becoming probable that the borrower will enter bankruptcy; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Definition of default *(continued)*

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 53.45% probability of occurring, one upside assigned a 24.14% and one downside assigned a 22.41% probability of occurring. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by official sources of information such as the OECD and the International Monetary Fund.

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

The key drivers for credit risk for the bank's portfolios are: GDP per capita, inflation, commercial bank lending rates and the government Treasury-bill rates.

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Incorporation of forward-looking information *(continued)*

The economic scenarios used as at 31 December 2018 included the following key indicators for Zambia for the years ending 31 December 2019 to 2023.

	2019	2020	2021	2022	2023
Commercial lending rates	Base 6% Upside 25% Downside 27%	Base 6% Upside 24% Downside 27%	Base 6% Upside 23% Downside 26%	Base 6% Upside 23% Downside 25%	Base 6% Upside 22% Downside 25%
Inflation rate	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%
GDP per capita	Base 1,674 Upside 1.683 Downside 1,665	Base 1,687 Upside 1,695 Downside 1,678	Base 1,699 Upside 1,708 Downside 1,691	Base 1,712 Upside 1,720 Downside 1,703	Base 1,725 Upside 1,733 Downside 1,716
Government T-bill	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 years from 2015 to 2017.

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 32(g)(iv).

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

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

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

Forborne loans

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 32(g)(vii)). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Measurement of ECL

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

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

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

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of 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. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Measurement of ECL *(continued)*

However, for overdraft facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms. All overdrafts are assumed to have an average of 12 months period for the purposes of calculating the ECL.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:
instrument type;

- Collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity; and
- industry;

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

	2018				2017		
Loans and advances to customers at amortised cost*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Individual**	**Collective**	**Total**
Balance at 1 January	3,158,053	148,866	14,361,284	17,668,203	22,523,083	4,887,252	27,410,335
Transfer to Stage 1	57,486	(57,486)	-	-	-	-	-
Transfer to Stage 2	(145,603)	146,101	(498)	-	-	-	-
Transfer to Stage 3	951,542	(51,878)	(899,664)	-	-	-	-
Net remeasurement of loss allowance	(1,351,008)	249,478	31,988,321	30,886,791	-	-	-
New financial assets originated or purchased	2,308,093	409,168	645,189	3,362,450	19,559,065	993,855	20,552,920
Write-offs/ Recoveries	-	-	(9,501,416)	(9,501,416)	(11,410,553)	-	(11,410,553
Foreign exchange and other movements	-	-	-	-	355,601	-	355,601
Balance at 31 December	**4,978,563**	**844,249**	**36,593,216**	**42,416,028**	**31,027,196**	**5,881,107**	**36,908,303**

* The loss allowance in these tables includes ECL on loan commitments for certain retail products such as overdrafts, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

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6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

	2018				2017		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Individual**	**Collective**	**Total**
Loans and advances to retail customers at amortised cost							
Balance at 1 January	2,044,931	92,996	4,632,120	6,770,047	10,819,227	1,852,089	12,671,316
Transfer to Stage 1	17,335	(16,336)	(999)	-	-	-	-
Transfer to Stage 2	(58,578)	58,578	-	-	-	-	-
Transfer to Stage 3	(41,600)	(41,593)	83,193	-	-	-	-
Net remeasurement of loss allowance	(1,112,941)	178,243	7,011,556	6,076,858	-	-	-
New financial assets originated or purchased	1,640,988	384,717	398,770	2,424,475	615,063	376,635	991,698
Write-offs/ Recoveries	-	-	(1,601,505)	(1,601,505)	(2,608,879)	-	(2,608,879)
Balance at 31 December	**2,490,135**	**656,605**	**10,523,135**	**13,669,875**	**8,825,411**	**2,228,724**	**11,054,135**

	2018				2017		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Individual**	**Collective**	**Total**
Loans and advances to corporate customers at amortised cost							
Balance at 1 January	1,113,122	55,870	9,729,164	10,898,156	11,703,856	3,035,163	14,739,019
Transfer to Stage 1	1,113,185	(38,659)	(1,074,526)	-	-	-	-
Transfer to Stage 2	(87,025)	86,118	907	-	-	-	-
Transfer to Stage 3	(74,992)	(8,880)	83,872	-	-	-	-
Net remeasurement of loss allowance	(242,967)	68,744	24,984,156	24,809,933	-	-	-
New financial assets originated or purchased	667,105	24,451	246,419	937,975	18,944,002	617,220	19,561,222
Write-offs/ Recoveries	-	-	(7,899,911)	(7,899,911)	(8,801,674)	-	(8,801,674)
Foreign exchange and other movements	-	-	-	-	355,601	-	355,601
Balance at 31 December	**2,488,428**	**187,644**	**26,070,081**	**28,746,153**	**22,201,785**	**3,652,383**	**25,854,168**

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

	2018 Stage 1	2017 Total
Loan commitments and financial guarantee contracts		
Balance at 1 January	41,204	-
Net remeasurement of loss allowance	-	-
	41,204	-
New loan commitments and financial guarantees issued	7,711	-
Foreign exchange and other movements	-	-
Balance at 31 December	48,915	-

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'impairment losses on financial instruments' line item in the statement of profit or loss and other comprehensive income.

	Loans and advances to customers at amortised cost	Loan commitments and financial guarantee contracts	Total
Net remeasurement of loss allowance	30,886,791	-	30,886,791
New financial assets originated or purchased	3,362,450	7,711	3,370,161
Total	**34,249,241**	**7,711**	**34,256,952**
Recoveries of amounts previously written off/ impaired	(9,501,416)	-	(9,501,416)
Total	**24,747,825**	**7,711**	**24,755,536**

There is no significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance. Most of the loan allowance for the financial instruments sanctioned in earlier periods. Loss allowances are on account of subdued economic conditions, crop failures during the year and fluctuations in exchange rates.

Allowance for impairment	2017
Specific allowance	22,104,222
Collective allowance	993,855
Recoveries	(11,410,553)
Total allowance for impairment	**11,687,524**

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iv) Impaired financial assets – Comparative information under IAS 39

	Loans and advances to customers 2017	Investment securities 2017
Loans with renegotiated terms		
Gross carrying amount	1,292,624,454	1,344,702,485
Impaired amount	33,246,993	-
Allowance for impairment	(31,027,196)	-
Net carrying amount	**1,255,716,151**	**1,344,702,485**
Neither past due nor impaired		
Grades 1-3: Low–fair risk, Medium & Higher risk	**1,010,254,937**	1,344,702,485
	1,010,254,937	**1,344,702,485**
Past due but not impaired		
01–30 days	233,724,095	-
31–60 days	10,325,549	-
61–90 days	5,072,880	-
	249,122,524	-
Individually impaired		
Grade 10-12: Substandard, Doubtful & Loss	33,246,993	-
	33,246,993	-
Allowance for impairment		
Individual	31,027,196	-
Collective	5,881,107	-
Total allowance for impairment	**36,908,303**	-

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans and investment debt securities that were past due but not impaired

Loans and investment debt securities that were 'past due but not impaired' are those for which contractual interest or principal payments were past due but the Bank believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank. The amounts disclosed exclude assets measured at FVTPL.

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6 Financial risk review *(continued)*

a) Credit risk *(continued)*

v) Concentration of credit risk

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances, loan commitments, financial guarantees and investment securities is shown below.

		Loans and advances to customers		Investment securities	
		2018	2017	**2018**	2017
1	Agriculture,	**97,711,425**	86,531,329	-	-
2	Mining and quarrying	**13,714,676**	2,113,302	-	-
3	Manufacturing	**250,834,187**	216,341,480	-	-
4	Electricity, gas, water and energy	**3,684,436**	5,656,125	-	-
5	Construction	**12,251,536**	16,764,838	-	-
6	Wholesale and retail trade	**209,891,504**	188,918,237	-	-
7	Restaurants and hotels	**5,051,118**	5,968,680	-	-
8	Transport, storage and communications	**61,603,896**	27,119,708	-	-
9	Financial services	**6,937,445**	3,687,554	-	-
10	Community, social and personal services	**16,825,601**	13,530,234	-	-
11	Real estate	**86,223,674**	161,257,806	-	-
12	Government	**311,565,050**	195,788,010	**1,698,923,493**	1,344,702,485
13	Others	**606,403,678**	332,038,848	-	-
Carrying amount		**1,682,698,226**	1,255,716,151	**1,698,923,493**	1,344,702,485

vi) Offsetting financial assets and financial liabilities

There are no financial assets and financial liabilities that are offset in the bank's statement of financial position or that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

6 Financial risk review *(continued)*

b) Liquidity risk

For the definition of liquidity risk and information on how liquidity risk is managed by the Bank, see note 30c.

i. Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank of Zambia. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2018	2017
At 31 December	**82.74%**	72.85%
Average for the period	**79.56%**	78.15%
Maximum for the period	**91.17%**	87.61%
Minimum for the period	**66.86%**	66.31%

The minimum required by Bank of Zambia for core liquid assets is 6% (2017: 6%).

