# Standard Chartered is a leading international bank.

Our heritage and values are expressed in our brand promise, Here for good. Our operations reflect our purpose, which is to drive commerce and prosperity through our unique diversity.

## Contents

**Strategic report**


02 Who we are and what we do
04 Chairman's statement
07 Chief Executive Officer's statement
11 Retail Banking
14 Wealth Management
16 Corporate and Institutional Banking, Client Coverage
18 Community investment
20 Board of Directors
22 Executive Management
24 The Head office journey
26 Directors' report
28 Corporate governance



## About this report

**Sustainability reporting**
We adopt an integrated approach to corporate reporting, embedding non-financial information throughout our Annual Report.

More information is also available in our Sustainability Summary at **sc.com/sustainabilitysummary**

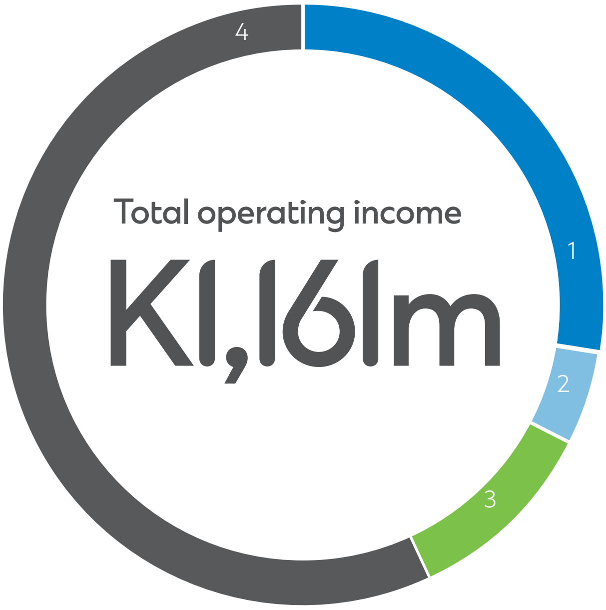
**Alternative performance measures**
The Group uses a number of alternative performance measures in the discussion of its performance. These measures exclude certain items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. They provide the reader with insight into how management measures the performance of the business.

For more information please **visit sc.com**

# Who we are and what we do

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity. Our businesses serve three client segments

## Our client segments




### Local

1.
**Retail Banking**

Serving our personal, Private and Business Banking Clients

Operating income

K321m

2.
**Commercial Banking (CB)**

Supporting our local corporations and medium-sized enterprises

Operating income

K56m

### Global

3.
**Corporate & Institutional Banking(CIB)**

Serving large corporations, governments, banks and investors.

Operating income

K122m

4. **Central & other items**

Operating income

K662m

## Guiding and supporting our businesses

Our client-facing businesses are supported by our global functions, which work together to ensure the Group's operations run smoothly and consistently with our legal and regulatory obligations, our purpose and our risk appetite.

### Global function

**Human Resources**
Enables business performance through recruiting, developing and engaging colleagues.

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

**Technology & Innovation**
Responsible for the Group's operations, systems development and technology infrastructure.

**Risk**
Responsible for the sustainability of our business through good management of risk across the Group and ensuring that business is conducted in line with regulatory expectations.

**Operations**
Responsible for all client operations, end-to-end, and ensures the needs of our clients are at the centre of our operational framework. The function's strategy is supported by consistent performance metrics, standards and practices that are aligned to client outcomes.

**Country CFO**
Comprises seven support functions: Finance, Treasury, Strategy, Investor Relations, Corporate Development, Supply Chain and Property.

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

**Group Internal Audit**
An independent function whose primary role is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Group.

**Conduct, Financial Crime and Compliance**
Enables sustainable business by delivering the right outcomes for our clients and our markets by driving the highest standards in conduct, fighting financial crime and compliance.


**Valued behaviours**

We are committed to promoting economic and social development in the markets we serve, doing so sustainably and equitably in line with our purpose and three valued behaviours. Below are the three valued behaviours on which we anchor our purpose.

## Never settle

- We recognise that there can be challenges in balancing environmental, social and economic needs and continually ask ourselves questions to ensure we get this right.

## Better together

- We set, and regularly review, standards for clients via our Position Statements, in order to manage environmental and social challenges based on international good practice. We expect our clients to meet these standards.

## Do the right thing

- Our Prohibited Activities List details those activities we will not support. Where clients or suppliers breach this or show insufficient progress in aligning to our Position Statements, we will decline transactions or exit relationships.

# Chairman's statement Annual Report 2020

**Caleb M Fundanga**
Chairman

> "Despite the tough operating environment in 2020, as Standard Chartered Bank Zambia Plc, our remarkable resilience and agility enabled us to uphold our exceptional service standard through our talented and well-equipped people, our unique global proposition and our unrivalled digital platforms."

**(Loss) /earnings per share**

**2020: (K0.029)**

2019: K0.007

**Dividend per share**

**2020: Nil**

2019: Nil

I remain deeply passionate about our formidable global brand and what we stand for. Despite the tough operating environment in 2020, as Standard Chartered Bank Zambia Plc, our remarkable resilience and agility enabled us to uphold our exceptional service standard through our talented and well-equipped people, our unique global proposition and our unrivaled digital platforms. We demonstrated that we are truly 'Here for good' by staying close to our clients and other key stakeholders, including our valued communities throughout the various challenges, most notably the COVID-19 pandemic.

We firmly focused on the delivery of our strategic objectives aligned with the Group strategy in the context of the challenging operating environment in 2020. Standard Chartered Bank Zambia Plc made significant strides in the digital agenda and recorded the highest digital adoption and year on year increase across the Standard Chartered Group under Retail Banking. Furthermore, the E-Tax system was successfully integrated with the Zambia Revenue Authority (ZRA) for Domestic Tax Payments under Corporate and Institutional Banking, Client Coverage (CIB). Following the great success of our digital innovations, we continued the network optimisation journey and embarked on the closure of two branches by 30 September 2020, and a further five branches by 31 December 2020.

Given the continued constrained operating environment of the Bank in 2020, protecting the foundations of the Bank remained critical. The Board closely engaged with the Management team and provided the requisite guidance and support. Efforts were largely focused on following through the ongoing de-risking initiatives across both Retail Banking (RB) and Corporate, Commercial and Institutional Banking (CCIB), Client Coverage and utilising our digital innovations to continue efficiently serving our clients in the wake of the COVID-19 pandemic.

## 2020 Economic Overview

The year 2020 was marked by the outbreak of the COVID-19 pandemic. This pandemic had both health and economic impacts that materially affected the global economy. Zambia was not spared of the effects.

The Zambian Economy contracted by circa 4.2 per cent, bogged down by the impact of the pandemic. The industries that contracted the most were Wholesale Trade, Retail Trade, Hospitality and Construction. Monetary policy softened during the year in a bid to mitigate the adverse economic impacts of the COVID-19 pandemic. The monetary policy rate was reduced to 8.00 per cent. Additional monetary policy measures undertaken to counter the effects of the pandemic were the K10bn stimulus package issued by the Bank of Zambia.

The government defaulted on its Eurobond obligations after skipping a coupon payment in October 2020. Prior to this default, the government had asked holders of its USD3 billion Eurobonds to accept a six-month standstill on coupon payments while it worked on a debt-restructuring strategy. This request was not favourably received by the Bondholders.

In 2020, the FX market experienced some stress especially beginning in July. A significant reduction in USD supply was observed in the market, resulting in most buyers being serviced on an order basis. Due to this stress, the kwacha closed the year 33 per cent weaker than prior year at K21.20 to the USD.

During the year, Inflation remained above the government's 6-8 per cent target range. The December 2020 year-on-year increase was the highest recorded at 19 per cent. Factors affecting the upward movement included food prices, electricity and fuel costs and a depreciating local currency.

Zambia's copper production was expected to close the year at 920,000 metric tons from 800,000 metric tons in 2019. Furthermore, Copper saw a resurgent performance in 2020, touching a high unseen since 2013 at USD 8,238 per tonne (in the first week of January 2021)

Finally, to close the year, a Statutory Instrument (SI Number 125 of 2020) was introduced, adding petrol and diesel to the zero-rated Value Added Tax schedule. This move was meant to cushion the impact of the effects of Kwacha depreciation on the fuel pump price.

## Risk Governance

2020 presented heightened risks given the onset of the COVID-19 pandemic amidst the pre-existing macro-economic challenges. Our robust risk management approach enabled us to navigate the risks in our operating environment proactively and effectively. As part of our Enterprise Risk Management Framework ("ERMF"), we continued to identify current and future risks, we discussed and analysed these risks, and we took prompt actions as appropriate. Given the volatile external environment, a key aspect of our approach to business was strategic risk management, which entailed more rigorous management of the alignment with the Bank's Risk Appetite.

As Standard Chartered Bank Zambia Plc, we believe that risk management is the responsibility of each one of our people. We continued to self-identify and assess risks across our businesses and functions to ensure that the Bank remained safe for our clients, our people and other stakeholders. We invested time to learn from our experiences and ensured that we utilised the lessons learnt to deliver lasting change.

Against the backdrop of the challenging macro-economic environment worsened by the COVID-19 pandemic, a number of Principle Risk Types were elevated and required closer monitoring. Country Risk, and incidentally, Credit Risk were elevated throughout 2020, driven by the slowdown in economic activity, and domestic economic pressure stemming from weak local currency, the elevated inflation levels, and the Country's external debt levels.

Information and Cyber Security ("ICS") continues to be a key risk across financial services and other industries. In 2020, we embarked on internal ICS awareness campaigns to equip our people to better manage potential ICS threats and we also continued to invest in our infrastructure. Financial Crime and Conduct remain key focus areas. We continue to make strides in building an effective and sustainable Financial Crime Compliance programme and managing our Conduct Risks through our Country Conduct Plan. We also enhanced our vigilance across our Operational Risk profile in 2020 given the risks presented by the new 'Work From Home' arrangements implemented as part of the Bank's internal COVID -19 response.

Standard Chartered Group currently recognises Climate Risk as a material cross-cutting risk in line with the Group's focus on emerging risks. We define Climate Risk as the potential for financial loss and non-financial detriments arising from climate change and society's response to it. We will continue to align our business focus with Climate Risk themes accordingly.

## The Board and Management

Ms. Venus Hampinda, who served as an Executive Director – Finance (ED) on the Board of Standard Chartered Bank Zambia Plc and as the Bank's Chief Financial Officer resigned from the Board on 12th March 2020. I would like to recognise her valuable contributions to the Board during her tenure and wish her continued success in her future endeavours. I would like to welcome Mr. Kelvin Bwalya, who replaced Ms. Hampinda. Mr. Bwalya has been with the Bank since 29th April 1998 and joined the Board effective 1st April 2020. I wish him all the success in his new role.

From the Management team, Ms Musonda Musakanya, Chief Operations Officer, Zambia and Ms Mwaya Siwale, Country Head of Transaction Banking, Zambia resigned in December 2020 to pursue other opportunities. I would like to take this opportunity to recognize and appreciate the tremendous contributions from both Ms Musakanya and Ms Siwale and to equally wish them every success in their future endeavours.

I am delighted to recognise Audrey Malama, Country Technology Manager, who has been appointed to act as Country Chief Operations Officer, Zambia and Kasanga Sondoyi, who has been appointed to act as Head of Transaction Banking, Zambia. I would also like to recognise Christine Matambo, who was appointed Acting Corporate Affairs and Brand Marketing Head for South and Southern Africa effective 1 January 2021.

## Awards, Thought Leadership and Brand Promotion

The Bank was awarded the **'Best Consumer Digital Bank in Zambia 2020'** for the seventh consecutive year by the prestigious Global Finance Awards, which is testament to our unrivalled world-class digital platforms.

The Bank launched a new programme - Futuremakers **'Youth to Work'** in September 2020. Futuremakers is the new Bank community strategy, which has 3 pillars; Education, Employability and Entrepreneurship. It aims to; i) Empower young people to be work-ready, and ii) Support 30 SMEs through training and placing of the youths to help their businesses to grow through youth placements. Youth to Work is funded by the Standard Chartered Foundation in three African markets, Zambia, Uganda and Ghana.

The Bank also launched the 'Women in Technology' (WiT) programme aimed at supporting the economic well-being of Zambian women through helping to scale-up their businesses through technology. In partnership with BongoHive Zambia, the Bank has made an investment of USD150,000 to support innovation-driven entrepreneurship for start-up ventures, training and mentorship for the women-led businesses. Five successful businesses from the incubation phase will receive USD10,000 each and continued support to help them scale-up their businesses.

A number of Thought Leadership pieces were promoted in 2020, which centred around current and emerging trends impacting the business environment. These included;

- Where will the jobs of the future be? (Chief Executive Officer)
- How banks can take advantage of digitisation (Head, Consumer, Private and Business Banking)
- The impact of COVID-19 pandemic on productivity (Chief Executive Officer)
- Are we future-fit? (Chief Executive Officer)

The Bank played an active role towards COVID-19 pandemic relief efforts, donating over USD350,000 towards various interventions including;

- Donations to WaterAid Zambia to rehabilitate water facilities in 5 schools across Lusaka and for the provision of foot-operated hand washing tanks to underprivileged communities;
- A donation to Save the Children Zambia towards producing child-friendly COVID-19 pandemic awareness materials and ensuring that vulnerable children in select rural areas have access to hand hygiene preventative measures;
- A donation to Lusaka Eye Hospital for Personal Protective Equipment (PPEs) and hand sanitisers.

# Chairman's statement continued

- A donation to United Nations Children Fund (UNICEF) to support remote education via TV, radio, and mobile platforms and child protection measures for vulnerable children in Zambia.

In 2020, we showcased our new Head Office building progress and finally made the official move in November 2020. This new investment into our Head Office building re-affirms the Bank's commitment to Zambia, its clients and communities.

## Financial Highlights

The 2020 performance was delivered against a very challenging macroeconomic environment and strict adherence to accounting standards. This resulted in restrictions on business performance such as enhanced impairments. The financial results reflect the Bank's strategy of de-risking, digitization and maximising returns. The negative returns of -6 per cent on shareholder's investments for the year ended 31 December 2020 (compared to 2 per cent in 2019) are on the back of a 7 per cent increase in revenue, which was negated by a 27 per cent increase in costs on account of initiatives aimed at reducing our long term costs coupled with investments in digitization.

One of the significant factors that contributed to the Bank's performance were impairments which continued on an upward trajectory at the same level as in the prior year. The Bank is fully compliant with the requirements of International Financial Reporting Standards. The continued downgrading of the Country by external Rating Agencies had an adverse effect on the Bank's internal Country rating resulting in the Bank taking on significantly higher Expected Credit Losses. We have continued to de-risk and scale down on high risk exposures in view of the deteriorating macro-economic trends.

The Statement of Financial Position remains robust, with strong liquidity and a healthy capital adequacy ratio. Our foundations remain strong with significant investments in digital platforms as well as initiatives under Corporate and Institutional Banking, Client Coverage to grow Operating Accounts (OPAC) amid the COVID 19 pandemic and the new ways of working.

We are not yet in the clear as the prevailing challenges persist, but we are confident that the foundations of the Bank remain strong and we remain optimistic that our economy will recover. The recovery of the economy, is expected to lead to improved performance of the Banking and Financial services sector, resulting in a release of some of the huge provisions we have taken on as a Bank.

Overall, the performance was below budget and whilst we are unable to shape the external environment, there is room to continue to grow strongly, in a safe and sustainable manner. Our strategy and vision as a Bank has always been clear. We constantly look at evolving and enhancing not only efficiency but client experience as well. We set a very challenging strategy for 2020, our aim was to secure the foundation and emerge as the leading Bank for Digital solutions, whilst driving better collaboration across our teams, enhancing synergies and leveraging off our global network.

### Economic Outlook

The year 2021 will come with a lot of challenges. The resurgent Covid 19 pandemic and discussions around debt restructuring will be only two of those challenges, especially that all these will be happening in an election year.

With respect to key economic variables, the government is targeting GDP growth of 1.8 per cent for 2021 and over 3.0 per cent by 2022. The resurgence of the new strain of Covid 19 pandemic in early 2021 is likely to put pressure on achieving these GDP targets.

The kwacha is projected to remain under pressure in 2021, given limited USD availability compared to client orders and the weak reserve position. The Government has put in place the purchasing of gold to augment the reserves. On the local currency side, we expect the market to continue being liquid to boost the financial sector stability. We also expect to see an increase in spending on account of the Presidential and Parliamentary Elections that will take place in August 2021.

Inflation for the year is expected to remain above the 6-8 per cent target range. A weakening Kwacha is expected to put pressure on inflation and so are any changes to energy prices. A good harvest would moderate these adverse impacts.

A matter of interest in 2021 will be a possible Eurobond restructuring and potential broad debt restructuring with other lenders. This is likely to be a prerequisite for an IMF-funded programme, which would anchor reforms and improve confidence for the country.

## Industry Outlook

The Banking sector in Zambia remains resilient in the face of the continuing macro-economic challenges. Building on from the lessons learnt and adjustments made to adapt to the volatility which persisted in 2020, industry players will be better prepared to face further uncertainty and volatility anticipated in 2021. The Targeted Medium-Term Refinancing Facility which was rolled out in April 2020 as one of the policy interventions to address the deteriorating macro-economic environment and the impact of COVID -19 pandemic, along with other relevant policy pronouncements, will remain key pillars in securing the stability of the Banking sector.

## Conclusion

The year 2020 presented unique challenges for the entire Financial Services industry given the far-reaching impact of the COVID-19 pandemic across various sectors of the economy. As Standard Chartered Bank Zambia Plc, given the internal de-risking we had initially embarked on in 2019, as well as the investments we made into our digital capabilities, we were able to uphold our balance sheet resilience, while effectively serving our clients largely through leveraging our digital innovations and the strength of our global network.

The strategy of Standard Chartered Bank Zambia Plc is constantly aligned with inherent current and emerging risks, as well as the internal Risk Appetite, with a sharp focus on maximising shareholder's returns whilst putting clients first, serving the communities we operate in, and being a good corporate citizen with all relevant regulatory bodies.

**Caleb M Fundanga**

**Chairman**
26 February 2021

# Chief Executive Officer's statement

**Herman Kasekende**
Managing Director and Chief Executive Officer

> "The Bank delivered a resilient performance in 2020. Our capital and liquidity levels remained strong and the statement of financial position continued to grow. We stepped up our digitisation and innovation efforts and continued to transform how we serve our clients."

**Total revenue**

**▲ 2020: K 1,161m**

2019: K 1,071 m

**Total (loss)/profit after tax**

**2020: (K48m) ▼**

2019: K 12m

The year 2020 was characterised by heightened risks occasioned by the COVID-19 pandemic and consequently, the worsening of the pre-existing macro-economic challenges. Riding on our agility and resilience which we have been steadily building over the years, our core priorities as Standard Chartered Bank Zambia Plc in 2020 centred largely around our response to the prevailing challenging macro-economic picture. These core priorities included;

- The health and safety of our people and clients, something we have upheld from the onset of the COVID-19 pandemic in Zambia and throughout its evolution to date.
- Protecting the foundations of the Bank with respect to capital and liquidity through de-risking and scaling back on high-risk exposures and sectors.
- Keeping the Bank running and augmenting the resilience built so far.
- Leveraging our digital platforms and innovations to keep serving clients safely and driving business momentum.

The Bank delivered a resilient performance in 2020; Capital and liquidity levels remain strong and the statement of financial position continues to grow. We have stepped up our digitisation and innovation efforts and transforming not only how we work but also how we serve our clients.

The Bank recorded an increase in revenue of only 7 per cent compared to 2019 which was mainly on account of increased income from investment securities (52 per cent increase year on year), this was negated by an 11 per cent decline on interest income from loans and advances which was on account of the Bank's de-risking exercise notably of the personal loan book in RB, rationalizing limits in CCIB and the running down and exiting of the Commercial Banking business. Non funded income reduced by 12 per cent year on year on account of reduced activities.

The Bank booked a high level of Expected Credit Losses in line with prior year. This is on the back of the Bank's robust expected credit loss modelling (ECL) in alignment with international financial reporting standards which take into consideration several factors including external and internal sovereign downgrades. The Bank is among the few in the industry who are booking provisions on investments in government securities, which inception to date amounts to ZMW 251m. In addition, based on our own internal ECL modelling, we are the first in the market to book provisions on statutory reserve deposits.

The Bank's operating expenses were up 27 per cent year on year, on account of human capital restructuring costs and other costs relating to Personal Protective Equipment ['PPE'] for COVID-19 pandemic. The depreciation of the kwacha also largely affected foreign currency denominated costs which grew by 52 per cent year on year. The Bank further expensed some of the costs associated with the move to the new Head Office which resulted in premises and equipment costs growing by 93 per cent year on year.

The current tax credit is on account of increased defered tax credit charged to statement of profit and loss, bringing the loss after tax to ZMW 48m.

# Chief Executive Officer's statement continued

## Statement of financial position and Liquidity

**Loans and advances** to customers dropped by 24 per cent in line with the Bank's strategy to de-risk and tail manage low returning assets which resulted in the personal loan book reduction of 27 per cent year on year.

**Customer deposits** increased 31 per cent with an increase in both the RB and CCIB client accounts.

The Bank remains well capitalised with the capital adequacy ratio being above the required minimum by 663 basis points but 34 basis lower than 2019 due to increased risk weighted assets and lower retained earnings in the current year. We will continue to leverage on our cost optimisation initiatives and enhanced revenue momentum supported by a strong statement of financial position and dedicated team. In addition, the Bank will at the same time, maintain the right enterprise risk framework and robust controls, to not only generate sustainable returns but to safeguard the prevailing foundations for future growth as well.

Focus on risk, conduct and controls continued to be of key importance, given the heightened risks presented by our new ways of working, particularly working from home as one of the pandemic mitigating measures. Vigilance across all Principal Risk Types (PRTs) was enhanced through the governance structures both at country level and within the businesses and functions. The Risk and Audit teams also continued to provide support and helpful insights in this regard.

## Corporate, Commercial and Institutional Banking, Client Coverage (CCIB)

In 2020 the COVID-19 pandemic and unfavourable economic conditions had a negative impact on Corporate and Institutional Banking's revenue. Our ability to grow revenue from FX sales was hindered by reduced FX liquidity in the economy. Despite this, the Financial Markets division did show an improvement due to the strategy to limit the dependency on Corporate Term Deposits thereby reducing the interest expense.

In a year filled with disruption, the importance of investment into technology became more critical than ever before. Notable successes for CCIB included the integration of the Straight 2 Bank platform with the Zambia Revenue Authority system for Domestic Tax payments. We were also able to further enhance our digital offering, through the introduction of soft tokens and drive uptake from 2 per cent at start of the year to 52 per cent as at December 2020. This enabled our customers to generate their One Time Pin using their mobile phones and transact without need for a physical token from the bank to be issued. We will continue to invest in our systems to ensure that we are able to support our clients better in the new normal.

Our aspiration for 2021 is to increase joint customer focused engagement with product partners to ensure better understanding of our clients' needs. We will look to 'Deliver our global network' by supporting our CCIB clients operating in key sectors such as mining, energy and agro - manufacturing.

## Retail Banking (RB)

We recorded a stellar performance under the RB business, with the operating profit increasing by 159 per cent year on year despite the volatile economic environment worsened by the COVID-19 pandemic.

In 2020, we continued to enhance our digital offering with some notable strides being the revamp of the website for better client experience, the addition of foreign account opening feature on our SC Mobile App, and the inclusion of the one-time account transfer functionality.

Standard Chartered Bank Zambia Plc attained the highest digital adoption rate in the Group for RB clients, an achievement well aligned with our digital drive. Against this backdrop of a healthy digital adoption and a world class digital offering, we further optimized our branch network and closed a further six branches to remain with three branches as at December 2020.

Effective 1 January 2021 the operating model for Retail Banking was restructured by combining two Value Centres, Unsecured Value Centre, and the Deposit and Secured Asset Value Centre to create a more integrated and efficient business for superior client service. Furthermore, the Universal Banker role was introduced by combining the role of a Teller and Customer Service Manager into one (Universal Banker) to equip our people with relevant future skills. The New model will be called Consumer, Private and Business Banking (CPBB).

## Our People

Standard Chartered Bank Zambia Plc closed 2020 with 408 employees. The Bank continued to align its People strategy to the Group's refreshed strategic priorities, underpinned by a performance-oriented and innovative culture. In supporting the business strategy, our people strategy continues to be a focal point for the Bank.

The Group strategy in 2019 to create a worldwide Digital Bank necessitated a further reduction of headcount in 2020 in Consumer, Private and Business Banking (Retail Banking) and Operations, Technology and Information department, and the closure of a further eight branches in 2020. There was a headcount reduction in Corporate and Institutional Banking to align with the reduced scale of business, and in Human Resources following changes in structure. Due to the branch closures and resultant effect on some of the units that supported the RB Business, the Bank undertook a redundancy exercise and released a number of staff in the year 2020.

Despite the transformation that has already been executed, there are a number of new initiatives planned to ensure a future-fit organisation through:

- **Workforce reskilling and retooling** – This will be a three-year agenda aimed at using existing infrastructure i.e. a strong learning culture to deliver 'reskilling' colleagues into roles where we have the greatest demand for the future. The HR function will continue to work with the Business functions to ensure that we have a Future Ready Workforce.

- **Our new approach to performance, reward, recognition and talent (Project Oscar)** – We are executing a full launch across the Bank in 2022. This work is a key enabler to deliver on our cultural aspirations – to be innovative, inclusive and be a high performing Bank.

- **Future Workplace, Now** – This is a new programme that will be rolled out across the Bank. As a continuation, the efforts exhibited on account of a number of emerging people risks as a result of the pandemic will continue to be the focus, with continued focus on overall wellbeing and specifically areas like mental health. The Bank will continue to work on Inclusion to ensure that the workplace is transformed to be the best place to work.

- Continuing the journey to digitise and improve technology interfaces in HR with the objective of delivering best-in-class Employee Experience. The focus will be continued enhancement of the HR systems so as to increase adoption / satisfaction from our digital HR channels.

- Finally, continuing the work on the **Cultural Transformation of the Bank**. The Bank will continue to build a strong culture. The focus will be on leveraging off the work we have done to become a truly purpose-led organisation with bold aspirations and working with 'senior leaders' to get a higher level of ambition across the firm and a strong culture of excellence.

## Community Investment

As Standard Chartered Bank Zambia Plc, we continued to be a force for good in the communities we operate by supporting various COVID-19 pandemic relief efforts with our total community investment in this regard being over USD350,000.

We also held Virtual Youth Mentorship Sessions on Leadership, Personal Branding and Savings & Investments facilitated by the CEO, Head of Wealth Management, and Head of Corporate Affairs, Brand & Marketing.

**Outlook for 2021**

The macro-economic variables in 2021 are projected to remain under pressure, coupled with the resurgence of the COVID -19 pandemic, as well as 2021 being an election year. Progress around debt restructuring discussions and an International Monetary Fund (IMF) funded programme could positively impact the economic trajectory in 2021.

Having proactively and effectively managed risk, appropriately reshaped the business, and refocused around the right business opportunities, we are optimistic about the Bank's continued sustainable growth and profitability to deliver healthy returns to shareholders, and prosperity for our clients.

## Summary

Given the unprecedented circumstances of 2020, with significant and in some instances, lasting impacts on communities, businesses, families, and economies, we will continue to focus on being 'Here for good' through preserving and enhancing our resilience and agility in order to safeguard the Bank and remain relevant to our clients, our shareholders, our communities, and other stakeholders. I give tribute to our valued clients for their firm commitment to Standard Chartered Bank and our shareholders for their unwavering support.

It would be remiss of me to not pay tribute to our clients and staff that fought a brave and gallant fight against COVID-19 pandemic. We also remember those we lost to this pandemic and thank the brave frontline staff who delivered over and beyond their call of duty.

**Herman Kasekende**
Managing Director and Chief Executive Officer
26 February 2021


5

# Retail Banking

**Deep Pal Singh**
Head of Consumer, Private and Business Banking, Zambia and Southern Africa

> "We provided a platform to virtually interact and stay close to our clients and helped them grow their wealth even during these trying times, this is a clear demonstration of our brand promise of "Here for good"

## Our Strategy

In 2020 Consumer, Private and Business Banking (RB) heightened the focus on client engagements using data analytics and enhancing our digital channels to serving our clients in Business, Priority and Personal Banking segments.

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

1. A profitable business with a well-diversified and optimised statement of financial position.
2. A sustainable and scalable distribution network with digital touch points as its core channels.
3. A 'wow' client experience through our diverse product suite and world class digital capabilities.

To improve client engagements even during the pandemic, bi-monthly client Webinars were held with selected clients and we carried out a tail management exercise in Business Banking segment to optimise the portfolio. We provided a platform to virtually interact and stay close to our clients and helped them grow their wealth even during these trying times, this is a clear demonstration of our brand promise of "Here for good".

In 2020 the business successfully enhanced our digital channels capabilities: the website was revamped to improve client browsing experience and data analytics. A referral functionality was introduced on the SC Mobile App to allow clients to invite their friends and families; foreign account opening was added on our SC Mobile App as well as the one-time account transfer functionality. This further complements our drive to deliver best in class Digital capabilities on the existing Mobile and Online platforms.

To manage Asset portfolio risk exposure for the Government of the Republic of Zambia (GRZ) employees under stressed and challenging macro-economic factors in the market, we ran a successful settlement campaign which saw the GRZ Personal Loan portfolio exposure reduce from 68 per cent to about 48 per cent.

To enhance staff accountability and efficiency in the day to day running of the business and in line with our people agenda RB restructured its operation model in 2020 by combining Unsecured Asset Value Centre Unit and the Deposit & Secured Asset Value Centre unit into one with one General Manager responsible for the Deposit & Asset Value Centre . Further the Universal Banker role was introduced to upskill our staff and set them up for future roles in the Bank by combining the role of a Teller and Customer Service Manager into one (Universal Banker). This is proof that at the core of our business, we continue to demonstrate that we are not only interested in improving the digital capabilities but also the skills of our staff.

With our improved digital platforms, we have seen our client adoption improve to 81 per cent making us the best in Standard Chartered Bank Group. 88 per cent of our transactions are serviced on our digital platforms compared to only 12 per cent in the physical branches, of which 60 per cent are cash deposit. Furthermore, we have seen an improvement in digital account acquisition by three times per month over what we used to acquire under paper based on-boarding in 2019 even during the COVID-19 pandemic environment showing the resilience and proof of concept of our digital investment.

## Retail Banking continued

Business optimised its branch network to align to the core growth cities by closing eight branches as at end of December 2020 to remain with 3 branches - one in Kitwe and two in Lusaka. This clearly speaks to our strategy of having a digital service business model which is robust and easy to scale. Innovations like card delivery for both new accounts and replacements have proved that we can operate efficiently and be able to service our clients even in places we have exited or never had a physical presence.

### Awards

The Business was recognised for its outstanding digital capabilities and received the most prestigious award of "The Best Consumer Digital Bank 2020" by Global Finance. We have won this award seven times in a row, clearly demonstrating that we are indeed trendsetters.

### 2020 Overview

The RB business delivered a strong performance in 2020 under challenging conditions. Liabilities grew by 49 per cent year on year on the back of improved acquisition through our digital platform. We recorded growth in local currency deposits from our new Business Banking clients whom we have stayed closer to and embraced in the pandemic environment. The asset book as per strategy was halved, Assets dropped 46 per cent due to de-risking strategy of Personal Loans for GRZ employee portfolio.

Depreciation of the kwacha by about 51 per cent year on year and impact of COVID -19 pandemic led to slow down in business activities and exerted pressure on the revenue performance coupled with restructuring and optimisation during the year. As a result of this revenue declined by 29 per cent year on year.

### Risk

The RB Risk and Control Environment remained strong in 2020. The business passed all reviews and audits with an acceptable or well-controlled rating, including the COVID-19 pandemic Regulatory review. Prudent asset book management and de-risking was cardinal in 2020 with the pandemic affecting normal business operations in a market already challenged with the macro-economic factors. In all the reviews and risk measures undertaken, Management demonstrated ownership and understanding of risks facing the business along with ensuring a robust mechanism for identifying and addressing control weaknesses.

## 2021 Outlook

To smoothly complete the transition to a new Omni Channel model which runs on a light physical branch network presence complimented by our state-of-the-art digital alternative channels.

The enhanced digital capabilities are currently able to provide 70 plus service request online with no need to visit the physical branch, these services include:

- Account opening
- Card replacement and PIN change
- Bank transfers
- Mobile Money wallet funds transfer
- Credit Card repayment
- Utility Bill payment
- Loan repayments

The closure of branches is also part of the transition to the Omni Channel model through a tiered client service approach model. This is because the branches are high value assets to be used for complex high value segments client interactions through the Staff relationship management channel, while migrating the mass segment to the digital self-service channel.

We are confident this business model built thus far is well positioned for future business sustainability in 2021 and beyond.

To deliver yet another strong performance in 2021 our strategy will be driven by seven clear underlying principles:

1. Pivot to a **Mobile-led Omni Channel engagement model**
2. Operate a differentiated model for Affluent, **Personal and Business Clients.**
3. Deliver **superior experience & build brand value**
4. End game is not zero physical branches, but instead **repositioning branches as targeted high impact assets** in a channel construct which has digital at the core
5. Participate in **alternate business models e.g. Agency Banking**
6. Transition to **'Pay as we go' investment model**
7. **All new products** will be introduced primarily on digital channels

We will continue to keep the RB business sustainable and profitable in the years to come.

# Wealth Management

Olusegun Omoniwa
Head of Wealth Management

> "It is often worth reminding ourselves that markets are mechanisms that discount the future, not the past. While 2020 has proven to be an unusual year in many ways, we believe it is important to keep this forward-looking perspective in mind when looking ahead to 2021."

## Our Strategy

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

### 2020 Overview

At the start of the year our aim was to help our clients At the start of the year our aim was to help our clients through what we believed would be a balancing act. Balancing the anticipated stabilising growth and reducing trade conflict in the global economy, recovering corporate earnings and divergent monetary policies across some emerging and developed economies which should have been clearly supportive factors for risk assets. The COVID-19 pandemic turned most of this scenario on its head except for the supportive environment for risk assets in capital markets due to robust policy responses. Despite the challenging social and physical circumstances our clients faced in 2020, capital markets rallied significantly, and this supported a strong set of results for Wealth Management.

- Revenues grew overall by around 17 per cent over the previous year and this growth was driven predominantly by higher Investment Services and Wealth Management lending sales in the Consumer, Private and Business Banking business. Income from Investments Services and Wealth Management lending sales significantly grew on average. In Investment Services, the assets under management for our clients, grew by around 40 per cent year on year and the number of clients also grew significantly. The success recorded in our Investment Services and Wealth Management lending sales was driven by superior products and strengthened client relationships.
- Our Relationship Managers and Investment Advisors continued to help our clients invest millions of dollars of assets in both local and global capital markets. They also held several strategic engagement sessions online as a result of the need for social distancing with clients to ensure they were kept abreast of key trends in the market and the investment landscape.
- In 2020 we further enhanced our wealth solution offering as we continued to see interest in investment diversification by partnering with professional investment managers from around the world while supporting significant investments into local capital markets. We also closed a gap in offering wealth protection through our partnership with Marsh Zambia to offer clients short term insurance solutions for their homes and motor vehicles.

### Outlook for 2021

It is often worth reminding ourselves that markets are mechanisms that discount the future, not the past. While 2020 has proven to be an unusual year in many ways, we believe it is important to keep this forward-looking perspective in mind when looking ahead to 2021.

Investing in 2020 was defined by the rapid spread of the COVID-19 pandemic, its resulting negative impact on growth and the subsequent policy response. However, a spate of positive reports on potential COVID-19 pandemic vaccines, some of which are now approved, mean markets are already starting to look ahead to a post-COVID-19 pandemic environment.

In our assessment, a post-COVID-19 world is likely to be supportive for risky assets in 2021. This is reflected in our preference for equities and credit over cash and bonds. An end to 'man-made' restrictions on economic activity raises the prospect of a return to pre-COVID-19 pandemic activity levels once the vaccination programme is widespread. Continued ultra-supportive monetary and fiscal policies should help accelerate this process. We will continue to support our clients to take advantage of the opportunities that will arise thorough timely and professional access to relevant markets in 2021.

# Corporate and Institutional Banking, Client Coverage

**Emmy Kumwenda**
Head of Global Banking and Financial Institutions

"A key focus remains to improve the experience of our clients by acceleration of the digitization strategy."

## Our Strategy

The focus for Corporate and Institutional Banking remains to support our clients with their transaction banking, corporate finance, financial markets and borrowing needs across more than 60 markets, providing solutions to clients in Zambia and most active trade corridors. We intend to achieve this by increasing joint customer focused engagement with product partners to ensure higher customer retention.

The business is split between Global Subsidiaries and Financial Institutions to ensure delivery of our global network to multinational corporates, government entities, banks and investors operating or investing in Zambia. A key focus remains to improve the experience of our clients by acceleration of the digitalization strategy.

## 2020 Overview

2020 proved to be a difficult year for our business, where revenue was negatively impacted by the economic headwinds. This was exacerbated by the slowdown in economic activity due to Covid 19 worldwide pandemic. The tight FX liquidity in the economy resulted in declining revenue on our Financial Markets line. However, as we moved our focus from Corporate Term Deposits, we were able to reduce the interest expense.

The business reported a loss in 2020 due to the significant Loan Impairments. This is following the internal sovereign downgrade which resulted in an increase in the Expected Credit Loss provision taken. Furthermore, with the implementation of IFRS 9 which adopts a forward-looking approach to impairments (Expected Credit Loss) as opposed to the incurred loss model, CIB booked a significant amount under impairments on the Corporate book which further affected the profitability of the segment. As per IFRS requirements, every new loan on boarding comes with an impairment whether a default is expected or not.

To manage the risks faced by the business we proceeded to de-risk the portfolio by reducing limits on names with exposures above the single borrower's limit.

Despite the challenges highlighted, the business was able to achieve some key successes in 2020

## Key successes in 2020 included:

- Demonstrated the strength of our network proposition with a solution for a UAE based SCB client operating in the energy sector, in this solution we successfully closed the first tranche of bond discounting. Our unique solution involved converting the receivables due to the client into marketable securities and subsequently selling down the risk to our Investor clients.
- Provided Working Capital Support of ZMW308m to CIB clients operating in key sectors such as energy and agro- manufacturing.
- Successful integration of Straight 2 Bank platform with the Zambia Revenue Authority system for Domestic Tax payments.
- Enhanced our digital offering through the introduction of mobile soft tokens allowing clients to log onto Straight 2 Bank platform using their mobile phones without requiring issuance of physical tokens. Utilization was successfully driven up from 2 per cent at the start of year to 52 per cent as at December 2020.

## Strategic Priorities for 2021

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

In 2021, our Strategic priorities will be:

- Further accelerate digitization of the portfolio through the roll-out of Straight 2 Bank Next Generation to all CIB clients.
- Grow the Local Currency asset book by lending to Global corporates with satisfactory parental backing
- Continue to leverage on the Chinese corridor by targeting growth on Cash and Financial Markets lines with added focus on providing solutions for Chinese Renminbi transfer.
- Deliver sustainable growth for clients by understanding their agendas, providing trusted advice and data-driven analytical insights.

### Commercial Banking

2020 Overview

In 2020 our focus shifted entirely to the Corporate & Institutional Banking (CIB) business, due to our refreshed strategic priorities demonstrated by our decision to refine our market participation from 2 segments (Corporate and Institutional Banking and Commercial Banking) to one (Corporate and Institutional Banking). The performance of Commercial Banking reflected this shift out of the segment with revenue declining compared to the previous year, however even during the movement out of the segment the team was able to close out one-off deals in Financial Markets and contributed to increased income from Foreign exchange transactions.



# Community Investment

Christine Matambo
Head of Corporate Affairs, Brand & Marketing

"In 2020, Standard Chartered Bank Zambia Plc supported the needs of our communities by investing over USD350,000 as part of our COVID-19 Emergency response."

## Community Investment

The world experienced an unprecedented time in 2020 due to the COVID-19 pandemic and Zambia was not spared from its impact, which affected businesses, education, health and the economy at large. Whilst physical interaction was greatly impeded, the Bank did not relent in our support to the markets and communities in which we operate. In 2020, Standard Chartered Bank Zambia Plc supported the needs of our communities by investing over USD350,000 as part of our COVID-19 Emergency response.

## COVID-19 emergency response

The Bank supported better sanitation and hand washing practices by donating USD50,000 towards the WaterAid Zambia Kutuba campaign with hand washing facilities that were placed in public areas. In addition, the Bank supported WaterAid Zambia's BackToSchool WASH projects which rehabilitated the water supply network and installed retro-fit WASH infrastructure for five (5) schools in Lusaka. These facilities will also serve local communities of up to 2,500 people.

We joined national efforts to increase testing for COVID-19 by supporting the Centre for Infectious Disease Research in Zambia (CIDRZ) with USD50,000 to purchase over 2,000 testing kits, which were distributed to health centres countrywide. In addition, we supported the production and distribution of over 14,000 re-usable masks produced by women-led SMEs through our USD50,000 partnership with the United Nations Development Programme (UNDP).

Due to the pandemic, schools were closed and most opted for virtual learning sessions. However, in the more vulnerable and remote areas of the country, this was not a viable option due to several reasons such as infrastructure and affordability. Through our partnership with the United Nations Children Fund (UNICEF), we supported remote education via TV, radio and mobile platforms and child protection measures for vulnerable children in Zambia. This donation was worth USD200,000. Other notable support towards COVID-19 relief included USD10,000 to Save the Children Zambia to support educational efforts in rural areas; and USD7,000 to the Lusaka Eye Hospital to support Personal Protective Equipment (PPEs) to healthcare workers so that their eye healthcare work continued.

## Futuremakers by Standard Chartered

Futuremakers by Standard Chartered is our global initiative to tackle inequality and promote economic inclusion across our markets. At a global level, our aim is to raise USD50 million between 2019 and 2023 to empower the next generation to learn, earn and grow. The Bank's approach to tackle inequality and promote greater economic inclusion is to extend opportunities to people through our business, operations and community programmes regardless of social background and gender. Standard Chartered Bank Zambia Plc launched Futuremakers in September 2020 and is now running three programmes, Youth To Work, SC Women In Tech Incubator Programme and Goal. Futuremakers is supported by the Standard Chartered Foundation.

## Support for Youth - Youth to Work Programme

This is a new programme that will develop opportunities to support young people to become job ready. Launched in September in partnership with Challenges Worldwide, the Youth to Work programme will place young people strategically in businesses to support Small and Medium Enterprises (SMEs), while fostering wider skills development for them. In Zambia, 50 young people joined the programme which will include training, mentorship and placement in SMEs for 5 months.

## Support for Women – Standard Chartered Women In Tech Incubator Programme.

In November 2020, Standard Chartered Bank Zambia Plc partnered with BongoHive to launch the Women in Tech Incubator programme. With an investment of USD150,000, it is envisioned to align with calls for more diversity in technology and for more opportunities for women to develop entrepreneurial and leadership expertise. Women In Tech will support the economic and social development of Zambian women through innovation-driven entrepreneurship and will achieve this by providing women in technology and other business sectors with an enabling environment for starting up ventures, training, mentorship, coaching and access to investment and seed funding. This will be done through an incubation programme that will enable discovering, validating, building and growing technology start-ups with women founders. Five successful businesses from the incubation phase will receive seed funding (USD10,000 each), as well as the combined support from BongoHive and Standard Chartered Bank Zambia Plc to graduate from the programme and facilitate linkages with networks to grow and scale-up their businesses.

## Goal Programme

The Goal Girls initiative has, since its inception in 2011, empowered over 20,000 Zambian adolescent girls with life skills training using the power of sport. In 2020 alone, we reached over 3,000 girls through training sessions. Bank employees continued to impart their financial knowledge and skills to conduct mentorship sessions to the girls through virtual sessions.

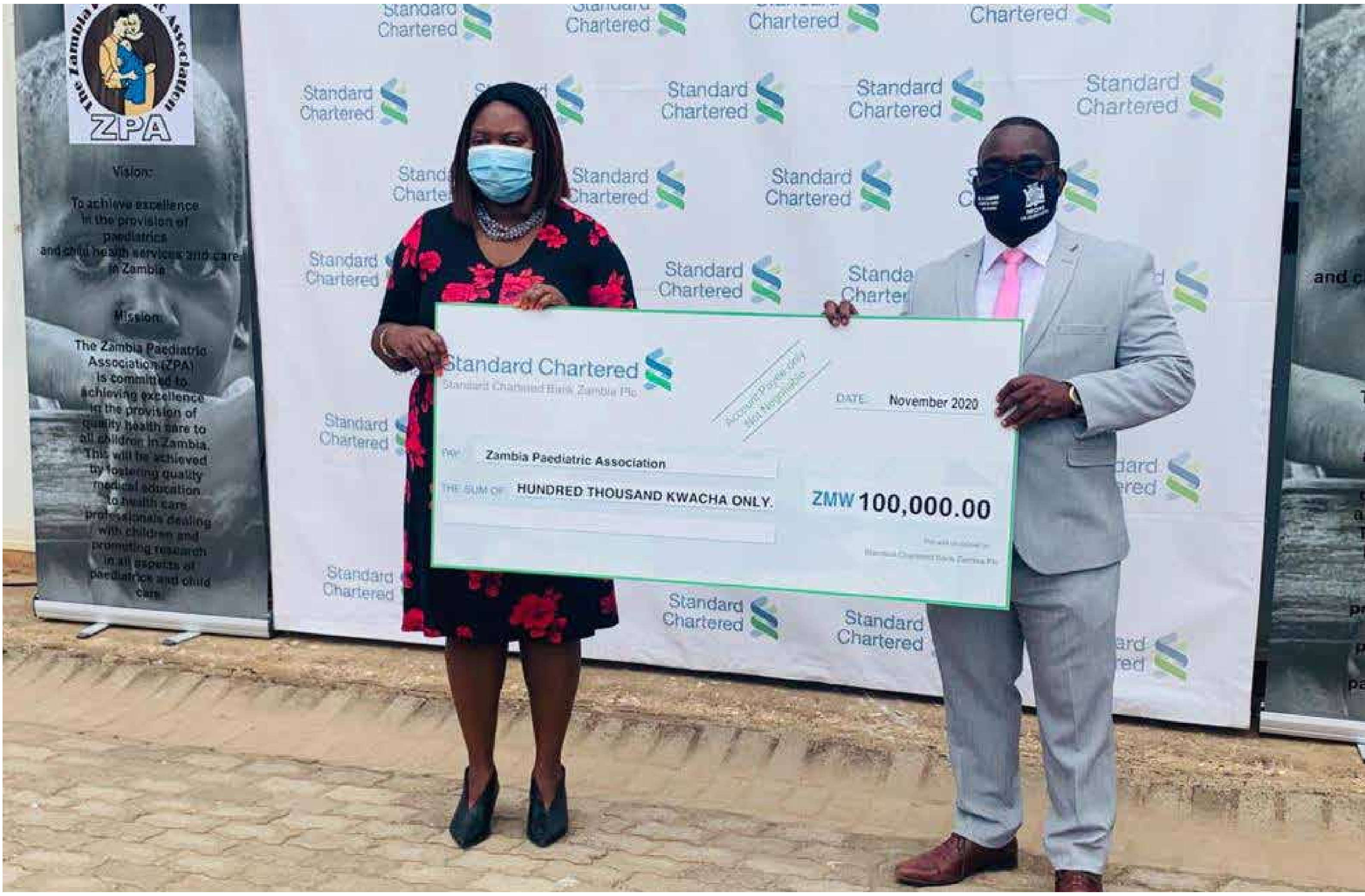
## Virtual Mentorship & Volunteering

With the onset of the COVID-19 pandemic, all physical interaction was minimised. Senior leadership extended themselves to the community by virtually mentoring 100 young people on topical issues such as leadership, career development, personal branding and growth mindset. Other members of staff took to reading to differently abled children at Cheshire homes in virtual settings.

## Liverpool Football Club

To promote Standard Chartered's global sponsorship of Liverpool Football Club, we were proud to host the annual Liverpool 5-a-side football tournament – The SC Trophy. For 2020, 30 teams comprising our clients and key stakeholders participated in the first round of the tournament for which the grand prize is a once-in-a-lifetime opportunity to travel to Anfield – the home of Liverpool Football Club. However, due to COVID-19, the tournament was postponed in order to adhere to the prescribed health and safety protocols. The continued hosting of this tournament demonstrates our support to football in Zambia. In early 2020, we were able to send the 2019 SC Trophy Champions, Law Association of Zambia, to the United Kingdom to watch Liverpool Football Club play live at Anfield.

All in all, despite the COVID-19 pandemic, the Bank continued to support our communities, especially through relief efforts. I would like to thank all our staff, partners and key stakeholders for their continued support throughout the year.



# Board of Directors

**Committee Key**

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

## Caleb M Fundanga (68)

Independent Non Executive Director

Board Chairman

Appointed: 01/04/17

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

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

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

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

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

Dr. Fundanga is currently the Chancellor at the University of Lusaka.

**Age: 68 years**

**Other Boards:**

- Partnership for Making Finance Work for Africa Advisory Council based at the African Development Bank in Abidjan, Cote d'Ivoire)
- APlus General Insurance – Chairman
- Commonwealth Partnership for Technology Management (Smart partners, based in London) – Member

**Shares in SCBZ – 11,068**

RN

## Robin Peter Steuart Miller (61)

Independent Non Executive Director

Appointed: 07/08/12

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

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

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

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

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

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

**Age: 61 years.**

**Other Board Directorships:**

- City Investments Limited
- Lilayi Development Company Limited
- Zariant Zambia Limited

**Shares in SCBZ - NIL**

R A

## Kapambwe Doreen Chiwele (57)

Independent Non Executive Director

Appointed: 01/10/16

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

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

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

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

**Age: 57**

**Other Board Directorships:**

- KIME Social Development And Advocacy
- Lubu Road School (Retired 31 December 2020)

**Shares in SCBZ: 1,681**

A RN

**Munakopa Sikaulu (47)**
Independent Non Executive Director

Appointed: 01/08/17

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

A Zambian national, Mr. Sikaulu has vast experience of commercial activities in Zambia. He is specialised in the Law of Banking and Finance and has advised and represented local, regional and international banks, financial institutions and companies on various transactions in Zambia as well as in commercial litigation matters. Mr. Sikaulu is a member of the Law Association of Zambia, the International Bar Association and Commonwealth Lawyers Association. He chairs the Hollard Insurance Limited board and also serves on a number of other boards which include Zambia Reinsurance PLC (formerly Prima Re-insurance PLC) and Pearl of Health Hospital Limited and has previously served on the board of Entreprenuers Financial Centre Zambia Limited and the Council of the Law Association of Zambia.

**Age: 47 years**

**Other Board Directorships:**

Hollard Insurance Zambia Limited
Zambia Reinsurance Plc
Pearl of Health Hospital Limited
Belgravia Services Limited
Baswe Limited
Brentwood Estates Limited

**Shares in SCBZ: NIL**

L R

**J. Kweku Bedu-Addo (53)**
**Chief Executive Officer**

Appointed: 03/04/18

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

Kweku's career has spanned Public Policy, International Development, and Banking & Finance. He worked in the Ministry of Finance in the 1990s during the implementation of Ghana's Structural Adjustment Program.

He joined Standard Chartered Bank Ghana in 2000 and rose to become the first Ghanaian Chief Executive in the Bank's 124-year history in Ghana in 2010. Prior to this, he held several senior Corporate & Institutional Bank roles in Ghana and West Africa, Zambia and Singapore.

Other significant affiliations include immediate past Chairman of the Ghana Stock Exchange, Vice Chairman of the Ghana Fixed Income Market, Chairman, Institute of Applied Sciences at the University of Ghana, Member, University of Ghana Business School Advisory Board and Vice President of the Ghana Association of Bankers. He is currently the Vice Chairman of the International Banks Association in South Africa and a Board Member of Bankers Association of South Africa, BASA.

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

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

**Age: 53**

Other board Directorships:

- Standard Chartered Bank Botswana

**Shares in SCBZ: NIL**

A

**Herman Kizito Kasekende (54)**
Director /Chief Executive Officer

Appointed: 27/02/17

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

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

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

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

**Age: 54 years**

**Other Boards –** NIL

**Shares in SCBZ – NIL**

L R

**Kelvin Bwalya (46 )**
Director Finance and Administration /Chief Financial Officer

Appointed: 01/04/20

Appointed to the Board on 01 April 2020, **Kelvin Bwalya** joined Standard Chartered Bank Zambia Plc in 1998, served in several capacities within Finance Department, becoming Financial Controller in 2008. He then held various positions within the Group, these include: Product Specialist for the Finance Transformation (FT) programme in Standard Chartered Bank Singapore, FT Programme and Projects Manager Africa and Middle East, and Head CoE Change Africa in Standard Chartered Global Finance Services (GFS).

Prior to his current appointment, Kelvin served on the Group Aspire programme as Aspire Champion Africa and Middle East. He has undertaken assignments within the Group across multiple projects in key markets including Kenya, Ghana, Angola, Singapore and India.

He is a member of the Chartered Institute of Management Accountants (CIMA) and Zambia Institute of Chartered Accountants (ZICA).

**Age: 46 years**

Other Boards – NIL

**Shares in SCBZ – NIL**

L R

# Executive Management Team

**Herman Kasekende**
Managing Director and Chief Executive Officer

**Kelvin Bwalya**
Executive Director Finance and Administration /Chief Financial Officer

**Christine Matambo**
Head of Corporate Affairs, Brand and Marketing

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

**Deep Pal Singh**
Head of RB – Zambia and Southern Africa

**Rose N Kavimba**
Head, Legal and Company Secretary

**Olusegun Omoniwa**
Head of Wealth Management - Zambia and Southern Africa

**Fanwell Phiri**
Country Chief Risk Officer

**Emmy Kumwenda**
Head,Corporate and Institutional Banking (CIB)

**Simon Burutu**
Senior Credit Officer
Zambia and Southern Africa

**Peter Zulu**
Head of Conduct, Financial Crime and Compliance.

**Mutu Mubita**
Head of Human Resources

**Marshal Shampongo**
Head of Internal Audit


Standard
Chartered

# The Head Office Journey




Standard Chartered
Standard
Chartered
NOW OPEN


Standard
Chartered


Standard
Chartered

# Directors' report

The directors are pleased to submit their report and the audited consolidated and separate financial statements for the year ended 31 December 2020, of Standard Chartered Bank Zambia Plc ("the Bank") and its subsidiary, Standard Chartered Bank Zambia Securities Services Nominees Limited (together "the Group").

## Standard Chartered Plc

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

## Standard Chartered Bank Zambia Plc

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

## Articles of Association

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

## Results and dividend

At a board meeting held on 26 February, 2021, the Directors did not recommended any dividend for the year ended 31 December 2020 owing to the performance of the Bank in 2020.

## Share capital

During the year 2020, the paid up primary capital of the Bank was ZMW416, 745,000. The authorised share capital of the Bank was ZMW450, 000,000. The Bank has issued ZMW416, 745,000 ordinary shares with a nominal value of ZMW0.25 per share.

## Gifts and donations

The Group identifies with the aspirations of the community and the environment in which it operates. During the year, the Group made donations of ZMW4,651,000 to charitable organisations and events.

## Number of employees and remuneration

The average number of people employed by the Group during the year was 445. The total remuneration paid to employees during the year amounted to ZMW 330, 667, 000 (2019: ZMW 328, 665, 000) and the total number of employees was as follows:

| Month | Number | Month | Number |
|---|---|---|---|
| January | 546 | July | 477 |
| February | 506 | August | 475 |
| March | 494 | September | 473 |
| April | 476 | October | 470 |
| May | 475 | November | 471 |
| June | 474 | December | 408 |

## Property and equipment

The Group purchased property and equipment amounting to ZMW 34, 387, 000 (2019: ZMW18, 587, 000) during the year. In the opinion of the directors, the carrying value of property and equipment is not less than their recoverable value.

## Results

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

## Directors

For the period under review, Ms. Venus Hampinda resigned from the Board as Executive Director- Finance and Administration and was replaced by Mr. Kelvin Bwalya. There were no other changes to the directorate during the period under review. A full list of directors is available on pages 20-21

## Secretariat

There was no change to the Secretariat in 2020.

### Directors' interests in ordinary shares

The beneficial interest of Directors and their families in the Ordinary shares of the Bank were as follows:

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

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

## Activities

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

## Related party transactions

Related party transactions are disclosed in note 45 to the consolidated and separate financial statements.

## Directors' emoluments and interests

Directors' emoluments and interests are disclosed in note 45 to the consolidated and separate financial statements.

## Directors' induction and on-going development

The Bank believes that induction and ongoing development of the Board members is necessary to ensure that the directors have the requisite knowledge and understanding of the Bank and the market that it operates in for them to effectively carry out their roles as directors. During the year 2020, given the challenges presented to physical meetings for trainings, the Board held virtual engagements with other Standard Chartered Directors globally which enhanced Board linkages was part of ongoing development.

## Shareholder concerns

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

Rose.Kavimba@sc.com.

## Electronic communication

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

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

## Group code of conduct

The board has adopted the ultimate parent company's code of conduct relating to the lawful and ethical conduct of business and this is supported by the ultimate parent company's core values. All directors and employees of the Bank have committed to the code and are all expected to observe high standards of integrity and fair dealing in relations to all our stakeholders including customers, staff and regulators. The Board members jointly and severally recommitted to the code of conduct on 27 November 2020.

## Research and development

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

## Restricted Transactions

There are no restricted transactions as defined under Part VII of the Banking and Financial Services Act, No. 7 of 2017 except as such as have been expressly permitted by the Bank of Zambia.

## Health and safety

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

## Relevant audit information

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

## Auditors

A resolution proposing the re-appointment of EY Zambia as auditors of the Group, and authorising the directors to fix their remuneration will be put to the Annual General Meeting.

**By order of the board**
**Rose N. Kavimba**
Company Secretary
2 February 2021

# Corporate Governance

Rose Kavimba
Company Secretary

## Our Approach

### Disclosure

The Board has the overall responsibility of ensuring that the highest standards of corporate governance are maintained and adhered to by the Bank. Our directors confirm that during the 2020 financial year, the Bank ensured substantive compliance with the Bank of Zambia and the LuSE Corporate Governance codes. The Board and senior management continue to engage in discussions with the LuSE with regard to the 25% public float requirement.

Standard Chartered Bank Zambia Plc ("Standard Chartered") is one of the Group's largest businesses in the Africa and Middle East region and one of the oldest, having been in existence for over 114 years in Zambia. It is a public company incorporated in the Republic of Zambia on 11 November 1971 to take over the business of Standard Bank Zambia Limited, which had operated in Zambia since 1906. Standard Chartered was the first bank in Zambia to list on the Lusaka Stock Exchange on 30th November 1998.

## Our Board

To drive the Bank's purpose of driving commerce and prosperity through our unique diversity, we have in place a Board that is diverse, experienced and driven. The Board presently comprises 7 members; 2 Executive Directors and 5 Non-Executive directors, 4 of whom are Independent Non-Executive Directors. In 2020 Ms. Hampinda stepped down from the Board as executive Director Finance and Administration. The board would like to congratulate Venus on her appointment and express their sincere thanks and gratitude for her outstanding leadership and devotion to the Bank during her tenure. Ms. Hampinda was replaced by Mr. Kelvin Bwalya.

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

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

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

The Board has responsibility for the overall management of the company and is primarily accountable to the shareholders for proper conduct of the business of the company and the management of the relationships with its various stakeholders. In fulfilling its primary responsibility, the Board is aware of the importance of achieving a balance between conformance to governance principles and economic performance.

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

The Board meets quarterly and additional meetings are convened as and when required. The Board held 8 meetings during the 2020 financial year and had a formal schedule of matters specifically reserved for its decisions. Generally, members of the Management Team are invited to attend part of the meetings to ensure effective interactions with the Board. Given the pandemic during the year 2020, the Board met mostly virtually to adhere to the Country and Bank's Covid prevention guidelines and measures.

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

## Board Committees

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

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

## Board Audit Committee

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

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

The Committee met five times during the year and was chaired by an Independent Non-Executive Director, Mrs. Kapambwe Doreen Chiwele. In line with Corporate Governance directives, the Committee also meets at least once a year with the External Auditors, the Head of Compliance, Head of Internal Audit, Head of Legal, Chief Financial Officer and the Chief Risk Officer without management present.

## Board Risk Committee

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

The Bank's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The Committee met 4 times during the year and was chaired by Independent Non-Executive Director Mr. Robin Miller. The Chief Risk Officer presents a quarterly report which updates the Committee on the Key Risks.

## Board Loans Review Committee

The Board Loans Review Committee comprises of three (3) Directors and chaired by an Independent Non- Executive Director, Munakopa Sikaulu. The Committee exercises oversight on behalf of the Board on all matters incidental to credit and loan approvals, applications and advances made by the Bank and makes recommendations to the Board on the company's overall credit risk appetite. The Committee met 4 times during the year.

## Board Remuneration and Nomination Committee

The Board Remuneration and Nomination Committee comprises of two (2) members both Independent Non-Executive Directors. The Committee on behalf of the board oversees and is accountable for the implementation and operation of the Bank's remuneration policies and procedures. It periodically reviews the Company's remuneration policy to ensure continued compliance with country laws and regulations. The Committee also reviews succession plans for the Board and Management.

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

The Committee met twice times during year in 2020.

## Board Effectiveness Review

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

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

The Bank has a robust engagement and training plan for the Board. In 2020, the Board had various engagements with different stakeholders which also saw the Board Chairman attend the AME Chairmen's conference hosted virtually by the Standard Chartered AME CEO. Further, the Board annually engages with the Group Audit Committee and Group Risk Committee Chairmen to discuss focus areas for the Bank's Audit and Risk Committees. The Remuneration Committee had its inaugural meeting with the Standard Chartered Group remuneration and Nominations Committee in September 2020.

## Director Induction and Continuous Education.

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

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

The Company Secretary supports the induction process to acts as a facilitator for these sessions. The induction process is undertaken within the first six to nine months of a director's appointment. Induction was provided to Mr. Kelvin Bwalya after his appointment.

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

## Conflicts of Interest

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

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

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

Our Directors are clear on how they should manage their outside interests and how these may conflict with their duties as a Director of Standard Chartered Bank Zambia Plc. During on boarding and continuously during their tenure, they are reminded of their obligations and duties as directors. Details of the directors' external directorships can be found in their biographies on pages 20-21.

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

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

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

Our Board members commit sufficient time in discharging their responsibilities. During the year 2020, the Board meeting attendance by the Board was on average 95.87%, a clear demonstration of the Board members commitment and ability to provide additional time.

## Code of Conduct

The Board has adopted the Group Code of Conduct relating to the lawful and ethical conduct of business and this is supported by the Group's core values. The Code of Conduct is reviewed every two years and committed to annually. The Group Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. The Board recommitted to the Code of Conduct on 27 November 2020.

## Regulatory Compliance

Standard Chartered Bank Zambia Plc strives to ensure that the business is managed sustainably, through exemplary governance, compliance and financial crime risk management practices that continue to meet both local and international standards. The local management ensures that high ethical standards are maintained in the business model at all times.

Annually, Compliance, Conduct and Financial Crimes risk assessments are performed to inform the necessary and timely mitigation initiatives for a sustainable business that ensures positive outcome for our clients by ensuring risks are timely identified and managed. In addition, the Bank continues to ensure that all staff are re-trained on a periodic basis to ensure that they always operate within the set standards of the highest conduct and compliance requirements. These initiatives have very strong sponsorship and support of senior management and the board of directors on an ongoing basis.

## Our Stakeholders – Regulatory Authorities

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

The Bank continuously strives to operate by the highest ethical standards of business conduct and supports the stakeholders in ensuring financial inclusion is achieved through various innovative digital product and services that meet the ever changing client lifestyle especially with the COVID-19 pandemic outbreak that has necessitated non-physical banking services being preferred. On a day-to-day basis, the Compliance function is responsible in identifying and disseminating all the regulatory developments that impact the bank by working with the relevant process owners to ensure compliance is achieved.

Due to the COVID-19 pandemic, the banking industry has employed various virtual digital ways of engaging with the regulators while being safe to avoid the risk of exposure to the virus. In 2020, the majority of the engagements have been through virtual means with all the regulators in Zambia.

**Rose Kavimba**
Company Secretary
26 February 2021

# STANDARD CHARTERED BANK ZAMBIA PLC

# RECORD OF ATTENDANCE OF BOARD /BOARD COMMITTEE MEETINGS HELD IN 2020

## BOARD OF DIRECTORS' MEETINGS

| No. of Board Meetings 2020 | 1/2020 (Adhoc ) | 2/2020 (Main Board) | 3/2020 (PRE-AGM) | 4/2020 (AGM) | 5/2020 (PRE-AGM) | 6/2020 (AGM) | 7/2020 (Main Board) | 8/2020 (Board Strategy) | Total |
|---|---|---|---|---|---|---|---|---|---|
| Date of Meeting | 28/02/20 14:00 HILTON HOTEL | 29/03/20 09:00 SCBZ VIRTUAL | 29/05/20 09:00 SCBZ VIRTUAL | 29/08/20 10:00 SCBZ VIRTUAL | 03/09/20 10:00 SCBZ VIRTUAL | 04/09/20 10:00 SCBZ VIRTUAL | 13/11/20 10:00 SCBZ | 27/11/20 09:00 SCBZ | 8 |
| **Caleb M Fundanga (Board Chairperson)** | √ | AP | √ | √ | √ | √ | √ | √ | 7 |
| **Robin Miller** | AP | √ | √ | √ | √ | √ | √ | √ | 7 |
| **Herman Kasekende** | √ | √ | √ | √ | √ | √ | √ | √ | 8 |
| **Kapambwe Doreen Chiwele** | √ | √ | √ | √ | √ | √ | √ | √ | 8 |
| **Munakopa Sikaulu** | √ | √ | √ | √ | √ | √ | √ | √ | 8 |
| **Kweku Bedu- Addo** | VC | √ | √ | √ | VC | √ | AP | AP | 6 |
| **Venus Hampinda** | √ | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 1 |
| **Kelvin Bwalya** | N/A | N/A | √ | √ | √ | √ | √ | √ | 6 |
| **Rose Kavimba (Secretariat)** | √ | √ | √ | √ | √ | √ | √ | √ | 8 |

**NOTE THAT MS. VENUS HAMPINDA RESIGNED FROM THE BOARD EFFECTIVE 12TH MARCH 2020 AND MR KELVIN BWALYA WAS APPOINTED EFFECTIVE 1ST APRIL 2020.**

## BOARD AUDIT COMMITTEE (AC) MEETINGS

| No. of AC Meeting 2020 | 1/2020 | 2/2020 | 3/2020 | 4/2020 | 6/2020 | Total |
|---|---|---|---|---|---|---|
| Date of Meeting | Adhoc 24/02/20 SCBZ Board Room | 25/03/20 09:00 SCBZ VIRTUAL | 28/05/20 09:00 SCBZ VIRTUAL | 20/08/20 09:00 SCBZ VIRTUAL | 13/11/20 09:00 SCBZ VIRTUAL | 5 |
| **Kapambwe Doreen Chiwele (Chairperson)** | √ | √ | √ | √ | √ | 5 |
| **Venus Hampinda** | √*BI | N/A | N/A | N/A | N/A | 1 |
| **Kelvin Bwalya** | N/A | √*BI | √*BI | √*BI | √*BI | 4 |
| **Robin Miller** | √ | √ | √ | √ | √ | 5 |
| **Kweku Bedu-Addo** | VC | √ | VC | VC | VC | 5 |

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

- ***BI – By Invitation**

## BOARD LOAN REVIEW COMMITTEE (LRC) MEETINGS

| No. of CC Meeting 2020 | 1/2020 | 2/2020 | 3/2020 | 4/2020 | Total |
|---|---|---|---|---|---|
| **Date of Meeting** | **25/03/20 11:00 SCBZ VIRTUAL** | **28/05/20 11:00 SCBZ VIRTUAL** | **29/08/20 11:00 SCBZ VIRTUAL** | **13/11/20 11:00 SCBZ VIRTUAL** | 4 |
| **Munakopa Sikaulu (Chairperson)** | √ | √ | √ | √ | 4 |
| **Herman Kasekende** | √ | √ | √ | √ | 4 |
| **Kevin Bwalya** | √*BI | √ | √ | √ | 4 |

## BOARD RISK COMMITTEE (RC) MEETINGS

| No. of RC Meeting 2020 | 1/2020 | 2/2020 | 3/2020 | 4/2020 | Total |
|---|---|---|---|---|---|
| Date of Meeting | 25/03/20<br>14:00<br>SCBZ VIRTUAL | 28/05/20<br>14:00<br>SCBZ VIRTUAL | 29/08/20<br>14:00<br>SCBZ VIRTUAL | 13/11/20<br>14:00<br>SCBZ VIRTUAL | 4 |
| **Robin Miller (Chairperson)** | √ | √ | √ | √ | 4 |
| **Munakopa Sikaulu** | √ | √ | √ | √ | 4 |
| **Herman Kasekende** | √*BI | √*BI | √*BI | √*BI | 4 |
| **Kelvin Bwalya** | √*BI | √*BI | √*BI | √*BI | 4 |

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

## BOARD REMUNERATION AND NOMINATIONS COMMITTEE (RNC) MEETINGS

| No. of RC Meeting 2020 | 1/2020 | 2/2020 | TOTAL |
|---|---|---|---|
| Date of Meeting | 26/03/20<br>16:00<br>SCBZ<br>VIRTUAL | 13/11/20<br>16:00<br>SCBZ<br>VIRTUAL | 2 |
| **Caleb Fundanga (Chairperson)** | √ | √ | **2** |
| **Doreen Kapambwe Chiwele** | √ | √ | **2** |

**NOTE: CEO/CFO ARE NOT MEMBERS AND ONLY ATTEND RNC BY INVITATION**

**KEY:**

√ : Attended in person.

× : Absent.

AP: Apologies

VC : Video Conference.

(: Dialled in.

BI: By Invitation

D: Delegated

AC: Acting Committee Chairperson

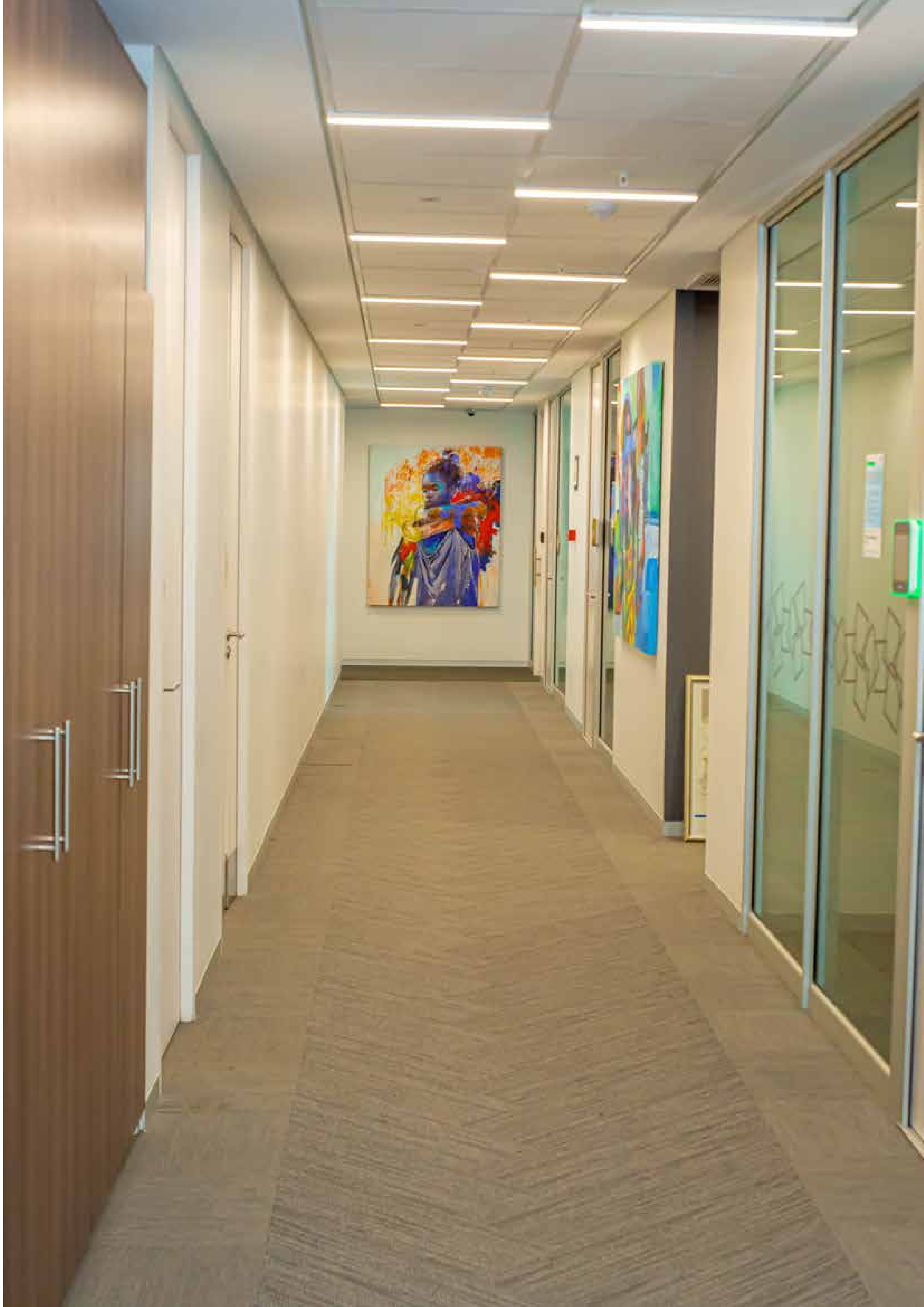
## STANDARD CHARTERED BANK ZAMBIA PLC

| Designation | Name | Total Meetings invited for | Physical Attendance | Attendance - Virtual | Attendance By Audio | Total Attendance (In Person, VC & Audio) | per cent | Remarks |
|---|---|---|---|---|---|---|---|---|
| **Chairman/INED** | Caleb Fundanga | *10 | 2 | 7 | N/A | 9 | 90% | Apologies noted for one Board meeting. |
| **INED** | Robin Miller | * *17 | 2 | 14 | N/A | 16 | 94% | Apologies noted for Adhoc meeting on 28 Feb 2020. |
| **INED** | Kapambwe D Chiwele | **15 | 2 | 13 | N/A | 15 | 100% | Attended all meetings invited for. |
| **INED** | Munakopa Sikaulu | *16 | 2 | 14 | N/A | 16 | 100% | Attended all meetings invited for. |
| **NED** | Kweku Bedu-Addo | **12 | NA | 10 | N/A | 10 | 83% | Apologies noted for Q4 Main Board and Board Strategy. |
| **ED/CEO** | Herman Kasekende | *16 | 2 | 14 | N/A | 16 | 100% | Attended all meetings invited for. |
| **ED/CFO** | Venus Hampinda | *2 | 2 | N/A | N/A | 2 | 100% | Attended all meetings invited for. |
| **ED/CFO** | Kelvin Bwalya | *13 | 1 | 12 | NA | 13 | 100% | Attended all meetings invited for. |

* Includes 1 adhoc meeting.

** Includes 2 adhoc meetings.

**Note:** Due to Covid-19, majority of the meetings were held virtually in adherence to Country and Group Covid-19 preventive measures.




L2
G
L1

# Standard Chartered Bank Zambia Plc

## Consolidated and separate financial statements

for the year ended 31 December 2020

## Contents


36 Directors' responsibilities in respect of the preparation of consolidated and separate financial statements
37 Independent auditor's report
40 Consolidated and separate statement of income or loss and other comprehensive income
41 Consolidated and separate statement of financial position
42 Consolidated and separate statement of changes in equity
43 Consolidated and separate statement of cash flows
44 Notes to the consolidated and separate financial statements
123 Appendix – Five-year summary
124 Principal Addresses
125 Branch Network
126 Dividend
127 Notice of 50th Annual General Meeting
129 Form of Proxy

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

The Companies Act no. 10 of 2017 requires the Directors to prepare financial statements for each financial year that present fairly the state of the financial affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company. The Directors are further required to ensure the Group adhere to the corporate governance principles or practices contained in Sections 82 to 122 of Part VII of the Companies Act no. 10 of 2017.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act no. 10 of 2017. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation 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 give a true and fair view of the financial affairs of the Group and of its profit or (loss) in accordance with International Financial Reporting Standards and the requirements of the Companies Act no. 10 of 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Sections 82 to 122 of Part VII of the Companies Act no. 10 of 2017.

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

### Approval of the financial statements

The financial statements of the Company as indicated above, were approved by the Directors on 26th February, 2021 and are signed on its behalf by:

**C. Fundanga**
Chairman

**H. Kasekende**
Managing Director

**K. Bwalya**
Executive Director - Finance and Administration

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

## Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Zambia Plc ("the Group and Bank") set out on pages 40 to 122 which comprise the consolidated and separate statement of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Zambia Plc as at 31 December 2020 and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Zambia Companies Act no. 10 of 2017, the Banking and Financial Services Act and Securities Act of Zambia.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits in Zambia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Standard Chartered Bank Zambia Plc. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

The key audit matters set out below relate to our audit of both the consolidated and the separate financial statements.

<table>
<tr><td colspan="2">Expected credit losses<br>See note 7.9 financial assets and financial liabilities accounting policy, 7.9.1 loans and advances accounting policy, note 8 use of judgements and estimates, note 29 loans and advances to customers and note 48 credit risk section of the financial risk management.</td></tr>
<tr><td>Key audit matter How the matter was addressed</td><td>Key audit matter How the matter was addressed</td></tr>
<tr><td>The impairment of loans and advances to customers is estimated by the Directors and requires significant judgement to determine the impairment allowance based on the expected credit losses (ECL).<br>Key areas of judgement include:<br>- Interpretation of the requirements to determine impairment under IFRS 9 which is reflected in the Bank's expected credit loss model.<br>- The identification of exposures with significant deterioration in credit quality.<br>- Assumptions used in the expected credit loss model such as the expected future cash flows and forward looking macroeconomic factors (such as foreign exchange rates, inflation and gross domestic product (GDP)).</td><td>Our audit procedures included the following:<br>• We tested the design and implementation and operating effectiveness of key controls over:<br>- approval of credits origination of loans and advances; and<br>- approval of loan risk ratings and credit rate monitoring assessments performed by management.<br>• With the support of our internal valuation specialist, we evaluated the assumptions, inputs and formulas used in the modelling techniques such as Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) against the requirements of IFRS 9.<br>• We assessed the data inputs such as macroeconomic factors used in the ECL model and compared them to independent statistical analyses for reasonableness.</td></tr>
</table>


Financial statements

| | |
|---|---|
| - The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD")<br><br>Due to the significant judgement applied by the Directors, in determining the expected credit losses of loans and advances to customers was considered to be a key audit matter | • We assessed the appropriateness of transfers between stages by testing on a sample basis whether financial assets transferred from stage 1 to stage 2 or stage 3 respectively, met the Bank's definition of significant increase in credit risk.<br>• We examined a sample of exposures and performed procedures to evaluate the expected credit loss calculation for exposures assessed on an individual basis by recalculating the expected credit loss.<br>• We examined a sample of exposures for completeness by checking that all exposures were included in the ECL model with reference to minutes of loan committee meetings and other supporting documentation.<br>• We assessed the adequacy of the disclosure made in the financial statements against the requirements of IFRS 9 Financial Instruments |

## Other Information

The Directors are responsible for the other information. The other information is included in pages 1 to 39 and comprises the Annual report, the Directors' report and other supplementary information as required by the Zambia Companies Act no. 10 of 2017 and all other information included in the Annual Report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Other matter

The consolidated and separate financial statements of Standard Chartered Bank Zambia Plc for the year ended December 31, 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 11 March,2020.

## Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Zambia Companies Act no. 10 of 2017 , the Banking and Financial Services Act and Securities Act of Zambia and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial

statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on Other Legal and Regulatory Requirements

Zambia Companies Act no. 10 of 2017.

In accordance with section 259 (3) of the Zambia Companies Act no. 10 of 2017 we consider and report that:

- there is no relationship, interest or debt we have with the Company; and
- there were no serious breaches of corporate governance principles or practices by the Directors. The statement is made on the basis of the corporate governance provisions Act, Part VII - Corporate Governance of the Zambia Companies Act no. 10 of 2017, Banking and Financial Services Act of Zambia

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

- The Bank made available all necessary information to enable us to comply with the requirements of this Act;
- The Bank has complied with the provisions, regulations rules and regulatory statements specified in or under this Act; and
- There were no transactions or events that came to our attention that affect the wellbeing of the Bank that are not satisfactory and require rectification including:
  - a) transactions that are not within the powers of the Bank or which is contrary to this Act; or
  - b) a non-performing loan that is outstanding, has been restructured or the terms of the repayment have been extended, whose principal amount exceeds five per cent or more of the regulatory capital of the Bank.

Securities Act of Zambia

As required by Part III, Rule18 of the Securities (accounting and financial reporting requirements) Rules of the Securities Act Zambia, we report that:

- The annual consolidated and separate financial statements have been properly prepared in accordance with Securities and Exchange Commission rules.
- The Bank has, through the financial year, kept proper accounting records in accordance with the requirements of the Securities and Exchange Commission rules.
- The consolidated and separate statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the Company records.
- We have obtained all the information and explanations which, to the best of our knowledge are belief, are necessary for the purpose of our audit.

EY Zambia

EY Zambia
Chartered Accountants

The engagement partner on the audit resulting in this independent auditor's report is;

**Mark Libakeni** 29 March 2021

Partner

Practicing Certificate Number: AUD/F000397 Lusaka

Financial statements

Financial statements

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

for the year ended 31 December 2020

| | | Group and Bank | |
|---|---|---|---|
| | Note | 2020 K'000 | 2019 K'000 |
| Interest income calculated using the effective interest rate method | 10 | **1,178,202** | 1,070,316 |
| Interest expense calculated using the effective interest rate method | 11 | **(421,389)** | (351,599) |
| **Net interest income** | | **756,813** | 718,717 |
| Fee and commission income | 12 | **189,743** | 203,808 |
| Fee and commission expense | 12 | **(37,747)** | (30,954) |
| **Net fee and commission income** | | **151,996** | 172,854 |
| Net trading income | 13 | **146,403** | 154,630 |
| Credit Loss expense on financial assets | 14 | **(293,252)** | (303,730) |
| Net gains on financial instruments at fair value through profit or loss | 15 | **110,418** | 25,207 |
| Other operating income | | **-** | 12,937 |
| **Operating Income** | | **872,378** | 780,615 |
| Other operating loss | 16 | **(4,518)** | - |
| Personnel expenses | 17 | **(330,667)** | (328,665) |
| Lease interest expense | 44.2 | **(8,828)** | (3,848) |
| Depreciation, amortisation, premises and equipment expenses | | **(177,655)** | (101,517) |
| Other Impairment | 14.2 | **(20,536)** | - |
| Other expenses | 18 | **(372,548)** | (280,798) |
| **Other operating expenses** | | **(910,234)** | (714,828) |
| **(Loss)/Profit before income tax** | | **(42,374)** | 65,787 |
| Income tax expense | 19(a) | **(5,704)** | (53,501) |
| **(Loss) /Profit for the year** | | **(48,078)** | 12,286 |
| **Other comprehensive income, net of income tax**<br>**Items that may be reclassified to profit or loss:** | | | |
| Fair value reserves<br>Investment securities at FVOCI - Net change in fair value | 19(c) | **177,950** | 187,675 |
| Related taxes | 19(c) | **(62,282)** | (65,686) |
| Other comprehensive income for the year, net of income tax | | **115,668** | 121,989 |
| **Total comprehensive (Loss)/Income for the year** | | **67,590** | 134,275 |
| **(Loss)/Earnings per share** | | | |
| Basic and diluted earnings (Loss)/Earnings per share (Kwacha) | 20 | **(0.029)** | 0.007 |

The notes on pages 44 to 122 are an integral part of these financial statements.

# Consolidated and separate statement of financial position

as at 31 December 2020

| | Note | Group 2020 K'000 | Group 2019 K'000 | Bank 2020 K'000 | Bank 2019 K'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 42 | **5,251,892** | 3,381,132 | **5,251,892** | 3,381,132 |
| Cash on hand and balances at Bank of Zambia | 22 | **2,095,891** | 1,582,665 | **2,095,891** | 1,582,665 |
| Loans and advances to banks | 23 | **-** | 101,999 | **-** | 101,999 |
| Pledged assets | 24 | **100,000** | 100,000 | **100,000** | 100,000 |
| Derivative financial instruments | 27 | **4,590** | 45,273 | **4,590** | 45,273 |
| Investment securities | 28 | **3,542,091** | 2,049,415 | **3,542,091** | 2,049,415 |
| Investment in subsidiary | 25 | **-** | - | **5** | 5 |
| Loans and advances to customers | 29 | **2,410,457** | 3,131,664 | **2,410,457** | 3,131,664 |
| Other assets | 30 | **357,185** | 379,626 | **357,185** | 379,626 |
| Assets held for sale | 32 | **9,761** | - | **9,761** | - |
| Property and equipment | 31 | **179,158** | 119,397 | **179,158** | 119,397 |
| Current tax assets | 19(d) | **-** | 43,283 | **-** | 43,283 |
| Deferred tax assets | 19(e) | **165,707** | 80,297 | **165,707** | 80,297 |
| Intangible assets | 33 | **70,138** | 52,688 | **70,138** | 52,688 |
| **Total assets** | | **14,186,870** | 11,067,439 | **14,186,875** | 11,067,444 |
| **Liabilities** | | | | | |
| Amounts payable to group banks | 42 | **325,740** | 229,489 | **325,740** | 229,489 |
| Amounts payable to non-group banks | 42 | **21,266** | 12,297 | **21,266** | 12,297 |
| Derivative financial instruments | 27 | **8,548** | 41,740 | **8,548** | 41,740 |
| Deposits from customers | 34 | **12,214,521** | 9,289,297 | **12,214,521** | 9,289,297 |
| Dividends payable | 21 | **4,896** | 5,146 | **4,896** | 5,146 |
| Current tax liabilities | 19(d) | **22,127** | - | **22,127** | - |
| Other liabilities | 35 | **615,974** | 584,755 | **615,979** | 584,760 |
| Subordinated liabilities | 38 | **84,680** | 56,600 | **84,680** | 56,600 |
| Provisions | 36 | **78,703** | 105,290 | **78,703** | 105,290 |
| **Total liabilities** | | **13,376,455** | 10,324,614 | **13,376,460** | 10,324,619 |
| **Equity** | | | | | |
| Share capital | 39 | **416,745** | 416,745 | **416,745** | 416,745 |
| Statutory reserves | | **12,285** | 12,285 | **12,285** | 12,285 |
| Fair value reserves | | **246,343** | 130,675 | **246,343** | 130,675 |
| Credit reserves | | **9,261** | 8,523 | **9,261** | 8,523 |
| Capital contribution | | **62,312** | 62,312 | **62,312** | 62,312 |
| (Accumulated loss)/retained earnings | | **63,469** | 112,285 | **63,469** | 112,285 |
| **Total equity** | | **810,415** | 742,825 | **810,415** | 742,825 |
| **Total liabilities and equity** | | **14,186,870** | 11,067,439 | **14,186,875** | 11,067,444 |

These financial statements were approved by the Board of directors on 26 February, 2021 and were signed on its behalf by:

**C. Fundanga**
Chairman

**H. Kasekende**
Managing Director

**K. Bwalya**
Director Finance and Administration

**R. Kavimba**
Company Secretary

The notes on pages 44 to 122 are an integral part of these financial statements.

# Consolidated and separate statement of changes in equity

for the year ended 31 December 2020

| Group and Bank | Share capital | Statutory reserves | Fair value reserves | Credit reserves | Share-based payment reserve | Capital Contribution | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Balance at 1 January 2019** | 416,745 | 12,285 | 8,686 | 54,131 | - | 17,312 | 104,392 | 613,551 |
| Profit for the year | - | - | - | - | - | - | 12,286 | 12,286 |
| **Other Comprehensive income net of income tax** | | | | | | | | |
| Fair value reserve on FVOCI investment securities- | - | - | - | - | - | - | - | - |
| - Net change in fair value | - | - | 121,989 | - | - | - | - | 121,989 |
| Total comprehensive income for the year | - | - | 121,989 | - | - | - | 12,286 | 134,275 |
| Transfers | - | - | - | (45,608) | - | - | (45,608) | - |
| **Transactions with owners, recognised directly in equity** | | | | | | - | - | |
| Capital contribution | | | | | | 45,000 | (45,000) | - |
| Dividends (note 21) | - | - | - | - | - | - | (5,001) | (5,001) |
| Share based payment transactions | - | - | - | | 872 | - | 872 | - |
| Distribution of share based payments | - | - | - | - | (872) | - | (872) | - |
| **Total contributions by and distributions to Owners** | - | - | - | - | - | 45,000 | (50,001) | (5,001) |
| **Balance at 31 December 2019** | 416,745 | 12,285 | 130,675 | 8,523 | - | 62,312 | 112,285 | 742,825 |
| **Group and Bank** | | | | | | | | |
| **Balance at 1 January 2020** | **416,745** | **12,285** | **130,675** | **8,523** | **-** | **62,312** | **112,285** | **742,825** |
| Loss for the year | **-** | **-** | **-** | **-** | **-** | **-** | **(48,078)** | **(48,078)** |
| **Other comprehensive income net of income tax** | | | | | | | | |
| Fair value reserve on investment securities at FVOCI | | | | | | | | |
| - Net change in fair value | **-** | **-** | **115,668** | **-** | **-** | **-** | **-** | **115,668** |
| Total comprehensive income for the year | | | **115,668** | | | | **(48,078)** | **67,590** |
| Transfers | **-** | **-** | **-** | **738** | **-** | **-** | **(738)** | **-** |
| **Transactions with owners, recognized directly in equity** | | | | | | | | |
| Dividends (note 21) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Share based payment transactions | **-** | **-** | **-** | **-** | **492** | **-** | **492** | **-** |
| Distribution of share-based payments | **-** | **-** | **-** | **-** | **(492)** | **-** | **(492)** | **-** |
| **Total contributions by and distribution to owners** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Balance at 31 December 2020** | **416,745** | **12,285** | **246,343** | **9,261** | **-** | **62,312** | **63,469** | **810,415** |

### Fair value reserve

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

### Credit reserve

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

### Capital contribution

The capital contribution reserve relates to the franchise value arising from the acquisition of the Security Services business and the 2019 majority dividend that was retained by the Group after the necessary approvals were obtained. The franchise value is the amount paid on behalf of the Bank by Standard Chartered Plc for the acquisition of the Security Services business. Included in the capital contribution is the majority shareholder's 2018 final dividend declared which was retained on approval as additional capital for the Group.

### Retained earnings

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

### Statutory reserves

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

### Share based payment reserve

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

The notes on pages 44 to 122 are an integral part of these financial statements.

# Consolidated and separate statement of cash flows

for the year ended 31 December 2020

| | Note | Group and Bank 2020 K'000 | 2019 K'000 Restated* |
|---|---|---|---|
| (Loss)/Profit before tax | | **(42,374)** | **65,787** |
| **Other non-cash items included in profit before tax** | | | |
| Depreciation of property, equipment and right-of-use assets | | 42,848 | 29,747 |
| Amortisation of intangible | | 20,593 | 13,945 |
| Equity settled share based payments transaction | 17a | (492) | 872 |
| Impairment losses and reversals | 14.1 | 293,252 | 303,730 |
| Other impairment | 14.2 | 20,536 | - |
| Gain on disposal of assets | | (1,114) | 8,595 |
| Fair value (gains)/losses | | (64,771) | - |
| Effect of exchanges rate fluctuations on subordinated loan capital | 42 | 28,080 | 8,900 |
| Net Interest income | | (756,813) | (718,717) |
| | | **(460,255)** | **(287,141)** |
| **Change in:** | | | |
| Statutory reserve deposits with the central bank | | (418,078) | (904,378) |
| Financial assets held for trading | | - | (5,000) |
| Due from banks | | 101,999 | (101,999) |
| Derivative financial instruments | | 40,683 | 17,240 |
| Loans and advances to customers | | 721,207 | (245,343) |
| Other assets | | 22,438 | (64,287) |
| Due to customers | | 2,925,224 | 1,085,145 |
| Derivative financial instruments | | (33,193) | (4,108) |
| Provisions | | (26,587) | 37,191 |
| Other liabilities | | 31,220 | 24,415 |
| | | **3,364,914** | **(161,123)** |
| Interest received | | 1,125,201 | 1,113,781 |
| Interest paid | | (490,011) | (332,387) |
| | | **635,190** | **781,394** |
| **Cash generated from operating activities before taxation** | | **3,539,848** | **333,129** |
| Income tax paid | | (32,536) | (171,638) |
| **Net cash generated from operating activities** | | **3,507,312** | **161,491** |
| | | | |
| **Investing activities** | | | |
| Purchase of property and equipment | | (34,387) | (18,563) |
| Proceeds from the sale of property and equipment | | 5,174 | 9,606 |
| Purchase of intangible assets | | (58,579) | - |
| Investment in government securities | | (3,272,976) | (2,318,026) |
| Proceeds from maturity/sale of investment securities | | 1,780,300 | 2,300,320 |
| **Net cash flows (used in)/from investing activities** | | **(1,580,468)** | **(26,663)** |
| **Financing activities** | | | |
| Premises, Motor vehicle and equipment lease liability principal payment | | (33,543) | (7,047) |
| Dividends paid | | - | (5,001) |
| **Net cash flows from/(used in) financing activities** | | **(33,543)** | **(12,048)** |
| Net increase in cash and cash equivalents | | **1,893,301** | **122,780** |
| Cash and cash equivalents at the beginning of the the year | 42 | 3,817,633 | 3,678,489 |
| Effects of exchange rate fluctuation on cash held | | **35,047** | 16,364 |
| Total cash and cash equivalents at the end of the year | 42 | **5,745,981** | **3,817,633** |

*Prior year total cashflows adjusted to factor in reclassifications during the year, see Note 42.1

# Notes to the consolidated and separate financial statements

for the year ended 31 December 2020

## 1 Corporate information

Standard Chartered Bank Zambia Plc ("Bank") provides consumer, Private and Business banking, corporate banking and wealth management services.

Standard Chartered Bank Zambia Plc ("Bank") is a Bank domiciled in Zambia. The Bank's registered office is Standard Chartered House, Stand 4642, Corner of Mwaimwena Road and Addis Ababa Drive, Lusaka.

These consolidated and separate financial statements comprise the Bank and its subsidiary, Standard Chartered Nominees Zambia Limited (collectively the 'Group'). The Group is primarily involved in wholesale and retail banking.

## 2 Basis of preparation

The consolidated and separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVPL) and debt and equity instruments at fair value through other comprehensive income (FVOCI) all of which have been measured at fair value.

## 3 Statement of compliance

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

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

## 4 Presentation of financial statements

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non current) is presented in Note 39.

## 5 Changes in accounting policies and disclosures

### 5.1. New and amended standards and interpretations

The were new standards issued which were effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted.

The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the Groups consolidated and separate financial statements.

| | Applicability to the Group | |
|---|---|---|
| | Yes | No |
| **Effective 1 January 2020** | | x |
| Definition of a Business – Amendments to IFRS 3 | | x |
| Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 | | x |
| Definition of Material – Amendments to IAS 1 and IAS 8 | x | |
| The Conceptual Framework for Financial Reporting | | x |
| **Effective after 1 June 2020** | | |
| COVID-19-Related Rent Concessions – Amendment to IFRS 16 | | x |
| **Effective after 1 January 2021** | | |
| Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | x | |
| **Effective 1 January 2022** | | |
| Reference to the Conceptual Framework – Amendments to IFRS 3 | | x |
| Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 | | x |
| Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 | | x |
| AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter | | x |
| AIP IFRS 9 Financial Instruments – Fees in the '10 per cen' test for derecognition of financial liabilities | x | |
| AIP IAS 41 Agriculture – Taxation in fair value measurements | | x |
| **Effective 1 January 2023** | | |
| IFRS 17 Insurance Contracts | | x |
| Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (This will not have a material impact as the Group reports its Assets and Liabilities in order of liquidity) | x | |
| **Postponed indefinitely** | | |
| Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 | | x |

### 5.1.1 Definition of Material – Amendments to IAS 1 and IAS 8

The amendments provide a new definition of material that states 'information is material if omitting ,misstating or obscuring it could reasonably be expected to influence decisions that the primary users of the general purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated and separate financial statements nor is there expected to be any future impact on the group.

### 5.1.1 IBOR reforms phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Group has not yet adopted IBOR reforms.

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

for the year ended 31 December 2020

## 6 Basis of consolidation

The consolidated and separate financial statements comprise the financial statements of the Group and its subsidiary.

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

## 7 Summary of significant accounting policies

### 7.1 Foreign currency translation

#### 7.1.1 Functional and presentation currency

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

#### 7.1.2. Transactions and balances

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

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in OCI, are recognised in OCI.

### 7.2 Recognition of interest income

#### 7.2.1 Effective interest rate

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

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

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

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

#### 7.2.2 Amortised cost and gross carrying amount

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

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

#### 7.2.3 Calculation of interest income and expense

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

- financial liabilities measured at amortised cost; and

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see Note 13).

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

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

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

Interest in suspense on stage 3 financial assets will not be recognised as a catch-up when the financial assets cures to stage 2 or stage 1.

For information on when financial assets are credit-impaired, see Note 46.

Interest income and expense calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost:

- interest on investment instruments measured at FVOCI;

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

for the year ended 31 December 2020

**7 Summary of significant accounting policies (continued)**

**7.2.3 Calculation of interest income and expense** (continued)

- Net gains on financial assets and financial liabilities at FVTPL are presented in net gains from other financial instruments at FVTPL (see Note 15).
- Other income presented in the statement of profit or loss and OCI includes interest income on finance leases

## 7.3 Fees and commission

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

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 8.

### 7.3.1. Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include asset management, custody and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

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

**Custody fees:** The Group earns a fixed annual fee for providing its customers with custody services, which include the safekeeping of purchased securities and processing of any dividend income and interest payments. As the benefit to the customer of the services is transferred evenly over the service period, these fees are recognised as revenue evenly over the period, based on time-elapsed.

***Loan commitment fees***: These are fixed annual fees paid by customers for loan and other credit facilities with the Group, but where it is unlikely that a specific lending arrangement will be entered into with the customer and the loan commitment is not measured at fair value. The Group promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis. Payment of the fees is due and received monthly in arrears.

***Interchange fees***: The Group provides its customers with credit card processing services (i.e., authorisation and settlement of transactions executed with the Group's credit cards) where it is entitled to an interchange fee for each transaction (i.e., when a credit cardholder purchases goods and services from merchants using the Group's credit card). The fees vary based on the number of transactions processed and are structured as either a fixed rate per transaction processed or at a fixed per percentage of the underlying cardholder transaction. The variable interchange fees are allocated to each distinct day, based on the number and value of transactions processed that day, and the allocated revenue is recognised as the entity performs.

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/ participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees. The Group has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

***Brokerage fees:*** The Group buys and sells securities on behalf of its customers and receives a fixed commission for each transaction. The Group's performance obligation is to execute the trade on behalf of the customer and revenue is recognised once each trade has been executed (i.e., on the trade date). Payment of the commission is typically due on the trade date.

## 7.4 Net trading income

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

## 7.5 Net gains on financial instruments at FVTPL

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

## 7.6 Net gain/ loss on derecognition of financial assets measured at amortised cost or FVOCI

Net loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

## 7.7 Financial instruments – initial recognition

### 7.7.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the Group.

## 7 Summary of significant accounting policies (continued)

### 7.7 Financial instruments – initial recognition (continued)

#### 7.7.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

#### 7.7.3 Day 1 profit or loss

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

#### 7.7.4 Measurement categories of financial assets and liabilities

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

- Amortised Cost as explained in Note 7.2.2.
- FVOCI as explained in Note 7.9.4
- FVTL as set out in Note 7.9.3.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied

### 7.8 Determination of fair value

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

- Level 1 financial instruments − Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date. The Group considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the statement of financial position date.

- Level 2 financial instruments − Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Group will classify the instruments as Level 3.

- Level 3 financial instruments − Those that include one or more unobservable input that is significant to the measurement as whole.

The Group evaluates the levelling at each reporting period on an instrument by instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

### 7.9 Financial assets and liabilities

#### 7.9.1 Due from banks, Loans and advances to customers

The Group measures Due from banks, Loans and advances to customers and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The details of these conditions are outlined below.

#### 7.9.1.1 Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group 's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### 7.9.1.2 The SPPI test

As a second step of its classification process the Group assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

' Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

Financial statements

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

for the year ended 31 December 2020

## 7 Summary of significant accounting policies (continued)

### 7.9 Financial assets and liabilities (continued)

#### 7.9.1.2 The SPPI test (continued)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### 7.9.2 Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

#### 7.9.3 Financial assets or financial liabilities held for trading

The Group 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. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

#### 7.9.4 Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 7.2.2. The ECL calculation for debt instruments at FVOCI is explained in Note 7.13. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

#### 7.9.5 Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

#### 7.9.6 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

#### 7.9.7 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatory required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

  Or

  The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

## 7.9 Financial assets and liabilities (continued)

### 7.9.7 Financial assets and financial liabilities at fair value through profit or loss (continued)

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Group's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss.

Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using the contractual interest rate, as explained in Note 7.2.3. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

### 7.9.8 Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated and separate statement of profit or loss and other comprehensive income and an ECL allowance as set out in Note 45.

The premium received is recognised in the consolidated and separate statement of profit or loss and other comprehensive income in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. .

The nominal values of these instruments together with the corresponding ECL are disclosed in Note 45

## 7.10 Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified

## 7.11 Derecognition of financial assets and liabilities

### 7.11.1 Financial assets

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

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

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

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

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

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

### 7.11.2 Financial liabilities

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

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

for the year ended 31 December 2020

**7 Summary of significant accounting policies (continued)**

### 7.12 Offsetting of financial assets and financial liabilities

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

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

### 7.13 Impairment of financial assets

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

- financial assets that are investment securities;
- loans and advances to customers
- loans and advances to banks
- restricted balances with the Central Bank
- lease receivables;
- financial guarantee contracts issued; and loan commitments issued.

No impairment loss is recognised on equity investments.

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

- investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

- 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired.

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

- Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

#### 7.13.1 The calculation of ECL

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

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

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

- 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.

- 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 or credit enhancements that are integral to the loan and not required to be recognised separately, as set out in Note 7.14. It is usually expressed as a per centage of the EAD.

When estimating the ECL, the Group considers four scenarios (a base case, an upside, a mild downside (downside 1) and a more extreme downside (downside 2)). Each of these is associated with different PDs, EADs and LGDs, when relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value

#### 7.13.2 Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

- *financial assets that are credit-*impaired *at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;

**7 Summary of significant accounting policies (continued)**

**7.13 Impairment of financial assets (continued)**

**7.13.2 Measurement of ECL (continued)**

- *undrawn loan commitments:* as the present value of the difference between the *contractual* cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Group expects to recover.

**7.13.3 Restructured financial assets**

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

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

**7.13.4 Credit-impaired financial assets**

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

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

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

**7.13.5 Presentation of allowance for ECL in the statement of financial position**

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial* guarantee *contracts:* generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- investment instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

**7.13.6 Write-off**

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

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

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

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

for the year ended 31 December 2020

## 7 Summary of significant accounting policies (continued)

### 7.13 Impairment of financial assets (continued)

#### 7.13.7 Financial guarantee contracts held

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

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

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

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

### 7.14 Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily

### 7.15 Collateral repossessed

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

### 7.16 Write off

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

### 7.17 Cash and cash equivalents

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

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

### 7.18 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### 7.18.1 As a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

**Lease liabilities**

The commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

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

for the year ended 31 December 2020

**7 Summary of significant accounting policies (continued)**

**7.18 Leases**

**7.18.2 As a lessor**

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases.

The Group does not lease out any assets.

**7.19 Property, equipment and right-of-use assets**

*Recognition and measurement*

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

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

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

*Subsequent costs*

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

*Depreciation*

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

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

| | |
|---|---|
| Properties | up to 50 years |
| Improvements to properties | shorter of the life of the lease, or up to 50 years |
| Equipment and motor vehicles | 3 to 10 years |
| Right Of Use Assets | 1 to 6 years |

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

**7.20 Intangible assets, goodwill and Work in Progress (WIP)**

*Goodwill*

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

**Software and WIP**

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

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

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

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

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

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

Amounts held within work-in-progress that are substantially complete, in common with other fixed assets, are required to be assessed for impairment (see section B7). Where asset lives are short (technological assets for example) and the assets are held as WIP for a significant period, impairment (through technological obsolescence) is more likely to occur. In such situations, if the assets are generic in nature and do not require significant modification to bring them into use, it would be more appropriate to hold the assets within fixed assets and amortise them.

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

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

**7.21 Assets Held for Sale**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

for the year ended 31 December 2020

## 7 Summary of significant accounting policies (continued)

### 7.22 Impairment of non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

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

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

### 7.23 Deposits, debt securities issued and subordinated liabilities

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

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

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

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

### 7.24 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

### 7.25 Taxes

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

*Current tax*

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

*Deferred tax*

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

Deferred tax is not recognised for:

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that the Group is able to control the timing of the reversal of temporary differences and it is probable that they will not reverse in the foreseeable future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date and reflects uncertainty related to income taxes, if there any.

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

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

## 7 Summary of significant accounting policies (continued)

### 7.26 Employee benefits

*Defined contribution plan*

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

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

The Group contributes 10% of employees' basic pay to the defined contribution pension fund. Obligations for contributions to the defined contribution pension plans are due in respect of services rendered before the end of the reporting period.

*Termination benefits*

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

*Short – term employee benefits*

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

*Share based payments*

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

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

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

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

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

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

### 7.27 Share capital and reserves

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

### 7.28 Earnings per share

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

### 7.29 Statutory Reserve deposits

Statutory deposits are held with Bank of Zambia, as a minimum reserve requirement. They are not available for the Group's daily business. The reserve represents a requirement by the Central Bank and is a per centage of the Group's local and foreign currency liabilities to the public plus Vostro account balances. They are held in local currency and foreign currency (USD).

ECL on these deposits arises when the balance is classified with credit grading (CG) 13 due to an internal downgrade. The exposure at default (ED), loss given default (LGD) and probability of default (PD) will all be determined based on the prevailing fundamentals at the time of the downgrade

### 7.30 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO (who is the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available (see note 9).

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

for the year ended 31 December 2020

## 8 Significant accounting Judgements, estimates and assumptions

The preparation of the Group's consolidated and separate 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.

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

### 8.1 Judgements

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

- Note 45: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval of models used to measure ECL.
- Notes 7.9: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

### 8.2 Assumptions and estimation uncertainties

Information about assumption and estimation uncertainties that have significant risk requiring a material adjustment in year ended 31 December 2020 is issued in following notes:

- Note 7.13: impairment of financial instruments: determining inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
- Note 7.7: measurement of the fair value of financial instruments with significant unobservable inputs.
- Note 7.25: recognition of deferred tax assets: availability of future taxable profits against which to carry-forward tax losses can be used.
- Note 33: impairment testing or CGU's containing goodwill; key assumptions underlying recoverable amounts
- Note 7.24: recognition and measurement of contingencies: key assumptions about the likelihood magnitude of an outflow of resources.

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

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

No impairment loss is recognised on equity investments.

### 8.3 Going concern

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

Despite the unpredictability of the potential impact of the outbreak of COVID-19 Pandemic, the Group has remained liquid throughout the year with sufficient cash to meet its day-to-day needs. The Group's liquidity ratios have remained above the required minimum and there has been heightened observance of the liquidity levels in order not to fall below the requirements. Through various governance forums, the Group has ensured that any emerging risks are identified, discussed and mitigating actions put in place in order to preserve the operations of the Group. The Group's capital ratios have equally remained above the minimum of 10% set by the regulator, a clear sign of the Group's resilience and keenness in ensuring that both clients and the Group are protected from the effects of risks that might emerge as a result of the pandemic.

### 8.4 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgments and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

### 8.5 Deferred tax assets

Deferred 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. Although in Zambia tax losses can only be utilised for 5 years, judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

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

for the year ended 31 December 2020

**8 Significant accounting Judgements, estimates and assumptions (continued)**

**8.6 Provisions and other contingent liabilities.**

The Group 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 and proceedings both in Zambia and in other jurisdictions, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group 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 Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group 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.

**8.7 Assets held for sale**

On 11 February 2020, the Board of Directors announced its decision to relocate to the new Head Office located at Stand 4642, Corner of Mwaimwena Road and Addis Ababa Drive, Lusaka, a newly constructed building which accommodate both the staff from Standard House and Northend Cairo road. The old buildings including the equipment, furniture and fittings are classified as assets held for sale. The Board considered the buildings and the equipment, furniture and fittings to meet the criteria to be classified as held for sale for the following reasons:

- Both buildings and the equipment, furniture and fittings are available for immediate sale and can be sold to the buyer in their current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- Potential buyers for the buildings have been identified and negotiations as at the reporting date are at an advanced stage
- The shareholders approved the plan to sell on 28 February 2020

For more details on the assets held for sale, refer to Note 32.

**9 Segment information**

**a. Basis for segmentation**

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

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

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

The Group only operates in Zambia.

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

for the year ended 31 December 2020

## 9 Segment information *(continued)*

### b. Profit segments

| Group | | Corporate & institutional Banking | Commercial Banking | Retail Banking | Other banking | Total |
|---|---|---|---|---|---|---|
| **2020** | Note | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| **External revenue** | | | | | | |
| Interest revenue calculated using the effective interest method | 10 | 90,635 | 22,642 | 376,364 | 688,561 | 1,178,202 |
| Interest expense calculated using the effective interest method | 11 | (109,588) | (2,420) | (244,410) | (64,971) | (421,389) |
| **Net Interest income** | | **(18,953)** | **20,222** | **131,954** | **623,590** | **756,813** |
| Fee and commission income | 12 | 21,559 | 11,044 | 158,863 | (1,723) | 189,743 |
| Fee and commission expense | 12 | (5,954) | (4) | (28,281) | (3,508) | (37,747) |
| **Net Fee and commission income** | | **15,605** | **11,040** | **130,582** | **(5,231)** | **151,996** |
| Net trading income | 13 | 18,741 | 24,536 | 58,493 | 44,633 | 146,403 |
| Credit loss expense on financial assets | 14 | (159,993) | 14,558 | (4,483) | (143,334) | (293,252) |
| Net income from financial assets at fair value through profit or loss | 15 | 110,418 | - | - | - | 110,418 |
| Other operating income | 16 | (4,132) | - | 480 | (866) | (4,518) |
| **Total segment income** | | **(38,314)** | **70,356** | **317,026** | **518,792** | **867,860** |
| Operating expenses | 18 | (313,122) | (18,306) | (456,591) | (101,679) | **(889,698)** |
| Other Impairment | 14.2 | (13,476) | - | (7,060) | - | **(20,536)** |
| **Segment (loss)/profit before taxation** | | **(364,912)** | **52,050** | **(146,625)** | **417,113** | **(42,374)** |
| Income tax expense | 19a | - | - | - | **(5,704)** | **(5,704)** |
| **(Loss)/Profit for the year** | | **(364,912)** | **52,050** | **(146,625)** | **411,409** | **(48,078)** |
| **Total Assets** | | **1,503,467** | **151,970** | **1,226,808** | **11,304,625** | **14,186,870** |
| **Total Liabilities** | | **5,999,960** | **348,265** | **5,561,717** | **1,466,513** | **13,376,455** |

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

for the year ended 31 December 2020

## 9 Segment information *(continued)*

### b. Profit segments *(continued)*

| Group | | Corporate & institutional Banking | Commercial Banking | Retail Banking | Other Banking | Total |
|---|---|---|---|---|---|---|
| 2019 | Note | K'000 | K'000 | K'000 | K'000 | K'000 |
| External revenue | | | | | | |
| Interest revenue calculated using the effective interest method | 10 | 75,794 | 72,812 | 415,933 | 505,777 | 1,070,316 |
| Interest expense calculated using the effective interest method | 11 | (159,843) | (6,396) | (160,118) | (25,242) | (351,599) |
| Net interest income | | (84,049) | 66,416 | 255,815 | 480,535 | 718,717 |
| Fee and commission income | 12 | 18,904 | 20,493 | 164,411 | - | 203,808 |
| Fee and commission expense | 12 | (2,026) | (859) | (23,172) | (4,898) | (30,954) |
| Net fee and commission income | | 16,878 | 19,634 | 141,240 | (4,898) | 172,854 |
| Net trading income | 13 | 88,145 | 19,179 | 47,542 | (236) | 154,630 |
| Credit loss expense on financial assets | 14 | 20,859 | (54,512) | (111,908) | (158,169) | (303,730) |
| Net income from financial assets at fair value through profit or loss | 15 | 25,207 | - | - | - | 25,207 |
| Other income | 16 | - | - | - | 12,937 | 12,937 |
| Total segment income | | 67,040 | 50,717 | 332,688 | 330,170 | 780,615 |
| Operating expenses | 18 | (217,950) | (83,109) | (360,131) | (53,638) | (714,828) |
| Other Impairment | 14.2 | - | - | - | - | - |
| Segment (Loss)/Profit before taxation | | (150,910) | (32,392) | (27,442) | 276,531 | 65,787 |
| Income tax expense | 19a | - | - | - | - | (53,501) |
| Profit for the year | | - | - | - | - | 12,286 |
| Total assets | | 997,313 | 1,080,608 | 1,537,293 | 7,452,225 | 11,067,439 |
| Total Liabilities | | 4,957,749 | 945,527 | 3,727,433 | 693,905 | 10,324,614 |

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

for the year ended 31 December 2020

## 9 Segment information *(continued)*

### b. Profit segments *(continued)*

| Bank | | Corporate & institutional Banking | Commercial Banking | Retail Banking | Other banking | Total |
|---|---|---|---|---|---|---|
| **2020** | Note | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| **External revenue** | | | | | | |
| Interest revenue calculated using the effective interest method | 10 | 90,635 | 22,642 | 376,364 | 688,561 | 1,178,202 |
| Interest expense calculated using the effective interest method | 11 | (109,588) | (2,420) | (244,410) | (64,971) | (421,389) |
| **Net Interest income** | | **(18,953)** | **20,222** | **131,954** | **623,590** | **756,813** |
| Fee and commission income | 12 | 21,559 | 11,044 | 158,863 | (1,723) | 189,743 |
| Fee and commission expense | 12 | (5,954) | (4) | (28,281) | (3,508) | (37,747) |
| **Net Fee and commission income** | | **15,605** | **11,040** | **130,582** | **(5,231)** | **151,996** |
| Net trading income | 13 | 18,741 | 24,536 | 58,493 | 44,633 | 146,403 |
| Credit loss expense on financial assets | 14 | (159,993) | 14,558 | (4,483) | (143,334) | (293,252) |
| Net income from financial assets at fair value through profit or loss | 15 | 110,418 | - | - | - | 110,418 |
| Other Income | 16 | (4,132) | - | 480 | (866) | (4,518) |
| **Total segment income** | | **(38,314)** | **70,356** | **317,026** | **518,792** | **867,860** |
| Operating expenses | 18 | (313,122) | (18,306) | (456,591) | (101,679) | **(889,698)** |
| Other Impairment | 14.2 | (13,476) | - | (7,060) | - | **(20,536)** |
| **Segment (Loss)/ Profit before taxation** | | **(364,912)** | **52,050** | **(146,625)** | **417,113** | **(42,374)** |
| Income tax expense | 19a | - | - | - | **(5,704)** | **(5,704)** |
| **(Loss) /Profit for the year** | | **(364,912)** | **52,050** | **(146,625)** | **411,409** | **(48,078)** |
| **Total Assets** | | **1,503,472** | **151,970** | **1,226,808** | **11,304,625** | **14,186,875** |
| **Total Liabilities** | | **5,999,965** | **348,265** | **5,561,717** | **1,466,513** | **13,376,460** |

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

for the year ended 31 December 2020

## 9 Segment information *(continued)*

### b. **Profit segments** (continued)

Bank

| 2019 | Note | Corporate & institutional Banking K'000 | Commercial Banking K'000 | Retail Banking K'000 | Other banking K'000 | Total K'000 |
|---|---|---|---|---|---|---|
| External revenue | | | | | | |
| Interest revenue calculated using the effective interest method | 10 | 75,794 | 72,812 | 415,933 | 505,777 | 1,070,316 |
| Interest expense calculated using the effective interest method | 11 | (159,843) | (6,396) | (160,118) | (25,242) | (351,599) |
| Net interest income | | (84,049) | 66,416 | 255,815 | 480,535 | 718,717 |
| Fee and commission income | 12 | 18,904 | 20,493 | 164,411 | - | 203,808 |
| Fee and commission expense | 12 | (2,026) | (859) | (23,171) | (4,898) | (30,954) |
| Net fee and commission income | | 16,878 | 19,634 | 141,240 | (4,898) | 172,854 |
| Net trading income | 13 | 88,145 | 19,179 | 47,542 | (236) | 154,630 |
| Credit loss expense on financial assets | 14 | 20,859 | (54,512) | (111,908) | (158,169) | (303,730) |
| Net income from financial assets at fair value through profit or loss | 15 | 25,207 | - | - | - | 25,207 |
| Other income | 16 | - | - | - | 12,937 | 12,937 |
| Total segment income | | 67,040 | 50,717 | 332,689 | 330,169 | 780,615 |
| Operating expenses | 18 | (217,950) | (83,109) | (360,131) | (53,638) | (714,828) |
| Other Impairment | 14.2 | - | - | - | - | - |
| Segment (Loss)/Profit before taxation | | (150,910) | (32,392) | (27,442) | 276,531 | 65,787 |
| Income tax expense | 19a | - | - | - | - | (53,501) |
| Profit for the year | | - | - | - | - | 12,286 |
| Total assets | | 997,318 | 1,080,608 | 1,537,293 | 7,452,225 | 11,067,444 |
| Total Liabilities | | 4,957,754 | 945,527 | 3,727,433 | 693,433 | 10,324,619 |

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

for the year ended 31 December 2020

## 10 Interest income

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Cash and short term funds | **27,952** | 78,439 |
| Investment securities | **652,687** | 430,228 |
| Loans and advances | **497,563** | 561,649 |
| **Total interest income calculated using the effective interest rate** | **1,178,202** | 1,070,316 |

Interest income includes interest on impaired loans and advances of **K68,734** (2019 **K600,000**).

## 11 Interest expense

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Deposits from customers | **391,758** | 326,018 |
| Placements | **26,017** | 22,537 |
| Subordinated loan Capital | **3,614** | 3,044 |
| **Total interest expense** | **421,389** | 351,599 |

## 12 Net fee and commission income

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Consumer, Private and Business banking customer fees | **158,863** | 164,411 |
| CIB credit related fees | **21,559** | 18,904 |
| Commercial banking | **9,321** | 20,493 |
| **Total fee and commission income** | **189,743** | 203,808 |
| Consumer, Private and Business banking fees and commission expenses | **(28,281)** | (23,334) |
| CIB credit customer fees | **(5,954)** | (2,027) |
| Commercial banking fees and commission expenses | **(4)** | (858) |
| Other banking | **(3,508)** | (4,735) |
| **Total fee and commission expenses** | **(37,747)** | (30,954) |
| **Net fee and commission income** | **151,996** | 172,854 |

**Performance obligations and revenue recognition policies**

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

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

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

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

for the year ended 31 December 2020

## 13 Net trading income

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Foreign currency transaction gains less losses | **149,108** | 138,053 |
| (Losses)/gains arising from dealing securities | **(50,418)** | 16,338 |
| | **98,690** | 154,391 |
| Dealing profits | **328** | 239 |
| Realised gains on disposal of investment securities held at FVOCI | **47,385** | - |
| **Net trading income** | **146,403** | 154,630 |

## 14 Credit Loss

### 14.1 Impairment of Financial Instruments

| | Group and Bank | | | |
|---|---|---|---|---|
| 2020 | **Stage 1 K'000** | **Stage 2 K'000** | **Stage 3 K'000** | **Total K'000** |
| Due from Banks | **-** | **-** | **-** | **-** |
| Statutory Reserves | **67,629** | **-** | **-** | **67,629** |
| Loans and advances to customers | **(953)** | **143,637** | **1,222** | **143,906** |
| Debt instruments | **-** | **75,703** | **-** | **75,703** |
| Financial Guarantees | **457** | **1,907** | **-** | **2,364** |
| Loan commitments | **69,457** | **(65,092)** | **(715)** | **3,650** |
| **Total Impairment loss** | **136,590** | **156,155** | **507** | **293,252** |

Credit amounts in the profit and loss stagewise amounts are releases while debits are charges.

| | Group and Bank | | | |
|---|---|---|---|---|
| 2019 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
| Due from Banks | (20) | - | - | (20) |
| Loans and advances to customers | 17,335 | 90,828 | 37,349 | 145,512 |
| Debt instruments | 173,686 | (15,517) | - | 158,169 |
| Financial Guarantees | 244 | (344) | - | (100) |
| Loan commitments | 3,709 | (3,465) | 75 | (169) |
| **Total Impairment loss** | 194,954 | 71,502 | 37,274 | 303,730 |

### 14.2 Other Impairment

| | **2020 K'000** | 2019 K'000 |
|---|---|---|
| Software | **7,060** | - |
| Goodwill | **13,476** | - |
| **Total** | **20,536** | - |

Financial statements

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

for the year ended 31 December 2020

## 15 Net gains on financial instruments at fair value through profit or loss

| | Group and Bank | |
|---|---|---|
| | 2020 K'000 | 2019 K'000 |
| Government bonds | **110,418** | 25,207 |

## 16 Other operating income

| | Group and Bank | |
|---|---|---|
| | 2020 K'000 | 2019 K'000 |
| Gain on disposal of property and equipment | **1,114** | 7,835 |
| Other (loss)/income | **(5,632)** | 5,102 |
| Total other (loss)/income | **(4,518)** | 12,937 |

The loss largely relates to prior year operating event on account of non-funded income.

## 17 Personnel expenses

| | Group and Bank | |
|---|---|---|
| | 2020 K'000 | 2019 K'000 |
| Wages and salaries | **169,603** | 203,898 |
| Social security costs | **5,418** | 5,419 |
| Pension costs - Defined contribution pension plan (Note 7.26) | **12,938** | 13,828 |
| Other staff costs | **65,127** | 59,866 |
| Equity settled share-based payment transactions | **(492)** | 872 |
| Redundancy and severance | **78,073** | 44,782 |
| **Total** | **330,667** | 328,665 |

Other staff costs include training, travel costs and other staff related costs.

### (a) Share-based payment transactions

The holding company (Standard Chartered Plc) operates a number of share based payments schemes for its directors and employees in which employees of Standard Chartered Bank Zambia Plc participate. These schemes are as outlined below. Through a recharge arrangement Standard Chartered Bank Zambia Plc reimburses the group for grant date fair value. The amount charged to the statement of changes in equity during the year was (K492, 000) (2019: K872, 000) and the corresponding amount is in liabilities. The holding company has the obligation to deliver to the respective participants the Standard Chartered Plc's ordinary shares under the various schemes.

**The amount reported in other comprehensive income are as follows:**

| | Group and Bank | |
|---|---|---|
| | 2020 K'000 | 2019 K'000 |
| Restricted share scheme | **677** | 655 |
| Share save scheme | **(1,169)** | 217 |
| **Total expense recognised as personnel expenses** | **(492)** | 872 |

### (b) Restricted share scheme

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

## 17 Personnel expenses (continued)

### (b) Restricted share scheme (continued)

The number of share options is as follows:

| | Group and Bank | |
|---|---|---|
| | Number of options 2020 | Number of options 2019 |
| Outstanding at the beginning of the reporting period | **15,583** | 10,944 |
| Exercised during the year | **(4,926)** | (3,313) |
| Granted during the year | **4,563** | 7,952 |
| Outstanding at 31 December | **15,220** | 15,583 |
| Exercisable at 31 December | **97** | 97 |

### (c) Share save scheme

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

The number of share options is as follows:

| | Group and Bank | |
|---|---|---|
| | Number of options 2020 | Number of options 2019 |
| Outstanding at the beginning of the reporting period | 27,465 | 33,256 |
| Exercised during the year | (392) | (1,970) |
| Expired during the year | (12,838) | (19,111) |
| Granted during the year | 11,970 | 15,290 |
| Outstanding at 31 December | 26,205 | 27,465 |
| Exercisable at 31 December | **1,308** | 420 |

The closing share price as at 31 December 2020 was GBP712.4.

## 18 Operating expenses

| | Group and Bank | |
|---|---|---|
| | 2020 K'000 | 2019 K'000 |
| Depreciation of property and equipment | **63,480** | 43,779 |
| Premises and equipment costs | **114,175** | 61,586 |
| Release of lease prepayment for leasehold land | **13** | 14 |
| Communication expenses | **15,966** | 13,053 |
| Recharges from group companies | **165,730** | 109,295 |
| Advertising and marketing | **15,630** | 14,443 |
| