Annual Report

2020

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Events In 2020

2020 Virtual AGM

Left to right: Zanaco's Vice Board Chairman – Hastings Mtine, Board Chairman – Charity C. Lumpa, and Company Secretary – Kaluba G. Kaulung'ombe, conducting the Bank's virtually held Annual General Meeting.

Henk's Farewell Dinner

Former Zanaco CEO, Henk G. Mulder, speaking to his guests – some of the Bank's Board members and other invited guests – during his farewell dinner.

Henk's Farewell Party

Mr. Mulder and wife, Emmelin, react to a gift presented to them by Zanaco Board Chairman, Ms. Lumpa, during their farewell party.

Mukwandi's Welcome

Right centre: former Zanaco CEO – Henk G. Mulder and Zanaco staff toast to the welcome of the Bank's current CEO, Mukwandi Chibesakunda (left centre).

IDC Conference

Zanaco CEO Mukwandi Chibesakunda speaking at an Industrial Development Corporation (IDC) conference held in Livingstone. The Bank won an award in Innovation.

BongoHive Fintech Challenge

Zanaco CEO Mukwandi Chibesakunda and BongoHive Executive Director Lukonga Lindunda toast as FSD Zambia CEO Betty Wilkinson looks on during a meeting held to mark the end of the BongoHive Fintech Challenge, sponsored and hosted by the Bank.

Events In 2020

BongoHive Fintech Challenge

Attendants of the BongoHive Fintech Challenge pose for a photo after the Bank successfully hosted the event in the famed Innovation Lab.

Zanaco Masters:- Lusaka Open Golf Tournament

Hilda Edwards, one of the winners of the Lusaka Open golf tournament, receives her award.

Zanaco Masters:- Lusaka Open Golf Tournament

Zanaco Head of Corporate and Investment Banking – Andrew Muyaba, speaking during the Lusaka Open golf tournament at which the Bank was a main sponsor.

I AM EQUAL Celebrations

Minister of Gender Hon. Elizabeth Phiri presents the Bank's award to Zanaco CEO Mukwandi Chibesakunda for sponsoring the I am Equal celebration, as Chilanga Member of Parliament Hon. Maria Langa looks on.

Zanaco Masters statue

An astonishing 3D golfer statue standing 3 metres tall to mark the Bank's commitment to sport.

PUSH Women's Awards

Zanaco CEO Mukwandi Chibesakunda at the PUSH Women's Network awards where she presented the Bank-sponsored Business and Entrepreneurship Award to Rashmi Sharma.

Brief Profile

History

Zanaco was established in 1969 by the Government of the Republic of Zambia (GRZ) to service the financial needs of the Zambian economy. It has since evolved into a leading financial institution, popularly dubbed as the People's Bank. In 2007, GRZ sold a 49% stake in the Bank to Rabo Financial Institutions Development BV., a subsidiary of the Cooperatieve Centrale Raiffeisen-BoerenleenBank (RaboBank) of the Netherlands. Subsequently, Rabo Financial Institutions Development BV sold a 3.41% stake to Lizara Investment Limited, a nominee of the Zambia National Farmers' Union (ZNFU), following the Bank's Initial Public Offering in 2008. Majority of these shares held by Lizara were subsequently disposed off through the Lusaka Securities Exchange.

In 2016, GRZ transferred a 25% shareholding to the Industrial Development Corporation (IDC). The IDC is a state-owned enterprise (SOE) with a mandate to spearhead the Government's commercial investment agenda to strengthening Zambia's industrial base and job creation.

On 30th June 2017, Rabo Development B.V. transferred its 45.59% shareholding to Arise B.V. Arise. B.V. is a leading African investment company backed by three key investors: Norfund, RaboBank and the Dutch Entrepreneurial Development Bank (FMO). The relationship with Arise B.V. enables Zanaco to benefit from technical assistance, international network and best practice in various areas of Banking.

Our Customers

Improved customer service delivery and satisfaction remains at the centre of the Bank's overall strategy. Guided by the its vision, mission and values, the Bank is committed to exceeding the expectations of over 1 million customers across the consumer, corporate, government, SME and agriculture segments.

Innovation and sustainability for the Bank entails doing things better and smarter, driven by the needs of the its customers through making efficient use of the Bank's resources and empowering customers with financial services and products that help them attain their goals and aspirations.

Zanaco has the largest distribution network in the country, with more than one million customers, 60 branches and agencies, over 8,000 Zanaco Xpress agents, over 200 ATMs, and over 3,500 POS machines.

Zanaco Plc Subsidiaries

a) The Digital Shared Services Limited (DSSL) T/A PAYGO

DSSL is a fintech that was incorporated on 7th February 2019 as a subsidiary of Zanaco. Its strategic objective is to create platforms and infrastructure that facilitate interoperability and shared services.

DSSL adds value to the overall strategy of the Bank by providing impetus for Zanaco to realise its financial inclusion, digital and top transaction ambitions. The fintech will further strengthen Zanaco's innovation capabilities by providing a focus on innovation and development of tomorrow's Banking models. It will also provide alternative cost-effective technology infrastructures to help reduce fixed technology costs.

b) Zanaco Sporting Club Limited T/A Zanaco Football Club

Zanaco Sporting Club Limited (Zanaco FC) is a company incorporated in Zambia and registered as a football club with the Football Association of Zambia (FAZ). Zanaco FC was initially established in 1978 as a social team by management trainees of Zanaco.

The essence of the formation of the club was to allow the Bank employees to interact with the view to promote social growth. The organisation expanded into a well-established football club through the sponsorship provided by the Bank. Since 2019 the club has been incorporated as a limited company with the Patents and Companies Registration Agency (PACRA) and is operating as a subsidiary of the Bank.

The Bank has over the years continued to leverage the club's popularity for marketing, good citizenry propositions, and to further enhance the retail Banking customer base.

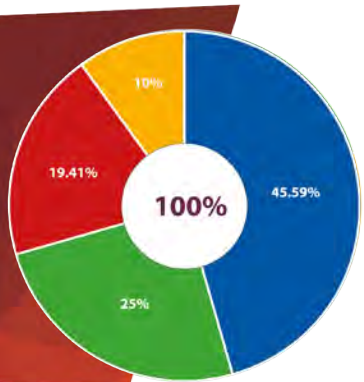
Our People

The Bank's members of staff are its number one resource. The Bank is proud of its 923 dedicated, inspired and motivated staff who drive its agenda. Zanaco is the largest employer in the Zambian Banking sector. To ensure that the Bank maximises output and gets the best out of its employees, the Bank invests in training and ensures that it takes good care of their well-being.

Ownership Structure

The current ownership structure of Zanaco is as follows:

Arise B.V.	45.59%
Industrial Development Corporation (IDC)	25.00%
LuSE Free Float	19.41%
National Pension Scheme Authority (NAPSA)	10.00%

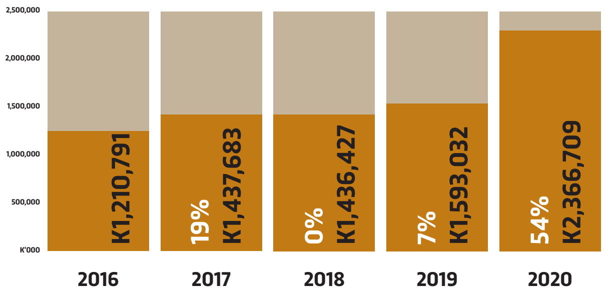


Banking Financial & Operational Highlights

54%

K 2,366m

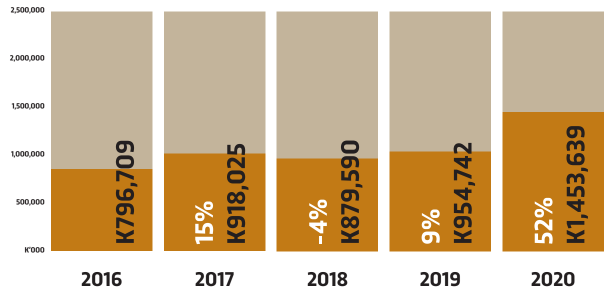
Total Operating Income



52%

K1,453m

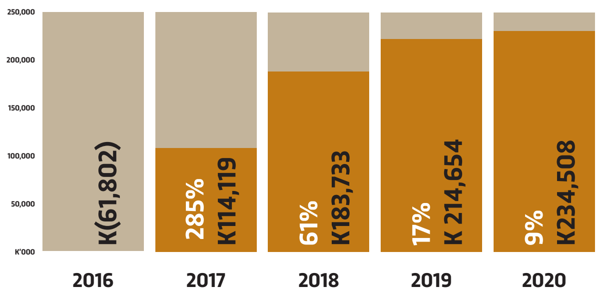
Net Interest Income



9%

K235m

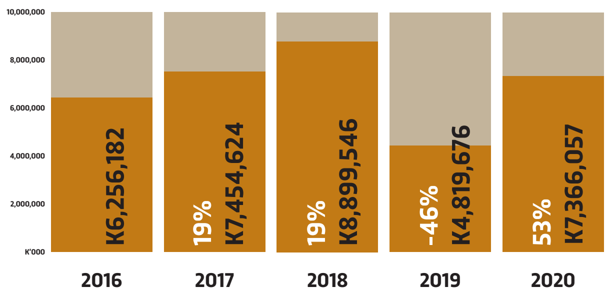
Net Profit



53%

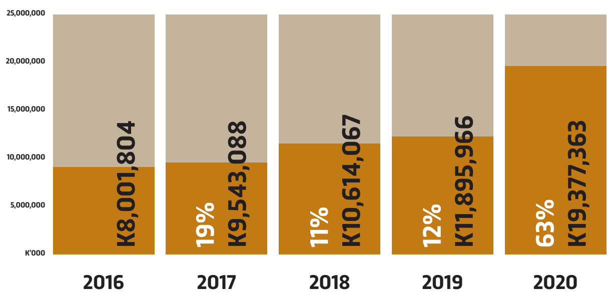
K7,366m

Net Loans and Advances



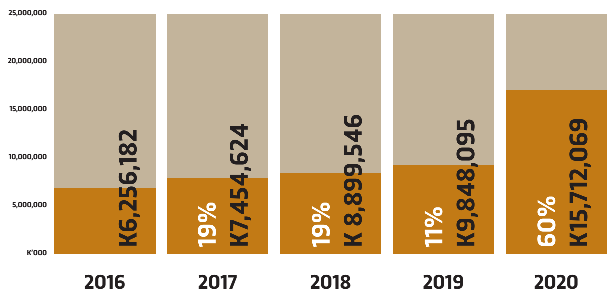
63%
K19,377m

Total Assets



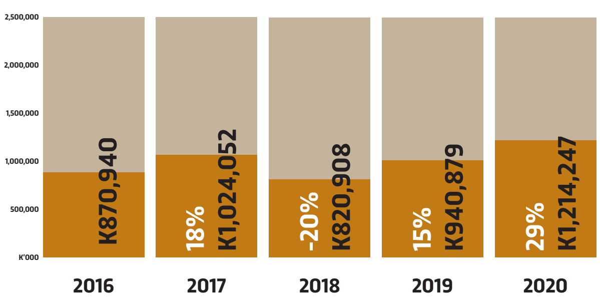
60%
K15,712m

Customer Deposits



29%
K1,214m

Equity



Board of Directors

Charity Chanda Lumpa
Board Chairman

Ms Lumpa is an accomplished executive with over 37 years' extensive experience in the insurance, Banking, tourism and telecommunications industries. Ms Lumpa has previously held the positions of Managing Director of the then Zambia National Tourism Board, EcoBank Zambia Limited and Airtel Networks Zambia Plc. Other achievements include the successful set-up of EcoBank Zambia Limited as a greenfield financial institution in 2008 and becoming its first Managing Director.

Ms Lumpa also serves as the Board Chairman of the Breakfast Club Africa in West Africa as well as Board Chairman of the St Ignatius College of the Jesuits, Zambia. She is the Vice Chair of the Zambia National Advisory Board for Impact Investment Taskforce and Vice Chair of the Livingstone International University of Tourism Excellence and Business Management Board. She is a Director on the Board of Prospero Zambia Ltd, a UK Department for International Development (DfID) funded project, and an Investment Panelist of the Malawi Innovation Challenge Fund, an impact investment fund of DfID, the International Fund for Agricultural Development (IFAD) and United Nations Development Programme (UNDP) in Malawi.

She is the Matron of the University of Zambia Business and Economics Association (UnzaBeca) and the 2019 Hall of Famer for the Push Women's Network. In 2020, she founded the Charity Chanda Lumpa Foundation to support community-based projects, empowerment of the youth and women, leadership and entrepreneurship development.

Ms Lumpa is an executive coach and holds a Master's degree in Business Administration (Finance), a Bachelor of Arts degree in Public Administration and a postgraduate diploma in Marketing Management. She is also certified by Oxford University's Women Transforming Leadership programme.

Hastings Mtine
Vice Board Chairman

Mr Mtine has a career spanning over 40 years as a Chartered Accountant. He is currently Managing Partner of MPH Chartered Accountants, having previously served as Senior Partner of KPMG for 15 years until 2011. He serves on a number of boards including Mopani Copper Mines Plc, Kwacha Pension Trust Fund and Zanaco Sporting Club Limited, chairing the latter two. He also serves on the audit Committee of Zambeef Products Plc.

Mr Mtine has been a Fellow of Association of Chartered Certified Accountants (ACCA) and Zambia Institute of Chartered Accountants (ZICA) since 1989. Additionally, he holds a Bachelor of Laws degree from the University of Zambia (UNZA).

He has received several awards in the accountancy profession including the Lifetime Achievement and Presidents Award from ZICA, and Member Advocate of the Year, lead winner for ACCA in recognition of his contribution to the development of the accounting profession in Zambia. Mr Mtine is actively involved with various institutions focusing on SME activity.

Having served on the Zanaco Board of Directors since 2013, Mr Mtine's tenure will come to end at the upcoming Annual General Meeting of the Company.

Chearyp Mkandawire-Sokoni
Board Member

Mrs Chearyp Mkandawire-Sokoni is the Chief Finance Officer of the Industrial Development Corporation (IDC) responsible for the implementation of finance strategy, including entity financial reporting and oversight of subsidiary financial reporting for Group consolidation purposes, the control environment including Group statutory audits and audits conducted by the office of Auditor General across the group, as well as oversight of the tax function. She has 23 years' of post-qualification experience in finance, auditing, and management.

She is a member of the Society of Corporate Compliance and Ethics (SCCE), a fellow of the Association of Chartered Certified Accountants (ACCA) and Zambia Institute of Chartered Accountants (ZICA). She is an Advocate for ACCA and a ZICA-accredited mentor for chartered accountant practical training in Zambia.

She is a member of the Accounting and Finance Industry Insights Alumni Advisory Group of the University of Edinburgh, Business School and chairs the Audit and Risk Management Committee of the Board of Directors of Zambia Forestry and Forest Industries Corporation Plc (ZAFFICO).

Leonard De Villiers
Board Member

Mr de Villiers is Chairman of the Chartered Chief Information Officer (CIO) Council of South Africa and previous Group CIO at Absa Bank, NedBank, First National Bank, Transaction Capital, Telkom Group, the Johannesburg Stock Exchange, PPS Investments and Tiger Brands. He has 30 years' experience in the IT industry and is considered one of the top CIO's in South Africa.

He was voted "The Most Admired CIO in South Africa" by the CIO Council of South Africa consisting of the top 200 CIOs in the country, and was also voted one of the Top 10 CIOs in South Africa by IITPSA / MWEB in 2016. He has held the position of Managing Director of Microdata, Executive Director at Datakor Holdings, Managing Director of NedBank's Group Operation, and Managing Director of NedBank's Group Technology and Support Services (GTSS).

Mr. de Villiers is also a recipient of several top achiever awards as well as the NedBank CEO award in 1998. He is based in South Africa and holds the following board positions:
Non-Executive Director at IEMAS Financial Services
Non -Executive Director at PPS Investments
Non-Executive Director and Chairman of Moyo Advisory Services Group

He holds the following qualifications:
DIS, Information Technology, 2007 – 2010, Harvard Business School (USA)
GITI, Information Technology & Telecommunications, 1995, INSEAD Business School, (France)
Managing Strategic Competitive Advantage in SA – 1987 -Wits Business School
Nat Dipl. In Electronic Data Processing, 1979, Tygerberg Technical College (SA)
Managing in a Service Industry – 1988 – Wits Business School
Essentials of Managerial Finance – 1988 – Wits Business School
The Executive Negotiator -1988 – Wits Business School
Rand Afrikaans University – BA Economics and Statistics (1986 -1987)

Mirjam t' Lam
Board Member

Ms t' Lam is Director Finance and Risk of Oikocredit International and Executive Member of the Oikocredit Board of Directors. Ms 't Lam has worked in the financial industry since 2003 and has experience in corporate and retail Banking, development finance, corporate strategy, accounting, credit and risk management..

Ms t' Lam has held various positions in RaboBank and RaboBank International. She was Vice President Renewable Energy and Infrastructure Financing, Europe and Asia; she served as Strategic Advisor to the Executive Board of RaboBank Group; she was also an Executive Director on the board of several local RaboBanks in the Netherlands, responsible for retail, SME and corporate Banking. Prior to joining Oikocredit, she was CFRO of Arise.

Ms t' Lam holds a Master's degree in International Business, a Bachelor's degree in Dutch Law, and several professional qualifications in credit risk assessment, retail Banking, structuring of complex loans, risk management, strategy and governance.

Mukuli Chikuba
Board Member

Mr Chikuba is the Permanent Secretary (Economic Management and Finance) in the Ministry of Finance. He is also a director on the National Pensions Scheme Authority (NAPSA) Board, Zambezi River Authority Board (ZRA), the National Road Fund Agency Board (NRFA), Africa Trade Insurance Agency Board (ATIA) Infratel, and the Zambia Public Procurement Authority (ZPPA). He is also a director on the Boards of Kansanshi Mines in which Government has a stake.

Mr Chikuba has extensive experience in macro-economic policy management, commerce and debt management. Additionally, he has considerable experience in the Banking sector emanating from the portfolios he has held in the public sector.

He holds a Bachelor's degree in Economics, a Master's degree in Development Studies, a Master's degree in Business Administration (Finance), and is currently pursuing a Doctorate in Business Administration.

Patrick Wanjelani
Board Member

Mr Wanjelani is the Chief Executive Officer of Newgen Holdings Limited, a financial consultancy, risk management and construction company.

Mr Wanjelani has extensive experience in Banking, accumulated over 30 years. He also has considerable experience in organisational change and transformation, finance and financial planning and corporate governance.

Mr Wanjelani is currently the Board Chairman for Kenya Reinsurance Zambia Limited and is a director of Kumil Energy Limited and Newgen Construction Limited. He is a non-executive director of the Center for Infectious Disease Research (CIDRZ) board and Blue Light Risk Management Limited.

He has held positions of Head Assets Liability Management (ALM) at Barclays Africa Treasury in Johannesburg and Chief Financial Officer and Executive Director at Barclays Bank Zambia Plc. He has also been Board Chairman of the Rural Electrification Authority (REA) and a board member of ZESCO Limited, Real Estate Investments Zambia Plc and the Lusaka Water Supply & Sanitation Company, where he was Chairman of the Audit Committee.

Mr Wanjelani is a fellow of the Association of Chartered and Certified Accountants (ACCA) and the Zambia Institute of Certified Accountants (ZICA). He holds an MBA from Oxford Brookes University, UK, and has a diploma in Business Administration and Professional Accounting. He has trained in Leadership for the Cutting Edge from GIBS University, South Africa.

Yamfwa Chinyanta
Board Member

Mr. Chinyanta is an executive coach, human resources and development professional and a people and technology champion whose current role is the Director for Human Resources and Administration at Alliance for a Green Revolution (AGRA), a non-Profit Organisation headquartered in Nairobi, Kenya, that aims to catalyse and sustain inclusive agriculture transformation in Africa.

As a member of the leadership team, Mr Chinyanta oversees the full HR and administration suite including talent acquisition, management and development, total rewards, HR operations, strategy and analytics, and a team of HR business partners and administration professionals. He is responsible for providing strategic HR leadership across an organisation that is spread across 12 African countries and has 25 different nationalities.

Mr Chinyanta has 18 years' experience as both an HR professional and technology expert across diverse industries such as manufacturing, non-profit, telecoms and agriculture, and has extensive local and sub-Saharan experience.

Mr Chinyanta holds a Master's degree in Business Administration in Strategic Planning; Senior Professional for Human Resources International (SPHRi) certification; holds a SAQA-certified Occupationally Directed Education and Training Development Practitioner certificate (OD-ETDP); has a Bachelor's degree in Computer Science; is a Microsoft Certified Professional (MCP); and has a Practitioner's diploma in Executive Coaching.

Executive Management Team

Our Executive Management team continues to provide leadership and direction on the day-to day management of the Bank.

Members of the executive team participated in various industry initiatives, such as those promoted by the Bankers' Association of Zambia (BAZ) and its Committees, the Zambia Association of Chambers of Commerce and Industry (ZACCI), the Zambia Federation of Employers and the Ministry of Labour and Social Security. In addition, the management team participated in various industry initiatives.

The Board, within its responsibility for succession planning for the executive management team, also engaged with staff and discussed the People's Balance Sheet, which is a tool for developing and managing talent within the Bank.

Mukwandi Chibesakunda
Chief Executive Officer

Mrs Mukwandi Chibesakunda is the Chief Executive Officer of Zambia National Commercial Bank (Zanaco) Plc.

Immediately prior to this role, she served as Managing Director of the National Savings and Credit Bank (NATSAVE). Mrs Chibesakunda is a Past-President of the Zambian Institute of Banking and Financial Services, and has wide experience in various financial service industry roles. With a senior leadership Banking career spanning over 15 years, she served as the first female Managing Director for Access Bank Zambia. Prior to her appointment as Managing Director for National Savings and Credit Bank, she served in executive capacities at Stanbic Bank Zambia as Head of Personal and Business Banking and at Standard Chartered Bank as Executive Director Consumer Banking.

Mrs Chibesakunda has featured in leading publications such as Forbes Magazine and African Leadership Magazine, addressing subjects including leading transformational growth and supporting the growth of SMEs. She has also been influential at The Africa List, and has earned awards as a leader who drives performance and transformation. In February 2019 she was one of ten delegates from across Africa conferred with a leadership award from African Leadership Magazine, in recognition of her corporate governance leadership and efforts to turn around NATSAVE, a Government-owned institution.

She holds a Master's degree in Business Administration (MBA) from Manchester Business School, UK, a Bachelor of Arts degree in Economics from the University of Zambia, and a postgraduate diploma in Business Administration from the University of Manchester. She is also a fellow of the Zambia Institute of Banking and Financial Services and the Zambia Institute of Directors.

Moono Simatyaba
Chief Financial Officer

Moono is Chief Financial Officer of the Bank. She is an experienced finance executive with over 20 years work experience gained in the auditing, FMCG and Banking financial services sectors. She has advanced financial and management skills in driving the organisation's financial operations and improving the company's financial performance for the accomplishment of strategic objectives.

Prior to joining Zanaco Plc in 2016, she worked within the SABMiller Plc group where she held various senior management roles in Zambia and Tanzania. She also worked for PricewaterhouseCoopers and the Development Bank of Zambia.

Besides being a Fellow of both the Association of Chartered Certified Accountants (ACCA UK) and the Zambia Institute of Certified Accountants (ZICA), she holds an MBA (Oxford Brookes), a Bachelor of Accountancy from the Copperbelt University and has undertaken Executive Leadership training at the Golden Institute of Business Studies (GIBS, South Africa).

Executive Management Team

Kalengo S. Simukoko
Chief Credit Risk Officer

Kalengo was appointed as Chief Credit Risk Officer of the Bank in June 2018. He is a seasoned Banking executive with a strong finance, risk management / governance background, in-depth boardroom experience and has over 17 years' Banking experience cutting across Trade Finance, Risk Management, Operations, Retail, SME and Corporate Banking.

Prior to joining Zanaco, Kalengo was Chief Risk Officer at United Bank for Africa (UBA) and has also previously held senior management roles at Barclays and Standard Chartered Bank Plc. He is a graduate of Harvard Business School's Advanced Management Program (AMP), holds a Master of Science degree in Finance from University of Leicester's School of Business in the UK and is a candidate for the LLM in International Corporate and Commercial Law at King's College London.

Mumbi Mwila
Chief Human Resource Officer

Mumbi is the Chief Human Resource and Training Officer of the Bank. She is a human resources professional with more than 20 years' of experience and a successful track record of leading human resource programmes for large institutions, with a strong background in employee relations, developing talent, strategic planning and aligning the people agenda to the business.

Prior to joining Zanaco she worked on a project with Bank ABC to support the development of Bank integration. She had also worked as an expert in human resources for Airtel Africa in Kenya and as Human Resources Director for Airtel Zambia. She has held various roles within the human resource profession in Kenya and Sierra Leone, and also provided HR support to HR Directors in countries such as Burkina Faso, Malawi, Madagascar, Seychelles and Niger.

Mumbi holds a Bachelor of Science degree with Education from the University of Zambia, and a Master of Business Administration degree from Edinburgh Business School. She is a fellow of the Zambia Institute of Human Resources Management and a certified International Business Leader (CIBL). She completed a General Management Program with Harvard Business School and is a Harvard Alumni.

Diana Kangwa Muya
Chief Operations Officer

Diana is the Chief Operations Officer for Zanaco Plc. She was appointed on 3rd April, 2017.

Diana has a wealth of experience in Information Technology and Operations Management. She holds a Bachelor's Degree in Electronics & Telecommunications Engineering from the University of Zambia, a Master's Degree in Communication & Information Systems from Huazhong University of Science and Technology (HUST) in China and a Master's Degree in Business Administration (MBA) from the Copperbelt University. She is a final year candidate of a doctorate of Business Administration at the Binary University of Management Entrepreneurship of Malaysia.

Prior to joining Zanaco, Diana held various senior positions at Zambia Telecommunications Company (Zamtel), Standard Chartered and Cavmont Banks, respectively.

Wane Ng'ambi
Chief Digital Banking Officer

Wane is the Chief Digital Banking Officer of the Bank. He is a seasoned telecommunications and financial services executive with extensive skill sets in sales and distribution, financial services, project management, IT/telecommunications and FMCG experience spanning several African markets.

Wane has held several senior management and executive roles in the telecommunications and financial services industry across Africa including his most recent role at Millicom Group (T/A TIGO) as Regional Director – Sales Distribution and Customer Operations – Africa Market. Prior to joining Millicom, Wane served five years with MTN Zambia as Executive Head, Mobile Financial Service (MFS), He holds a graduate diploma in Information Systems Management and a BSc (Hons) in Computer Science.

Executive Management Team

Jussab Kara
Chief Information Technology Officer

Jussab is the Chief Information Technology Officer of the Bank and a technology executive with more than 24 years' of work experience.

He served as Chief Information Officer at Atlas Mara Bank where he was responsible for driving organisational technology. He also worked for Airtel Zambia for 14 year in key strategic roles before joining MTN Zambia as the executive responsible for information technology. He briefly served as Chief Technology and Information Officer at Vodafone Zambia and was Director Software Engineering for CDC Projects.

Jussab holds a Master's degree in Business Administration, Postgraduate diploma in Management, Postgraduate certificate in Technology, Honours degree in Computing, Graduate Diploma in Computer Science and a diploma in Accounting.

Kaluba Gloria Kaulung'ombe-Inampasa
Company Secretary and Acting Chief Legal Officer

Kaluba is the Company Secretary & Acting Chief Legal Officer of the Bank. She is a seasoned lawyer with extensive experience in Commercial and Corporate Law, Corporate Governance, Regulatory Compliance, Company Secretarial Practice, Legislative Drafting and Litigation. Kaluba has since December 2016 managed the Company Secretarial, Governance and Stakeholder Engagement function in the Bank and was recently also tasked with the management of the Legal Department of the Bank.

Prior to joining Zanaco, Kaluba held various positions in the Ministry of Justice. She also held the position of Legal Counsel at CEC Liquid Telecommunication Limited and Company Secretary at Hai Telecommunications Limited.

Kaluba holds a Bachelor of Laws Degree from the University of Zambia, a Master's Degree in Commercial Law from the University of Cape Town, a Post Graduate Diploma in Legislative Drafting and is a Graduate of the Institute of Chartered Secretaries and Administrators (ICSA).

Chali E. Mwefyeni
Acting Chief Commercial Officer

Chali is Acting Chief Commercial Officer at Zambia National Commercial Bank Plc. He is a seasoned Banker with a tenacious drive towards organisational performance and transformation. He has over 15 years' financial services experience with extensive skills in sales, sustainable business leadership, insurance underwriting, corporate, SME and agricultural finance. Chali has previously held sales and underwriting roles at Stanbic and Madison General Insurance respectively.

Chali has previously held sales and underwriting roles in the banking and insurance sectors. He worked as Head Emergent and Smallholder, Head Agriculture Banking and Head Business Banking in the last 8 years at Zanaco. He also worked as an Account Executive at Stanbic Bank Zambia Limited.

He holds a Master's degree in Development Finance from Stellenbosch University, a Bachelor of Science degree in Agricultural Economics from the University of Zambia, a diploma in Insurance Studies and a diploma in Sustainable Business Leadership from the Swedish Institute.

Dillian Hamuwele
Acting Chief Risk Officer

Dillian is Acting Chief Risk Officer of the Bank. She has over 20 years' experience in risk management, internal controls, business resilience, financial fraud, financial management and accounting, and internal and external auditing.

Previously, she served as Head Integrated Risk Management and also Head Business Audits in the Risk and Internal Audit Divisions respectively, at Zanaco. She was also Senior Audit Manager at KPMG Zambia and Audit Manager at Chadwick LLP in the UK before joining the Bank in 2011.

Dillian is a qualified Charted Accountant with the Association of Charted Certified Accountants and Fellow of the Zambia Institute of Charted Accountants. She is also a Certified Enterprise Risk Management professional (CERM), Certified Internal Auditor (CIA) and also holds a Diploma in Financial Administration.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Chairman's Report

Dear Valued Shareholders,

Greetings.

On behalf of the Board of Directors I am pleased to present the 2020 Zanaco Plc Annual Report to the March 31, 2021 Annual General Meeting (AGM).

As I was reflecting on the events of 2020 and what Zanaco achieved, I did so from home like millions of other people. The Novel Coronavirus 2019 (Covid-19) has transformed our lives, business and the country as a whole. It has also presented unprecedented medical, economic and human challenges. The implications of the Covid-19 outbreak for our clients, employees and shareholders have been profound, and will reverberate for many more years to come.

As challenging as the events of 2020 were, Zanaco was poised to weather the storm on account of a forwarding looking strategy that was approved in 2018. The strategy focused the Bank on being a digital bank and significant investment was made to prepare Zanaco to become the Top Transactional Bank by 2020. Therefore, the Bank was well positioned to tackle the challenges posed by the virus. This saw the Bank make significant strides in achieving the milestones much sooner than planned and recorded progress on all fronts. The Bank therefore delivered improved and industry leading financial results and weathered the downside effects of the COVID-19 pandemic due to having implemented a good and proactive digital strategy.

The key highlights of the year include:

Growth in Revenue: revenues grew by 51% to K2.4 billion.
Historical profit was generated: K207 million.
Accelerating Innovation: innovation has always been fundamental to Zanaco and is our way of doing business. The Bank continued to improve its innovation framework and thus its continued proactive stance and responsiveness to changing customer trends to ensure the provision of the right solutions.

Actively Managing Our Portfolio: the Bank Management remained focused on ensuring the achievement of the 2025 vision of being the Top Transaction Bank and the universal financial institution that caters for all customers.

In the midst of the challenges that 2020 presented, opportunities were identified, maximised and aligned with the strategic initiatives to achieve the 2025 ambitions. It is from these opportunities that value was created for the delivery of the excellent results that were attained at the end of 2020.

Chairman's Report (continued)

The recorded Profit After Tax (PAT) of K207 million has been the highest ever achieved in the history of the Bank. Recognising that we could have done more, we are confident we have started this decade on an extremely good note, and that the Bank is well on its way to achieving its strategic objective of being the most commercially successful, top transaction bank by 2025.

Financial Performance

The Bank's performance continued on a strong growth trajectory. The above record PAT was mainly attributed to increased revenue generation due to the consolidation of existing business, as well as incremental value derived from new opportunities, effective cost containment and rationalisation.

The credit risk processes continued to be improved whilst carefully growing the loan book to support our esteemed clients.

The Bank remains adequately capitalised and is above the statutory requirement in both Basel I and Basel II.

Risk Management

The Bank considers risk management to be a critical aspect of the Bank's financial and operational management so as to promote a robust risk culture that delivers consistent and sustainable results to all our stakeholders.

The main direction of the Bank is to take calculated risks, consciously and methodically, for the efficient delivery of the strategic and business objectives. This has been achieved by strong and proactive management of the material risks in order to enhance both financial and operational resilience. This continues to be done in a manner which ensures the ongoing confidence of our key stakeholders.

In an industry that faces significant disruption, we recognise that threats to our business are constantly emerging and therefore will continue to explore all available opportunities and learn from emerging challenges to effect improvements that are enduring and sustainable.

Business Resilience

Our enterprise risk management framework includes an analysis of all non-financial risks affecting the business and this has been enhanced in recent years. We have built strong systems for business resilience and are thus able to quickly adapt to and manage disruptions for business continuity, whilst safeguarding our people, customers, assets and overall brand equity.

The most significant reminder in the first quarter of 2020, was the progress made in improving our resilience to external shocks, especially relating to the Corona virus (Covid-19) outbreak. Covid-19 has challenged the business world and has had major impact on the ways of conducting business due to its destructive and distractive nature. Consequently, this saw inevitable measures put in place to support the well-being, health and lives of our people, be they staff or customers. The Board and Management admirably responded to the duty of care towards our people, customers, stakeholders and the community at large, by ensuring the strong implementation of the approved Digital Strategy.

Furthermore, the Business Continuity Plans (BCPs) were enhanced to effectively address the threats posed by the pandemic whilst ensuring sustainability in the Bank. We further tested all systems to ensure the continued support to our esteemed customers with minimal disruption. We credibly delivered on our brand value of accessibility through our branch network and various digital channels. Thus, the Bank's operations continued smoothly even with the significantly increased working remotely from home by the staff in compliance with the Ministry of Health preventive and safety measures.

We will continue to strongly sustain our business through the continued and effective management of risks whilst ensuring high levels of compliance with regulatory requirements in the new normal.

Executive Management Changes

I am pleased to advise that on 1st October, 2020, Mrs. Mukwandi Chibesakunda was appointed the Chief Executive Officer of Zanaco Plc. She took over from Mr. Henk G. Mulder who retired at the end of December 2020 after a very successful four-year tour of duty. The Board of Directors are proud that they have exhibited commitment to the Gender Policy in the recruitment of the first female chief executive officer in the 50 year history of the Bank. The Board has every confidence that Mukwandi, an award-winning industry giant, with over 15 years transformational leadership experience, will ensure that Zanaco continues to regain its rightful place as the market leader and becoming the Top Transaction Bank and employer of choice, that provides growing value to all its shareholders. The Board wishes Mukwandi every success in taking the Bank to greater heights.

The Board further expresses its gratitude to Mr Henk Mulder whose diligence and commitment saw the transformation of the Bank and resulted in its strong performance whilst ensuring a solid growth trajectory.

The Board further reports that Mr Lishala Situmbeko, Chief Commercial Officer, and Mr Hamish Chipungu, Chief Risk Officer, mutually separated from Zanaco as at 30th November, 2020. Lishala had led the Commercial Division and achieved key transformational milestones that included client segmentation, business development, brand repositioning and organisational re-design. In line with Zanaco's focus on strong succession planning, Mr Chali Mwefyeni, has been appointed in an acting capacity as Chief Commercial Officer. Chali is a seasoned banker with over 15 years' experience and has a tenacious drive to enhance organisational performance and transformation.

Under Hamish Chipungu's leadership, the Bank had passed the first ever external quality assurance review of the internal audit function. In line with the aforementioned Succession Planning, Dillian Hamuwele has been appointed in an acting capacity as the Chief Risk Officer.

Ultimately, the intention is to assess the successful execution of these roles on both qualitative and quantitative key performance indicators of the incumbents for consideration to confirm before advertising the roles internally and externally.

Chairman's Report (continued)

Board of Directors Changes

We are pleased to advise that the Board of Directors has been strengthened with the nomination of Mrs Regina K Mulenga and Mr David Musunga as board members to take up the two vacancies that fall open on March 31, 2021 with the retirement of Director Hastings Mtine and Director Charity C Lumpa. The retiring directors will have completed their six years of duty on March 31, 2021. The appointment of the office bearers of Chairperson and Vice Chairperson shall be conducted through an election process in line with the Articles of Association and Zanaco Plc Board Charter.

Annual Board Evaluation

In accordance with best practice and in compliance with both the Zanaco Board Charter and the Bank of Zambia Corporate Governance Directives, the Board undertook its annual evaluation in the fourth quarter of 2020 to assess its continued performance. The results of the Board evaluation continue to be positive and provided input into the training needs of the Directors for continuous development. The evaluation also revealed the high level of adherence to corporate governance principles by the Zanaco Board of Directors.

Appreciation

The Board of Directors would like to thank the Management and staff for their strong commitment to Zanaco. This is clearly evident through the great results that have been delivered by the Team in what has been an extremely challenging year. I would also like to thank the Board of Directors for their unwavering support, guidance and leadership to the Management as they tirelessly worked to produce the great results we are seeing today. I also wish to appreciate the Board of Directors' resilience and adaptability to providing leadership in a virtual environment. It has not been an easy time.

I further invite all of us to observe a moment's silence for all the staff, customers and other stakeholders that Zanaco has lost to the ravaging effects of Covid-19. May their souls rest in eternal peace.

Farewell

This AGM marks the end of my tenure as Board Chairman of Zanaco Plc. In my time I have seen the Bank grow and be transformed inside and out. The Bank has delivered exceptional results over the years where we have seen regain its top two ranking in the market. The Bank especially posted great and historical profit in 2020 which was underpinned by the 15% growth in deposit market share and 27% in lending market share. With revenues growing at 100% and PAT at 434% over the years.

We have stood by our Gender Policy as a Board and now have 60% female representation on the executive management team whilst 38% are female Board Members.

I have closely worked with my colleagues on the Board of Directors over the past six years to ensure we have a sound plan and process in place for not only my successor, but every senior leader at the Bank who plays a critical role in Zanaco's day-to-day activities. I leave the Board extremely satisfied and happy at the positive transformation achieved and the stellar results therefrom. We have seen top line performance grow incrementally such that Zanaco now holds the top two positions in the market as regards revenue, deposit, lending, PAT and overall improvement in the non-performing ratio from a high of 28% four years ago to 5% at the end of 2019. The NPL ratio stood at 6.3% at the end of 2020 which is still a very remarkable performance! The Bank further saw a 220%+ growth in quality client numbers in the period, making Zanaco have the largest customer base in Zambia.

In my time as Chairman, we have transformed the look and feel of the branches as part of strengthening the brand and the Retail Banking proposition, whilst further refining the customer value propositions. The Bank's focus on delivering an enhanced customer experience has seen the continued and innovative use of technology in the products and services that are on offer.

Lastly, the Bank transformed into a Group with the formation of two subsidiaries, Digital Shared Services Limited and Zanaco Football Club Limited. These strategic initiatives are to support the successful expansion of revenue generation activities that will pull through to the attendant improvement in shareholder value. This includes the revolutionary introduction of Xpress Agency banking by Zanaco that has seen the Bank's presence grow exponentially in the market, thus enhancing financial inclusion.

I especially wish to thank the former CEO, Henk Mulder, Mukwandi and the Executive team, for meaningfully overcoming the challenges presented by the Covid-19 preventive measures. The strong focus on delivering the digital strategy, whilst ensuring the welfare of both staff and customers, has been central to the remarkable performance that we are seeing in 2020.

I am confident that the Bank will attain its 2025 strategic ambitions and continue to be a thought leader and key player in the development of our country.

I thank you, the shareholders, for the support and confidence you gave to the Board of Directors over the years and I will forever cherish this important period of my corporate journey.

God Bless us all.

Charity Chanda Lumpa
Chairman

Chief Executive Officer's Report

Dear Valued Shareholders,

It is an honor and privilege as the Chief Executive Officer to report on the Zanaco Strategy and share the record performance for the year 2020

The Bank set out to reposition itself for a future that delivers maximum value to our customers and shareholders. In doing so, we improved our customer value propositions to derive balance sheet and revenue growth. We also re-engineered the way we operate by enhancing efficiencies in our operating model, so that our internal processes and structures are fit for achieving and delivering on our strategic ambitions.

I am therefore delighted to report the record performance of the Bank in the year 2020. This performance is also a testimony of the agility of the Bank to respond to tactical and strategic changes, particularly in the Quarter 4, 2020 when accelerated growth in performance became evident.

Strategy implementation

2020 was the year in which we began the implementation of our 2025 Medium Term Plan with the firm belief that the Bank is well poised to create incremental value from the opportunities of the future today.

Some of the key strategic initiatives achieved in 2020 include:

a. Branch and staff rationalisation to enhance efficiencies and repositioning the operating model;
b. Centralisation and automation of systems and processes for a robust control environment and continued efficiencies;
c. Enhancement of Information Security to protect customer information and assets;
d. Enhancement of the Retail Banking for the delivery of an enriched value proposition; and
e. Continued branch re-design and refurbishment to augment our customers journey.

We recognise that a world class customer experience coupled with the continued laser focus on innovation to exceed customer expectations, is key to the sustainable growth of the Bank. It is for this reason that in the fourth quarter of the year under review, we refreshed and introduced a new customer experience framework that innovatively delivers value to our customers and stakeholders. This not only enhanced customer experience and innovation, but also translated into positive bottom- line results. These will remain key focus areas for propelling growth.

Chief Executive Officer's Report (continued)

During the year under review, the subsidiary business units' operations were augmented to enhance bottom line performance:

- We continued to invest in Digital Shared Services Limited (DSSL) to capitalise on the opportunities in value chain integration and increased collaboration with other market players.
- The Zanaco Sporting Club Limited continued to score successes on the pitch and the incorporation as a subsidiary will see it attain financial self-sustainability in the future from 2022.

As a result of effectively implementing the 2020 strategic plan was the record performance that has been recorded. The growth in total revenue was fueled by strong balance sheet growth with customer deposits growing by 59% to K15.7 billion. This created allowance for a K209 million spend towards transforming the operating model to appropriately align it to the strategic direction.

The effective implementation of our strategic plan has seen the accruing of positive financial results and that places the Bank at the top echelon of business thought leadership, a key contributor to economic development and ultimately maximised shareholder value.

COVID-19 and Employee Welfare

Supporting the growth of our customers at an individual and business level is paramount for the Bank. Therefore, we proactively provided support in the form of principal and interest payment holidays, working capital finance and business advisory. We further increased the monitoring of clients' businesses and implemented proactive solutions for their business sustainability. Thus demonstrating that the Bank is more than just a banking institution but is also a business partner interested in the welfare of our customers.

Staff Engagement

Employee welfare is a key strategic consideration for the Bank. Therefore, in order to remain connected despite not being in contact, we continued engaging our staff through Virtual Town Hall sessions to have much needed conversations and check on each other. We took another step of rolling out new and improved conditions of service that includes staff recognition that is performance related and rewarding of top talent and performers to ensure motivation and retention. Our agenda to be the number one employer of choice therefore remains on course.

As businesses adjusted to operating in a virtual environment, staying connected has become more important than ever before. The clear planning, agile use of technology and a great deal of patience and personal flexibility, saw our employees deliver the remarkable results we are seeing in 2020. We redesigned our ways of working and interaction by introducing remote working systems. Over 90% of our Head office employees worked from home whilst those in Branches were placed on a robust rotation schedule.

We made disseminating clear and frequent communication from senior leaders a priority as we did with the provision of a range of internal communications to help employees stay connected with each other and thus strengthening the bond with the teams. The creation of a virtual team environment enabled us to deliver these record breaking financial results whilst maintaining a strong and growing employee engagement bond.

Product and Service Offering Expansion

The expansion of our product and service offering was integral to the success and growth of the Bank during the year. We strengthened and consolidated our leadership in the treasury products offering and further designed customer centric solutions to meet the balance sheet needs of our customers in the various segments. This translated into increased revenues and robust balance sheet growth.

Branch Rationalisation and Growth of Zanaco Xpress

The rationalisation of our Branches for a more focused customer experience continued and some of our branches were subsequently merged in the year. We continued to grow our Zanaco Xpress distribution network such that it provides greater service options through which customers conducted their banking efficiently and conveniently.

Conclusion

Our strategic direction is premised on value creation and enhanced customer experiences across our banking network. Over and above the contribution from the profitability attained in 2020, we will preserve and sustainably grow shareholder value through embracing technology, continued innovation and being the most efficient and sustainable top transaction bank by 2025.

I take this opportunity to thank all our employees for their dedication and energy in driving our results. I also wish to express our gratitude to our customers for actively supporting us and trusting us to provide them with home grown banking solutions for more than 50 years. I also wish to express my profound appreciation and gratitude to our Board of Directors and the Management Board for their strong support and guidance as we work towards making Zanaco Plc the leading bank in Zambia and ultimately in the region. Finally, I would like to thank you our esteemed shareholders for your continued support, trust and confidence.

God Bless us all.

Mukwandi Chibesakunda
Chief Executive Officer

Group Statement of Corporate Governance

ZANACO PLC

Introduction
Zanaco's vision is to be Zambia's leading, most admired, preferred and innovative universal and transactional financial institution, providing the best in value solutions to clients while supporting financial inclusion.

Corporate governance stands at the core as the Bank endeavours to realise its vision through fostering values of fairness, accountability, responsibility and transparency.

To emphasise the necessity for the increased focus on corporate governance, the Bank has continued to ensure best corporate governance practice at all times through continued development and improvement of its governance framework, which has improved the organisation's corporate governance culture.

Compliance Status of Corporate Governance Rules
A review of the Bank's compliance with the Lusaka Securities Exchange Corporate Governance Code and the Bank of Zambia Corporate Governance Directives as at 31st December 2020 showed that the Bank materially complied with the applicable rules.

Separation of Powers and Responsibilities
Zanaco shareholders vest their oversight role and control of the Bank in the Board of Directors, which has the powers conferred upon it by the relevant legislation and the Articles of Association to oversee the implementation of the Bank's strategic objectives, risk management strategy, risk appetite statement, governance framework, and corporate values and culture.

There is a clear separation of powers and responsibilities between the shareholders and the Board of Directors, who are all Non-Executive Directors, with the majority being independent.

The Board of Directors may delegate the day-to-day management of the Bank to the Chief Executive Officer and management through the Delegation of Authority Policy. However, the Board of Directors remains ultimately accountable and responsible for the performance and affairs of the Bank. They strive at all times to exercise leadership, enterprise, integrity and judgement in directing the Bank to achieve its objectives. The Chief Executive Officer is the head of the Bank, and not being a member of the Board of Directors, provides a regular report to the Board, which includes risk management strategy, information on financial performance and the achievement of financial objectives, operational matters, the operating environment, strategic development, corporate social responsibility, human resource and stakeholder relations.

The Board sets the "tone at the top" by promoting a sound corporate culture and good behaviour, and demonstrates clear values and high ethical standards, mindful of the overriding duty of each director to act in good faith and promote the success of the Bank.

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

Board Composition and Appointment
The Board of Directors are appointed by the shareholders, who have the ultimate responsibility of ensuring that the Board is properly constituted and is comprised of people with the appropriate expertise and requisite industry knowledge for efficient and effective discharge of the Board's collective responsibilities. To assist the shareholders with this responsibility, the Board has put in place a formal, rigorous and transparent process for the appointment of Directors through a Board Appointment Policy. In addition, all Board members are appointed based on a fit and proper test by the Central Bank, and subject to shareholders approval at the subsequent Annual General Meeting (AGM).

The Board has also developed the Board Succession Policy and Succession Plan to provide ongoing guidance for the identification, assessment and development of potential candidates to ensure a smooth transition when vacancies arise on the Board. With the impending retirement of the Board Chair and the Vice Chairman, the Board has invoked these policy guidelines to ensure that suitable candidates are recruited to replace two Directors.

Group Statement of Corporate Governance

Continued

Board Performance Evaluation

The Board recognises the need to evaluate its effectiveness to ensure that its level of performance meets higher levels for the success of the organisation. In line with the principles of corporate governance and in furtherance of the Bank's obligation to conduct an annual evaluation of the Board's performance as required by the Bank of Zambia, the Board Performance Evaluation Policy ensures an annual assessment of the Board Performance during the financial year through the engagement of an external third party.

The 2020 Board evaluation and appraisal was facilitated by Goldengate Consulting. The average rating in the evaluation was an aggregated rating of "effective" tending strongly towards "outstanding". The evaluation included an evaluation of:

a) The Board's structure and composition;
b) The Board's strategic focus and effectiveness of the Bank's strategic direction;
c) The roles and responsibilities of the Board and the role of the Chairman;
d) The composition and effectiveness of Board Committees;
e) Professional development of Board Directors and Board Succession planning;
f) The role of the Chief Executive Officer;
g) Board reporting;
h) Board and Committee meetings proceedings and attendance;
i) Gender and skills diversity of the Board;
j) The challenges faced by the Board;
k) The quality of information provided by Management to the Board and its Committees; and
l) Maintenance and implementation of the Board's governance principles.

Board Induction

The Board has put in place a Board Orientation Policy that provides for a formal induction process for new Board members and takes into account the different backgrounds and experiences of each director. Through this process, a new Board member is familiarised with the Bank's strategy, operations, environment, governance structures and frameworks, policies and procedures. The process also provides an overview of the Directors' fiduciary duties, responsibilities, powers and potential liabilities as well as the governance documents of the Bank.

Board Annual Plan

Before the end of each financial year, the Board puts in place a plan that consists of programmes and all necessary matters to be undertaken in the subsequent year. The Annual Plan includes a strategy session, review of the Succession Planning, Budgeting and Performance Review for senior executives, Board training and a calendar of all scheduled and quarterly Board and Committee meetings. This plan allows for transparency in the activities of the Board and ensures that the Directors are provided with timely information to assist them plan for the year ahead and facilitate an interactive dialogue during Board sessions.

Board Training and Continuous Development

In addition to the initial induction process, as best practice, Directors are required to undertake training to ensure continuous development of their knowledge and skills. These training programmes are tailored to suit the needs assessed and the knowledge gaps identified throughout the year and during the performance evaluation process, and are included as part of the Annual Plan. In line with Bank of Zambia Corporate Governance Directives, a Board has put in place a Board Training Policy for that purpose.

In the 2020 financial year, the Board undertook the following programmes for each quarter:

a) Board Development Session to discuss the outcomes of the 2019 Board Evaluation;
b) The Role of the Board in Money Laundering/Terrorist Financing Compliance, facilitated by the Financial Intelligence Centre;
c) Loan Management System and Corporate Credit Approval Process, conducted by the Chief Credit Risk Officer and other staff from the Credit Risk Division; and
d) Cyber Security Management, facilitated by Performanta Consultancy.

Group Statement of Corporate Governance

Continued

The Board Charter

In compliance with the Bank of Zambia Corporate Governance Directives and the Lusaka Securities Exchange (LuSE) Corporate Governance Code, the Board has put in place a Board Charter that sets out the following:

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

Board Committee Charters

The Board has put in place Charters for each of its Committees, in line with the Bank of Zambia Corporate Governance Directives and other relevant legislation. In the second quarter of 2020 all the Board Committee Charters fell due for revision and were accordingly revised to further align them to the Bank of Zambia Corporate Governance Directives and best practice and to revise the period of review to every two years.

Development of Board Policies

In the 2020 financial year the Board approved the revised Board Orientation Policy, Board Performance Evaluation Policy, Appointment of Directors Policy, Investor and Shareholder Engagement Relations Policy, to further align them to the Bank of Zambia Corporate Governance current practices and to the tier 1 policy review requirement. In 2021, the Board develop the Code of Ethics and Corporate Governance Policy.

a) **Q1 2020**
Job Evaluation Policy

b) **Q2 2020**
Whistle blowing Policy and the Market Risk Policy

c) **Q3 2020**
Fraud Risk Management Policy, the Sanctions Policy
Anti-bribery and Corruption Policy.

Other key Bank Policies in place

a) Code of Conduct

It is essential for the Bank to have an honest and fair reputation as it serves its customers. Therefore ethical conduct is at the core of the Bank's activities. The Bank has a Code of Conduct in place that sets out the expected conduct of employees with integrity at the centre. It also provides the principles that govern employee conduct with clients, customers, shareholders with one another. The Code together with the Whistle blowing Policy requires employees to report promptly any known or suspected violation of the code, internal Bank policy, or any law or regulation applicable to the Bank's business. It also requires employees to report any illegal conduct, or conduct that violates the underlying principles of the Code, by any of the Bank's Stakeholders. The Bank ensures compliance of its Code of Conduct by all staff and has in place consequence management to be taken against staff who are in breach of the Code.

b) Whistle blowing Policy

The Bank's Whistle blowing Policy provides for anonymous reporting of malpractice or suspected malpractice or irregularities in good faith without fear of adverse consequences. This is an important element of the Bank's governance structure and commitment to the highest possible standards of transparency, integrity and accountability in its operations with all stakeholders and is in line with the provisions of the Public Interest Disclosure (Protection of Whistleblowers) Act.

Group Statement of Corporate Governance

Continued

c) Harassment Policy

Following enactment of the Employment Code Act, which required a workplace to develop a policy on harassment, the Bank has put in place an Harassment Policy that aims to provide a workplace free from all forms of harassment, including discrimination, sexual harassment and sexual misconduct, intimidation, offensive, or a hostile work environment.

d) Remuneration Policy

The Bank aims to create an environment that attracts, retains and motivates employees of the right calibre and competencies. The Bank also aims to reward staff for outstanding and exceptional performance with a long-term compensation strategy to place itself at market average for all generic roles and at 75th percentile for highly specialised and scarce roles. In view of this, the Bank has put in place a Remuneration Policy to provide guidance on the remuneration and compensation of staff.

e) Gender and Diversity Policy

Following the successful implementation of a pilot 'Lift' mentorship programme that was targeted at females in grades 8 and 9, a more inclusive programme targeted at a larger catchment of females in the Bank will be launched to promote gender diversity at all levels of the Bank's structure. Additionally, specific activities have been planned for Women's Month in an effort to advance the women agenda. Currently 43% of Bank employees are women and 30% are at senior leadership level.

f) Anti-Money Laundering Policy

The Anti-Money Laundering Policy (AML) outlines fundamental principles in identification and prevention of money laundering activities, financing of terrorism and other offences. To effectively manage the AML programme in the Bank, mandatory training is provided to all members of staff.

To enhance the Bank's Know Your Customer (KYC) compliance rate, the Bank has embarked on a KYC project aimed at confirming customer details and obtaining updated information. This is in addition to the annual Customer Due Diligence (CDD) that is required by the law.

g) Environmental and Social Management Policy

Compliance with legislation on environmental and social aspects of the business is increasingly becoming a focal measurement point for good governance. The Bank's approach has been to develop and implement innovative monitoring and screening processes that adhere to its internal guidelines and Zambian environmental laws.

Alongside the environmental laws, the Bank has developed an Environmental and Social Management Policy (E and S) that is in compliance with local environmental laws. In order to operationalise this policy, the Bank has enhanced its environmental assessment screening process, which is an integral part of loan origination and appraisal processes.

The E and S Policy has been refreshed to incorporate counterparty requirements and introduce E and S Due Diligence (E500) to be used in assessing category A Customers. The policy has been disseminated to all staff and rolled out to stakeholders by way of a clinic.

The process is categorised into three parts:

(i) Category A – Projects with potential significant adverse social or environmental impacts;

(ii) Category B – Projects with potential limited adverse social or environmental impacts; and

(iii) Category C – Projects with minimal or no significant social or environmental impacts.

As a good corporate citizen, Zanaco continues to actively work towards the realisation of sustainable development. Through its business activities and services, the Bank will continue to support environmental conservation efforts within its operational scope as well as those in the service supply chain in order to contribute to the realisation of sustainable development in Zambia.

The Bank remains committed to raising staff awareness on environmental issues and sustainable development and encourages staff observance of the following at the workplace:

(i) Prevention of pollution by reducing, reusing and recycling materials and goods purchased;
(ii) Encouragement energy-saving, reduce water consumption, and promote good housekeeping practices; and
(iii) Improvement and maintenance of the quality of the working environment within the Bank and all our branches/affiliates (internal air quality, water quality, waste management, paper use, energy use, etc).

Group Statement of Corporate Governance

Continued

Internal Environmental Management

A broad-based approach has been pursued in terms of implementing the Environmental and Social Management Policy in the workplace. It includes a cross- function Environmental and Social Management Committee of staff from Marketing, Human Resources, Facilities, Credit and Procurement to spearhead internal corporate social responsibility, environmental and social management activities. An action plan has been developed providing status updates on responsibilities, actions and timeframes.

Equitable Treatment of Minority Shareholders

The corporate governance framework of the Bank continues to ensure that equitable treatment is accorded to all shareholders, including minority shareholders, by:

a) Ensuring that the Board adopts a shareholders' perspective when making decisions and ensuring minority interests are protected;
b) Improving communication and interaction between shareholders, Board Members and Management;
c) Ensuring that the appointment of Directors is subject to the final approval of all shareholders (including minority shareholders) at the Annual General Meeting; and
d) Ensuring that shareholders are duly accorded with their basic rights to-

   i) be notified of, and to attend a general meeting of the Company;
   ii) vote at a meeting of members;
   iii) receive a share in dividends authorised by the Board of Directors in accordance with the Dividend Policy;
   iv) be heard, and be given an opportunity to participate effectively at a meeting of the members;
   v) information regarding the objectives, strategy, performance and achievements of the Bank, subject to the Securities Act no 41 of 2016 and the LuSE Listing Rules on the prohibition of the disclosure of insider information or price sensitive information that should be disseminated to all shareholders at the same time; and
   vi) seek redress.

The equitable treatment of shareholders has been further entrenched by the Shareholders Relations Policy and the Stakeholder Engagement Policy, which provide guidance on the Bank's interaction with its shareholders and investors.

Board Engagement

The table below shows the attendance of the Directors to the quarterly Board meetings during the year:

Directors' Name	Category of Directors'	February	April	August	November
Ms. Charity C.Lumpa	NED	√	√	√	√
Mr Hastings Mtine	NED	√	√	√	√
Mrs Chearyp M. Sokoni	NED	√	√	√	√
Mr Len de Villiers	NED	√	√	√	√
Ms Mirjam t'Lam	NED	√	√	√	√
Mr Mukuli Chikuba	NED	√	√	√	√
Mr Patrick Wanjelani	NED	√	√	√	√
Mr Yamfwa Chinyanta	NED	√	√	√	√

NED - Non Executive Director / ED-Executive Director
√ - Attended
X - Absent

Directors' Compensation

The disclosure of Directors' fees and remunerations is made in Note 37 of the financial statements. The Directors do not have any shares in the Bank and are not entitled to share options. Directors' fees and any amendments are approved by shareholders at the Annual General Meeting. The shareholders approved the amendments to the Directors fees at the AGM held on 29th March 2018, which are currently applicable.

Group Statement of Corporate Governance

Continued

Board Committees

To help it discharge its executive functions, the Board has established 6 principal standing Committees, each governed by written Committee charters defining the frequency of meetings, power duties, and reporting obligations. These Committees continuously evaluate the progress made towards meeting the Bank's overall objectives, in addition to ensuring the efficient and effective management of the entire Bank's core functions. A Non-Executive Director chairs each of the Committees.

The following are the Committees:

a) Audit Committee

The purpose of the Audit Committee is to evaluate, among other things, accounting practices, the internal control systems, auditing and financial reporting. Its tasks include evaluating critical risk areas identified with the help of Management, as well as reporting on them to the Board.

The Audit Committee also recommends to the Board the remuneration of the external auditor. The Committee also holds separate meetings with the Head Internal Audit and the external auditor when required, in order to ensure that matters are considered without undue influence.

The Committee consists of four Non-Executive Directors, and chaired by one of them. The Committee meets at least quarterly and at such other times as may be required. In 2020, the Committee has had four scheduled quarterly meetings.

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

Directors' Name	Category of Directors'	February	April	August	November
Mr Hastings Mtine	NED	X	√	√	√
Mr Patrick .Wanjelani	NED	√	√	√	√
Mr Mukuli Chikuba	NED	√	√	√	√
Mrs Chearyp Sokoni	NED	√	√	√	√

NED - Non Executive Director
√ - Attended
X - Absent

b) Risk Management and Compliance Committee

The Risk Management and Compliance Committee has been vested with the oversight responsibility of the risk management of the Bank on behalf of the Board. The function of the Committee is to:

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

In line with its responsibilities, the Committee approves the Risk Appetite Framework and reviews the Risk Appetite Statement to ensure that they remain consistent with the Bank's strategy, business, capital plans and risk capacity.

The Risk Management and Compliance Committee consists of four Non-Executive Directors and is chaired by one of them.

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

Group Statement of Corporate Governance

Continued

The attendance by Directors during the year was as follows:

Directors' Name	Category of Directors'	February	April	August	November
Mr Patrick Wanjelani	NED	√	√	√	√
Mr Mukuli Chikuba	NED	√	√	√	√
Mr. Len De Villiers	NED	√	√	√	√
Ms. Mirjam t'Lam	NED	√	√	√	√

NED - Non Executive Director / ED-Executive Director
√ - Attended
X - Absent

c) Credit Risk and Loans Review Committee

The purpose of the Credit Risk and Loans Review Committee is to:

i) review and approve the lending strategies and policies of the Bank, including delegated authority to the Management Credit Risk Committee;
ii) assist the Board in fulfilling its oversight responsibilities with respect to the Bank's lending and credit risk functions;
iii) consider all credit risk proposals exceeding credit approval limits delegated to the Management Credit Committee (MCC); and
iv) fulfill such other responsibilities as assigned to it by the Board.

The Committee consists of four Non-Executive Directors and is chaired by one of them. The Committee meets on a quarterly basis and at such other times as may be required.

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

Directors' Name	Category of Directors'	February	April	August	November
Ms Mirjam t'Lam	NED	√	√	√	√
Ms Charity Lumpa	NED	√	√	√	√
Mr Hastings Mtine	NED	√	√	√	√
Mrs Chearyp Sokoni	NED	√	√	√	√

NED - Non Executive Director / ED-Executive Director
√ - Attended
X - Absent

d) Human Resources and Remuneration Committee

The Committee is responsible for the management of human resource of the Bank and provides oversight over the remuneration and compensation for all staff in the Bank, except the executive management whose remuneration and compensation is determined by the Nominations and Governance Committee. The Committee further:

i) reviews and approves management strategies for ensuring balance in workforce capabilities;
ii) approves succession plans for all staff;
iii) ensures effective implementation and execution of robust people management and performance management systems which include key risk indicators; and
iv) makes recommendations to the Board regarding the use of incentive compensation plans.

Group Statement of Corporate Governance

Continued

The Committee consists of four Non-Executive Directors and is chaired by one of the Non-Executive Directors. The Committee held four quarterly meetings and the attendance by the Directors during the year was as follows:

Directors' Name	Category of Directors'	February	April	August	November
Mr Mukuli Chikuba	NED	√	√	√	√
Mr Yamfwa Chinyanta	NED	√	√	√	√
Mr Patrick Wanjelani	NED	√	√	√	√
Mrs Chearyp Sokoni	NED	√	X	√	√

NED - Non Executive Director /
ED-Executive Director
√ - Attended
X - Absent

e) Nominations and Governance Committee

The Committee provides a clear transparent recruitment and selection process for Board membership, chairpersons of the Board and Board Committees, Committee members and members of the executive management. The Committee assists the Board in ensuring that only qualified and competent candidates for the above positions are identified and recruited. The Committee further reviews the adequacy of governance principles and practices of Board of Directors.

The Nominations and Governance Committee consists of four Non-Executive Directors and is chaired by the Board Chair.

Directors' Name	Category of Directors'	February	April	August	November
Ms Charity Lumpa	NED	√	√	√	√
Mr Hastings Mtine	NED	X	√	√	√
Mr Yamfwa Chinyanta	NED	√	√	√	√
Mr Len de Villiers	NED	√	√	√	√

NED - Non Executive Director /
ED-Executive Director
√ - Attended
X - Absent

f) Technology, Service Delivery (Operations) and Innovations Committee

The Technology, Service Delivery (Operations) and Innovations Committee oversees the technological transformation of the Bank into a digital Bank. The purpose of the Committee is to:

(i) assist the Board in its oversight of the Bank's operations and technology strategy and significant investments in support of such strategy, and operations and technology risk; and

(ii) monitor key operational and technology metrics associated with the delivery of the Bank's services and report such to the Board.

Group Statement of Corporate Governance

Continued

The Committee consists of four Non-Executive Directors and is chaired by one of them. Attendance by the Directors during the year was as follows:

Directors' Name	Category of Directors'	February	April	August	November
Mr Len de Villiers	NED	√	√	√	√
Ms Charity Lumpa	NED	√	√	√	√
Mr Yamfwa Chinyanta	NED	√	√	√	√
Ms Mirjam t'Lam	NED	√	√	√	√

NED - Non Executive Director /
ED-Executive Director
√ - Attended
X - Absent

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

The Company Secretary:

a) Ensures that the Annual calendar for Board meetings is circulated to all Board Members after approval;
b) Ensures that adequate information is provided to all the Board Members prior to commencement of the Board and Board Committee meetings;
c) Ensures the culture of Good Corporate Governance is promoted;
d) Serves as key liaison with the Bank of Zambia, the Securities and Exchange Commission (SEC), the Lusaka Securities Exchange (LuSE) and the Patents and Companies Registration Agency (PACRA);
e) Ensures that Statutory Registers are maintained;
f) Acts as the key liaison for investors and contact point for shareholders;
g) Ensures that the Board is updated on relevant statutory amendments and developments; and
h) Ensures the induction and continuous training of Directors to enable the Board discharge their responsibilities.

Stakeholder Engagement
The Bank has developed a Stakeholder Engagement Policy and Investor Relations Policy that outline the procedures to be undertaken when engaging stakeholders, including customers, shareholders, the Government, regulators, suppliers, employees and their representatives, and the communities in which the Bank operates.

Despite the COVID 19 pandemic and the associated restrictions on physical interaction, the Bank maintained consistent and efficient engagement with all its stakeholders.

The following was achieved during the year:

1. Regulators

a) **Bank of Zambia**
The Board interacted closely with the Bank of Zambia through correspondence from the Chief Executive's Office and the Company Secretary's office, on various matters including the branch rationalisation process, the Bank restructuring process and regulatory compliance to the Bank of Zambia guidelines.

b) **Securities and Exchange Commission (SEC)**
Through the Company Secretary's office, the SEC was engaged regarding matters affecting the Bank's relationship with its shareholders.

c) **The Lusaka Securities Exchange (LuSE)**
Through the Company Secretary's office, the LuSE was engaged regarding relations with the shareholders, regulatory publications and other compliance filings.

Group Statement of Corporate Governance

Continued

2. Shareholders

a) The Bank has appointed a dedicated transfer secretary for the timely disposal of shareholder enquiries, and a broker in accordance with the LuSE regulations, to ensure compliance and regular disclosure to the market.

b) The Board interacted with shareholders during the first ever virtual Annual General Meeting in June 2020, at which shareholders made comments and raised questions. It was noted that through this medium, more questions were able to be raised electronically.

c) The Company Secretary also interacted with shareholders on behalf of the Board through the resolution of shareholder queries throughout the year.

3. Government

a) **Farmer Input Support Programme(FISP)**

The Bank assisted the Ministry of Finance, the Ministry of Agriculture and Smart Zambia in finding a solution to ensure the smooth running of the Programme.

b) **Sponsorship of Government Conferences**

The Bank supported Government in the successful hosting of important national events such as the launch of the Economic Recovery Programme 2020-2023 and the Industrial Development Corporation conference, which created a platform for state-owned enterprises to network and explore opportunities for partnerships.

c) **Provision of Payment Solutions**

The Bank provided a cash management solution to facilitate disbursements to beneficiaries under the Ministry of Community Development, Mother and Child Health's Social Cash Transfer Programme.

4. Customers

a) **Resolution of Customer Complaints**

With the assigning of more agents to answer customer calls during the course of the year, the Bank saw an improvement in service levels: the percentage of calls being picked within 20 seconds.

Other measures put in place included:

i. A dedicated queue for priority customers when they call the Bank, resulting in quick turnaround time in query resolution;
ii. A process that ensures over 80% of cases received are resolved without escalation.
iii. An increase in the number of interactions on social media channels resulting in 300% growth to 16,000 engagements per month.
iv. Initiatives to ensure the closure of gaps emerging from customer feedback in net promoter score and customer satisfaction studies. The closure of gaps has generated very positive results and feedback from customers.
v. Revision of service standards and design of better customer experience.

b) **Promotion of Products and Services**

i. The Bank undertook a brand campaign 'Zambia, Our Home' to reaffirm and position the Bank as the only truly Zambian Bank. The Zambia, Our Home logo was subtlety incorporated into all communications, alongside the logo as a constant reminder to all of our commitment to continue being here.
ii. The Bank continued to drive its digital agenda through reinforced promotion of its digital platforms such as internet and mobile Banking, ATMs, cards and Zanaco Xpress agents. The 'Think Outside the Branch' campaign commenced through incorporation of a badge in the communications to encourage the use of alternate channels. With the onset of COVID-19, the Bank was already aligned with the impact that the outbreak had on businesses, which entailed a change in how customers access Banking services.
iii. Xapay, accessible through Zanaco Mobile Banking by dialing *444# or scanning to pay using QR code on the Zanaco Mobile Banking app, was one of the digital products promoted in 2020. The product was presented as an alternative payment form to cash in the wake of COVID-19. The product is a quick, convenient, safe and non-traditional transactional method of payment that encourages digital migration and reduces the possible risk of COVID-19 transmission through cash handling.

Group Statement of Corporate Governance

Continued

iv. The Bank also conducted a Visa debit card campaign that incentivised Zanaco cardholders for using their Zanaco Visa debit card as a safe way to pay for goods and services in-store or online. The concept was initially designed to send winners to the Tokyo 2020 Olympics, however, the onset of the COVID-19 pandemic resulted in a change of concept to rewarding top users in each month with cash credited to their accounts. The campaign, which ended on 30th November 2020, was aligned with the Bank's objective of driving alternate channels and given added impetus by the COVID -19 virus.

v. The Keep it 100% deposit moblisation campaign was aimed at driving deposits by increasing the uptake and deposit levels on individual accounts. The products promoted were SureSave, Baby Blossom and Treasure Chest accounts. Through the campaign, the Bank hoped to achieve a change in customer behaviour by encouraging less spending and more saving. Phase one, the Confessions Challenge was launched to drive behavioural change with regards to spending habits. Customers had to send videos through as couples or friends discussing and answering questions relating to spending habits. The challenge not only went viral, with increased engagement on social media posts, but also revealed areas of improvement required by the participants. Phase 2 'Ka Starter' was launched in October 2020 to increase the number of accounts. New account holders stood a chance to pick an envelope that contained K500 as a bonus after opening an account.

vi. All the promotions embarked on were communicated through media including radio, newspapers and social media.

5. Employees

Management engaged staff throughout the year through quarterly virtual town hall meetings. The Town Halls were a platform to continuously update and discuss our performance in the 2020-2025 strategy journey, as well as focused initiatives such as cost reduction, organisation redesign, cultural shift and automation of Bank systems. The engagement also endeavoured to hear from staff on their experiences and ask questions on matters relating to the Bank.

6. Suppliers

The Supply Chain Management Unit, through its eProcurement Portals bidding process, engaged local and international suppliers to provide goods, services and works. The iSupplier and iSourcing platforms allow suppliers to communicate, maintain their profiles and take part in electronic tenders. Other channels include emails, phone calls or personal engagement with contract managers and/or the supply chain management team.

7. The Media

The Bank strengthened collaboration with print, electronic and online media through a cocktail, press briefings and scheduled events, which resulted in positive media coverage. Key highlights included coverage of the Bank's positive contribution to the fight against the COVID-19 pandemic which extended to the announcement of the Bank's COVID relief packages to deserving businesses and the donation of hand-washing stations and other sponsorship to the Ministry of Health.

Employee Wellness

The Bank continues to promote employee wellness. In the year under review a deliberate self-care initiative was implemented against stress and anxiety caused by COVID-19. This included planned group therapy to educate and help staff cope with the pandemic.

The wellness activities included:

a) Employee bootcamps three times a week with Fit City at the Showgrounds in Lusaka, Ndola and Livingstone;
b) Commemorating International days such as World Cancer, Blood Donation and HIV/AIDS days;
c) Celebration of Africa Freedom Day and Independence Day;
d) Introduction of a staff health talk to discuss topics such as diabetes, HIV/AIDS and substance abuse;
e) Introduction of fitness challenges in different categories to encourage healthy lifestyles;
f) Distribution of gift hampers to all the female staff for International Women's Day; and
g) Psychotherapeutic services aimed at assisting employees with mental and/or emotional issues affecting them and their ability to lead well-rounded lives and perform optimally at work.

Group Statement of Corporate Governance

Continued

Risk Management

Through its normal operations Zanaco engages in activities that entail taking on risks through its business, and it also continues to be exposed to a number of risks. The Board of Directors is responsible for understanding these risks and ensuring they are appropriately managed. In effectively managing risks in the Bank, the Board has in place governance structures, internal controls and risk management frameworks that meet international best practice.

The Board has embedded a strong control environment that encompasses risk management and internal control policies, processes, reporting systems and culture to adequately facilitate the effective and efficient operations of the Bank.

The Board is committed to effective risk management practices that include identification, evaluation, monitoring, reporting and prioritisation of risks to ensure a standardised, coordinated and effective use of the Bank's capital and resources.

Management ensures that adequate financial and operational controls systems are implemented to provide reasonable assurance regarding:

a) Compliance with applicable laws, regulations and supervisory requirements;
b) Business resilience and sustainability under normal and adverse conditions;
c) Effectiveness and efficiency of operations;
d) Safeguarding of the Bank's assets (including information); and
e) Supporting the accuracy and reliability of accounting records.

Internal auditors evaluate and assess the adequacy of internal controls and risk management practices and regularly report to Management and the Audit Committee of the Board on their findings and recommendations. The Internal Auditors provide reasonable assurance to the Board of Directors and Management on the effectiveness of risk management, governance and control practices.

Enterprise Risk Management Framework

Enterprise Risk Management (ERM) includes methods and processes to manage risks and support achievement of the Bank's strategic objectives by addressing the full spectrum of its key risks and managing the combined impact of those risks as an interrelated risk portfolio.

The Bank's Enterprise Risk Management Framework (ERMF) governs the way in which the Bank identifies and manages its risks. It integrates the Bank's strategy, risk appetite and stress testing, and encompasses risk considerations into decision making to achieve strategic objectives.

Since its launch in 2018, the Bank has continued to deliver key initiatives in implementing the ERMF across the Bank. This has allowed us to strengthen the Bank's capabilities to understand, articulate and control the nature and level of the risks we take in order to effectively serve customers.

With the ERMF operationalised, the following advantages are being realised:

a) Consistent approach to mitigate risks and identify opportunities;
b) Increased awareness and integrated view of risks (existing and emerging);
c) Clearer, better-informed risk-based decisions;
d) Cost savings by using risk information to streamline and improve processes;
e) More efficient use of capital and resources and reduced operational losses; and
f) Enhanced adherence to laws and regulations.

The ERMF also sets out the principles and standards for risk management across the Bank that include risk governance, risk culture, risk appetite and roles and responsibilities in managing, monitoring and reporting of risk.

Group Statement of Corporate Governance

Continued

Risk Governance

To enhance Board effectiveness of risk oversight, the Board approves the ERMF based on the recommendations from a separate Risk Management and Compliance sub-Committee.

The Chief Executive Officer is directly responsible for the day-to-day operations of the Bank and is acquainted with the risks that the Bank is exposed to, and the state of internal controls, legal, regulatory and industry practice requirements that the Bank must comply with.

The Chief Risk Officer has delegated authority from the Board to facilitate and monitor the effective risk management practices by operational management and assist risk owners in defining the target risk exposures and adequately reporting risk-related information throughout the Bank.

The risk governance function supports the realisation of Zanaco's strategic priorities and is based on regulatory guidelines and industry practice. It also fosters a high level of transparency and accountability in line with assigned responsibility.

Risk Culture

A strong risk culture is critical to the Bank's success and underpins both the business strategy and risk appetite of the Bank. The Bank's ERMF provides guiding principles for the behaviour expected from our employees when managing risk.

Embedding a strong risk culture continues to be a core objective across all areas of the Bank. It supports an enterprise-level ability for all our employees to understand the risk associated with the business activities and take prompt action in addressing all existing and emerging risks.

Risk Appetite

The Bank's risk appetite is defined as the maximum amount and level of risk that the Bank is willing to accept in pursuit of creating sustainable shareholder value. It reflects the Bank's risk management philosophy, and in turn influences its risk culture and operating style. The Bank expresses risk appetite quantitatively using risk metrics, and qualitatively in terms of policies, processes, procedures, statements and controls to limit and mitigate risks. The main purpose of the Risk Appetite Assessment is to maximise returns to the Bank while ensuring that risk levels are within its appetite.

The Risk Appetite Statement (RAS) covers financial and non-financial risks. The Bank has a prudent risk culture and acknowledges that some risks need to be taken to attain strategic objectives. In achieving its strategic objectives, the Bank considers the RAS and prioritises its management of financial resources accordingly.

The RAS differentiates between tolerance levels for balance sheet, credit and operational risk as follows:

a) Balance sheet risks comprise of interest rate risk, liquidity risk, market risk and other risks, and also encompass management of regulatory ratios.
b) Credit risk captures the potential loss from a borrower, obligor, or counterparty that fails to honour their contracted debt obligations in a timely manner or based on the agreed repayment terms and conditions.
c) Operational risk is the risk resulting in a direct or indirect loss caused by human error, inadequate or failed internal processes and systems or by external calamities.

The Bank maintains a Risk Appetite Framework that formalises and articulates how risk appetite is established, communicated, cascaded, governed and monitored across the Bank. It provides a common and consistent platform for how risk appetite is managed.

The Board of Directors is responsible for approving the Risk Appetite Framework and having oversight of the Bank's aggregate risk profile, being the overall exposure to risk at a given time, relative to its risk appetite.

Roles and responsibilities

The Bank has adopted the "Three Lines of Defence" model of risk management in ensuring that all staff are accountable for understanding and managing risks within the context of their individual roles and responsibilities, as set out below.

The first line is 'operational management". This refers to all staff that generate the risk in all areas of the Bank's operations. All departments are directly responsible for identifying and managing all risks that will or can materialise in the course of doing business.

Group Statement of Corporate Governance

Continued

The second line of defence is the Bank's risk function, which provides independent oversight of the risk management activities of the first line of defence. This line of defence facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners to ensure that necessary risk activities are executed with the required detail and quality. The second line of defence function is separate from the first line of defence but is still considered 'part of management.

The third line of defence is Internal Audit. The internal audit function provides assurance to Management and the Board on both the first and second lines' efforts to ensure that they are consistent with the expectations of the Board of Directors and Management. In addition, the Internal Audit unit is not considered as 'part of Management' and works independently, objectively and reports to the Board Audit Committee.

Compliance Risk Management

Compliance risk management involves, among other activities, financial crime i.e. anti-money laundering and countering the financing of terrorism, monitoring trading activities, monitoring of the Bank's compliance to laws, rules, regulations, code of conduct, the Bank's standards, internal policies and procedures.

The Chief Risk Officer has overall responsibility for effectively monitoring and reporting of key risks in relation to non-compliance with laws, rules, regulations, internal policies and procedures. To support this, the Bank has in place a Compliance unit that is independent of the business units to manage the compliance function.

The Bank's Compliance Charter outlines fundamental principles, roles and responsibilities for managing compliance risk and effective resolution of compliance issues. It also defines the relationship between the Chief Risk Officer, Board of Directors, management, operational functions, regulatory bodies and other external third parties. In addition to the Compliance Charter, policies and standards are in place to govern, identify, monitor and manage compliance risk including the Anti-Bribery and Corruption, Anti-Money Laundering Policy, Whistle blowing Policy and the Code of Conduct. To effectively and efficiently manage compliance monitoring and reporting, the Bank embarked on a project of automating all the compliance processes and completion is scheduled for 2021.

The Board of Directors has responsibility for the compliance oversight of the Bank. The Chief Risk Officer independently reports to the Board Risk Management and Compliance Committee on a quarterly basis on significant compliance issues.

Stress Testing

Zanaco's stress testing, forms part of the risk management process, ensures that the Bank can meet its capital requirements in a forward-looking manner under severe but plausible economic stresses specific to Zanaco's portfolios and risk profile. The stress test results from both scenario and sensitivity analyses assist the Bank in ascertaining whether it would have sufficient capital in periods of stress. Using results from both scenario and sensitivity stresses on the credit portfolio, Operational, market and liquidity risks, the Bank calculates a capital buffer that is held as part of the capital base to ensure that capital remains above the minimum regulatory ratio should the stresses materialise. The Bank tracks the mitigating actions that provide a realistic view of the impact on the Bank's earnings and capital under the stress scenarios.

The business plan for the next three years is included in the budget and forecasting process. Scenario planning is then used to assess whether the desired profile can be delivered and whether the business stays within the constraints it has set for itself. The scenarios are based on changing macroeconomic variables, plausible event risks and regulatory and competitive changes.

Stress testing is employed in the:

a) Strategic planning and budgeting process;
b) Capital planning and management process, including the setting of a capital buffer for the Bank;
c) Communication with internal and external stakeholders; and
d) Assessment of the impact of changes in the macroeconomic factors on the Bank's performance.

Financial Resources Management

Strategy, risk and financial resource management processes influence the capital and funding plans of the Bank. The capital position provides a buffer over and above the minimum regulatory limit against adverse business performance under extremely severe economic conditions.

The financial, treasury, capital and risk information - both actual and budgeted - is used as the basis for risk, capital and financial analysis and stress testing.

Group Statement of Corporate Governance

Continued

Capital Management

In order to enhance and contribute to shareholder value, the Bank's objectives when managing capital remain to comply with the capital requirements of the Banking and Financial Services Act No. 7 of 2017 and to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Bank also aims to maintain a strong capital base to support the development of its business and to allocate capital to businesses using a risk-based capital allocation system that supports the Bank's strategic objectives, including optimising returns on shareholder and regulatory capital among other objectives.

Capital Target Setting

Capital target-setting is key to ensuring that sufficient capital resources are available to meet Zanaco's regulatory requirements while supporting Zanaco's ability to meet its strategic objectives and attain its desired balance sheet growth. Zanaco's capital target-setting is linked to the results of its stress testing.

The capital targets are defined taking into account the impact of stress testing on Zanaco's Capital Adequacy Ratios (CAR), focusing on the Bank of Zambia's requirements for minimum Basel II capital adequacy at both the Tier 1 and Total Capital levels. These targets tracked monthly and potentially revised based on changes in Zanaco's capital position, portfolio structure, capital plans and risk appetite.

Basel II

The Bank is compliant with the international Banking regulatory accord of Basel II, which is based on minimal capital requirements, regulatory supervision, and market discipline as the three pillars of the accord.

Under minimal capital requirements, the Bank has maintained its capital above the regulatory requirement of 10% throughout the financial year.

The Internal Capital Adequacy Assessment Process (ICAAP) that forms the regulatory supervision process reflects the embedding of the Basel II risk management tenets, and Zanaco significantly met both the Bank of Zambia's and the international Basel II requirements.

External Audit

The external auditors are responsible for reporting on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Zambian Companies Act and the Banking and Financial Services Act. Consultation occurs between external and internal auditor to avoid duplication and affect an efficient audit process. The external auditors consider all the reports issued by the Internal Audit Department.

Internal Audit

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

The Internal Audit Department (IAD) seeks to enhance and protect the Bank's value by providing risk-based and objective assurance advice and insight.

The IAD evaluates the effectiveness and adequacy of the Risk Management Framework and governance processes of the Bank. It contributes to the improvement of risk management and promotes ethical values in the Bank as well as ensuring effective Bank performance management and accountability. The IAD provides the Board with objective assurance that the major business risks are being managed appropriately and the Risk Management and Internal Control Framework is operating effectively. The IAD also evaluates the risk involved in governance, operations, and information systems that relate to compliance with laws, regulations, policies, procedures and contracts. Internal audit plans are prepared annually using a risk-based model that ensures audit resources are focused on high-risk areas that are consistent with the Bank's strategic and operational goals. The plan is developed in consultation with management and the Audit Committee to ensure their input and expectations are considered in the planning process. The internal audit plan is reviewed quarterly to factor in emerging risks that may have significant impact on the operations of the Bank. During the period the audit plan was revised to factor emerging risks as a result of the COVID-19 pandemic.

The internal audit function is governed by an Internal Audit Charter that defines its purpose, authority and responsibility. The Internal Audit Charter is reviewed and updated to meet best international practices at least once a year. The Head Internal Audit functionally reports to the Audit Committee and, administratively, to the Chief Executive Officer.

Group Statement of Corporate Governance

Continued

STATEMENT OF CORPORATE GOVERNANCE FOR ZANACO PLC SUBSIDIARIES

SUBSIDIARIES DIGITAL SHARED SERVICES LIMITED (DSSL)

Introduction

Digital Shared Services Limited's (DSSL) vision is to be the leading and inclusive shared digital services solution provider in Zambia by 2025. The mid-term mission is to be the most innovative and collaborative digital financial transactions platform in Zambia that builds real economic growth.

Share Capital and Beneficial Owners
The authorised share capital of DSSL is 20,000 ordinary shares of K1 each. The issued and fully paid-up share capital is 20,000 shares. Zanaco Plc owns 19,999 shares whilst 1 share is held by the office of the DSSL Chief Executive Officer as nominee shareholder on behalf of Zanaco Plc.

Board Performance and Composition
As the major shareholder, Zanaco exercises its oversight and control of the DSSL through the DSSL Board of Directors, which has the powers conferred upon it by its Articles of Association to oversee the implementation of the DSSL objectives. The Board consists of the following five Non-Executive Directors:

a) Mr Andrew S. Kapula - Board Chairman
b) Ms Sabinah Chiteweh - Member
c) Ms Mukwandi Chibesakunda - Member
d) Mr Yamfwa Chinyanta - Member
e) Mr Wane Ngambi - Member

With the resignation of Mr Henk Mulder, the new CEO Mrs Chibesakunda is now a member of the Board, while Mr Yamfwa Chinyanta has been nominated by Zanaco as a representative of the Zanaco Board. The two Board members were appointed on 29th January 2021.

The DSSL Board delegates the day-to-day management of the Company to the Chief Executive Officer. However, the Board remains ultimately responsible and accountable for the performance and affairs of the DSSL.

Board Committees
There are no Board Committees in place yet and all board-related matters are handled by the Board.

Board Governance
To promote good governance, the DSSL Board has put in place the following governance documentation:

a) Articles of Association;
b) Board Charter;
c) Risk Framework Information Security Policy;
d) Procurement Policy;
e) Delegation of Authority;
f) Training Policy; and
g) Leave Policy.

The Board is also in the process of putting in place the following:

a) Board Succession Policy;
b) Employee Wellness Policy;
c) Code of Ethics;
d) Transfer Pricing Policy; and
e) Financial and Accounting Policy.

Group Statement of Corporate Governance

Continued

Board Engagement

The DSSL Board meets once every quarter. The Board held four meetings over the year and the Directors' attendance of meetings has been 95%.

ZANACO SPORTING CLUB LIMITED (ZANACO FC)

Introduction

Zanaco Sporting Club Limited (Zanaco FC) vision is to be a leading professional football club. The mid-term mission is to raise football standards in Zambia by growing a sustainable, professional and socially responsible organisation and to develop, nurture and retain the best footballing talent locally and internationally.

Share Capital and Beneficial Owners

The authorised share capital of Zanaco FC is 15,000 ordinary shares of K1 each. The issued and fully paid-up share capital is 15,000 shares. Zanaco Plc owns 14,999 shares while 1 share is held by DSSL as nominee shareholder on behalf of Zanaco Plc.

Board Performance and Composition

As the major shareholder, Zanaco exercises its oversight and control of the Zanaco FC through the Zanaco FC Board of Directors, which has the powers conferred upon it by its Articles of Association to oversee the implementation of the Zanaco FC objectives.

The Board consists of the following Non-Executive Directors:

a) Mr Hastings Mtine- Board Chairman
b) Mr Patrick Wanjelani- Member
c) Mr Ngenda Nyambe - Member

The Board delegates the day-to-day management of the company to the Zanaco FC General Manager. However, the Board remains ultimately responsible and accountable for the performance and affairs of the Zanaco FC.

Board Committees

The Zanaco FC Board has put in a Finance Committee which has oversight of the integrity of the Zanaco FC' financial reporting process, financial statements, systems of internal controls and Zanaco FC's compliance with legal and regulatory requirements.

Board Governance

To promote good governance, the Zanaco FC Board has put in place the following governance documents:

a) Articles of Association;
b) Board charter;
c) Procurement Policy;
d) Social Media Policy;
e) Disciplinary Policy;
f) Financial Policy; and
g) Travel Policy.

The Board is also in the process of developing the following documentation:

a) Board Succession Policy;
b) Delegation of Authority;
c) Code of Ethics;
d) Remuneration Policy; and
f) Recruitment Policy.

Board Engagement

The Zanaco FC Board meets once every quarter. The Board held five meetings in 2020 and the Directors' attendance of meetings was 100%.

Corporate Social Responsibility

Corporate Social Responsibility

Introduction

Zanaco believes in growing individuals, growing businesses, growing communities and ultimately growing Zambia. The goal of Zanaco's Corporate Social Responsibility is to make a positive change in society and operate in a manner that strives to help improve the lives of its customers and the communities in which we operate.

Zanaco's Corporate Social Responsibility focus areas include:

i) Financial education for target groups aimed at increasing financial literacy levels among citizens.

ii) Support to health with the emphasis on improving access to safe water to prevent diseases.

iii) Community engagement and support through strategic partnerships and direct community support in areas that improve people's lives.

Support to Health

When COVID-19 broke out in the country, Zanaco made a commitment to support efforts to fight the pandemic. The Bank committed to supporting the Ministry of Health in the enhancement of communication on awareness of best hygiene practices. The Bank also distributed hand wash basins in busy pedestrian areas such as bus stations and markets locations and donated five ventilators in response to the increasing number of patients requiring respiratory support. The Bank also supported frontline workers with meals. The value of support towards the fight against the COVID-19 pandemic for the period was K4.9 million.

Water and Sanitation

The Bank provided water support valued at K50,000 that included borehole drilling, a water tank and tank stand installation at Majestic Jireh Kindergarten at Ten Miles that caters for underprivileged children.

Financial Literacy

Financial literacy training remains one of the core focusses for the Bank. In 2020 the Bank began extending financial literacy training to Village Banking groups. The training sessions were not only to enhance the proposition of the Bank's existing Village Banking Account, but to support groups with basic knowledge on governance and how to derive value from savings.

To date, the Bank has reached over 130,000 people directly while over 300,000 have been reached through its finacial literacy activities using various channels such as radio, SMS and social media. During the year under review, over 14,000 people were reached through financial literacy outreach undertakings. Activities included outreach through Financial Literacy Week, World Savings Day and tailored training for women, students, the media and employees of various organisations.

Directors' Report

The Directors have pleasure in presenting their report, which forms part of the annual financial statements of Zambia National Commercial Bank Plc ('the Bank') and its subsidiaries (together "the "Group) for the year ended 31 December 2020**.**

Principal Activities
The principal activity of the Group is the provision of retail and commercial Banking and related services to the general public, the provision of payment and technology solutions through DSSL, and enhancement of football standards through Zanaco FC.

Share Capital and Beneficial Owners
The authorised share capital of the Bank remained unchanged at 1,666,666,667 ordinary shares of 6 ngwee each. The issued and fully paid-up share capital remained at 1,443,750,531 ordinary shares of 6 ngwee each.

The Bank's shareholding and beneficial ownership is presented as follows:
period under review:

	2020	2019
Arise B.V	**45.59%**	45.59%
Industrial Development Corporation	**25%**	25%
LuSE free Float	**19.41%**	19.41%
National Pension Scheme	**10%**	10%

The Group has no natural person that can be deemed as the beneficial owner.

Results and Dividend
The net profit for the year was **K206,658,000** (2019: Profit of K200,056,000). The Group paid a dividend of **K75,128,000** (2019 K36,747,000) during the year based on 2019 results.

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

Ms C Lumpa	Chairperson
Mr H Mtine	Vice Chairman
Ms M t'Lam	Non-Executive Director
Mr L De Villiers	Non-Executive Director
Mr Y Chinyanta	Non-Executive Director
Mr P Wanjelani	Non-Executive Director
Mr M Chikuba	Non-Executive Director
Mrs Chearyp Mkandawire-Sokoni	Non-Executive Director

Interest Register information
During the year, the Group officers (a director, Company Secretary or executive officer of a Group) made declarations of interest in Company transactions and business. Refer to note 37.

The Declaration of Interests Register, as required by the Companies Act No. 10 of 2017, containing particulars of the above stated interests declared, is available for inspection at the Company's registered office.

Directors' Report

Continued

Number of Employees and Remuneration

The total remuneration of employees during the year amounted to **K695,544,000** (2019: K536,524,000) and the average number of employees for each month of the year was as follows:

Month	Number	Month	Number
January	1,142	July	1,072
February	1,137	August	1,067
March	1,134	September	1,040
April	1,093	October	1,013
May	1,092	November	1,007
June	1,053	December	923

The **K209,000,000** (note 8(a)) incurred in transformation costs relates to drop in the head count during the year.

Employee Policies

Human Resources and Training have revised 14 policies and procedures which have been aligned to the new Employment Code and approved by Management. The Group has policies and procedures to safeguard the occupational health, safety and welfare of its employees.

Gifts and Donations

During the year the Group made donations of **K6,780,000** (2019: K4,385,000) to charitable organisations and events.

Property and Equipment

The Group purchased property and equipment amounting to **K67,235,000** (2019: K170,380,000) during the year. In the opinion of the Directors, the recoverable amount of property and equipment is not less than the carrying value.

Exports

The Group did not export any of its primary goods or services in the year.

Research and Development

During the year the Group did not incur any research and development costs (2019: Knil). However, the Group had incurred **K1,788,000** (2019: K7,016,000) on development of various products and these are included in capital working progress.

Related Party Transactions

Related party transactions are disclosed in Note 37 to the financial statements.

Directors' Emoluments

Directors' emoluments are disclosed in Note 37 to the financial statements.

Risk Management and Control

The Group through its normal operations is exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. The Bank's risk management objectives, policies and strategies are disclosed in Note 41 to the financial statements.

Directors' Report

Continued

Compliance Function

The Group has a compliance function whose responsibility is to monitor compliance with regulatory requirements and the various internal control processes, policies and procedures.

Company Auditor and Remuneration

The Auditor, PricewaterhouseCoopers Zambia, has indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the next annual general meeting.

The Auditor remuneration for the year was **K2,864,000** comprised of **K2,064,000** as regards audit services and **K800,000** for other related services rendered to the Group.

Signed on behalf of the Board of Directors

Charity C. Lumpa
Director

Hastings Mtine
Director

Date: 4 March 2021

Statement of Directors Responsibility for Annual Financial Statements

The Zambia Companies Act of 2017 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and Bank as at the end of the financial year and of its financial performance. It also requires the Directors to ensure that the Group and Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and Bank. They are also responsible for safeguarding the assets of the Group and Bank. The Directors are further required to ensure the Group and Bank adheres to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Zambia Companies Act of 2017.

The Directors are responsible for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Zambia Companies Act of 2017.

The Directors are also responsible for the maintenance of accounting records that may be relied upon in the preparation of financial statements, and for such internal controls as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Directors are of the opinion that the financial statements set out on pages 53 to 174 give a true and fair view of the state of the financial affairs of the Group and Bank and of its financial performance in accordance with International Financial Reporting Standards (IFRS) and the Zambia Companies Act of 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Zambia Companies Act of 2017.

Nothing has come to the attention of the Directors to indicate that the Group and Bank will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Board of Directors

Director

Director

Independent Auditor's Report

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Independent auditor's report

To the Shareholders of Zambia National Commercial Bank Plc

Report on the audit of the Group and Bank annual financial statements

Our opinion

In our opinion, the Group and Bank annual financial statements give a true and fair view of Group and Bank financial position of Zambia National Commercial Bank Plc (the "Bank") and its Subsidiaries (together the "Group") as at 31 December 2020, and of the Group and Bank financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Companies Act, 2017 of Zambia, the Banking and Financial Services Act, 2017 of Zambia and the Securities Act, 2016 of Zambia.

What we have audited

Zambia National Commercial Bank's Group and Bank annual financial statements 53 to 174 and comprise:

- the Group and Bank statements of financial position as at 31 December 2020;
- the Group and Bank statements of profit or loss and other comprehensive income for the year then ended;
- the Group and Bank statements of changes in equity for the year then ended;
- the Group and Bank statements of cash flows for the year then ended; and
- the notes to the Group and Bank annual financial statements, including a summary of significant accounting policies and other explanatory information.

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 Group and Bank annual financial statements* section of our report.

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

Independence

We are independent of the Group and Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, PwC Place, Stand No. 2374, Thabo Mbeki Road, P.O. Box 30942, Lusaka, Zambia
T: +260 (0) 211 334000, F: +260 (0) 211 256474, www.pwc.com/zm
A list of Partners is available from the address above

Report on the audit of the Group and Bank annual financial statements (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment financial assets measured at amortised cost As at 31 December 2020, the Bank's portfolio of financial assets measured at amortised cost included loans and advances and investment securities. The Bank assesses at each reporting date whether the financial assets carried at amortised cost are credit impaired. The Bank's management has applied an expected credit loss ("ECL") model to determine the allowance for impairment of financial assets. The ECL model involves the use of various assumptions, macro-economic factors and study of historical trends relating to the Bank's history of collection of financial assets, which include the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). Significant judgments were made in determining the PDs, LGDs and forward-looking information, which makes this an area of focus. Additional information on impairment of financial assets measured at amortised cost is presented in Note 15: Investment securities, note 16: Loans and advances, and Note 41: Financial risk management.	We carried out the following procedures: • Obtained an understanding of the Bank's methodology in arriving at the PDs, EAD and LGDs used in the ECL calculation and assessed this against the requirements of IFRS 9. • Tested the impairment of financial assets carried at amortised including the basis for their judgments and reasonableness of key inputs and assumptions. • Tested restructured facilities for identification of off-market concessions that may be indicative of forbearance. • Tested the controls around loan origination, credit appraisal, disbursement process, and delinquent loans including collections and recoveries and selected a sample of financial assets and performed a detailed credit review to confirm appropriate classification and measurement. • For loans and advances, tested a sample of accounts to understand their performance and appropriateness of staging in line with IFRS 9 by recalculating the number of days past due. • Tested the formulae driving the model calculations and re-performed the calculation of certain key model inputs which involves a detailed data check, full recalculation of the model assumptions and an independent re-run of the model. • Tested loan write-offs for appropriate approval and consistency in application of write-off policy. • Tested forward looking information and evaluated it against external sources of information. • For investment securities, agreed assumptions relating to PDs and LGDs to information from reputable, independent third parties. Tested the financial statement disclosures.

Report on the audit of the Group and Bank annual financial statements (continued)

Other information

The Directors are responsible for the other information. The other information comprises the Annual Report but does not include the Group and Bank annual financial statements and our auditor's report thereon.

Our opinion on the Group and Bank annual financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group and Bank annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Group and Bank annual 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 Group and Bank annual financial statements

The Directors are responsible for the preparation of the Group and Bank annual financial statements that give a true and fair view in accordance with IFRS as issued by the IASB and the requirements of the Companies Act, 2017 of Zambia, the Banking and Financial Services Act, 2017 of Zambia and the Securities Act, 2016 of Zambia, and for such internal control as the Directors determine is necessary to enable the preparation of Group and Bank annual financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are responsible for overseeing the Group's and Bank's financial reporting process.

Our objectives are to obtain reasonable assurance about whether the Group and Bank annual 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 Group and Bank annual financial statements.

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

Report on the audit of the Group and Bank annual financial statements (continued)

Auditor's responsibilities for the audit of the Group and Bank annual financial statements

- Identify and assess the risks of material misstatement of the Group and Bank annual 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 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 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 Group and Bank annual 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group and Bank annual financial statements, including the disclosures, and whether the Group and Bank annual 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 Group annual 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 Audit Committee 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, actions taken to eliminate threats or safeguards applied
- From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group and Bank annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies Act, 2017 of Zambia

The Companies Act, 2017 of Zambia requires that in carrying out our audit of Zambia National Commercial Bank Plc, we report on whether:

i. as required by section 259 (3)(a), there is a relationship, interest or debt which, ourselves, as the Group and Bank Auditor, have in the Group and Bank;

ii. as required by section 259 (3)(b), there are serious breaches by the Group's and Bank's Directors, of corporate governance principles or practices contained in Sections 82 to 122 of Part VII of the Companies Act, 2017of Zambia; and

iii. in accordance with section 250 (2), as regards loans made to a Group or Bank Officer (a director, group or bank secretary or executive officer of the group or Bank), the Group or Bank does not state the:

- particulars of any relevant loan made during the financial year to which the accounts apply, including any loan which was repaid during that year; or

- amount of any relevant loan, whenever made, which remained outstanding at the end of the financial year.

In respect of the foregoing requirements, we have no matters to report.

The Banking and Financial Services Act, 2017 of Zambia

The Banking and Financial Services Act, 2017 of Zambia also requires that our audit report should state whether, among other matters, Zambia National Commercial Bank Plc has complied with the provisions of the Act. In accordance with the requirements of the Banking and Financial Services Act, 2017 of Zambia, we are required to report to you whether:

i) 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;

ii) there are transactions or conditions affecting the ability of the Bank to continue as a going concern which have come to our attention and that in our opinion are not satisfactory and require rectification; and

iii) any transaction undertaken by the Bank which was not within the powers of the Bank or which was contrary to this Act or other relevant law came to our attention;

iv) the Bank had non-performing or restructured loans outstanding, whose individual values exceeded 5% of the Bank's regulatory capital.

In respect of the foregoing requirements, we have no matter to report.

pwc

Report on other legal and regulatory requirements (continued)

The Securities Act, 2016 of Zambia

Part III, Rule 18 of the Securities (accounting and financial reporting requirements) Rules of the Securities Act, 2016 of Zambia, require that in carrying out our audit of Zambia National Commercial Bank Plc we report on whether:

i) the Group and Bank annual financial statements of the Bank have been properly prepared in accordance with Securities and Exchange Commission rules;

ii) the Bank has, throughout the financial year, kept proper accounting records in accordance with the requirements of Securities and Exchange Commission rules;

iii) the Group and Bank statement of financial position and Group and Bank statement of profit or loss and other comprehensive income, together with the Company statement of financial position and Company statement of profit or loss and other comprehensive income are in agreement with the Bank's accounting records; and

iv) we have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

In respect of the foregoing requirements, we have no matters to report.

The engagement partner on the audit resulting in this independent auditor's report is Martin Bamukunde.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Lusaka

10 March 2021

Martin Bamukunde
Practicing Certificate Number: AA009933
Partner signing on behalf of the firm

Financial Statements

Statements of Profit or Loss

for the year ended 31 December 2020

	Notes	Group		Bank	
		2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Interest income	4	**2,144,984**	1,400,890	**2,149,207**	1,401,122
Interest expense	5	**(695,288)**	(446,380)	**(695,568)**	(446,380)
Net interest income		**1,449,696**	954,510	**1,453,639**	954,742
Fee and commission income	6	**474,969**	396,079	**471,066**	396,079
Other operating income	7a	**448,109**	192,500	**442,004**	188,211
Total Operating income		**2,372,774**	1,543,089	**2,366,709**	1,539,032
Impairment credit losses	7b,15,16	**(210,987)**	16,840	**(214,168)**	16,324
Net operating income		**2,161,787**	1,559,929	**2,152,541**	1,555,356
Operating expenses	8a	**(1,535,999)**	(1,155,098)	**(1,498,975)**	(1,135,968)
Transformation costs	8a	**(209,079)**	(51,977)	**(209,079)**	(51,977)
Finance cost	8b	**(62,470)**	(27,045)	**(62,398)**	(27,004)
Profit before income tax	9	**354,239**	325,809	**382,089**	340,407
Income tax expense	10	**(147,581)**	(125,753)	**(147,581)**	(125,753)
Profit for the year		**206,658**	200,056	**234,508**	214,654
Basic and diluted earnings per share (Kwacha)	12	**0.143**	0.139	**0.162**	0.149

The notes on pages 61 to 174 are an integral part of these financial statements.

Statements of Other Comprehensive Income

for the year ended 31 December 2020

	Notes	Group		Bank	
		2020 K'000	2019 K'000	2020 K'000	2019 K'000
Profit for the year		**206,658**	200,056	**234,508**	214,654
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurement of the net defined benefit asset	27	**96,674**	(58,903)	**96,674**	(58,903)
Revaluation surplus on property and equipment	34	**24,406**	-	**24,406**	-
Tax relating to items that will not be reclassified to profit or loss	26	**(7,092)**	1,523	**(7,092)**	1,523
Other comprehensive income for the year net of tax		**113,988**	(57,380)	**113,988**	(57,380)
Total comprehensive income for the year		**320,646**	142,676	**348,496**	157,274

The notes on pages 61 to 174 are an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2020

	Notes	Group		Bank	
		2020 K'000	2019 K'000	2020 K'000	2019 K'000
ASSETS					
Cash and balances with Central Bank	13	**2,283,591**	1,790,323	**2,283,377**	1,790,259
Balances with other Banks	14	**2,003,275**	734,957	**2,003,275**	734,957
Trading Assets	22	**639,706**	435,204	**639,706**	435,204
Investment Securities	15	**5,858,066**	2,933,739	**5,858,066**	2,933,739
Derivative' financial Assets	22	**48,284**	8,821	**48,284**	8,821
Loans and advances to customers	16	**7,328,493**	4,817,160	**7,366,057**	4,819,676
Other assets and prepayments	17	**348,759**	463,481	**340,264**	458,727
Current tax assets	10	**-**	10,702	**-**	10,702
Amount due from related parties	37	**-**	-	**3,960**	5,759
Property and equipment	18	**399,254**	524,509	**401,436**	516,648
Intangible Assets	19	**257,845**	19,368	**241,547**	16,763
Right of use assets	21	**72,532**	86,342	**72,362**	85,486
Deferred income tax assets	26	**100,487**	60,683	**100,487**	60,683
Investment in subsidiaries	23	**-**	-	**18,542**	18,542
Total assets		**19,340,292**	11,885,289	**19,377,363**	11,895,966
LIABILITIES					
Deposits from other Banks	24	**510,158**	103,224	**510,158**	103,224
Customer deposits	25	**15,698,089**	9,847,715	**15,712,069**	9,848,095
Amounts due to related parties	37	**-**	-	**786**	3,266
Derivative financial liabilities	22	**1,185**	18,545	**1,185**	18,545
Current tax liabilities	10	**4,417**	-	**4,417**	-
Other liabilities and accrued expenses	28	**462,522**	438,271	**445,769**	432,986
Lease liabilities	21	**145,769**	120,402	**145,599**	119,585
Provision for other liabilities	29	**7,825**	30,486	**4,604**	29,020
Borrowings	30	**1,338,529**	400,366	**1,338,529**	400,366
Total liabilities		**18,168,494**	10,959,009	**18,163,116**	10,955,087
EQUITY					
Share capital	31	**86,625**	86,625	**86,625**	86,625
Share premium	31	**2,622**	2,622	**2,622**	2,622
Statutory reserves	32	**86,625**	86,625	**86,625**	86,625
General reserves	33	**41,967**	95,249	**41,967**	95,249
Revaluation reserves	34	**70,529**	53,362	**70,529**	53,362
Retained earnings		**883,430**	601,797	**925,879**	616,396
Total equity		**1,171,798**	926,280	**1,214,247**	940,879
Total equity and liabilities		**19,340,292**	11,885,289	**19,377,363**	11,895,966

The financial statements on pages 53 to 174 were approved for issue by the Board of Directors on 4th March 2021 and signed on its behalf by:

Charity C. Lumpa
Director

Hastings Mtine
Director

Kaluba G. Kaulung'ombe Inampasa
Secretary

Statements of Changes in Equity

for the year ended 31 December 2020

GROUP	Share Capital	Share Premium	Statutory reserves	General reserves	Revaluation reserves	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2020	86,625	2,622	86,625	95,249	53,362	601,797	926,280
Profit for the year	-	-	-	-	-	206,658	206,658
Other comprehensive income for the year							
Revaluation surplus property and equipment (note 34)	-	-	-	-	24,406	-	24,406
Deferred income tax on revaluation (note 26)	-	-	-	-	(6,053)	-	(6,053)
Remeasurement of the net defined benefit asset (Note 27)	-	-	-	-	-	96,674	96,674
Tax on Remeasurement of the net defined benefit asset (note 26)	-	-	-	-	-	58	58
Deferred income tax on right of use (note 26)	-	-	-	-	-	(1,097)	(1,097)
Transfer of excess depreciation	-	-	-	-	(1,824)	1,824	-
Tax on excess deprecation	-	-	-	-	638	(638)	-
Total comprehensive income for the year	-	-	-	-	17,167	303,479	320,646
General reserve transfer (note 33)	-	-	-	(53,282)	-	53,282	-
Transactions with owners:							
Dividend paid (Note 11)	-	-	-	-	-	(75,128)	(75,128)
	-	-	-	(53,282)	17,167	281,633	245,518
At 31 December 2020	86,625	2,622	86,625	41,967	70,529	883,430	1,171,798

The notes on pages 61 to 174 are an integral part of these financial statements.

Statements of Changes in Equity (Continued)

for the year ended 31 December 2020

BANK	Share Capital	Share Premium	Statutory reserves	General reserves	Revaluation reserves	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2020	86,625	2,622	86,625	95,249	53,362	616,396	940,879
Profit for the year	-	-	-	-	-	234,508	234,508
Other comprehensive income for the year							
Revaluation surplus property and equipment (note 34)	-	-	-	-	24,406	-	24,406
Deferred income tax on revaluation (note 26)	-	-	-	-	(6,053)	-	(6,053)
Remeasurement of the net defined benefit asset (Note 27)	-	-	-	-	-	96,674	96,674
Tax on Remeasurement of the net defined benefit asset (note 26)	-	-	-	-	-	58	58
Deferred income tax on right of use (note 26)	-	-	-	-	-	(1,097)	(1,097)
Transfer of excess depreciation	-	-	-	-	(1,824)	1,824	-
Tax on excess deprecation	-	-	-	-	638	(638)	-
Total comprehensive income for the year	-	-	-	-	17,167	331,329	348,496
General reserve transfer (note 33)	-	-	-	(53,282)	-	53,282	-
Transactions with owners:							
Dividend paid (note 11)	-	-	-	-	-	(75,128)	(75,128)
	-	-	-	(53,282)	17,167	309,483	273,368
At 31 December 2020	86,625	2,622	86,625	41,967	70,529	925,879	1,214,247

The notes on pages 61 to 174 are an integral part of these financial statements.

Statements of Changes in Equity (Continued)

for the year ended 31 December 2020

GROUP	Share Capital	Share Premium	Statutory reserves	General reserves	Revaluation reserves	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2019	86,625	2,622	86,625	297,782	63,144	284,110	820,908
Impact on Transition to IFRS 16	-	-	-	-	-	(557)	(557)
At 1 January 2019	86,625	2,622	86,625	297,782	63,144	283,553	820,351
Profit for the year	-	-	-	-	-	200,056	200,056
Other comprehensive income for the year							
Deferred income tax on revaluation (note 26)	-	-	-	-	(8,596)	-	(8,596)
Remeasurement of the net defined benefit asset (Note 27)	-	-	-	-	-	(58,903)	(58,903)
Tax on Remeasurement of the net defined benefit asset (note 26)	-	-	-	-	-	12,154	12,154
Deferred income tax on right of use (note 26)	-	-	-	-		(2,035)	(2,035)
Transfer of excess depreciation					(1,824)	1,824	-
Tax on excess deprecation	-	-	-	-	638	(638)	-
Total comprehensive income for the year	-	-	-	-	(9,782)	152,458	142,676
General reserve transfer (note 33)	-	-	-	(202,533)	-	202,533	-
Transactions with owners:							
Dividend paid (Note 11)	-	-	-	-	-	(36,747)	(36,747)
	-	-	-	(202,533)	(9,782)	318,244	105,929
At 31 December 2019	86,625	2,622	86,625	95,249	53,362	601,797	926,280

The notes on pages 61 to 174 are an integral part of these financial statements.

Statements of Changes in Equity (Continued)

for the year ended 31 December 2020

BANK	Share Capital	Share Premium	Statutory reserves	General reserves	Revaluation reserves	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance at 1 January 2019	86,625	2,622	86,625	297,782	63,144	284,111	820,909
Impact on Transition to IFRS 16	-	-	-	-	-	(557)	(557)
At 1 January 2019	86,625	2,622	86,625	297,782	63,144	283,554	820,352
Profit for the year	-	-	-	-	-	214,654	214,654
Other comprehensive income for the year							
Deferred income tax on revaluation (note 26)	-	-	-	-	(8,596)	-	(8,596)
Remeasurement of the net defined benefit asset (Note 27)	-	-	-	-	-	(58,903)	(58,903)
Tax on Remeasurement of the net defined benefit asset (note 26)	-	-	-	-	-	12,154	12,154
Deferred income tax on right of use (note 26)	-	-	-	-		(2,035)	(2,035)
Transfer of excess depreciation	-	-	-		(1,824)	1,824	-
Tax on excess deprecation	-	-	-	-	638	(638)	-
Total comprehensive income for the year	-	-	-	-	(9,782)	167,056	157,274
General reserve transfer (note 33)	-	-	-	(202,533)	-	202,533	-
Transactions with owners:							
Dividend paid (note 11)	-	-	-	-	-	(36,747)	(36,747)
	-	-	-	(202,533)	(9,782)	332,842	120,527
At 31 December 2019	86,625	2,622	86,625	95,249	53,362	616,396	940,879

The notes on pages 61 to 174 are an integral part of these financial statements.

Statements of Cash Flow

for the year ended 31 December 2020

	Notes	Group		Bank	
		2020 K'000	2019 K'000	2020 K'000	2019 K'000
Cash flows from operating activities					
Profit before income tax		**354,239**	325,809	**382,089**	340,407
Adjustments for non-cash items:					
Impairment charge recognised on loans and advances	16	**147,424**	28,531	**150,605**	29,047
Impairment charge recognised on investment securities	15	**111,239**	9,341	**111,239**	9,341
Impairment charge/(reversal) recognised on other assets	17	**46,938**	(2,145)	**45,596**	(2,145)
Impairment loss arising from revaluation of property and equipment		**6,193**	-	**6,193**	-
Unrealised exchange differences	21,30	**271,069**	77,172	**270,795**	77,178
Interest received	4	**(3,854)**	(9,352)	**(3,854)**	(9,352)
Interest expense	5	**90,067**	46,725	**90,067**	46,725
(Profit)/Loss on sale of assets		**(778)**	146	**-**	146
Depreciation expense on property and equipment	18	**54,617**	44,863	**53,575**	44,222
Amortisation of intangible assets	19	**22,778**	7,127	**20,677**	5,450
Amortisation of right-of-use asset	21	**19,380**	17,086	**19,026**	16,878
Interest expense on lease liabilities	21	**13,097**	11,054	**13,024**	11,013
Gain arising from modification of leases		**(7,807)**	-	**(7,807)**	-
Fair value adjustment to derivatives	22	**(110,856)**	(9,317)	**(110,856)**	(9,317)
Defined benefit scheme adjustment	27	**110,284**	(8,377)	**110,284**	(8,377)
Cash flows from operating activities before changes in operating assets and liabilities		**1,124,030**	538,663	**1,150,653**	551,216
Changes in operating assets and liabilities					
- loans and advances to customers		**(2,685,587)**	(624,785)	**(2,714,364)**	(627,817)
- statutory deposits		**(568,107)**	(365,096)	**(568,107)**	(365,096)
- other assets		**99,459**	(193,708)	**87,255**	(188,949)
- customer deposits		**5,856,666**	948,179	**5,863,974**	948,549
- other liabilities		**17,281**	72,263	**9,526**	55,377
Cash generated from operations		**3,843,742**	375,516	**3,828,937**	373,280
Interest received	4	**3,854**	9,330	**3,854**	9,330
Interest paid	5	**(90,213)**	(2,211)	**(90,067)**	(2,211)
Interest expense on lease liabilities	21	**(13,097)**	(11,054)	**(13,024)**	(11,013)
Withholding tax suffered	10	**(161,687)**	(48,693)	**(161,687)**	(48,693)
Tax paid during the year	10	**(17,671)**	(17,671)	**(17,671)**	(17,671)
		(278,814)	(70,299)	**(278,595)**	(70,258)
Net cash generated from operating activities		**3,564,928**	305,217	**3,550,342**	303,022
Cash flows from investing activities					
Investment in government securities	15	**(8,860,542)**	2,364,037)	**(8,860,542)**	(2,364,037)
Proceeds from maturities of government securities	15	**5,824,976**	2,662,937	**5,824,976**	2,662,937
Investment in trading assets	22	**(140,745)**	(416,163)	**(140,745)**	(416,163)
Purchase of property and equipment	18	**(67,235)**	(170,380)	**(69,819)**	(161,878)
Purchase of intangible assets	19	**(261,992)**	(16,410)	**(245,461)**	(12,129)
Investment in subsidiaries	23	**-**	-	**-**	(10,898)
Net cash (used in)/ investing activities		**(3,505,538)**	(304,053)	**(3,491,591)**	(302,168)
Cash flows from financing activities					
Proceeds from borrowings	30	**1,161,249**	97,293	1,161,249	97,293
Repayment of borrowings	30	**(444,509)**	(295,139)	**(444,509)**	(295,139)
Principal lease payments	21	**(21,942)**	(12,872)	**(21,453)**	(12,626)
Dividends paid	11	**(75,128)**	(36,747)	**(75,128)**	(36,747)
Net cash (used in)/financing activities		**619,670**	(247,465)	**620,159**	(247,219)
Net increase/ (decrease) in cash and cash equivalents		**679,060**	(246,301)	**678,910**	(246,365)
Cash and cash equivalents at the beginning of the year		**1,618,968**	1,852,229	**1,618,904**	1,852,229
Effects of exchange rate changes on cash and cash equivalents		**107,485**	13,040	**107,485**	13,040
Cash and cash equivalents at the end of the year	36	**2,405,513**	1,618,968	**2,405,299**	1,618,904

The notes on pages 61 to 174 are an integral part of these financial statements.

Notes to the Annual Financial Statements

for the year ended 31 December 2020

1. CORPORATE INFORMATION

The Zambia National Commercial Bank Plc (the "Bank") is incorporated and domiciled in Zambia under the Companies Act, 2017 (as amended) as a limited liability Company. The address of its registered office is:

Plot 2118 - 2121
Cairo Road
Lusaka

The principal activities of the Bank and its subsidiaries (the "Group") and the nature of the Group's operations are set out in the Directors' report. Information on other related party relationships of the Group is provided in Note 37.

The annual financial statements for the Bank and its subsidiaries (collectively, the Group) for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 4 March 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below:

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services at the time of the transactions.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The financial statements are presented in Zambian Kwacha (K) and all values are rounded to the nearest thousand Kwacha, except when otherwise indicated.

The Group presents its statement of financial position in order of liquidity.

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or Bankruptcy of the Group and/or its counter-parties

Positions recognised on a net basis primarily include balances with exchanges, clearing houses and brokers. Derivative assets and liabilities with master netting arrangements are only presented net when they satisfy the eligibility of netting for all of the above criteria and not just in the event of default.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2.1 Going Concern

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

2.2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries where applicable.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

2.2.3 Presentation of financial statements

The Group presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 summary of Accounting policies

2.3.1 Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs). For financial assets originated the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

2.3.2 Fees and commission income and expense

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is 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 fee is recognised on a straight-line basis over the commitment period.

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

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

IFRS 9 fees are accounted for as part of the EIR. These fees include arrangement and letters of credit fees that are collected at the start of the facility and amortised over the term of the instruments, while IFRS 15 related fees are collected after performance obligations have been rendered.

Payments for all fees and commission are done at the time of requesting for the service or as and when the service is enjoyed.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.2 Fees and commission income and expense (continued)

The following fees collected by the Bank that meet the criteria under IFRS 15 are account maintenance fees, ATM issuer fees, Xapit money transfer, Payflex commission,Zanaco express commission, drafts and transfers, point of sale commission, cash management fees, bill master and commission on encashment of salary cheques. These fees are all collected at a point in time whenever the service is rendered.

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.
The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers i.e, including significant payment terms, and the related revenue recognition policies.

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

2.3.3 Translation of foreign currencies

(i) Functional and presentation

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

(ii) Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss account. Monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items denominated in foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise.

2.3.4 Financial assets and Financial Liabilities

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

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

Financial assets

(i) Classification and subsequent measurement

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.

Debt instrument 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.

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 – see (O). 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 accounting mismatch that would otherwise arise.

Business model

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

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

The Group's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

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

(i) contingent events that would change the amount and timing of cash flows;
(ii) leverage features;
(iii) prepayment and extension terms;
(iv) terms that limit the Group's claim to cash flows from specified assets; and
(v) features that modify consideration of the time value of money.

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income.

Investment securities
The Group currently invests in Treasury bills and bonds. These instruments are measured at amortised cost and held in the business model, "Held to Collect." Cash flows from these instruments are mainly the contractual principle and interest. These cash flow characteristics pass the SPPI test. The Group does not hold these instruments for the purposes of selling in the secondary market but rather holds them to maturity.

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

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 date of acquisition 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. All Bank balances are assessed to have low credit risk at each reporting date as they are held with reputable Banking institutions. Cash and balances with other Banks are carried at amortised cost in the statement of financial position.

Related party transactions (due and receivable from related party)
Related party transactions are transfers of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged. They include commitments to do something if a particular event occurs (or does not occur) in the future and executory contracts (recognised or unrecognised). As per IAS 37, executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

Investment in Subsidiaries (Bank)
Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity where the Bank 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

Investment in Subsidiaries (Bank) (continued)

The Bank accounts for investments in subsidiaries under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post- acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Bank's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. The carrying amount of equity-accounted investments is tested for impairment.

Loans and Advances

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

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

(a) Debt instruments

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

Trading assets

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

Derivative assets and liabilities

Derivatives held for risk management purposes include all derivatives assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the statement of financial position. All changes in fair value are recognised immediately in profit or loss.

Capital and reserves

Included in the Statement of Changes in equity are the following reserves:

Share capital

Share capital represents ordinary shares issued to the Bank's shareholders in exchange for funds invested in the Bank. Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

Statutory reserves

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

Revaluation reserves

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

General reserves

The general reserve represents the excess of impairment provisions determined in accordance with the Bank of Zambia prudential regulations over the impairment provisions recognised in accordance with International Financial Reporting Standards (IFRS).

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

Retained earnings

Retained earnings are carried forward, recognised income, net of expenses of the Bank, plus current period profit attributable to shareholders, less distributions to shareholders. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(ii) Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in note 41(1).

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for Banking financial assets measured on a collective basis is explained in Note 41.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 41.

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

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECLs.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

(ii) Impairment of financial assets (continued)

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

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 41.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 41.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 41.

When estimating the ECLs, the Group considers three scenarios (a base case, best case and worst case).

The mechanics of the ECL method are summarised below:

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

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For loans considered credit-impaired, the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

The Group applies credit conversion factors (CCFs) in estimating the portion of the commitment that will be drawn down over its useful life. The converted balance is then multiplied by the sector PD and LGD to obtain the expected credit loss on the commitment. The Group does not ordinarily provide long term unutilised commitments and as such, off balance sheet facilities are impaired to determine 12mECL and not LTECL.

Sovereign Debt

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

- The market's assessment of creditworthiness as reflected in the bond yields;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or
- mandatory debt forgiveness.

The currency in which the debt is denominated and Government's ability to print money.

As a result of this assessment, the impairment on these instruments has been considered in note 15.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

(ii) Impairment of financial assets (continued)

Balances with other Banks including central Bank

The Group has made an assessment of the impairment for balances held with other Banks including the Central Bank. The Group holds balances with other reputable financial institutions such as other large Banks and the Central Bank. Balances held with the Central Bank and other Banks have the nature of cash and cash equivalents. The Group's internal assessment of the credit-worthiness of these counter-parties indicates a very high likelihood of recovery. Due to their nature, impairment has been considered to be immaterial.

Related party transactions (Receivable from related party)

The Group has made an assessment of the amounts receivable from related parties. The nature of these receivables are short term in nature. The Group has assessed the impairment of these instruments using the loss rate model that takes into account historical experience/losses incurred. The impairment of these balances has been deemed to be immaterial in the current year.

Other assets

Other assets have a very short term nature and have historically matured without any credit loss suffered. As a result of this assessment, the impairment on such financial assets has been considered to be immaterial in the context of these financial statements.

The credit risk assessed on balances held with other Banks including the Central Bank and other assets is deemed to be insignificant and certain references to impairment of financial assets in these notes, including note 37 place particular emphasis on loans and advances.

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

(a) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
(b) Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
(c) Significant extension of the loan term when the borrower is not in financial difficulty.
(d) Significant change in the interest rate.
(e) Change in the currency the loan is denominated in.
(d) Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of negotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit- adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

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

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:
(a) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(b) Is prohibited from selling or pledging the assets; and
(c) Has an obligation to remit any cash it collects from the assets without material delay.

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

Financial liabilities

(i) Classification and subsequent measurement
In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

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

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

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

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

Financial guarantee contracts and loan commitments
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to Banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other Banking facilities.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.4 Financial assets and Financial Liabilities (continued)

Financial guarantee contracts and loan commitments (continued)

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount of the loss allowance and;
- the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

2.3.5 Property and equipment

(i) Recognition and measurements

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

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

When a revalued asset is disposed , any revaluation surplus is transferred directly to retained earnings. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as party of that equipment.
When parts of an item of property and equipment have different useful lives, they are componentised as separate items of property and equipment.

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of the asset less its residual value. Components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Capital work in progress is not depreciated.

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

The estimated useful lives are as follows:

Buildings	50 years
Fixtures, fittings and equipment	5 years
Motor vehicles	5 years

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.5 Property and equipment (continued)

(iv)Other matters

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

The Group assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are assessed at the lowest levels for which there are separately identifiable cash flows (cash-generating units). A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.3.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The intangible assets are depreciated using the straight line method over the useful lives.

(i) Computer software

Costs associated with developing or maintaining computer software programs and the acquisition of software licenses are generally recognised as an expense as incurred.

However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the Group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use. Expenditure subsequently incurred on computer software is capitalised only amortisation is recognised in operating expenses on a straight line basis at rates appropriate to the expected lives of the assets (two to 15 years) from the date that the asset is available for use.

(ii) Football players

Football players are accounted for and recongised in the Zanaco Sporting Club Limited. The costs associated with acquiring of players registration or extending their contracts, including agents' fees are capitalised and amortised, in equal installments, over the period of the respective players contracts. Where a contract life is renegotiated the unamortised costs, together with the new costs relating to the contract extension, are amortised over the term of the new contract. Where the acquisition of a player registration involves a non - cash consideration, such as an exchange for another player registration, the transaction is accounted for using an estimate of the market value for non-cash consideration.

Under the conditions of certain transfer agreements or contract renegotiations, further fees will be payable in the event of the players concerned making a certain number of first team appearances or on occurrence of a certain other specified events. Liabilities in respect of these additional fees are accounted for, as provisions, when it is probable that the number of appearances will be achieved or the specified future events will occur. The additional costs are capitalised and amortised as above.

Profit or loss on sale of players represent the transfer fee receivable, net of transaction costs, less the unamortised cost of the applicable player's registration.

Remuneration of players is charged in accordance with the terms of applicable contractual arrangements and any discretionary bonuses when there is legal or constructive obligation.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.6 Intangible assets (continued)

(iii) Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment consideration

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

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

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

2.3.7 Taxation

Income tax expense represents the sum of the tax currently payable and Deferred income tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the reporting date.

(ii) Deferred income tax

Deferred income tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred income tax liabilities are generally recognised for all taxable temporary differences and Deferred income tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.7 Taxation (continued)

(ii) Deferred income tax (continued)

The carrying amount of Deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred income tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred income tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the Deferred income tax is also dealt with in equity. Deferred income tax assets and liabilities are offset.

2.3.8 Employee benefits

(i) Retirement benefit obligations

Defined contribution plan

The Group and all its employees contribute to the National Pension Scheme, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Group pays fixed contributions into a separate entity. The Group's contributions to the defined contribution schemes are charged to profit or loss in the year in which they fall due.

Defined benefit plan

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Group and employees.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on;
- curtailments and settlements);
- Net interest expense or income;
- Remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item employee benefits expense. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.
A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

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

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

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

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.8 Employee benefits (continued)

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

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

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

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

2.3.9 Financial liabilities and equity

Classification as debt or equity

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

Financial liabilities

Financial liabilities are classified as borrowed funds, other payables, other liabilities and amounts due to related parties. Borrowed funds, other payables and other liabilities are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

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

2.3.10 Offsetting

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

2.3.11 Sale and repurchase agreements

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

2.3.12 Dividends payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are not recognised as a liability until declared.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.13 Fiduciary activities

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

2.3.14 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-statement of financial position transactions and disclosed as contingent liabilities.

2.3.15 Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

2.3.16 Operating segments

Operating segments are reported in a manner consistent with the internal reporting to the Executive Management Committee. The Executive Management Committee consists of the Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Operations Officer and the Chief Human Resources and Training Officer who allocates resources to and assesses the performance of the operating segments of the entity. The Executive Management Committee is the Group's key management making body.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and cost being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

2.3.17 Deposits (Bank and Customers)

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

2.3.18 Leases

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

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.18 Leases (continued)

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

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

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

The estimated useful lives are as follows:

ATMs	2 years
Premises	5 years

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

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

2.3.19 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3.20 Earnings per share

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares), by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 41, which also sets out key sensitivities of the ECL to changes in these elements.

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

ECL Measurement period

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

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

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

The Group ordinarily considers a facility to have SICR when the facility has been outstanding for 30 days or more, however, qualitative criteria set out in note 41 are also considered.

Forward-looking expectations

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

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Lifetime LGD work out

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

Default

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

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

The Group has not rebutted IFRS 9 90 days past due rebuttable presumption.
Descriptions of EAD, LGD, PD and SICR are stated on note 41.

(b) Impairment sensitivity analysis

The most significant macro-economic assumptions affecting the ECL allowance are: Year on year real GDP growth rate, year on year inflation, year on year USD to ZMW ratio and year on year lending rate.

To test the sensitivity of the impairment to changes in the relevant macro-economic factors, an assumption that an improvement or downturn in these factors would result in a 1% decrease or increase, respectively, in the forecast probabilities of default has been made. Set out in note 41 are the changes to the ECL as at 31 December 2020 and 2019 that would result from a decrease or increase of 1% in PDs.

To test the sensitivity of the impairment to changes in the value of security held as well as the segment to recovery rates an assumption that an increase or decrease in these factors would result in a 10% decrease or increase, respectively, in the forecast LGDs has been made. Set out in note 41 are the changes to the ECL as at 31 December 2020 that would result from a decrease or increase of 10% in LGDs.

(c) Revaluation of property

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

(i) The use of estimated selling prices of similar properties in the same area;
(ii) The estimate of the rental value of the property in determining the market value using the revenue method; and
(iii) The use of discount rates to estimate the forced-sale value which indicates the price that would reasonably be expected to be recovered in an event of disposal of the property to an unwilling buyer.

Significant accounting judgments, estimates and assumptions in determining fair value of property remain consistent with prior years.

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

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality government bonds (Refer to note 27 for discount rate used). Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the government bonds, quality of the bonds and the identification of outliers which are excluded.

(e) Fair value of trading assets and derivatives

The group estimates the fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see note 22.

To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is described in note 22.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable data exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums 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 instrument at the reporting date that would have been determined by market participants acting at arm's length.

(f) Deferred income tax

Deferred income tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Judgement is required to determine the amount of Deferred income tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies. The Group assess the recoverability of the Deferred income tax assets on an annual basis and only recognises the asset that its reasonably expects to recover.

(g) Post employment benefits

The Group's post-employment benefits consist of both post-employment retirement funds and healthcare benefits. The Group's obligations to fund these benefits are derived from actuarial valuations performed by the appointed actuaries taking into account various assumptions. The fund is subject to a statutory financial review by the Group's independent actuaries at intervals of not more than three years.

The principle assumptions used in the determination of the Group's obligations include the following:

2020	
Discount rate	**33.50%**
Inflation rate	**16.70%**
Salary/benefit inflation	**18.70%**
Remaining service life of employees (years)	**Male 23, Female 27**
2019	
Discount rate	29%
Inflation rate	14.30%
Salary/benefit inflation	16.30%
Remaining service life of employees (years)	**Male 23, Female 27**

4. INTEREST INCOME

	Group		Bank	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Arising from:				
Loans and advances	**1,112,249**	775,489	**1,116,472**	775,721
Government and other securities	**932,299**	566,177	**932,299**	566,177
Arrangement and commitment fees	**62,570**	36,998	**62,570**	36,998
Letters of credit commissions	**34,012**	12,874	**34,012**	12,874
Cash and short term funds	**2,786**	2,065	**2,786**	2,065
Other banks	**1,068**	7,287	**1,068**	7,287
	2,144,984	1,400,890	**2,149,207**	1,401,122

5. INTEREST EXPENSE

Arising on:				
Customer deposits	**605,221**	399,655	**605,501**	399,655
Borrowings	**90,067**	46,725	**90,067**	46,725
	695,288	446,380	**695,568**	446,380

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

6. FEE AND COMMISSION INCOME

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Account maintenance fees	**111,214**	85,382	**111,253**	85,382
ATM issuer fees	**58,661**	87,066	**58,661**	87,066
Xapit money transfer	**50,624**	9,627	**50,624**	9,627
Payflex	**42,259**	31,581	**42,259**	31,581
Zanaco Xpress	**40,823**	38,393	**40,823**	38,393
Sundry	**32,517**	23,815	**28,575**	23,815
Commission drafts and transfers	**36,673**	21,491	**36,673**	21,491
Point of sale commission	**26,797**	29,077	**26,797**	29,077
Cash management	**17,187**	13,316	**17,187**	13,316
Bill muster	**15,644**	13,248	**15,644**	13,248
Airtime purchase	**13,883**	14,596	**13,883**	14,596
Xapit management fees	**12,367**	13,510	**12,367**	13,510
Xapit bill payment personal	**7,215**	6,264	**7,215**	6,264
OTC cash withdrawal	**6,377**	5,869	**6,377**	5,869
Commission on encashment of salary cheques	**2,728**	2,844	**2,728**	2,844
	474,969	396,079	**471,066**	396,079

7. (a) OTHER OPERATING INCOME

Net income from Trading (i)	**376,184**	172,800	**376,184**	172,800
Gains from sale of securities	**63,472**	-	**63,472**	-
Sundry operating income	**10,204**	17,287	**4,099**	12,998
Net exchange (loss)/gain	**(1,751)**	2,413	**(1,751)**	2,413
	448,109	192,500	**442,004**	188,211

(i) Trading income is summarised as follows;

2020	Realised K'000	Unrealised K'000	Total K'000
FX spot transactions	**203,144**	**(3)**	**203,141**
FX derivative contracts	**62,184**	**110,859**	**173,043**
Total	**265,328**	**110,856**	**376,184**
2019			
FX spot transactions	121,792	49	121,841
FX derivative contracts	41,095	9,864	50,959
Total	162,887	9,913	172,800

7. (b) INCOME FROM LOANS WRITTEN OFF

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Other loan recoveries	**47,676**	54,712	**47,676**	54,712

This relates to Income received on loans written off.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

8. (a) OPERATING EXPENSES

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
The following items are included within operating expenses:				
Employee benefits expense (iii)	**695,544**	536,524	**666,815**	513,762
Information technology expenses (i)	**221,968**	137,288	**216,415**	137,060
Zanaco express agency costs	**87,612**	53,426	**87,612**	53,426
Depreciation of property and equipment (note 18)	**54,617**	44,863	**53,575**	44,222
Professional fees	**55,339**	32,172	**54,594**	31,478
Advertising and marketing expenses	**38,067**	40,617	**51,176**	57,921
Repairs and maintenance	**39,552**	22,987	**39,391**	22,024
Direct sales activities	**27,888**	13,716	**28,338**	13,716
Visa expenses	**26,728**	22,482	**26,728**	22,482
Central bank supervisory fees	**24,356**	17,590	**24,356**	17,590
Cash in transit	**23,229**	18,594	**23,229**	18,594
Bank charges	**23,218**	10,152	**23,218**	10,152
Amortisation of intangible assets (note 19)	**22,778**	7,127	**20,677**	5,450
Stationery expenses	**20,650**	26,234	**20,567**	26,202
Amortisation of right-of-use assets (note 21)	**19,380**	17,086	**19,026**	16,878
Security expenses	**17,500**	16,797	**17,500**	16,797
Cleaning expenses	**15,303**	5,681	**15,263**	5,628
Travel and accomodation expenses	**13,935**	20,541	**10,476**	16,978
Scheme Loans admistrative charges	**13,403**	12,475	**13,403**	12,475
Directors' remuneration (note 37.6)	**13,422**	7,046	**12,257**	7,046
Legal fees	**11,203**	11,915	**11,203**	11,912
Insurance premiums	**10,439**	2,294	**10,412**	2,262
Corporate subscription	**9,831**	6,427	**9,831**	6,427
Zambia Electronic Clearing House	**8,256**	7,993	**8,256**	7,993
Other expenses	**6,597**	28,670	**141**	23,781
Donations	**6,780**	4,385	**6,780**	4,385
Utility expenses	**5,057**	3,778	**5,057**	3,778
Customer entertainment and refreshments	**4,706**	5,339	**4,706**	5,339
Fuel expenses	**4,691**	3,472	**4,389**	3,130
Telephone expenses	**4,201**	5,529	**4,201**	5,529
Town halls and other meetings	**3,105**	2,839	**3,105**	2,840
Auditors' remuneration	**2,864**	2,992	**2,498**	2,644
Postages	**2,653**	2,287	**2,653**	2,287
Branch and ATM rent expenses	**1,127**	3,780	**1,127**	3,780
	1,535,999	1,155,098	**1,498,975**	1,135,968
Transformation costs (ii)	209,079	51,977	209,079	51,977
	1,807,548	1,234,120	**1,770,452**	1,214,949

(i) Information technology expenses relate to software licence, annaul maintenance fees and internet connectivity related cost.

(ii) Transformation costs relate to early retirement and redundancy costs.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

8. (a) OPERATING EXPENSES (CONTINUED)

(iii) Employee benefits expense:

	Group		Bank	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
The following items are included within employee benefits expense:				
Post-employment benefits				
Defined benefit plans	**110,284**	15,802	**110,284**	15,802
Defined contribution plans	**24,077**	18,757	**24,077**	18,757
	134,361	34,559	**134,361**	34,559
Termination benefits	**519**	2,932	**519**	2,932
Other employee benefits (ii)	**559,203**	499,033	**531,935**	476,271
	559,722	501,965	**532,454**	479,203
Total employee benefits expense	**694,083**	536,524	**666,815**	513,762
(ii) Other employee benefits expenses mainly relate to basic salary, housing allowance, annual leave pay, car allowance, upkeep allowance, fuel allowance and medical scheme costs.				

8. (b) FINANCE COST

Finance cost	**62,470**	27,045	**62,398**	27,004

Finance cost relates to interest expense incurred on leases.

9. PROFIT BEFORE INCOME TAX

Profit before tax stated after crediting:				
Exchange gain (note 7)	**-**	2,413	**-**	2,413
Interest received from other Banks	**2,786**	2,065	**2,786**	2,065
and after charging:				
Exchange losses (note 7)	**1,751**	-	**1,751**	-
Depreciation (note 18)	**54,617**	44,863	**53,575**	44,222
Interest expense on lease liability (note 8)	**62,470**	27,045	**62,398**	27,004
Interest paid to other banks	**90,067**	46,725	**90,067**	46,725
Post employment benefits (note 8)	**134,361**	34,559	**134,361**	34,559
Directors emoluments (note 37.6)	**13,422**	7,046	**13,422**	7,046
Donations (note 8)	**6,780**	4,385	**6,780**	4,385

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

10. INCOME TAX EXPENSE

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Current tax	**194,502**	119,242	**194,502**	119,242
(Over)/Under provision of tax in prior year	**(25)**	612	**(25)**	612
Deferred income tax (note 26)	**(46,896)**	5,899	**(46,896)**	5,899
	147,581	125,753	**147,581**	125,753
The movement during the year in Withholding tax (WHT) balances is as follows:				
At beginning of year	**(584)**	(31,350)	**(584)**	(31,350)
Recoveries offset against tax liability	**161,633**	79,459	**161,633**	79,459
Withholding tax suffered during the year	**(161,687)**	(48,693)	**(161,687)**	(48,693)
At end of year	**(638)**	(584)	**(638)**	(584)
The movement during the year in the current tax balance is as follows:				
Tax (recoverable)/payable at beginning of year	**(10,118)**	(32,842)	**(10,118)**	(32,842)
Payable in respect of the year	**194,502**	119,242	**194,502**	119,242
Tax paid during the year	**(17,671)**	(17,671)	**(17,671)**	(17,671)
WHT tax recoveries in respect of current year	**(161,633)**	(79,459)	**(161,633)**	(79,459)
Tax under/ (over provision) from prior year	**(25)**	612	**(25)**	612
Tax (recoverable)/payable at end of year	**5,055**	(10,118)	**5,055**	(10,118)
The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:				
Profit before income tax	**354,239**	325,809	**382,091**	340,407
"Tax calculated at the statutory income tax rate of 35% (2019: 35%)"	**123,984**	114,033	**133,732**	119,142
Tax effect of:				
(Over)/Under provision of tax in prior year	**(25)**	612	**(25)**	612
Expenses not deductible for tax purposes	**23,622**	11,108	**13,874**	5,999
Income tax expense	**147,581**	125,753	**147,581**	125,753
Analysis of Current Tax Assets /Liabilities				
withholding tax asset	**(638)**	(584)	**(638)**	(584)
Current income tax payable/(receivable)	**5,055**	(10,118)	**5,055**	(10,118)
	4,417	(10,702)	**4,417**	(10,702)

11. DIVIDENDS PAID

The dividend paid in the year 2020 was in respect of the year ended 31 December 2019 representing 0.052 per share. The Dividend paid in 2019 was in respect of the year ended 31 December 2018 representing a 0.0254 per share.				
Payment of dividends is subject to withholding tax (WHT) at the rate of 15% for resident and non-resident shareholders. However, where there is a double tax treaty, the WHT will be subject to the rates in the treaty. Furthermore the WHT is taxed at zero percent for individuals because the Bank is listed on the Lusaka Stock Exchange.	**75,128**	36,747	**75,128**	36,747

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

12. EARNINGS PER SHARE

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Basic earnings per share is calculated by dividing the profit after tax attributed to equity holders of the Bank by weighted average number of shares in issue during the Profit attributable to equity holders	**206,658**	200,056	**234,510**	214,654
Weighted number of ordinary shares in issue (thousands)	**1,443,750**	1,443,750	**1,443,750**	1,443,750
Basic and diluted earnings per share (Kwacha)	**0.143**	0.139	**0.162**	0.149

There are no potentially dilutive shares, hence diluted earnings per share is the same as the basic earnings per share.

13. CASH AND BALANCES WITH CENTRAL BANK

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Cash in hand	**685,171**	382,639	**684,957**	382,575
Balances at Central Bank	**1,598,420**	1,407,684	**1,598,420**	1,407,684
	2,283,591	1,790,323	**2,283,377**	1,790,259
Current	**2,283,591**	1,790,323	**2,283,377**	1,790,259

14. BALANCES WITH OTHER BANKS

Placements with other Banks	**190,350**	70,525	**190,350**	70,525
Balances with Banks abroad	**1,812,925**	664,432	**1,812,925**	664,432
	2,003,275	734,957	**2,003,275**	734,957
Current	**2,003,275**	734,957	**2,003,275**	734,957
The revaluation gains/losses are recognised under trade income.				

15. INVESTMENT SECURITIES

Government bonds	**1,613,895**	1,852,672	**1,613,895**	1,852,672
Treasury bills	**4,364,751**	1,090,408	**4,364,751**	1,090,408
	5,978,646	2,943,080	**5,978,646**	2,943,080
IFRS 9 impairment loss allowance	**(120,580)**	(9,341)	**(120,580)**	(9,341)
	5,858,066	2,933,739	**5,858,066**	2,933,739
Current	**4,298,683**	2,047,950	**4,298,683**	2,047,950
Non current	**1,559,383**	885,789	**1,559,383**	885,789
	5,858,066	2,933,739	**5,858,066**	2,933,739

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

15. INVESTMENT SECURITIES (CONTINUED)

2020 (a) Analysis of gross carrying amount	Stage 1 12m - ECL K'000	Stage 2 LTECL K'000	Stage 3 LTECL K'000	Total K'000
Gross carrying amount as at 1 January 2020	2,943,080	-	-	2,943,080
Changes in the gross carrying amount				-
– Transfer to stage 1	(2,943,080)	2,943,080	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
New financial assets originated	-	8,860,542	-	8,860,542
Financial assets that have matured	-	(5,824,976)	-	(5,824,976)
Write-offs	-	5,978,646	-	5,978,646
Gross carrying amount as at 31 December 2020	-	5,978,646	-	5,978,646
2019				
Gross carrying amount as at 1 January 2020	3,241,980	-	-	3,241,980
Changes in the gross carrying amount				-
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
New financial assets originated	2,364,037	-	-	2,364,037
Financial assets that have matured	(2,662,937)	-	-	(2,662,937)
Gross carrying amount as at 31 December 2020	2,943,080	-	-	2,943,080
2020				
(b) Analysis of Expected Credit Loss (ECL)				
Expected credit loss allowance as at 1 January 2020	9,341	-	-	9,341
Changes in loss allowance				
Movements without income statement impact				
– Transfer to stage 1	(9,341)	9,341	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
Charge to profit and loss	-	111,239	-	111,239
IFRS 9 ECL impairment as at 31 December 2020	-	120,580	-	120,580

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

15. INVESTMENT SECURITIES (CONTINUED)

The movement in Investment securities for the Group and its subsidiaries may be summarised as follows:

2020	Government Bonds K'000	Treasury bills K'000	Total K'000
At 1 January 2020	**1,852,672**	**1,090,408**	**2,943,080**
Additions	**2,591,494**	**6,269,048**	**8,860,542**
Redemption (Maturity)	**(524,125)**	**(2,994,705)**	**(3,518,830)**
Disposal	**(2,306,146)**	**-**	**(2,306,146)**
IFRS 9 provision	**(52,877)**	**(67,703)**	**(120,580)**
At 31 December 2020	**1,561,018**	**4,297,048**	**5,858,066**
Maturity analysis			
Maturing within 90 days	**-**	**1,186,305**	**1,186,305**
Maturing after 90 days	**1,561,018**	**3,110,743**	**4,671,761**
	1,561,018	**4,297,048**	**5,858,066**
At 1 January 2019	1,295,967	1,946,013	3,241,980
Additions	721,609	1,642,428	2,364,037
Redemption (Maturity)	(164,904)	(2,498,033)	(2,662,937)
	1,852,672	1,090,408	2,943,080
IFRS 9 provision	(5,019)	(4,322)	(9,341)
At 31 December 2019	1,847,653	1,086,086	2,933,739
Maturity analysis:			
Maturing within 90 days	506,062	495,272	1,001,334
Maturing after 90 days	1,341,591	590,814	1,932,405
	1,847,653	1,086,086	2,933,739

During the year, the Group disposed a portion of its government securities as part of the Bank of Zambia secondary market Covid 19 response to boast liquidity among the commercial banks. These sales are infrequent and have not changed the Group's intention of holding these instruments until maturity. The Group continues to carry these instruments under the held to collect model.

16. LOANS AND ADVANCES TO CUSTOMERS

	Group			Bank		
2020 **On Balance Sheet Facilities**	Gross carrying amount K'000	ECL allowance K'000	Carrying amount K'000	Gross carrying amount K'000	ECL allowance K'000	Carrying amount K'000
Corporate lending	**4,978,933**	**(87,865)**	**4,891,068**	**4,978,933**	**(87,865)**	**4,891,068**
Retail lending	**1,491,668**	**(137,401)**	**1,354,267**	**1,491,668**	**(137,401)**	**1,354,267**
Agriculture lending	**640,965**	**(26,426)**	**614,539**	**640,965**	**(26,426)**	**614,539**
SME lending	**510,675**	**(18,844)**	**491,831**	**551,935**	**(22,429)**	**529,506**
	7,622,241	**(270,536)**	**7,351,705**	**7,663,501**	**(274,121)**	**7,389,380**
Off Balance Sheet Facilities						
Financial guarantees	**7,279**	**(1)**	**7,278**	**7,279**	**(1)**	**7,278**
Letters of credit	**34,341**	**(644)**	**33,697**	**34,341**	**(643)**	**33,698**
Undrawn commitments	**536,179**	**(22,567)**	**513,612**	**537,337**	**(22,679)**	**514,658**
	577,799	**(23,212)**	**554,587**	**578,957**	**(23,323)**	**555,634**
Total reported	**7,622,241**	**(293,748)**	**7,328,493**	**7,663,501**	**(297,444)**	**7,366,057**
2019 **On Balance Sheet Facilities**						
Corporate lending	2,670,335	(75,830)	2,594,505	2,670,335	(75,830)	2,594,505
Retail lending	1,508,009	(93,610)	1,414,399	1,508,009	(93,610)	1,414,399
Agriculture lending	528,421	(12,786)	515,635	528,421	(12,786)	515,635
SME lending	320,744	(23,179)	297,565	323,776	(23,679)	300,097
	5,027,509	(205,405)	4,822,104	5,030,541	(205,905)	4,824,636
Off Balance Sheet Facilities						
Financial guarantees	98,221	(429)	97,792	98,221	(429)	97,792
Letters of credit	302,402	(248)	302,154	302,402	(248)	302,154
Undrawn commitments	132,184	(4,267)	127,917	132,268	(4,283)	127,985
	532,807	(4,944)	527,863	532,891	(4,960)	527,931
Total reported	5,027,509	(210,349)	4,817,160	5,030,541	(210,865)	4,819,676

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Net loans and advances	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Current	**3,835,868**	2,243,306	**3,846,431**	1,747,281
Non Current	**3,492,625**	2,573,854	**3,519,626**	3,072,395
Total	**7,328,493**	4,817,160	**7,366,057**	4,819,676

*Included in the Zanaco Bank balances are loan facilities issued to Zanaco Football Club and Digital Shared Services Limited. Details of these facilities have been disclosed under note 37.

(a) Reconciliation of loans and advances (on balance sheet)

2020 GROUP	Stage 1 12m - ECL K'000	Stage 2 LTECL K'000	Stage 3 LTECL K'000	Total K'000
Gross carrying amount as at 1 January 2020	**4,518,761**	**181,331**	**327,417**	**5,027,509**
Changes in the gross carrying amount				
– Transfer to stage 1	**39,922**	**(34,231)**	**(5,691)**	**-**
– Transfer to stage 2	**(59,860)**	**61,106**	**(1,246)**	**-**
– Transfer to stage 3	**(65,011)**	**(8,128)**	**73,139**	**-**
New financial assets originated	**5,294,022**	**82,422**	**239,886**	**5,616,330**
Financial assets that have matured/repaid	**(2,711,754)**	**(137,213)**	**(108,606)**	**(2,957,573)**
Changes to GCA due to modifications	**(7,082)**	**(546)**	**(1,977)**	**(9,605)**
Write-offs	**-**	**-**	**(54,420)**	**(54,420)**
Gross carrying amount as at 31 December 2020	**7,008,998**	**144,741**	**468,502**	**7,622,241**
BANK				
Gross carrying amount as at 1 January 2020	**4,521,793**	**181,331**	**327,417**	**5,030,541**
Changes in the gross carrying amount				
– Transfer to stage 1	**39,922**	**(34,231)**	**(5,691)**	**-**
– Transfer to stage 2	**(59,860)**	**61,106**	**(1,246)**	**-**
– Transfer to stage 3	**(65,011)**	**(8,128)**	**73,139**	**-**
New financial assets originated	**5,332,251**	**82,422**	**239,886**	**5,654,559**
Financial assets that have matured/repaid	**(2,711,754)**	**(137,213)**	**(108,607)**	**(2,957,574)**
Changes to GCA due to modifications	**(7,082)**	**(546)**	**(1,977)**	**(9,605)**
Write-offs	**-**	**-**	**(54,420)**	**(54,420)**
Gross carrying amount as at 31 December 2020	**7,050,259**	**144,741**	**468,501**	**7,663,501**
2019 GROUP				
Gross carrying amount as at 1 January 2019	4,033,749	24,023	448,093	4,505,865
Changes in the gross carrying amount				
– Transfer to stage 1	10,058	(8,600)	(1,458)	-
– Transfer to stage 2	(50,717)	53,548	(2,831)	-
– Transfer to stage 3	(19,901)	(4,353)	24,254	-
New financial assets originated	2,221,469	120,778	27,862	2,370,109
Financial assets that have matured/repaid	(1,677,123)	(4,065)	(50,252)	(1,731,440)
Changes to GCA due to modifications	1,226	-	-	1,226
Write-offs	-	-	(118,251)	(118,251)
Gross carrying amount as at 31 December 2019	4,518,761	181,331	327,417	5,027,509
BANK				
Gross carrying amount as at 1 January 2019	4,033,749	24,023	448,093	4,505,865
Changes in the gross carrying amount				
– Transfer to stage 1	10,058	(8,600)	(1,458)	-
– Transfer to stage 2	(50,717)	53,548	(2,831)	-
– Transfer to stage 3	(19,901)	(4,353)	24,254	-
New financial assets originated	2,224,501	120,778	27,862	2,373,141
Financial assets that have matured/repaid	(1,677,123)	(4,065)	(50,252)	(1,731,440)
Changes to GCA due to modifications	1,226	-	-	1,226
Write-offs	-	-	(118,251)	(118,251)
Gross carrying amount as at 31 December 2019	4,521,793	181,331	327,417	5,030,541

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(ii) Reconcliation of Off Balance Sheet Facilities

2020 GROUP	**Stage 1 12m - ECL K'000**	**Stage 2 LTECL K'000**	**Stage 3 LTECL K'000**	**Total K'000**
Gross carrying amount as at 1 January 2020	**532,807**	-	-	**532,807**
Changes in the gross carrying amount				
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
New financial assets originated	**478,410**	-	-	**478,410**
Financial assets that have matured/repaid	**(433,418)**	-	-	**(433,418)**
Gross carrying amount as at 31 December 2020	**577,799**	-	-	**577,799**
BANK				
Gross carrying amount as at 1 January 2020	**532,891**	-	-	**532,891**
Changes in the gross carrying amount				
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
New financial assets originated	**479,484**	-	-	**479,484**
Financial assets that have matured/repaid	**(433,418)**	-	-	**(433,418)**
Gross carrying amount as at 31 December 2020	**578,957**	-	-	**578,957**
2019 GROUP AND BANK				
Gross carrying amount as at 1 January 2019	562,907	-	-	562,907
Changes in the gross carrying amount				
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
New financial assets originated	281,437	-	-	281,437
Financial assets that have matured/repaid	(311,537)	-	-	(311,537)
Gross carrying amount as at 31 December 2019	532,807	-	-	532,807

(iii). Reconciliation of on and off Balance Sheet

2020 GROUP				
Gross carrying amount as at 1 January 2020	**5,051,568**	**181,331**	**327,417**	**5,560,316**
Changes in the gross carrying amount				
– Transfer to stage 1	**39,922**	**(34,231)**	**(5,691)**	-
– Transfer to stage 2	**(59,860)**	**61,106**	**(1,246)**	-
– Transfer to stage 3	**(65,011)**	**(8,128)**	**73,139**	-
New financial assets originated	**5,772,432**	**82,422**	**239,886**	**6,094,740**
Financial assets that have matured/repaid	**(3,145,172)**	**(137,213)**	**(108,606)**	**(3,390,991)**
Changes to GCA due to modifications	**(7,082)**	**(546)**	**(1,977)**	**(9,605)**
Write-offs	-	-	**(54,420)**	**(54,420)**
Gross carrying amount as at 31 December 2020	**7,586,797**	**144,741**	**468,502**	**8,200,040**

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Analysis of gross carrying amount

(iii). Reconciliation of on and off Balance Sheet Facilities (continued) BANK	Stage 1 12m - ECL K'000	Stage 2 LTECL K'000	Stage 3 LTECL K'000	Total K'000
Gross carrying amount as at 1 January 2020	**5,054,684**	**181,331**	**327,417**	**5,563,432**
Changes in the gross carrying amount				
– Transfer to stage 1	**39,922**	**(34,231)**	**(5,691)**	**-**
– Transfer to stage 2	**(59,860)**	**61,106**	**(1,246)**	**-**
– Transfer to stage 3	**(65,011)**	**(8,128)**	**73,139**	**-**
New financial assets originated	**5,811,735**	**82,422**	**239,886**	**6,134,043**
Financial assets that have matured/repaid	**(3,145,172)**	**(137,213)**	**(108,607)**	**(3,390,992)**
Changes to GCA due to modifications	**(7,082)**	**(546)**	**(1,977)**	**(9,605)**
Write-offs	**-**	**-**	**(54,420)**	**(54,420)**
Gross carrying amount as at 31 December 2020	**7,629,216**	**144,741**	**468,501**	**8,242,458**
2019 **GROUP**				
Gross carrying amount as at 1 January 2019	4,596,656	24,023	448,093	5,068,772
Changes in the gross carrying amount				
– Transfer to stage 1	10,058	(8,600)	(85,394)	-
– Transfer to stage 2	(50,717)	53,548	(2,831)	-
– Transfer to stage 3	(19,901)	(4,353)	24,253	-
New financial assets originated	2,502,906	120,778	27,862	2,651,546
Financial assets that have matured/repaid	(1,988,660)	(4,065)	(50,252)	(2,042,977)
Changes to GCA due to modifications	1,226	-	-	1,226
Write-offs	-	-	(118,251)	(118,251)
Gross carrying amount as at 31 December 2019	5,051,568	181,331	243,480	5,560,316
BANK				
Gross carrying amount as at 1 January 2019	4,596,656	24,023	448,093	5,068,772
Changes in the gross carrying amount				
– Transfer to stage 1	10,058	(8,600)	(1,457)	-
– Transfer to stage 2	(50,717)	53,548	(2,831)	-
– Transfer to stage 3	(19,901)	(4,353)	24,253	-
New financial assets originated	2,506,022	120,778	27,862	2,654,662
Financial assets that have matured/repaid	(1,988,660)	(4,065)	(50,252)	(2,042,977)
Changes to GCA due to modifications	1,226	-	-	1,226
Write-offs	-	-	(118,251)	(118,251)
Gross carrying amount as at 31 December 2019	5,054,684	181,331	327,417	5,563,432

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(iv). Internal credit risk rating

2020 Group Rating	Internal risk category	Stage 1 12m - ECL K'000	Stage 2 LTECL K'000	Stage 3 LTECL K'000	Total K'000
	Performing				
2&3	Standard & Satisfactory risk	**7,586,797**	**-**	**-**	**7,586,797**
4&5	Watch risk & Unacceptable risk	**-**	**144,741**	**-**	**144,741**
50,51,52	Non-performing				
	Sub-standard, Doubtful & Loss	**-**	**-**	**468,502**	**468,502**
		7,586,797	**144,741**	**468,502**	**8,200,040**
Bank Rating	**Internal risk category**				
	Performing				
2&3	Standard & Satisfactory risk	**7,629,216**	**-**	**-**	**7,629,216**
4&5	Watch risk & Unacceptable risk	**-**	**144,741**	**-**	**144,741**
50,51,52	Non-performing				
	Sub-standard, Doubtful & Loss	**-**	**-**	**468,501**	**468,501**
		7,629,216	**144,741**	**468,501**	**8,242,458**
2019 Group Rating	**Internal risk category**				
	Performing				
2&3	Standard & Satisfactory risk	5,051,568	-	-	5,051,568
4&5	Watch risk & Unacceptable risk	-	181,331	-	181,331
50,51,52	Non-performing				
	Sub-standard, Doubtful & Loss	-	-	327,417	327,417
		5,051,568	181,331	327,417	5,560,316
Bank Rating	**Internal risk category**				
	Performing				
2&3	Standard & Satisfactory risk	5,054,684	-	-	5,054,684
4&5	Watch risk & Unacceptable risk	-	181,331	-	181,331
50,51,52	Non-performing				
	Sub-standard, Doubtful & Loss	-	-	327,417	327,417
		5,054,684	181,331	327,417	5,563,432

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysis of Expected Credit Loss (ECL) (i)On Balance Sheet Facilities 2020 Group	Stage 1 12m - ECL K'000	Stage 2 LTECL K'000	Stage 3 LTECL K'000	Total K'000
Expected credit loss allowance as at 1 January 2020	163,688	7,308	34,409	205,405
Changes in loss allowance				
Movements without income statement impact				
– Transfer to stage 1	5,903	(2,945)	(2,958)	-
– Transfer to stage 2	(1,916)	3,006	(1,090)	-
– Transfer to stage 3	(2,786)	(1,054)	3,840	-
– Write-offs	-	-	(54,420)	(54,420)
	1,201	(993)	(54,628)	(54,420)
Movements with income statement impact				
New financial assets originated	66,955	7,937	62,935	137,827
Financial assets that have matured/repaid	(56,723)	(1,857)	(11,953)	(70,533)
Impact on ECL of transfers	(5,008)	731	26,446	22,169
Changes to ECL due to modifications	-	-	-	-
Foreign exchange and other movements	-	-	30,088	30,088
Charge/(credit) to profit and loss	5,224	6,811	107,516	119,551
Expected credit loss allowance as at 31 December 2020	170,113	13,126	87,297	270,536
BANK				
Expected credit loss allowance as at 1 January 2020	164,188	7,308	34,409	205,905
Changes in loss allowance				
Movements without income statement impact				
– Transfer to stage 1	5,903	(2,945)	(2,958)	-
– Transfer to stage 2	(1,916)	3,006	(1,090)	-
– Transfer to stage 3	(2,786)	(1,054)	3,840	-
– Write-offs	-	-	(54,420)	(54,420)
	1,201	(993)	(54,628)	(54,420)
Movements with income statement impact				
New financial assets originated	70,040	7,937	62,935	140,912
Financial assets that have matured/repaid	(56,723)	(1,857)	(11,953)	(70,533)
Impact on ECL of transfers	(5,008)	731	26,446	22,169
Changes to ECL due to modifications	-	-	-	-
Foreign exchange and other movements	-	-	30,088	30,088
Charge to profit and loss	8,309	6,811	107,516	122,636
Expected credit loss allowance as at 31 December 2020	173,698	13,126	87,297	274,121

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysis of Expected Credit Loss (ECL) (Continued) (i)On Balance Sheet Facilities (continued) 2019 Group	**Stage 1 12m - ECL K'000**	**Stage 2 LTECL K'000**	**Stage 3 LTECL K'000**	**Total K'000**
Expected credit loss allowance as at 1 January 2019	155,712	3,439	115,448	274,599
Changes in loss allowance				
Movements without income statement impact				
– Transfer to stage 1	478	(408)	(70)	-
– Transfer to stage 2	(3,677)	3,707	(30)	-
– Transfer to stage 3	(10,388)	(850)	11,238	-
– Write-offs	-	-	(118,251)	(118,251)
	(13,587)	2,449	(107,113)	(118,251)
Movements with income statement impact				
New financial assets originated	45,881	2,789	11,187	59,857
Financial assets that have matured/repaid	(24,318)	(1,369)	(29,203)	(54,890)
Foreign exchange and other movements	-	-	44,090	44,090
Charge to profit and loss	21,563	1,420	26,074	49,057
Expected credit loss allowance as at 31 December 2019	163,688	7,308	34,409	205,405
BANK				
Expected credit loss allowance as at 1 January 2019	155,712	3,439	115,448	274,599
Changes in loss allowance				
Movements without income statement impact				
– Transfer to stage 1	478	(408)	(70)	-
– Transfer to stage 2	(3,677)	3,707	(30)	-
– Transfer to stage 3	(10,388)	(850)	11,238	-
– Write-offs	-	-	(118,251)	(118,251)
	(13,587)	2,449	(107,113)	(118,251)
Movements with income statement impact				
New financial assets originated	45,881	2,789	11,187	59,857
Financial assets that have matured/repaid	(24,318)	(1,369)	(29,203)	(54,890)
Foreign exchange and other movements	-	-	44,590	44,590
Charge to profit and loss	21,563	1,420	26,574	49,557
Expected credit loss allowance as at 31 December 2019	163,688	7,308	34,909	205,905

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysis of Expected Credit Loss (ECL) (Continued) (ii)Off Balance Sheet Facilities (continued) 2020 Group	Stage 1 12m - ECL K'000	Stage 2 LTECL K'000	Stage 3 LTECL K'000	Total K'000
Loss allowance as at 1 January 2020	**4,944**	-	-	**4,944**
Changes in the loss allowance	-			
Movements with income statement impact				
New financial assets originated	**20,045**	-	-	**20,045**
Financial assets that have matured	**(1,777)**	-	-	**(1,777)**
Impact on ECL of transfers	-	-	-	-
Changes to ECL due to modifications	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Charge to profit and loss	**18,268**	-	-	**18,268**
Loss allowance as at 31 December 2020	**23,212**	-	-	**23,212**
BANK				
Loss allowance as at 1 January 2020	**4,960**	-	-	**4,960**
Changes in the loss allowance				
Movements with income statement impact				
New financial assets originated	**20,141**	-	-	**20,141**
Financial assets that have matured	**(1,778)**	-	-	**(1,778)**
Impact on ECL of transfers	-	-	-	-
Changes to ECL due to modifications	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Charge to profit and loss	**18,363**	-	-	**18,363**
Loss allowance as at 31 December 2020	**23,323**	-	-	**23,323**
2019 **Group**				
Loss allowance as at 1 January 2019	24,244	-	-	24,244
Changes in the loss allowance				
Movements with income statement impact				
New financial assets originated	661	-	-	661
Financial assets that have matured/repaid	(21,816)	-	-	(21,816)
Foreign exchange and other movements	1,855	-	-	1,855
Charge to profit and loss	(19,300)	-	-	(19,300)
Loss allowance as at 31 December 2019	4,944	-	-	4,944
2019 **Bank**				
Loss allowance as at 1 January 2019	24,244	-	-	24,244
Changes in the loss allowance				
Movements with income statement impact				
New financial assets originated	677	-	-	677
Financial assets that have matured/repaid	(21,816)	-	-	(21,816)
Foreign exchange and other movements	1,855	-	-	1,855
Charge to profit and loss	(19,284)	-	-	(19,284)
Loss allowance as at 31 December 2019	4,960	-	-	4,960

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysis of Expected Credit Loss (ECL) (Continued) (iii)Reconciliation of on and off Balance Sheet Facilities 2020 Group	Stage 1 12m - ECL K'000	Stage 2 LTECL K'000	Stage 3 LTECL K'000	Total K'000
Loss allowance as at 1 January 2020	168,632	7,308	34,409	210,349
Changes in the loss allowance:				
Movements without income statement impact				
– Transfer to stage 1	5,903	(2,945)	(2,958)	-
– Transfer to stage 2	(1,916)	3,006	(1,090)	-
– Transfer to stage 3	(2,786)	(1,054)	3,840	-
– Write-offs	-	-	(54,420)	(54,420)
	1,201	(993)	(54,628)	(54,420)
Movements with income statement impact				
New financial assets originated	87,000	7,937	62,935	157,872
Financial assets that have matured/repaid	(58,500)	(1,857)	(11,953)	(72,310)
Impact on ECL of transfers	(5,008)	731	26,446	22,169
Changes to ECL due to modifications	-	-	-	-
Foreign exchange and other movements	-	-	30,088	30,088
Charge to profit and loss	23,492	6,811	107,516	137,819
Loss allowance as at 31 December 2020	193,325	13,126	87,297	293,748
Impairment charge reported in income statement				
Impairment charge during the year	23,491	6,811	107,517	137,819
Changes to gross carrying amounts due to modifications	7,082	546	1,977	9,605
Total	30,573	7,357	109,494	147,424
BANK				
Loss allowance as at 1 January 2020	169,148	7,308	34,409	210,865
Changes in the loss allowance				
Movements without income statement impact				
– Transfer to stage 1	5,903	(2,945)	(2,958)	-
– Transfer to stage 2	(1,916)	3,006	(1,090)	-
– Transfer to stage 3	(2,786)	(1,054)	3,840	-
– Write-offs	-	-	(54,420)	(54,420)
	1,201	(993)	(54,628)	(54,420)
Movements without income statement impact				
New financial assets originated	90,181	7,937	62,935	161,053
Financial assets that have matured/repaid	(58,500)	(1,857)	(11,953)	(72,310)
Impact on ECL of transfers	(5,008)	731	26,446	22,169
Changes to ECL due to modifications	-	-	-	-
Foreign exchange and other movements	-	-	30,088	30,088
Charge to profit and loss	26,673	6,811	107,516	141,000
Loss allowance as at 31 December 2020	197,022	13,126	87,297	297,445
Impairment charge reported in income statement				
Impairment charge during the year	26,672	6,811	107,516	140,999
Changes to gross carrying amounts due to modifications	7,082	546	1,977	9,605
Total	33,754	7,357	109,493	150,604

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysis of Expected Credit Loss (ECL) (Continued) **(iii)Reconciliation of on and off Balance Sheet Facilities (continued)** **2019** **Group**	**Stage 1** **12m - ECL** **K'000**	**Stage 2** **LTECL** **K'000**	**Stage 3** **LTECL** **K'000**	**Total** **K'000**
Loss allowance as at 1 January 2019	179,956	3,439	115,448	298,843
Changes in the loss allowance				
Movements without income statement impact				
– Transfer to stage 1	478	(408)	(70)	-
– Transfer to stage 2	(3,677)	3,707	(30)	-
– Transfer to stage 3	(10,388)	(850)	11,238	-
– Write-offs	-	-	(118,251)	(118,251)
	(13,587)	2,449	(107,113)	(118,251)
Movements with income statement impact				
New financial assets originated	46,542	2,789	11,187	60,518
Financial assets that have matured/repaid	(46,134)	(1,369)	(29,203)	(76,706)
Foreign exchange and other movements	1,855	-	44,090	45,945
Charge to profit and loss	2,263	1,420	26,074	29,757
Loss allowance as at 31 December 2019	168,632	7,308	34,409	210,349
Impairment charge reported in income statement				
Impairment charge during the year	2,263	1,420	26,074	29,757
Changes to gross carrying amounts due to modifications	(1,226)	-	-	(1,226)
Total	1,037	1,420	26,074	28,531
BANK				
Loss allowance as at 1 January 2019	179,956	3,439	115,448	298,843
Changes in the loss allowance				
Movements without income statement impact				
– Transfer to stage 1	478	(408)	(70)	-
– Transfer to stage 2	(3,677)	3,707	(30)	-
– Transfer to stage 3	(10,388)	(850)	11,238	-
– Write-offs	-	-	(118,251)	(118,251)
	(13,587)	2,449	(107,113)	(118,251)
Movements without income statement impact				
New financial assets originated	47,058	2,789	11,187	61,034
Financial assets that have matured/repaid	(46,134)	(1,369)	(29,203)	(76,706)
Foreign exchange and other movements	1,855	-	44,090	45,945
Charge to profit and loss	2,779	1,420	26,074	30,273
Loss allowance as at 31 December 2019	169,148	7,308	34,409	210,865
Impairment charge reported in income statement				
Impairment charge during the year	2,779	1,420	26,074	30,273
Changes to gross carrying amounts due to modifications	(1,226)	-	-	(1,226)
Total	1,553	1,420	26,074	29,047

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c). Analysis of off balance sheet facilities

Contingent liabilities, commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Group.

Impairment on off balance sheet exposures is performed by adjusting the gross exposure by the credit conversion factor (CCFs) and in turn adjusting the converted exposure by multiplying by the Loss Given Default (LGD). The LGD is derived through reference to the collateral held for secured facilities and recovery rate for unsecured facilities. Credit conversion factors (CCFs) have been derived based on the Bank's historical experience.

Letters of credit and guarantees commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. The nominal values of such commitments are listed below:

2020 Group	Gross Balance K'000	Conversion factor K'000	Converted balance K'000	Impairment K'000	Carrying amount K'000
Financial guarantees	**181,975**	**4.0%**	**7,279**	**(1)**	**33,023**
Letters of credit	**286,171**	**12.0%**	**34,341**	**(644)**	**43,600**
Other undrawn	**841,726**	**63.7%**	**536,179**	**(22,567)**	**339,100**
	1,309,872		**577,799**	**(23,212)**	**415,723**
BANK					
Financial guarantees	**181,975**	**4.0%**	**7,279**	**(1)**	**7,278**
Letters of credit	**286,171**	**12.0%**	**34,341**	**(643)**	**33,698**
Other undrawn	**843,543**	**63.7%**	**537,337**	**(22,679)**	**514,658**
	1,311,689		**578,957**	**(23,323)**	**555,634**
2019 GROUP					
Financial guarantees	98,221	100%	98,221	(429)	97,792
Letters of credit	1,512,011	20%	302,402	(248)	302,154
Other undrawn	264,368	50%	132,184	(4,267)	127,917
	1,874,600		532,807	(4,944)	527,863
BANK					
Financial guarantees	98,221	100%	98,221	(429)	97,792
Letters of credit	1,512,011	20%	302,402	(248)	302,154
Other undrawn	264,536	50%	132,268	(4,283)	127,985
	1,874,768		532,891	(4,960)	527,931

During the Financial year 2020 the Group adopted internally generated CCFs informed by in-house historical data which depicted customer conversion behavioral norms. The Financial year 2019 CCFs were based on the basel II proxies.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

17. OTHER ASSETS AND PREPAYMENTS

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Prepayments and other receivables	**161,645**	106,410	**151,809**	101,656
Allowance for doubtful debts-(i)	**(65,716)**	(18,778)	**(64,374)**	(18,778)
	95,929	87,632	**87,435**	82,878
Staff loans marked to market (ii)	**158,095**	187,462	**158,095**	187,462
Card based receivables	**78,472**	171,956	**78,471**	171,956
Defined benefit asset (note 27)	**15,956**	16,124	**15,956**	16,124
Investment in Zambia Electronic Clearing House Limited (iii)	**307**	307	**307**	307
	348,759	463,481	**340,264**	458,727
Current	**190,664**	276,019	**182,169**	298,265
Non Current	**158,095**	187,462	**158,095**	187,462
Total	**348,759**	463,481	**340,264**	485,727
(i) Movement in the allowance for doubtful debts				
Balance at beginning of year	**18,778**	20,923	**18,778**	20,923
Charge/(Credit) for the year	**46,938**	(2,145)	**45,596**	(2,145)
Balance at end of the year	**65,716**	18,778	**64,374**	18,778
(ii) Reconciliation Staff Loans Marked -to- Market				
At beginning of year	**187,462**	173,578	**187,462**	173,578
Current year fair value adjustment	**(11,989)**	31,320	**(11,989)**	31,320
	175,473	204,898	**175,473**	204,898
Amortisation to profit or loss	**(17,378)**	(17,436)	**(17,378)**	(17,436)
	158,095	187,462	**158,095**	187,462

Employee loans and advances are offered on concessionary rates. House, Car and personal development loans are enhanced by collateral of landed property and in the case of car loans, the vehicle registration certificate is endorsed with the Bank as absolute owner.
Where staff loans are issued to members of staff at concessionary rates, fair value is calculated based on market rates. This will result in the long term staff loans benefit as above.

The concessionary rates applied in the year were as follows	**2020**	2019	**2020**	2019
	%	%	**%**	%
Personal loan	**12**	12	**12**	12
Personal Development loan	**12**	12	**12**	12
House	**8**	8	**8**	8
Car loan	**8**	8	**8**	8
Interest income earned on staff loans and advances	**34,344**	35,700	**34,344**	35,700

The Bank adjusted the interest received on staff loans by the market rate of 27.5% (2019 :27.5 %)

(iii) Zambia Electronic Clearing House Limited

The investment in Zambia Electronic Clearing House Limited ("ZECHL") represents the Bank's contribution to the set up costs for the establishment of the National Switch to enhance ZECHL functionality, more specifically to support electronic point of sale transactions to help minimise cash based transactions and their attendant costs and risks. The principal activity of ZECHL is the electronic clearing of cheques and direct debits and credits in Zambia for its member Banks. The ZECHL is funded by contributions from member Banks. As there is no reliable measure of the fair value of this investment, it is carried at cost, and regularly reviewed for impairment at each reporting date.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

18. PROPERTY AND EQUIPMENT

	Buildings K' 000	Motor Vehicles K' 000	Fixture, fittings and equipment K' 000	Capital work in progress K' 000	Total K'000
GROUP					
Cost					
Balance at 1 January 2019	204,106	28,156	444,997	79,763	757,022
Additions	9,971	220	32,168	128,021	170,380
Disposals	-	-	(243)	-	(243)
Balance at 31 December 2019	**214,077**	**28,376**	**476,922**	**207,784**	**927,159**
Additions	**10,823**	**3,425**	**35,265**	**17,722**	**67,235**
Transfers	**16,357**	**-**	**37,980**	**(210,423)**	**(156,086)**
Revaluation surplus	**18,213**	**-**	**-**	**-**	**18,213**
Elimination of depreciation on valuation	**(12,420)**	**-**	**-**	**-**	**(12,420)**
Balance at 31 December 2020	**247,050**	**31,801**	**550,167**	**15,083**	**844,101**
Accumulated depreciation					
Balance at 1 January 2019	(4,723)	(15,180)	(337,981)	-	(357,884)
Charge for year	(3,787)	(4,133)	(36,943)	-	(44,863)
Disposals	-	-	97	-	97
Balance at 31 December 2019	**(8,510)**	**(19,313)**	**(374,827)**	**-**	**(402,650)**
Charge for year	**(5,159)**	**(4,675)**	**(44,783)**	**-**	**(54,617)**
Elimination of depreciation on valuation	**12,420**				**12,420**
Balance at 31 December 2020	**(1,249)**	**(23,988)**	**(419,610)**	**-**	**(444,847)**
Carrying amount					
At 31 December 2020	**245,801**	**7,813**	**130,557**	**15,083**	**399,254**
At 31 December 2019	205,567	9,063	102,095	207,784	524,509
BANK					
Cost					
Balance at 1 January 2019	204,106	28,156	444,997	79,763	757,022
Additions	9,971	-	27,663	124,244	161,878
Disposals	-	-	(243)	-	(243)
Balance at 31 December 2019	**214,077**	**28,156**	**472,417**	**204,007**	**918,657**
Additions	**13,804**	**3,435**	**34,858**	**17,722**	**69,819**
Transfers	**16,357**	**-**	**37,980**	**(204,006)**	**(149,669)**
Revaluation surplus	**18,213**	**-**	**-**	**-**	**18,213**
Elimination of depreciation on valuation	**(12,420)**	**-**	**-**		**(12,420)**
Balance at 31 December 2020	**250,031**	**31,591**	**545,255**	**17,723**	**844,600**
Accumulated depreciation					
Balance at 1 January 2019	(4,723)	(15,180)	(337,981)	-	(357,884)
Charge for year	(3,722)	(4,109)	(36,391)	-	(44,222)
Disposals	-	-	97	-	97
Balance at 31 December 2019	**(8,445)**	**(19,289)**	**(374,275)**	**-**	**(402,009)**
Charge for year	**(5,159)**	**(4,629)**	**(43,787)**	**-**	**(53,575)**
Elimination of depreciation on valuation	**12,420**	**-**	**-**	**-**	**12,420**
Balance at 31 December 2020	**(1,184)**	**(23,918)**	**(418,062)**	**-**	**(443,164)**
Carrying amount					
At 31 December 2020	**248,847**	**7,673**	**127,193**	**17,723**	**401,436**
At 31 December 2019	205,632	8,867	98,142	204,007	516,648

The revaluation surplus includes a revaluation increase of K25,648,000 credited to statement of other comprehensive income and revaluation reserve in shareholders' equity (note 33) and a revaluation decrease of K7,435,000. The revaluation decrease has been adjusted for previously recognised revaluation surplus of K1,242,000 relating to the impacted buildings. The resulting net impairment loss of K6,193,000 is included in other expenses (note 8a) in the statement of profit of loss.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

18. PROPERTY AND EQUIPMENT (CONTINUED)

The capital work in progress relates to all capital expenditure items on projects that are yet to be completed. Capital work in progress is not depreciated until it is capitalised and brought into use.

An independent valuation of the Bank's Leasehold buildings was carried out by Sandridge Associates to determine the fair value of the buildings as at 31 December 2020. The valuation conforms to Valuation Manual as determined by reference to IAS 16: – Property, Plant and Equipment. Had the buildings been measured on historical cost basis, their carrying amount would be as follows:

	2020 K' 000	2019 K' 000
Cost	**159,300**	132,074
Accumulated depreciation	**(7,565)**	(4,862)
Carrying amount	**151,735**	127,212

In accordance with section 279 of the Companies Act (as amended), 2017 the Register of Land and Buildings is available for inspection by members and their duly authorised agents at the Registered Records Office of the Bank.

19. INTANGIBLE ASSET

	Football Players K' 000	Computer software K' 000	Capital work in progress K' 000	Total K' 000
GROUP				
Cost				
Balance at 1 January 2019	-	99,141	-	99,141
Additions	4,281	12,129	-	16,410
Balance at 31 December 2019	4,281	111,270	-	115,551
Additions	**2,718**	**171,249**	**88,025**	**261,992**
Disposals	**(1,501)**	**-**	**-**	**(1,501)**
Balance at 31 December 2020	**5,498**	**282,519**	**88,025**	**376,042**
Accumulated depreciation				
Balance at 1 January 2019	-	(89,056.00)	-	(89,056)
Charge for year	**(1,677.00)**	**(5,450.00)**	**-**	**(7,127)**
Balance at 31 December 2019	**(1,677.00)**	**(94,506.00)**	**-**	**(96,183)**
Charge for year	**(2,101.00)**	**(20,677.00)**	**-**	**(22,778)**
Disposal	**764**	**-**	**-**	**764**
Balance at 31 December 2020	**(3,014.00)**	**(115,183.00)**	**-**	**(118,197)**
Carrying amount				
At 31 December 2020	**2,484**	**167,336**	**88,025**	**257,845**
At 31 December 2019	2,604	16,764	-	19,368
BANK				
Cost				
Balance at 1 January 2019		99,140	-	99,140
Additions		12,129	-	12,129
Balance at 31 December 2019		**111,269**	**-**	**111,269**
Additions		**171,249**	**74,212**	**245,461**
Balance at 31 December 2020		**282,518**	**74,212**	**356,730**
Accumulated depreciation				
Balance at 1 January 2019		(89,056)	-	(89,056)
Charge for year		(5,450)	-	(5,450)
Balance at 31 December 2019		**(94,506)**	**-**	**(94,506)**
Charge for year		**(20,677)**	**-**	**(20,677)**
Balance at 31 December 2020		**(115,183)**	**-**	**(115,183)**
Carrying amount				
At 31 December 2020		**167,335**	**74,212**	**241,547**
At 31 December 2019		16,763	-	16,763

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

20. CAPITAL COMMITMENTS

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Property and equipment	**9,618**	13,989	**9,618**	13,989
Other Intangibles	**8,713**	2,524	**8,713**	2,524
Authorised and contracted for	**18,331**	16,513	**18,331**	16,513
Current	**18,331**	16,513	**18,331**	16,513

The commitments will be met from internally generated funds and borrowings.

21. LEASES

(i) Right of use asset (ROU)	ATM K' 000	PREMISES K' 000	Total K' 000
GROUP			
Balance at 1 January 2019	10,872	75,836	86,708
Additions	3,322	13,398	16,720
Amortisation charge for the year	(3,395)	(13,691)	(17,086)
Balance at 31 December 2019	10,799	75,543	86,342
Additions	1,510	2,034	3,544
Terminations- Lease contract	-	(502)	(502)
Modifications- Change of currency and rates	423	2,105	2,528
Amortisation charge for the year	(3,209)	(16,171)	(19,380)
Balance at 31 December 2020	**9,523**	**63,009**	**72,532**
BANK			
Cost			
Balance at 1 January 2019	10,872	75,836	86,708
Additions	3,322	12,334	15,656
Amortisation charge for the year	(3,395)	(13,483)	(16,878)
Balance at 31 December 2019	10,799	74,687	85,486
Additions	1,510	1,864	3,374
Lease modifications	423	2,105	2,528
Amortisation charge for the year	(3,209)	(15,817)	(19,026)
Balance at 31 December 2020	**9,523**	**62,839**	**72,362**

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

21. LEASES (CONTINUED)

(ii) Leases liabilities	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Opening balance	**120,402**	100,564	**119,585**	100,564
Additions in the year	**2,586**	16,720	**2,416**	15,656
Payments	**(35,039)**	(24,172)	**(34,477)**	(23,639)
Interest expense	**13,097**	11,054	**13,024**	11,013
Modifications	**(4,323)**	-	**(4,323)**	-
Derecognition- Lease contract	**(502)**	-	**-**	-
Foreign currency remeasurements	**49,548**	16,236	**49,374**	15,991
Closing balance	**145,769**	120,402	**145,599**	119,585
Analysed as:				
Current	**3,680**	1,527	**3,510**	710
Non-current	**142,089**	118,875	**142,089**	118,875
	145,769	120,402	**145,599**	119,585
Maturity analysis				
Year 1	**31,050**	22,465	**30,750**	22,265
Year 2	**28,206**	67,031	**27,906**	66,831
Year 3	**20,066**	12,834	**20,066**	12,834
Year 4	**14,822**	2,835	**14,822**	2,835
Year 5	**14,297**	17,641	**14,297**	17,641
Onwards	**46,798**	4,313	**46,798**	4,313
	155,239	127,119	**154,639**	126,719

The modifications were due to the change in payment currency from US Dollars to Kwacha. The net modification on both the leased asset and lease obligations have been recognised in the income statement.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

21. LEASES (CONTINUED)

(iii) Amounts recognised in profit and loss	ATM K' 000	PREMISES K' 000	Total K' 000
2020			
GROUP			
Depreciation expense for right of use asset	**3,114**	**16,266**	**19,380**
Interest expense on lease liabilities	**1,014**	**12,083**	**13,097**
Loss/(gain) on modification of leases	**1,058**	**(5,380)**	**(4,322)**
Gain on Modification - asset	**(1,381)**	**(2,105)**	**(3,486)**
Expense relating to short-term lease and low value	**-**	**-**	**-**
Foreign currency remeasurements	**2,173**	**47,374**	**49,547**
	5,978	**68,238**	**74,216**
BANK			
Depreciation expense for right of use asset	**3,114**	**15,912**	**19,026**
Interest expense on lease liabilities	**1,014**	**12,010**	**13,024**
Loss/(gain) on modification of leases	**1,058**	**(5,380)**	**(4,322)**
Gain on Modification - asset	**(1,381)**	**(2,105)**	**(3,486)**
Short term contracts	**-**	**-**	**-**
Foreign currency remeasurements	**2,173**	**47,200**	**49,373**
	5,978	**67,637**	**73,615**
2019			
GROUP			
Depreciation expense for right of use asset	3,395	13,691	17,086
Interest expense on lease liabilities	1,749	9,305	11,054
Expense relating to short-term lease and low value	1,040	1,919	2,959
Foreign currency remeasurements	690	15,546	16,236
	6,874	40,461	47,335
BANK			
Depreciation expense for right of use asset	3,395	13,483	16,878
Interest expense on lease liabilities	1,749	9,264	11,013
Expense relating to short-term lease and low value	1,040	1,919	2,959
Foreign currency remeasurements	690	15,301	15,991
	6,874	39,967	46,841

Lease terms are negotiated on an individual basis. The average tenure of ATM leases is 2years while for premises its 5years. Kwacha denominated leases are discounted at an average discount rate of 25%, Dollar denominated leases are discounted at an average rate of 8%.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

22. TRADING ASSETS AND DERIVATIVES HELD FOR RISK MANAGEMENT

	Risk exposure	Nominal Amount K' 000	Fair value K' 000
(i) Derivatives Financial Assets			
2020			
Foreign currency derivatives	Currency risk	**369,658**	**48,276**
Foreign currency spot		**42,300**	**8**
		411,958	**48,284**
Current		**411,958**	**48,284**
2019			
Foreign currency derivatives	Currency risk	60,133	8,821
Current		60,133	8,821
(ii) Derivatives Financial Liabilities			
2020			
Foreign Currency derivatives	Currency risk	**6,345**	**1,176**
Foreign Currency spot	Currency risk	**15,573**	**9**
		21,918	**1,185**
Current		**21,918**	**1,185**
2019			
Foreign Currency derivatives	Currency risk	223,810	18,496
Foreign Currency spot	Currency risk	17,909	49
		241,719	18,545
Current		241,719	18,545
The valuation technique and fair value hierarchy are disclosed in note 43			

(iii) Trading assets

GROUP AND BANK	2020 K' 000	2019 K' 000
Government securities		
At the start of the year	**435,204**	-
Movement during the year		
- Additions	**680,413**	903,631
- Maturity/sale	**(539,668)**	(487,468)
	140,745	416,163
Fair value	63,757	19,041
	639,706	435,204
Current	**639,706**	435,204

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

23. INVESTMENT IN SUBSIDIARIES

The principle subsidiaries of the Bank are as follows:	Number of shares	Issued capital K' 000	Effective share holding K' 000	Value of Investment K' 000
Digital Shared Services Limited	20,000	20	100	18,527
Zanaco Sporting Club Limited	15,000	15	100	15
				18,542

	Cash K' 000	Non-cash K' 000	Total K' 000
Digital Shared Services Limited	10,898	7,629	18,527
Zanaco Sporting Club Limited	-	15	15
	10,898	7,644	18,542

In the opinion of the Directors, the value of the Bank's interests in the subsidiary companies is not less than the amounts at which they are stated in these financial statements.

Digital Shared Services Limited (DSSL)
Digital Shared Services Limited is a wholly owned subsidiary of the Bank. It was incorporated on 7 February 2019 in Zambia and is a registered financial technology company authorised to provide payment and technology solutions. DSSL commenced its operations on 1 June 2019.

Zanaco Sporting Club Limited (Zanaco FC)
ZANACO FC is a football club registered under Companies Act and regulated by the Football Association of Zambia (FAZ). The Club is a subsidiary of the Bank with 100% shareholding. The club is involved in playing professional football in the Zambian League. It commenced its operations as a separate legal entity on 1 January 2019 with a separate management team and Board from the Bank. Prior to 2019, the club used to be managed internally by the Bank.

24. DEPOSITS FROM OTHER BANKS

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Local Banks	**510,114**	101,040	**510,114**	101,040
Items in course of collections	**44**	2,184	**44**	2,184
	510,158	103,224	**510,158**	103,224
Current	**510,158**	103,224	**510,158**	103,224

25. CUSTOMER DEPOSITS

Demand	**10,564,514**	6,030,552	**10,570,905**	6,030,932
Fixed	**3,794,506**	2,766,828	**3,802,095**	2,766,828
Savings	**1,339,069**	1,050,335	**1,339,069**	1,050,335
Total	**15,698,089**	9,847,715	**15,712,069**	9,848,095
Current	**15,698,089**	9,847,715	**15,712,069**	9,848,095

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

26. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 35% (2019: 35%). The movement on the Deferred income tax is as follows:	Group 2020 K'000	Group 2019 K'000	Bank 2020 K'000	Bank 2019 K'000
At beginning of year	**60,683**	51,760	**60,683**	51,760
Impact of IFRS 16 adoption	**-**	13,299	**-**	13,299
Restated balance	**60,683**	65,059	**60,683**	65,059
Temporal timing differences	**46,896**	(5,899)	**46,896**	(5,899)
Deferred income tax movement to reserves	**(7,092)**	1,523	**(7,092)**	1,523
At end of year	**100,487**	60,683	**100,487**	60,683

2020 GROUP AND BANK	At beginning of year K'000	Charged (credited to profit or loss) K'000	Credited to equity K'000	At the end of the year K'000
Deferred income tax liabilities				
Property and equipment	**(15,555)**	**(5,027)**	**-**	**(20,582)**
Revaluation surplus	**(31,924)**	**-**	**(6,053)**	**(37,977)**
Defined benefit plan	**(5,643)**	**-**	**58**	**(5,585)**
Deferred income tax movement to reserves	**(53,122)**	**(5,027)**	**(5,995)**	**(64,144)**
Deferred income tax assets				
Deferred arrangement fees	**10,048**	**(10,048)**	**-**	**-**
Credit impairment	**73,488**	**60,248**	**-**	**133,736**
Right of use (ROU)	**6,542**	**(2,020)**	**(1,097)**	**3,425**
Employee Benefits	**23,552**	**3,918**	**-**	**27,470**
Legal provisions	**175**	**(175)**	**-**	**-**
	113,805	**51,923**	**(1,097)**	**164,631**
Deferred income tax asset	**60,683**	**46,896**	**(7,092)**	**100,487**
Deferred income tax Analysis			**2020 K'000**	**2019 K'000**
Within 12 months			**30,895**	30,094
After 12 months			**69,592**	30,589
			100,487	60,683
2019				
GROUP AND BANK				
Deferred income tax liabilities				
Property and equipment	(21,758)	6,203	-	(15,555)
Revaluation surplus	(23,328)	-	(8,596)	(31,924)
Defined benefit plan	(17,797)	-	12,154	(5,643)
Deferred income tax movement to reserves	(62,883)	6,203	3,558	(53,122)
Deferred income tax assets				
Deferred arrangement fees	10,048	-	-	10,048
Credit impairment	104,595	(34,376)	-	70,219
Right of use (ROU)	-	(4,722)	(2,035)	(6,757)
Employee Benefits	-	23,552	-	23,552
Legal provisions	-	175	-	175
Impairment on GRZ Bonds	-	3,269	-	3,269
	114,643	(12,102)	(2,035)	100,506
Net Deferred income tax asset	51,760	(5,899)	1,523	47,384
Impact of IFRS 16 adoption	13,299	-	-	13,299
Restated balance	65,059	(5,899)	1,523	60,683

Deferred income tax asset has been recognised as the Directors have considered the view that the Bank will remain profitable for the foreseeable future.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

27. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans
Defined contribution plans are a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.
The Bank's contributions to the defined contribution schemes are charged to profit or loss in the year to which they relate. The Bank has no further obligation once contributions have been paid.

The total contributions paid on the defined benefit scheme in the year was **K13,442,000** (2019: K15,802,000) by the Bank at rates specified in the rules of the plans.

National Pension Scheme
The Group and all its employees contribute to the National Pension Scheme ("NAPSA"), which is a statutory defined contribution plan.

Zambia State Insurance Corporation Limited
Certain employees of the Bank are also members of a defined retirement contribution plan operated by Zambia State Insurance Corporation Limited. The Bank is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits.

Defined benefit plans
The objective of the funds is to settle the post employment benefit for qualifying past and current employees. The defined benefit plans are administered by a separate Fund that is legally separated from the Bank. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its Articles of Association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

The scheme typically exposes the Bank to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a dis-count rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance company. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2020 by QED of Johannesburg, South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2020	2019
Discount rate %	**33.5**	29.0
Expected rate of salary increase %	**18.7**	16.3
Average longevity at retirement age for current employees (future pensioners) in years		
Males	**22.5**	22.5
Females	**26.9**	26.9

Amounts recognised in profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

	2020 K'000	2019 K'000
Service cost:		
Current service cost	**(1,185)**	903
Curtailment cost	**96,224**	-
Net interest expense	**15,245**	(9,280)
Components of defined benefit costs recognised in profit or loss	**110,284**	(8,377
Remeasurement		
Actuarial (gains/losses on demographic assumptions	**16,420**	-
Actuarial (gains)/losses arising from changes in financial assumptions	**(8,580)**	(101,482)
Change in the effect of the asset ceiling	**(140,645)**	112,433
Actuarial losses arising from experience (liabilities)	**(3,157)**	64,349
Actuarial losses arising from experience (assets)	**39,288**	(16,397)
Components of defined benefit cost recognised in other comprehensive income	**(96,674)**	58,903

The current service cost and the net interest income for the year are included in other operating income in profit or loss amounting to **K110,284,000** (2019: 8,377,000).

The fund experienced mass exits of employees through various separation schemes pursued by the Bank, including early retirements and retrenchments. Employees that separated were paid out of the fund on a refund of contributions basis; this basis of payment is greater than the liabilities, so this caused a significant strain in the valuation period. We have accounted for this cost for known and anticipated exits as a Curtailment Cost in the year.

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

The change due to the asset ceiling arises due to the fact that even though the fund recorded an actuarial surplus, the Bank as sponsor has a limit to the contribution break, and can not therefore recognise the entire asset in accordance with the rules of the pension fund.

	31 December 2020 K'000	31 December 2019 K'000
Present value of funded defined benefit	**(53,424)**	(85,314)
Fair value of plan assets	**71,617**	213,871
Effect of asset ceiling	**(2,237)**	(112,433)
Refined benefit	**15,956**	16,124

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

	2020 K'000	2019 K'000
At 1 January	**16,124**	50,848
Income /(Expense) recognised in OCI	**96,674**	(58,903)
(Expense)/income recognised in profit and loss	**(110,284)**	8,377
Company contributions	**13,442**	15,802
Asset at end of year	**15,956**	16,124
Movements in the present value of the defined benefit obligation in the current year were as follows:		
Opening defined benefit obligation	**85,314**	135,155
Current service cost (Excluding Interest)	**(1,185)**	903
Administrative expenses	**(1,452)**	(1,391)
Member Contributions	**6,721**	7,901
Benefit paid	**(162,806)**	(40,883)
Interest costs	**25,925**	20762
Curtailment	**96,224**	-
Actuarial (gains)/losses on demographic assumptions	**16,420**	-
Actuarial (gains)/losses on economic assumptions	**(8,580)**	(101,482)
Actuarial (losses)/gains on experience	**(3,157)**	64,349
Closing defined benefit obligation	**53,424**	85,314
Movements in the fair value of the Plan Assets in the current year were as follows:		
Plan assets at the beginning of the period	**213,871**	186,003
Interest income on plan Assets	**41,129**	30,042
Administrative expense	**(1,452)**	(1,391)
Member contributions	**6,721**	7,901
Employer contributions	**13,442**	15,802
Benefits payments	**(162,806)**	(40,883)
Actuarial (losses)/gains on plan assets	**(39,288)**	16,397
Closing fair value of Plan Asset	**71,617**	213,871
The fair value of the plan assets at the end of the reporting		
Cash and cash equivalents	**9,488**	63,182
Equity investments categorised by industry		
– Consumer industry	**5,278**	15,082
– Manufacturing industry	**1,389**	734
– Energy and utilities	**51**	1,436
– Financial institutions	**10,257**	27,251
Sub total	**26,463**	107,685
Debt investments categorised by funds		
– BBB and lower (includes Government bonds and treasury	**7,840**	41,604
– not rated (includes corporate bonds and private debt)	**25,563**	19,842
Subtotal	**33,403**	61,446
Properties categorised by nature and location:		
– Retail shops	**300**	1,170
– Commercial properties	**3,899**	15,214
– Residential properties	**7,552**	29,472
Subtotal	**11,751**	45,856
Less PIA Levy & Management Fees	**-**	(1,116)
Total	**71,617**	213,871

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

27. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair values of properties and derivatives are not based on quoted market prices in active markets.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by K57,567 (increase by K49,762).
- If Inflation rate is 100 basis points higher (lower), the defined benefit obligation would decrease by K49,512 (increase by K57,881).
- If the mortality rate is 1 Year higher (lower), the defined benefit obligation would decrease by K53,624 (increase by K53,214).

Each year an Asset-Liability-Matching study is performed in which the consequences of the strategic investment policies are analysed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study. Main strategic choices that are formulated in the actuarial and technical policy document of the Fund are:

- Asset mix based on 40% equity instruments and 60% debt instruments.
- Interest rate sensitivity caused by the duration of the defined benefit obligation should be reduced by 0.1% by the use of debt instruments in combination with interest rate swaps.
- Maintaining an equity buffer that gives a 85% assurance that assets are sufficient within the next 12 months.

There has been no change in the process used by the Bank to manage its risks from prior periods. The Bank funds the cost of the entitlements expected to be earned on a yearly basis. Employees pay a fixed 10% of pensionable salary. The residual contribution (including back service payments) is paid by the Bank. The funding requirements are based on the local actuarial measurement framework. In this framework, the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increases (back-service liabilities) are paid immediately to the Fund.

The average duration of the benefit obligation at 31 December 2020 is 9.7years (2019: 12.7years). This number can be analysed as follows:

- active members: years 9.7years (2019: 12.7years);
- deferred members: zero years (2019: 0years); and
- retired members: zero years (2019: 0years).

The defined benefit obligation at 31 December 2020 is allocated among the three categories of membership as follows:

- active members: K53,424,000 (2019: K85,314,000);
- retired members: K Nil (2019: K Nil); and
- deferred members: K Nil (2019: K Nil)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

Reconciliation of funded status	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Present value of obligations	**(53,424)**	(85,314)	**(53,424)**	(85,314)
Fair value of plan assets	**71,617**	213,871	**71,617**	213,871
Surplus	**18,193**	128,557	**18,193**	128,557
Asset ceiling restriction	**(2,237)**	(112,433)	**(2,237)**	(112,433)
Prepaid pension cost after asset ceiling restriction	**15,956**	16,124	**15,956**	16,124

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

28. OTHER LIABILITIES AND ACCRUED EXPENSES

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Accrued expenses	**168,974**	142,073	**168,976**	142,073
Sundry payables	**119,242**	148,092	**105,301**	144,503
Card based payables	**71,467**	50,546	**71,467**	50,546
Deferred Arrangement Fees	**52,954**	62,564	**52,954**	62,564
Statutory payments	**48,968**	34,592	**46,154**	32,896
Bills payable	**917**	404	**917**	404
	462,522	438,271	**445,769**	432,986
Current	**462,522**	438,271	**445,769**	432,986

29. PROVISIONS FOR OTHER LIABILITIES

2020 **GROUP**	Post Employment K'000	Provision for Legal Cases K'000	Total K'000
At 1 January 2020	**25,244**	**5,242**	**30,486**
Provision	**211,776**	**5,961**	**217,737**
Payment	**(229,195)**	**(11,203)**	**(240,398)**
At 31 December 2020	**7,825**	**-**	**7,825**
Current	**7,825**	**-**	**7,825**
BANK			
At 1 January 2020	**23,778**	**5,242**	**29,020**
Provision	**208,555**	**5,961**	**214,516**
Payment	**(227,729)**	**(11,203)**	**(238,932)**
At 31 December 2020	**4,604**	**-**	**4,604**
Current	**4,604**	**-**	**4,604**
2019			
GROUP			
At 1 January 2019	36,196	8,535	44,731
Provision	25,244	5,242	30,486
Payment	(36,196)	(8,535)	(44,731)
At 31 December 2019	25,244	5,242	30,486
BANK			
At 1 January 2019	36,196	8,535	44,731
Provision	23,778	5,242	29,020
Payment	(36,196)	(8,535)	(44,731)
At 31 December 2019	23,778	5,242	29,020

Post Employment includes provisions for early retirement as well as gratuity provision for fixed term employees. The obligations are expected to be settled in the current financial year.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

30. BORROWINGS

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Payable to:				
"Nederlandse financierings-Maatschappij Voor Ontwikkelingslanden N.V (FMO)"	-	125,390	-	125,390
Pour LA Cooperation Economique (PROPARCO)	-	125,390	-	125,390
"Deutsche Investitions und entwicklungsgesellschaft mbh (DEG)"	-	-	-	-
African Development Bank (AFDB)	-	35,263	-	35,263
European Investment Bank (EIB)	**270,059**	8,326	**270,059**	8,326
Trade Development Bank (TDB)	**1,068,470**	105,997	**1,068,470**	105,997
	1,338,529	400,366	**1,338,529**	400,366
The movement during the year was as follows:				
At beginning of year	**400,366**	537,026	**400,366**	537,026
Repayments during the year(Principal)	**(422,670)**	(263,827)	**(422,670)**	(263,827)
Repayments during the year(Interest)	**(21,839)**	(31,312)	**(21,839)**	(31,312)
Proceeds from borrowings	**1,161,249**	97,293	**1,161,249**	97,293
At end of year	**221,423**	61,186	**221,423**	61,186
Repayable as follows:				
Current	**1,138,369**	317,006	**1,138,369**	317,006
Non-current	**200,160**	83,360	**200,160**	83,360
	1,338,529	400,366	**1,338,529**	400,366

The bank fully paid off its loan obligation to FMO, PROPARCO, DEG and AFBD. The bank acquired a new loan TDB with a tenure of one year. As at end of year 2020, the bank only had two loans outstanding from EIB and TDB.

Under the terms of the EIB loan, the Bank is required to observe inter alia, the following financial covenants:	2020 Covenants	2019 Covenants
-Total Capital/Total Assets: Minimum	**12.5%**	12.5%
-Non Performing Loans /Total Loans: not to exceed	**15%**	15%
-Liquidity ratio: Minimum	**30%**	30%
-Provisions / Non Performing Loans: Minim	**50%**	50%
The Bank complied with the financial covenants with the lender.		
Other terms of the loan		
Tenure	**6 Years**	5 Years
Interest rate (6months libor plus margin)	**3.75%**	5.49%
Currency(Contract amount in EUR but disbursed in USD Equivalent)	**USD**	USD
Under the terms of the TDB loan, the Bank is required to observe inter alia, the following financial covenants:		
-Net Income/Total Assets Ratio: Minimum	**2.5%**	-
-Net Income/Loans and Advances Ratio: Minimum	**3.5%**	-
-Cost to Income Ratio: not to exceed	**85%**	-
-Non-interest Revenue/Total Operating : Minimum	**56%**	-
-Quick Assets/Total Deposits Ratio: Minimum	**20%**	-
-Total Loans/Deposits and Borrowed Funds Ratio: not to exceed	**80%**	-
-Loan Loss Provision/Non-performing Loans Ratio: Minimum	**70%**	-
-Loan Loss Provision/Total Loans and Advances Ratio: Minimum	**5%**	-
-Gross NPL Ratio: not to exceed	**12%**	-
-Total Capital/Loans and Advances Ratio: Minimum	**5%**	-
-Capital Adequacy Ratio: Minimum	**12%**	-
-Solvency Ratio: Minimum	**6%**	-
-Total Capital to Total Deposits Ratio: Minimum	**4%**	-

The bank will start submitting the financial covenants in Q1 2021 according to the loan agreement with the lender. Therefore, there were no covenants submitted as at end of year 2020.

Other terms of the loan		
Tenure	**1 Year**	-
Interest rate (12months libor plus margin)	**5.33%**	-
Currency	**USD**	-

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

31. SHARE CAPITAL

Group and Bank	Number of shares	Ordinary shares K'000	Share premium K'000
Balance at 31 December 2020	**1,443,750,000**	**86,625**	**2,622**
Balance at 31 December 2019	1,443,750,000	86,625	2,622

The total authorised number of ordinary shares is 1,666,666,667 (2019:1,666,666,667) with a par value of 6 Ngwee per share. 14,437,750,000 (2019: 14,437,750,000) million shares are issued and fully paid.

	2020	2019
Arise B.V	**45.59%**	45.59%
Industrial Development Corporation	**25%**	25%
LuSE free Float	**19.41%**	19.41%
National Pension Scheme	**10%**	10%
	100%	100%

All shareholding below 10% have been included under LuSE free Float.

32. STATUTORY RESERVES

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
At beginning and end of year	**86,625**	86,625	**86,625**	86,625

The regulatory reserve represents an appropriation from retained earnings to comply with SI No.182 of 1995, which states that a Bank or financial institution should maintain reserve fund and should, out of its retained earnings of distributable profits from the current financial year, transfer to such a fund, before any dividend is declared.

33. GENERAL RESERVES

At beginning of year	**95,249**	297,782	**95,249**	297,782
Transfer to retained earnings	**(53,282)**	(202,533)	**(53,282)**	(202,533)
At end of year	**41,967**	95,249	**41,967**	95,249

The balance in the general Banking reserve represents the excess of impairment provisions determined in accordance with the Bank of Zambia prudential regulations over the impairment provisions recognised in accordance with IFRS 9 financial instruments.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

34. REVALUATION RESERVES

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Property and equipment				
At beginning of year	**53,362**	63,144	**53,362**	63,144
Revaluation surplus	**24,406**	-	**24,406**	-
Deferred income tax on revaluation (note 26)	**(6,053)**	(8,596)	**(6,053)**	(8,596)
Transfer of excess depreciation	**(1,824)**	(1,824)	**(1,824)**	(1,824)
Deferred income tax on excess depreciation	**638**	638	**638**	638
At end of year	**70,529**	53,362	**70,529**	53,362

The impairment loss was recognised based on expert valuation by independent valuers Sandridge Associates engaged by the Bank as at 31 December 2020.

35. OFF STATEMENT OF FINANCIAL POSITION, FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Contingent liabilities				
Guarantees and performance bonds(note 16(c))	**181,975**	98,221	**181,975**	98,221
Acceptances and letters of credit (note 16(c))	**286,171**	1,512,011	**286,171**	1,512,011
	468,146	1,610,232	**468,146**	1,610,232

In common with other Banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An acceptance is an undertaking by a Bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

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

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

Derivative instruments	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Derivative financial assets	**411,958**	60,133	**411,958**	60,133
Derivative financial liabilities	**21,918**	241,719	**21,918**	241,719

These relates to nominal balances of derivative financial instruments held by the Group.

Other commitments

Undrawn stand-by facilities, credit lines and Other commitments to lend	**841,726**	264,536	**843,543**	264,536

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

36. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE STATEMENT CASH FLOWS STATEMENT

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Cash and balances with Bank of Zambia (Note 13)	**2,283,591**	1,790,323	**2,283,377**	1,790,259
Less: Statutory deposits requirement	**(1,371,195)**	(803,088)	**(1,371,195)**	(803,088)
	912,396	987,235	**912,182**	987,171
Balances with other banks (Note 14)	**2,003,275**	734,957	**2,003,275**	734,957
Amounts due to Banking Institutions (Note 24)	**(510,158)**	(103,224)	**(510,158)**	(103,224)
	2,405,513	1,618,968	**2,405,299**	1,618,904

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the Bank of Zambia, Treasury Bills and other eligible bills, and amounts due from other Banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Zambia.

Banks are required to maintain a prescribed minimum cash balance with the Bank of Zambia that is not available to finance the Bank's day-to-day activities. The amount is determined as 5% of the average outstanding customer deposits over a cash reserve cycle period of one week. The Bank met the minimum required threshold during the year.

37. RELATED PARTY TRANSACTIONS

The Group, transacts with its subsidiaries at arms length in the ordinary course of business. The following were the transactions with the Bank.

37.1. Significant shareholding

The Bank has no defined parent company, none of the shareholders have more than 50% controlling shares , neither does any of them have defined control of the board through appointed Directors.

37.2. Dividends paid

	2020 %	2019 %	2020 K'000	2019 K'000
Arise B.V	**45.59%**	45.59%	**34,252**	16,777
Industrial Development Corporation	**25.00%**	25.00%	**18,782**	9,200
LuSE free Float	**19.41%**	19.41%	**14,790**	7,192
National Pension Scheme Authority	**10.00%**	10.00%	**7,304**	3,578
	100%	100%	**75,128**	36,747

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

37.3. Subsidiaries of Zambia National Commercial Bank Plc

The Bank holds 100% of the ordinary share capital of Digital Shared Services Limited (DSSL) and ZANACO Sporting Club Limited (ZANACO FC) as disclosed below. In the normal course of business, the following were the transactions in the year with the Bank:

		Related party	2020 K'000	2019 K'000
	Nature of transaction			
(i)	**Equity contribution**			
	Share capital contribution (note 23)	DSSL	-	18,527
	Share capital contribution (note 23)	ZANACO FC	-	15
(ii)	**Trading transactions**			
	Marketing and advertising contract	ZANACO FC	**19,000**	19,000
	Fidor implementation project	DSSL	**755**	1,320
	Trade development services	DSSL	**450**	-
	SABS project implementation	DSSL	**212**	-
	Micro merchant revenue share	DSSL	**48**	-
(iii)	**Recharges**			
	Management fees - seconded staff	DSSL	**1147**	1,269
	Management fees - seconded staff	ZANACO FC	**48**	449
(iv)	**Amounts due to related parties**			
	Marketing and advertising contract	ZANACO FC	**526**	466
	SABS project implementation	DSSL	**212**	-
	Micro merchant revenue share	DSSL	**48**	-
	Unpaid share capital contribution	DSSL	-	2800
			786	3,266

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

		Related party	2020 K'000	2019 K'000
(v)	**Amounts due from related parties**			
	Recharges for seconded staff	DSSL	**2,417**	1,269
	Recharges for seconded staff	ZANACO FC	**497**	449
	Recharges for professional fees	ZANACO FC	**374**	-
	Recharges for professional fees	DSSL	**374**	-
	Office rent	ZANACO FC	**200**	80
	Information technology costs	DSSL	**98**	57
	Recharges for football league	ZANACO FC	**-**	3,904
			3,960	5,759
(vi)	**Deposits**			
	Deposits held with the Bank	DSSL	**13,761**	346
	Deposits held with the Bank	ZANACO FC	**219**	23
			13,980	369
(vii)	**Loans to related parties**			
	Term loan	DSSL	**23,658**	-
	Overdraft facility	ZANACO FC	**11,784**	3,032
	Term loan	ZANACO FC	**5,793**	-
			41,235	3,032

The overdraft facility issued to ZANACO FC is for operational funding requirements to assist the club meet its costs during the league matches. The Overdraft is denominated in kwacha and attracts interest at a margin of 13% plus ruling Bank of Zambia policy rate. The facility is unsecured.

The overdraft will be repaid from the Bank's 2021 sponsorship costs.

37.4. Loans to Shareholders

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Loans and advances issued	**31,507**	14,096	**31,507**	14,096

37.5. Directors' interests in the Group

During the year, the Group officers (a director, company secretary or executive officer of a Group) made declarations of interest in Company transactions and business as follows:

Ms. C.C Lumpa	Interests declared	- 0
Mr. H. Mtine	Interests declared	- 11
Ms. M t' Lam	Interests declared	- 5
Mr. Y. Chinyanta	Interests declared	- 0
Mr. L De Villiers	Interests declared	- 2
Mr. P Wanjelani	Interests declared	- 3
Mr. M Chikuba	Interests declared	- 1
Ms. Chearyp Sokoni	Interests declared	- 8

37.6. Shareholder's guarantee

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
During the year, the Government of the Republic of Zambia had guaranteed outstanding letters of credit in respect of support for FISP program in favour of Nerias Investment and is expiring on 23 January 2021.	**8,000**	177,692	**8,000**	177,692

37.7. Key management personnel compensation

Salaries and other short-term employment benefits	**76,757**	56,033	**76,757**	56,033
Post-employment benefits	**2,757**	1,497	**2,757**	1,497
	79,514	57,530	**79,514**	57,530
Loans and advances	**35,423**	35,923	**35,423**	35,923

Key management personnel includes executive management and their immediate direct reports.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

37.8. Non Executive Directors' remuneration

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
In connection with the management of the Group/Bank	**13,422**	7,437	**12,257**	7,046
Analysis is as follows:				
(i) Directors fees:				
Ms. C. Lumpa			**1,906**	1,155
Mr. H. Mtine			**1,642**	1,011
Mr. P. Wanjelani			**1,709**	982
Mr. Y. Chinyanta			**1,498**	936
Mr M. Chikuba			**1,489**	828
Mrs. Mir'jam 't Lam*			**1,231**	824
Mr Len De Villiers*			**1,231**	824
Mrs C. Sokoni			**1,551**	486
			12,257	7,046
Zanaco Football club				
Ngenda Nyambe	**310**	75		
Patrick Wanjelani	**225**	93		
Hastings Mtine	**201**	62		
Edward Mutale	**80**	125		
	816	355		
Digital Shared Services Limited				
Sabinah Chitweh	**69**	8		
Hendrik Mulder	**73**	8		
Wane Ngambi	**89**	8		
Andrew S K Kapula	**118**	12		
Perry Blacher	**349**	36		

* These Directors are seconded from Arise B.V,

Shareholder deposits				
Deposits	**455,877**	605,959	**455,877**	605,959

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

38. OPERATING SEGMENTS

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Management Committee (the Chief Operating Officer, the Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Risk Officer, Chief Human Resources Officer, Company Secretary and Chief Legal Officer and Chief Digital Officer) who are responsible for allocating resources to the reportable segments and assesses its performance. The executive management assesses the performance of All operating segments by using Profit before tax as a way of determining operating segments.

The Group has three main business segments:
Retail Banking:-incorporating private Banking services, private customer current accounts, savings, deposits, investment savings products, safe custody, credit and debit cards, consumer loans and mortgages.

Corporate Banking:-incorporating direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities and foreign currency.

Treasury management:-consists of all treasury transactions, which consists of investments in Government securities, placements, Open market operations and all other transactions related to dealing in foreign currencies.

Other Group operations comprise, Credit and computer services, none of which constitute a separate reportable segment and business activities.

As the Group segment operations are all financial with a majority of revenues deriving from interest and the Executive Management Committee relying primarily on net interest revenues to assess the performance of the segment, the total interest income for all reportable segments is presented on a net basis.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charge, net fee and commission income and other income and these are reported at before tax to each segment and are in agreement with IFRS standards as at each reporting date.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

38. OPERATING SEGMENTS (CONTINUED)

The information provided about each segment is based on the internal reports about segment profit or loss, which are regularly reviewed by Executive Management Committee.

Business segments

- Corporate Banking
- Retail Banking
- Treasury

Business segments as at 31 December 2020

	Corporate Banking K' 000	Retail Banking K' 000	Treasury K' 000	Others K' 000	Total K'000
Net interest income	**796,467**	**500,625**	**59,965**	**-**	**1,357,057**
Non-funded income	**261,682**	**321,392**	**437,905**	**36,349**	**1,057,328**
Total income	**1,058,149**	**822,017**	**497,870**	**36,349**	**2,414,385**
Operational expenses	**(456,716)**	**(1,195,238)**	**(118,498)**	**-**	**(1,770,452)**
Impairment	**(101,775)**	**(48,829)**	**(111,239)**	**-**	**(261,843)**
Total operating expenses	**(558,491)**	**(1,244,068)**	**(229,737)**	**-**	**(2,032,295)**
Profit before tax	**499,658**	**(422,051)**	**268,134**	**36,349**	**382,090**
Business segments as at 31 December 2019					
Net interest income	563,542	334,747	6,580	-	904,869
Non-funded income	195,223	310,061	175,213	8,377	688,874
Total income	758,765	644,808	181,793	8,377	1,593,743
Operational expenses	(318,097)	(820,580)	(85,612)	-	(1,224,289)
Write-back/(Impairment)	38,726	(58,432)	(9,341)	-	(29,047)
Total operating expenses	(279,371)	(879,012)	(94,953)	-	(1,253,336)
Profit before tax	479,394	(234,204)	86,840	8,377	340,407
Business segments as at 31 December 2020					
Total assets for reportable segments	**6,009,435**	**1,356,622**	**10,784,424**	**1,226,882**	**19,377,363**
Total liabilities for reportable segments	**11,816,552**	**3,895,517**	**1,338,529**	**2,326,765**	**19,377,363**
Business segments as at 31 December 2019					
Total assets for reportable segments	3,387,241	1,431,164	5,903,497	1,174,064	11,895,966
Total liabilities for reportable segments	7,358,582	2,375,750	103,184	2,058,450	11,895,966

Management have considered the requirement of IFRS 8: Operating Segment paragraph 21 which requires an entity to disclose reported segment profit or loss, segment assets and segment liabilities. On the basis of information available to management, it is not practical to disclose profit or loss for each reportable segment.

Notes to the Annual Financial Statements (Continued)

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39 LEGAL CLAIMS

The Group in the ordinary course of Business currently has claims brought under three different cases by former employees who left under voluntary separation, early retirement and normal retirement. The claimants are requesting for a recalculation of their terminal benefits as they claim they were underpaid. Although one case was previously concluded in favor of the Group, an adverse decision on either of the other two, would reverse the decision of the earlier matter on appeal.

The outcome of the case is uncertain and there is currently no present obligation on the Group. The Group lawyers have advised that it is possible but not probable, that the action will not succeed.

40. SIGNIFICANT EVENTS DURING THE YEAR

In March 2020. The World Health Organisation (WHO) declared COVID-19 as pandemic. This resulted in the Bank having to invoke the business continuity plans under its risk management policy and saw a percentage of staff working remotely from their homes both at head office and branches in order to reduce the risk of infection. As part of the procedures, the government took measures such as restrictions on movement of people as well as initiated lockdowns on some businesses. This has resulted in a negative impact on the economy with GDP forecast being expected to drop to negative four percent (-4%) at the end of 2020 and consequently the economy going into a recession.

The dramatic spread of COVID-19 has disrupted lives and livelihoods, with effects being experienced throughout communities and businesses worldwide. The Bank moved quickly to set up the necessary infrastructure to support its customers, employees and communities.

Impact on employees
The safety and wellbeing of employees has been, and remains, a priority for the Bank throughout the pandemic. The Bank has redesigned the new ways of working and interaction by introducing remote working systems. Over 90% of Head Office employees are now working from home, while those in branches were placed on a robust rotation schedule. In an effort to maintain the health and physical wellbeing of employees, the Bank has employed various programs to ensure all offices and branches were made COVID-secure and employees are provided with the required personal protection equipment to safeguard themselves from contacting the virus.

Impact on customers
From the start of the pandemic, it was clear that this was not business as usual. The Covid-19 outbreak posed significant challenges for our customers. The Bank reacted quickly by offering payment holidays and restructuring loan payments, as well as extending relief loans or temporary credit limit increases for borrowers. The Bank has taken steps to keep many of its branches open while protecting customers and employees. The Bank continues to invest in digital capabilities in order to consistently support customers under these exceptionally challenging conditions.

The Bank is also in the process of accessing a portion of the Bank of Zambia Targeted Medium Term Refinancing Facility (TMTRF) line. The TMTRF funding is earmarked to help priority economic sectors hit by the Covid-19 crisis:
- Tourism
- Agriculture
- Manufacturing
- Energy

Credit Risk
The economic disruption caused by Covid-19, together with the worsened economic outlook, resulted in a material increase in expected credit losses (ECL) and other credit impairment charges. The ECL models were recalibrated to consider stressed PDs, moratoriums granted and restructured facilities. The reported ECL against loans and advances to customers increased from K211 million as at 31 December 2019 to K297 million as at 31 December 2020 (note 16). Further, the Bank suffered modification losses of K9million arising from restructured facilities.

Operational costs
Throughout 2020 the Bank put in place extraordinary measures of financial and non-financial support in response to the pandemic. The Bank invested in agile technology to enable staff work from home. The Bank also implemented various initiatives that ensures offices and branches are Covid secure and also made donations towards supporting governments Covid response efforts. During the year, the Bank incurred additional Covid related expenses amounting to K14 million.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

40. SIGNIFICANT EVENTS DURING THE YEAR (CONTINUED)

Fair value measurement
The valuation techniques for fair value measurement of financial instruments have been assessed by the Bank to determine if there is any impact due to market uncertainty and volatility introduced by the COVID-19 on the fair value measurements of these instruments. When assessing the fair value measurement of financial instruments for the year, the Bank has considered whether the inputs in the valuation are reflective of the prevailing market indicators and not merely driven by internal considerations. Factors considered include; changes in interest rates, funding costs, bond yields, rental costs, pricing of foreign currency forwards and swaps.

Impact of COVID-19 on non- financial instruments have been assessed by considering indicators such as market related interest charges, rental costs, occupancy rates and disappearance of an active market.

There has been no material impact on the Bank assessment of fair value measurement arising from COVID-19. The Bank valuation process and techniques for financial instruments have been disclosed on note 43.

Going concern
The Directors reviewed the Group and Company's budgets and capital forecasts for the next 5 years and considered the Group and Company's ability to continue as a going concern in light of the current and anticipated economic conditions. These budgets took the impact of the COVID-19 pandemic into consideration, including projections of the impact on the Bank's capital, funding and liquidity requirements, all of which have remained above the regulatory requirements.

As part of this assessment, the Directors considered the sufficiency of the Group's financial resources throughout the pandemic. The management of the Group's financial resources which includes, capital, funding and liquidity are critical enablers of the achievement of the Group's stated growth and return targets and is driven by the Group's overall risk appetite. Forecast growth in earnings and balance sheet risk weighted assets (RWA) is based on the Group's macroeconomic outlook and is evaluated against available financial resources considering the requirements of the regulator. The Group has an in-house economic units comprised of experts who provide forecast input based on available information. The expected outcomes and constraints are then stress tested, and the Group sets targets through different business cycles and scenarios. The Group equally has a capital plan and forecast that it stresses to consider the impact of the forecast financial performance.

On the basis of this review, and in light of the current financial position and profitable trading history, the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

41. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which include market risk, currency risk, interest rate risk, credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Impact of COVID-19
Due to the pandemic, governments across the world have declared national lockdowns, which have resulted in extensive travel restrictions and quarantine measures being implemented. Businesses globally have had to limit or suspend their operations and as such, the COVID-19 measures implemented by governments globally have severely impacted a wide range of industries, including the financial sector. Due to the global economic downturn, a significant increase in the volatility of the financial and commodities markets worldwide has been noted. Due to the unprecedented nature of the COVID-19 pandemic, it is not possible to accurately predict the full extent and duration of its economic impact.

While the specific areas of judgment detailed in note 3 did not change, given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impact of such a pandemic has resulted in, additional judgments having been applied within those identified areas, which has resulted in changes to the estimates and assumptions that have been applied in the measurement of some of the Bank's assets and liabilities from the prior period.

Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank's robust risk management framework continues to be applied across the various risk areas introduced by financial instruments and the various risk owners continue to monitor the impact of COVID-19 on the Bank's risk profile.

Non-financial risks emerging from global movement restrictions and remote working by our staff, counter-parties, clients and suppliers are being identified, assessed, managed and governed through timely application of the Bank's risk management framework.

41.1 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counter-parties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting internal and regulatory limits on the amount of risk it is willing to accept for individual counter-parties and for segmental and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk department under the Board's oversight. The Group has defined limits to ensure that the exposure is within the risk appetite. The ALCO is chaired by the Chief Executive Officer with representation from all key stakeholders within the Group which include, the Chief Risk Officer, Chief Financial Officer, Chief Credit Risk Officer, Chief Commercial Officer, Head of Economic Research Unit and the Treasurer.

The Group has established a quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions, country risk rating and debt default. Counterparty limits are established using internal and regulatory targets enforced using a risk appetite statement, which monitors whether exposures to industries or counterparties is in line with targets. The quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

41.1.1 Credit-related commitment risk

The Group makes available to its customers guarantees that may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. The Group also makes commitment on loans offered to customers but not disbursed in part or in full. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

41.1.2 Impairment assessment

(i) Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interGroup balances defaulted and takes immediate action when the required intra day payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include but are not limited to:

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

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months for Retail customers and six consecutive months for Agriculture, Corporate and SME customers. The Group will reclassify an asset first to Stage 2 and then to Stage 1.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

The cure observation periods are set out as below:

Retail customers
3 months out of default status reclassified from Stage 3 to Stage 2
6 months out of default status reclassified from Stage 2 to Stage 1

Agriculture, Corporate, SME customers and other financial assets
6 months out of default status reclassified from Stage 3 to Stage 2
12 months out of default status reclassified from Stage 2 to Stage 1

(ii) The Group's internal rating and PD estimation process

Internal rating

The Group's Credit Risk Department operates its internal rating scale. The scale incorporates both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These ratings are consistent with guidance in the Basel framework. The internal credit grades are then assigned into IFRS 9 stages as appropriate as is shown in the table below:

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

In addition to considering the arrears on the instrument, the internal risk assessment takes into account qualitative factors that have been disclosed under "Default definition - 41.1.2(i)."

(iii) Probability of Default (PD) estimation process

The Group generates probabilities of default using the migration matrix. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information such as inflation, exchange rates , copper prices & electricity generation as well IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

The Group has generated the probabilities of default from Standard & Poor's (S&P) for Sovereign debt. S&P provides corporate, sovereign local currency and sovereign foreign currency cumulative average default rates for each rating modifier over the time horizon. The Group has adopted the S&P local currency rating as an independent and appropriate proxy for determination of the probability of default to apply for Sovereign debt.

(iv) Exposure at Default (EAD)

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

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modeling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios.

(v) Loss Given Default (LGD)

LGD for loans and advances values are assessed every three months by account managers, reviewed and approved by the Group's specialised Credit Risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held or derived historical Recovery Rate (RR).

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

The full impact of the COVID-19 pandemic on LGDs is yet to be realized and analyzed, however, it is clear that the economic effects of the pandemic will adversely impact LGDs in the medium to long-term, particularly for borrowers in the most vulnerable sectors.

Given that the Government of the Republic of Zambia has no history of defaulting on its local currency denominated sovereign debt, it is impractical to develop reasonable estimates of LGD on the basis of historical loss experience. In the absence of this information, the Group has relied on estimates of LGDs on sovereign debt from reputable independent third parties such as Basel Committee, Moody's and Standard & Poors.

(vi) Significant Increase in Credit Risk (SICR)

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when a contractual payment is 30 days or more past due.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained in Note 41.1.2 (i) are a significant increase in credit risk as opposed to a default.

Following the "pandemic" declaration of the COVID-19 virus by WHO and the subsequent lockdown measures during the 2020 financial year, it became clear that the pandemic will adversely impact some economic sectors, making some of the borrowing customers vulnerable.

In recognition of the potential impact of the pandemic on credit impairments, the ECL models were recalibrated. The following specific measures were taken and are noteworthy:

- Application of stressors to PDs – this was done for clients on the restructured list as well as those who, despite not being restructured, were deemed by Management to be at risk.
- All the PDs were modified for restructured borrowers, while the obligors were maintained in stage 1 as there was no actual default on credit obligations, except the temporary liquidity challenges occasioned by COVID-19 which both the Bank and the client projected.
- Adjustments to the ECL model were also made to capture moratorium periods and different restructure types which affected the EAD amortization.

The Bank remains cognisant of the potential SICR on some borrowers on the portfolio and will continue to closely monitor the situation at a counterparty level to proactively identify and respond to any signs of financial distress. It is also important to note that the sectoral and client-by-client approach taken by the Bank (as opposed to wholesale modification of PDs) was in recognition of the fact that vulnerability levels for each sector are different, and the same is true for clients within the same sector.

Significant increase in credit risk for Sovereign debt is assessed when the contractual payments are 30 days or more past due. Additional consideration for assessment of SICR for Sovereign debt considers the country risk rating and debt default.

The SICR indicator is determined by comparing the movement in credit rating at origination date and credit rating at the reporting date.

Notch movements give an indicator of the number of downgrades required in order for the asset to be considered to have a significant change in the credit rating. Therefore, highly rated assets for example those in the AAA category would need to move down three notches to AA- (or below) for it to be considered a significant increase in credit risk whereas an asset rated B- would only need to move down one notch. SICR is determined based on the credit rating at origination date and at reporting date as well as the notch movements.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(vii) Assessment of impairment

The Group categorises its loans based on the common characteristics and behavior. For purposes of impairment the loan book is segmented into the following groups.

- Retail;
- SME;
- Corporate; and
- Agriculture.

41.1.3 Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 2 Summary of significant accounting policies and in Note 3 Significant accounting judgments, estimates and assumptions. The Group obtains the data used from third party sources (BMI Research - Fitch) and the Economic Research unit of the Group verifies the accuracy of inputs to the Group' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Group's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios as at 31 December 2019 and 2020.

Considering the significant changes in the Zambian macroeconomic outlook due to the Covid-19 pandemic, the ECL model was recalibrated during the financial year 2020 by the Group in conjunction with an external consultant to incorporate revised variables such as GDP, inflation, FX rates among others in order to capture the economic stress obtaining in the operating environment. This in turn affected forecasted PDs.

This economic stress scenario considers revised macro-economic variables forecasts and an assessment of the highest level of deviation that the average historical estimates of each macro-economic variable has ever deviated for the last 20 years in comparison with the mean value level of Nominal GDP growth in the last 20 years, taking the difference in the highest level of deviation and the normal deviation as the additional shock. Also, based on the segment-specific variables, the worst-case multipliers were obtained as an average of the additional shock for the variables chosen. The worst-case multipliers were then adjusted to take into effect the level of highest deviations whilst the best-case multipliers were retained at the normal standard deviations. These revised multipliers were then taken through the Bank's PD macro-economic model to obtain revised estimates of the PD macro-adjustment factors. The final output of the assessment was a set of stressed PDs. The stressed PDs were then used to assess impairment on the accounts with restructures. Stress factors were applied on the PDs of identified clients in vulnerable sectors to capture the potential increase in credit risk occasioned by the Pandemic.

The tables show the values of the key current and forward looking probabilities of default used in each of the economic scenarios for the ECL calculations. Variables used are: Year on year copper prices, year on year electricity generation, real GDP growth rate, year on year inflation, year on year USD to ZMW ratio, year on year public external debt stock, year on year population, year on year lending rate and the year on year GDP per capita. The figures for Subsequent years represent a long-term average and so are the same for each scenario.

The tables below show the forecast probabilities of default and credit conversion factors used in estimating the expected credit loss. Note that the tables show the marginal forecasted PDs at each point in time, rather than the cumulative PDs. The Marginal PDs may therefore reduce over time but still increase from a cumulative point of view. Furthermore, there are instances where the marginal lifetime PDs may be lower than the 12months marginal PDs.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

(a)	Agriculture	ECL scenario	Assigned probability	2021	2022	2023	2024	2025	Subsequent years
			%	%	%	%	%	%	%
	31-Dec-20	**ECL scenario**							
	Key driver	Upside	**30**	**0.0466**	**0.0373**	**0.0307**	**0.0234**	**0.0172**	**0.0121**
		Base case	**50**	**0.0519**	**0.0406**	**0.0315**	**0.0245**	**0.0190**	**0.0113**
		Downside	**20**	**0.0577**	**0.0440**	**0.0322**	**0.0255**	**0.0207**	**0.0103**
		Lifetime PD							
		Upside	**30**	**0.0275**	**0.0182**	**0.0150**	**0.0114**	**0.0084**	**0.0059**
		Base case	**50**	**0.0096**	**0.0070**	**0.0054**	**0.0041**	**0.0032**	**0.0055**
		Downside	**20**	**0.0339**	**0.0213**	**0.0155**	**0.0123**	**0.0100**	**0.0050**
	31-Dec-19	ECL scenario							
	Key driver	Upside	20	0.0381	0.0359	0.0255	0.0230	-	0.0141
		Base case	50	0.0381	0.0336	0.0243	0.0214	-	0.0140
		Downside	30	0.0376	0.0379	0.0264	0.0245	-	0.0141

(b)	Corporate	ECL scenario	Assigned probability	2021	2022	2023	2024	2025	Subsequent years
			%	%	%	%	%	%	%
	31-Dec-20	**ECL scenario**							
	Key driver	Upside	**30**	**0.0186**	**0.0173**	**0.0163**	**0.0145**	**0.0128**	**0.0116**
		Base case	**50**	**0.0211**	**0.0193**	**0.0176**	**0.0161**	**0.0147**	**0.0120**
		Downside	**20**	**0.0240**	**0.0215**	**0.0190**	**0.0178**	**0.0168**	**0.0124**
		Lifetime PD							
		Upside	**30**	**0.0170**	**0.0156**	**0.0147**	**0.0131**	**0.0115**	**0.0104**
		Base case	**50**	**0.0192**	**0.0173**	**0.0158**	**0.0144**	**0.0131**	**0.0108**
		Downside	**20**	**0.0216**	**0.0191**	**0.0168**	**0.0158**	**0.0149**	**0.0110**
	31-Dec-19	ECL scenario							
		Upside	20	0.0155	0.0174	0.0153	0.0133	-	0.0123
		Base case	50	0.0155	0.0174	0.0153	0.0133	-	0.0123
		Downside	30	0.0155	0.0174	0.0153	0.0133	-	0.0123

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

(c)	Retail	ECL scenario	"Assigned probability"	2021	2022	2023	2024	2025	Subsequent years
			%	%	%	%	%	%	%
	31-Dec-20	**12month PD**							
	Key drivers	Upside	**30**	**0.0207**	**0.0190**	**0.0178**	**0.0154**	**0.0130**	**0.0120**
		Base case	**50**	**0.0233**	**0.0211**	**0.0190**	**0.0172**	**0.0155**	**0.0125**
		Downside	**20**	**0.0262**	**0.0233**	**0.0202**	**0.0191**	**0.0184**	**0.0128**
		Lifetime PD							
		Upside	**30**	**0.0202**	**0.0183**	**0.0172**	**0.0149**	**0.0125**	**0.0116**
		Base case	**50**	**0.0227**	**0.0203**	**0.0184**	**0.0166**	**0.0150**	**0.0120**
		Downside	**20**	**0.0256**	**0.0225**	**0.0195**	**0.0184**	**0.0178**	**0.0124**
	31-Dec-19								
	Key drivers	Upside	20	0.0149	0.0151	0.0121	0.0133	-	0.0118
		Base case	50	0.0149	0.0151	0.0121	0.0133	-	0.0118
		Downside	30	0.0149	0.0151	0.0121	0.0133	-	0.0118

(d)	SME	ECL scenario	Assigned probability	2021	2022	2023	2024	2025	Subsequent years
			%	%	%	%	%	%	%
	31-Dec-20	**12month PD**							
	Key drivers	Upside	**20**	**0.0263**	**0.0236**	**0.0212**	**0.0162**	**0.0139**	**0.0130**
		Base case	**50**	**0.0279**	**0.0249**	**0.0220**	**0.0194**	**0.0172**	**0.0131**
		Downside	**30**	**0.0297**	**0.0262**	**0.0228**	**0.0232**	**0.0210**	**0.0132**
		Lifetime PD							
		Upside	**20**	**0.0202**	**0.0183**	**0.0172**	**0.0149**	**0.0125**	**0.0116**
		Base case	**50**	**0.0252**	**0.0186**	**0.0164**	**0.0145**	**0.0128**	**0.0098**
		Downside	**30**	**0.0263**	**0.0192**	**0.0167**	**0.0169**	**0.0153**	**0.0097**
	31-Dec-19								
	Key drivers	Upside	20	0.0326	0.0299	0.0231	0.0134	-	0.0143
		Base case	50	0.0326	0.0299	0.0231	0.0134	-	0.0143
		Downside	30	0.0326	0.0299	0.0231	0.0134	-	0.0143

Note that the PD scenario weightings across the credit portfolio were adjusted in the financial year 2020 because the group elected to generate in-house weights that reflected management's judgment backed by appropriate economic models that capture the general economic conditions in the country . The 2019 data was based on a Basel proxy data.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

(e) Off Balance Sheet

Exposure type	Credit conversion factor (CCF)	2021	2022	2023	2024	2025	Subsequent years
		%	%	%	%	%	%
31-Dec-20							
Guarantee	4	4	4	4	4	4	4
Letters of credit	12	12	12	12	12	12	12
Overdrafts	64	64	64	64	64	64	64
31-Dec-19							
Guarantee	100	100	100	100	100	100	100
Letters of credit	20	20	20	20	20	20	20
Other undrawn	50	50	50	50	50	50	50

Credit Conversion Factors (CCFs) were derived from independent guidance from the Basel framework. In subsequent years, the Bank will adopt internally generated CCFs over a reasonable observation period of customer conversion behavioral norms.

(f) Sovereign Debt

	ECL scenario	"Assigned probability"	2021	2022	2023	2024	2025	Subsequent years
		%	%	%	%	%	%	%
	12month PD							
31-Dec-20	Upside	20	0.0236	0.0236	0.0212	0.0162	0.0139	0.0130
Key drivers	Base casse	50	0.0279	0.0249	0.0220	0.0194	0.0172	0.0131
	Downside	30	0.0297	0.0262	0.0228	0.0232	0.0210	0.0132
	Lifetime PD							
	Upside	20	0.0202	0.0183	0.0172	0.0149	0.0125	0.0116
	Base casse	50	0.0252	0.0186	0.0164	0.0145	0.0128	0.0098
	Downside	30	0.0263	0.0192	0.0167	0.0169	0.0153	0.0097

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)
41.1 Credit risk (continued)
41.1.4 Overview of modified loans (continued)

41.1.4 Overview of modified loans

From a risk management point of view, once an asset is forborne or modified, the Bank's Portfolio Workout and Corporate Restructuring and Recovery departments continue to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 1, 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Bank.

	Performing facilities		Non performing facilities			
	Stages 1&2		Stage 3			
Sector	Gross amortised cost before modification	Net modification (Gain)/ loss	Gross Amortised cost Before	Net modification (Gain)/loss	Total Gross Amortised cost	Total (Gain)/ loss
2020	K'000	K'000	K'000	K'000	K'000	K'000
Agriculture	88,096	669	5,002	131	93,098	800
Corporate	465,598	4,914	123,596	1,851	589,194	6,765
Retail	-	-	-	-	-	-
SME	181,040	2,045	777	(5)	181,817	2,040
	734,734	7,628	129,375	1,977	864,109	9,605

	Performing facilities		Non performing facilities			
	Stages 1&2		Stage 3			
Sector	Gross amortised cost before modification	Net modification (Gain)/ loss	Gross Amortised cost Before	Net modification (Gain)/loss	Total Gross Amortised cost	Total (Gain)/ loss
2019	K'000	K'000	K'000	K'000	K'000	K'000
Agriculture	122,864	(1,226)	-	-	122,864	(1,226)
Corporate	14,105	-	-	-	14,105	-
Retail	-	-	-	-	-	-
SME	-	-	-	-	-	-
	136,969	(1,226)	-	-	136,969	(1,226)

Following the outbreak of COVID-19 during the financial year ended 2020, the Bank undertook a review of the total lending portfolio to identify the more vulnerable sectors and clients. This invariably entailed engaging clients to appreciate how both their supply and demand sides were being impacted by the pandemic. In line with this proactive approach, the Bank moved to restructure facilities (mainly through granting of payment holidays), for clients where it was evident that temporary disruptions would occur as a result of the pandemic, despite the clients not being in default.

The resultant impact of COVID-19 pandemic on the economy is a liquidity crisis experienced by a large number of customers across the Bank. In order to assist customers, the Bank has provided various relief measures across the different customer segments, namely Retail, Commercial and Corporate in order to mitigate the impact of the COVID-19 pandemic on their ability to service their facilities. The relief provided was in form of:

- Capital repayment moratoriums;
- Extension of loan tenures; and
- Interest payment moratoriums.

The Bank reviewed the modifications resulting from the COVID-19 relief given to customers and determined that these did not meet the derecognition criteria set out in the IFRS 9. No further disclosures have been made as these modifications mostly affected customers in stage 1.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.4 Overview of modified loans (continued)

The following tables provide a summary of the Group's restructured assets. Accounting policies for restructuring and forbearance are described in the Group's Special Assets Management (SAM) policy.

GROUP 31-Dec-20	Stages 1&2					Stages 3					
	Gross carrying amount K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total performing forborne loans K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total non-performing forborne loans K'000	Total forborne loans K'000	Forbearance ratio K'000
Loans and advances to customers:											
Corporate lending	4,978,933	465,598	-	-	465,598	-	123,596	-	123,596	589,194	12%
Retail lending	1,491,668	-	-	-	-	-	-	-	-	-	0%
Agriculture lending	640,965	700	87,396	-	88,096	-	5,002	-	5,002	93,098	15%
SME lending	510,675	181,040	-	-	181,040	-	777	-	777	181,817	0%
Total loans and advances to customers	7,622,241	647,338	87,396	-	734,734	-	129,375	-	129,375	864,109	11%

31-Dec-20	Gross amount of restructured loans			ECLs of restructure loans		
	Stages 1&2 K'000	Stage 3 K'000	Total K'000	stages 1&2 K'000	Stage 3 K'000	Total K'000
Loans and advances to customers:						
Agriculture lending	88,096	5,002	93,098	6,603	-	6,603
Corporate lending	465,598	123,596	589,194	5,505	-	5,505
Retail lending	-	-	-	-	-	-
SME lending	181,040	777	181,817	4,292	-	4,292
Total loans and advances to customers	734,734	129,375	864,109	16,400	-	16,400

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)
41.1 Credit risk (continued)
41.1.4 Overview of modified loans (continued)

The following tables provide a summary of the Group's restructured assets. Accounting policies for restructuring and forbearance are described in the Group's Special Assets Management (SAM) policy.

BANK 31-Dec-20		Stages 1&2				Stages 3					
	Gross carrying amount K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total performing forborne loans K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total non-performing forborne loans K'000	Total forborne loans K'000	Forbearance ratio K'000
Loans and advances to customers:											
Corporate lending	4,978,933	465,598	-	-	465,598	-	123,596	-	123,596	589,194	12%
Retail lending	1,491,668	-	-	-	-	-	-	-	-	-	0%
Agriculture lending	640,965	700	87,396.00	-	88,096	-	5,002	-	5,002	93,098	15%
SME lending	551,935	181,040	-	-	181,040	-	777	-	777	181,817	0%
Total loans and advances to customers	7,663,501	647,338	87,396	-	734,734	-	129,375	-	129,375	864,109	11%

31-Dec-20	Gross amount of restructured loans			ECLs of restructure loans		
	Stages 1&2 K'000	Stage 3 K'000	Total K'000	stages 1&2 K'000	Stage 3 K'000	Total K'000
Loans and advances to customers:						
Agriculture lending	88,096	5,002	93,098	6,603	-	6,603
Corporate lending	465,598	123,596	589,194	5,505	-	5,505
Retail lending	-	-	-	-	-	-
SME lending	181,040	777	181,817	4,292	-	4,292
Total loans and advances to customers	734,734	129,375	864,109	16,400	-	16,400

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.4 Overview of modified loans (continued)

The following tables provide a summary of the Group's restructured assets. Accounting policies for restructuring and forbearance are described in the Group's Special Assets Management (SAM) policy.

GROUP 31-Dec-19		Stages 1&2				Stages 3					
	Gross carrying amount K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total performing forborne loans K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total non-performing forborne loans K'000	Total forborne loans K'000	Forbearance ratio K'000
Loans and advances to customers:											
Corporate lending	2,670,335	-	13,766	-	13,766	-	-	-	-	13,766	1%
Retail lending	1,508,009	-	-	-	-	-	-	-	-	-	0%
Agriculture lending	528,421	-	102,562	-	102,562	-	-	-	-	102,562	19%
SME lending	320,744	-	-	-	-	-	-	-	-	-	0%
Total loans and advances to customers	5,027,509	-	116,328	-	116,328	-	-	-	-	116,328	2%

31-Dec-19	Gross amount of restructured loans			ECLs of restructure loans		
	Stages 1&2 K'000	Stage 3 K'000	Total K'000	stages 1&2 K'000	Stage 3 K'000	Total K'000
Loans and advances to customers:						
Agriculture lending	102,562	-	102,562	880	-	880
Corporate lending	13,766	-	13,766	-	-	-
Retail lending	-	-	-	-	-	-
SME lending	-	-	-	-	-	-
Total loans and advances to customers	116,328	-	116,328	880	-	880

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.4 Overview of modified loans (continued)

BANK 31-Dec-19	Stages 1&2					Stages 3					
	Gross carrying amount K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total performing forborne loans K'000	Temporal modification to T&Cs K'000	Permanent modification to T&Cs K'000	Refinancing K'000	Total non-performing forborne loans K'000	Total forborne loans K'000	Forbearance ratio K'000
Loans and advances to customers:											
Corporate lending	2,670,335	-	13,766	-	13,766	-	-	-	-	13,766	1%
Retail lending	1,508,009	-	-	-	-	-	-	-	-	-	0%
Agriculture lending	528,421	-	102,562	-	102,562	-	-	-	-	102,562	19%
SME lending	323,776	-	-	-	-	-	-	-	-	-	0%
Total loans and advances to customers	5,030,541	-	116,328	-	116,328	-	-	-	-	116,328	2%

31-Dec-19	Gross amount of restructured loans			ECLs of restructure loans		
	Stages 1&2 K'000	Stage 3 K'000	Total K'000	stages 1&2 K'000	Stage 3 K'000	Total K'000
Loans and advances to customers:						
Agriculture lending	102,562	-	102,562	880	-	880
Corporate lending	13,766	-	13,766	-	-	-
Retail lending	-	-	-	-	-	-
SME lending	-	-	-	-	-	-
Total loans and advances to customers	116,328	-	116,328	880	-	880

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.5 Fair value of collateral held

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

- Mortgages over residential, commercial and agricultural properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt instruments; and
- Cash cover.

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

Collateral values are determined through professional appraisals commissioned by the Bank at origination of credit facilities. Assessed open market values (OMV) of collateral are subject to internal haircuts in determining collateral adequacy for lending purposes. For IFRS impairment considerations, it is the Bank's policy to use the forced sale values (FSV) of collateral less the estimated allocated costs to dispose of collateral. The Bank is not permitted to sell or repledge the collateral in the absence of default by owner. During the year the Bank foreclosed and repossessed property held as collateral from defaulting customers amounting to **K394,502,580** (2019: K52,947,000).

Repossessed properties are managed off Balance sheet and only get recognised on Balance sheet when the property has been sold.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.5 Fair value of collateral held (continued)

GROUP

31 December 2020

Financial assets	Maximum exposure to credit risk K'000	Cash K'000	Securities K'000	3rd party/ Govt guarantee K'000	Property K'000	Other K'000	Offsetting agreements K'000	Surplus collateral K'000	Total collateral K'000	net exposure K'000	Corresponding ECLs K'000
Cash and bank balances with central bank	912,396	-	-	-	-	-	-	-	-	912,396	-
Balances with other banks	2,003,275	-	-	-	-	-	-	-	-	2,003,275	-
Trading assets	639,706	-	-	-	-	-	-	-	-	639,706	-
Investment securities:										-	-
- Treasury bills	4,364,751	-	-	-	-	-	-	-	-	4,364,751	-
- Government bonds	1,613,895	-	-	-	-	-	-	-	-	1,613,895	-
Other Assets	158,808	-	-	-	-	-	-	-	-	158,808	-
Loans and advances to customers:											
Corporate lending	4,978,933	384,637	2,960,388	482,633	1,793,132	901,150	-	-	6,521,940	-	87,865
Retail lending	1,491,668	7,288	-	93	276,445	-	-	-	283,826	1,207,842	137,401
Agriculture lending	640,965	24,586	-	6,845	1,274,456	72,232	-	-	1,378,119	-	26,426
SME lending	510,675	40,373	-	84,453	675,872	6,928	-	-	807,626	-	18,844
Total financial assets	17,315,072	456,884	2,960,388	574,024	4,019,905	980,310	-	-	8,991,511	10,900,673	270,536
Off balance sheet											
Financial guarantees	-	158,517	-	11,725	73,109	-	-	-	243,351	-	1
Letters of credit	-	5,729	8,207	160,380	34,900	-	-	-	209,216	-	643
Other undrawn commitments	181,975	79,401	-	70,522	379,822	104,827	-	-	634,572	-	22,679
	181,975	43,647	8,207	242,627	487,831	104,827	-	-	1,087,139	-	23,323
Total (including off balance sheet)	17,497,047	700,531	2,968,595	816,651	4,507,736	1,085,137	-	-	10,078,650	10,900,673	293,859

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.5 Fair value of collateral held (continued)

BANK
31 December 2020

Financial assets	Maximum exposure to credit risk K'000	Cash K'000	Securities K'000	3rd party/ Govt guarantee K'000	Property K'000	Other K'000	Offsetting agreements K'000	Surplus collateral K'000	Total collateral K'000	net exposure K'000	Corresponding ECLs K'000
Cash and bank balances with central bank	912,182	-	-	-	-	-	-	-	-	912,182	-
Balances with other banks	2,003,275	-	-	-	-	-	-	-	-	2,003,275	-
Trading assets	639,706	-	-	-	-	-	-	-	-	639,706	-
Investments in Government securities:											
- Treasury bills	4,364,751	-	-	-	-	-	-	-	-	4,364,751	-
- Government bonds	1,613,895	-	-	-	-	-	-	-	-	1,613,895	-
Other Assets	154,074	-	-	-	-	-	-	-	-	154,074	-
Amounts due from related parties	3,960	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers:											
Corporate lending	4,978,933	384,637	2,960,388	482,633	1,793,132	901,150	-	-	6,521,940	-	87,865
Retail lending	1,491,668	7,288	-	93	276,445	-	-	-	283,826	1,207,842	137,401
Agriculture lending	640,965	24,586	-	6,845	1,274,456	72,232	-	-	1,378,119	-	26,426
SME lending	551,935	42,137	-	84,453	675,872	6,928	-	-	809,390	-	22,429
Total financial assets	17,355,344	458,648	2,960,388	574,024	4,019,905	980,310	-	-	8,993,275	10,895,725	274,121
Off balance sheet											
Financial guarantees	-	158,517	-	11,725	73,109	-	-	-	243,351	-	1
Letters of credit	-	5,729	8,207	160,380	34,900	-	-	-	209,216		644
Other undrawn commitments	-	79,401	-	70,522	379,822	104,827	-	-	634,572		22,679
	-	243,647	8,207	242,627	487,831	104,827	-	-	1,087,139	-	23,324
Total (including off balance sheet)	17,355,344	702,295	2,968,595	816,651	4,507,736	1,085,137	-	-	10,080,414	10,895,725	297,445

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)
41.1 Credit risk (continued)
41.1.5 Fair value of collateral held (continued)

GROUP
31 December 2019

Financial assets	Maximum exposure to credit risk K'000	Cash K'000	Securities K'000	3rd party/ Govt guarantee K'000	Property K'000	Other K'000	Offsetting agreements K'000	Surplus collateral K'000	Total collateral K'000	net exposure K'000	Corresponding ECLs K'000
Cash and Bank balances with central Bank	987,235	-	-	-	-	-	-	-	-	987,235	-
Balances with other Banks	734,957	-	-	-	-	-	-	-	-	734,957	-
Trading assets	435,204	-	-	-	-	-	-	-	-	435,204	-
Investment securities:									-	-	
- Treasury bills	1,090,408	-	-	-	-	-	-	-	-	1,090,408	-
- Government bonds	1,852,672	-	-	-	-	-	-	-	-	1,852,672	-
Other Assets	219,333	-	-	-	-	-	-	-	-	219,333	-
Loans and advances to customers:									-	-	-
Corporate lending	2,670,335	127,858	-	-	1,285,353	1,603	-	-	1,414,814	1,255,521	75,830
Retail lending	1,508,009	76,908	1,561,388	276,874	1,312,198	505,707	-	-	3,733,075		93,610
Agriculture lending	528,421	11,709	-	-	296,141	14,745	-	-	322,595	205,826	12,786
SME lending	320,744	17,124	-	-	564,315	50,376	-	-	631,815		23,179
Total financial assets	10,347,318	233,599	1,561,388	276,874	3,458,007	572,431	-	-	6,102,299	6,781,156	205,405
Off balance sheet											
Financial guarantees	98,221	53,192	-	-	35,062	48,239	-	-	136,493		429
Letters of credit	1,512,011	2,954	244,884	554,516	10,752	-	-	-	813,106	698,905	248
Other undrawn commitments	264,368	24,378	-	-	116,953	102,518	-	-	243,849	20,519	4,267
	1,874,600	80,524	244,884	554,516	162,767	150,757	-	-	1,193,448	719,424	4,944
Total (including off balance sheet)	12,221,918	314,123	1,806,272	831,390	3,620,774	723,188	-	-	7,295,747	7,500,580	210,349

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)
41.1 Credit risk (continued)
41.1.5 Fair value of collateral held (continued)

BANK
31 December 2019

Financial assets	Maximum exposure to credit risk K'000	Cash K'000	Securities K'000	3rd party/ Govt guarantee K'000	Property K'000	Other K'000	Offsetting agreements K'000	Surplus collateral K'000	Total collateral K'000	net exposure K'000	Corresponding ECLs K'000
Cash and Bank balances with central Bank	987,171	-	-	-	-	-	-	-	-	987,171	-
Balances with other Banks	734,957	-	-	-	-	-	-	-	-	734,957	-
Trading assets	435,204	-	-	-	-	-	-	-	-	435,204	-
Investments in Government securities:											
- Treasury bills	1,090,408	-	-	-	-	-	-	-	-	1,090,408	-
- Government bonds	1,852,672	-	-	-	-	-	-	-	-	1,852,672	-
Other Assets	218,879	-	-	-	-	-	-	-	-	218,879	-
Amounts due from related parties	5,759	-	-	-	-	-	-	-	-	5,759	-
Loans and advances to customers:											
Corporate lending	2,670,335	127,858	-	-	1,285,353	1,603	-	-	1,414,814	1,255,521	75,830
Retail lending	1,508,009	76,908	1,561,388	276,874	1,312,198	505,707	-	-	3,733,075		93,610
Agriculture lending	528,421	11,709	-	-	296,141	14,745	-	-	322,595	205,826	12,786
SME lending	323,776	17,124	-	-	564,315	50,376	-	-	631,815		23,679
Total financial assets	10,355,591	233,599	1,561,388	276,874	3,458,007	572,431	-	-	6,102,299	6,786,397	205,905
Off balance sheet											
Financial guarantees	98,221	53,192	-	-	35,062	48,239	-	-	136,493		429
Letters of credit	1,512,011	802,354	-	-	10,752	-	-	-	813,106	698,905	248
Other undrawn commitments	264,536	24,378	-	-	116,953	102,518	-	-	243,849	20,687	4,283
	1,874,768	879,924	-	-	162,767	150,757	-	-	1,193,448	719,592	4,960
Total (including off balance sheet)	12,230,359	1,113,523	1,561,388	276,874	3,620,774	723,188	-	-	7,295,747	7,505,989	210,865

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.6 Impairment sensitivity analysis

The most significant macro-economic assumptions affecting the ECL allowance are: annual copper prices, electricity generations, Inflations, and exchange rates.

(I) Probabilities of default: To test the sensitivity of the impairment to changes in the relevant macro-economic factors, an assumption that an improvement or downturn in these factors would result in a 1% decrease or increase, respectively, in the forecast probabilities of default has been made. Set out below are the changes to the ECL as at 31 December 2020 that would result from a decrease or increase of 1% in PDs.

GROUP
31 December 2020

Positive outlook **Assuming a 1% decrease in forecast probabilities of default:**	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	**26,177**	**87,345**	**136,507**	**18,675**	**2,452**	**15**	**20,472**	**291,643**
At 31 December 2020, if the forecast probabilities of default decreased by 1%, with all other variables held constant, net profit for the year would have increased by K2,105,000 to K208,763,000								
Negative outlook Assuming a 1% increase in forecast probabilities of default:								
Total ECL	**26,675**	**88,386**	**138,295**	**19,012**	**2,501**	**15**	**20,887**	**295,771**
At 31 December 2020, if the forecast probabilities of default increased by 1%, with all other variables held constant, net profit for the year would have decreased by K2,023,000 to K204,638,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.6 Impairment sensitivity analysis (continued)

BANK
31 December 2020

Positive outlook Assuming a 1% decrease in forecast probabilities of default:	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	26,177	87,345	136,507	22,225	2,452	15	20,624	295,345
At 31 December 2020, if the forecast probabilities of default decreased by 1%, with all other variables held constant, net profit for the year would have increased by K2,100,000 to K236,609,000								
Negative outlook Assuming a 1% increase in forecast probabilities of default:								
Total ECL	26,675	88,386	138,295	22,634	2,501	15	21,042	299,548
At 31 December 2020, if the forecast probabilities of default increased by 1%, with all other variables held constant, net profit for the year would have decreased by K2,104,000 to K232,406,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.6 Impairment sensitivity analysis (continued)

GROUP
31 December 2019

Positive outlook Assuming a 1% decrease in forecast probabilities of default:	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	12,876	72,331	97,129	21,745	425	246	4,224	208,976
At 31 December 2019, if the forecast probabilities of default decreased by 1%, with all other variables held constant, net profit for the year would have increased by K147,000 to K200,203,000								
Negative outlook Assuming a 1% increase in forecast probabilities of default:								
Total ECL	13,097	73,073	98,503	22,147	434	251	4,310	211,815
At 31 December 2019, if the forecast probabilities of default increased by 1%, with all other variables held constant, net profit for the year would have decreased by K2,692,000 to K197,364,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.6 Impairment sensitivity analysis (continued)

BANK
31 December 2019

Positive outlook Assuming a 1% decrease in forecast probabilities of default:	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	12,876	72,832	97,129	21,745	425	246	4,240	209,493
At 31 December 2019, if the forecast probabilities of default decreased by 1%, with all other variables held constant, net profit for the year would have increased by K146,000 to K214,801,000								
Negative outlook Assuming a 1% increase in forecast probabilities of default:								
Total ECL	13,097	73,574	98,503	22,147	434	251	4,326	212,332
At 31 December 2019, if the forecast probabilities of default increased by 1%, with all other variables held constant, net profit for the year would have decreased by K2,693,000 to K217,348,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)
41.1 Credit risk (continued)
41.1.6 Impairment sensitivity analysis (continued)

(ii) **Loss Given Default (LGD):** To test the sensitivity of the impairment to changes in the value of security held as well as the segment to recovery rates an assumption that an increase or decrease in these factors would result in a 10% decrease or increase, respectively, in the forecast LGDs has been made. Set out below are the changes to the ECL as at 31 December 2019 that would result from a decrease or increase of 10% in LGDs.

GROUP
31 December 2020

Positive outlook **Assuming a 10% decrease in LGDs:**	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	26,425	87,824	136,985	18,841	2,476	15	20,654	293,220
At 31 December 2019, if the LGDs decreased by 10%, with all other variables held constant, net profit for the year would have increased to K207,186,000								
Negative outlook Assuming a 10% increase in LGDs:								
Total ECL	26,427	87,907	137,817	18,847	16	2	23,219	294,235
At 31 December 2019, if the LGDs increased by 10%, with all other variables held constant, net profit for the year would have decreased to K206,171,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.6 Impairment sensitivity analysis (continued)

BANK
31 December 2020

Positive outlook Assuming a 10% decrease in LGDs:	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	26,425	87,824	136,985	22,419	2,476	15	20,808	296,952
At 31 December 2020, if the LGDs decreased by 10%, with all other variables held constant, net profit for the year would have increased to K235,002,000								
Negative outlook Assuming a 10% increase in LGDs:								
Total ECL	26,427	87,907	137,817	22,439	16	2	23,331	297,939
At 31 December 2020, if the LGDs increased by 10%, with all other variables held constant, net profit for the year would have decreased to K234,234,015,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.6 Impairment sensitivity analysis (continued)

GROUP
31 December 2019

Positive outlook Assuming a 10% decrease in LGDs:	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	12,979	72,202	96,519	21,939	429	239	4,214	208,521
At 31 December 2019, if the LGDs decreased by 10%, with all other variables held constant, net profit for the year would have increased to K200,658,000								
Negative outlook Assuming a 10% increase in LGDs:								
Total ECL	12,994	73,202	99,122	21,953	429	239	4,214	212,153
At 31 December 2019, if the LGDs increased by 10%, with all other variables held constant, net profit for the year would have decreased to K197,026,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)
41.1 Credit risk (continued)
41.1.6 Impairment sensitivity analysis (continue)

BANK
31 December 2019

Positive outlook Assuming a 10% decrease in LGDs:	Agriculture lending K'000	Corporate lending K'000	Retail lending K'000	SME lending K'000	Financial guarantees K'000	Other undrawn commitments K'000	Letters of credit K'000	Total K'000
Total ECL	12,979	72,703	96,519	21,939	429	239	4,230	209,038
At 31 December 2019, if the LGDs decreased by 10%, with all other variables held constant, net profit for the year would have increased to K212,655,000								
Negative outlook Assuming a 10% increase in LGDs:								
Total ECL	12,994	73,703	99,122	21,953	429	239	4,230	212,670
At 31 December 2019, if the LGDs increased by 10%, with all other variables held constant, net profit for the year would have decreased to K212,624,000								

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.7 Concentration of risk

Industry sector risk concentration were as follows for on-and off-statement of financial position.
Concentration risk relating to on-statement of financial statement position items:

GROUP 2020	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Balances with central Bank	912,401	-	-	-	-	-	-	912,401
Balances with other Banks	2,003,275	-	-	-	-	-	-	2,003,275
Trading assets	639,706	-	-	-	-	-	-	639,706
Loans and advances to customers	127,123	579,255	483,593	164,252	1,495,804	3,126,579	1,351,888	7,328,494
Investment securities	5,858,066	-	-	-	-	-	-	5,858,066
Other assets	158,808	-	-	-	-	-	-	158,808
At 31 December 2019	9,699,379	579,255	483,593	164,252	1,495,804	3,126,579	1,351,888	16,900,750
% of Total	57%	3%	3%	1%	9%	19%	8%	100%

BANK 2020	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Balances with central Bank	912,182	-	-	-	-	-	-	912,182
Balances with other Banks	2,003,275	-	-	-	-	-	-	2,003,275
Trading assets	639,706	-	-	-	-	-	-	639,706
Loans and advances to customers	148,874	579,255	483,593	164,252	1,495,804	3,142,392	1,351,887	7,366,057
Investment securities	5,858,066	-	-	-	-	-	-	5,858,066
Amounts due from related parties	3,960	-	-	-	-	-	-	3,960
Other assets	154,074	-	-	-	-	-	-	154,074
At 31 December 2019	9,720,137	579,255	483,593	164,252	1,495,804	3,142,392	1,351,887	16,937,320
% of Total	57%	3%	3%	1%	9%	19%	8%	100%

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.7 Concentration of risk(continued)

GROUP 2019	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Balances with central Bank	987,235	-	-	-	-	-	-	987,235
Balances with other Banks	734,957	-	-	-	-	-	-	734,957
Trading assets	435,204	-	-	-	-	-	-	435,204
Loans and advances to customers	109,316	309,932	261,021	370,109	1,429,920	924,927	1,411,935	4,817,160
Investment securities	2,943,080	-	-	-	-	-	-	2,943,080
Other assets	219,333	-	-	-	-	-	-	219,333
At 31 December 2019	5,429,125	309,932	261,021	370,109	1,429,920	924,927	1,411,935	10,136,969
% of Total	54%	3%	3%	4%	14%	9%	14%	100%

BANK 2019	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Balances with central Bank	987,171	-	-	-	-	-	-	987,171
Balances with other Banks	734,957	-	-	-	-	-	-	734,957
Trading assets	435,204	-	-	-	-	-	-	435,204
Loans and advances to customers	109,316	309,932	261,021	370,109	1,429,920	927,441	1,411,937	4,819,676
Investment securities	2,943,080	-	-	-	-	-	-	2,943,080
Amounts due from related parties	5,759	-	-	-	-	-	-	5,759
Other assets	218,879	-	-	-	-	-	-	218,879
At 31 December 2019	5,434,366	309,932	261,021	370,109	1,429,920	927,441	1,411,937	10,144,726
% of Total	54%	3%	3%	4%	14%	9%	14%	100%

Notes to the Annual Financial Statements (Continued)

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41. **FINANCIAL RISK MANAGEMENT (CONTINUED)**
41.1 **Credit risk (continued)**
41.1.7 **Concentration of risk (continued)**
Concentration risk exposures relating to off-statement of financial position items:

GROUP 2020	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Acceptances and letters of credit	-	744	-	917	-	284,511	-	286,172
Guarantee and performance bonds	-	-	47	25,451	-	156,477	-	181,975
Undrawn stand-by facilities, credit lines and other commitments to lend	139,413	1,274	103,181	27,236	295,209	273,408	2,004	841,725
At 31 December 2020	139,413	2,018	103,228	53,604	295,209	714,396	2,004	1,309,872

BANK 2020	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Acceptances and letters of credit	-	744	-	917	-	284,511	-	286,172
Guarantee and performance bonds	-	-	47	25,451	-	156,477	-	181,975
Undrawn stand-by facilities, credit lines and other commitments to lend	139,413	1,274	103,181	27,236	295,209	275,224	2,004	843,541
At 31 December 2020	139,413	2,018	103,228	53,604	295,209	716,212	2,004	1,311,688

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.1 Credit risk (continued)

41.1.7 Concentration of risk (continued)

Concentration risk relating to on-statement of financial statement position items:

GROUP 2019	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Acceptances and letters of credit	-	1,262	-	11,755	-	1,498,994	-	1,512,011
Guarantee and performance bonds	-	-	620	17,919	-	79,682	-	98,221
Undrawn stand-by facilities, credit lines and other commitments to lend	22,200	7,223	29,198	24,781	59,342	117,981	3,643	264,368
At 31 December 2019	22,200	8,485	29,818	54,455	59,342	1,696,657	3,643	1,874,600

BANK 2019	Financial K'000	Manufacturing K'000	Transport and communication K'000	Wholesale and retail trade K'000	Agriculture K'000	Other industries K'000	Individuals K'000	Total K'000
Acceptances and letters of credit	-	1,262	-	11,755	-	1,498,994	-	1,512,011
Guarantee and performance bonds	-	-	620	17,919	-	79,682	-	98,221
Undrawn stand-by facilities, credit lines and other commitments to lend	22,200	7,223	29,198	24,781	59,342	118,149	3,643	264,536
At 31 December 2019	22,200	8,485	29,818	54,455	59,342	1,696,825	3,643	1,874,768

41.2 Liquidity risk

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

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Liquidity risk (continued)

41.2 Liquidity Maturity analysis (continued)

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by the remaining contractual maturities at the reporting date and from financial assets by expected maturity dates.

GROUP	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
31 December 2020								
Liabilities								
Customer deposits	15,650,874	283,637	279,961	1,826,481	-	-	-	18,040,953
Deposits from other Banks	190,352	-	-	-	-	-	-	190,352
Derivative financial liabilities	-	-	-	1,185				1,185
Other liabilities	253,118	-	-	-	-	-	-	253,118
Lease liabilities	-	-	-	3,510	24,667	36,131	81,291	145,599
Borrowings	-	586,245	599,670	173,600	40,989	-	-	1,400,504
Off balance sheet obligations								
Acceptances and letters of credit	0	4,104	6,884	20,304	3,046	-	-	34,338
Guarantee and performance bonds	0	995	1,292	4,812	14	-	-	7,114
Lines and other commitments to lend	16,774	35,989	21,976	369,513	60,674	112,788	43,595	661,309
Derivative financial instruments	-	-	-	-	-	-	-	-
Total financial liabilities	16,111,118	910,971	909,783	2,399,406	129,390	148,919	124,887	20,734,474
Assets								
Cash and Balances with Central Bank	912,396	-	-	-	-	-	-	912,396
Balances with other Banks	2,003,275	-	-	-	-	-	-	2,003,275
Trading assets	63,481	98,392	296,185	256,875	-	-	-	714,933
Loans and advances to customers	1,087,715	2,447,577	50,190	518,264	1,895,095	2,628,882	2,543,372	11,171,095
Investment securities	328,748	886,025	1,320,925	2,350,365	730,001	2,587,075	1,223	8,204,362
Derivative financial assets	-	-	-	48,276	-	-	-	48,276
Other assets	129,327	-	-	-	-	-	-	129,327
Off balance sheet obligations								
Derivative financial instruments	-	-	-	-	-	-	-	0
Total financial assets	4,524,942	3,431,994	1,667,300	3,173,780	2,625,096	5,215,957	2,544,595	23,183,664
Liquidity gap	(11,586,176)	2,521,023	757,517	774,374	2,495,706	5,067,038	2,419,708	2,449,190

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Liquidity risk (continued)

41.2 Liquidity Maturity analysis (continued)

BANK	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
At 31 December 2020								
Liabilities								
Customer deposits	15,658,182	293,970	296,690	2,012,307	-	-	-	18,261,149
Deposits from other Banks	190,352	-	-	-	-	-	-	190,352
Amounts due to related parties		-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	1,185				1,185
Other liabilities	239,594	-	-	-	-	-	-	239,594
Lease liabilities	-	-	-	22,265	79,665	20,476	4,313	126,719
Borrowings	-	586,245	599,670	173,600	40,989	-	-	1,400,504
Off balance sheet obligations								
Acceptances and letters of credit	-	4,104	6,884	20,304	3,046	-	-	34,338
Guarantee and performance bonds	-	995	1,292	4,812	14	-	-	7,114
Lines and other commitments to lend	16,774	35,989	21,976	370,747	60,674	112,788	43,595	662,543
Derivative financial instruments	-	-	-		-	-	-	-
Total financial liabilities	16,104,902	921,304	926,512	2,605,221	184,388	133,264	47,908	20,923,499
Assets								
Cash and Balances with Central Bank	912,182	-	-	-	-	-	-	912,182
Balances with other Banks	2,003,275	-	-	-	-	-	-	2,003,275
Trading assets	63,481	98,392	296,185	256,875	-	-	-	714,933
Loans and advances to customers	1,087,715	2,447,577	50,190	530,858	1,895,095	2,642,186	2,597,757	11,251,378
Investment securities	328,748	886,025	1,320,925	2,350,365	730,001	2,587,075	1,223	8,204,362
Derivative financial assets	3,960							3,960
Other assets	123,199	-	-	-	-	-	-	123,199
Off balance sheet obligations								
Derivative financial instruments	-	-	-	-	-	-	-	0
Total financial assets	4,522,560	3,431,994	1,667,300	3,138,098	2,625,096	5,229,261	2,598,980	23,213,289
Liquidity gap	(11,582,342)	2,510,690	740,788	532,877	2,440,708	5,095,997	2,551,072	2,289,789

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Liquidity risk (continued)

41.2 Liquidity Maturity analysis (continued)

GROUP	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
At 31 December 2019								
Liabilities								
Customer deposits	7,593,222	286,940	283,220	1,847,749	-	-	-	10,011,131
Deposits from other Banks	101,090	-	-	-	-	-	-	101,090
Derivative financial liabilities	-	-	-	18,545				18,545
Other liabilities	337,009	-	-	-	-	-	-	337,009
Lease liabilities	-	-	-	1,527	17,552	13,821	87,502	120,402
Borrowings	-	19,217	164,762	142,150	95,145	-	-	421,274
Off balance sheet obligations								
Acceptances and letters of credit								
Guarantee and performance bonds	13,046	32,840	16,329	6,553	-	-	-	68,768
Lines and other commitments to lend	28,189	-	51,234	7,079	5,753	-	-	92,255
Derivative financial instruments	42,118	24,652	165,989	591	111,171	19,301	7,964	371,786
Total financial liabilities	-	-	-	241,719	-	-	-	241,719
Assets	987,171	-	-	-	-	-	-	987,171
Cash and Balances with Central Bank	734,957	-	-	-	-	-	-	734,957
Balances with other Banks	-	-	26,072	514,939	-	-	-	541,011
Trading assets	222,003	884,281	596,928	530,654	1,352,855	2,410,182	1,788,476	7,785,379
Loans and advances to customers	62,455	997,624	627,543	607,207	1,357,718	231,448	1,222	3,885,217
Investment securities	-	-		8,821	-	-	-	8,821
Derivative financial assets	219,333	-	-	-	-	-	-	219,333
Other assets								
Off balance sheet obligations	-	-	-	60,133	-	-	-	60,133
Derivative financial instruments	2,225,919	1,881,905	1,250,543	1,721,754	2,710,573	2,641,630	1,789,698	14,222,022
Total financial assets	(5,888,755)	1,518,256	569,009	(544,159)	2,480,952	2,608,508	1,694,232	2,438,043
Liquidity gap	(5,888,755)	1,518,256	569,009	(544,159)	2,480,952	2,608,508	1,694,232	2,438,043

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Liquidity risk (continued)

41.2 Liquidity Maturity analysis (continued)

BANK	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
At 31 December 2019								
Liabilities								
Customer deposits	7,593,568	286,940	283,220	1,847,749	-	-	-	**10,011,477**
Deposits from other Banks	101,090	-	-	-	-	-	-	**101,090**
Amounts due to related parties	3,266	-	-	-	-	-	-	**3,266**
Derivative financial liabilities	-	-	-	18,545	-			**18,545**
Other liabilities	331,725	-	-	-		-	-	**331,725**
Lease liabilities	-	-	-	710	17,552	13,821	87,502	**119,585**
Borrowings	-	19,217	164,762	142,150	95,145	-	-	**421,274**
Off balance sheet obligations								
Acceptances and letters of credit	13,046	32,840	16,329	6,553	-	-	-	**68,768**
Guarantee and performance bonds	28,189	-	51,234	7,079	5,753		-	**92,255**
Lines and other commitments to lend	42,202	24,652	165,989	591	111,171	19,301	7,964	**371,870**
Derivative financial instruments	-	-	-	-	241,719	-	-	**241,719**
Total financial liabilities	8,113,086	363,649	681,534	2,023,377	471,340	33,122	95,466	**11,781,574**
Assets								
Cash and Balances with Central Bank	987,235	-	-	-	-	-	-	**987,235**
Balances with other Banks	734,957	-	-	-	-	-	-	**734,957**
Trading assets	-	-	26,072	514,939	-	-	-	**541,011**
Loans and advances to customers	222,119	884,743	597,240	530,931	1,353,561	2,411,441	1,789,410	**7,789,445**
Investment securities	62,455	997,624	627,543	607,207	1,357,718	231,448	1,222	**3,885,217**
Derivative financial assets	5,759	-	-	-	-	-	-	**5,759**
Other assets	218,879	-	-	-	-	-	-	**218,879**
Off balance sheet obligations								
Derivative financial instruments	-	-	-	60,133	-	-	-	**60,133**
Total financial assets	2,231,404	1,882,367	1,250,855	1,713,210	2,711,279	2,642,889	1,790,632	**14,222,636**
Liquidity gap	(5,881,682)	1,518,718	569,321	(310,167)	2,239,939	2,609,767	1,695,166	**2,441,062**

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)
41.2 Liquidity risk (continued)
41.2 Liquidity Maturity analysis (continued)

The amounts in the table have been compiled as follows:

Type of financial instruments	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments
Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
Derivative financial liabilities and financial assets	Earliest possible contractual maturity

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

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

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

Liquidity reserves
The table below sets out the components of the Group's liquidity reserves:

	Group		Bank		Group	Bank
	2020 Carrying amount K'000	2020 Fair Value K'000	2020 Carrying amount K'000	2020 Fair Value K'000	2019 Carrying amount/Fair Value	2019 Carrying amount/ Fair Value
Balances with central Banks	**227,225**	**227,225**	**227,225**	**227,225**	604,596	604,596
Cash and balances with other Banks	**875,521**	**875,521**	**875,307**	**875,307**	453,164	453,100
Treasury bills maturing within 90 days	**1,186,305**	**1,186,305**	**1,186,305**	**1,186,305**	495,272	495,272
Total liquidity reserves	**2,289,051**	**2,289,051**	**2,288,837**	**2,288,837**	1,553,032	1,552,968

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' includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issues, other borrowings and commitments maturing within the next month. 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:

	2020 %	2019 %
At 31 December	**36**	**36**
Average for the period	**45**	**45**
Maximum for the period	**55**	**55**
Minimum for the period	**33**	**33**

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Market risk

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

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

	Group Market risk measure		Bank Market risk measure	
31 December 2020 Assets subject to market risk	**Carrying amount K'000**	**Non-trading portfolio K'000**	**Carrying amount K'000**	**Non-trading portfolio K'000**
Cash	**362,863**	**362,863**	**362,863**	**362,863**
Balances with other Banks	**2,003,275**	**2,003,275**	**2,003,275**	**2,003,275**
Trading assets	**639,706**	**-**	**639,706**	**-**
Derivative financial assets	**48,284**	**-**	**48,284**	**-**
Loans and advances to customers	**7,328,493**	**7,328,493**	**7,366,057**	**7,366,057**
Investment securities	**5,858,066**	**5,858,066**	**5,858,066**	**5,858,066**
Other Assets	**158,808**	**158,808**	**154,074**	**154,074**
	16,399,495	**15,711,505**	**16,432,325**	**15,744,335**
Liabilities subject to market risk				
Customer deposits	**5,133,575**	**5,133,575**	**5,141,164**	**5,141,164**
Borrowings	**1,338,529**	**1,338,529**	**1,338,529**	**1,338,529**
Other liabilities	**253,118**	**253,118**	**239,594**	**239,594**
Derivative financial liabilities	**1,185**	**-**	**1,185**	**-**
Lease liabilities	**125,201**	**125,201**	**125,201**	**125,201**
	6,851,608	**6,850,423**	**6,845,673**	**6,844,488**
31 December 2019				
Cash	181,542	181,542	181,542	181,542
Balances with other Banks	734,957	734,957	734,957	734,957
Trading Book	444,025	-	444,025	-
Loans and advances to customers	4,817,160	4,817,160	4,819,676	4,819,676
Investment securities	2,943,080	2,943,080	2,943,080	2,943,080
Other Assets	4,321	4,321	4,321	4,321
	9,125,085	8,681,060	9,127,601	8,683,576
Liabilities subject to market risk				
Customer deposits	3,817,163	3,817,163	3,817,163	3,817,163
Borrowings	400,366	400,366	400,366	400,366
Other liabilities	22,342	22,342	22,342	22,342
Derivative financial liabilities	18,545	-	18,545	-
Lease liabilities	105,387	105,387	104,500	104,500
	4,363,803	4,345,258	4,362,916	4,344,371

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Currency risk

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

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2020. Included in the table are the Group's financial instruments, categorised by currency.

GROUP AND BANK At 31 December 2020	USD K'000	GBP K'000	EUR K'000	ZAR K'000	Total K'000
Assets					
Cash and balances with Central Bank					
Balances with Bank of Zambia	355,614	2,409	4,457	384	362,864
Balances with Foreign Institutions	325,387				325,387
Loans and advances to customers	1,855,062	6,902	104,279	2,356	1,968,599
Derivative financial assets	2,608,024				2,608,024
Other financial assets	869,369	8	10		869,387
Off balance sheet					
Derivative financial assets	1,048,949	-	1,390	6,047	1,056,386
Total financial assets	7,062,405	9,319	110,136	8,787	7,190,647
Liabilities					
Customer deposits	3,849,841	9,799	68,612	4,063	3,932,315
Derivative financial liabilities		-	-		-
Other financial liabilities	1,692,812	619	12,947	-	1,706,378
Off balance sheet					
Derivative financial liabilities	670,063	-	1,390	6,047	677,500
Total financial liabilities	6,212,716	10,418	82,949	10,110	6,316,193
Net position	849,689	(1,099)	27,187	(1,323)	874,454

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Currency risk (continued)

GROUP AND BANK At 31 December 2019	USD K'000	GBP K'000	EUR K'000	ZAR K'000	Total K'000
Assets					
"Cash and balances with Central Bank"	949,264	14,221	95,648	8,397	1,067,530
Loans and advances to customers	2,004,612	-	-	-	2,004,612
Derivative financial assets	8,723	29	69	-	8,821
Other financial assets	4,332	8	6	-	4,346
Off balance sheet					
Derivative financial assets	69,115	(10,476)	1,494		60,133
Total financial assets	3,036,046	3,782	97,217	8,397	3,145,442
Liabilities					
Customer deposits	1,810,949	14,669	77,672	2,229	1,905,519
Derivative financial liabilities	18,530	-	-	15	18,545
Other financial liabilities	1,324,501	400	7,851	-	1,332,752
Off balance sheet					
Derivative financial liabilities	236,964	-	-	4,755	241,719
Total financial liabilities	3,390,944	15,069	85,523	6,999	3,498,535
Net position	(354,898)	(11,287)	11,694	1,398	(353,093)

Sensitivity analysis

At 31 December 2020;

- if the Kwacha had weakened/strengthened by 10% (2019: 10%) against the USD with all other variables held 'constant, net profit for the year would have changed by **K84,960,000** (2019:K35,500,000)
- If the Kwacha had weakened/strengthened by 10% (2019: 10%) against the GBP with all other variables held 'constant, net profit for the year would have changed by **K109,000** (2019:K1,129,000)
- If the Kwacha had weakened/strengthened by 10% (2019: 10%) against the EUR with all other variables held 'constant, net profit for the year would have changed by **K2,718,000** (2019:K1,169,000)
- If the Kwacha had weakened/strengthened by 10% (2019: 10%) against the ZAR with all other variables held 'constant, net profit for the year would have changed by **K132,000** (2019:K139,800)

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Interest rate risk

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group does not bear any interest rate risk on off statement of financial position items.

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

GROUP	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
At 31 December 2020								
Assets								
Loans and advances to customers	1,083,998	2,270,957	42,821	438,092	1,293,716	1,171,264	1,027,645	7,328,493
Trading assets	62,236	92,822	270,569	202,793	-	-	-	628,420
Investment in securities	323,239	841,198	1,187,289	1,905,422	424,419	1,175,943	556	5,858,066
Total financial Assets	1,469,473	3,204,977	1,500,679	2,546,307	1,718,135	2,347,207	1,028,201	13,814,979
Liabilities								
Customer deposits	2,743,777	283,637	279,961	1,826,481	-	-	-	5,133,856
Non interest bearing deposit	10,570,905	-	-	-	-	-	-	10,570,905
Borrowings	-	-	572,820	572,820	154,311	38,578	-	1,338,529
Total financial Liabilities	13,314,682	283,637	852,781	2,399,301	154,311	38,578	-	17,043,290
Total interest re-pricing gap	11,845,209)	2,921,340	647,898	147,006	1,563,824	2,308,629	1,028,201	(3,228,311)

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Interest rate risk (continued)

BANK	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
At 31 December 2020								
Assets								
Loans and advances to customers	1,083,998	2,270,957	42,821	448,654	1,293,716	1,176,515	1,049,396	7,366,057
Trading assets	62,236	92,822	270,569	202,793	-	-	-	628,420
Investment in securities	323,239	841,198	1,187,289	1,905,422	424,419	1,175,943	556	5,858,066
Total financial Assets	1,469,473	3,204,977	1,500,679	2,556,869	1,718,135	2,352,458	1,049,952	13,852,543
Liabilities								
Customer deposits	2,774,636	280,842	277,202	1,808,484	-	-	-	5,141,164
Non interest bearing deposit	10,570,905	-	-	-	-	-	-	10,570,905
Borrowings	-	-	572,820	572,820	154,311	38,578	-	1,338,529
Total financial Liabilities	13,345,541	280,842	850,022	2,381,304	154,311	38,578	-	17,050,598
Total interest re-pricing gap	(11,876,068)	2,924,135	650,657	175,565	1,563,824	2,313,880	1,049,952	(3,198,055)

GROUP	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
At 31 December 2019								
Assets								
Loans and advances to customers	368,962	854,502	574,283	439,388	889,159	1,097,734	593,132	4,817,160
Trading assets	-	-	23,178	412,025	-	-	-	435,203
Investment in securities	61,182	940,154	558,674	487,940	789,371	105,204	555	2,943,080
Total financial Assets	430,144	1,794,656	1,156,135	1,339,353	1,678,530	1,202,938	593,687	8,195,443
Liabilities								
Customer deposits	1,556,462	281,774	272,000	1,706,927	-	-	-	3,817,163
Non interest bearing deposit	6,030,552	-	-	-	-	-	-	6,030,552
Borrowings	-	19,019	160,989	135,785	84,573	-	-	400,366
Total financial Liabilities	7,587,014	300,793	432,989	1,842,712	84,573	-	-	10,248,081
Total interest re-pricing gap	(7,156,870)	1,493,863	723,146	(503,359)	1,593,957	1,202,938	593,687	(2,052,638)

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Interest rate risk (continued)

BANK	Up to 1 months K'000	1-3 months K'000	3-6 months K'000	6-12 months K'000	1-3 years K'000	3-5 years K'000	Over 5 years K'000	Total K'000
At 31 December 2019								
Assets								
Loans and advances to customers	371,478	854,502	574,283	439,388	889,159	1,097,734	593,132	4,819,676
Trading assets	-	-	23,178	412,025	-	-	-	435,203
Investment in securities	61,182	940,154	558,674	487,940	789,371	105,204	555	2,943,080
Total financial Assets	432,660	1,794,656	1,156,135	1,339,353	1,678,530	1,202,938	593,687	8,197,959
Liabilities								
Customer deposits	1,556,462	281,774	272,000	1,706,927	-	-	-	3,817,163
Non interest bearing deposit	6,030,933	-	-	-	-	-	-	6,030,933
Borrowings	-	19,019	160,989	135,785	84,573	-	-	400,366
Total financial Liabilities	7,587,395	300,793	432,989	1,842,712	84,573	-	-	10,248,462
Total interest re-pricing gap	(7,154,735)	1,493,863	723,146	(503,359)	1,593,957	1,202,938	593,687	(2,050,503)

Sensitivity analysis of interest rates risk as at 31 December 2020:

if interest rates changed 10%,(2019:10%) for all assets and liabilities with all other variables constant, the net profit for the year would have changed by **40,678,000**(2019: 24,798,000)

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

42. CAPITAL MANAGEMENT

Capital management is a key contributor to shareholder value. The Group's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial positions, are:

- to comply with the capital requirements set by the Banking and Financial Services Act, 2017 (as
- amended);
- 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;
- to maintain a strong capital base to support the development of its business;
- to allocate capital to businesses using risk-based capital allocation, to support the Group's strategic objectives, including optimising returns on shareholder and regulatory capital; and
- maintain the dividend policy and dividend declarations of the Group while taking into consideration shareholder and regulatory expectations.

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

Regulatory capital
The Group manages its capital base to achieve a prudent balance between maintaining capital levels to support business growth, maintaining depositor and creditor confidence, and providing competitive returns to shareholders.
The Bank of Zambia requires local Banks to:
(i) hold the minimum level of regulatory capital of K104 million;
(ii) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets (the 'Basel ratio') at or above the required minimum of 10%;
(iii) maintain primary or tier 1 capital of not less than 5% of total risk weighted assets; and
(iv) maintain total capital of not less than 10% of risk-weighted assets plus risk-weighted off-statement of financial position items.

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

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

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

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

42. CAPITAL MANAGEMENT (CONTINUED)

	2020 K'000	2019 K'000
Tier 1 capital	1,063,134	865,434
Tier 1 + Tier 2 capital	1,102,805	900,305
Risk-weighted assets		
On-balance sheet	7,904,937	5,946,728
Off-balance sheet	238,243	256,371
Total risk-weighted assets	8,143,180	6,203,099
Regulatory ratios		
Tier 1 (Regulatory minimum – 5%)	13.1%	14.0%
Tier 1 + Tier 2 (Regulatory minimum – 10%)	13.5%	14.5%
Computation of regulatory capital (under the Banking and Financial Services Act 1994, as amended)		
I Primary (tier 1) capital		
(a) Paid up common shares	86,625	86,625
(b) Eligible preferred shares	-	-
(c) Contributed surplus	2,622	2,622
(d) Retained earnings	957,533	750,192
(e) General reserves	-	-
(f) Statutory reserves	86,625	86,625
(g) Minority interests (common shareholders' equity)	-	-
(h) Shareholders' loan capital	-	-
(i) Sub-total	1,133,405	926,064
Less		
(j) Goodwill and other intangible assets	18,542	18,835
(k) Investments in unconsolidated subsidiaries and associates	-	-
(l) Lending of a capital nature to subsidiaries and associates		-
(m) Holding of other Bank's or financial institutions' capital instruments	-	
(n) Assets pledged to secure liabilities	-	-
Sub-total (A) (items j to n)	18,542	18,835
Other adjustments		
(o) Assets of little or no realisable value (prepaid expenses)	35,605	26,616
(p) Other adjustments	16,124	15,179
(q) Sub-total (B) (items o to p)	51,729	41,795
(r) Total Subtractions: (Sub-total A above + Sub-total B)	70,271	60,630
Total primary capital (i - r)	1,063,134	865,434
II Secondary (tier 2)		
(a) Eligible preferred shares (regulations 13 and 17)	-	-
(b) Eligible subordinated term debt (regulation 17 (b)	-	-
(c) Eligible loan stock/capital (regulation 17(b)	-	-
(d) Revaluation reserves (regulation 17 (a) (Max. is 40% of res. ratio)	39,671	34,871
(e) Other (regulation 17)	-	-
(f) Total secondary capital	39,671	34,871
III Eligible secondary capital		
(the maximum amount of secondary capital is limited to 110% of primary capital)	39,671	34,871
IV Eligible total capital (i) (o)	1,102,805	900,305
(Regulatory capital)		
V Minimum capital requirement:		
(10% of total on and off balance sheet risk-weighted assets as established in the first schedule, or K104 million, whichever is higher)		
On-balance sheet	790,494	594,673
Off-balance sheet	23,824	25,637
	814,318	620,310
VI Excess (deficiency) – (IV minus V)	288,487	279,995
Regulatory capital as % risk weighted assets	14%	15%
Primary capital as % of risk weighted assets	13%	14%

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

42. CAPITAL MANAGEMENT (CONTINUED)

	Risk Weight %	Balance (net of allowance for losses)	Risk weighted assets (1x2)
Assets			
Notes and coins			
- Zambian notes and coins	-	323,369	-
- Other notes and coins	-	362,863	-
Balances held with the Bank of Zambia		-	-
- Statutory reserves	-	1,371,194	-
- Other balances	-	227,225	-
Balances with commercial Banks in Zambia		-	
- With residual maturity of up to 12 months	20	-	-
- With residual maturity of more than 12 months	100	-	-
Balances with commercial Banks abroad		-	-
- With residual maturity of up to 12 months	20	2,003,275	400,655
- With residual maturity of more than 12 months	100	-	-
Assets in transit			
- From other commercial Banks	50	-	-
- From branches to reporting Bank	20	-	-
Investment in debt securities		-	
- Treasury bills	-	4,552,823	-
- Other government securities	20	1,569,061	313,812
- private securities	100	-	-
- Issued by local government units			-
Bills of exchange	100	-	-
Loans and advances		-	-
- Portion secured by cash or treasury bills	-	374,793	-
- Loans to or guaranteed by the government of Zambia	50	2,884,393	1,442,197
- Loans repayable in installments and secured by a mortgage on owner-occupied residential property	50	215,674	107,837
- Loans to or guaranteed by local government units	100	14,824	14,824
- Loans to parastatals	100	321,741	321,741
- Other	100	3,680,364	3,680,364
Inter-Bank advances and loans/advances guaranteed by other Banks			
- With a residual maturity of 12 months	20	-	-
- With residual maturity of more than 12 months	100	-	-
Bank premises	100	251,406	251,406
Acceptances	100	-	-
Other assets	100	1,353,559	1,353,559
Investment in equity of other companies	100	18,542	18,542
Total risk-weighted assets (on balance sheet)		19,525,106	7,904,937
Part 2 - Off balance sheet obligations			
(Under first schedule - regulations 21 and 24)			
Letters of credit			
- Sight import letters of credit	20	264,355	52,871
- Portion secured by cash/treasury bills	-	4,921	-
- Standby letters of credit	100	16,878	16,878
- Portion secured by cash/treasury bills	-	-	-
- Export letters of credit confirmed	20	-	-
Guarantees and Indemnities			
- Guarantees for loans, trade and securities	100	157,295	157,295
- Portion secured by cash/treasury bills	-	2,282	11,199
- Performance bonds	50	22,397	-
- Securities purchased under resale agreement	100	-	-
- Other contingent liabilities	100	-	-
- Net open position in foreign currencies	100	-	-
Total risk-weighted assets (off balance sheet)		468,128	238,243
Total risk-weighted assets (on and off balance sheet)		19,993,234	8,143,180

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

43. FAIR VALUES MEASUREMENT

The fair values of the Group's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out above. Fair values are based on discounted cash flows using discount rates based upon the yield rates on similar financial assets at reporting date.

Fair value hierarchy
IFRS 3 specifies a hierarchy of valuation techniques based on whether the inputs to those valuations techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group market assumptions. The two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchanges (for example, Lusaka Stock Exchange).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

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

2020	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Financial assets				
- Trading assets	-	639,706	-	639,706
- Derivative financial assets	-	48,284	-	48,284
Total	-	687,990	-	687,990
Financial liabilities				
- Derivative financial liabilities		1,185	-	1,185
Total	-	1,185	-	1,185
2019				
Financial assets				
- Trading assets	-	435,204	-	435,204
- Derivative financial assets	-	8,821	-	8,821
Total	-	444,025	-	444,025
Financial liabilities				
- Derivative financial liabilities		18,545	-	18,545
Total	-	18,545	-	18,545

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

43. FAIR VALUES MEASUREMENT (CONTINUED)

Fair value of Trading assets and Derivatives
The group estimates the fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see note below

To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is as describe in the note 22.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable data exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums 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 instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

Specific valuation techniques used to value financial instruments include:
- the use of quoted market prices or dealer quotes for similar instruments
- for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves
- for foreign currency forwards – the present value of future cash flows based on the forward exchange rates at
- the balance sheet date

All of the resulting fair value estimates are included in level 2, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

Valuation process
The treasury department of the group includes a team that performs the valuations of non-property items required for financial reporting purposes. This team reports directly to the chief treasurer. Discussions of valuation processes and results are held between the CFO and the chief treasurer.

Financial assets/financial	Fair value as at 31 December		Fair value hierarchy
	2020 K' 000	2019 K' 000	
Buildings	247,050	-	3

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

44. FINANCIAL INSTRUMENT BY CATEGORY

Classes of financial instruments

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

Category (as defined by IFRS 9)		Class(as determined by Bank)	Fair value hierarchy
Financial assets	Held to collect business model	Financial assets at amortised cost	Government bonds Treasury bills
			Personal loans Commercial Overdrafts Commercial loans Personal Overdrafts
		Cash and cash equivalents	Cash and balances with Bank of Zambia Balances with other Banks
	Financial assets measured at fair value through profit or loss	Trading assets and Derivatives	Items in the course of collections
Financial Liabilities	Other financial liabilities at amortised cost	Trading assets Derivative assets	Trading assets Derivative assets FX swaps, options
		Other liabilities	Trade and other payables
		Borrowings	Long term loans
		Customer Deposits	Current account Fixed term deposits
		Deposits from other Banks	Savings Account
	Financial liabilities at fair value through profit or loss	Derivative liabilities	Derivative liabilities

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

44. FINANCIAL INSTRUMENT BY CATEGORY (CONTINUED)

GROUP	2020		2019	
	Carrying Amount K'000	Fair Value K'000	Carrying Amount K'000	Fair Value K'000
Financial assets				
Governments Securities	**5,858,066**	**5,975,897**	2,933,739	2,831,589
Loans and advances to customers	**7,328,493**	**7,328,493**	7,366,057	7,366,057
Cash and balances with Bank Of Zambia	**2,283,591**	**2,283,591**	2,283,377	2,283,377
Balances with Other Banks	**2,003,275**	**2,003,275**	2,003,275	2,003,275
Trading Assets	**639,706**	**639,706**	435,204	435,204
Other Assets	**348,759**	**348,759**	228,806	228,806
	18,461,890	**18,230,962**	15,021,652	14,919,502
Financial liabilities				
Customer Deposits	**15,698,089**	**15,698,089**	9,847,715	9,847,715
Deposits from other Banks	**510,158**	**510,158**	103,224	103,224
Borrowings	**1,338,529**	**1,338,529**	400,366	400,366
Other Liabilities	**470,347**	**470,347**	468,757	468,757
	18,017,123	**18,017,123**	10,820,062	10,820,062
BANK				
Financial assets				
Governments Securities	**5,858,066**	**5,975,897**	2,933,739	2,831,589
Loans and advances to customers	**7,366,057**	**7,366,057**	4,819,676	4,819,676
Cash and balances with Bank Of Zambia	**2,283,377**	**2,283,377**	1,790,259	1,790,259
Balances with Other Banks	**2,003,275**	**2,003,275**	734,957	734,957
Trading Assets	**639,706**	**639,706**	435,204	435,204
Other Assets	**340,264**	**340,264**	458,727	458,727
	18,490,745	**18,608,576**	11,172,562	11,070,412
Financial liabilities				
Customer Deposits	**15,712,069**	**15,712,069**	9,848,095	9,848,095
Deposits from other Banks	**510,158**	**510,158**	103,224	103,224
Borrowings	**1,338,529**	**1,338,529**	400,366	400,366
Other Liabilities	**450,373**	**450,373**	462,006	462,006
	18,011,129	**18,011,129**	10,813,691	10,813,691

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

45. NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented:

	Group		Bank	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Cash and Cash Equivalent (note 36)	**2,405,513**	1,618,968	**2,405,299**	1,618,904
Borrowings (note 30)	**(1,338,529)**	(400,366)	**(1,338,529)**	(400,366)
Lease Liabilities (note 21)	**(145,769)**	(120,402)	**(145,599)**	(119,585)
	921,215	1,098,200	**921,171**	1,098,953
Represented by:				
Cash and liquid investments (note 36)	**2,405,513**	1,618,968	**2,405,299**	1,618,904
Gross debt-fixed interest rates (note 21)	**(145,769)**	(120,402)	**(145,599)**	(119,585)
Gross debt-Variable interest rates (note 30)	**(1,338,529)**	(400,366)	**(1,338,529)**	(400,366)
	921,215	1,098,200	**921,171**	1,098,953

	Liabilities from financing activities			
2020 **Group**	Borrowings K'000	leases K'000	cash and cash equivalent K'000	Total K'000
Net balance as at 1 January	**(400,366)**	**(120,402)**	**1,618,968**	**1,098,200**
Cash flows	**(716,740)**	**24,182**	**786,545**	**93,986**
Foreign exchange differences	**(221,423)**	**(49,549)**	**-**	**(270,971)**
Net balance as at 31 December	**(1,338,529)**	**(145,769)**	**2,405,513**	**921,215**
Bank				
Net balance as at 1 January	**(400,366)**	**(119,585)**	**1,618,868**	**1,098,917**
Cash flows	**(716,740)**	**23,360**	**786,431**	**93,051**
Foreign exchange differences	**(221,423)**	**(49,374)**	**-**	**(270,797)**
Net balance as at 31 December	**(1,338,529)**	**(145,599)**	**2,405,299**	**921,171**
2019				
Group				
Net balance as at 1 January	(537,026)	(100,564)	1,852,229	1,214,639
Cash flows	197,846	(3,602)	(233,261)	(39,017)
Foreign exchange differences	(61,186)	(16,236)	-	(77,422)
Net balance as at 31 December	(400,366)	(120,402)	1,618,968	1,098,200
Bank				
Net balance as at 1 January	(537,026)	(100,564)	1,852,229	1,214,639
Cash flows	197,846	(3,030)	(233,325)	(38,509)
Foreign exchange differences	(61,186)	(15,991)	-	(77,177)
Net balance as at 31 December	(400,366)	(119,585)	1,618,904	1,098,953

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

46. EVENTS AFTER THE REPORTING DATE

There were no material significant events after the reporting date that require disclosure in or adjustment to the financial statements for the year ended 31 December 2020.

47. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

47.1 Amendments to IFRSs that are mandatory effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatory effective for an accounting period that begins on or after 1 January 2020. The Group has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective:

IMPACT OF ADOPTING NEW AND REVISED ACCOUNTING STANDARDS

Standard	Impact assessment
Conceptual framework	The improvements to the conceptual framework include: revising the definitions of an asset and liability, updating the recognition criteria for including assets and liabilities in financial statements and the following concepts have been clarified; prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various other standards. The amendments did not have a significant impact on the bank's accounting policies.
IFRS 3	**Business Combinations – Amendments to clarify the definition of a business** The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment did not have a significant impact on the Banks accounting policies.
IAS 1 and **IAS 8**	**Amendments regarding the definition of material** The amendments align the definition of material across the IFRS Standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendment did not have a significant impact on the annual financial statements.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

47. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

IMPACT OF ADOPTING NEW AND REVISED ACCOUNTING STANDARDS

Standard	Impact assessment
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	The IASB issued amendments to the following standards as part of the interest rate (IBOR) benchmark reform that has a direct impact on the bank's hedging relationships. These impacts are - • The highly probable requirement under IFRS 9 and IAS 39 - when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. • Prospective assessments – when performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based are not altered as a result of the interest rate benchmark reform. • Separately identifiable risk components – IFRS 9 and IAS 39 require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. The amendment allows for hedges of a non-contractually specified benchmark component of interest rate risk. A company shall apply the separately identifiable requirement only at the inception of such hedging relationships. These reliefs are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new ARRs. The bank has evaluated the impact of these amendments and concluded that the amendments will benefit future hedging transactions the bank is likely to enter into. The IASB is now finalising phase two of the IBOR reform project, which addresses issues that could affect financial reporting when an existing interest rate benchmark is replaced with an ARR.

Notes to the Annual Financial Statements (Continued)

for the year ended 31 December 2020

47. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

47.2 New and revised IFRSs in issue but not yet effective

Number	Effective date	Basis on which amounts are compiled
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	Annual periods beginning on or after 1 January 2023.	The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	Annual periods on or after 1 January 2022	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of P&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	Annual periods on or after 1 January 2022	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).
Amendment to IFRS 3, 'Business combinations'	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

Abbreviations

Abbreviation	Meaning
AC	Amortised Cost
AML	Anti-Money Laundering
ATM	Automated Teller Machine
BBB Rating	Investment Ratings, include Government Bonds and Treasury Bills
BOZ	Bank of Zambia (Central Bank of the Republic of Zambia)
CCF	Credit Conversion Factor
CSR	Corporate Social Responsibility
EAD	Exposure at Default
ECL	Expected Credit Losses
EIR	Effective Interest Rate
EPS	Earning Per Share
12-m ECL	Expected Credit Losses from default events that are possible within the next 12-months
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair Value through Profit or Loss
IAD	Internal Audit Department
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
LTECL	Lifetime Expected Credit Losses from default events that are possible over the tenor of the financial asset
LuSE	Lusaka Securities Exchange
NAPSA	National Pension Scheme Authority
NED	Non Executive Director
Not Rated	These are Investments in Corporate Bonds and Private Debt
OTC	Over the Counter
PACRA	Patents and Company Registration Agency
PD	Probability of Default
POCI	Purchased of Originated Credit Impaired Asset
SEC	Securities and Exchange Commission
SICR	Significant Increase in Credit Risk
WLM	Watch List Management

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