The concentration of funding requirements at any one date or from any one source is managed continuously. A substantial proportion of the Bank's deposit base is made up of current and savings accounts and other short term customer deposits.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2018

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6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

ii. Maturity analysis for financial liabilities and financial assets

The following table below analyses financial assets and financial liabilities of the Bank into relevant con

2018

	Carrying amount	Gross nominal	up to 1 month	1 - 3 months	
Financial assets					
Cash balances at Bank of Zambia	264,727,058	264,727,058	81,688,882	-	
Cash and cash equivalents	542,144,997	542,144,997	542,144,997	-	
Investment securities	1,698,923,493	1,698,923,493	234,453,000	204,320,879	9
Loans and advances to customers	1,682,698,226	1,725,114,254	182,600,934	97,700,812	3
Other assets	126,688,293	126,688,293	33,125,547	63,364,073	
Total financial assets	4,315,182,067	4,357,598,095	1,074,013,360	365,385,764	1,3
Financial liabilities					
Deposits from customers	(3,233,189,031)	(3,233,189,031)	(468,001,334)	(219,427,506)	(1,3
Other liabilities	(296,152,645)	(296,152,645)	(93,689,747)	(62,337,403)	
Total financial liabilities	(3,529,341,676)	(3,529,341,676)	(561,691,081)	(281,764,909)	(1,3
Net liquidity gap	785,840,391	828,256,419	512,322,279	83,620,855	

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2018

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6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

ii. Maturity analysis for financial liabilities and financial assets *(continued)*

The following table below analyses financial assets and financial liabilities of the Bank into relevant con

2017

	Carrying amount	Gross nominal	up to 1 month	1 - 3 months	
Financial assets					
Cash balances at Bank of Zambia	256,703,252	256,703,252	29,928,836	-	
Cash and cash equivalents	525,716,248	525,716,248	525,716,248	-	
Investment securities	1,344,702,485	1,344,702,485	115,643,591	152,804,133	
Loans and advances to customers	1,255,716,151	1,292,624,454	134,362,065	95,750,630	
Other assets	92,613,888	92,613,888	92,613,888	-	
Total financial assets	3,475,452,024	3,512,360,327	898,264,628	248,554,763	1,
Financial liabilities					
Deposits from customers	(2,603,013,122)	(2,603,013,122)	(1,771,125,062)	(100,844,951)	
Other liabilities	(213,515,541)	(213,515,541)	(213,515,541)	-	
Total financial liabilities	(2,816,528,663)	(2,816,528,663)	(1,984,640,603)	(100,844,951)	
Net liquidity gap	658,923,361	695,831,664	(1,086,375,975)	147,709,812	

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6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

ii. Maturity analysis for financial liabilities and financial assets *(continued)*

The amounts in the table above have been compiled as follows.

Type of financial instrument	**Basis on which amounts are compiled**
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.

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;
- unrecognised loan commitments are not all expected to be drawn down immediately; and
- retail mortgage loans have an original contractual maturity of between 20 and 25 years but an average expected maturity of six years because customers take advantage of early repayment options.

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 issued by sovereigns, 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 the 'Bank's liquidity reserves').

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

	2018	2017
Financial assets		
Investment securities	**1,416,248,638**	1,123,081,899
Loans and advances to customers	**628,886,676**	429,616,780
	2,045,135,314	1,552,698,679
Financial liabilities		
Deposits from customers	**2,032,926,417**	2,555,159,975

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6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

ii. Maturity analysis for financial liabilities and financial assets *(continued)*

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	2018	2017
Financial assets		
Investment securities	**282,674,855**	221,620,586
Loans and advances to customers	**1,096,227,578**	863,007,674
	1,378,902,433	1,084,628,260
Financial liabilities		
Deposits from customers	**1,200,262,614**	47,853,148

iii. Liquidity reserves

The following table sets out the components of the Bank's liquidity reserves.

	2018 Carrying amount	**2018 Fair value**	**2017 Carrying amount**	**2017 Fair value**
Balances with central banks	**264,727,058**	**264,727,058**	256,703,252	256,703,252
Cash and cash equivalents	**542,144,997**	**542,144,997**	525,716,248	525,716,248
Unencumbered debt securities issued by sovereigns	**1,675,389,113**	**1,675,389,113**	1,323,031,698	1,323,031,698
Undrawn credit lines granted by other banks*	**59,575,000**	**59,575,000**	50,275,000	50,275,000
Total liquidity reserves	**2,541,836,168**	**2,541,836,168**	**2,155,726,198**	**2,155,726,198**

*** Undrawn line of credit of USD 5 million is sanctioned by Bank of Baroda, New York.**

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6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

iv. Financial assets available to support future funding

The following table sets out the availability of the Bank's financial assets to support future funding.

		Encumbered		Unencumbered	
	Note	**Pledged as collateral**	**Available as collateral**	**Other**	**Total**
31 December 2018					
Cash balances at Bank of Zambia*	*17*	**-**	**264,727,058**	**-**	**264,727,058**
Cash and cash equivalents	*17*	-	**439,925,940**	**102,219,057**	**542,144,997**
Investment securities	*18*	**23,534,380**	**1,675,389,113**	**-**	**1,698,923,493**
Loans and advances to customer	*19*	**-**	**-**	**1,682,698,226**	**1,682,698,226**
Non-financial assets	*20*	**-**	**-**	**126,688,293**	**126,688,293**
Total assets		**23,534,380**	**2,380,042,111**	**1,911,605,576**	**4,315,182,067**
31 December 2017					
Cash balances at Bank of Zambia*	*17*	-	256,703,252	-	256,703,252
Cash and cash equivalents	*17*	-	427,584,880	98,131,368	525,716,248
Investment securities	*18*	21,670,787	1,323,031,698	-	1,344,702,485
Loans and advances to customer	*19*	-	-	1,255,716,151	1,255,716,151
Non-financial assets	*20*	-	-	92,613,888	92,613,888
Total assets		21,670,787	2,007,319,830	1,446,461,407	3,475,452,024

* Represents assets that are not restricted for use as collateral, but that the Bank would not consider readily available to secure funding in the normal course of business.

v. Financial assets pledged as collateral

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2018 and 2017 is shown in the preceding table.

Financial assets are pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Bank has received collateral that it is permitted to sell or repledge in the absence of default.

At 31 December 2018, the fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default was K 122 million (2017: K 120 million).

6 Financial risk review *(continued)*

c) Market risk

For the definition of market risk and information on how the Bank manages the market risks trading and non-trading portfolios, see Note 30(d).

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

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that intere earning assets (including investments) and interest-bearing liabilities mature or re-price different times and/or in differing amounts. In the case of floating rate assets and liabilities t Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of t various floating rate indices. Asset-liability risk management activities are conducted in t context of the Bank's sensitivity to interest rate changes.

The following is a summary of the Bank's interest rate gap position on non-trading portfoli The interest rate repricing gap table analyses the full-term structure of interest rate mismatch within the Bank's balance sheet based on either (i) the next repricing date or the maturity da if floating rate or (ii) the maturity date if fixed rate.

