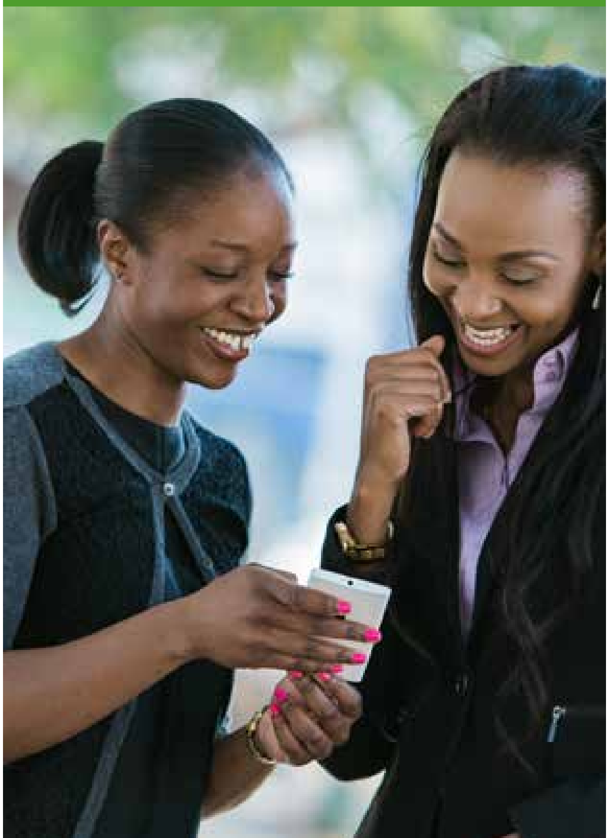


Contents

Chairman's statement
Annual Report 2019

Earnings per share

K 0.007

2018:K0.138

Dividend per share

K Nil

2018: K0.13

When I joined Standard Chartered Bank Zambia Plc three years ago as Board Chairman, I had a strong sense of pride regarding the Bank's deeply respected brand image. I am glad that the Board has continued to focus on consistently providing support to help cement and enhance the Bank's prestigious positioning in the market. We have kept our internal and external stakeholders, including our valued communities at the centre of these efforts, thereby continuing to be 'Here for good'.

With a background of strengthened foundations over the past three years of our Turnaround Journey, we have refined our identity as a global bank that is mature enough and sufficiently equipped to serve an array of top-tier Multinational-National Clients (MNCs), while remaining local and agile enough to offer exceptional service by leveraging ground-breaking innovation.

We were excited to launch Zambia's first-ever digital bank for deposits in 2019, a ground-breaking innovation aligned with our client centric approach to doing business, our objective to deliver cost-effective solutions with greater efficiencies, and our drive to align with the government's financial inclusion agenda.

In 2019, the Board stayed close to the Management team in the face of a challenging macro-economic environment, and provided critical oversight and guidance underpinned by sound corporate governance principles, aligned with the Bank's risk management framework.

2019 Economic Overview

The economy of Zambia in 2019 experienced significant headwinds with Gross Domestic Product (GDP) growth being revised downwards to 2 per cent in the second half of the year from an initial forecast of 4 per cent largely driven by adverse weather conditions which negatively impacted the energy and agricultural sectors. The electricity deficit grew to levels exceeding 800 MW, impacting the wider sectors of the economy.

"With a background of strengthened foundations over the past three years of our Turnaround Journey, we have refined our identity as a global bank that is mature enough and equipped enough to serve an array of top-tier Multinational-National Clients (MNCs), while remaining local enough and agile enough to offer exceptional service by leveraging ground-breaking innovation."

Caleb M Fundanga.
Chairman

The country's rising external debt burden continued to be a major concern with debt servicing of USD1.5bn in 2019. The Kwacha came under pressure from demand for debt servicing, importation of petroleum products and importation of power to cushion the electricity deficit in the second half of 2019. The Kwacha depreciated by about 20 per cent in 2019, peaking at above 15.50 per USD in the fourth quarter of 2019. The currency was further impacted by weakening copper prices and reduced production in the mining industry which accounts for 70 per cent of foreign exchange earnings. The industry was also impacted by the domestic arrears the government owes to local contractors.

Inflation edged up and breached the Central Bank's 6-8 per cent target range, closing 2019 at 11.7 per cent, largely driven by the rise in food prices, the depreciation of the Kwacha and the increase in fuel prices. In an effort to cushion inflationary pressures, the Monetary Policy Rate (MPR) was increased to 11.5 per cent in November 2019 from 10.25 per cent in May 2019, after opening 2019 at 9.75 per cent. In addition, the Statutory Reserve Ratio (SRR) was increased from 5 per cent to 9 per cent in December 2019.

Policy debate around the tax regime proposed in the 2019 National budget further impacted economic growth during 2019 as most investors slowed down on planned investments, having been in a 'wait and see' mode. A widely debated proposal was the change to a Sales Tax from the Value Added Tax (VAT) which was subsequently reversed in the third quarter of 2019.

Risk Governance

2019 was a challenging but productive year for the Bank. Our risk management approach is at the heart of our business and is core to us building a sustainable platform for growth. We continued on our Enterprise Risk Management Framework ("ERMF") journey through the year by embedding a healthy risk culture which underpins an entity-level ability to identify and assess, openly discuss, and take prompt action regarding current and emerging futures risks. A healthy risk culture continues to be a core objective across all areas of the Bank's operations. While we have made great strides in establishing a healthy risk culture, we recognise that threats to our business are constantly evolving, and only by continuing to explore all available opportunities to improve can we keep delivering on our brand promise of being Here for Good.

In an industry that faces much disruption, we are committed to building partnerships and embracing new technologies to strengthen our risk capabilities. Our ERMF sets out the guiding principles for our people, enabling us to have integrated and holistic risk conversations across all Principal Risks. We continue to assess strategic initiatives and growth opportunities from both the financial and non-financial risk perspective. Our improved approach to effectiveness reviews facilitates challenge, learning from self-identified issues or weaknesses and making improvements that are lasting and sustainable.

Information and Cyber Security ("ICS") remains the area with an increased risk profile across financial services and other industries. We continue to invest and increase our capability in information and cyber security through the expansion and strengthening of our operating model. Financial Crime is another area of focus as it hinders economic progress and harms communities. We are committed to fighting it. To this end, I am glad to report that we have made substantial progress in building an effective and sustainable Financial Crime Compliance programme, and improving our controls, systems and processes.

In the coming year, the Board will in addition focus on emerging risks such as climate change. We are aligned to the Standard Chartered Bank Group announcement of September 2018 to stop providing finance for new coal-fired power plants anywhere in the world. We have since reduced our risk appetite to carbon-intensive sectors by introducing technical standards for coal-fired plants and restrictions on new coal mining clients and projects.

The Board and Management

The Board and Management team has remained resolute in leading the Bank through challenging times and creating long term value for stakeholders.

Ms. Louise Vogler, who served as a Non-Executive director (NED) on the Board of Standard Chartered Bank plc resigned from the Board on 1st April 2019. I would like to recognise her valuable contributions to the Board during her tenure and wish her continued success in her future endeavours.

From the Management team, I am delighted to recognise Olusegun Omoniwa, our Country Head of Wealth Management who was appointed as the Southern Africa Cluster Head of Wealth Management during 2019. This entails added responsibilities of oversight over Zimbabwe and Botswana. I would also like to recognise Emmy Kumwenda, our Country Head Global Banking who took on the new role for additional leadership responsibilities over the Global Subsidiaries and Financial Institutions client segments in Global Banking during 2019.

Awards and Thought Leadership

In 2019, Standard Chartered Bank Zambia Plc was, once again, named 'Best Consumer Digital Bank in Zambia' by the prestigious 'Global Finance'. The Bank's digital offering was strengthened by the launch of the first-ever digital bank in Zambia in June 2019.

The Bank played a key role in financial education through several Thought Leadership articles during 2019 with a focus on Financial Well-being, the Principles of Investment, and Managing Wealth, amongst others.

Standard Chartered Bank Zambia Plc hosted a first-ever Master Class on Information and Cyber Security for six of our regulatory bodies and law enforcement agencies in the country on emerging cyber security risks in an ever-changing business environment in the advent of digital revolution.

The Bank supported the first-ever National Economic Summit led by the Economics Association of Zambia (EAZ). I was honoured to participate on a panel discussion under the theme 'The Role of the Financial Sector in Economic Development'.

In addition, the Bank participated in the Industrial Development Corporation (IDC) Annual Conference where our Chief Executive Officer (CEO), Herman spoke on 'Achieving Quick Wins' and participated on a panel discussion titled 'Mindset for Innovation'.

Other Thought Leadership initiatives included; panel discussions to showcase our award-winning Straight-to-Bank (S2B) solution in partnership with the United Nations High Commission for Refugees (UNHCR) and Airtel for displaced persons at Meheba Refugee Camp; and panel discussions at the Zambia Institute of Banking and Financial Services (ZIBFS) Conference on Financial Inclusion for Displaced Persons and on Digital Fraud.

Financial Highlights

Standard Chartered Bank Zambia Plc reported returns of 2 per cent on shareholder's investments for the year ended 31 December 2019, compared to 38 per cent in 2018. This was attributable to the following factors:

a) Sharp increase in provisions – specifically higher Expected Credit Loss in alignment to the country downgrade and the IFRS 9 guidelines.
b) Higher than budget costs to cater for the business restructuring expenses
c) Flat year-on-year growth in revenues due to the subdued economic activity

We found it prudent to take a cautious approach in view of the deteriorating macro-economic trends. On a positive note, deposits grew 13 per cent year on year with Standard Chartered Bank Zambia Plc moving to third place from fourth place in 2018 in the market from a balance sheet perspective. This is demonstration of the success of the Retail Banking digital bank rolled out in 2019 as well as initiatives under Corporate and Institutional Banking and Commercial Banking to grow Operating Accounts (OPAC). The overall performance fell below budget, however, we are confident that our strategic choices will position the business to weather the headwinds and that the tough decisions deliver long term benefits.

Economic Outlook

GDP growth is expected to grow marginally at about 2 per cent, with most of the challenges experienced in 2019 perpetuating into 2020.

The Kwacha remains vulnerable to exogenous shocks given the demands viz-a-viz the current gross international reserves.

Inflation is expected to remain above the Central Bank's 6-8 per cent target range over the forecast horizon, having closed 2019 at 11.7 per cent, on account of the fuel price and electricity tariff increases.

The global outlook on copper is positive with prices expected to rise supported by a number of factors including positive sentiment, declining inventories, and buying by China following the destocking in 2019 and the pickup in grid investment.

However, the recent outbreak of the Coronavirus in China which has spread to over 20 countries so far is expected to negatively impact China's growth prospects for the first half of 2020. This could in turn negatively impact the copper demand and price. Growth, however, is likely to rebound for the rest of the year if the epidemic is put under control before the end of March 2020.

Industry Outlook

The external operating environment remains uncertain. The banking sector continues to evolve impacted by increasingly stringent local and global regulations coupled with rapid technological advancement. At Standard Chartered Bank Zambia Plc, we will continue to stay close to our clients given the anticipated continued macro-economic challenges into 2020. We will continue to leverage our unique global network and local heritage to navigate the operating environment and remain a key player in the market.

Conclusion

As Standard Chartered Bank Zambia Plc, we were prudent in navigating the various macro-economic challenges, and consequently recorded lower income, increased provisions as per *IFRS 9 Financial Instruments*, and lower profitability in 2019. We further aligned our business segments for improved client coverage. We reinforced our foundations and embedded the refreshed strategic priorities to position the business for exponential growth going forward. Proactive risk management for both internal and external risks remained an integral part of our business and enabled us to maintain a safe Bank for all our stakeholders.

The strategy of Standard Chartered Bank Zambia Plc is well aligned to the external and internal operating environment. The Bank continues to focus on opportunities to partner with various players in the economy and to leverage further enhancements of digital capabilities to enhance shareholder returns, with a clear understanding of risks inherent to the Bank's strategy.

Caleb M Fundanga.

Chairman
28 February 2020

Chief Executive Officer's statement

Total Revenue

K1,071m

2018: K1,101m

Total Profits before tax

K65m

2018: K414m

The Standard Chartered Group strategic priorities were refreshed in the first quarter of 2019. As Standard Chartered Bank Zambia Plc, we continued to leverage the value of our network, our digital capabilities and our deep local knowledge to foster prosperity for our internal and external stakeholders while effectively managing the risks inherent in our strategy. We embarked on entrenching the refreshed strategic priorities and delivering value to stakeholders by;

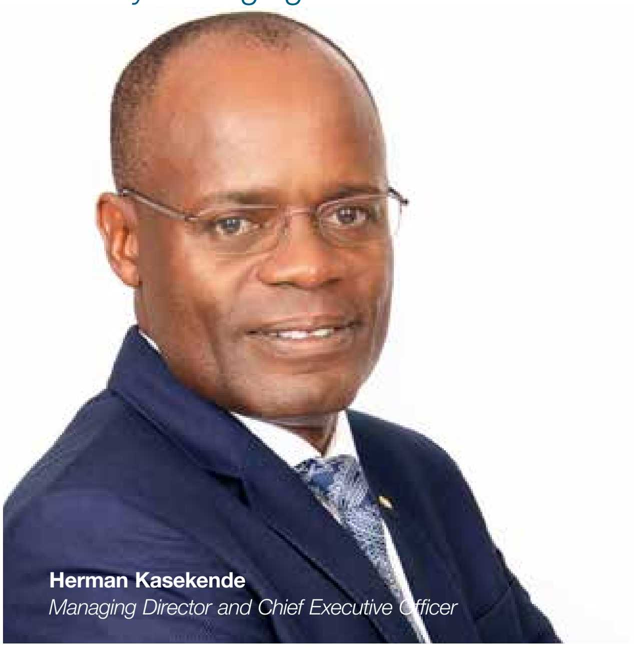
- Growing our affluent business and improving the penetration of Wealth products;
- Continuing to transform and disrupt with digital by delivering further enhancements to our platforms across both Retail banking and Corporate and Institutional Banking (CIB);
- Continuing to deliver the value of our network for the benefit of our Corporate and Institutional Banking clients;
- Improving productivity through the end to end review of processes and improvement of our client's journeys. We also focused on improving value proposition and returns for low-returning products and segments.

Standard Chartered Bank Zambia Plc continued to command a strong presence in the market in 2019. We significantly grew our deposits base by leveraging our digital capabilities. The tough economic environment led to a sharp slowdown in growth and investment in 2019. These conditions led to the unprecedented negative sentiments and a much-restricted credit appetite. As a result, credit extension was subdued and client transactions markedly reduced thereby impacting income growth.

As a consequence of the negative sentiments, the country was downgraded in alignment with the Credit Rating agencies. This resulted in a sharp increase in provisions on the existing asset portfolio as required by the guidelines under IFRS 9. Naturally this left our stakeholders very disappointed. We ourselves also acknowledge our disappointment with the 2019 results.

However, Management is still duty bound to uphold International Financial Reporting Standards as well as Standard Chartered Bank Group's internal guidelines on provisions. These setbacks notwithstanding, the business was always focused on securing the bank's operating foundations amidst formidable risks and challenges.

"As Standard Chartered Bank Zambia Plc, we continued to leverage the value of our network, our digital capabilities and our deep local knowledge to foster prosperity for our internal and external stakeholders while effectively managing the risks inherent in our strategy."



Herman Kasekende
Managing Director and Chief Executive Officer

In addition, other factors that contributed to the underwhelming performance are: a) restructuring costs associated with our distribution model optimization, b) depreciation expenses due to the adoption of International Financial Reporting Standard (IFRS) 16 which requires lessees to recognise operating leases in their balance sheets which was not the case under International Accounting Standard (IAS) 17 in 2018.

We made good progress in 2019 in delivering key initiatives started in 2018 to implement a strong risk management approach. We have continued building a Risk Function which allows the Bank to identify and manage risks holistically, ensuring that appropriate governance, oversight and information is in place to run a safe, secure and well-controlled organization. The Enterprise Risk Management Framework ("ERMF") we launched in 2018, sets out a refreshed risk culture and a clear control framework with sharper delineation of responsibilities between the three lines of defence. It also strengthens the Bank's capabilities to understand, articulate and control the nature and level of risks we take while still serving our clients effectively.

We operationalized the risk management workstreams under the respective Risk Type Frameworks (RTFs) for each Principle Risk Type (PRT) enabling us to formalize the links between our Corporate strategy, Risk Appetite and Stress Testing to facilitate more dynamic risk identification and the integration of risk considerations into strategic decision-making. Principal Risk Types are risks that are inherent in our strategy and business model which are monitored and controlled through the Board-approved risk appetite. The philosophy underpinning the Bank's risk culture is that we will not compromise adherence to our risk appetite to pursue revenue growth or higher returns.

Over the course of 2020, the Bank aims to further strengthen its risk management practices by developing additional RTFs for addressing Climate-related physical risk of increased extreme weather events and transition risks arising from changes to market dynamics due to regulators' response to climate change.

Our focus in 2020 will also extend to monitoring wider risks arising from the geo-political events such as extended US-China trade tension, the Middle East political situation, new technologies and digitization (including business disruption risk, responsible use of artificial intelligence and obsolescence risk), increased data privacy and security risks from strategic and wider use of data.

In demonstrating the Group's commitment to the country, Standard Chartered South Africa and Southern Africa CEO, Kweku Bedu-Addo and Regional CRO Ian Bryden visited Zambia in 2019 to interact with the local Board and Management team and also meet some of the key external stakeholders. During his visit, Kweku met the Permanent Secretary for Budget Economic Affairs, Dr. Emmanuel

Pamu. The focus of the interactions and meetings were largely around the prevailing macro-economic headwinds, what they meant for business and practically looking ahead as partners in developing the Zambian economy. Kweku's visit to Zambia is a reflection of the significance of Standard Chartered Bank Zambia Plc to the Standard Chartered Group and also a reinforcement of the Group's commitment to Standard Chartered Bank Zambia Plc.

Corporate and Institutional Banking (CIB)

Corporate and Institutional Banking revenue declined substantially as unfavourable conditions affected client activity particularly in the Financial Markets Division. Our Capital Markets product, principally reliant on secondary market bond sales, did not deliver at the same level as last year due to reduced interest in government bonds by clients in our Financial Institutions client segment. While we are disappointed with our 2019 Corporate and Institutional Banking financial results, we have not lost sight of our important achievements. We managed credit risks exceptionally well and the quality of the asset book was reflected in positive expected credit loss model results at year end. We are extremely gratified that we were able to grow and gain healthy market share in the corporate deposit base, with key cash origination deals helping to boost the performance of the bank's Treasury Markets des and we never stopped investing in our systems and infrastructure and adding leading products and solutions. While we haven't avoided every obstacle, we are proud our clients have been able to rely on our relative strength and stability during this period.

Starting 2020, we will transfer the most strategic clients in our erstwhile Commercial Banking business to Corporate and Institutional Banking. Our continued and unwavering support to these clients which command leading positions in key sectors of the economy, reflect the enduring confidence we have in the Zambian economy. Refining our client coverage strategy to our core strengths will enable us to streamline the focus of our Corporate and Institutional Banking business to serve leading corporations, financial institutions and government entities to meet most of their complex strategic needs, in Zambia and around the world.

We will continue to provide our creditworthy businesses the capital and financial tools they need to drive growth. We resolved to navigate through the tough conditions to help our clients in every way we could and to show leadership in the industry, as has been our legacy during times of crisis. The challenges created by the economic and market environment do not excuse the performance of our Corporate and Institutional Banking business. But they do help explain it. Regardless of what 2020 will bring, this emphasis on serving clients and growing our Corporate and Institutional Banking business will drive our results when the current economic cycle turns and for years to come.

Retail Banking

We recorded a 17 per cent growth in our Retail Banking liabilities as more clients placed deposits with us, while the underlying Retail Banking income declined on account of lower Personal Loan bookings and lower fees and commissions.

In 2019, Chartered Bank Zambia received the 'Global Finance' Award as 'Best Consumer Digital Bank in Zambia', an affirmation of the Bank's leading Retail Banking digital proposition.

We revolutionised Banking in Zambia by launching 'Capturing the Digital Initiative' (CDI) on 27th June 2019, being the first ever 'digital bank' to be launched in Zambia. The digital bank enables the end to end account opening process for personal clients to be completed digitally without the need to physically visit a Bank branch. This feat was an addition to other cutting-edge client-centric features on the Bank's SC Mobile App which has over seventy service requests. We further enhanced our digital proposition by launching the SC Keyboard, a feature which allows clients to access the SC Mobile App from their social media app or website without having to leave the social media app or website.

We further re-aligned the Retail Banking distribution network across the country exiting five locations which we replaced with alternative channels such as Automated Teller Machines (ATMs) and Cash Deposit Machines (CDMs). It is the Bank's strategy to continue to seek alternative distribution channels and improve the service offering of our digital proposition. In this vein, the roll out of the agency banking model is scheduled for 2020 to further enhance the retail banking network.

Our People

Standard Chartered Bank Zambia Plc closed 2019 with 561 employees. The Bank continued to align its People strategy to the Group's strategic direction and refreshed strategic priorities, underpinned by a performance-oriented and innovative culture.

In supporting the business strategy, our people strategy focused on four main ambitions for 2019:

1. Shape and enable a client centric and adaptable organisation
2. Develop and deploy the right talent (skills and capabilities)
3. Make the most of our diversity to deliver prosperity for clients and communities
4. Build a future-ready workforce

The adoption of technology substantially reduced the traffic in our branches due to the preference for self-service touch points. This necessitated the reduction of headcount required to support our operations in Retail Banking and Information Technology.

During the second half of 2019, there were also some changes made to the Corporate and Commercial Banking Business model in line with the Group strategy. This resulted in Standard Chartered Bank Zambia Plc adopting a Global Banking model for the corporate business and hence a reduction in Commercial Banking headcount.

The 2019 Employment Code Act was enacted on 9th May 2019. Standard Chartered Bank Zambia Plc reviewed the new code and is in the process of implementing the changes.

On 20th September 2019, the National Health and Insurance Act was gazetted. This was fully implemented by Standard Chartered Bank Zambia Plc in October 2019.

Community Investment

In 2019, we continued to invest in the communities in which we operate as a demonstration of our commitment to our brand promise to be 'Here for Good'.

The Bank sponsored the Habitat for Humanity Annual Women's Build event aimed at empowering disadvantaged women with decent shelter. The Bank supported Habitat to build 8 houses in 2019 in collaboration with other corporates.

We mentored youths under the Habitat for Humanity Zambia Youth skills training programme. The focus was on life-skills and career guidance.

Standard Chartered Bank Zambia Plc also sponsored free eye screening sessions under Seeing is Believing (SiB) with over 35,000 people screened in 2019.

Outlook for 2020

The macro-economic picture in 2020 is expected to remain subdued on account of a number of concerns continuing into 2020. The economy remains vulnerable to external shocks. We will continue to watch developments in exchange rates, prices and interest rates to equip ourselves with the requisite knowledge to appropriately advise our clients and key stakeholders.

We are confident that the business rationalisation initiatives we have undertaken and the strategic investments we have made will position Standard Chartered Bank Zambia Plc to be more agile and relevant in the market for the continued creation of value for both internal and external stakeholders.

Summary

I would like to recognise the noble efforts of our colleagues that enabled Standard Chartered Bank Plc to remain resilient in the Zambian market in 2019. As a Management team, we will continue to invest in our people and attract the best talent to secure the successful and sustained execution of our strategic priorities.

We will continue to enhance our focus on our valued clients, by constantly and rigorously refining our client journeys across the entire service spectrum. I would like to give tribute to our clients for choosing Standard Chartered Bank and trusting us to be a partner 'For Good'. I am also grateful to our shareholders for their continued commitment and support to the Bank.

Herman Kasekende

Managing Director and Chief Executive Officer

28 February 2020

Retail Banking

Our Strategy

In 2019, Retail Banking business heightened focus on the digital agenda along with ensuring a robust distribution network to best serve our clients in Business, Priority and Personal Banking segments

The digital capabilities enhancement made so far show how much progress and focus we are putting in our digital journeys to embed a more digitally focused distribution and service delivery network.

We remain confident that our retail strategy and priorities will deliver:

- An unrivalled client experience through our diverse product suite and world class digital capabilities
- A superior, sustainable, and scalable distribution network
- A profitable business with a well-diversified and optimised balance sheet

In 2019, the business successfully introduced state-of-the-art digital capabilities on our online and mobile banking platforms, which includes:

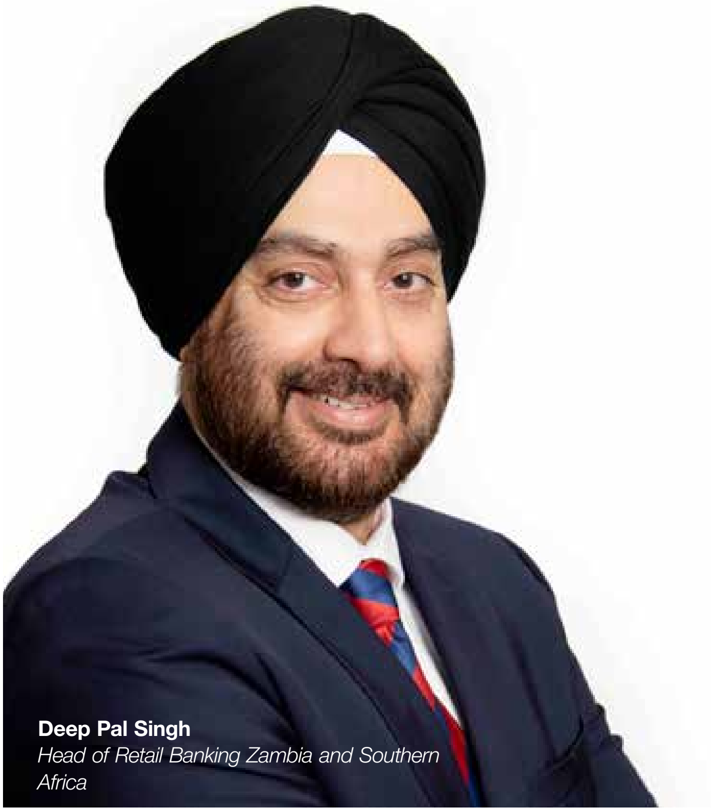
- Online account opening and activation – Self and Staff assisted
- Offering 70 service request fulfilment digitally
- P2P (Peer to Peer) real time cross border remittances
- SC Keyboard enhancement – allowing one to access the SC Mobile app from their social media apps
- USSD Bank to Wallet and Wallet to Bank capability
- QR payment solution

This further complements the drive to deliver best in class Digital capabilities on the existing Mobile and Online platforms.

The bank continued to innovate by introducing and rolling out

- Digital capabilities across the branch network
- Increased partnership with recommended realtors in Zambia for Mortgages
- Enhanced personal loan amount
- 100 per cent credit card limit increase
- Reduced eligibility criteria for credit cards.

"The digital enhancements made so far show how much progress and focus we are putting in our digital journey to embed a more digitally focused distribution and service delivery network."



Deep Pal Singh
Head of Retail Banking Zambia and Southern Africa

In line with our people agenda Retail Banking restructured its operation model in 2019 and introduced the Value Centres to enhance accountability and efficiency in the day to day running of the business. Further, the telesales and digital fulfilment team was introduced to strengthen our enhanced digital capabilities and address the trends that business is witnessing in client behaviour. It also allowed us to upskill and future proof individual staff members.

With our improved digital platforms, we reduced the branch operation hours and standardised them across the network to 7 hours a day from 9 hours to give back time to our staff for better work life balance. The business also optimised its branch network and aligned it to the core growing cities by reducing 6 branches i.e. 4 closed, 01 merged and 01 moved to Global Banking

Awards

The Business was recognised for its outstanding digital capabilities enhancements and received various awards / recognition:

- The "Best Consumer Digital Bank 2019" by Global Finance – 6th time in a row. Clearly highlights that we are indeed trend setters in the market.
- VISA also awarded us the "VISA 2019 Efficiency Award", which affirms that we have the best offering on both credit and debit cards in the market.

2019 Overview

The Retail Banking business delivered a strong performance in 2019 under challenging conditions and business environment achieving (all comparison at constant Fx):

- RB Income flat year on year (YoY)
- Priority Banking income YoY grew 32 per cent
- Business Banking income YoY grew 3.4 per cent
- Personal Banking income YoY dropped 11 per cent owing to:
  - Removal of unwarranted fee and charges
  - Reduced PL lending, in line with our risk appetite
- Staff cost YoY reduced 9 per cent excluding redundancy
- Liabilities balance sheet grew 16.5 per cent YoY
- Increased CASA and deposit account acquisition 3x i.e. from average 900 a month to 3000 a month.

Risk

The Retail Banking Risk and Control Environment warranted prudent asset book management and de-risking and this was carried out judiciously and in a timely manner – owing to this the overall risk and control framework remained strong in 2019.

In all the reviews and risk measures undertaken management demonstrated ownership and understanding of risks facing the business along with ensuring a robust mechanism for identifying and addressing control weaknesses, if any.

Some of the key highlights for the year being:

- Business cleared all local and group reviews and audits with an acceptable or well-controlled rating
- Timely identification of segments facing stress owing to macros along with taking appropriate actions to address the issue

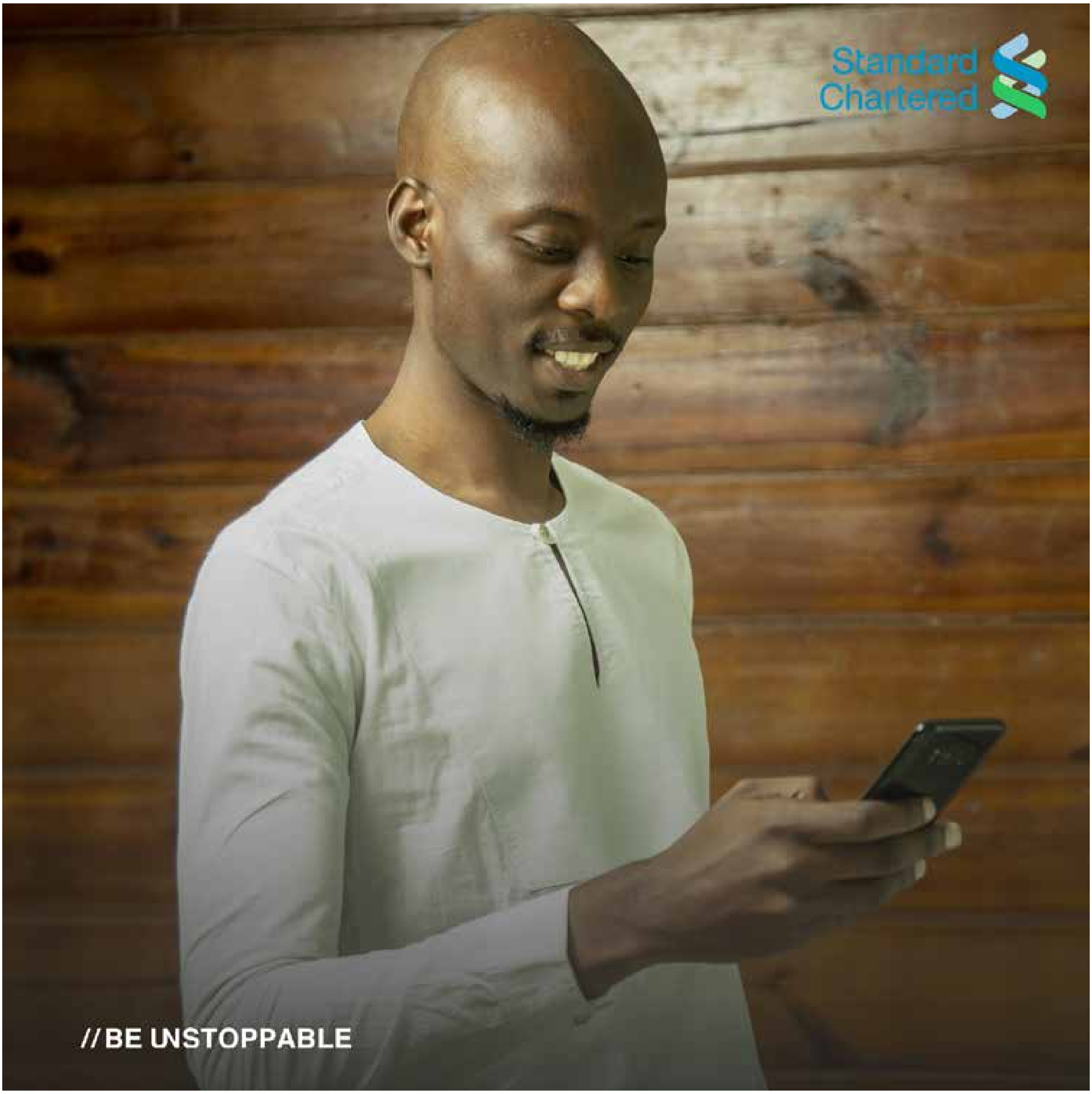
2020 Outlook

We have built a very strong and resilient business model and are confident about the prospects of retail banking in Zambia. With the refreshed Retail Banking organisational structure and the opportunities available in the market, we are well poised to preserve segment's financial performance in 2020.

We will continue our focus on:

- High value segments
- Leverage on a well optimised distribution network
- Leverage on Digital capabilities – introduce Agency Banking by end of H1 '20
- Right product suite built into a strong segment proposition
- Finally continue to grow our client base and balance sheet

All of this while continuing to keep the overall business profitable with positive Economic Value Addition.



Wealth Management

Our Strategy

We offer superior investment advice, products and services to help our clients grow, manage and protect their wealth. We offer our clients a comprehensive range of Investment advice and solutions through our award-winning online and mobile channels and branches, as well as face-to-face support through our Investment Advisors, Insurance and Treasury Specialists. Our approach is to understand our clients' financial goals and/or needs and then help them build an investment portfolio that reflects their aspirations. In addition, we help our clients protect themselves, their families and businesses against risks on life using tailored insurance solutions, which are offered in partnership with Sanlam Life Insurance.

2019 Overview

2019 was a truly pivotal year for the Wealth Management business as we sought to continue building on the gains of previous years in establishing the Bank as a thought and solution providing leader in the Wealth Management space in Zambia. It was also a particularly good year for investors in capital markets. At the start of the year our aim was to help our clients in what we dubbed 'A Year to Prepare and React and support them to make informed decisions. We sought to 'drive prosperity' as we continued to expand our offering to give clients access to more investment products in local and foreign currency and refine our insurance solutions. We achieved this as is evident in our results.

- Revenues grew overall by around 32 per cent over the previous year and this growth was driven predominantly by higher Investment Services and Foreign Exchange trading volumes in the Retail Banking business. Income from Foreign Exchange trading and Investments Services were up by 17 per cent and 51per cent respectively. In Investment Services, the assets under management of clients we invested for doubled in 2019 compared to the previous year and the number of clients also grew significantly. The success recorded in our Investment Services and Foreign Exchange trading business was driven by strengthened client relationships.
- Our Relationship Managers and Investment Advisors continued to invest millions of Dollars-worth of client assets in both local and global capital markets. They also held several strategic sessions with clients to ensure they were kept abreast of key trends in the market and the investment landscape.
- In 2019 we built on our enhanced wealth solution offering as we continued to see interest in our cash secured overdraft solution which gives individual clients with fixed deposits access to an affordable overdraft facility. A good number of our clients took advantage of this offering to grow and manage their wealth with the size of this book growing significantly

"We offer our clients a comprehensive range of Investment advice and solutions through our award-winning online and mobile channels and branches, as well as face-to-face support through our Investment Advisors, Insurance and Treasury Specialists."

Olusegun Omoniwa
Southern Africa Cluster Head of Wealth Management

Outlook for 2020

As we assess the possible outlook for Investors in 2020 we are often faced with many factors to balance against each other. Stabilising growth and reducing trade conflict in the global economy, recovering corporate earnings and divergent monetary policies across some emerging and developed economies are clearly supportive factors for risk assets. We are well placed with our Wealth Management proposition to help our clients navigate the year. Our focus will remain on helping our clients strike a balance through the solutions and strategies we offer them. We will continue to 'drive prosperity' as we further expand our offering to give clients access to investment products in local and foreign currency and refine our insurance solutions. We will also continue to invest in the advisory and transaction processing capabilities of our platforms as we seek to accelerate the uptake of wealth solutions by our retail and commercial clients.

Who we are

Our client-facing businesses are supported by eight support functions, which work together to make the Bank's day-to-day operations run smoothly and are compliant with banking regulations.

Operations Technology & Innovation
Responsible for the Bank's operations, Systems development and technology Infrastructure.

Human Resources
Recruits and builds talent while providing learning and development opportunities to motivate colleagues.

Legal
Enables sustainable business and protects the Group from legal-related risk.

Compliance
Ensures that business is conducted in line with regulatory expectations.

Risk
Responsible for the sustainability of our business through good management of risk across the Group.

Finance & Administration
Incorporates five support functions: Finance, Strategy, Investor Relations, Supply Chain and Property.

Corporate Affairs, Brand and Marketing
Manages the Group's communications and engagement with stakeholders in order to protect and promote the Group's reputation, brand and services.

Internal Audit
Provide third line of defence to all the business segments and other support functions.

Products and services

Retail Products
- Deposits
- Savings
- Mortgages
- Credit cards
- Personal loans

Wealth
- Investments
- Portfolio management
- Insurance and advice
- Planning services

Transaction Banking
- Cash management
- Electronic Banking
- Securities services
- Trade finance

Financial Markets
- Investment
- Risk management
- Debt capital markets

Ability to offer Corporate Finance products e.g. Structured & project financing, Strategic advice & Mergers and acquisitions

Corporate and Institutional Banking

Our Strategy

Corporate and Institutional Banking supports clients with their transaction banking, corporate finance, financial markets and borrowing needs across more than 60 markets, providing solutions to clients in Zambia and the most active trade corridors. Our Corporate and Institutional Banking team brings together wholesale banking expertise across coverage, risk management, sales and trading, advisory and transaction banking infrastructure across the full network of Standard Chartered. This enables our Corporate and Institutional Banking team to align resourcing and capital across our client and product perimeter to effectively serve the Bank's corporate clients.

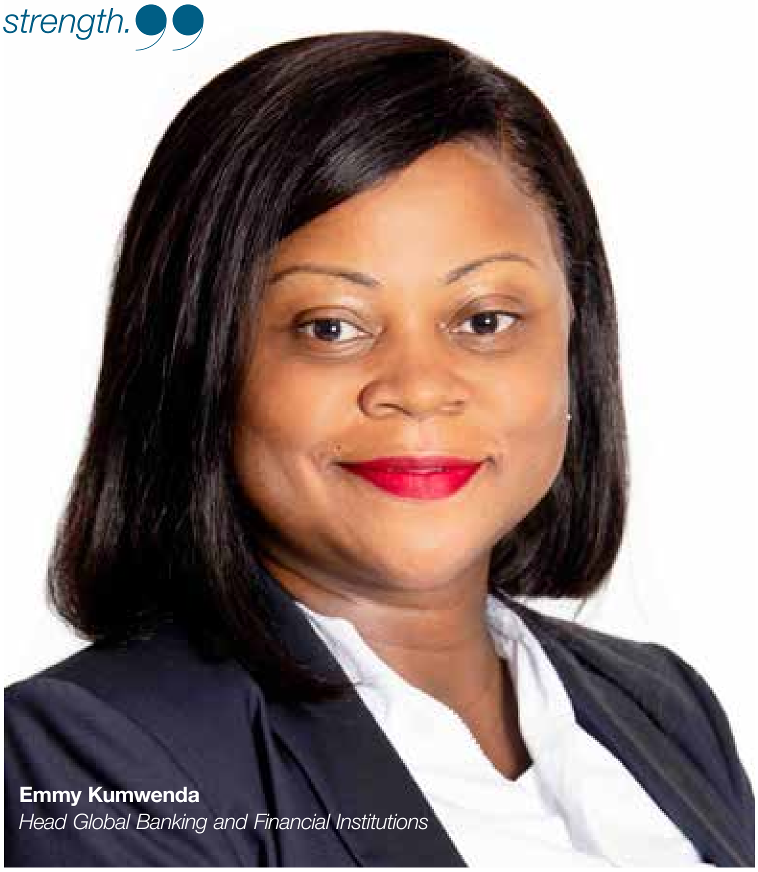
Our clients include large corporations, government entities, banks and investors operating or investing in Zambia. Our strong and deep global and local presence enables us to connect our clients multilaterally to investors, suppliers, buyers and sellers and enable them to move capital, manage risk, invest to create wealth and provide them with bespoke financing solutions

We collaborate increasingly with other segments, introducing Business Banking services to our clients' ecosystem partners – their networks of buyers, suppliers, customers and service providers – and offering our clients' employees banking services through Retail Banking. Finally, we are committed to sustainable finance, delivering on our ambitions to increase support and funding for financial products and services that have a positive impact on our communities and environment.

2019 Overview

Despite challenging market conditions, we have benefited from a strong balance sheet. We are in the business of taking strong risk - lending to leading businesses to fuel the economy. It is also our business to manage that risk and we exceptionally managed this in December 2019. Although we did not anticipate all of the extraordinary events of the year, our strong balance sheet, general conservatism and constant focus on risk management served us well. Our relentless focus on our balance sheet has always enabled us to prevail through tough times and seize opportunities while continuing to invest in our businesses.

Our aspiration is to be a Bank that provides our clients with world-class services and products, leveraging on the diversity of our people, products, and network strength.



Emmy Kumwenda
Head Global Banking and Financial Institutions

Throughout the last decade, we made and executed on many transformative decisions. As the current economic environment continues to unfold, the Corporate and Institutional Banking team understands the vital role our firm needs to play and feels a deep responsibility to our many stakeholders. It is this sense of responsibility that enables us to move beyond the distractions of the moment and stay focused on what really matters: taking care of our clients, helping the communities in which we operate and protecting our company from operational and credit risks outside the strategic peripheral of the values we share with our clients.

Our refreshed strategic priorities build on our purpose and earlier areas of focus but mark a change in the way we operate as we go from turnaround to transformation. This is demonstrated by our decision to refine our market participation from two corporate banking business segments (Corporate and Institutional Banking and Commercial Banking) to one (Corporate and Institutional Banking only) in 2019 as core aspect of the transformative path we are on. Zambia is a market where our corporate banking capabilities are geared towards international business, and we will reinforce our primary focus on originating and facilitating cross-border business. In line with this approach, our Corporate and Institutional Banking presence will continue to be expanded with a focus on serving clients with critical touch points in the key trade corridors for the Zambian economy.

Nothing is more vital to the long-term growth of the Corporate and Institutional Banking business than our ability to attract and retain talented and dedicated employees. Ours is a complicated business and managing it requires complex systems, extensive quantitative skills and risk discipline. With the quality of our team, differentiated advice and ability to deliver a full range of solutions locally, we believe we are primed for stability and tremendous growth in the decade ahead.

Key successes in 2019 included:

- Achieved K52.8M year on year reduction in impairments, consequently providing a tailwind to the Bank's overall profit position;
- Successfully established and launched the Integrated Middle Office (IMO), a cross-cutting team with internally grown expertise that will manage client onboarding and credit fulfilment for all Corporate and Institutional Banking clients;

- Improved recoveries on assets under Group Special Assets Management to K20.9M and retained discipline around operational risks.
- Digital Channels have now made Soft Mobile Tokens available for our Straight2Bank digital platform, eliminating the need for Corporate and Institutional Banking and Business Banking clients to carry physical tokens and providing them with a smooth experience in accessing our digital services;
- As part of our continued efforts to automate processes and improve Corporate and Institutional Banking Clients' experience, Client Audit Confirmation letters are now automated and can be obtained online instantly; before automation, the process could take an average of 7 days!

Strategic Priorities for 2020

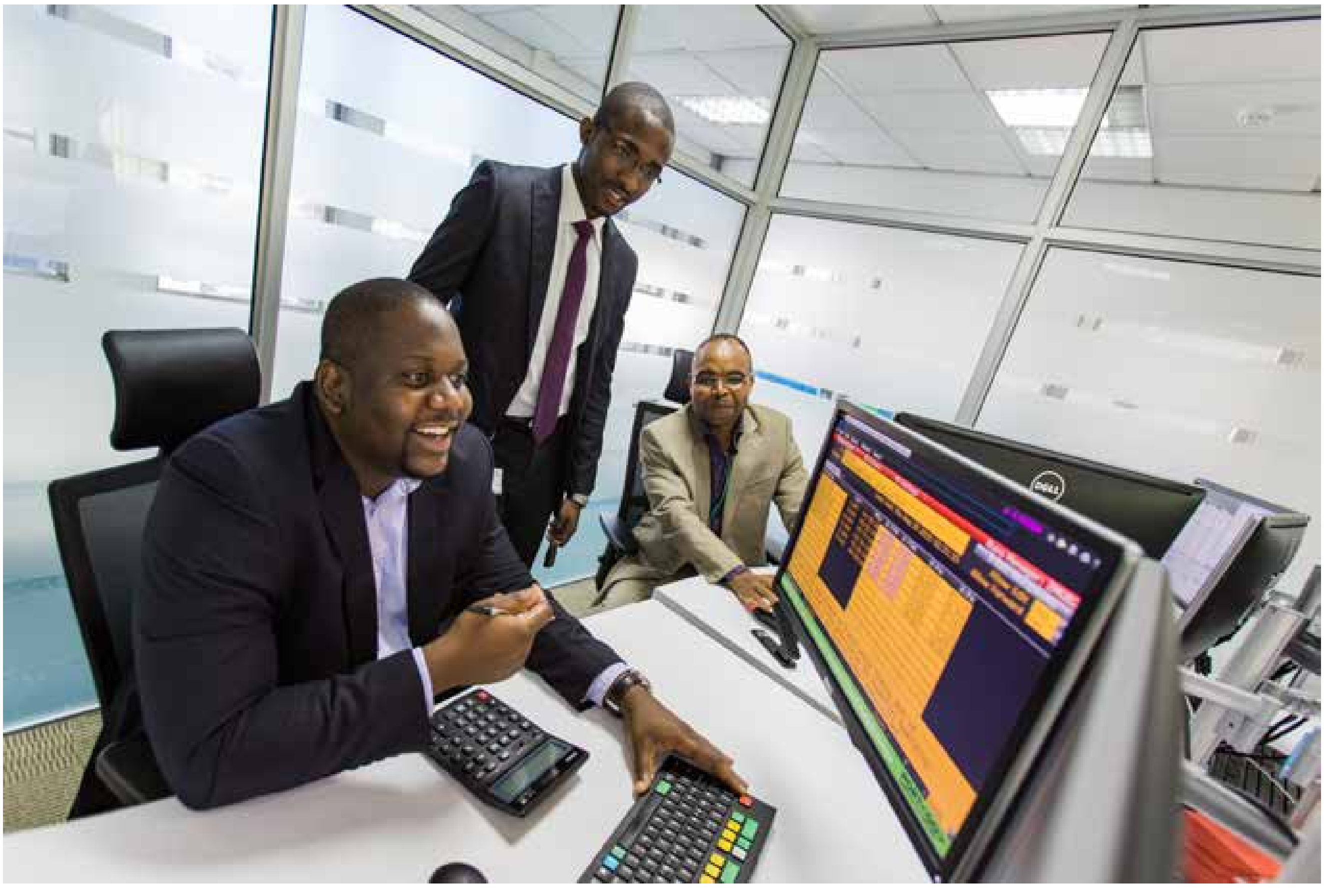
Our aspiration is to be a Bank that provides our clients with world-class services and products, leveraging on the diversity of our people, products and network strength. In 2020, as we progress with one business segment, Corporate and Institutional Banking, our Strategic priorities will be:

- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice and data-driven analytical insights and strengthening our leadership in flow business
- Generate high-quality returns by driving balance sheet growth, improving funding quality and maintaining risk controls
- Partner with clients and strategically selected third parties to expand capabilities and to address emerging client needs while driving innovation and efficiency.

Commercial Banking 2019 Overview

Being one of the Bank's two corporate banking businesses, Commercial Banking achieved several successes in 2019 despite the economic headwinds. Transaction Banking income was driven up by a large flow of fee income from renewals of trade facilities. Several new cash mandates were won from clients in the Fast-Moving Consumer Goods sector. Meanwhile Credit focus was retained on ring-fencing key client relationships particularly network names and strategically important local corporates. The business deposit base grew by 13 per cent year on year from operating accounts. To reduce Sub-optimal returns on clients to whom we had extended facilities, we rationalized perennially unutilised credit limits.

In delivering the network and extracting full value of the network, we will continue to focus the corporate banking business on those clients where we have comparative advantage as a result of our overall network relationship under Corporate and Institutional Banking in 2020 and beyond.



Community Investment

In 2019, Standard Chartered Bank Zambia Plc continued to invest in our communities. Over 35,000 Zambians benefitted from free eye screening; whilst Bank employees volunteered over 380 days to empower communities with financial skills and mentoring.

Education – Goal

The Goal Girls initiative has, since its inception in 2011, empowered over 16,000 Zambian adolescent girls with life skills training using the power of sport. In 2019 alone, we reached over 4,000 girls (exceeding our annual target of 2,900) through training sessions. Bank employees continued to impart their financial knowledge and skills to conduct financial training sessions to the girls and coordinate branch visits to gain first-hand knowledge about banking.

Financial Literacy

In 2019, Standard Chartered Bank Zambia Plc continued to champion financial literacy and inclusion. Bank employees were able to reach youths in secondary schools through targeted financial literacy sessions. Beneficiaries came out of these sessions empowered with much better understanding of how to save and long-term financial planning for the future. The Bank's Head of Wealth Management played a key role in 2019 to raise public awareness of financial literacy through publishing monthly newspaper articles focused on financial well-being, planning for your financial future and investment principles, amongst others.

In 2019, Standard Chartered Bank Zambia Plc continued to invest in our communities. Bank employees volunteered over 380 days to various programmes including empowering communities with financial skills and mentoring during the year.

Christine Matambo
Head of Corporate Affairs, Brand & Marketing

In addition, the Bank's participation at the Annual Financial Literacy Week saw our employees interact with over 400 youths to impart financial knowledge and skills.

The launch of our first-ever digital bank in Zambia in June 2019 also enhanced financial inclusion across Zambia. With the digital bank, clients are no longer limited by their location - they can open a bank account wherever they are across the entire country, even in areas with no physical branch!

Women's Empowerment

Our commitment to Women's Empowerment continued into 2019. We remain very proud that 50 per cent of our senior management team continues to comprise women. This demonstrates the Bank's continued commitment to women's empowerment.

Our partnership with Habitat for Humanity Zambia saw us double our support to the annual Women's BUILD in 2019. Through leveraging key partnerships with other corporates – namely Lafarge Zambia and MMI Steel – we were collectively able to support the empowerment of eight dis-advantaged Zambian women in Lusaka (Bauleni township) and the Copperbelt (Chipulukusu township) with decent shelter.

Liverpool Football Club

To promote Standard Chartered's global sponsorship of Liverpool Football Club, we were proud to host, for the fourth year running, the annual Liverpool 5-a-side football tournament. Over 35 teams comprising our clients and key stakeholders competed for a once-in-a-lifetime opportunity to travel to Anfield – the home of Liverpool Football Club. The continued hosting of this tournament demonstrates our support to football in Zambia.

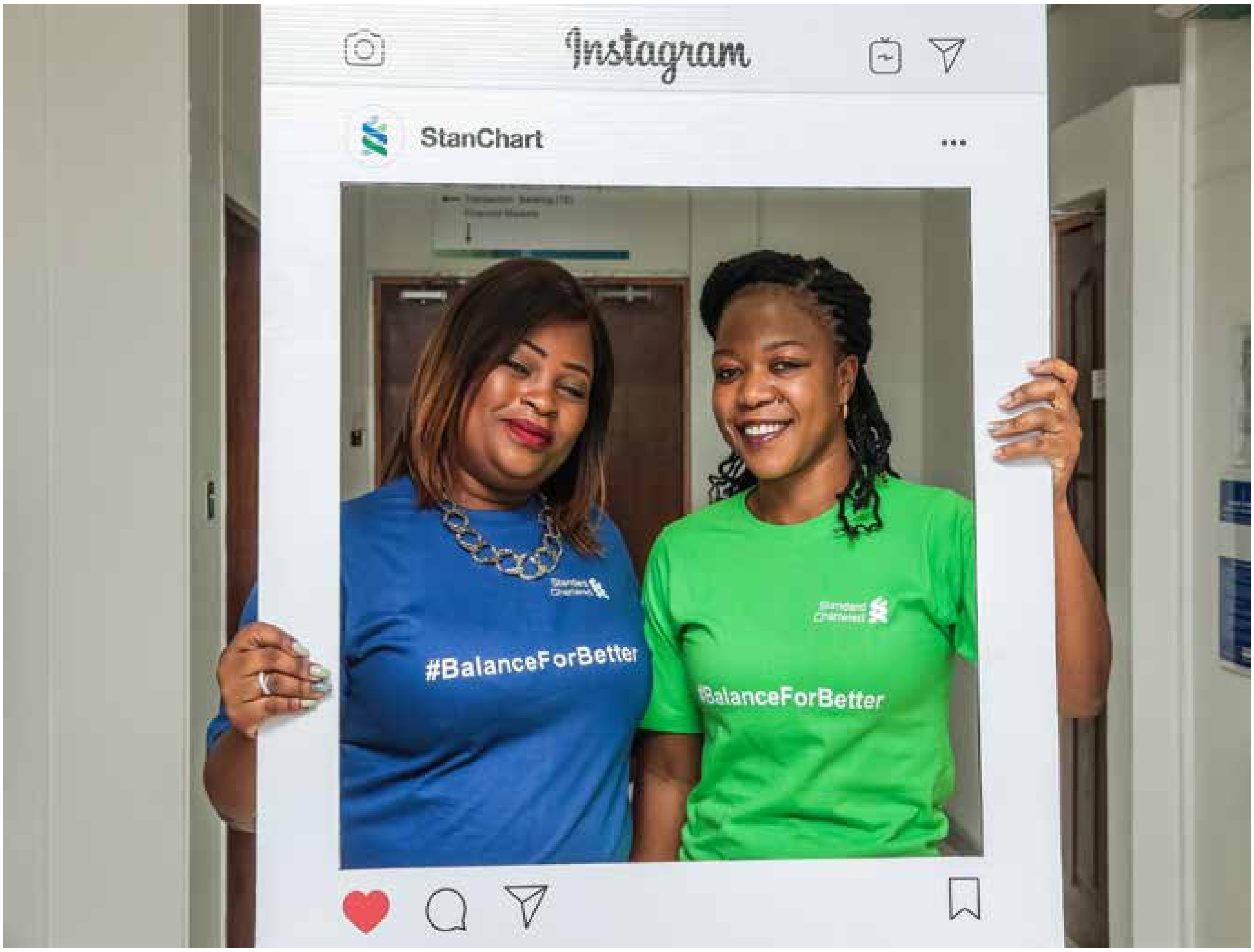
Seeing is Believing

Launched globally 16 years ago, the Bank continues to take pride in tackling preventative blindness through our Seeing is Believing (SiB) programme. Since SiB launched in Zambia in 2009, over 1.8 million people have benefitted from various eyecare interventions across the country – from free eye screening and cataract operations, to free eye glasses and the treatment of other eye related conditions.