2018				**Fixed rate instruments**		
	Total	**Zero rate instruments**	**Floating rate instruments**	**Less than 3 months**	**3 months– 1 year**	**Ove 1 yea**
Cash balances at Bank of Zambia	**264,727,058**	**264,727,058**	-	-	-	
Cash and cash equivalents	**542,144,997**	**420,144,997**	-	**122,000,000**	-	
Investment securities	**1,698,923,493**	-	-	**438,773,879**	**977,474,759**	**282,674,85**
Loans and advances to customers	**1,682,698,226**	-	**1,404,825,818**	**5,560,906**	**7,340,169**	**264,971,33**
Total financial assets	**4,188,493,774**	**684,872,055**	**1,404,825,818**	**566,334,785**	**984,814,928**	**547,646,18**
Financial liabilities						
Deposits from customers	**(3,233,189,031)**	**(677,615,578)**	**(1,150,209,462)**	**(492,390,263)**	**(250,829,414)**	**(662,144,31**
Total financial liabilities	**(3,233,189,031)**	**(677,615,578)**	**(1,150,209,462)**	**(492,390,263)**	**(250,829,414)**	**(662,144,31**
Interest rate gap position	**955,304,743**	**7,256,477**	**254,616,356**	**73,944,522**	**733,985,514**	**(114,498,12**

2017				Fixed rate instruments		
	Total	Zero rate instruments	Floating rate instruments	Less than 3 months	3 months – 1 year	Ov 1 ye
Cash balances at Bank of Zambia	256,703,252	256,703,252	-	-	-	
Cash and cash equivalents	525,716,248	405,716,248	-	120,000,000	-	
Investment securities	1,344,702,485	-	-	268,447,725	854,634,175	221,620,58
Loans and advances to customers	1,255,716,151	-	971,508,588	5,687,668	7,507,517	271,012,37
Total financial assets	3,382,838,136	662,419,500	971,508,588	394,135,393	862,141,692	492,632,96
Financial liabilities						
Deposits from customers	(2,603,013,122)	(932,595,000)	(707,452,000)	(227,633,122)	(115,959,000)	(619,374,0C
Total financial liabilities	(2,603,013,122)	(932,595,000)	(707,452,000)	(227,633,122)	(115,959,000)	(619,374,0C
Interest rate gap position	779,825,014	(270,175,500)	264,056,588	166,502,271	746,182,692	(126,741,03

6 Financial risk review *(continued)*

c) Market risk *(continued)*

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

Interest rate sensitivity analysis

	2018		2017	
	ZMW	**US$**	ZMW	US$
Increase in basis points	**0.50**	**0.50**	0.50	0.5
Sensitivity of annual net interest income	**(4.72)**	**(2.83)**	(3.18)	(2.4
Decrease in basis points	**0.50**	**0.50**	0.50	0.5
Sensitivity of annual net interest income	**4.72**	**2.83**	3.18	2.4

ii) Exposure to currency risks – non-trading portfolios

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchan rates on its financial position and cash flows. The Bank of Zambia sets limits on the level of exposu by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Notes to the financial statements *(continued)*

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6 Financial risk review *(continued)*

c) Market risk *(continued)*

ii) Exposure to currency risk- non-trading portfolios *(continued)*

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures giv recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank and are as foll

2018	US dollar	Pound	Euro	Rand	Rupee
Monetary assets	**1,028,104,777**	**23,091,130**	**5,253,166**	**6,828,621**	**460,449**
Monetary liabilities	**(1,019,752,152)**	**(22,139,882)**	**(3,943,008)**	**(6,392,372)**	**(126,793)**
Net recognised position	**8,352,625**	**951,248**	**1,310,158**	**436,249**	**333,656**

2017	US dollar	Pound	Euro	Rand	Rupee
Monetary assets	634,319,695	16,046,998	6,571,350	4,270,393	252,976
Monetary liabilities	(666,999,934)	(15,172,159)	(3,211,347)	(4,178,100)	(106,290)
Net recognised position	(32,680,239)	874,839	3,360,003	92,293	146,686

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank ensures that its buying and selling foreign currencies at spot rates when considered appropriate.

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6 Financial risk review *(continued)*

c) Market risk *(continued)*

ii) Exposure to currency risk- non-trading portfolios *(continued)*

Exchange rate sensitivity

A strengthening (weakening) of the Kwacha by 10 percent, as indicated below against the USD, GBP, Euro, Rupee and ZAR at 31 December 2018 would have increased (decreased) equity and profit or loss by the amounts shown below. This computation is based on the foreign exchange rate variance that the company considered reasonably possible at the reporting date. The computation assumes all the other variables remain constant.

	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2018				
USD	**835,264**	**835,264**	**(835,264)**	**(835,264)**
GBP	**95,125**	**95,125**	**(95,125)**	**(95,125)**
Euro	**131,016**	**131,016**	**(131,016)**	**(131,016)**
ZAR	**43,625**	**43,625**	**(43,625)**	**(43,625)**
Rupee	**33,366**	**33,366**	**(33,366)**	**(33,366)**
31 December 2017				
USD	(3,268,024)	(3,268,024)	3,268,024	3,268,024
GBP	87,484	87,484	(87,484)	(87,484)
Euro	336,000	336,000	(336,000)	(336,000)
ZAR	9,229	9,229	(9,229)	(9,229)
Rupee	14,669	14,669	(14,669)	(14,669)

6 Financial risk review *(continued)*

d) Capital management

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

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

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

i. Regulatory capital

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed and maintained by the Bank of Zambia for supervisory purposes. The required information is filed with the Bank of Zambia on a monthly basis. There was no change in the capital regulation during the year under review.

In implementing current capital requirements Bank of Zambia requires banks:

- To maintain the higher of a minimum 10% ratio of total capital to total risk-weighted assets or hold a minimum K 520 million whichever is higher;
- 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 unrecognised items.

There were no change in the capital regulation during the year under review.

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

- Primary (Tier 1) capital, which includes paid-up common shares, retained earnings, statutory reserves less adjustment for assets of little or no realizable value.
- Secondary (Tier 2) capital, which includes qualifying subordinated term debt and revaluation reserves limited to a maximum of 40% of revaluation reserves. The maximum amount of total secondary capital is limited to 100% of primary capital.

The Bank fully complied with all externally imposed capital requirements throughout the year.

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Notes to the financial statements *(continued)*

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6 Financial risk review *(continued)*

d) Capital management *(continued)*

i. Regulatory capital *(continued)*

Computation of capital position

	2018	2017
I Primary (Tier 1) Capital		
(a) Paid-up common shares	**416,000,000**	416,000,000
(b) Eligible preferred shares	-	-
(c) Contributed surplus	-	-
(d) Retained earnings	**387,703,767**	325,515,356
(e) General reserves	**126,369**	126,369
(f) Statutory reserves	**15,000,000**	15,000,000
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total A (items a to g)	**818,830,136**	756,641,725
Subtractions:		
(i) Goodwill and other intangible assets	-	-
(j) Investments in unconsolidated subsidiaries and associates	-	-
(k) Lending of a capital nature to subsidiaries and associates	-	-
(l) Holding of other banks' or financial institutions' capital instruments	-	-
(m) Assets pledged to secure liabilities	-	-
(n) Sub-total B (items i to m)	-	-
Provisions	-	-
Assets of little or no realised value	-	-
Other adjustments (prepayment)	-	-
(o) Sub-total C (other adjustments)	-	-
(p) Total primary capital [h – (n to o)]	**818,830,136**	756,641,725
II Secondary (tier 2) capital		
(a) Eligible preferred shares	-	-
(b) Eligible subordinated term debt	-	-
(c) Eligible loan stock / capital	-	-
(d) Eligible general provisions	-	-
(e) Revaluation reserves. (Maximum is 40% of revaluation reserves)	**7,643,688**	7,815,536
(f) Other	-	-
(f) Total secondary capital	**7,643,688**	7,815,536
III Eligible secondary capital	**7,643,688**	7,815,536
(The maximum amount of secondary capital is limited to 100% of primary capital)		
IV Eligible total capital (I(p) + III) (Regulatory capital)	**826,473,824**	764,457,261
V Minimum total capital requirement (10% of total on and unrecognised risk weighted assets)	**(520,000,000)**	(520,000,000)
VI Excess (IV minus V)	**306,473,824**	244,457,261

6 Financial risk review *(continued)*

d) Capital management *(continued)*

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a stronger capital position.

ii. Capital allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In these cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives.

7 Fair values of financial instruments

a. Valuation models

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

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

- *Level 2:* Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

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

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

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

The Bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

7 Fair values of financial instruments *(continued)*

a. Valuation models *(continued)*

Valuation framework

The Bank has an established control framework for the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving both Product Control and Group Market Risk;
- quarterly calibration and back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Group Market Risk personnel.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that the valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- when prices for similar instruments are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then understanding how fair value has been determined using those quotes.

Significant valuation issues are reported to the Bank Audit Committee.

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Notes to the financial statements *(continued)*

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7 Fair values of financial instruments *(continued)*

b. Financial instruments not measured at fair value

31 December 2018	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**T carry amo**
Assets						
Cash and cash equivalents	*17*	-	**542,144,997**	-	**542,144,997**	**542,144,**
Held to maturity investment securities	*18*	**1,698,923,493**	-	-	**1,698,923,493**	**1,698,923,**
Loans and advances to customers	*19*	-	-	**1,682,698,226**	**1,682,698,226**	**1,682,698,**
Liabilities						
Deposits from customers	*22*	-	**3,233,189,031**	-	**3,233,189,031**	**3,233,189,**

31 December 2017	*Note*	Level 1	Level 2	Level 3	Total fair value	T carry amo
Assets						
Cash and cash equivalents	*17*	-	525,716,248	-	525,716,248	525,716,
Held to maturity investment securities	*18*	1,344,702,485		-	1,344,702,485	1,344,702,
Loans and advances to customers	*19*	-	-	1,255,716,151	1,255,716,151	1,255,716,
Liabilities						
Deposits from customers	*22*	-	2,603,013,122	-	2,603,013,122	2,603,013,

Where available, the fair value of loans and advances is based on observable mar transactions. Where observable market transactions are not available, fair value is estima using valuation models, such as discounted cash flow techniques. Input into the valuat techniques includes expected lifetime credit losses, interest rates, prepayment rates and prim origination or secondary market spreads. For collateral-dependent impaired loans, the fair va is measured based on the value of the underlying collateral. Input into the models may incl data from third party brokers based on OTC trading activity, and information obtained fr other market participants, which includes observed primary and secondary transactions. improve the accuracy of the valuation estimate for retail and smaller commercial loa homogeneous loans are grouped into portfolios with similar characteristics such as vinta LTV ratios, the quality of collateral, product and borrower type, prepayment and delinque rates, and default probability.

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

The carrying amounts of financial assets and liabilities are representative of the Bank's posit at 31 December 2018 and are in the opinion of the directors not significantly different from th respective fair values due to generally short periods to maturity dates. Fair values are genera determined using valuation techniques or where available, published price quotations from active market.

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Notes to the financial statements *(continued)*
for the year ended 31 December 2018

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8 Interest income

See accounting policies in note 32 b

	2018	2017
Loans and advances to customers	**309,242,665**	258,314,833
Held-to-maturity investment securities	**229,763,257**	202,090,367
Other	**13,978,621**	10,247,150
	552,984,543	470,652,350

9 Interest expense

See accounting policies in note 32 b

	2018	2017
Deposits from customers	**131,780,077**	126,789,267
Other	**2,276,604**	534,887
	134,056,681	127,324,154

10 Fee and commission income

See accounting policies in note 32 c

	2018	2017
Retail banking customer fees	**82,741,699**	72,697,256
Loans and advances fees	**5,129,124**	5,650,637
	87,870,823	78,347,893

Performance obligations and revenue recognition policies

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

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

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10 Fee and commission income *(continued)*

See accounting policy 32(c)

Performance obligations and revenue recognition policies *(continued)*

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition unde[r] IFRS 15 (applicable from 1 January 2018)
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account servic[e] and servicing fees is recognise[d] over time as the services ar[e] provided. Revenue related to transaction[s] is recognised at the point in tim[e] when the transaction take[s] place.

11 Net trading income

See accounting policies in note 32 d

	2018	2017
Foreign currency transaction gains	**40,842,694**	32,032,71[?]

12 Other income

Gain on disposal of property and equipment	**96,190**	146,44
Cheque book charges	**1,333,979**	1,147,25
Swift charges recovered	**4,299,017**	3,762,88
Correspondent banking charges receivable	**3,670,980**	2,835,64
Farmer input support programme income	**3,546,213**	
Other income	**428,372**	752,27
	13,374,751	8,644,50

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Notes to the financial statements *(continued)*

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13 Administrative expenses

	2018	201
Audit fees	**1,895,000**	727,9
Non audit services	**500,000**	601,3
Directors fees (Note 29e)	**5,498,379**	4,110,1
Depreciation	**18,200,923**	20,797,6
Stationery	**4,035,041**	3,397,1
Swift and telephone	**2,114,887**	6,166,8
Security charges	**5,648,574**	6,460,5
BOZ charges	**11,817,504**	11,423,7
Repairs and maintenance	**3,969,778**	5,825,9
Other administrative expenses	**17,073,423**	11,438,5
	70,753,509	70,949,8

14 Operating expenses

Staff costs	**186,823,695**	167,582,7
National Pension Scheme Authority contributions	**3,374,863**	2,903,8
Directors' emoluments (Note 29e)	**4,724,192**	2,548,0
Property related expenses	**8,169,272**	9,278,3
Advertising	**6,880,329**	2,606,2
License fees	**7,301,263**	2,392,4
Office expenses	**21,736,427**	21,976,8
	239,010,041	209,288,4

15 Income taxes

See accounting policies in note 32 e

a) Current tax expense

Current year	**92,384,461**	66,612,5
Current tax under provision in prior year (2017)	**2,298,664**	
Deferred tax (note 15(d))	**(7,946,709)**	(5,103,2
Total income tax expense	**86,736,416**	61,509,3

The income tax expense for the current year is subject to agreement with the Zambia Rev Authority.

b) Reconciliation of effective tax rate

Profit before income tax		**226,497,044**		170,427,4
Tax calculated at the tax rate of	*35%*	**79,273,966**	*35%*	59,649,5
Non-deductible expenses – penalties	*2%*	**3,411,986**	*0%*	44,6
Non-deductible expenses - others	*1%*	**1,976,758**	*1%*	1,831,7
Non-deductible fire/penalties	*2&*	**3411,986**	*0%*	44,6
Deferred tax adjustment for prior year	*0%*	**(224,958)**	*0%*	(16,6
Current tax under provision in prior year (2017)	*1%*	**2,298,664**		
Total income tax expense in profit or loss	*39%*	**86,736,416**	*36%*	61,509,3

15 Income taxes *(continued)*

c) Current income tax movement in the statement of financial position

Current tax liability/(asset) at the beginning of the year	**19,331,592**	574,014
Charge for the year – 2017	**2,298,664**	-
Adjusted opening balance	**21,630,256**	574,014
Charge for the year	**92,384,461**	66,612,544
Tax paid	**(75,354,758)**	(47,854,966)
Current tax liability at the end of the year	**38,659,959**	19,331,592

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Notes to the financial statements *(continued)*

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15(d) Deferred tax assets and liabilities

See accounting policies in note 32 e

i) Recognised deferred tax assets and liabilities

The following are the deferred tax (assets)/liabilities recognised by the Bank.

	Assets		Liabilities	
	2018	2017	**2018**	
Property and equipment	**(3,349,061)**	(2,100,570)	**-**	
Revaluation	-	-	**12,705,570**	1
Amortisation of revaluation surplus	**(960,309)**	(728,975)	**-**	
Bad debts provision	**(19,056,089)**	(12,357,871)	**-**	
Adjustment to opening IFRS 9 provision	**-**	-	**6,719,613**	
Clearing account provision	**(569,334)**	(569,334)	-	
	(23,934,793)	(15,756,750)	**19,425,183**	1

ii) Movement in temporary differences during the year

	Balance at 1 January 2017	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2017
Property and equipment	(1,407,579)	(692,991)	-	(2,100,570)
Revaluation	12,705,570	-	-	12,705,570
Amortisation of revaluation surplus	(497,641)	-	(231,334)	(728,975)
Bad debts provision	(8,267,238)	(4,090,633)	-	(12,357,871)
Adjustment to opening IFRS 9 provision	-	-	-	-
Clearing account provision	(249,738)	(319,596)	-	(569,334)
	2,283,374	(5,103,220)	(231,334)	(3,051,180)

There were no unrecognised deferred tax assets and liabilities during the year (2017: nil).

16 Financial assets and financial liabilities

a. Classification of financial assets and financial liabilities

See accounting policies in Notes 32(g)(ii) and (g)(viii).

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2018	*Note*	**Amortised cost**	**Total carrying amount**
Cash balances at Bank of Zambia	*17*	**264,727,058**	**264,727,058**
Cash and cash equivalents	*17*	**542,144,997**	**542,144,997**
Investment securities:			
Measured at amortised cost	*18*	**1,698,923,493**	**1,698,923,493**
Loans and advances to customers:			
Measured at amortised cost	*19*	**1.682.698.226**	**1,682,698,226**
Other assets	*20*	**126,688,293**	**126,688,293**
Total financial assets		**4,315,182,067**	**4,315,182,067**
Deposits from customers	*22*	**3,233,189,031**	**3,233,189,031**
Total financial liabilities		**3,233,189,031**	**3,233,189,031**

31 December 2017	*Note*	**Held-to-maturity**	**Loans and receivables**	**Other amortised cost**	**Total carrying amount**
Cash balances at Bank of Zambia	*17*	-	-	256,703,252	256,703,252
Cash and cash equivalents	*17*	-	-	525,716,248	525,716,248
Investment securities:					
Measured at amortised cost	*18*	1,344,702,485	-	-	1,344,702,485
Loans and advances to customers:					
Measured at amortised cost	*19*	-	1,255,716,151	-	1,255,716,151
Other assets	*20*	-	-	92,613,888	92,613,888
Total financial assets		**1,344,702,485**	**1,255,716,151**	**875,033,388**	**3,475,452,024**
Deposits from customers	*22*	-	-	2,603,013,122	2,603,013,122
Total financial liabilities		-	-	**2,603,013,122**	**2,603,013,122**

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Notes to the financial statements *(continued)*

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16 Financial assets and financial liabilities *(continued)*

b. Classification of financial assets and financial liabilities on the date of initial application of IFRS

The following table shows the original measurement categories in accordance with IAS 39 and the ne measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at January 2018

	Note	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	New carryin amount und IFRS
Financial assets					
Cash balances at Bank of Zambia	*17*	Loans and receivables	Amortised cost	256,703,252	256,703,2
Cash and cash equivalents	*17*	Loans and receivables	Amortised cost	525,716,248	525,716,2
Investment securities – debt	*18*	Held-to-maturity	Amortised cost	1,344,702,485	1,344,702,4
Loans and advances to customers	*19*	Loans and receivables	Amortised cost	1,255,716,551	1,277,714,7
Total financial assets				**3,382,838,136**	**3,404,836,7**

	Note	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	New carryin amount und IFRS
Financial liabilities					
Deposits from customers	22	Amortised cost	Amortised cost	2,603,013,122	2,603,013,1
Total financial liabilities				**2,603,013,122**	**2,603,013,1**

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out Note 32(g)(ii).

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS on transition to IFRS 9 on 1 January 2018.

16 Financial assets and financial liabilities *(continued)*

b. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 *(continued)*

The following table summarises the impact of transition to IFRS 9 on the opening balance of the liability credit reserve and retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 January 2018
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	325,515,356
Reclassifications under IFRS 9 (net of tax)	-
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	19,198,895
Related tax	(6,719,613)
Opening balance under IFRS 9 (1 January 2018)	**337,994,638**

The following table reconciles:

– the closing impairment allowance for financial assets under IAS 39 and provisions for loan commitments and financial guarantee contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017, to the opening ECL allowance determined under IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39/ IAS 37)	Re-measurement	1 January 2018 (IFRS 9)
Loans and receivables and held-to-maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and bank balances with BOZ, cash and cash equivalents and loans and advances to customers)	36,908,302	(19,240,099)	**17,668,203**
Loan commitments and financial guarantee contracts issued	-	41,204	**41,204**
Total	**36,908,302**	**(19,198,895)**	**17,709,407**

17 Cash balances at Bank of Zambia

See accounting policies in note 32 h

	2018	2017
Balances at Bank of Zambia	**81,688,882**	29,928,836
Bank of Zambia statutory reserve	**183,038,176**	226,774,416
Total	**264,727,058**	256,703,252
Cash and cash equivalents		
Cash on hand	**102,219,057**	98,131,368
Placements with other banks	**122,000,000**	120,000,000
Balance due from other banks	**317,925,940**	307,584,880
Total	**542,144,997**	525,716,248
Grand total	**806,872,055**	782,419,500

The total statutory reserve held with Bank of Zambia, as a minimum reserve requirement, is not available for the Bank's daily business. The reserve represents a requirement by the Banking and Financial Services Act and is a percentage of the Bank's local and foreign currency liabilities to the public. At 31 December 2018 the required percentage was 5% (2017: 8.5%).

18 Investment securities

See accounting policies in note 32 j

	2018	2017
Treasury bills	**1,378,992,143**	1,118,104,034
Government bonds	**156,256,178**	155,155,367
Euro bonds	**163,675,172**	71,443,084
	1,698,923,493	1,344,702,485

	2018			2017		
Maturity analysis	**Treasury bills**	**Government bonds**	**Euro bonds**	**Treasury bills**	**Government bonds**	**Euro bonds**
Within one year	**1,378,992,143**	**37,676,440**	-	1,118,104,034	4,982,005	-
Within one to five years	**-**	**118,579,738**	**163,675,172**	-	150,173,362	71,443,084
	1,378,992,143	**156,256,178**	**163,675,172**	1,118,104,034	155,155,367	71,443,084

Included in investment securities are treasury bills with a total face value of K 25 million (2017: K25 million) pledged as security by the Bank for transactions with various counter parties and the Zambia Electronic Clearing House.

During the year the Bank further invested in a 7 year Euro bond with the government of Zambia at a coupon rate of 8.50% p.a.

ndo Zambia Bank Limited

lotes to the financial statements *(continued)*

r the year ended 31 December 2018

Zambian Kwacha

) Loans and advances to customers

See accounting policies in note 32i

	2018			
	Gross amount	**Impairment allowance**	**Carrying amount**	Gross amount
Retail customers:				
Mortgage lending	**94,734,684**	**(1,437,846)**	**93,296,838**	97,660,139
Personal loans	**497,321,108**	**(10,843,564)**	**486,477,544**	310,556,123
Term loans	**24,957,534**	**(1,388,465)**	**23,569,069**	46,603,661
Total	**617,013,326**	**(13,669,875)**	**603,343,451**	454,819,923
Corporate customers:				
Term loans	**637,712,362**	**(15,249,475)**	**622,462,887**	458,461,954
Overdrafts	**470,388,566**	**(13,496,678)**	**456,891,888**	379,342,577
Total	**1,108,100,928**	**(28,746,153)**	**1,079,354,775**	837,804,531
Total loans	**1,725,114,254**	**(42,416,028)**	**1,682,698,226**	1,292,624,454

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2018

In Zambian Kwacha

20 Other assets

	2018	2017
Interest receivable	**27,313,946**	30,656,388
Inter branch accounts receivable	**193,963**	451,095
Prepaid expenses	**1,359,444**	2,122,731
Visa settlement receivables	**24,646,728**	2,430,538
Staff loan receivables	**42,975,539**	45,178,605
National financial switch settlement receivables	**14,468,789**	-
Other assets	**15,729,884**	11,774,531
	126,688,293	92,613,888

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2018

In Zambian Kwacha

21 Property and equipment

See accounting policies in note 32n

	Land and buildings	Leasehold improvements	Motor vehicles	Computer and office equipment	Furnitu and fixtu
Cost/ valued assets					
At 1 January 2017	91,557,479	30,580,767	5,366,235	47,604,344	40,726,7
Additions	863,341	215,853	1,018,584	4,132,971	1,339,6
Transfer	74,750	249,500	-	411,251	972,2
Adjustments	-	-	(416,802)	(131,918)	(238,:
Balance at 31 December 2017	92,495,570	31,046,120	5,968,017	52,016,648	42,800,3
At 1 January 2018	**92,495,570**	**31,046,120**	**5,968,017**	**52,016,648**	**42,800,3**
Additions	**7,800**	**110,206**	**1,404,598**	**2,991,379**	**1,249,7**
Transfers	**-**	**126,079**	**-**	**54,821**	**63,1**
Disposals	-	-	**(326,730)**	-	**(78,8**
At 31 December 2018	**92,503,370**	**31,282,405**	**7,045,885**	**55,062,849**	**44,034,4**
Depreciation					
Balance at 1 January 2017	2,014,241	11,633,412	2,599,282	28,510,080	26,656,1
Charge for the year	1,834,671	2,840,414	763,542	8,980,902	6,378,1
Disposals	-	-	(416,802)	(130,342)	(233,:
At 31 December 2017	3,848,912	14,473,826	2,946,022	37,360,640	32,801,(
Balance at 1 January 2018	**3,848,911**	**14,473,825**	**2,946,022**	**37,360,641**	**32,801,(**
Charge for the year	**1,834,995**	**2,581,449**	**822,736**	**8,098,219**	**4,863,5**
Disposals	-	-	**(326,730)**	-	**(78,8**
At 31 December 2018	**5,683,907**	**17,055,275**	**3,442,028**	**45,458,859**	**37,585,'**
Carrying amounts					
At 31 December 2017	88,646,659	16,572,295	3,021,995	14,656,008	9,999,:
At 31 December 2018	**86,819,463**	**14,227,130**	**3,603,857**	**9,603,990**	**6,448,(**

Included in property and equipment are fully depreciated assets with a cost of K 44.91 million (2017: K45.30 million) by Fairworld Properties Limited, Registered Valuation Surveyors, on the basis of open market. The revaluation surplus a the directors, the carrying value of land and buildings at 31 December 2018 approximates fair value.

In accordance with section 247 of the Companies Act a list of the Bank's properties is available for inspection at the reg

21 Property and equipment *(continued)*

If the buildings were stated on a historical cost basis, the carrying value would be as follows:

	2018	2017
Cost	**33,538,869**	33,531,069
Accumulated depreciation	**(4,421,187)**	(3,750,410)
Net book value	**29,117,682**	29,780,659

Measurement of fair value

(i) Fair value hierarchy

The fair value of land and building was determined by external, independent property valuers Fairworld Properties Limited, Registered Valuation Surveyors having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The independent valuers provide the fair value of the Bank's land and building every 5 years as at the balance sheet date.

The fair value measurement for land and building has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

(i) Valuation technique

Market approach model – the land and building have been valued using direct comparison with similar properties that have been sold in the area.

(ii) Valuation inputs

The input is the actual selling price of similar properties that have been sold in the same location and include cost of specific features such as security, generators and CCTV. For properties located in areas where no actual sales transactions took place in recent times, the current cost of constructing similar properties is used as a basis for determining the fair value

.

In Zambian Kwacha

22 Deposits from customers

See accounting policies in note 32k

	2018	2017
Demand deposits	**712,507,765**	692,403,606
Savings deposits	**454,359,333**	397,928,048
Term deposits	**1,031,117,225**	679,809,300
Foreign currency deposits	**1,035,204,708**	832,872,168
	3,233,189,031	2,603,013,122
Repayable on demand	**1,960,414,716**	1,771,125,062
Repayable with agreed maturity dates or periods of notice, by residual maturity:		
- Three months or less	**393,366,632**	100,844,951
- Between three months and one year	**855,393,898**	683,189,962
- Between one year and three years	**24,013,785**	47,853,147
	3,233,189,031	2,603,013,122

23 Other liabilities

See accounting policies in note 32g

	2018	2017
Bills payable	**4,873,445**	5,338,560
Interest payable	**72,288,065**	55,126,364
Withholding tax payable	**861,608**	600,088
Accrued expenses	**15,666,629**	20,495,303
Employee provisions	**140,125,495**	112,859,417
Foreign exchange swaps	**8,958,500**	2,006,000
National financial switch settlement payables	**16,301,410**	-
Other liabilities	**37,077,493**	17,089,809
	296,152,645	213,515,541

24 Provisions

	2018	2017
Financial guarantees & letters of credit issued	**48,915**	-

A. Financial guarantee contracts issued

The amount in respect of financial guarantee contracts issued represents:

– at 31 December 2018: the sum of: ECL provision of K 44,610 (see Note 6(a)(iii)) and the amounts recognised at issuance less cumulative amortisation of K 42.03 million; and
– at 31 December 2017: the amounts initially recognised less cumulative amortisation.

B. Loan commitments issued

The amount in respect of loan commitments issued represents:

– at 31 December 2018: no substantial loan commitments outstanding; and
– at 31 December 2017: the amounts recognised at issuance of loan commitments to provide a loan at below market rates less cumulative amortisation.

25 Share capital *(continued)*

See accounting policies in note 32 q

	Number of ordinary shares 2018	Ordinary share capital 2018	Number of ordinary shares 2017	Ordinary share capital 2017
Authorised				
Ordinary shares of K 1 each	**420,000,000**	**420,000,000**	420,000,000	420,000,000
Issued and fully paid				
Ordinary shares of K 1 each	**416,000,000**	**416,000,000**	416,000,000	416,000,000

The holders of ordinary shares are entitled to vote at meetings of the Bank and to dividends as declared from time to time. After the reporting date, a dividend of K 60,000,000 (2017:K55,548,227) was proposed. The dividends have not been recognised as liabilities, therefore, there are no tax consequences.

26 Contingent liabilities

There were contingent liabilities as at 31 December 2018 amounting to K 42.03 million (2017: K52.49 million). These are financial guarantees and letters of credit, which are not recognised in the statement of financial position.

27 Subsequent events

Apart from the dividend of K 60,000,000 (2017: K55,548,227 million) which was proposed after the reporting date, there were no events after the reporting date requiring disclosure in, or adjustment of, these financial statements.

28 Capital commitments

There were no capital commitments as at 31 December 2018 (2017: Nil).

29 Related party transactions

All the transactions with related parties were at arm's length.

(a) Balances due to other banks

	2018	2017
Bank of Baroda	**34,406,888**	64,399,299
Bank of India	**42,826,158**	17,263,577
	77,233,046	81,662,876

b) Interest paid by

Bank of Baroda	**659,241**	907,995

c) Deposits

Government of the Republic of Zambia - (Central Government)	**49,159,579**	25,341,895

29 Related party transactions *(continued)*

d) Key management compensation

	2018	2017
Salaries and short term benefits	**22,195,816**	19,742,221
Terminal benefits	**6,357,349**	2,553,611
	28,553,165	22,295,832

e) Directors' remuneration

Directors' fees (Note 13)	**5,498,379**	4,110,195
Directors' emoluments (Note 14)	**4,724,192**	2,548,013
	10,222,571	6,658,208

f) Related party loans

2018	Directors	Key management
Loans outstanding at beginning of the year	**97,796**	**6,585,984**
Loan advances during the year	**728,410**	**2,083,856**
Loan repayments during the year	**(228,586)**	**(2,591,419)**
Loans outstanding at end of the year	**597,620**	**6,078,321**
Interest earned	**43,552**	**1,008,281**
2017		
Loans outstanding at beginning of the year	305,831	3,708,826
Loan advances during the year	-	3,125,403
Loan repayments during the year	(208,035)	(248,245)
Loans outstanding at end of the year	97,796	6,585,984
Interest earned	58,903	903,358

Transactions with Directors and Officers

Name of borrower	Opening Balance 1st Jan 2018	Issued during the year	Loan repayments during the year	Amount outstanding	Average interest Rate (%)	Composition
Non Executive Director	72,052	728,410	(202,842)	597,620	17.63	Personal loan
Non Executive Director	25,744	-	(25,744)	-	-	Personal loan
	97,796	**728410**	**(228,586)**	**597,620**		
Officer	2,458,601	1,022,000	(934,881)	2,545,720	15.50	Mortgage, Personal loan and Vehicle loan
Officer	2,242,843	127,816	(628,732)	1,741,927	17.55	Mortgage, Personal loan and Vehicle loan
Officer	1,021,020	813,940	(542,111)	1,292,849	15.08	Mortgage, Personal loan and Vehicle loan
Officer	863,520	120,000	(485,695)	497,825	11.06	Mortgage, Personal loan and Vehicle loan
	6,585,984	**2,083,756**	**(2,591,419)**	**6,078,321**		

29 Related party transactions *(continued)*

f) Related party loans (continued)

Other than as disclosed in the Directors Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any directors, connected person or officer of the Company which have to be disclosed under the Companies Act No.10 of 2017. All loans to directors and companies controlled by directors are given on commercial terms and at market rates, in the ordinary course of business.

2018	**Connected entities to directors/ Key Management**	**Related Companies**
Loans outstanding at beginning of the year	**1,389,190**	**-**
Loan advances during the year	**7,970,657**	**111,552,692**
Loan repayments during the year	**44,006**	**-**
Loans outstanding at end of the year	**9,403,853**	**111,552,692**
Interest earned	**1,972,015**	**7,004,436**

2017		
Loans outstanding at beginning of the year	1,792,952	-
Loan advances during the year	500,000	-
Loan repayments during the year	(903,762)	-
Loans outstanding at end of the year	1,389,190	-
Interest earned	467,052	-

g) Related party deposits

2018	**Directors**	**Key management**
Balance at beginning of the year	**528,943**	**600,000**
(Withdraw)/deposit during the year	**212,877**	**1,974,859**
Balance at end of the year	**741,820**	**2,574,859**

2017	**Directors**	**Key management**
Balance at beginning of the year	570,446	720,505
(Withdraw)/deposit during the year	(41,503)	(120,505)
Balance at end of the year	528,943	600,000

29 Related party transactions *(continued)*

h) Deposit balances with entities owned by the Industrial Development Corporation

The following companies that are fully owned / partly owned by the IDC held deposits accounts with the Bank:

- IDC Limited
- Zamtel Limited
- ZAFFICO Limited
- ZESCO Limited
- ZSIC Life Insurance Limited; and
- Zambia Industrial Commercial Bank Limited

The total cumulative deposits held by entities owned by Industrial Development Corporation as at 31 December 2018 was K 45.50 million (2017 – K 30.19 million). Normal terms and conditions apply on the deposit accounts held by these entities. The transactions with the Bank were at arm's length.

The following entities that are owned by IDC did not have any deposit and loan accounts with the Bank as at 31 December 2018:

• Afrox Zambia PLC • Kariba Minerals Limited • Lusaka Trust Hospital • Medical Stores Limited • Mpulungu Harbour Corporation Limited • Mukuba Hotel Limited • Mulungushi Village Complex Limited| • Mupepetwe Engineering & Contracting Limited • Nanga Farms PLC • Nitrogen Chemicals of Zambia Limited • Zambia Daily Mail Limited • Zambia International Trade Fair Limited • Zambia Printing Company Limited • Engineering Services Corporation - ESCO Limited; • Indeni Petroleum Refinery Limited • Lusaka South Multi Facility Economic Zone Limited;	• Zamcapitol Enterprises Limited • Times Printpak Zambia Limited • ZANACO PLC • ZCCM-Investment Holdings PLC • Kagem Minerals Limited • NIEC Business School • Mulungushi Textiles Limited • Mulungushi International Conference Centre • Superior Milling Company Limited • Zambia China Mulungushi Texttiles • Zampalm Limited • Zambia Railways Limited and; • ZSIC General insurance Limited

30 Financial risk management

a) Introduction and overview

- Credit risk
- Liquidity risk
- Market risks

This note presents information about the Bank's exposure to each of the above risks and the Bank's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Loan Review Committee, Operational Risk Committee, Audit Committee and Risk Management Committee, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risk faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risks management controls and procedures, the results of which are reported to the Bank Audit Committee.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, Internal Audit and the Risk Management units are responsible for the independent review of risk management and the control environment. The most important types of risks are credit risk, liquidity risk, market risk and operational risks.

b) Credit risk

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

30 Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Management of credit risk

The board of directors has delegated responsibility for the oversight of credit risk to its Group Credit Committee. A separate Credit department, reporting to the Bank Credit Committee, is responsible for managing the credit risk, including the following.

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit, the Head of Credit, the Credit Committee or the board of directors as appropriate.

- Reviewing and assessing credit risk Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).

- Developing and maintaining the risk gradings to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Risk.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Credit, which may require appropriate corrective action to be taken

- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit-related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval. Regular audits of business units and Credit processes are undertaken by Internal Audit.

30 Financial risk management *(continued)*

c) Liquidity risk

'Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

Management of liquidity risk

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and oversight of the implementation is administered by ALCO. ALCO approves the Bank's liquidity policies and procedures created by the Financial Risk group. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Stress testing of the Bank's liquidity position against various exposures and global, country- specific and Bank's-specific events.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Bank- specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes).

30 Financial risk management *(continued)*

d) Market risk

'Market risk' is the risk that changes in market prices – e.g. interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

i) Management of market risks

The Bank separates its exposure to market risks between trading and non-trading portfolios. The Bank has mainly non-trading portfolios and trading portfolios are mainly consists for foreign exchange positions held by the foreign operations department. However, Bank does not trade in foreign exchanges except for onward requirement of clients. The foreign exchange positions are treated as part of the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Bank Market Risk Committee is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank of Zambia sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

ii) Exposure to market risk – Non-trading portfolios

Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Central Treasury in its day-to-day monitoring activities. These day-to-day activities include monitoring changes in the Bank's interest rate exposures, which include the impact of the Bank's outstanding or forecast debt obligations.

31 Basis of measurement

These financial statements have been prepared on the historical cost basis, except for building, which are carried at their revalued amount.

32 Significant accounting policies

Except for the changes explained in Note 5, the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

32 Significant accounting policies *(continued)*

a) Foreign currency

Transactions in foreign currencies are translated to Kwacha at spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

b) Interest income and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or

– the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit- impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

32 Significant accounting policies *(continued)*

b) Interest income and expense *(continued)*

Policy applicable from 1 January 2018 *(continued)*

Effective interest rate *(continued)*

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 32(g)(vii).

32 Significant accounting policies *(continued)*

b) Interest income and expense *(continued)*

Policy applicable before 1 January 2018 *(continued)*

Effective interest rate *(continued)*

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost;

c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income generally includes retail banking customer fees like account maintenance charges, ATM withdrawal charges, cheque book charges etc., and loans and advances fees like documentation charges, management fees, processing charges etc., is recognised as the related services are performed.

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

Administrative expenses and operating expenses relate mainly to transaction and service fees, which are expensed as the services are received.

32 Significant accounting policies *(continued)*

d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

e) Income Tax

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

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

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

Deferred tax is not recognised for:

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

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

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

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

32 Significant accounting policies *(continued)*

e) Income Tax *(continued)*

Deferred tax *(continued)*

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

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

f) Employee benefits

i) Defined contribution plan

The Bank contributes to the National Pension Scheme Authority (NAPSA) which is a defined contribution scheme. Membership to NAPSA is compulsory and monthly contributions by both employer and employee are made.

Obligations for contributions to National Pension Scheme Authority (NAPSA) are recognised as an expense in profit or loss in the periods during which services are rendered by employees. The Bank's employees are on term contracts and a provision for gratuity has been made for all its employees

ii) Short term benefits

Short-term employee benefits, such as salaries, holiday pay, and other benefits, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid as short-term bonus to the extent that the Bank has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

iii) Terminal benefits:

Normal retirement
An employee may retire on attaining the pensionable age which shall be 55 years, or after working for 20 years of continuous service whichever is earlier. The retirement benefits shall be 3 months pay for each completed year of continuous service. For union employees service conditions as per service agreement shall apply.

Retirement on medical grounds

An employee may be retired on medical grounds on receipt of satisfactory medical evidence from the relevant Ministry of Health authority or a Bank appointed medical practitioner. The benefits to be received on such retirement will be as per conditions of service.

32 Significant accounting policies *(continued)*

g) Financial assets and financial liabilities

i) Recognition and initial measurement

The Bank initially recognises loans and advances and deposits, on the date they are originated. All other financial assets (including regular way purchases and sales of financial assets) are recognised initially on the trade date which is the date the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value including, for an item not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

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

32 Significant accounting policies *(continued)*

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

ii) Classification *(continued)*

Financial assets – Policy applicable from 1 January 2018 *(continued)*

Business model assessment

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

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

Assessment of whether contractual cash flows are solely payments of principal and interest

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

32 Significant accounting policies *(continued)*

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

ii) Classification *(continued)*

Financial assets – Policy applicable from 1 January 2018 *(continued)*

Assessment of whether contractual cash flows are solely payments of principal and interest *(continued)*

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

The Bank classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
- held-for-trading; or
- designated as at FVTPL.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

32 Significant accounting policies *(continued)*

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

iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

32 Significant accounting policies *(continued)*

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

iii) Derecognition *(continued)*

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

iv) Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

32 Significant accounting policies *(continued)*

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

iv) Modifications of financial assets and financial liabilities

Financial assets

If the modification of a financial asset measured at amortised cost or does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.a Any costs or fees incurred and fees receivedb as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see (iii)) and a new financial asset was recognised at fair value.
If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre- modification interest rate (see (vii)).

32 Significant accounting policies *(continued)*

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

iv) Modifications of financial assets and financial liabilities *(continued)*

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.
Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

vi) Fair value measurement

'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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

32 Significant accounting policies *(continued)*

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

vi) Fair value measurement *(continued)*

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

32 Significant accounting policies *(continued)*

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

vii) Impairment

Policy applicable from 1 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.
- No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 6(A)(iii)).
- Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

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

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

Measurement of ECL

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

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 6(a)(iii).

32 Significant accounting policies *(continued)*

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

vii) Impairment *(continued)*

Policy applicable from 1 January 2018 *(continued)*

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 6(a)(iii)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

32 Significant accounting policies *(continued)*

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

vii) Impairment *(continued)*

Policy applicable from 1 January 2018 *(continued)*

Credit-impaired financial assets *(continued)*

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

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

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

32 Significant accounting policies *(continued)*

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

vii) Impairment *(continued)*

Policy applicable from 1 January 2018 *(continued)*

Write-off *(continued)*

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

Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's Bank.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets' (see Note 29). The Bank presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

Objective evidence of impairment

At each reporting date, the Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

32 Significant accounting policies *(continued)*

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

vii) Impairment *(continued)*

Policy applicable before 1 January 2018 *(continued)*

Objective evidence of impairment *(continued)*

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlated with defaults in the Bank.

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

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Bank considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Bank considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and advances and held-to- maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

32 Significant accounting policies *(continued)*

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

vii) Impairment *(continued)*

Policy applicable before 1 January 2018 *(continued)*

Objective evidence of impairment *(continued)*

In making an assessment of whether an investment in sovereign debt was impaired, the Bank considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held- to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions.

32 Significant accounting policies *(continued)*

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

vii) Impairment *(continued)*

Policy applicable before 1 January 2018 *(continued)*

Individual or collective assessment *(continued)*

The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

For available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

32 Significant accounting policies *(continued)*

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

vii) Impairment *(continued)*

Policy applicable before 1 January 2018 *(continued)*

Write-off

The Bank wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Bank Credit determined that there was no realistic prospect of recovery

viii) Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 19 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Bank in the management of its short term commitments, cash and bank balances with Bank and non-Bank banks, and overdrafts with these banks.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

32 Significant accounting policies *(continued)*

i) Loans and advances

Policy applicable from 1 January 2018

'Loans and advances' captions in the statement of financial position include:

– loans and advances measured at amortised cost (see g(ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Policy applicable before 1 January 2018

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Bank did not intend to sell immediately or in the near term.

Loans and advances to banks were classified as loans and receivables. Loans and advances to customers included:

– those classified as loans and receivables;

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

j) Investment securities

Policy applicable from 1 January 2018

The 'investment securities' caption in the statement of financial position includes:

– debt investment securities measured at amortised cost (see g(ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity,

i. Held-to-maturity

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at FVTPL or as available-for-sale.

32 Significant accounting policies *(continued)*

j) Investment securities *(continued)*

Policy applicable from 1 January 2018 *(continued)*

i. Held-to-maturity *(continued)*

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see (g)(vii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

k) Deposits from customers

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

l) Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities.

The Bank receives collateral in the form of cash or debt securities in respect of other financial instruments in order to reduce credit risk. Collateral received in the form of debt securities is not recognised on the statement of financial position. Collateral received in the form of cash is recognised on the statement of financial position with a corresponding liability. These items are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recognised as interest expense or interest income respectively.

m) Leases

A lease is classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership. For an operating lease, a lessee does not recognise a liability for rentals in respect of future periods, except for a property that is held for an operating lease that is accounted for as investment property. In a case where the Bank is the lessee, the leased assets are not recognised in the Bank's statement of financial position. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the lease period.

32 Significant accounting policies *(continued)*

n) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed.

Depreciation

Depreciation is calculated to write off items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Leasehold land and building	50 years
Leasehold improvements	10 years
Motor vehicles	5 years
Furniture, fittings and office equipment	4 years
Office computer	4 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Revaluation of property

An external, independent valuation expert, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Bank's land and buildings every 5 years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably

32 Significant accounting policies *(continued)*

n) Property and equipment *(continued)*

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A market yield is applied to the estimated rental value, adjustments are made to reflect actual rentals.

i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Revaluation surplus

The surplus arising on the revaluation of properties is initially credited to a revaluation surplus, which is a non-distributable reserve. A transfer is made (net of tax) from this reserve to retained earnings each year, equivalent to the difference between the actual depreciation charge for the year and the depreciation charge based on historical values, in respect of the re-valued assets.

If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset, thereafter the remaining decrease is recognised in profit or loss.

Capital work in progress

Capital work-in-progress represents assets in the course of development, which as at the reporting date, has not brought into use.

o) Impairment of non-financial assets

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets.

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in profit or loss.

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 recognized.

32 Significant accounting policies *(continued)*

p) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Restructuring	A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

q) Share capital and reserves

i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

ii) Prepaid capital contributions

Amounts received in respect of prepayments for shares not yet issued, and for which there is no possibility that the Bank may be required to refund the amount received and the Bank's obligation is to deliver only a fixed number of shares, are credited to a separate category of equity as funds awaiting allotment of shares.

iii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

r) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. These assets are excluded from these financial statements, as they are not assets of the Bank.

32 Significant accounting policies *(continued)*

s) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see g(vii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments:

- from 1 January 2018: the Bank recognises a loss allowance (see g(vii));
- before 1 January 2018: the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

t) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as unrecognised transactions and disclosed as contingent liabilities.

33 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a significant impact on the Bank's financial statements in the period of initial application.

a. IFRS 16 Leases

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because:

- the Bank has not finalised the testing and assessment of controls over its IT systems; and
- the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i. Leases in which the Bank is a lessee

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of branch and office premises (see Note 31m). The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Bank's future minimum lease payments under non-cancellable operating leases amounted to ZMW 6.40 million, on an undiscounted basis, which the Bank estimates it will recognise as additional lease liabilities.

33 Standards issued but not yet adopted *(continued)*

a. IFRS 16 *Leases* *(continued)*

ii. Transition

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

b. Other standards

The following amended standards are not expected to have a significant impact on the Bank's financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts.

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Foreign Department	PlotNo. 6907, CairoRoad P.O.Box 35411,Lusaka	0211238924/225039 0211228245/220348	0211222613	cmfgn@izb.co.zm
2. Northend	Plot 830, Malasha Junction P.O.Box 35411,Lusaka	0211222616 0211232219/235076	0211223972	cmnorthend@izb.co.zm
3. Kamwala	Plot228(A) Chilumbulu Road P.O.Box 35411,Lusaka	0211 235717/238863 0211234058	0211238571	bmkamwala@izb.co.zm
4. Industrial	Plot284, mumbwaroad P.O.Box 35411,Lusaka	0211 286218/286223 0211846070	0211286219	bmindl@izb.co.zm
5.Chandwe musonda	Prinxpark Chandwe MusondaRoad P.O.Box 35411,Lusaka	0211223552 0211223553	0211221589	bmchandwe@izb.co.zm
6. MandaHill	PiotNo.1860B, MandaHill ShoppingMall P.O.Box 35411,Lusaka	0211250867 0211250882/250885	0211250869	bmmandahill@izb.co.zm
7. Crossroads	Crossroads ShoppingMall Leopards Hill Road P.O.Box 35411,Lusaka	0211268490 0211268492	0211268491	bmcrossroads@izb.co.zm
8. Chawama	Plot27/100 SparChawama ShoppingMall P.O.Box 35411,Lusaka	0211 840537/840538 0211840539	0211840541	Bmchawama@izb.co.zm
9. Chilanga	S/D1880,Kafue Road P.O.Box 35115,Chilanga	0211278464 0211278448	0211278443	bmchilanga@izb.co.zm
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11. Kafue	PlotNo.1076 Lusaka, Road	0211311617	0211311600	bmKafue@izb.co.zm
CENTRAL PROVINCE				
12.kabwe	GreatNorth Road P.O.Box8025, Kabwe	0215 222104/222105 0215221133	0215224823	bmkabwe@izb.co.zm
13. Mulungushi University Agency	Mulungushi University Kabwe			
14.Serenje	Stand19, ConventRoad, Serenje	0215382036	0215382035	bmserenje@izb.co.zm
COPPERBELT PROVINCE				
15.Ndola Main	PlotNo30, President Avenue, P.O.Box 73283,Ndola	0212621347 0212 611126/611124 0212610779	0212615421	cmndola@izb.co.zm
16.Jacaranda	Jacaranda ShoppingMall, PlotNo.3539, Corner Mushili/Kabwe Road, P.O.Box73283 Ndola	0212650711 0212650712	0212650713	bmjacaranda@izb.co.zm

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18.Chingola	PlotNo.1860, KwachaStreet P.O.Box11225, Chingola	0212 314410/314411 0212314430	0212 314412	bmchingola@izb.co.zm
19. Chililabombwe	PlotNo.2100 Midway avenue chililabomwe	0212 380045/380044	0212 380043	bmchililabombwe@izb.co.zm
NORTH WESTERN PROVINCE				
20.Solwezi	PlotNo.408/409,TownCenter P.O.Box110476,Solwezi	0218821767 0218821757	0212821834	bmsolwezi@izb.co.zm
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21.kasama	StandNo.9,Independence Av. P.O.Box410217, Kasama	0214221105	0214 221108	bmkasama@izb.co.zm
22.Mungwi	PlotNo. 1031, Mungwi	0216245018	0216245024	bmmungwi@izb.co.zm
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23.Chinsali	PlotNo.2008, VictorNg'andu Road P.O.Box480273, Chinsali	0214565054 0214565010	0214565057	bmchinsali@izb.co.zm
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25.Nyimba	PlotNYI 1700, GreatEastRoad P.O.Box570034, Nyimba	0216 374022/374023 0216374024	0216 374025	bmnyimba@izb.co.zm
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27.Lundazi	Stand2553,Lundazi	0216480212 0216480213	0216480214	bmlundazi@izb.co.zm
SOUTHERN PROVINCE				
28.Choma	Stand79A,LivingstoneRoad P.O.Box630577,Choma	0213220115 0213220114	0213 220116	bmchoma@izb.co.zm
29.L ivingstone	PlotNo.122/A, MosiOTunya Road P.O.Box60399, Livingstone	0213 322625/322626 0213322695	0213322627	bmlstone@izb.co.zm
30.Z imba	StandNo.03,Plot No.26 LusakaRoad, Zimba	0213344430	0213344429	bmzimba@izb.co.zm
WESTERN PROVINCE				
31.Mongu	PlotNo.3255,Independence Avenue, P.O.Box910089 Mongu	0217221409 0217221422	0217221434	bmmongu@izb.co.zm