Wellness Initiatives

In 2019, Standard Chartered Bank Zambia Plc continued to support wellness initiatives – including the annual Lafarge Marathon, The Project Fit Challenge and the PwC annual 'Race to Beat Cancer.' In addition, the Bank supported the annual Polo Tournament, which was played between Zambia and South Africa at Lilayi Polo Club.

As always, I would like to thank all our partners and Bank colleagues for a commendable 2019 as far as community investment is concerned.



Board of Directors

Committee Key

- Committee Chair shown in green
- A Board Audit Committee
- R Board Risk Committee
- L Board Loans Reviews Committee
- RN Board Remuneration and Nominations Committee

Caleb M Fundanga (67)

Independent Non Executive Director

Board Chairman

Appointed: 01/04/17

Caleb M Fundanga was the Executive director of the Macro Economic and Financial Management Institute (MEFMI) from July 2014 to September 2018. MEFMI is a regional capacity building institution in the areas of macroeconomic and financial management based in Harare, Zimbabwe. Its main clients are central banks and ministries of finance and planning.

Prior to joining MEFMI, he served as Governor of the Bank of Zambia for the period 2002 to 2011. Among the many accolades bestowed upon him during this period are: Central Bank Governor of the Year for Africa and Global Award by the Banker magazine, a sister publication to the Financial Times of London in January 2007; African Central Bank Governor of the Year 2007 by Emerging Markets magazine which he received in Washington DC and African Central Bank Governor of the Year 2008 by the Annual Meetings Daily of Nigeria.

He served as director on the Board of the African Export and Import Bank in Cairo, Egypt from 2002 to 2013. He was also a member of the Executive Committee of the Board during this period.

Prior to joining the Bank of Zambia, he worked as Senior Advisor to the President of the African Development Bank (1998-2002) and as Executive director of the African Development Bank (1995-1998). Before joining the African Development Bank, he served as Permanent Secretary for the Ministry of Finance, Cabinet Office and the National Commission for Development Planning of the Republic of Zambia. He started his work experience as an Economics Lecturer at the University of Zambia.

Caleb obtained his Bachelor's Degree in Economics at the University of Zambia. He obtained his Master's Degree at the University of Manchester in the United Kingdom and his PhD at the University of Konstanz in the Federal Republic of Germany.

He is currently the Chancellor at the University of Lusaka.

Age: 67 years

Other Boards:

Other Board directorships:

Partnership for Making Finance Work for Africa Advisory Council based at the African Development Bank in Abidjan, Cote d'Ivoire)

APlus General Insurance – Chairman

Commonwealth Partnership for Technology Management (Smart partners, based in London) – Chairman

Shares in SCBZ – 11,068

RN

Robin Peter Steuart Miller (60)

Independent Non Executive Director

Appointed: 07/08/12

Robin Miller was born in Zambia and completed his education with a BSc in Accounting and International Finance from the International Centre for Accounting Research at Lancaster University (UK). In the UK, he worked at Coopers and Lybrand, as well as the Virgin Group of Companies. Upon his return to Zambia, he took up the position of Managing Director of City Investments Limited, as well as that of Managing director of Farmers House, now renamed Real Estate Investments Zambia PLC.

Robin is a director of a number of Zambian institutions, including Standard Chartered Bank Zambia Plc and City Investments Limited. Robin retired as Chairman of Madison General Insurance Company Limited in 2018.

He has also been, in the past, a member of the Board of the Zambia Wildlife Authority, Chairman of 'The Post' newspaper, a member of the Government of the Republic of Zambia/European Union Trade Enterprise Support Facility and was the founding Chairman of the Tourism Council of Zambia. In 2015 he assisted in the creation of and was the founding President of the Zambia Property Owners Association.

Robin is a trustee of the David Shepherd Wildlife Foundation/Game Rangers International.

Robin resigned as Managing Director of Real Estate Investments Zambia PLC in 2015 after 20 years in that position. He was appointed to the Standard Chartered Bank Zambia Plc Board on 7 August 2012.

He serves as Board Risk Committee Chairman at Standard Chartered Bank Zambia Plc.

Age: 60 years.

Other Board directorships:

City Investments Limited

Lilayi Development Company Limited

Zariant Zambia Limited

Shares in SCBZ - NIL

R A

Kapambwe Doreen Chiwele (56)

Independent Non Executive Director

Appointed: 01/10/16

Kapambwe Doreen Chiwele is a Chartered Global Management Accountant (United Kingdom) and holds a Bachelor of Accountancy degree from the University of Zambia - Ndola campus (renamed Copperbelt University). She is a fellow of both the Chartered Institute of Management Accountants, as well as the Zambia Institute of Chartered Accountants. With close to 30 years progressive professional experience, of which sixteen have been at Finance Director/ Chief Financial Officer level, her roles over the years have at various points included finance, treasury, investment, administration and audit.

Kapambwe Doreen is currently operationalising Beaconsfield Agriculture Limited, a family entity where she is a director. Prior to this, she was employed as Director Finance of the National Pension Scheme Authority (NAPSA), a statutory pension scheme which replaced the Zambia National Provident Fund and became operational in February 2000. Kapambwe Doreen joined NAPSA in 2002 as Director Finance and Administration (later in 2007 reverting to Director Finance) and was a member of the initial and subsequent Executive Management Teams. She was with NAPSA for 13 years (up to 31 December 2015), in which period the pension fund grew to be the largest in the country.

Prior to joining NAPSA, Kapambwe Doreen was Chief Financial and Administration Officer of the Zambia Information and Communications Technology Authority (ZICTA), then named Communications Authority. The Authority was established under an Act of Parliament, to among other things, regulate the communications technology sector. She was the first holder of the office and went on to serve for four years after joining in November 1998. Other entities Kapambwe Doreen has served in include KPMG Zambia, a firm of public accountants, where she served from 1994 to 1998. She rose to the position of Audit Manager, with a portfolio largely inclusive of the firm's banking and financial institutional clients. Kapambwe Doreen has also worked as Accountant at the United States Agency for International Development, among others.

Kapambwe Doreen has previously served as Board member in the public sector. She was appointed to the Standard Chartered Bank Zambia Plc Board on 1 October 2016. She was subsequently appointed Chair of the Audit Committee of Standard Chartered Bank Zambia Plc in November 2016.

Age: 56

Other Board directorships:

Kime Social Development Advocacy
Lubu Road School

Shares in SCBZ: 1,681

A RN

Munakopa Sikaulu (46)
Independent Non Executive Director

Appointed: 01/08/17

Munakopa L. Sikaulu is a partner in SLM Legal Practitioners, a leading financial commercial law practice in Zambia. He is the holder of a Bachelor of Laws degree from the University of Zambia, where he graduated in 1995 and a Master of Laws degree in Banking and Finance from the London School of Economics, where he graduated in 2000. Munakopa is an advocate of over 20 years standing having been called to the Bar in 1996 after successfully completed studies at the Zambia Institute of Advanced Legal Studies.

A Zambian national, Munakopa has vast experience of commercial activities in Zambia. He is specialised in the Law of Banking and Finance and has advised and represented local, regional and international banks, financial institutions and companies on various transactions in Zambia as well as in commercial litigation matters. Munakopa is a member of the International Bar Association and Commonwealth Lawyers Association. He has previously served on the board of Entrepreneurs Financial Centre Zambia Limited.

Age: 46 years

Other Board Directorships:
Holland Insurance Zambia Limited
Prima Reinsurance Plc
Brentwood Estates Limited
Baswe Limited
Belgravia Services Limited

Shares in SCBZ: Nil

L R

Kweku Bedu-Addo (52)
Non Executive Director

Appointed: 03/04/18

Kweku Bedu-Addo was appointed as the Chief Executive Officer for South and Southern Africa in August 2017, responsible for South Africa, Angola, Botswana, Mauritius, Zambia and Zimbabwe.

He joined Standard Chartered Bank Ghana in 2000 and rose to become the first Ghanaian Chief Executive in the Bank's 121-year history in Ghana by 2010. Prior to this, he held several senior Wholesale Bank roles in Ghana and West Africa, Zambia and Singapore. He has had an earlier stint on SCB Zambia Plc's Board from 2004 to 2007, when he also was also the Head of Corporate and Institutional Banking in Zambia.

Kweku's career has spanned Public Policy, International Development, and Banking & Finance. He worked in the Ministry of Finance in the 1990s during the implementation of Ghana's Structural Adjustment Program. Other significant affiliations include immediate past Chairman of the Ghana Stock Exchange, Vice Chairman of the Ghana Fixed Income Market and Vice President of the Ghana Association of Bankers.

He holds a BS in Agricultural Economics from University of Ghana, and Master's Degree in Economic Policy Management at Columbia University, New York.

Kweku was appointed to the Board of Standard Chartered Bank Zambia Plc in 2018.

Age: 52

Other board directorships:
Standard Chartered Bank Botswana

Shares in SCBZ: NIL

A

Herman Kizito Kasekende (53)
Director /Chief Executive Officer

Appointed: 27/02/17

Herman Kasekende holds a Post Graduate Degree in International Economics and Finance. Herman was appointed to the Standard Chartered Bank Zambia Plc Board on 1st February 2017.

Prior to becoming Chief Executive Officer of Standard Chartered Bank Zambia Plc, Herman was the Chief Executive Officer and Managing Director of Standard Chartered Bank Uganda. Herman has a wealth of knowledge on SMEs, Retail Banking and Corporate and Institutional Banking.

Herman joined Standard Chartered Bank in 1998 and has held various positions in different functions. These include Regional Head of SME Products & Solutions – Africa, Standard Chartered Bank Kenya; and as Head of Consumer Banking at Standard Chartered Bank Uganda.

Herman chaired the Oil and Gas Technical Working Group (TWG) under the Presidential Investors' Round Table (PIRT) in Uganda and was an advisor on the Uganda Chamber of Mines and Petroleum Board. He is also a council member of the Zambia Institute of Banking and Financial Services (ZIBFS).

Age: 53 years

Other Boards – NIL

Shares in SCBZ – NIL

L R

Venus Hampinda (38)
Director /Chief Financial Officer

Appointed: 01/07/17

Venus Hampinda is a certified Chartered Accountant and a Fellow of Zambia Institute of Chartered Accountants with over 16 years experience. Venus was appointed to the Standard Chartered Bank Zambia Plc Board on 1st July 2017.

Prior to her current appointment, Venus served as Head of Finance in Standard Chartered Bank Zambia Plc for over a year. Before joining Standard Chartered Bank Zambia Plc, Venus worked as a Director Finance and Corporate Planning as well as Director Risk and Internal Audit at Zambia National Building Society. She also worked at Zanaco Bank Plc as well as PricewaterhouseCoopers in Zambia and the United Kingdom.

Venus previously served as a member of the Zambia Electricity Supply Corporation (ZESCO) Audit and Risk Management Committee of the Board of Directors and Trustee of the ZNBS Pension Fund Scheme Board of Trustees.

Age: 38 years

Other Boards – NIL

Shares in SCBZ – NIL

L R

Executive Management Team

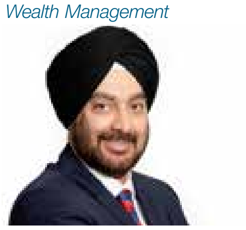
Herman Kasekende
Managing Director and Chief Executive Officer

Venus Hampinda
Executive Director Finance and Administration /Chief Financial Officer

Olusegun Omoniwa
Southern Africa Cluster Head of Wealth Management

Mutu Mubita
Head of Human Resources

Rose N Kavimba
Head, Legal and Company Secretary

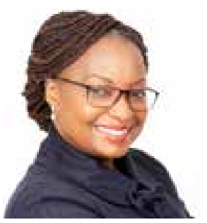


Deep Pal Singh
Head of Retail Banking – Zambia and Southern Africa

Kabwe Mwaba
Head of Financial Markets – Southern Africa (excluding South Africa) and Head of Treasury Markets Southern Africa

Fanwell Phiri
Country Chief Risk Officer

Emmy Kumwenda
Head,Global Banking and Financial Institutions



Mwaya Siwale
Head of Transaction Banking

Peter Zulu
Head of Compliance

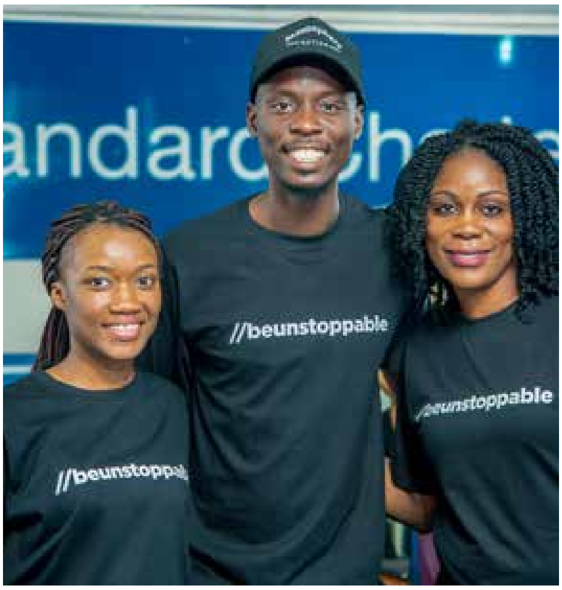
Marshal Shampongo
Head of Internal Audit

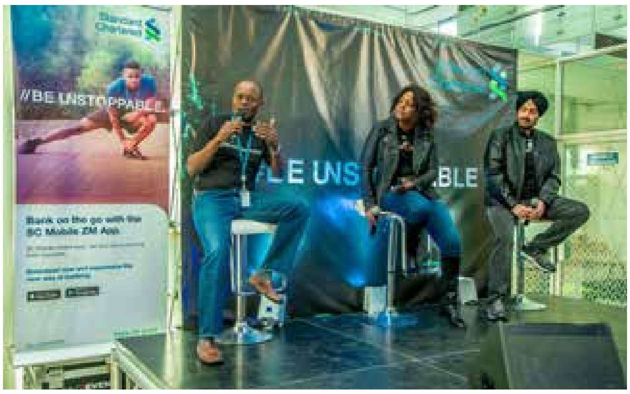
Musonda Musakanya
Chief Operating Officer

Christine Matambo
Head of Corporate Affairs, Brand and Marketing

Simon Burutu
Senior Credit Officer Zambia and Southern Africa

The Year in Pictures





Directors' Report

The directors are pleased to submit their report and the audited consolidated and separate financial statements for the year ended 31 December 2019, of Standard Chartered Bank Zambia Plc ("the Bank") and its subsidiary, Standard Chartered Zambia Securities Services Nominees Limited (together "the Group").

Standard Chartered Plc

Standard Chartered Plc ("the ultimate parent") is the ultimate holding company of the Group, incorporated and registered in England and Wales, as a Company limited by shares. Its ordinary shares are listed on the London and Hong Kong Stock Exchanges and it has Indian Depository Receipts representing ordinary shares listed on the Bombay and National Stock Exchanges in India. It is consistently ranked among the top 25 companies on the FTSE-100 by market capitalisation.

Standard Chartered Bank Zambia Plc

Standard Chartered Bank Zambia Plc is a public company incorporated in the Republic of Zambia on 11 November 1971 to take over the business of Standard Bank Limited, which had operated in Zambia since 1906. The Group is engaged in the business of retail and commercial banking as well as the provision of other financial services.

Articles of Association

The Articles of Association of the Group may be amended by Special Resolution of the shareholders.

Dividend

At a Board meeting held on 28 February 2020, the Directors did not recommend any dividend payout for the year ended 31 December 2019 owing to the perfomance of the Bank in 2019.

Share capital

During the year 2019, the paid up primary capital of the Bank was K416,745,000. The authorised share capital of the Bank was K450,000,000. The Bank has issued K416,745,000 ordinary shares with a nominal value of K0.25 per share.

Gifts and donations

The Group identifies with the aspirations of the community and the environment in which it operates. During the year, the Group made donations of K1,090,902 (2018:K921,605) to charitable organisations and events.

Number of employees and remuneration

The average number of people employed by the Group during the year was 590. The total remuneration to employees during the year amounted to K328,665,000 (2018: K327,006,000) and the total number of employees was as follows:

Month	Number	Month	Number
January	635	July	584
February	626	August	586
March	598	September	574
April	598	October	574
May	585	November	575
June	584	December	561

Property and equipment

The Group purchased property and equipment amounting to K18, 587,000 (2018: K25,857,000) during the year. In the opinion of the directors, the carrying value of property and equipment is not less than their recoverable value.

Results

The results for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 40.

Directors

For the period under review, Ms. Louise Vogler did not present herself for re-election as Non Executive Director at the AGM held on 28th March 2019. There were no other changes to the directorate during the period under review. A full list of directors is available on pages 14 - 16.

Secretariat

There was no change to the Secretariat in 2019.

Directors' interests in ordinary shares

The beneficial interest of directors and their families in the ordinary shares of the Bank were as follows:

Caleb M Fundanga - Board Chairman has 11,068 shares in Standard Chartered Bank Zambia Plc.

Director Kapambwe Doreen Chiwele has 1,681 shares in Standard Chartered Bank Zambia Plc.

Activities

The Group engages principally in the business of commercial banking in its widest aspects and in the provision of related services. The Group also runs a successful securities services business.

Related party transactions

Related party transactions are disclosed in note 41 to the consolidated and separate financial statements.

Directors' emoluments and interests

Directors' emoluments and interests are disclosed in note 41 to the consolidated and separate financial statements.

Directors' induction and ongoing development

The Bank believes that induction and ongoing development of the Board members is necessary to ensure that the directors have the requisite knowledge and understanding of the Bank and the market that it operates in for them to effectively carry out their roles as directors. During the year 2019, The Board underwent training in Economic Value Add and a refresher in Corporate Governance with emphasis on the Duties and Responsibilities of Directors.

Shareholder concerns

Shareholders are encouraged to raise any concerns they may have with any of the board directors or with the Company Secretary on the following email address:

Rose.Kavimba@sc.com

Electronic communication

The annual report, notice of AGM and dividend circulars are available electronically and in hard copy. Shareholders that would like to receive their corporate documents electronically can contact the Bank's transfer agents at the below address:

Corpserve Transfer Agents Limited
6 Mwaleshi Road, Olympia Park
PO Box 37522, Lusaka, Zambia
Tel: 00260 211 256969/70
Fax: 00260 211 256975
Email: info@corpservezambia.com.zm

Group code of conduct

The Board has adopted the ultimate parent company's code of conduct relating to the lawful and ethical conduct of business and this is supported by the ultimate parent company's core values. All directors and employees of the Bank have committed to the code and are all expected to observe high standards of integrity and fair dealing in relations to all our stakeholders including customers, staff and regulators. The Board recommitted to the code of conduct on 29 November 2019.

Research and development

During the year, the Bank did not incur any research and development cost.

Restricted Transactions

There are no restricted transactions as defined under Part VII of the Banking and Financial Services Act, No. 7 of 2018 except as such as have been expressly permitted by the Bank of Zambia.

Health and safety

The Bank has health and safety standards, policies and procedures to safeguard the occupational health, safety and welfare of its employees, customers and contractors working within the premises. In addition, the Bank has a dedicated Health, Safety and Environment Manager.

Relevant audit information

As far as the directors are aware, there is no relevant audit information of which the Bank's auditor, KPMG Chartered Accountants, is unaware. The directors have taken all reasonable steps to ascertain any relevant audit information and ensure that the auditors are aware of such information.

Auditors

The Bank's Auditors, Messrs KPMG Chartered Accountants, have completed their term of office. A resolution proposing the appointment of Messrs EY as auditors of the Group and authorising the directors to fix their remuneration will be put to the Annual General Meeting.

By order of the board

Rose N. Kavimba
Company Secretary
28 February 2020

STANDARD CHARTERED BANK ZAMBIA PLC
RECORD OF ATTENDANCE OF BOARD /BOARD COMMITTEES MEETINGS HELD IN 2019
BOARD OF DIRECTORS' MEETINGS

No. of Board Meetings 2019	1/2019 (Adhoc)	2/2019 (Main Board)	3/2019 (PRE-AGM)	4/2019 (AGM)	5/2019 (Main Board)	6/2019 (Main Board)	7/2019 (Main Board)	8/2019 (Board Strategy)	Total
Date of Meeting	27/02/19 14:00 SCBZ	20/03/19 09:00 SCBZ	20/03/19 12:00 SCBZ	29/03/19 09:00 Radisson Blu hotel	31/05/19 10:00 SCBZ	30/08/19 10:00 SCBZ	29/11/19 08:30 Ananda Conference Centre	29/11/19 12:00 Ananda Conference Centre	8
Caleb M Fundanga (Board Chairperson)	√	√	√	√	√	√	AP	AP	6
Robin Miller	√	√	√	√	√	√	√	√	8
Herman Kasekende	√	√	√	√	√	√	√	√	8
Kapambwe Doreen Chiwele	√	√	√	√	√	√	√	√	8
Munakopa Sikaulu	√	√	√	√	AP	√	√	√	7
Kweku Bedu - Addo	VC	√	√	√	VC	√	√	√	8
Louise Vogler	VC	VC	VC	√	N/A	N/A	N/A	N/A	4
Venus Hampinda	√	√	√	√	√	AP	√	√	7
Rose Kavimba (Secretariat)	√	√	√	√	√	√	√	√	8

NOTE THAT LOUISE VOGLER DID NOT OFFER HERSELF UP FOR RE-ELECTION AT THE AGM HELD ON 28 MARCH 2019 AND THUS RESIGNED FROM THE BOARD EFFECTIVE 31 MARCH 2019

BOARD AUDIT COMMITTEE (AC) MEETINGS

No. of AC Meeting 2019	1/2019	2/2019	3/2019	4/2019	5/2019	6/2019	To-tal
Date of Meeting	Adhoc 22/02/19 SCBZ Board Room	19/03/19 09:00 SCBZ Board Room	30/05/19 09:00 SCBZ Board Room	29/08/19 09:00 SCBZ Board Room	Adhoc-ICAAP 29/10/19 09:00 SCBZ Board Room	21/11/2019 09:00 SCBZ Board Room	6
Kapambwe Doreen Chiwele (Chairperson)	√	√	√	√	√	√	6
Venus Hampinda	√*BI	√*BI	√*BI	√*BI	√*BI	√*BI	6
Robin Miller	√	√	√	√	√	√	6
Kweku Bedu-Addo	VC	√	VC	VC	VC	VC	6

NOTE: CEO/MD AND CFO ARE NOT MEMBERS AND ONLY ATTEND AC BY INVITATION

- ***BI – By Invitation**

BOARD LOAN REVIEW COMMITTEE (LRC) MEETINGS

No. of CC Meeting 2019	1/2019	2/2019	3/2019	4/2019	Total
Date of Meeting	19/03/19 11:00 SCBZ Board Room	30/05/19 11:15 SCBZ Board Room	29/08/19 11:00 SCBZ Board Room	21/11/2019 11:00 SCBZ Board Room	4
Munakopa Sikaulu (Chairperson)	√	AP	√	√	3
Robin Miller (Delegate/Acting Chairperson)	N/A	√	N/A	N/A	1
Herman Kasekende	√	√	√	√	4
Venus Hampinda	√	√	AP	√	3
Louise Vogler	VC	N/A	N/A	NA	1

BOARD RISK COMMITTEE (RC) MEETINGS

No. of RC Meeting 2019	1/2019	2/2019	3/2019	4/2019	Total
Date of Meeting	19/03/19 14:00 SCBZ Board Room	14/05/19 09:00 SCBZ Board Room	29/08/19 09:00 SCBZ Board Room	21/11/19 09:00 SCBZ Board Room	4
Robin Miller (Chairperson)	√	√	√	√	4
Munakopa Sikaulu	√	AP	√	√	3
Herman Kasekende	√*BI	√*BI	√*BI	√*BI	4
Louise Vogler	VC	N/A	NA	NA	1
Venus Hampinda	√*BI	√*BI	NA	√*BI	3

NOTE: CEO/MD AND CFO ARE NOT MEMBERS AND ONLY ATTEND RC BY INVITATION

BOARD REMUNERATION AND NOMINATIONS COMMITTEE (RNC) MEETINGS

No. of RC Meeting 2019	1/2019	2/2019	TOTAL
Date of Meeting	19/03/19 16:00 SCBZ Board Room	30/08/19 08:30 SCBZ Board Room	2
Caleb M Fundanga (Chairperson)	√	√	2
Kapambwe Doreen Chiwele	√	√	2
Herman Kasekende	NA	√* BI	1
Louise Vogler	√	N/A	1
Venus Hampinda	√* BI	NA	1

NOTE: CEO/CFO ARE NOT A MEMBER AND ONLY ATTEND RNC BY INVITATION

KEY:

√ : Attended in person.
× : Absent.
AP : Apologies
VC : Video Conference.
☎ : Dialled in.
BI : By Invitation
D : Delegated
AC : Acting Committee Chairperson

STANDARD CHARTERED BANK ZAMBIA PLC

Designation	Name	Total Meetings invited for	Attendance In Person	Attendance In VC	Attendance By Audio	Total Attendance (In Person, VC & Audio)	per cent	Remarks
Chairman/INED	Caleb M Fundanga	*10	8	N/A	N/A	8	80%	Apologies noted for one Board meeting and Board Strategy
INED	Robin Miller	* *19	19	N/A	N/A	19	100%	Attended all meetings invited for.
INED	Kapambwe D Chiwele	**16	16	NA	N/A	16	100%	Attended all meetings invited for.
INED	Munakopa Sikaulu	**16	13	N/A	N/A	13	81%	Apologies noted for Q2 meetings
NED	Louise Vogler	*7	1	6	N/A	7	100%	Apologies recorded for one meeting. NED did not offer herself up for re-election in AGM held on 28 March 2019.
NED	Kweku Bedu-Addo	**14	8	6	N/A	14	100%	Attended all meetings invited for.
ED/CEO	Herman Kasekende	**17	17	N/A	N/A	17	100%	Attended all meetings invited for.
ED/CFO	Venus Hampinda	**22	20	N/A	N/A	20	90%	Apologies noted for Q2 meetings

* Includes 1 ad hoc meeting.
** Includes 2 adhoc meetings.

Corporate Governance

Our Approach

Standard Chartered Bank Zambia Plc ("The Bank") is one of the Group's largest businesses in the Africa and Middle East region and one of the oldest, having been in existence for over 113 years in Zambia. It is a public company incorporated in the Republic of Zambia on 11 November 1971 to take over the business of Standard Bank Zambia Limited, which had operated in Zambia since 1906. Standard Chartered was the first bank in Zambia to list on the Lusaka Stock Exchange on 30th November 1998.

Standard Chartered endeavors to fully comply with all the provisions of the Bank of Zambia Corporate Governance Directives 2016 and 2017 and the Companies Act of Zambia. Further, the Bank remains committed to achieving exemplary corporate governance by striving for substantive compliance with all applicable regulations, including the Lusaka Stock Exchange (LuSE) Corporate Governance Code and Listing Rules as well as Standard Chartered Group minimum governance standards for subsidiaries.

Disclosure

The Board has the overall responsibility of ensuring that the highest standards of corporate governance are maintained and adhered to by the Bank. Our directors confirm that during the 2019 financial year, the Bank ensured substantive compliance with the Bank of Zambia and the LuSE Corporate Governance codes. The Board and senior management continue to engage in discussions with the LuSE regarding the 25 per cent public float requirement.

Our Board

To drive the Bank's purpose of driving commerce and prosperity through our unique diversity, we have in place a Board that is diverse, experienced and driven. The Board presently comprises 7 members; 2 Executive Directors and 5 Non-Executive directors, 4 of whom are Independent Non-Executive Directors. In 2019, Louise Vogler stepped down from the Board after having served on the Board for more than three years. She relocated to China following an appointment as Head FI, Hong Kong, China and Taiwan. The board would like to congratulate Louis on her appointment and express their sincere thanks and gratitude for her outstanding leadership and devotion to the Bank during her tenure.

Collectively, the directors have a diverse range of skills and experience which enable them to operate as a cohesive unit. They each bring independent judgement and considerable knowledge to the board's discussions and are committed to the collective decision-making processes. The Board is collectively responsible for the long-term success of the Bank and providing strategic direction and leadership within a framework of effective controls. The Board considers both the impact of its decisions and its responsibilities to all its stakeholders, including the Bank's employees, shareholders, regulators, suppliers, the environment and the communities in which the Bank operates in Zambia.

The Board discharges some of its responsibilities directly and delegates certain other responsibilities to its Committee to assist it in carrying out its functions of ensuring independent oversight. Board Charter which clearly outlines the Boards terms of reference and matters reserved for the Board was adopted in 2018 in accordance with the Bank of Zambia Corporate Governance Directives and is reviewed annually. This ensures that the Board provides oversight, guidance and review of the Bank's performance and strategy.

The Board Charter and the Terms of reference for each Board Committee are reviewed regularly against Corporate governance regulations and industry best practice. The Board also delegates authority for the operational management of the Bank's business to the Bank's Chief Executive Officer and his Executive Committee for matters which are necessary for the effective day-to-day running and management of the business.

The Board has responsibility for the overall management of the company and is primarily accountable to the shareholders for proper conduct of the business of the

Rose N Kavimba
Company Secretary

company and the management of the relationships with its various stakeholders. In fulfilling its primary responsibility, the Board is aware of the importance of achieving a balance between conformance to governance principles and economic performance.

The Board has access to professional advice as and when needed. Further, Executive Management is accountable to the Board for the development and implementation of the Bank's strategy and policies. The Board regularly reviews Bank performance, matters of strategic concern and any other matters it regards material and necessary to fulfill this mandate.

The Board meets quarterly and additional meetings are convened as and when required. The Board held 8 meetings during the 2019 financial year and had a formal schedule of matters specifically reserved for its decisions. Generally, members of the Management Team are invited to attend part of the meetings to ensure effective interactions with the Board.

The Board also undertakes a number of informal sessions and interactions, which allows Board members to discuss areas of business, strategy and the external environment with members of the Management Team and different stakeholders.

Board Committees

To enable the Board, use its time most effectively, it is supported by four sub committees through which the Board performs its oversight functions and they play an important role in supporting the Board.

These are the Board Audit Committee, the Board Risk Committee, the Board Loans and Review Committee and the Board Remuneration and Nominations Committee. All the Board Committees are chaired by an Independent Non-Executive Director.

Board Audit Committee

The Board Audit Committee is comprised of Three (3) Non-Executive Directors. It exercises oversight, on behalf of the Board, of the Bank's financial, audit, internal financial control and non-financial crime issues. The primary role of the Committee is to ensure the integrity of the financial reporting process and supporting internal controls and to maintain a sound risk management environment as stipulated by the Bank of Zambia Corporate Governance Directives and other financial regulations.

It also oversees the independence and objectivity of the Bank's external auditors and on a quarterly basis, reviews audit reports from the Group Internal Audit function on the arrangements established by management for ensuring adherence to risk management, control and governance processes. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

The Committee met 6 times during the year and was chaired by an Independent Non-Executive Director, Mrs. Kapambwe Doreen Chiwele.

Board Risk Committee

The Board Risk Committee is comprised of two (2) Independent Non-Executive Directors and one (1) Executive Director. The Committee exercises oversight and review of principal risks including credit, market, capital and liquidity, operational, country.

The Bank's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. The Committee met 4 times during the year and was chaired by Independent Non-Executive Director Mr. Robin Miller.

The Chief Risk Officer presents a quarterly report which updates the Committee on the Key Risks.

Board Loans Review Committee

The Board Loans Review Committee comprises of three Directors and chaired by an Independent Non- Executive Director, Munakopa Sikaulu. The Committee exercises oversight on behalf of the Board on all matters incidental to credit and loan approvals, applications and advances made by the Bank and makes recommendations to the Board on the company's overall credit risk appetite. The Committee met 4 times during the year.

Board Remuneration and Nomination Committee

The Board Remuneration and Nomination Committee comprises of three (3) members. The Committee on behalf of the board oversees and is accountable for the implementation and operation of the Bank's remuneration policies and procedures. It periodically reviews the Company's remuneration policy to ensure continued compliance with country laws and regulations. The Committee also reviews succession plans for the Board and Management.

The Committee is also responsible for the Board Evaluation Review and makes recommendations for the remuneration of Directors. This Committee is chaired by the Board Chairman, Dr. Fundanga.

The Committee met twice in 2019 and also reviewed the Bank's gap analysis on key Employment related legislation.

Board Effectiveness Review

The Board regularly assesses its performance against roles and responsibilities and focuses on continuously improving it effectiveness and efficiency. The Remunerations and Nominations Committee of the Board provided oversight on the process of the independent, externally facilitated review of the Board and its Committees This process is led by the Board Chairman with the support of the Company Secretary.

In 2019, the Committee reviewed the 2018 Board Effectiveness Review (BER) results and actions plans. The Committee provided oversight on the implementation of the action plans and strategy to ensure that the Board continues to function well, enhancing good collegial interaction between the Board and Management.

Engagements and Trainings Undertaken by the Board in the year under review

The Bank has a robust engagement and training plan for the Board. In 2019, the Board had various engagements with different stakeholders which also saw the Board Chairman attend the Group Chairmen's conference hosted by the Standard Chartered Group Chairman and Group CEO. Further, the Board annually engages with the Group Audit Committee and Group Risk Committee Chairmen to discuss focus areas for the Bank's Audit and Risk Committees.

During the year 2019 the Board was trained in Economic Value Add and a bespoke one on one refresher in Corporate Governance which also covered duties and responsibilities of directors. The Board Chair also received Media Training as an on-going part of Development and stakeholder enhancement strategy.

Director Induction and Continuous Education

The Bank has a comprehensive induction program and all directors receive a full formal and tailored induction on joining the Board to ensure that they are provided with the knowledge and material to add value from an early stage. All inductions are supplemented with a detailed handbook which includes information on a broad range of matters relating to the role of being a director on a Zambia Board as well as detail of applicable legislation, regulation, related procedures and best practice.

The induction is conducted through a series of in-depth briefs and one on one sessions with various stakeholders. These sessions include meeting senior management, select clients and other key stakeholders. We also encourage the directors to attend some board meetings prior to their formal appointment as part of the socialization process.

The Company Secretary supports the induction process to acts as a facilitator for these sessions. The induction process is undertaken within the first six to nine months of a director's appointment.

The Company also reviews with each Independent Non-Executive Director their continuing training needs and it is the Company's intention that each Independent Non-Executive Director continues to receive training on a continuing basis.

Conflicts of Interest

The Board has adopted a robust Conflict of Interest Policy which is reviewed every two years.

All Directors have a duty to avoid conflicts of interest. This duty applies to any situation that could reasonably be expected to give rise to a conflict.

Board members hold external directorships and other outside business interests and recognize the benefits greater boardroom exposure gives our directors. We closely monitor the number of directorships our Directors take on to satisfy ourselves that all of our Board Members comply with the requirements of the Bank of Zambia Corporate Governance Directives which require full disclosure of all business relationships held by Directors as well as any transactions that may pose a conflict of interest. We also monitor that all appointments will not adversely impact their role at Standard Chartered Bank Zambia Plc.

Our Directors are clear on how they should manage their outside interests and how these may conflict with their duties as a Director of Standard Chartered Bank Zambia Plc. During onboarding and continuously during their tenure, they are reminded of their obligations and duties as directors. Details of the directors' external directorships can be found in their biographies on pages 14 to 15.

All actual or potential conflicts of interest should be and are reported to the Company Secretary together with details of any benefits received. Before committing to an additional appointment, directors confirm the existence of any potential or actual conflicts and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a director of the bank.

Any Non-Executive Director invited to take up an additional commitment such as another directorship or other outside interest, seeks the Chairman's agreement and notifies the Company Secretary prior to taking up that appointment.

If Directors are unsure of whether a situation or benefit could give rise to a conflict of interest, they are required to contact the Company Secretary for advice and guidance. The Company Secretary will then report any potential conflicts of interest to the Board.

Our Board members commit sufficient time in discharging their responsibilities. During the year 2019, the Board meeting attendance by the Board was on average 93.87%, a clear demonstration of the Board members commitment and ability to provide additional time.

Code of Conduct

The Board has adopted the Group Code of Conduct relating to the lawful and ethical conduct of business and this is supported by the Group's core values. The Code of Conduct is reviewed every two years and committed to annually. The Group Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. The Board recommitted to the Code of Conduct on 29 November 2019.

Regulatory Compliance

Standard Chartered Bank Zambia Plc has ensured that the business is managed in a sustainable manner underpinned by very strong governance, compliance and financial crime risk management practices that continue to meet both local and international standards. Local management have also ensured that high ethical standards are maintained in the business model.

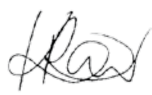
Annually, Compliance, Conduct and Financial Crimes risk assessments are performed to inform the necessary and timely mitigation initiatives for a sustainable business that ensures positive outcome for our clients. In addition, the Bank continues to ensure that all staff are sensitised and trained on a periodic basis to ensure that they always operate to the set standards of the highest conduct and compliance requirements. These initiatives have very strong sponsorship of the senior management and the Board of Directors ensuring that the bank is truly here for good in Zambia and for the long run.

Our Stakeholders – Regulator

The Bank engaged the local regulatory authorities and contributed to a fully functioning financial sector in Zambia by sharing best practice and the global economic trends.

The Bank continuously strives to operate by the highest ethical standards of business conduct and supports the stakeholders in ensuring financial inclusion is achieved through various digital products that meet the changing client lifestyle. On a day-to-day basis, the Compliance function is responsible in identifying and disseminating all the regulatory developments that impact the bank by working with the relevant process owners to ensure compliance is achieved.

In 2019, the Bank engaged the regulatory authorities at various levels to exchange information regarding the development of the financial sector in Zambia. In addition, the Bank hosted a one day thought leadership master class for all our key regulators focusing on Information and Cyber Security (ICS) that was officially opened by the Zambia Information and Communications Technology Authority (ZICTA) Director General on 10th December 2019.



Rose N Kavimba
Company Secretary
28 February 2020

Standard Chartered Bank Zambia Plc

Consolidated and separate financial statements

for the year ended 31 December 2019

Directors' responsibilities in respect of the preparation of consolidated and separate financial statements

The directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view of Standard Chartered Bank Zambia Plc, comprising the consolidated and separate statements of financial position at 31 December 2019, 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, the Banking and Financial Services Act and Securities Act of Zambia. In addition, the directors are responsible for preparing the Annual Report.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of 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, as well as the preparation of the supplementary schedule included in these financial statements.

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

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework, described above.

Approval of the financial statements

The group financial statements and financial statements of Standard Chartered Bank Zambia Plc, as identified in the first paragraph, were approved by the Board of directors on 28 February 2020 and were signed on its behalf by:

C. Fundanga
Chairman

H. Kasekende
Managing Director

V. Hampinda
Executive Director - Finance and Administration

KPMG Chartered Accountants
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Lusaka Zambia

Independent Auditor's Report to the Shareholders of Standard Chartered Bank Zambia Plc

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Zambia Plc ("the Group and Bank") set out on pages 32 to 108 which comprise the consolidated and separate statement of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Zambia Plc as at 31 December 2019 and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, the Banking and Financial Services Act and Securities 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 Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate 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 both the consolidated and the separate financial statements.

Impairment of loans and advances to customers	
See note 4 use of judgements and estimates, note 6a credit risk, note 29 loans and advances to customers, note 43 (b) credit risk section of the financial risk management, note 45.13 loans and advances accounting policy and note 45.10 (vii) financial assets and financial liabilities accounting policy.	
Key audit matter	**How the matter was addressed**
The impairment of loans and advances to customers is estimated by the Directors and requires significant judgement to determine the impairment allowance based on the expected credit losses (ECL). Key areas of judgement include: - Interpretation of the requirements to determine impairment under IFRS 9 which is reflected in the Bank's expected credit loss model. - The identification of exposures with significant deterioration in credit quality. - Assumptions used in the expected credit loss model such as the expected future cash flows and forward looking macroeconomic 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") Due to the significant judgement applied by the Directors, the impairment of loans and advances to customers was considered to be a key audit matter.	Our audit procedures included the following: • We tested the design and implementation and operating effectiveness of key controls over: - approval of credits origination of loans and advances; and - approval of loan risk ratings and credit rate monitoring assessments performed by management. • With the support of our internal valuation specialist, we evaluated the assumptions, inputs and formulas used in the modelling techniques such as Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) against the requirements of IFRS 9. • We assessed the data inputs such as macroeconomic factors used in the ECL model and compared them to independent statistical analyses for reasonableness. • We assessed the appropriateness of transfers between stages by testing on a sample basis whether financial assets transferred from stage 1 to stage 2 or stage 3 respectively, met the Bank's definition of significant increase in credit risk. • We examined a sample of exposures and performed procedures to evaluate the expected credit loss calculation for exposures assessed on an individual basis by recalculating the expected credit loss. • We examined a sample of exposures for completeness by checking that all exposures were included in the ECL model with reference to minutes of loan committee meetings and other supporting documentation. • We assessed the adequacy of the disclosure made in the financial statements against 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 all other information included in the Annual Report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's and 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 Group and/or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group's and 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 Group's and 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 consolidated and separate 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 Group and/or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Companies Act of Zambia

In accordance with section 259 (3) of the Companies Act of Zambia (the Act), we consider and report that:

- there is no relationship, interest or debt we have with the Company; and
- there were no serious breaches of corporate governance principles or practices by the Directors. The statement is made on the basis of the corporate governance provisions Act, Part VII - Corporate Governance of the Companies Act of Zambia.

Banking and Financial Services Act of Zambia

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

- The Bank made available all necessary information to enable us to comply with the requirements of this Act;
- The Bank has complied with the provisions, regulations rules and regulatory statements specified in or under this Act; and
- There were no transactions or events that came to our attention that affect the wellbeing of the Bank that are 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.

Securities Act of Zambia

In accordance with Rule 18 of the Securities (Accounting and Financial Requirements) Rules (SEC Rules), Statutory Instrument No.163 of 1993 we consider and report that:

- The statement of financial position and statement of profit or loss and other comprehensive income were in agreement with the Bank's accounting records; and
- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

KPMG

KPMG Chartered Accountants **11 March 2020**

Cheelo Hamuwele **AUD/F001044**
Partner signing on behalf of the firm

Consolidated and separate statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

	Note	Group and Bank 2019 K'000	2018 K'000
Interest income calculated using the effective interest rate method	9	**1,070,316**	887,093
Interest expense	10	**(351,599)**	(201,806)
Net interest income		**718,717**	685,287
Fee and commission income	11	**203,808**	213,830
Fee and commission expense	11	**(30,954)**	(22,395)
Net fee and commission income		**172,854**	191,435
Net trading income	12	**154,630**	195,033
Net income from financial instruments at fair value through profit or loss	13	**25,207**	29,239
Revenue		**1,071,408**	1,100,994
Other income	14	**12,937**	6,721
Impairment on financial instruments	6a(iii)	**(303,730)**	(55,784)
Personnel expenses	15	**(328,665)**	(327,006)
Depreciation, amortisation, premises and equipment expenses	16	**(105,365)**	(74,656)
Other expenses	16	**(280,798)**	(235,882)
Profit before income tax		**65,787**	**414,387**
Income tax expense	17(a)	**(53,501)**	(184,336)
Profit for the year		**12,286**	**230,051**
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss:			
Fair value reserves			
Investment securities at FVOCI - Net change in fair value	17(b)	**187,675**	(41,095)
Related taxes	17(b)	**(65,686)**	12,625
Other comprehensive income for the year, net of income tax		**121,989**	(28,470)
Total comprehensive income for the year		**134,275**	**201,581**
Earnings per share			
Basic and diluted earnings per share (Kwacha)	18	**0.007**	0.138

The notes on pages 38 to 108 are an integral part of these financial statements.

Consolidated and separate statement of financial position

as at 31 December 2019

	Note	Group 2019 K'000	Group 2018 K'000	Bank 2019 K'000	Bank 2018 K'000
Assets					
Cash and cash equivalents	23	**3,381,132**	2,948,623	**3,381,132**	2,948,623
Cash on hand and balances at Bank of Zambia	22	**1,582,665**	964,497	**1,582,665**	964,497
Pledged assets	24	**100,000**	95,000	**100,000**	95,000
Derivative financial instruments	27	**45,273**	62,512	**45,273**	62,512
Loans and advances to banks	28	**101,999**	-	**101,999**	-
Loans and advances to customers	29	**3,131,664**	2,886,321	**3,131,664**	2,886,321
Investment securities	25	**2,049,415**	2,356,108	**2,049,415**	2,356,108
Investment in subsidiary	26	**-**	-	**5**	5
Property and equipment	30	**119,397**	64,974	**119,397**	64,974
Intangible assets	31	**52,688**	13,476	**52,688**	13,476
Current tax assets	17(c)	**43,283**	-	**43,283**	-
Deferred tax assets	17(d)	**80,297**	39,515	**80,297**	39, 515
Operating lease prepayments	32	**-**	445	**-**	445
Prepayments and other receivables	33	**379,626**	314,864	**379,626**	314,864
Total assets		**11,067,439**	9,746,335	**11,067,444**	9,746,340
Liabilities					
Amounts payable to group banks	23	**229,489**	155,836	**229,489**	155,836
Amounts payable to non-group banks	23	**12,297**	78,795	**12,297**	78,795
Derivative financial instruments	27	**41,740**	45,848	**41,740**	45,848
Deposits from customers	34	**9,289,297**	8,204,152	**9,289,297**	8,204,152
Dividends payable	19	**5,146**	4,572	**5,146**	4,572
Subordinated liabilities	35	**56,600**	47,700	**56,600**	47,700
Provisions	36	**105,290**	68,099	**105,290**	68,099
Current tax liabilities	17(c)	**-**	31,442	**-**	31,442
Accruals and other payables	37	**584,755**	496,340	**584,760**	496,345
Total liabilities		**10,324,614**	9,132,784	**10,324,619**	9,132,789
Equity					
Share capital	38	**416,745**	416,745	**416,745**	416,745
Statutory reserves		**12,285**	12,285	**12,285**	12,285
Fair value reserves		**130,675**	8,686	**130,675**	8,686
Credit reserves		**8,523**	54,131	**8,523**	54,131
Capital contribution		**62,312**	17,312	**62,312**	17,312
Retained earnings		**112,285**	104,392	**112,285**	104,392
Total equity		**742,825**	613,551	**742,825**	613,551
Total liabilities and equity		**11,067,439**	9,746,335	**11,067,444**	9,746,340

These financial statements were approved by the Board of directors on 28th February, 2020 and were signed on its behalf by:

C. Fundanga
Chairman

H. Kasekende
Managing Director

V. Hampinda
Director Finance and Administration

R. Kavimba
Company Secretary

The notes on pages 38 to 108 are an integral part of these financial statements.

Consolidated and separate statement of changes in equity (continued)

for the year ended 31 December 2019

Group and Bank (2019)	Share capital	Statutory reserves	Fair value reserves	Credit reserves	Share-based payment reserve	Capital contribution	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2019	416,745	12,285	8,686	54,131	-	17,312	104,392	613,551
Profit for the year	-	-	-	-	-	-	12,286	12,286
Other comprehensive income net of income tax								
Fair value reserve on investment securities at FVOCI								
- Net change in fair value	-	-	121,989	-	-	-	-	121,989
Total comprehensive income for the year	-	-	121,989	-	-	-	12,286	134,275
Transfers	-	-	-	(45,608)	-	-	45,608	-
Transactions with owners, recognized directly in equity								
Capital contribution	-	-	-	-	-	45,000	(45,000)	-
Dividends (note 19)	-	-	-	-	-	-	(5,001)	(5,001)
Share based payment transactions	-	-	-	-	872	-	(872)	-
Distribution of share-based payments	-	-	-	-	(872)	-	872	-
Total contributions by and distribution to owners	-	-	-	-	-	-	(50,001)	(5,001)
Balance at 31 December 2019	416,745	12,285	130,675	8,523	-	62,312	112,285	742,825

Consolidated and separate statement of changes in equity

for the year ended 31 December 2019

Group and Bank (2018)

	Share capital	Statutory reserves	Fair value reserves	Credit reserves	Share-based payment reserve	Capital Contribution	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2018	416,745	12,285	37,156	60,824	-	17,312	253,760	798,082
Ajustment on Initial application of IFRS 9, net of tax	-	-	-	-	-	-	(19,376)	(19,376)
Restated Balance 1 January 2018	416,745	12,285	37,156	60,824	-	17,312	234,384	778,706
Profit for the year	-	-	-	-	-	-	230,051	230,051
Other comprehensive income net of income tax								
Fair value reserve on available-for-sale investment securities								
- Net change in fair value	-	-	(28,470)	-	-	-	-	(28,470)
Total comprehensive income for the year	-	-	(28,470)	-	-	-	230,051	201,581
Transfers	-	-		(6,693)		-	6,693	-
Transactions with owners, recognised directly in equity								
Dividends (note 19)	-	-	-	-	-	-	(366,736)	(366,736)
Share based payment transactions	-	-	-		1,656	-	(1,656)	(366,736)
Distribution of share based payments	-	-	-	-	(1,656)	-	1,656	-
Total contributions by and distributions to Owners	-	-	-	-	-	-	(366,736)	(366,736)
Balance at 31 December 2018	416,745	12,285	8,686	54,131	-	17,312	104,392	613,551

Consolidated and separate statement of changes in equity *(continued)*

for the year ended 31 December 2019

Fair value reserve

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

Credit reserve

The credit reserve is a loan loss reserve that relates to the excess of 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.

Capital contribution

The capital contribution reserve relates to the franchise value arising from the acquisition of the Security Services business. The franchise value is the amount paid on behalf of the Bank by Standard Chartered Plc for the acquisition of the Security Services business. Included in the capital contribution is the majority shareholder's 2018 final dividend declared which was retained on approval as additional capital for the Group.

Retained earnings

Retained earnings are the brought forward recognised income net of expenses of the Group plus current year profit (loss) attributable to shareholders less distribution to shareholders.

Statutory reserves

Statutory reserves comprises amounts prescribed under statutory instrument No. 21 of 1995: The Banking and Financial Services (Reserve Account) Regulations 1995.

Share based payment reserve

Sharesave is an all-employee plan where participants (including executive directors) are able to open a savings contract to fund the exercise of an option over shares The share based payment reserve relates to equity options exercised of which employee of Standard Chartered Bank Zambia PLC participate.

Consolidated and separate statement of cash flows

for the year ended 31 December 2019

	Note	Group and Bank 2019 K'000	2018 K'000
Cash flow from operating activities			
Profit before tax		**65,787**	414,387
Adjustment for:			
- Depreciation of property and equipment	*30*	**29,747**	21,931
- Amortisation of intangible assets	*31*	**13,945**	1,131
- Equity-settled share-based payments transaction	*15*	**872**	1,656
- Expensed portion of leasehold land prepayment	*32*	**-**	15
- Impairment losses	*6a(iii)*	**303,730**	55,784
- Gain/ (loss) on disposal of property		**8,595**	(2,792)
- Net loss on maturity of investment securities measured at FVOCI		**(162,199)**	-
- Net interest income		**(718,717)**	(685,287)
- Effect of exchanges rate fluctuations on subordinated liabilities	*35*	**8,900**	7,700
		(449,340)	(185,475)
Change in:			
- pledged assets		**(5,000)**	3,000
- loans and advances to customers		**(245,343)**	(273,632)
- loans and advances to banks		**(101,999)**	-
- derivative financial instruments		**13,132**	(11,753)
- prepayments and other receivables		**(64,287)**	(64,036)
- deposits from customers		**1,085,145**	899,488
- provisions		**37,191**	4,242
- accruals and other payables		**24,415**	111,090
		293,914	482,924
Interest received		**1,113,781**	816,322
Interest paid		**(332,387)**	(125,472)
		781,394	690,850
Net cash generated from operating activities before taxation		**1,075,308**	1,173,774
Income tax paid	*17(c)*	**(171,638)**	(162,122)
Net cash generated from operating activities		**903,670**	1,011,652
Cash flows from investing activities			
Purchase of property and equipment	*30*	**(18,563)**	(25,857)
Investment in government securities		**(2,155,827)**	(2,002,258)
Proceeds from maturity/sale of investment securities		**2,300,320**	1,407,897
Proceeds from disposal of property and equipment		**9,606**	3,418
Net cash from/(used in) investing activities		**135,536**	**(616,800)**
Cash flows from financing activities			
Premises and equipment lease liability principal payment		**(7,047)**	-
Dividends paid	*19*	**(5,001)**	(366,736)
Net cash used in financing activities		**(12,048)**	(366,736)
Net increase in cash and cash equivalents		**1,027,158**	28,116
Cash and cash equivalents at beginning of year		**3,678,489**	3,614,992
Effect of exchange rate fluctuation on cash held		**16,364**	35,381
Cash and cash equivalents at end of year	*23*	**4,722,011**	3,678,489

The notes on pages 38 to 108 are an integral part of these financial statements.

Notes to the consolidated and separate financial statements

for the year ended 31 December 2019

1 Reporting entity

Standard Chartered Bank Zambia Plc ("Bank") is a Bank domiciled in Zambia. The Bank's registered office is Standard Chartered House, Cairo Road, Lusaka. These consolidated and separate financial statements comprise the Bank and its subsidiary Standard Chartered Nominees Zambia Limited (collectively the 'Group'). The Group is primarily involved in wholesale and consumer banking.

2 Basis of accounting

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, the Banking and Financial Services Act and the Securities Act of Zambia.

The Bank has one subsidiary, Standard Chartered Nominees Limited, which is dormant and accordingly the Group's consolidated and separate statements of profit and loss and other comprehensive income, changes in equity and cash flows are substantially the same as the Bank.

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied.

The related changes to significant accounting policies are described in note 5 to the financial statements.

3 Functional and presentation currency

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

4 Use of Judgements and estimates

In preparing these financial statements, management has made estimates and assumptions that affect the application of the Group'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 consolidated financial statements is included in the following notes.

- 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 Expected Credit Loss (ECL) and selection and approval of models used to measure ECL.
- Notes 45.10 (ii): 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.

b) Assumptions and estimation uncertainties

Information about assumption and estimation uncertainties that have significant risk requiring a material adjustment in year ended 31 December 2019 is issued in following notes:

- Note 6: impairment of financial instruments: determining inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
- Note 7(a): measurement of the fair value of financial instruments with significant unobservable inputs.
- Note 17: recognition of deferred tax assets: availability of future taxable profits against which to carry-forward tax losses can be used.
- Note 31: impairment testing or CGU's containing goodwill; key assumptions underlying recoverable amounts.
- Note 39: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

5 Changes in accounting policies

On 1 January 2019, the Group adopted IFRS 16 Leases, which has been endorsed by the EU. IFRS 16 replaced IAS 17 Leases.

IFRS 16 introduced a single lease accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

a) Leases

The Group applied IFRS 16 from 1 January 2019 using the modified retrospective approach and has not restated comparative information. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not been applied to comparative information.

5 Changes in accounting policies *(continued)*

a) Leases *(continued)*

i. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease.* The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 45.8 to the financial statements.

ii. As a lessee

The Group previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises and motor vehicles. These leases are now on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branches and office premises the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

IT equipment are exempt as they are considered to be leases of low-value.

Right-of-use assets are measured at their carrying amount at the date of initial application, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

iii. As a lessor

The Group does not lease out any assets.

iv. Impact on financial statements

The impact of IFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts and motor vehicle lease contracts. On 1 January 2019, the Group recognised a lease liability, being the remaining lease payments, including extension options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application in the economic environment of the lease.

On transition the Group recognized Right of use assets and lease liabilities, the impact on transition is summaried below:

	1 January 2019 K'000
Cost (see note 30).	**3,787**
Depreciation (see note 30).	**(86)**
Right of use assets presented in property and equipment	**3,701**
Lease liabilities	**3,701**

The significant judgements in the implementation were determining if a contract contained a lease and the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 25.7% for kwacha denominated leases and 7% USD denominated leases for Motor Vehicles.

The balance sheet gross-up on 1 January 2019 as a result of recognition of the lease liability and right-of-use asset was K3.8m, with no adjustment to retained earnings.

Existing lease liabilities may change in future periods due to changes in assumptions or decisions to exercise lease renewal or termination options, changes in payments due to renegotiation of market rental rates as permitted by those contracts and changes to payments due to rent being contractually linked to an inflation index. In general, the remeasurement of a lease liability under these circumstances leads to an equal change to the Right Of Use asset balance, with no immediate effect on the income statement.

The comparative information is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

6 Financial risk review

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

For information on the Group's financial risk management framework, see note 43 to the financial statements.

a) Credit risk

For the definition of credit risk and information on how credit risk is managed by the Group, see note 43(b) to the financial statements.

i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI and FVTPL investments securities. 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 6a(iii).

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

i) Credit quality analysis (continued)

		2019			
		Stage 1	Stage 2	Stage 3	Total
	Notes	K'000	K'000	K'000	K'000
Loans and advances to banks at amortised cost- gross carrying amount					
Grade 1-11: Low-fair risk		102,000	-	-	102,000
Gross carrying amount		102,000	-	-	102,000
Loss allowance	*28*	(1)	-	-	(1)
Carrying amount		101,999	-	-	101,999

There were no loans and advances to banks during 2018.

		2019			
		Stage 1	Stage 2	Stage 3	Total
	Notes	K'000	K'000	K'000	K'000
Loans and advances to customers at amortised cost					
Grade 1-11: Low-fair risk		2,208,780	1,013,955	6,470	3,229,205
Grade 12: Substandard		-	-	-	-
Grade:13 Doubtful		-	-	164	164
Grade 14 Loss		-	-	89,263	89,263
Gross carrying amount		2,208,780	1,013,955	95,897	3,318,632
Loss Allowance	*29*	(19,076)	(116,768)	(51,124)	(186,968)
Carrying amount		2,189,704	897,187	44,773	3,131,664

		2018			
		Stage 1	Stage 2	Stage 3	Total
	Notes	K'000	K'000	K'000	K'000
Loans and advances to customers at amortised cost					
Grade 1-11: Low-fair risk		2,062,345	771,542	12,732	2,846,619
Grade 12: Substandard		-	-	18,068	18,068
Grade:13 Doubtful		-	-	3,075	3,075
Grade 14 Loss		-	-	82,314	82,314
Gross carrying amount		2,062,345	771,542	116,189	2,950,076
Loss Allowance	29	(19,354)	(34,157)	(10,244)	(63,755)
Carrying amount		2,042,991	737,385	105,945	2,886,321

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

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

i) Credit quality analysis *(continued)*

	Note	2019 Stage 1 K'000	Stage 2 K'000	Stage 3 K'000	Total K'000
Investment securities					
Grade 1-11: Low-fair risk		**1,880,123**	**169,292**	**-**	**2,049,415**
	25	**1,880,123**	**169,292**	**-**	**2,049,415**
Loss allowance		**(145,022)**	**(30,374)**	**-**	**(175,396)**
Carrying amount		**1,735,101**	**138,918**	**-**	**1,874,019**

	Note	2018 Stage 1 K'000	Stage 2 K'000	Stage 3 K'000	Total K'000
Grade 1-11: Low-fair risk		71,187	2,284,921	-	2,356,108
	25	71,187	2,284,921	-	2,356,108
Loss allowance		-	(17,228)	-	(17,228)
Carrying amount		71,187	2,267,693	-	2,338,880

	2019 Stage 1 K'000	Stage 2 K'000	Stage 3 K'000	Total K'000
Loan commitments				
Grade 1-11: Low-fair risk	**276,052**	**130,421**	**-**	**406,473**
Loss allowance	**3,545**	**2,904**	**-**	**6,449**
Carrying amount	**279,597**	**133,325**	**-**	**412,922**
Financial guarantee contracts				
Grade 1-11: Low-fair risk	**155,406**	**33,950**	**-**	**189,356**
Loss allowance	**96**	**-**	**-**	**96**
Carrying amount	**155,502**	**33,950**	**-**	**189,452**

	2018 Stage 1 K'000	Stage 2 K'000	Stage 3 K'000	Total K'000
Loan commitments				
Grade 1-11: Low-fair risk	412,732	464,936	-	877,668
Loss allowance	479	2,059	-	2,538
Carrying amount	413,211	466,995	-	880,206
Financial guarantee contracts				
Grade 1-11: Low-fair risk	61,026	312,939	-	373,965
Loss allowance	17	121	-	138
Carrying amount	61,043	313,060	-	374,103

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

i) Credit quality analysis *(continued)*

Loans and advances to customers at amortised cost – gross carrying amount

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Current	**2,107,672**	**786,026**	**6,471**	**2,900,169**
Overdue < 30 days	**101,108**	**195,993**	**-**	**297,101**
Overdue > 30 days	**-**	**31,936**	**89,426**	**121,362**
Total	**2,208,780**	**1,013,955**	**95,897**	**3,318,632**

Loans and advances to customers at amortised cost – gross carrying amount

	2018			
	Stage 1	Stage 2	Stage 3	Total
	K'000	K'000	K'000	K'000
Current	284,587	439,731	12,732	737,050
Overdue < 30 days	1,777,758	331,811	18,068	2,127,637
Overdue > 30 days	-	-	85,389	85,389
Total	2,062,345	771,542	116,189	2,950,076

ii) Collateral held and other credit enhancements

The Group 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.

	Note	**2019 Total K'000**	2018 Total K'000	Principal type of collateral held
Investment securities	*25*	**2,049,415**	2,356,108	None
Trading derivative assets	*29*	**45,273**	62,512	None
Loans and advances to retail customers				
Mortgage lending		**141,279**	125,981	Residential property
Personal loans		**1,294,005**	1,444,919	None
Credit cards		**44,840**	27,758	None
Auto loans		**8,005**	6,666	None
Overdraft		**95,329**	26,108	None
	29	**1,583,458**	1,631,432	
Loans and advances to commercial and corporate Institutional customers				
Term loans		**999,647**	830,369	
Overdrafts		**735,527**	488,275	
		1,735,174	1,318,644	Commercial property, floating charges over corporate assets

Loans and advances to customers

The general creditworthiness of a corporate and Institutional, retail secured loans (9 per cent of total retail book) and commercial customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate and institutional, retail and commercial borrowers provide it. The Group 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 Group's focus on corporate and Institutional and commercial customers' creditworthiness, the Group does not routinely update the valuation of collateral held against all loans to corporate and Institutional and commercial 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 Group obtains appraisals of collateral because it provides input into determining the management credit risk actions.

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

iii) *Amounts arising from ECL*

For Inputs, assumptions and techniques used for estimating impairment.

Credit risk grades

For Corporate and Institutional and Commercial banking, borrowers are graded by credit risk management on a credit grading (CG) scale from CG1 to CG14 with 1-5 Investment, 6-11 Sub Investment, 12 GSAM and 13-14 Default. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as CG12 the credit assessment and over sight of the loan will normally be performed by Group Special Assets Management (GSAM).

Borrowers graded CG12 exhibit well-defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or interest. Where the impairment assessment indicates that there will be a loss of principal on a loan, the borrower is graded a CG14 while borrowers of other credit impaired loans are graded CG13. Instruments graded CG13 or CG14 are regarded as non-performing loans, i.e. Stage 3 or credit impaired exposures.

For individually significant financial assets within Stage 3, Group Special Asset Management (GSAM) will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options. The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the Retail Banking portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Retail Banking clients are considered credit impaired where they are more than 90 days past due. Retail Banking products are also considered credit impaired if the borrower files for bankruptcy or other forbearance programme, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit impaired, the account may also be credit impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use.

The Group allocates each exposure to a credit risk grade 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.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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.

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(Continued)*

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

Corporate and institutional and Commercial exposures	Retail exposures	All exposures
- Information obtained during the periodic review of customer file e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.	- internally collected data on customer behavior - e.g. utilisation of credit card 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 its business activities.		- Existing and forecast changes in business, financial and economic conditions.

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original Probability of Defaulty (PD) based transfer criteria are no longer met. Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1.

A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a further two year probation period is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding
- Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Notes to the consolidated and separate financial statements *(continued)*

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk*(continued)*

iii) Amounts arising from ECL *(continued)*

Credit risk grades *(continued)*

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

The information below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and for the Corporate portfolio, to external sovereign credit ratings.

Corporate and institutional and Commercial Banking

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

Grading

CIB		Average PD (%)	External Rating (S & P)
1-5	Investment	0.39	AAA to BBB-
6-8	Non Investment - Speculative	1.37	BB+ to BB-
9-11	Non Investment - Highly Speculative	1.39	B+ to B-
12	Extremely speculative	68.9	CCC+ to CCC
13-14	Default	80.5	CCC- to D

CB		Average PD (%)	External Rating (S & P)
1-5	Investment	0.39	AAA to BBB-
6-8	Non Investment - Speculative	1.37	BB+ to BB-
9-11	Non Investment - Highly Speculative	1.39	B + to B-
12	Extremely speculative	68.9	CCC+ to CCC
13-14	Default	80.5	CCC- to D

Retail Banking

The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Grading	12-month average PD	
	2019	2018
Grade 1-11: Low-fair risk	**2.2%**	4.9%
Grades 13–14: Substandard, doubtful, loss	**100%**	100%

Retail Book has no client within investment grade and the approach is to cap it to the country sovereign rating which was at 11A.

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 Group collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

Determining whether credit risk has increased significantly

The Group 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.

Significant Increase in Credit Risk (SICR) is assessed in the context of an increase in the risk of a default occurring over the remaining life of the financial instrument when compared with that expected at the time of initial recognition for the same period. It is not assessed in the context of an increase in the expected credit loss.

The Group uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared with those expected at initial recognition. Qualitative factors include placement of loans on non-purely precautionary early alert, classification as higher risk (CG 12) or where principal and/or interest payments are 30 days or more past due. Further, SICR will be considered when major sovereign rating agencies significantly downgrade a country and there is a 50% drop in copper prices the Group has significant exposures to the mines and their capacity to meet their obligations will be affected. This is applicable for all segments.

Definition of Default

The definition of default is aligned to the regulatory definition and considered to occur when an asset is 90 days or more past due on contractual payments of principal and/or interest or is considered unlikely to pay without realisation of any collateral held.

To the extent that assets are credit-impaired at the point of initial recognition, they are classified as purchased or originated credit-impaired. An expected credit loss allowance is not recognised at initial recognition. Any changes in lifetime expected losses after initial recognition are charged or credited to the income statement through 'Impairment'.

The measurement of expected credit losses across all stages is required to reflect an unbiased and probability weighted amount that is determined by evaluating a range of reasonably possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. The Group uses a Monte Carlo approach to simulate a set of 50 scenarios around the Group's central forecast to incorporate the potential non-linearity.

The period considered when measuring expected credit loss is the shorter of the expected life and the contractual term of the financial asset. The expected life may be impacted by prepayments and the maximum contractual term by extension options. For certain revolving portfolios, including credit cards, the expected life is assessed over the period that the Group is exposed to credit risk (which is based on the length of time it takes for credit facilities to be withdrawn) rather than the contractual term.

For stage 3 financial assets, the determination of lifetime expected credit losses will be based on the present value of estimated future cash flows for individual clients. The estimated cash flows will, however, be based on a probability range of scenarios. Where the cash flows include realisable collateral, the values used will incorporate forward-looking information.

Where the contractual terms of a financial asset have been modified due to financial difficulties (forbearance, for example) and the asset has not been derecognised, a modification loss is recognised as part of 'Impairment' in the income statement. The loss represents the difference between the present value of the cash flows before and after the modification, discounted at the original effective interest rate.

Investment Securities FVOCI

For Investment securities instruments held at FVOCI, the balance sheet amount reflects the instrument's fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income.

Off Balance Sheet

ECL allowances on off-balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise they will be reported against the drawn component.

Incorporation of forward-looking information

The Group 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.

A Monte Carlo simulation is used on the macroeconomic variables to generate multiple economic scenarios for the purpose of reflecting the non-linearity of losses where these exist on individual portfolios

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL (continued)

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

The approach follows the following steps:

1. Using Monte Carlo simulation, multiple economic states of the world are generated using a base case macroeconomic forecast and a covariance matrix developed using historical macroeconomic data
2. 50 scenarios are generated to provide robust and stable results while ensuring ability to meet reporting timelines. PS: Due to the central nature of the ECL estimate we see diminishing returns from further marginal runs
3. Each of these economic states are run through the calculation engine to generate:

a) A weighted average PD term structure for the significant deterioration assessment

b) A weighted average 12-month and lifetime ECL

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities such as the International Monetary Fund, and selected private-sector and academic forecasters.

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Group's senior management.

The Group 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 wholesale portfolios are: GDP growth, unemployment rates and interest rates. For exposures to specific industries and/or regions, the key drivers also include relevant commodity and/or real estate prices. The key drivers for credit risk for retail portfolios are: unemployment rates, house prices and interest rates.

Modified financial assets

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within credit impairment in the income statement within a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the bank would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk.

These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties.

Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss (see Classification and measurement – Modifications) is recognised in the profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount. The modified loan is disclosed as 'Loans subject to forbearance – credit impaired'.

Loans that have been subject to a forbearance modification, but which are not considered credit impaired (not classified as CG13 or CG14), are disclosed as 'Forborne – not credit impaired'. This may include amendments to covenants within the contractual terms.

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

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

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money and considering all reasonable and supportable information including that which is forward looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. Further details on the components of PD, LGD and EAD. For less material Retail Banking loan portfolios such as credit cards, the Group has adopted simplified approaches based on historical roll rates or loss rates.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts. These scenarios are determined using a Monte Carlo approach centred around the Group's most likely forecast of macroeconomic assumptions.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group's exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insuranc e). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instruments Location of expected credit loss provisions

Financial assets held at amortised cost less provisions: netted against gross carrying value

- Financial assets held at FVOCI – Investment securities Other comprehensive income (FVOCI expected credit loss Reserve)
- Loan commitments
- Provisions for liabilities and charges
- Financial guarantees
- Provisions for liabilities and charges

1 Investment and treasury securities classified as FVOCI are held at fair value on the face of the balance sheet. The expected credit loss attributed to these instruments is held as a separate reserve within OCI and is recycled to the profit and loss account along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised.

2 Expected credit loss on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component) and it is not possible to separately identify the expected credit loss on these components, expected credit loss amounts on the loan commitment are recognised together with expected credit loss amounts on the financial asset. To the extent the combined expected credit loss exceeds the gross carrying amount of the financial asset, the expected credit loss is recognised as a liability provision.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit riskk *(continued)*

iii) Amounts arising from ECL (continued)

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

Recognition

12 months expected credit losses (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

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

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions;
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s and
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate and the gross carrying value of the instrument prior to any credit impairment.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2018

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL (continued)

Group and Bank		2019				2018			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks amortised cost		**K'000**	**K'000**	**K'000**	**K'000**	K'000	K'000	K'000	K'000
Balance at 1 January		-	-	-	-	-	-	-	-
- Transfer to Stage 1		-	-	-	-	-	-	-	-
- Transfer to Stage 2		-	-	-	-	-	-	-	-
- Transfer to Stage 3		-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
New financial assets originated or purchased		1	-	-	1	-	-	-	-
Financial assets that have been derecognised		-	-	-	-	-	-	-	-
(Write off)/recoveries		-	-	-	-	-	-	-	-
Unwind of discount		-	-	-	-	-	-	-	-
Foreign exchange movements		-	-	-	-	-	-	-	-
Balance as at 31st December 2019	*28*	1	-	-	1	-	-	-	-

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2018

6 Financial risk Review *(continued)*

a) *Credit risk* *(continued)*

iii) *Amounts arising from ECL (continued)*

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

Group and Bank		2019				2018			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost		**K'000**	**K'000**	**K'000**	**K'000**	K'000	K'000	K'000	K'000
Balance at 1 January		**19,354**	**34,157**	**10,244**	**63,755**	12,827	16,163	21,036	50,026
- Transfer to Stage 1		**43,623**	**(43,623)**	**-**	**-**	12,199	(11,645)	(554)	-
- Transfer to Stage 2		**(61,312)**	**72,014**	**(10,702)**	**-**	(3,974)	8,076	(4,102)	-
- Transfer to Stage 3		**-**	**(48,467)**	**48,467**	**-**	-	(7,607)	7,607	-
		1,665	**14,081**	**48,009**	**63,755**	21,052	4,987	23,987	50,026
New financial assets originated or purchased		**54,851**	**-**		**54,851**	9,614	10,058	18,545	38,217
Financial assets that have been derecognised		**(1,186)**	**(4,946)**	**(36,815)**	**(42,947)**	(625)	(2,721)	(39,921)	(43,267)
(Write off)/recoveries		**-**	**-**	**(80,177)**	**(80,177)**	(58,442)	28,414	(13,743)	(43,771)
Foreign exchange movements		**(36,255)**	**107,635**	**120,106**	**191,486**	47,755	(6,581)	21,376	62,550
Balance as at 31st December 2019	29	**19,075**	**116,770**	**51,123**	**186,968**	19,354	34,157	10,244	63,755

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

***iii) Amounts arising from ECL** (continued)*

Loss allowance *(continued)*

	Note	2019			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost		**K'000**	**K'000**	**K'000**	**K'000**
Retail Banking customers					
Balance at 1 January		**18,632**	**6,241**	**1,586**	**26,459**
- Transfer to Stage 1		**12,438**	**(12,438)**	**-**	**-**
- Transfer to Stage 2		**(29,287)**	**34,977**	**(5,690)**	**-**
- Transfer to Stage 3		**-**	**(36,397)**	**36,397**	**-**
		1,783	**(7,617)**	**32,293**	**26,459**
New financial assets originated or purchased		**31,291**	**-**	**-**	**31,291**
Financial assets that have been derecognised		**(1,182)**	**(3,411)**	**(7,998)**	**(12,591)**
(Write off)/recoveries		**-**	**-**	**(35,515)**	**(35,515)**
Foreign exchange movements		**(13,912)**	**95,052**	**22,958**	**104,098**
Balance as at 31st December 2019	29	**17,980**	**84,024**	**11,738**	**113,742**

	Note	2018			
		Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost		K'000	K'000	K'000	K'000
Retail Banking customers					
Balance at 1 January		8,570	5,972	957	15,499
- Transfer to Stage 1		6,826	(6,272)	(554)	-
- Transfer to Stage 2		(1,666)	3,624	(1,958)	-
- Transfer to Stage 3		-	(6,891)	6,891	-
		13,730	(3,567)	5,336	15,499
New financial assets originated or purchased		6,844	16	-	6,860
Financial assets that have been derecognised		(585)	(1,256)	(1,605)	(3,446)
(Write off)/recoveries		(16,478)	9,808	(2,803)	(9,473)
Foreign exchange movements		15,121	1,240	658	17,019
Balance as at 31st December 2018	*29*	18,632	6,241	1,586	26,459

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL (continued)

Loss allowance *(continued)*

	Note	2019 Stage 1	 Stage 2	 Stage 3	 Total
Loans and advances to customers at amortised cost		**K'000**	**K'000**	**K'000**	**K'000**
Corporate and Institutional Banking					
Balance at 1 January		**686**	**26,563**	**768**	**28,017**
- Transfer to Stage 1		**18,132**	**(18,132)**	**-**	**-**
- Transfer to Stage 2		**(345)**	**345**	**-**	**-**
- Transfer to Stage 3		**-**	**(11,727)**	**11,727**	**-**
		18,473	**(2,951)**	**12,495**	**28,017**
New financial assets originated or purchased		**4,005**	**-**	**-**	**4,005**
Financial assets that have been derecognised		**-**	**-**	**(2,424)**	**(2,424)**
(Write off)/recoveries		**-**	**-**	**(44,661)**	**(44,661)**
Foreign exchange movements		**(21,973)**	**7,974**	**38,131**	**24,132**
Balance as at 31st December 2019	*29*	**505**	**5,023**	**3,540**	**9,069**

	Note	2018 Stage 1	 Stage 2	 Stage 3	 Total
Loans and advances to customers at amortised cost		K'000	K'000	K'000	K'000
Corporate and Institutional Banking					
Balance at 1 January		3,569	5,203	(8,064)	708
- Transfer to Stage 1		2,527	(2,527)	-	-
- Transfer to Stage 2		(1,009)	1,009	-	-
- Transfer to Stage 3		-	-	-	-
		5,087	3,685	(8,064)	708
New financial assets originated or purchased		2,617	5,825	-	8,442
Financial assets that have been derecognised		(37)	(1,436)	(55)	(1,528)
(Write off)/recoveries		(36,715)	22,133	7,885	(6,697)
Foreign exchange movements		29,734	(3,644)	1,002	27,092
Balance as at 31st December 2018	*29*	686	26,563	768	28,017

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

***iii) Amounts arising from ECL** (continued)*

Loss allowance *(continued)*

	Note	2019 Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost		**K'000**	**K'000**	**K'000**	**K'000**
Commercial Banking customers					
Balance at 1 January		39	1,350	7,890	9,279
- Transfer to Stage 1		13,053	(13,053)	-	-
- Transfer to Stage 2		(31,683)	36,695	(5,012)	-
- Transfer to Stage 3		-	(343)	343	-
		(18,591)	24,649	3,221	9,279
New financial assets originated or purchased		19,556	-	-	19,556
Financial assets that have been derecognised		(7)	(1,535)	(26,393)	(27,935)
Foreign exchange movements		(370)	4,610	59,017	63,257
Balance as at 31st December 2019	29	588	27,724	35,845	64,157

	Note	2018 Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost		K'000	K'000	K'000	K'000
Commercial Banking customers					
Balance at 1 January		688	4,988	28,143	33,819
- Transfer to Stage 1		2,846	(2,846)	-	-
- Transfer to Stage 2		(1,299)	3,443	(2,144)	-
- Transfer to Stage 3		-	(716)	716	-
		2,235	4,869	26,715	33,819
New financial assets originated or purchased		153	4,217	18,545	22,915
Financial assets that have been derecognised		(3)	(29)	(38,261)	(38,293)
(Write off)/recoveries		(5,249)	(3,527)	(18,825)	(27,601)
Foreign exchange movements		2,903	(4,180)	19,716	18,439
Balance as at 31st December 2018	29	39	1,350	7,890	9,279

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

***iii) Amounts arising from ECL** (continued)*

Loss allowance *(continued)*

		2019	
	Stage 1	**Stage 2**	**Total**
Investment securities	**K'000**	**K'000**	**K'000**
Balance at 1 January	**-**	**(17,228)**	**(17,228)**
- Transfer to Stage 1	**23,043**	**(23,043)**	**-**
- Transfer to Stage 2	**(36,982)**	**36,982**	**-**
- Transfer to Stage 3	**-**	**-**	**-**
	(13,939)	**(3,289)**	**(17,228)**
New financial assets originated or purchased	**147,642**	**35,037**	**182,679**
Financial assets that have been derecognised	**-**	**-**	**-**
(Write off)/recoveries	**-**	**14,143**	**14,143**
Unwind of discount			
Foreign exchange movements	**11,319**	**(15,517)**	**(4,198)**
Balance as at 31st December 2019	**145,022**	**30,374**	**175,396**

		2018	
	Stage 1	Stage 2	Total
Investment securities	K'000	K'000	K'000
Balance at 1 January	-	22,463	22,463
- Transfer to Stage 1	-	-	-
- Transfer to Stage 2	-	-	-
- Transfer to Stage 3	-	-	-
	-	22,463	22,463
New financial assets originated or purchased	-	-	-
Financial assets that have been derecognised	-	-	-
(Write off)/recoveries	-	(42,318)	(42,318)
Foreign exchange movements	-	2,627	2,627
Balance as at 31st December 2018	-	(17,228)	(17,228)

There was nothing under stage 1 and 3 everything was in stage 2 in 2018.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

Loan commitments and financial guarantee contracts

	2019 Stage 1 K'000	2019 Total K'000	2018 Stage 1 K'000	2018 Total K'000
Balance at 1 January	**2,676**	**2,676**	5,820	5,820
New loan commitments and financial guarantees	**71**	**71**	(3,418)	(3,418)
	2,747	**2,747**	2,402	2,402
Foreign exchange movements	**3,797**	**3,797**	274	274
Balance at 31 December	**6,544**	**6,544**	2,676	2,676

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 consolidated statement of profit or loss and other comprehensive income.

2019	**Loans and advances to banks**	**Loans and advances to customers**	**Investment securities**	**Loan commitments and financial guarantee contracts**	**Total**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**
Net remeasurement of loss allowance	**-**	**133,608**	**(7,283)**	**(7,302)**	**119,023**
New financial assets originated or purchased	**(20)**	**54,851**	**165,452**	**7,371**	**227,654**
Total	**(20)**	**188,459**	**158,169**	**69**	**346,677**
Recoveries of amounts previously written off	**-**	**(42,947)**	**-**	**-**	**(42,947)**
Total	**(20)**	**145,512**	**158,169**	**69**	**303,730**

2018	Loans and advances to banks	Loans and advances to customers	Investment securities	Loan commitments and financial guarantee contracts	Total
	K'000	K'000	K'000	K'000	K'000
Net remeasurement of loss allowance	-	61,609	2,627	(3,650)	60,586
New financial assets originated or purchased	-	38,217	-	248	38,465
Total	-	99,826	2,627	(3,402)	99,051
Recoveries of amounts previously written off	-	(43,267)	-	-	(43,267)
Total	-	56,559	2,627	(3,402)	55,784

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk Review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL (continued)

iv) Concentration Risk

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances and investment securities is shown below.

	Group and Bank			
	Loans and advances to customers		**Investment securities**	
	2019	2018	**2019**	2018
Carrying amount	**3,131,664**	2, 886, 321	**2,049,415**	2,356,108
Corporate and Commercial:				
Agriculture	**487,338**	478,883	**-**	-
Commerce	**380,458**	370,889	**-**	-
Financial services	**23,406**	67,263	**-**	-
Mining and quarrying	**236,765**	-	**-**	-
Manufacturing	**241,287**	171,391	**-**	-
Transport, Storage	**9,677**	7,379	**-**	-
Construction	**191,457**	180,101	**-**	-
Other	**-**	2,091	**2,049,415**	2,356,108
Retail:				
Mortgages	**140,879**	125,579	**-**	-
Unsecured lending	**1,420,397**	1,482,745	**-**	-
Total	**3,131,664**	2,886,321	**2,049,415**	2,356,108

v) Offsetting financial assets and financial liabilities

There are no financial assets and financial liabilities that are offset in the Group'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.

vi) Impaired loans and advances and investment securities

For details of impaired financial assets see note 6a) (iii). For details of impairment allowances for loans and advances see note 29. The impairment allowance for loans to banks was immaterial. (2018: nil).

b) Liquidity risk

For the definition of liquidity risk and information on how liquidity risk is managed by the Group see note 42 (c)

i) Exposure to liquidity risk

The key measure used by the Group 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:

	Group and Bank	
	2018	2018
At 31 December	**44.74%**	56.22%
Average for the period	**47.27%**	56.43%
Maximum for the period	**63.09%**	62.60%
Minimum for the period	**35.18%**	44.52%

The minimum required by Bank of Zambia for core liquid assets is 6% (2018: 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.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

ii) Maturity analysis for financial liabilities

The following table provides an analysis of the financial liabilities of the Group into relevant maturity groupings:

Group and Bank

2019	Carrying amount K'000	Gross Nominal outflow K'000	Less than one month K'000	One month to three months K'000	Three months to one year K'000	One to five years K'000	More than five years K'000
Non-derivative liabilities							
Amounts payable to group banks	229,489	229,489	56,768	87,822	70,750	14,149	-
Amounts payable to non-group banks	12,297	12,297	12,297	-	-	-	-
Deposits from customers	9,289,297	9,342,945	7,219,829	344,608	1,700,843	77,665	-
Other payables	381,145	381,145	381,145	-	-	-	-
Subordinated liabilities	56,600	73,123	-	-	-	-	73,123
Total non-derivative liabilities	9,968,828	10,038,999	7,670,039	432,430	1,771,593	91,814	73,123
Derivative liabilities							
Derivative financial instruments	41,740	41,740	41,740	-	-	-	-
Total derivative liabilities	41,740	41,740	41,740	-	-	-	-
Off Balance sheet financial liabilities							
Loan commitments	406,473	406,473	-	-	406,473	-	-
Guarantees	408,025	408,025	3,290	42,063	147,293	211,659	3,720
Letters of credit	10	10	10	-	-	-	-
Off Balance sheet financial liabilities	814,508	814,508	3,300	42,063	553,766	211,659	3,720

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

ii) Maturity analysis for financial liabilities *(continued)*

Group and Bank

2018	Carrying amount	Gross Nominal outflow	Less than one month	One month to three months	Three months to one year	One to five years	More than five years
Non-derivative liabilities	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Amounts payable to group banks	155,836	155,836	1,021	35,565	59,625	59,625	-
Amounts payable to non-group banks	78,795	78,795	78,795	-	-	-	-
Deposits from customers	8,204,152	8,300,667	6,138,242	1,464,255	679,863	18,307	-
Other payables	329,927	329,927	329,927	-	-	-	-
Subordinated liabilities	47,700	63,775	-	-	-	-	63,775
Total non-derivative liabilities	8,816,410	8,929,000	6,547,985	1,499,820	739,488	77,932	63,775
Derivative liabilities							
Derivative financial instruments	45,848	45,848	45,848	-	-	-	-
Total derivative liabilities	45,848	45,848	45,848	-	-	-	-
Off Balance sheet financial liabilities							
Loan commitments	877,668	877,668	-	-	877,668	-	-
Guarantees	374,103	374,103	-	161,271	205,677	7,155	-
Letters of credit	49,057	49,057	-	47,568	1,489	-	-
Off Balance sheet financial liabilities	1,300,828	1,300,828	-	208,839	1,084,834	7,155	-

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk management *(continued)*

c) Market risk

For the definition of market risk and information on how the Group manages the market risks of trading and non-trading portfolios, see note 43(d).

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

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

The table below indicates the effective interest rates at the reporting date.

The effective interest rates for principal financial assets and financial liabilities averaged as follows:

	Group and Bank			
	2019		2018	
Financial assets	**K (%)**	**USD (%)**	K (%)	USD (%)
Government bonds	**30.11**	**-**	17.56	-
Treasury bills	**23.81**	**-**	18.12	-
Loans and advances	**23.38**	**6.88**	22.30	6.44
Staff mortgages and other loans	**10.00**	**10.00**	10.00	-
Financial liabilities				
Placements with other banks	**13.36**	**2.29**	10.87	1.82
Customer deposits	**1.48**	**0.38**	1.31	0.31

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 5% and 10% parallel rise in all yield curves and a 2.5% and 7.5% parallel fall in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial statement position, is as shown below: Interest rate movements affect reported equity in the following ways:

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.

- Fair value reserves arising from increases or decreases in fair values of FVOCI financial instruments reported directly in other comprehensive income.

  Overall non-trading interest rate risk positions are managed by Financial markets, which use investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk management *(continued)*

c) Market risk *(continued)*

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

The following is a summary of the Group's interest rate gap position on non- trading portfolios. *(continued)*

Group and Bank

2019		Total K'000	Zero rate instrument K'000	Floating rate instruments K'000	Less than three months K'000	Three months to one year K'000	Between one and five years K'000
Assets							
Cash on hand and balances at Bank of Zambia		1,582,665	1,582,665	-	-	-	-
Cash and cash equivalents		3,381,132	308,650	-	2,718,732	353,750	-
Investment securities		2,049,415	508	-	767,239	850,099	431,569
Derivative financial instruments		45,273	-	-	45,273	-	-
Loans and advances to banks		101,999	-	101,999	-	-	
Loans and advances to customers		3,131,664	-	3,131,664	-	-	-
Total assets		10,292,148	1,891,823	3,233,663	3,531,244	1,203,849	431,569
Liabilities							
Amounts payable to group banks		229,489	56,768	-	87,821	70,750	14,150
Amounts payable to non-group banks		12,297	12,297	-	-	-	-
Deposits from customers		9,289,297	6,633,597	532,584	344,608	1,700,843	77,665
Derivative financial instruments		41,740	-	-	41,740	-	-
Subordinated liabilities		56,600	-	56,600	-	-	-
Total liabilities		9,629,423	6,702,662	589,184	474,169	1,771,593	91,815
Gap		662,725	(4,810,839)	2,644,479	3,057,075	(567,744)	339,754
Impact of increase in	5%	132,224	-	132,224	-	-	-
interest rate	10%	264,448	-	264,448	-	-	-
Impact of decrease in	2.5%	(66,112)	-	(66,112)	-	-	-
interest rate	7.5%	(198,336)	-	(198,336)	-	-	-

On the impact, a positive means increase in the profit and negative means reduction in the profit. Therefore a 5% increase in interest rates would increase the profitability by **K132m.** Fair value changes arising from increase or decrease in fair value of FVOCI instruments are recorded in equity.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk management *(continued)*

c) Market risk *(continued)*

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

The following is a summary of the Group's interest rate gap position on non- trading portfolios. *(continued)*

Group and Bank

2018		Total	Zero rate instrument	Floating rate instruments	Less than three months	Three months to one year	Between one and five years
		K'000	K'000	K'000	K'000	K'000	K'000
Assets							
Cash on hand and balances at Bank of Zambia		964,497	964,497	-	-	-	-
Cash and cash equivalents		2,948,623	2,173,498	-	655,875	119,250	-
Investment securities		2,356,108	508	-	1,023,355	1,181,467	150,778
Derivative financial instruments		62,512	-	-	62,512	-	-
Loans and advances to customers		2,886,321	-	2,886,321	-	-	-
Total assets		9,218,061	3,138,503	2,886,321	1,741,742	1,300,717	150,778
Liabilities							
Amounts payable to group banks		155,836	1,021	-	35,565	59,625	59,625
Amounts payable to non-group banks		78,795	78,795	-	-	-	-
Deposits from customers		8,204,152	5,512,629	529,098	1,464,255	679,863	18,307
Derivative financial instruments		45,848	-	-	45,848	-	-
Subordinated liabilities		47,700	-	47,700	-	-	-
Total liabilities		8,532,331	5,592,445	576,798	1,545,668	739,488	77,932
Gap		685,730	(2,453,941)	2,309,523	196,074	561,229	72,846
Impact of increase in	5%	115,476	-	115,476	-	-	-
interest rate	10%	230,952	-	230,952	-	-	-
Impact of decrease in	2.50%	(57,738)	-	(57,738)	-	-	-
interest rate	7.5%	(173,214)	-	(173,214)	-	-	-

On the impact, a positive means increase in the profit and negative means reduction in the profit. Therefore a 5% increase in interest rates would increase the profitability by K115m. Fair value changes arising from increase or decrease in fair value of available for sale instruments are recorded in equity.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2017

6 Financial risk management *(continued)*

c) Market risk (continued)

(ii) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of profit or loss and other comprehensive income. These exposures comprise the monetary assets and monetary liabilities of the Group, as follows (in Zambian Kwacha terms):

Group and Bank

2019	**K**	**USD**	**GBP**	**ZAR**	**Euro**	**Others**	**Total**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Monetary assets	5,049,770	4,206,420	1,272,287	29,449	144,215	17,485	10,719,626
Monetary liabilities	(4,422,111)	(4,963,149)	(34,274)	(31,571)	(420,832)	(6,844)	(9,878,781)
Net position	**627,659**	**(756,729)**	**1,238,013**	**(2,122)**	**(276,617)**	**10,641**	**840,845**
Impact of 5% depreciation of the Currency		**(36,035)**	**58,953**	**(101)**	**(13,172)**		**(9,645)**
Impact of 10% depreciation of the Currency		**(68,794)**	**112,547**	**(193)**	**(25,147)**		**18,413**

A 10 % depreciation in major currencies will have an K18m impact on the balance sheet's net position.

Group and Bank

2018	K	USD	GBP	ZAR	Euro	Others	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Monetary assets	4,735,674	3,367,873	887,873	46,821	393,189	16,975	9,448,405
Monetary liabilities	(3,867,384)	(4,272,120)	(27,884)	(19,037)	(392,734)	(10,792)	(8,589,951)
Net position	868,290	(904,247)	859,989	27,784	455	6,183	858,454

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk management (continued)

c) Market risk (continued)

ii) Currency risk (continued)

The following exchange rates applied during the year:

Group and Bank

	Average rate		Reporting rate	
	2019	2018	**2019**	2018
USD	**12.67**	10.58	**14.15**	11.93
GBP	**16.32**	14.12	**18.68**	15.27
ZAR	**0.88**	0.79	**1.01**	0.83
EUR	**14.30**	12.49	**15.89**	13.66

iii) Exposure to currency risk

As at the reporting date, net currency exposures representing more than 10% of the Group's equity were as follows.

Group and Bank

	2019	2018
USD	**(756,729)**	(904,247)
GBP	**1,238,013**	859,954

d) Capital management

Regulatory capital

The Bank's main objectives when managing capital are:

- to comply with the capital requirements set by the Banking and Financial Services Act;
- to safeguard the Group'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's regulatory capital is analysed into two tiers:

- primary (Tier 1) capital, which includes paid-up common shares, retained earnings, statutory reserves less adjustment of assets of little or no realisable value.
- secondary (Tier 2) capital, which includes qualifying subordinated term debt and revaluation reserves limited to a maximum of 40%. The maximum amount of total secondary capital is limited to 100% of primary 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. In implementing current capital requirements, Bank of Zambia requires banks to:

- maintain primary or Tier 1 capital of not less than 5% of total risk weighted assets plus risk-weighted items not recognised in the statement of financial position; and
- to maintain a minimum 10% ratio of total capital to total risk-weighted assets plus risk-weighted items not recognised in the statement of financial position or hold a minimum of K520 million whichever is higher;

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

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

6 Financial risk management (continued)

d) Capital management *(continued)*

Regulatory capital *(continued)*

Computation of regulatory capital position at 31 December	Bank	
	2019	2018
I Primary (Tier 1) Capital	**K'000**	K'000
(a) Paid-up common shares	**416,745**	416,745
(b) Capital contributed	**62,312**	17,312
(c) Retained earnings	**112,285**	104,392
(d) Statutory reserves	**12,285**	12,285
(e) Sub-total A (items a to g)	**603,627**	550,734
Less:		
(f) Goodwill and other intangible assets	**(52,688)**	(13,476)
(g) Net unrealized gains(losses) on available for sale securities	**130,675**	8,686
(h) Sub-total B (items i to n)	**77,987**	(4,790)
Other adjustments		
Provisions	**-**	-
Assets of little or no realised value	**(5,827)**	(3,719)
(i) Sub-total C (other adjustments)	**(5,827)**	(3,719)
(p) Total primary capital [h – (n to o)]	**675,787**	542,225
II Secondary (tier 2) capital		
(a) Eligible subordinated term debt	**56,600**	47,700
(b) Total secondary capital	**56,600**	47,700
III Eligible secondary capital	**56,600**	47,700
(The maximum amount of secondary capital is limited to 100% of primary capital)		
IV Eligible total capital (I(p) + III) (Regulatory capital)	**732,387**	589,925
V Minimum total capital requirement (10% of total on and off balance sheet risk weighted assets)	**520,000**	520,000
VI Excess (IV minus V)	**212,387**	69,925

The Bank met all its capital requirements as at 31 December 2019 with K212m above the regulatory minimum of K520m.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

7 Fair values of financial instruments

a) Valuation models

The Group 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 determination that reflects the price of the financial instruments is to arrive at a fair value determination that reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

b) Valuation framework

The Group has established control and 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 the new models and changes to the model 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 party parties to support the conclusion that the valuations meet the requirements of IFRS. This include;

- Verifying that the broker or pricing service is approved by the Group 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 presents 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 characteristics of the instrument subject to measurement; and
- If any number of quotes for the same financial instrument has been obtained, then understanding how fair value has been obtained using those quotes.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

7 Fair values of financial instruments

c) Financial instruments measured at fair value-fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Group and Bank

		Level 1	Level 2	Level 3	Total
31 December 2019	Note	**K'000**	**K'000**	**K'000**	**K'000**
Assets					
Pledged assets	24	-	**100,000**	-	**100,000**
Investment securities	25	-	**2,049,415**	-	**2,049,415**
Derivative financial instruments	27	-	**45,273**	-	**45,273**
Liabilities					
Derivative financial instruments	27	-	**41,740**	-	**41,740**

Group and Bank

		Level 1	Level 2	Level 3	Total
31 December 2018	Note	K'000	K'000	K'000	K'000
Assets					
Pledged assets	24	-	95,000	-	95,000
Investment securities	25	-	2,356,108	-	2,356,108
Derivative financial instruments	27	-	65,512	-	65,512
Liabilities					
Derivative financial instruments	27	-	45,848	-	45,848

Level 2: the fair value is determined using valuation models with directly or indirectly market observable inputs.

Major groups of assets and liabilities classified as level 2: corporate and other government bonds and investment securities, over the counter derivates and Asset Backed Securities which are included in the Liquid Assets List of the Bank of Zambia.

Investment securities: the investment securities designated as FVOCI are carried at fair value. The fair value is determined based on a Mark-to-Market (MTM) approach, which involves revaluation of cash flows based on the market yield curve maintained by Group Market Risk.

Derivative financial instruments: derivative financial instruments are carried at fair value which is determined based on a discounted cash flow approach. The cash flows are discounted at a discount factor that is based on observable market data maintained by Group Market Risk.

There were no transfers from level 1 to level 2 fair values.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

7 Fair values of financial instruments *(continued)*

d) Financial instruments not measured at fair value

Group and Bank		**Total fair value**
31 December 2019	*Note*	**K'000**
Assets		
Cash on hand and balances with Bank of Zambia	*22*	**1,582,665**
Loans and advances to banks	*28*	**101,999**
Cash and cash equivalents	*23*	**3,381,132**
Loans and advances to customers	*29*	**3,131,664**
Other receivables	*33*	**119,738**
Liabilities		
Amounts payable to group banks	*23*	**229,489**
Amounts payable to non-group banks	23	**12,297**
Deposits from customers	*34*	**9,289,297**
Other payables	*37*	**381,145**

		Total fair value
31 December 2018	*Note*	K'000
Assets		
Cash on hand and balances with Bank of Zambia	*22*	964,497
Cash and cash equivalents	*23*	2,948,623
Loans and advances to customers	*29*	2,886,321
Other receivables	*33*	135,251
Liabilities		
Amounts payable to group banks	*23*	155,836
Amounts payable to non-group banks	23	78,795
Deposits from customers	*34*	8,204,152
Other payables	*37*	329,927

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

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date. The carrying amounts of financial assets and liabilities are representative of the Group's position at 31 December 2019 and are in the opinion of the Directors not significantly different from their respective fair values due to generally short periods to maturity dates. Fair values are generally determined using valuation techniques or where available, published price quotations from an active market.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

8 Operating segments

a) Basis for segmentation

The Group manages and reports its business through three main strategic business units. These operating units offer different products and services and are managed as separate segments of the business for purposes of internal reporting. The results of the units segments are reviewed on a monthly basis by the Chief Executive Officer. The following summary describes the operations of each of the Group's reportable segments:

Corporate and Institutional Banking	Includes the Bank's trading, corporate finance activities, loans, trade finance, cash management, deposits and other transactions with corporate customers. The segment also includes financial markets which is the Treasury unit which undertakes the Banks management and centralized risk management activities through borrowings, issue of investment securities, use of derivatives for risk management purposes and investing in liquid assets such as short term placements and corporate government securities. The Treasury arm of Financial Markets is disclosed separately as Other Banking.
Commercial Banking	The Commercial Banking segment manages mid-sized companies that fall between the Retail Banking and Corporate and Institutional Banking. The sector is the engine room that drives economic growth across all economies globally and offers clients with a different value proposition.
Retail Banking	Includes three client segments namely; Personal, Priority and Business Clients. The segment provides Current Accounts, Savings Accounts, Term deposits, Personal Instalment Loans, Mortgages, Trade Finance, Overdraft and Business Loans (for Business Clients that have annual turnover of K 64 million and below). Retail Banking also provide Bancassurance, Investment services and Foreign currency services. Retail Clients manages the entire distribution network for the bank which includes various client touch points such as branches, mobile banking, online Banking and the client contact center.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment.

The Bank only operates in Zambia.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

8 Operating segments *(continued)*

b) Information about reportable segmentation

Group 2019	Note	Corporate & institutional Banking K'000	Commercial Banking K'000	Retail Banking K'000	Other banking K'000	Total K'000
External revenue						
Net interest income		**(84,049)**	**66,416**	**255,814**	**480,536**	**718,717**
Net fee and commission income		**16,878**	**19,634**	**141,240**	**(4,898)**	**172,854**
Net trading income	*12*	**88,145**	**19,179**	**47,542**	**(236)**	**154,630**
Net income from financial assets at fair value through profit or loss	*13*	**25,207**	**-**	**-**	**-**	**25,207**
Total segment income		**46,181**	**105,229**	**444,596**	**475,402**	**1,071,408**
Other material non-cash items:						
Impairment of financial instruments	*6a(iii)*	**20,859**	**(54,512)**	**(111,908)**	**(158,169)**	**(303,730)**
Reportable segment operating profit before tax		**(150,910)**	**(32,392)**	**(27,443)**	**276,532**	**65,787**
Reportable segment assets		**997,313**	**1,080,608**	**1,537,293**	**7,452,225**	**11,067,439**
Reportable segment liabilities and equity		**4,957,749**	**945,527**	**3,727,433**	**1,436,730**	**11,067,439**

Group 2018	Note	Corporate & institutional Banking K'000	Commercial Banking K'000	Retail Banking K'000	Other banking K'000	Total K'000
External revenue						
Net interest income		(646)	34,436	320,159	331,338	685,287
Net fee and commission income		23,079	16,460	155,388	(3,492)	191,435
Net trading income	*12*	109,734	16,772	40,474	28,053	195,033
Net income from financial assets at fair value through profit or loss	*13*	29,239	-	-	-	29,239
Total segment income		161,406	67,668	516,021	355,899	1,100,994
Other material non-cash items:						
Impairment of financial instruments	*6a(iii)*	(31,979)	(2,167)	(20,786)	(852)	(55,784)
Reportable segment operating profit before tax		(124,774)	11,297	186,932	340,932	414,387
Reportable segment assets		1,252,315	483,832	1,626,722	6,383,466	9,746,335
Reportable segment liabilities and equity		4,533,551	460,083	3,194,330	1,558,371	9,746,335

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

8 Operating segments *(continued)*

b) Information about reportable segmentation *(continued)*

Bank **2019**	Note	**Corporate & institutional Banking** **K'000**	**Commercial Banking** **K'000**	**Retail Banking** **K'000**	**Other banking** **K'000**	**Total** **K'000**
External revenue						
Net interest income		**(84,049)**	**66,416**	**255,814**	**480,536**	**718,717**
Net fee and commission income		**16,878**	**19,634**	**141,240**	**(4,898)**	**172,854**
Net trading income	*12*	**88,145**	**19,179**	**47,542**	**(236)**	**154,630**
Net income from financial assets at fair value through profit or loss	*13*	**25,207**	**-**	**-**	**-**	**25,207**
Total segment income		**46,181**	**105,229**	**444,596**	**475,402**	**1,071,408**
Other material non-cash items:						
Impairment of financial instruments	6a(iii)	**20,859**	**(54,512)**	**(111,908)**	**(158,169)**	**(303,730)**
Reportable segment operating profit before tax		**(150,910)**	**(32,392)**	**(27,443)**	**276,532**	**65,787**
Reportable segment assets		**997,318**	**1,080,608**	**1,537,293**	**7,452,225**	**11,067,444**
Reportable segment liabilities and equity		**4,957,754**	**945,527**	**3,727,433**	**1,436,730**	**11,067,444**

Bank 2018	*Note*	Corporate & institutional Banking K'000	Commercial Banking K'000	Retail Banking K'000	Other banking K'000	Total K'000
External revenue						
Net interest income		(646)	34,436	320,159	331,338	685,287
Net fee and commission income		23,079	16,460	155,388	(3,492)	191,435
Net trading income	*12*	109,734	16,772	40,474	28,053	195,033
Net income from financial assets at fair value through profit or loss	*13*	29,239	-	-	-	29,239
Total segment income		161,406	67,668	516,021	355,899	1,100,994
Other material non-cash items:						
Impairment of financial instruments	*6a(iii)*	(31,979)	(2,167)	(20,786)	(852)	(55,784)
Reportable segment operating profit before tax		(124,774)	11,297	186,932	340,932	414,387
Reportable segment assets		1,252,315	483,832	1,626,722	6,383,471	9,746,340
Reportable segment liabilities and equity		4,533,551	460,083	3,194,330	1,558,376	9,746,340

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

9 Interest income

	Group and Bank	
	2019	2018
	K'000	K'000
Cash and short term funds	**78,439**	31,079
Investment securities	**430,228**	330,014
Loans and advances	**561,649**	526,000
Total interest income calculate using the effected interest rate method	**1,070,316**	887,093

Interest income includes interest on impaired loans and advances of **K600,000** (2018: K799, 000).

10 Interest expense

	Group and Bank	
	2019	2018
	K'000	K'000
Deposits from customers	**326,018**	190,705
Placements	**22,537**	7,858
Subordinated loan Capital	**3,044**	3,243
Total interest expense	**351,599**	201,806

11 Net fee and commission income

	Group and Bank	
	2019	2018
	K'000	K'000
Retail banking fees	**164,411**	171,647
Corporate and institutional banking fees	**18,904**	24,186
Commercial banking fees	**20,493**	16,460
Other banking fees	**-**	1,537
Total fee and commission income	**203,808**	213,830
Retail banking fees and commission expenses	**(23,334)**	(16,260)
Corporate and institutional banking fees and commission expenses	**(2,027)**	(1,107)
Commercial banking fees and commission expenses	**(858)**	-
Other banking fees and commission expenses	**(4,735)**	(5,028)
Total fee and commission expenses	**(30,954)**	(22,395)
Net fee and commission income	**172,854**	191,435

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 Group 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.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

11 Net fee and commission income *(continued)*

Performance obligations and revenue recognition policies (continued)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Retail and corporate banking service GB credit customer fees	The Group provides banking services to retail commercial and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking Commercial customers 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 Group.	Revenue from account service and servicing fees are recognised at the point in time when the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

12 Net trading income

	Group and Bank	
	2019	2018
	K'000	K'000
Foreign currency transaction gains less losses	**138,053**	132,701
Gains arising from dealing securities	**16,338**	23,484
	154,391	156,185
Dealing (profits)/losses	**239**	(677)
Gain on disposal of investment securities	**-**	39,525
Net trading income	**154,630**	195,033

13 Net income from financial instruments at fair value through profit or loss

	Group and Bank	
	2019	2018
	K'000	K'000
Government bonds	**25,207**	29,239

The securites reported above are the FVPTL instrument not included in note 12.

14 Other income

	Group and Bank	
	2019	2018
	K'000	K'000
Gain on disposal of property, plant and equipment	**7,835**	2,792
Other income	**5,102**	3,929
Total other income	**12,937**	6,721

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

15 Personnel expenses

	Group and Bank	
	2019	2018
	K'000	K'000
Personnel expenses:		
Wages and salaries	**203,898**	200,581
Compulsory social security obligations (NAPSA)	**5,419**	5,527
Contribution to defined contribution pension plan	**13,828**	14,671
Other staff costs	**59,866**	76,358
Equity settled share-based payment transactions	**872**	1,656
Redundancy and severance	**44,782**	28,213
Total	**328,665**	327,006

Other staff costs includes training, travel costs and other staff welfare costs.

a) Share-based payment transactions

The holding company (Standard Chartered Plc) operates a number of share based payments schemes for its directors and employees in which employees of Standard Chartered Bank Zambia Plc participate. These schemes are as outlined below. Through a recharge arrangement Standard Chartered Bank Zambia Plc reimburses the group for grant date fair value. The amount charged to the statement of changes in equity during the year was **K872,000** (2018: K1,656,000) and the corresponding amount is in liabilities. The holding company has the obligation to

The number and weighted average exercise price of share options is as follows:

	Group and Bank	
	2019	2018
	K'000	K'000
Restricted share scheme	**655**	615
Share save scheme	**217**	1,041
Total expense recognised as personnel expenses	**872**	1,656

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

15 Personnel expenses *(continued)*

b) Restricted share scheme

The restricted share scheme (RSS) is used by the holding company (Standard Chartered Plc) as an incentive plan to motivate and retain high performing staff at any level of the organisation. It is also used as a vehicle for deferring part of bonuses of certain employees. 50% of the award vests two years after the date of grant and the balance after three years. The awards can be exercised within seven years of the grant date. The value of shares awarded in any year to any individual may not exceed two times their basic annual salary. The remaining life of the scheme is eight years. For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

The number and weighted average exercise price of share options is as follows:

	Group and Bank	
	Number of options	Number of options
	2019	2018
	K'000	K'000
Outstanding at the beginning of the reporting period	**10,944**	3,982
Exercised during the year	**(3,313)**	(2,728)
Expired during the year	**-**	(503)
Granted during the year	**7,952**	10,193
Outstanding at 31 December	**15,583**	10,944
Exercisable at 31 December	**97**	97

c) Share save scheme

Under the share save scheme, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the holding company or take all their money in cash. The price at which they may purchase shares is at a discount of up to 20 percent of the share price at the date of invitation. There are no performance conditions attached to options granted under the employee share save scheme. Options are valued using a binomial option-pricing model.

The number and weighted average exercise price of share options is as follows:

	Group and Bank	
	Number of options	Number of options
	2019	2018
	K'000	K'000
Outstanding at the beginning of the reporting period	**33,256**	29,901
Exercised during the year	**(1,970)**	(1,315)
Expired during the year	**(19,111)**	(15,106)
Granted during the year	**15,290**	19,776
Outstanding at 31 December	**27,465**	33,256
Exercisable at 31 December	**420**	1,269

The closing share price as at 31 December 2019 was GBP 7.124.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

16 Operating expenses

Depreciation, amortization, premises and equipment expenses:	Group and Bank 2019 K'000	2018 K'000
Depreciation of property and equipment (note 30)	**29,747**	21,931
Depreciation on Initial recognition of Right-Of-Use assets under IFRS 16 (note 30)	**86**	-
Amortization of intangible assets (note 31)	**13,945**	1,131
Premises costs	**24,444**	34,371
Maintenance costs	**17,652**	9,815
Security	**8,248**	2,018
Other premises and equipment expenses	**11,243**	5,390
Total	**105,365**	74,656
Other expenses:		
Release of lease prepayment for leasehold land	**14**	14
IFRS16 finance cost	**3,848**	-
Communication expenses	**13,053**	12,195
Recharges from group companies	**28,530**	41,741
Regulatory fees	**17,128**	14,300
Capturing digital initiative	**4,200**	-
Other operating expenses	**214,025**	167,632
Total	**280,798**	235,882

17 Income tax expense

	Group and Bank 2019 K'000	2018 K'000
a) Current tax expense		
Current tax charge	**147,402**	202,157
Under provision in prior years	**12,567**	9,124
	159,969	211,281
Deferred tax		
Origination and reversal of temporary difference	**(106,468)**	(27,323)
Adjustments in respect to prior years	**-**	378
Total income tax expense	**53,501**	184,336

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

b) Reconciliation of effective tax rate:

	Group and Bank	2019 K'000		2018 K'000
Profit before tax	%	**65,787**	%	414,387
Tax calculated at the tax rate of 35% (2018: 35%):	35	**23,026**	35	145,035
Under provision in prior years	19	**12,567**	2	9,124
Under provision in prior years – Deferred Tax	0	**-**	-	378
Non-deductible expenses	27	**17,908**	7	29,799
Total income tax expense in profit or loss	81	**53,501**	55	184,336

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

17 Income tax expense *(continued)*

b) Reconciliation of effective tax rate *(continued)*

Income tax recognised in other comprehensive income:

	Group and Bank					
		2019			2018	
		K'000			K'000	
	Before tax	**Tax benefit**	**Net of tax**	Before tax	Tax benefit	Net of tax
FVOCI investment securities	**187,675**	**(65,686)**	**121,989**	(41,095)	12,625	(28,470)

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

	Group and Bank	
	2019	2018
	K'000	K'000
Current tax liabilities at the beginning of the year	**31,442**	23,202
Current income tax charge	**147,402**	202,157
Payments made during the year	**(234,694)**	(203,041)
Under provision in prior years	**12,567**	9,124
Current tax (assets)/liabilities	**(43,283)**	31,442

Included in payments made during the year is advance income tax of **K63,055,792** (2018:K40,919,000) on withholding tax on securities and **K12,361,000** (2018: K nil) relating to other income tax payments.

d) Deferred taxation

Deferred taxation is calculated on all temporary differences using an effective tax rate of 35% (2016: 35%). Deferred tax assets and liabilities are attributable to the following:

	Group and Bank			Group and Bank		
		2019			2018	
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
	K'000	**K'000**	**K'000**	K'000	K'000	K'000
Property and equipment	**962**	**-**	**962**	-	(660)	(660)
Other provisions	**32,371**	**-**	**32,371**	22,142	-	22,142
FVOCI securities	**-**	**(70,362)**	**(70,362)**	(4,676)	-	(4,676)
Allowance for loan losses	**59,415**	**-**	**59,415**	22,314	-	22,314
Right Of Use Asset (IFRS 16 Leases)	**2,553**	**-**	**2,553**	-	-	-
Impairment on investment securities	**55,358**	**-**	**55,358**	-	-	-
Intangible assets	**-**	**-**	**-**	395	-	395
	150,659	**(70,362)**	**80,297**	40,175	(660)	39,515

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

17 Income tax expense *(continued)*

d) Deferred taxation *(continued)*

2019	Group and Bank			
	Opening Balance	Recognised in profit or loss	Recognised in equity	Closing Balance
	K'000	K'000	K'000	K'000
Property and equipment	(660)	1,622	-	962
Other provisions	22,142	10,229	-	32,371
FVOCI securities	(4,676)	-	(65,686)	(70,362)
Allowance for loan losses	22,314	37,101	-	59,415
Right Of Use Asset (IFRS 16 Leases)	-	2,553	-	2,553
Impairment on investment securities	-	55,358	-	55,358
Intangible assets	395	(395)	-	-
	39,515	106,468	(65,686)	80,287

2018	Group and Bank			
	Opening Balance	Recognised in profit or loss	Recognised in equity	Closing Balance
	K'000	K'000	K'000	K'000
Property and equipment	1,125	(1,785)	-	(660)
Other provisions	6,012	16,130		22,142
FVOCI securities	(17,301)	-	12,625	(4,676)
Allowance for loan losses	9,095	13,219	-	22,314
Intangible assets	1,014	(619)	-	395
	(55)	26,945	12,625	39,515

18 Earnings per share

	Group and Bank 2019			Group and Bank 2018		
	Profit	Weighted average Number of shares	Per share amount	Profit	Weighted average Number of shares	Per Share amount Kwacha
	K'000	'000	Kwacha	K'000	'000	
Basic and diluted earnings per share	**12,286**	**1,666,981**	**0.007**	230,051	1,666,981	0.138

The calculation of the basic earnings per share is based on the net profit attributable to ordinary shareholders (profit after taxation) divided by the weighted average number of ordinary shares in issue during the year. There were no dilutive potential ordinary shares at 31 December 2019 (2018: nil) and basic earnings per share equals diluted earnings per share with no reconciling items.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

19 Dividends payable

	Group and Bank	
	2019	2018
	K'000	K'000
Balance at 1 January	**4,572**	1,225
No interim dividends for 2019 were declared. (2018: Approved interim dividends at K0.10 per share and final dividends at K0.03 per share bringing the total dividend for 2018 to K0.13 per share)	**50,001**	366,736
Less: dividends paid during the year (10% minority shares)	**(5,001)**	(366,736)
Dividend retained as capital	**(45,000)**	-
Dividend claims	**574**	3,347
Balance at 31 December	**5,146**	4,572

Dividends are recognised in the period in which they are declared. The directors did not recommend an interim dividend for 2019 and only paid the minority shareholder component (10%) for 2018. Approval was sought from the majority shareholders to retain their portion of the final dividend for the year 2018 amounting to K45m to enhance the capital position of the bank. (2018: Approved interim dividends at K0.10 per share and final dividends at K0.03 per share bringing the total dividend for 2018 to K0.13 per share)

20 Financial assets and financial liabilities

a) Classification of financial assets and financial liabilities

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

Group and Bank

2019	*Note*	**Mandatorily at FVTPL K'000**	**Amortised Cost K'000**	**FVOCI K'000**	**Total carrying amount K'000**
Financial Assets					
Cash and cash equivalents	*23*	-	3,381,132	-	3,381,132
Cash on hand and balances with Bank of Zambia	*22*	-	1,582,665	-	1,582,665
Pledged assets	*24*	-	-	100,000	100,000
Investment securities	*25*	67,984	-	1,981,431	2,049,415
Derivative financial instruments	*27*	45,273	-	-	45,273
Loans and advances to banks	*28*	-	101,999	-	101,999
Loans and advances to customers	*29*	-	3,131,664	-	3,131,664
Other receivables		-	119,738	-	119,738
Total		**113,257**	**8,317,198**	**2,081,431**	**10,511,886**
Financial Liabilities					
Amounts payable to group banks	*23*	-	229,489	-	229,489
Amounts payable to non-group banks	*23*	-	12,297	-	12,297
Deposits from customers	*34*	-	9,289,297	-	9,289,297
Derivative financial instruments	*27*	41,740	-	-	41,740
Subordinated liabilities	*35*	-	56,600	-	56,600
Other Payables		-	381,145	-	381,145
Total		**41,740**	**9,968,828**	-	**10,010,568**

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

20 Financial assets and financial liabilities *(continued)*

a) Classification of financial assets and financial liabilities *(continued)*

Group and Bank

2018	Note	Mandatorily at FVTPL K'000	Amortised cost K'000	FVOCI K'000	Total carrying amount K'000
Financial Assets					
Cash and cash equivalents	23	-	2,948,623	-	2,948,623
Cash on hand and balances with Bank of Zambia	22	-	964,497	-	964,497
Pledged assets	24	-	-	95,000	95,000
Investment securities	25	56,778	-	2,299,330	2,356,108
Derivative financial instruments	27	62,512	-	-	62,512
Loans and advances to customers	29	-	2,886,321	-	2,886,321
Other receivables		-	135,251		135,251
Total		119,290	6,934,692	2,394,330	9,448,312
Financial Liabilities					
Amounts payable to group banks	23	-	155,836	-	155,836
Amounts payable to non-group banks	23	-	78,795	-	78,795
Deposits from customers	34	-	8,204,152	-	8,204,152
Derivative financial instruments	27	45,848	-	-	45,848
Subordinated liabilities	35	-	47,700	-	47,700
Other payables		-	329,927	-	329,927
Total		45,848	8,816,410	-	8,862,258

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

21 Trading assets and liabilities

	2019		2018	
Assets	**Trading**	**Non Trading**	Trading	Non Trading
	K'000	**K'000**	K'000	K'000
Cash and cash equivalents	**-**	**3,381,132**	-	2,948,623
Cash on hand and balances at Bank of Zambia	**-**	**1,582,665**	-	964,497
Pledged assets	**-**	**100,000**	-	95,000
Derivative financial instruments	**45,273**	**-**	62,512	-
Loans and advances to banks	**-**	**101,999**	-	-
Loans and advances to customers	**-**	**3,131,664**	-	2,886,321
Investment securities	**67,983**	**1,981,432**	56,778	2,299,330
Total	**113,256**	**10,278,892**	119,290	9,193,771
Liabilities				
Amounts payable to group banks	**-**	**229,489**	-	155,836
Amounts payable to non group banks	**-**	**12,297**	-	78,795
Derivative financial instruments	**41,740**		45,848	
Deposits from customers	**-**	**9,289,297**	-	8,204,152
Subordinated liabilities	**-**	**56,600**	-	47,700
Total	**41,740**	**9,587,683**	45,848	8,486,483

22 Cash on hand and balances at Bank of Zambia

	Group and Bank	
	2019	2018
	K'000	K'000
Cash on hand	**414,805**	368,654
Statutory deposit	**904,378**	595,843
Total cash on hand and bank balances at Bank of Zambia	**1,319,183**	964,497
Clearing account with Bank of Zambia	**263,482**	-
	1,582,665	964,497

The statutory deposit 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 Central Bank and is a percentage of the Bank's local and foreign currency liabilities to the public including Vostro account balances. At 31 December 2019, the statutory reserve ratio was **9%** (2018: 5%).

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

23 Cash and cash equivalents

Group and Bank

2019	At 31 December 2019 K'000
Cash and short term funds at group banks (note 41)	**3,005,684**
Cash and short term funds at non group banks	**21,698**
Placements with foreign non group banks	**353,750**
Cash and cash equivalents	**3,381,132**
Amounts payable to group banks (note 41)	**(229,489)**
Amounts payable to non-group banks	**(12,297)**
Cash on hand and balances with Bank of Zambia (note 22)	**1,582,665**
Total per cash flow statement	**4,722,011**

2018	At 31 December 2018 K'000
Cash and short term funds at group banks (note 41)	2,792,592
Cash and short term funds at non group Banks	36,781
Placements with foreign non group banks	119,250
Cash and cash equivalents	2,948,623
Amounts payable to group banks (note 41)	(155,836)
Amounts payable to non-group banks	(78,795)
Cash on hand and balances with Bank of Zambia (note 22)	964,497
Total per cash flow statement	3,678,489

24 Pledged assets

	Group and Bank	
	2019 K'000	2018 K'000
Treasury bills	**100,000**	95,000

The pledged assets presented in the table above are those financial assets that may be repledged or resold by counterparties. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities. These treasury bills are held as collateral at the Zambia Electronic Clearing House.

25 Investment securities

	Group and Bank	
	2019 K'000	2018 K'000
Investment securities at fair value through profit or loss	**67,984**	56,778
FVOCI investment securities	**1,981,431**	2,299,330
Total	**2,049,415**	2,356,108

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2018

25 Investment securities *(continued)*

Fair value through profit or loss

	Group and Bank 2019				Group and Bank 2018			
	Treasury bills	**Equity shares and Trade Investments**	**Government bonds**	**Total**	Treasury bills	Equity shares and Trade Investments	Government bonds	Total
	K'000	**K '000**	**K '000**	**K'000**	K '000	K '000	K '000	K '000
Of which mature:								
Within one year	-	-	-	-	2,013	-	-	2,013
Within one to five years	-	-	67,984	67,984	-	-	54,765	54,765
Total	-	-	67,984	67,984	2,013	-	54,765	56,778

These investment securities are held for trading.

Fair value through other comprehensive income

	Group and Bank 2019				Group and Bank 2018			
	Treasury bills	**Equity shares and trade Investments**	**Government bonds**	**Total**	Treasury Bills	Equity shares and trade Investments	Government bonds	Total
	K'000	**K'000**	**K'000**	**K'000**	K'000	K'000	K'000	K'000
Of which mature:								
Within one year	1,050,484	-	-	1,050,484	1,922,078	-	-	1,922,078
Within one to five years	-	-	930,439	930,439	-	-	376,744	376,744
More than five years	-	508	-	508	-	508	-	508
Total	1,050,484	508	930,439	1,981,431	1,922,078	508	376,744	2,299,330

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

26 Investment subsidiary company

	Ownership	2019 K'000	2018 K'000
Standard Chartered Nominees Zambia Limited	%	5	5

These are equity investments in private companies that do not have a quoted market price in an active market and are carried at cost less impairment. No dividends are expected from them in the foreseeable future and consequently there are no determinable future cash flows. It is not possible to determine the possible range of estimates within which the fair value of these investments is likely to lie.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Bank in form of cash dividends or repayments of loans or advances.

In terms of section 57 of the Companies Act of Zambia, the name and address of the subsidiaries' principal office is: Standard Chartered Nominees Zambia Limited domiciled at Standard Chartered House, Cairo Road, Lusaka

27 Derivative financial instruments

The table below analyses the positive and negative fair values of the Bank's derivative financial instruments. All fair value movements on derivative financial instruments are recognized in the profit or loss.

	Group and Bank 2019		Group and Bank 2018	
	Assets K'000	Liabilities K'000	Assets K'000	Liabilities K'000
Interest rate swap	7,349	7,199	2,520	5,523
Cross currency swap	37,924	34,541	59,992	40,325
Total	**45,273**	**41,740**	62,512	45,848

28 Loans and advances to banks

	2019 K'000	2018 K'000
Loans and advances to local banks	102,000	-
Less impairment allowance	(1)	-
Total	101,999	-

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

29 Loans and advances to customers

	Group and Bank			Group and Bank		
	2019			2018		
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	K'000	K'000	K'000	K'000	K'000	K'000
Retail Banking:						
Mortgage lending	**141,279**	**(2,296)**	**138,983**	125,981	(1,184)	124,797
Personal loans	**1,346,850**	**(109,639)**	**1,237,211**	1,505,451	(25,275)	1,480,176
Overdrafts	**95,329**	**(1,807)**	**93,522**	-	-	-
	1,583,458	**(113,742)**	**1,469,716**	1,631,432	(26,459)	1,604,973
Commercial Banking:						
Term loans	**892,631**	**(36,913)**	**855,718**	356,784	(9,279)	347,505
Overdrafts	**263,751**	**(27,244)**	**236,507**	148,397	-	148,397
	1,156,382	**(64,157)**	**1,092,225**	505,181	(9,279)	495,902
Corporate & Institutional Banking:						
Term loans	**107,016**	**(3,619)**	**103,397**	473,585	(28,017)	445,568
Overdrafts	**471,776**	**(5,450)**	**466,326**	339,878	-	339,878
	578,792	**(9,069)**	**569,723**	813,463	(28,017)	785,446
Total	**3,318,632**	**186,968**	**3,131,664**	2,950,076	(63,755)	2,886,321

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

30 Property and equipment

Group and Bank

	Property and improvements	Right of use assets	Equipment and motor vehicles	Capital work-in-progress	Total
	K'000		K'000	K'000	K'000
Cost					
At 1 January 2018	17,659	-	89,596	21,019	128,274
Transfer to/(from) WIP	-	-	19,285	(19,285)	-
Additions	-	-	16,534	9,323	25,857
Disposal	(390)	-	(8,175)	-	(8,565)
At 31 December 2018	17,269	-	117,240	11,057	145,566
At 1 January 2019	**17,269**	**-**	**117,240**	**11,057**	**145,566**
Recognition of right of use on Initial application of IFRS 16	**-**	**3,787**	**-**	**-**	**3,787**
Adjusted balance at 1 January 2019	**17,269**	**3,787**	**117,240**	**11,057**	**149,353**
Transfer to/(from) WIP	**-**	**-**	**499**	**(499)**	**-**
Additions	**-**	**67,260**	***10,237**	***8,326**	**85,823**
Disposals	**(685)**	**-**	**(768)**	**-**	**(1,453)**
Capitalised software reclassified to intangible (note 31)	**-**	**-**	**(25,327)**	**-**	**(25,327)**
Effects of movement in exchange rates	**(411)**	**-**	**-**	**-**	**(411)**
At 31 December 2019	**16,173**	**71,047**	**101,881**	**18,884**	**207,985**
Accumulated depreciation and impairment losses					
At 1 January 2018	5,444	-	61,156	-	66,600
Depreciation Charge for the year	409	-	21,522	-	21,931
Disposal	(124)	-	(7,815)	-	(7,939)
At 31 December 2018	5,729	-	74,863	-	80,592
At 1 January 2019	**5,729**	**-**	**74,863**	**-**	**80,592**
Recognition of right of use on Initial application of IFRS 16	**-**	**86**	**-**	**-**	**86**
Depreciation Charge for the year	**382**	**8,339**	**21,026**	**-**	**29,747**
Disposal	**(229)**	**-**	**(213)**	**-**	**(442)**
Capitalised software reclassified to intangible asset (note 31)	**-**	**-**	**(21,445)**	**-**	**(21,445)**
Effects of movement in exchange rates	**(430)**	**480**	**-**	**-**	**50**
At 31 December 2019	**5,452**	**8,905**	**74,231**	**-**	**88,588**
Carrying amounts					
At 31 December 2019	**10,721**	**62,142**	**27,650**	**18,884**	**119,397**
At 31 December 2018	11,540	-	42,377	11,057	64,974

As at 31 December 2019, property and equipment includes right of use asset of K62,142,000 (2018 : nil) related to leased branches and offices premises and motor vehicles (see note 42 (a)(i)).

**Note: An amount of K18,563,000 was paid to purchase property and equipment.*

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

31 Intangible assets

	Customer Relationship	Goodwill	Capitalised software	Total
Cost	**K'000**	**K'000**		**K'000**
Balance at 1 January 2018	33,691	13,476	-	47,167
Balance at 31 December 2018	33,691	13,476	-	47,167
Balance at 1 January 2019	**33,691**	**13,476**	**-**	**47,167**
Cost transfer from property and equipment (note 30)	**-**	**-**	**25,327**	**25,327**
Acquisitions	**-**	**-**	**49,275**	**49,275**
Balance at 31 December 2019	**33,691**	**13,476**	**74,602**	**121,769**
Accumulated amortisation and impairment losses				
Balance at 1 January 2018	32,560	-	-	32,560
Amortisation for the year	1,131	-	-	1,131
At 31 December 2018	33,691	-	-	33,691
Balance at 1 January 2019	**33,691**	**-**	**-**	**33,691**
Amortisation transfer from property and equipment (note 30)	**-**	**-**	**21,445**	**21,445**
Amortisation for the year	**-**	**-**	**13,945**	**13,945**
Impairment loss	**-**	**-**	**-**	**-**
Balance at 31 December 2019	**33,691**	**-**	**35,390**	**69,081**
Carrying amounts				
At 31 December 2019	**-**	**13,476**	**39,212**	**52,688**
At 31 December 2018	-	13,476	-	13,476

Impairment testing for cash-generating units (CGU) containing goodwill

For the purposes of impairment testing, the entire goodwill is allocated to the Corporate and Institutional Banking unit. No impairment losses on goodwill were recognised during the year (2018: nil).

The recoverable amounts for the Corporate and Institutional Banking CGU has been calculated based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use was determined in a similar manner as in 2018.

- Key assumptions used in the calculation of the value in use were the following: Cash flows were projected based on forecasts and budgets for short/medium term growth (one to five years) using budgets compiled in November of the current year through to the end of November for the following year. The cash flows for a further 20 years are extrapolated using a constant growth rate. The long term growth rate management used is based on a forecast for a ten year average GDP for country specific units; or global GDP for business specific units and is applied after the latest approved budget (one to five years) up to twenty years. The forecast period is based on the Bank's long term perspective with respect to the operations of this CGU.

- Management uses post tax cash flows hence applies a post-tax discount rate to the cash flows to nullify the double effect of tax from the impairment calculation in determining the recoverable amount of CGU. The resultant net present value derived based on this methodology will be similar to that, had pre-tax discount rates been applied to pre-tax cash flows. Since the CGU is a business unit then Standard Chartered Bank Zambia Plc's Weighted Average Cost of Capital (2x subdebt rate, 12 per cent, pre tax rate) is used and is adjusted for systemic risk of the specific CGU.

- The assumptions described above may change as the economic and market condition change. The Bank estimates that reasonable possible changes in these assumptions are not expected to cause the recoverable amount of the CGU to decline below the carrying amount

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

32 Operating lease prepayments

	Group and Bank	
	2019	2018
	K'000	K'000
Opening balance	-	460
Amortisation	-	(15)
Carrying amount	-	445

Land is leased from the Government of the Republic of Zambia (GRZ) for a fixed 99 year term (or the unexpired portion thereof). The land has been classified as an operating lease. IAS 17 Leases requires all amounts paid upfront at the signing of the lease to be amortised on a straight line basis over the unexpired portion of the lease term. At 31 December 2019, the future minimum lease payment under the non cancellable operating lease were payable as follows:

	Group and Bank	
	2019	2018
	K'000	K'000
Less than one year	-	47
Between one and five years	-	398
Carrying amount	-	445

There are no contingent rentals or sub-lease payments expected to be received.

33 Prepayments and other receivables

	Group and Bank	
	2019	2018
	K'000	K'000
Prepayment of operational costs	**6,230**	3,719
Sundry debt	**73,696**	20,081
Other assets - acceptance	**179,962**	155,813
Sundry and other receivables	**119,738**	135,251
Total	**379,626**	314,864

The ECL on the other receivables highlighted above is immaterial

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

34 Deposits from customers

	Group and Bank	
	2019	2018
	K'000	K'000
Retail Banking		
Savings accounts	**509,312**	506,159
Term deposits	**1,048,173**	755,762
Current deposit	**2,135,981**	1,897,006
	3,693,466	3,158,927
Corporate and Institutional Banking		
Savings accounts	**2,787**	2,641
Term deposits	**1,572,683**	1,986,683
Current deposit	**3,096,952**	2,312,496
	4,672,422	4,301,820
Commercial Banking		
Savings accounts	**20,485**	20,296
Term deposits	**53,002**	76,531
Current deposits	**849,922**	646,578
	923,409	743,405
Total	**9,289,297**	8,204,152

	Group and Bank	
	2019	2018
	K'000	K'000
Repayable on demand	**7,166,181**	6,041,726
Repayable with agreed maturity dates or periods of notice, by residual maturity:		
- Three months or less	**344,608**	1,464,255
- Between three months and one year	**1,700,843**	679,863
- After one year	**77,665**	18,308
Total	**9,289,297**	8,204,152

Included in deposits from customers were deposits amounting to **K504,258,000** (2018: K508,589,000) held as collateral for irrevocable commitments under import letters of credit.

35 Subordinated liabilities

	Group and Bank	
	2019	2018
	K'000	K'000
At 1 January 2019	**47,700**	40,000
Exchange difference	**8,900**	7,700
At 31 December 2019	**56,600**	47,700

The terms and conditions of the subordinated loan are as follows:

The interest charge is 3.93% above 3 months LIBOR payable on a quarterly basis. The loan is to be fully repaid in one installment on 31st October 2024. The outstanding amounts reflected on the statement of financial position are the Kwacha equivalent of USD4 million. Interest payable as at 31 December 2019 amounting to K 647,000 (2018: K487,000) is included in accruals and other payables.

The Group has not had any defaults of interest or other breaches with respect to its subordinated loan during the year ended 31 December 2019 (2018: no defaults).

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

36 Provisions

	Group and Bank					
	2019			2018		
	Redundancy	**Legal**	**Total**	Redundancy	Legal	Total
	K'000	**K'000**	**K'000**	K'000	K'000	K'000
Balance at 1 January	**27,426**	**40,673**	**68,099**	16,896	36,431	53,327
Additional	**43,691**	**15,395**	**59,086**	27,851	4,242	32,093
Utilised	**(21,895)**	**-**	**(21,895)**	(17,321)	-	(17,321)
Balance at 31 December	**49,222**	**56,068**	**105,290**	27,426	40,673	68,099

Legal proceedings

There were some legal proceedings outstanding against the Bank at 31 December 2019. Provisions have been made in the financial statements in respect of such claims, based on professional advice and management's best estimates of the settlement amount. The timing of any outflows in the form of any settlement is uncertain. .

Redundancy provisions relate to final payments due to employees whose positions have been declared redundant as 31 December 2019.

37 Accruals and other payables

	Group		Bank	
	2019	2018	**2019**	2018
	K'000	K'000	**K'000**	K'000
Accruals and other payables	**481,112**	457,411	**481,117**	457,416
Lease liability	**67,701**	-	**67,701**	-
Loan settlement suspense	**35,942**	38,929	**35,942**	38,929
Total	**584,755**	496,340	**584,760**	496,345

38 Share capital

Bank	**Number of ordinary shares (million)**	**Ordinary shares K'000**	Number of ordinary shares (million)	Ordinary Shares capital K'000
Authorized	**2019**	**2019**	2018	2018
At 1 January - ordinary shares of K0.25				
Issued during the year				
Standing consolidation	**1,800**	**450,000**	1,800	450,000
At 31 December - ordinary shares of K0.25	**1,800**	**450,000**	1,800	450,000
Issued and fully paid				
At 1 January - ordinary shares of K0.25	**1,667**	**416,745**	1,667	416,745
At 31 December - ordinary shares of K0.25	**1,667**	**416,745**	1,667	416,745

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

39 Contingent liabilities and commitments

The Bank provides loan commitments, letters of credit and financial guarantees for performance of customers to third parties. These agreements have fixed limits and are generally renewable annually. Expirations are not concentrated in any period. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. Only fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash out flows.

Group and Bank

2019	**1 year**	**1 – 5 years**	**Total**
	K'000	**K'000**	**K'000**
Loans commitments	**406,473**	**-**	**406,473**
Guarantees	**192,646**	**215,579**	**408,225**
Letters of credit	**10**	**-**	**10**
Total	**599,129**	**215,579**	**814,708**

Group and Bank

2018	1 year	1 – 5 years	Total
	K'000	K'000	K'000
Loans commitments	877,668	-	877,668
Guarantees	374,103	-	374,103
Letters of credit	49,057	-	49,057
Total	1,300,828	-	1,300,828

40 Capital commitments

The table below shows the Group's capital commitments.

2019

Vendor Name	**Description of service/goods**	**Amount**
		K'000
Complete Enterprise Solutions	**Local Area Network (LAN) infrastructure**	**10,857**
NetOne Information Technology Limited	**Global work station technologies**	**2,445**
ISON Technologies Limited	**Voice technology**	**2,863**
Complete Enterprise Solutions	**Provision of laptops**	**1,308**
	Total	**17,473**

2018

Vendor Name	Description of service/goods	Amount
		K'000
Giant Leap	Space Consultancy	1,613
Tsebo	Variable Project Management	1,572
Tsebo	Workplace Evaluation Report	175
	Total	3,360

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

41 Related parties

a) Parent and controlling party

The Group is controlled by Standard Chartered Holdings (Africa) BV (incorporated in The Netherlands) which owns 90% of the shares. The other shares are widely held. The ultimate parent of the Bank is Standard Chartered Plc (incorporated in the United Kingdom). The Bank has a related party relationship with its holding company, fellow subsidiaries, non-executive directors, executive directors and key management personnel. Key management personnel include all Management Committee Members and Unit Heads.

b) Related party transactions

A number of banking and other transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency and other transactions for services, such as consulting services that the parent and other related companies provide from time to time and which are charged at market rate. The volumes of related party transactions, outstanding balances at the year end and the related interest expense and income for the year are as follows:

Group transactions

	Note	Group and Bank 2019 K'000	2018 K'000
Amounts due from group companies	23	**3,005,684**	2,792,592
Amounts due to group companies	23	**(229,489)**	(155,836)
Total		**2,776,195**	2,636,756

Included in group transactions are placements made and received from group related entities. These are entered into at fixed interest rates and maturity periods.

Income and expenditure

	Group and Bank 2019 K'000	2018 K'000
Recharges and other expenses	**(28,530)**	(64,157)
Commissions and net interest income	**47,235**	8,190
Total	**18,705**	(55,967)

c) Directors and key management personnel transactions

Loans and advances

	Group and Bank 2019				Group and Bank 2018			
	Executive directors K'000	**Connected entities to directors K'000**	**Key management staff K'000**	**Total K'000**	Executive directors K'000	Connected entities to directors K'000	Key management staff K'000	Total K'000
Loans outstanding at 1 January	**522**	**17,302**	**13,208**	**31,032**	391	11,770	16,577	28,738
Loans issued during the year	**1,298**	**3,687**	**9,348**	**14,333**	254	13,239	4,261	17,754
Relocated/ resigned / promoted	**-**		**(1,395)**	**(1,395)**	-	-	(5,921)	(5,921)
Loan repayments during the year	**(387)**	**(4,245)**	**(3,835)**	**(8,467)**	(123)	(7,707)	(1,709)	(9,539)
Loans outstanding at 31 December	**1,433**	**16,744**	**17,326**	**35,503**	522	17,302	13,208	31,032
Executive directors	**1,433**	**-**	**-**	**1,433**	522	-	-	522
Non executive directors	**-**	**16,744**	**-**	**16,744**	-	17,302	-	17,302
Interest and fee income earned:	**33**	**1,167**	**177**	**1,377**	123	607	178	908

Loans to non-executive directors are made under commercial terms in the ordinary course of the Group's business. Loans to executive directors are made on the same terms as those of other employees of the Group.

No ECL is recognized on these loans as the LGD is insignificant as the loans are secured through salary payments.

At 31 December 2019 there were no loan obligations to Independent Non executive directors in their personal capacity.

41 Related party transactions *(continued)*

c) Directors and key management personnel transactions *(continued)*

At 31 December 2019, the total amounts to be disclosed under section 250 of the Companies Act 2017 about loans and advances were as follows;

Loans and advances

Name of borrower	Opening Balance 1Jan 2019	Issued during the year	Loan repayments during the year	Amount outstanding 31 Dec 2019	Average interest Rate (%)	Composition
	K'000	K'000	K'000	K'000		
Executive director A	253	394	(330)	317	11%	Personal loan and Credit card
Executive director B	269	904	(57)	1,116	10%	Personal loan and Mortgage
Officer A	102	298	(122)	278	10%	Personal loan
Officer B	1,395	-	(1,395)	-	9%	Mortgage, Personal loan and Credit card
Officer C	1,390	3,070	(211)	4,249	10%	Mortgage, Personal loan and Credit card
Officer D	727	450	(399)	778	10%	Mortgage, Personal loan and Credit card
Officer E	3,607	450	(219)	3,838	10%	Mortgage, Personal loan and Credit card
Officer F	326	1,190	(88)	1,428	11%	Mortgage, Personal loan and Credit card
Officer G	347	-	(62)	285	11%	Personal loan and Credit card
Officer H	2,165	450	(113)	2,502	10%	Mortgage and Credit card
Officer I	1,187	2,459	(1,144)	2,502	9%	Mortgage, Personal loan and Credit card
Officer J	1,151	1,228	(1,154)	1,225	9%	Mortgage, Personal loan and Credit card
Officer K	509	-	(509)	-	7%	Mortgage
Officer L	302	-	(59)	243	11%	Mortgage and Credit card
	13,730	10,893	(5,862)	18,761		

Other than as disclosed in the Annual 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 Act.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

41 Related party transactions *(continued)*

c) Director key management personnel transactions *(continued)*

Deposits

	Group and Bank 2019				Group and Bank 2018			
	Executive directors	**Connected entities to directors**	**Management staff**	**Total**	Executive directors	Connected entities to directors	Management staff	Total
	K'000	**K'000**	**K'000**	**K'000**	K'000	K'000	K'000	K'000
Deposit at 1 January	**126**	**2,944**	**754**	**3,824**	732	932	448	2,112
Net movement	**(30)**	**(2,487)**	**439**	**(2,078)**	(606)	2,012	306	1,712
Deposits at 31 December	**96**	**457**	**1,193**	**1,746**	126	2,944	754	3,824
Interest earned:	**11**	**-**	**120**	**131**	10	-	4	14

Key management personnel compensation

	Group and Bank 2019	2018
	K'000	K'000
Salaries and allowances and short term benefits	**41,001**	41,273
Pension contributions	**2,917**	2,775
Total	**43,918**	44,048

	Group and Bank 2019	2018
Executive directors' remuneration	**K'000**	K'000
Salaries and allowances	**6,291**	5,913
Pension contributions	**401**	365
Total	**6,692**	6,278

Non-executive directors	Group and Bank 2019	2018
	K'000	K'000
Fees and benefits	**1,044**	800

Disposal of assets

There were no Group assets sold to the non executive directors (2018: nil).

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

42 Leases

a) Leases as lessee (IFRS 16)

The Group leases a number of branch and office premises and motor vehicles. The leases typically run for a period of 1-4 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every lease renewal to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of 1 year. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below.

i) Right-of-use assets

Right-of-use assets relate to leased branch and office premises that are presented within property and equipment (see note 30).

	2019			2018
	Branch and office premises	**Motor Vehicle**	**Total**	
	K'000	**K'000**	**K'000**	K'000
Balance at 1 January	**3,701**	**52,610**	**56,311**	-
Depreciation charge for the year	**(6,734)**	**(1,605)**	**(8,339)**	-
Additions	**14,650**	**-**	**14,650**	-
Effect of movement in exchange rates	**(480)**	**-**	**(480)**	-
Balance at 31 December	**11,137**	**51,005**	**62,142**	-

ii) Amounts recognised in profit or loss 2019 - Leases under IFRS 16

	2019
	K'000
Interest on lease liabilities	**3,848**
Expenses relating to short term leases	**6,868**
Expenses relating to low value assets	**2,953**

2018 – Operating leases under IAS 17	2018
	K'000
Lease expenses	18,892

iii) Maturity Analysis

The following tables set out a maturity analysis of lease liabilities held as at 31 December 2019

Non property leases

One year or less	Between one year and two years	Between two years and five years	More than five years	Total
K'000	K'000	K'000	K'000	K'000
3,178	8,468	39,512		51,157

Property leases

One year or less	Between one year and two years	Between two years and five years	More than five years	Total
K'000	K'000	K'000	K'000	K'000
1,616	4,152	7,075	-	12,843

iv) Extension options

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

v) Impact on Financial Statement

The total cash outflow during the year for premises and motor vehicle leases was K5 million.

The asset is presented in 'Property, plant and equipment' and the liability is presented in 'Other liabilities'.

See accounting policy in note 45.8.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

43 Financial risk management

a) Introduction and overview

The Group has exposure to the following risks from financial instruments

- credit risk;
- liquidity risk;
- market risks; and
- operational risks

i) Risk management framework

The Bank's Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of directors has established the Group Asset and Liability Management Committee (ALCO), which is responsible for developing and monitoring Group risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, 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 Group Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

b) Credit risk

'Credit risk' is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances to customers and other banks and investment investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to investment securities and derivatives included in trading assets is managed as a component of market risk;

i) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Group Risk.

ii) Management of credit risk

The Board of directors has delegated responsibility for the oversight of credit risk to its Group Credit Committee. A separate Group Credit department, reporting to the Group Credit Committee, is responsible for managing the Group's 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 Group Credit, the Head of Group Credit, the Group Credit Committee or the Board of directors as appropriate.

- Reviewing and assessing credit risk: Group 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 Group's risk gradings to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The 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 Group 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 Group Credit, which may require appropriate corrective action to be taken

43 Financial risk management *(continued)*

b) Credit risk *(continued)*

ii) Management of credit risk (continued)

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

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit-related matters to local management and the Group 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 Group Credit processes are undertaken by Internal Audit.

c) Liquidity risk

'Liquidity risk' is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

i) Management of liquidity risk

The Group's Board of directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Group's liquidity policies and procedures. Central Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group'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 Group's reputation. The key elements of the Group'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 liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Group's liquidity position.

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 Group as a whole. The liquidity requirements of business units and subsidiaries are met through loans from Central Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

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 Group-specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fundability of currencies, natural disasters or other catastrophes).

d) Market risk

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

i) Management of market risk

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly held by the Investment Banking unit and include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group's net investments in its foreign operations, all foreign exchange positions within the Group are transferred by Central Treasury to the Investment Banking unit. Accordingly, the foreign exchange positions are treated as part of the Group'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 Group 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 Group employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately for trading and non-trading portfolios.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

43 Financial risk management *(continued)*

d) Market risk *(continued)*

ii) Interest rate risk

All businesses in the Standard Chartered Group operate within market risk management policies that are set by the Group Risk Committee. Limits have been set to control the Group's exposure to movements in prices and volatilities arising from trading, lending, deposit taking and investment decisions.

iii) Exposure to market risks

The principal risk to which 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.

Equity price risk is subject to regular monitoring by Group Market Risk, but is not currently significant in relation to the overall results and financial position of the Group.

44 Subsequent events

There were no events after the reporting date requiring disclosure in, or adjustment of, these financial statements.

45 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated and separate financial statements, except for the changes in note 5.

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

1 Basis of consolidation
2 Foreign currency
3 Interest
4 Fees and commission
5 Net trading income
6 Net income from other financial instruments at fair value through profit or loss
7 Dividend income
8 Leases
9 Income tax
10 Financial assets and financial liabilities
i Recognition and initial measurement
ii. Classification
iii. Derecognition
iv. Modifications of financial assets and financial liabilities
v. Offsetting
vi. Fair value measurement
vii. Impairment
viii. Designation at fair value through profit or loss
ix. Cash and cash equivalents
x. Trading assets and liabilities
xi. Loans and advances
xii. Investment securities
11 Property and equipment
12 Intangible assets and goodwill
13 Impairment of non-financial assets
14 Deposits, investment securities and subordinated liabilities
15 Provisions
16 Financial guarantees and loan commitments
17 Employee benefits
18 Share capital and reserves
19 Earnings per share
20 Segment reporting

45.1 (a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of investment or equity securities.

ii) Subsidiaries

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which the protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over the entity.

The financial statements of subsidiaries are included in the consolidated and separate financial statements from the date on which control commences until the date when control ceases.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions and unrealised income and expenses (except for foreign currency transaction gains and losses) arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.2 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year and the amortised cost in the 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 exchange rate when 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. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in OCI.

45.3 Interest

i) 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 Group 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.

ii) 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.

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

iii) 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.

Interest in suspense on stage 3 financial assets will not be recognised as a catch-up when the financial assets cures to stage 2 or stage 1. Any interest adjustments will be made prospectively in ECL expense.

For information on when financial assets are credit-impaired, see Note (12 and 13) (vii).

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 on investment securities measured at FVOCI.

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases (see 45.8).

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

- financial liabilities measured at amortised cost; and
- interest expense on lease liabilities.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see 45.5).

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.4 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.

Other fees and commission income including account servicing fees, investment management fees and sales commission are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

A contract with a customer that results in a recognised financial instrument in the Group'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 Group 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.

45.5 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, dividends and foreign exchange differences.

45.6 Net income from other financial instruments at FVTPL

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes relationships and financial assets and financial liabilities designated at FVTPL. It includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

45.7 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

45.8 Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

i) Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.8 Leases *(continued)*

ii) Group acting as a lessee *(continued)*

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

iii) Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

i. As a lessee

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

45.9 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantially enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the 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 to the extent that 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 the Group is able to control the timing of the reversal of temporary differences and it is probable that they will not reverse in the foreseeable future. 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 realized.

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 and reflects uncertainty related to income taxes, if there any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

45.10 Financial assets and financial liabilities

i) Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

ii) Classification

Financial assets

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.

An investment security is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.10 Financial assets and financial liabilities *(continued)*

ii) Classification *(continued)*

Financial assets (continued)

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group 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

Assessment 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.

In assessing whether the contractual cash flows are SPPI, the Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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 Group holds a portfolio of long-term fixed-rate loans for which the Group 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 Group 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 Group changes its business model for managing financial assets.

iii) Derecognition

Financial assets

The Group 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 Group 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.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group 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 Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group 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 Group 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 Group 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.

Financial liabilities

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

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.10 Financial assets and financial liabilities *(continued)*

iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group 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 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 Group 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 writeoff policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group 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. Any costs or fees incurred and fees received 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.

The Group 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.

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 Group 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 group of similar transactions such as in the Group'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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group 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 Group 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.

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 Group 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 Group 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 Group 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.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.10 Financial assets and financial liabilities *(continued)*

vi) Fair value measurement *(continued)*

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

vii) Impairment

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

- financial assets that are investment securities;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

- investment 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.

The Group considers ainvestment securities security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group 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'. Financial instruments allocated to stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

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

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI and finance lease receivables are creditimpaired (referred to as 'Stage 3 financial assets'). A financial asset is 'creditimpaired' 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 Group on terms that the Group 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.

45 Significant accounting policies *(continued)*

45.10 Financial assets and financial liabilities *(continued)*

***vii) Impairment** (continued)*

Credit-impaired financial assets (continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group 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 Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- investment securities measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and investment 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 Group 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

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

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

Financial guarantee contracts held

The Group 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 Group 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 group.

If the Group 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 Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group 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'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments.

viii) Designation at fair value through profit or loss

Financial assets

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

Before 1 January 2018, the Group 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 Group 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 20 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.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.10 Financial assets and financial liabilities *(continued)*

ix) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

x) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

xi) Loans and advances

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

- loans and advances measured at amortised cost they are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method; and
- lease receivables.

When the Group 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 Group's financial statements.

xii) Investment securities

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

- investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method;
- investment and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- investment securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For investment securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

45.11 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality off the related equipment is capitalised as part of that equipment.

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 costs

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

Depreciation

Depreciation is calculated to write off the cost of 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:

Properties	up to 50 years
Improvements to properties	shorter of the life of the lease, or up to 50 years
Equipment and motor vehicles	3 to 10 years
Right Of Use Assets	1 to 4 years

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

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.11 Property and equipment*(continued)*

Work in progress

Fixed Assets may be classified as work-in-progress if it is probable that future economic benefits will flow to the Group and the cost can be measured reliably. Typically these are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended.

Amounts held within work-in-progress that are substantially complete, in common with other fixed assets, are required to be assessed for impairment. Where asset lives are short (technological assets for example) and the assets are held as WIP for a significant period, impairment (through technological obsolescence) is more likely to occur. In such situations, if the assets are generic in nature and do not require significant modification to bring them into use, it would be more appropriate to hold the assets within fixed assets and amortise them.

Assets that would typically fall into this category are PCs, screens and other items that require little modification to bring them into use.

In general, assets should not be held in work in progress for a significant period unless it relates to a significant construction project (a building for example).

45.12 Intangible assets and goodwill

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

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

45.13 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

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 or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

45.14 Deposits, investment securities issued and subordinated liabilities

Deposits, investment securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, investment securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method. Except where the Group derecognizes liabilities at fair value through profit or loss.

45.15 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 recognized as finance cost.

Notes to the consolidated and separate financial statements (continued)

for the year ended 31 December 2019

45 Significant accounting policies *(continued)*

45.16 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 at the higher of the loss allowance determined in accordance with IFRS 9 (see J(vii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL.

45.17 Employee benefits

Defined contribution plan

A defined contribution plan is a post - employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as expense in profit or loss when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Retirement benefits for members of staff are provided through a defined contribution fund.

The Group contributes 6% of employees' basic pay to the defined contribution pension fund. Obligations for contributions to the defined contribution pension plans are due in respect of services rendered before the end of the reporting period.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Short – term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share based payments

The Bank's employees participate in a number of share based payment schemes operated by Standard Chartered Plc, the ultimate holding company of Standard Chartered Bank Zambia Plc.

Participating employees are awarded ordinary shares in Standard Chartered Plc in accordance with the terms and conditions of the relevant scheme.

In addition, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares of Standard Chartered Bank Plc. The price at which they may purchase shares is at a discount of up to twenty per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under all employee share save schemes.

Equity settled options or share awards are calculated at the time of grant based on the fair value of the equity instruments granted and that grant date fair value is not subject to change the fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instrument is estimated using an appropriate valuation technique, such as a binomial option pricing model.

A Share Options Reserve is maintained for the transactions relating to share options and other share based payments;

- For equity settled share options, a credit is recognised within the Share Option Equity Reserve [which forms part of retained earnings], matching the P&L charge for these options, together with any tax recognised directly in equity.
- On exercise of the option, the share option reserve may be classified to share premium and share capital if shares are issued to satisfy the award and cash is received on settlement.

45.18 Share capital and reserves

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

45.19 Earnings per share

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

45.20 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO (who is the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available (see note 8).

46 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- IFRS 17 Insurance Contracts.

Appendix

Five year summary

	2019 K'000	2018 K'000	2017 K'000 Restated	2016 K'000	2015 K'000
Operating profit before impairment provisions	**369,517**	**470,171**	**498,142**	583,168	323,088
Net impairment provisions against loans and advances	**(303,730)**	**(55,784)**	**(41,138)**	(20,580)	(39,976)
Profit before taxation	**65,787**	**414,387**	**457,004**	562,588	283,112
Profit attributable to shareholders	**12,286**	**230,051**	**209,549**	347,179	178,905

Loans and advances to customers	3,131,664	2,886,321	2,612,689	2,758, 591	3,533,763
Total assets	11,067,439	9,746,335	8,799,379	8,210,943	8,619,998

Deposits from customers	9,289,297	8,204,152	7,304,664	6,797,789	7,457,805

Shareholders' funds	**742,825**	**613,551**	**798,082**	752,473	647,030

Earnings per ordinary share

Basic earnings per share (Kwacha)	0.007	0.138	0.126	0.208	0.107
Dividends per share (Kwacha)	0.01	0.14	0.13	0.20	0.10

Ratios

Post-tax return on ordinary shareholders' funds	**2%**	**37%**	**35%**	49%	**28%**
Basic cost/income ratio	**67%**	**58%**	**54%**	45%	**61%**

Principal Addresses

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Dividend

At a Board meeting held on 28 February 2020, the Directors did not recommend any dividend payout for the year ended 31 December 2019 owing to the perfomance of the Bank in 2019.

By Order of the Board

Rose N Kavimba
Company Secretary
28 February 2020

NOTICE OF THE 49th ANNUAL GENERAL MEETING

Notice is hereby given that the 49th Annual General Meeting (AGM) of Standard Chartered Bank Zambia Plc in respect of the period ended 31st December 2019, will be held at the Intercontinental Hotel in Lusaka, Zambia on Tuesday 31st March 2020 at 10:00 hours for the following purposes:

1. Call to order, tabling proxies and announcement regarding quorum

2. Resolution 1 – Adoption of Minutes

To confirm, adopt and sign the Minutes of the AGM held on 29 March 2019.

3. Resolution 2- Adoption of Chairman's Report, Directors' Report and Financial Statements

To receive, approve and adopt the Financial Statements for the year ended 31December 2019 and the reports of the Chairman, Directors and Auditors.

4. Resolution 3 – Dividend

To approve a recommendation from the Board of Directors not to declare a dividend for the year ended 31 December 2019

5. Resolution 4 – Appointment of Auditors

To appoint EY as auditors from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Directors to set their remuneration.

6. Resolution 5 – Appointment and Re-Appointment of Directors

To re-elect each of Caleb M Fundanga, Robin P Miller, Doreen Kapambwe Chiwele, Munakopa Sikaulu, Kweku Bedu-Addo and Herman Kasekende who retire by rotation, in terms of the Companies Act and who, being eligible, offer themselves for re-election.

7. Resolution 6 – Remuneration of the Directors

To authorize the Board to fix the remuneration of the Directors.

8. To transact any other business that may properly be transacted at the Annual General Meeting.

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and on a poll, vote in his/her stead. Proxy forms are available from the Company Secretary.

By Order of the Board
Rose N Kavimba
Company Secretary

Issued in Lusaka, Zambia on 05 MAR 2020

First Issued on 5th March 2020

Standard Chartered

FORM OF PROXY

……………..........……. 2020

I/We, …………………...................……………………………… (full names in block letters) of ……….............…..……………

………………………………………………………………………………………………..……………………

member/members of Standard Chartered Bank Zambia Plc, hereby appoint

……………………………………………………………………………………………...………………………………

of …………………………………………………………………………………………...……………………...

as my/our proxy to attend, and speak, on poll, vote instead of me/us at the Forty- ninth Annual General Meeting of the Company, to be held on Tuesday 31st March 2020 and at every Adjournment thereof:

	In favour	Against
Resolution 1 – To confirm, adopt and sign the minutes of the AGM held on 28th March 2019.	☐	☐
Resolution 2 – To receive, approve and adopt the Chairman's Report,Directors' Report and Financial Statements for the year ended 31st December 2019.	☐	☐
Resolution 3 – To approve a recommendation from the Board of Directors not to declare a dividend for the year ended 31 December 2019	☐	☐
Resolution 4 – Appointment of EY as Auditor For 2020-21 and to authorise the directors to fix their remuneration	☐	☐
Resolution 5 – (i) Confirm the appointment of the following as Director:		
- Munakopa Sikaulu	☐	☐
- Kweku Bedu-Addo	☐	☐
- Caleb M Fundanga	☐	☐
- Robin P Miller	☐	☐
- Herman Kasekende	☐	☐
- Kapambwe Doreen Chiwele	☐	☐
	☐	☐

Resolution 6: To authorise the Board to fix their remuneration.

Signature(s) ………………………………………………………..…....…………….

Certificate Number(s) …………………………………..………………………...

NOTE:

The Form of Proxy shall be:

a) In the case of an individual, signed by the appointer or by his Attorney

b) In the case of a corporation, signed either by an Attorney or Officer of the Corporation on its behalf or be given under its common seal.

An instrument of proxy must be deposited at the Registered Office of the Company not later than 48 hours before the time of the meeting.

Notes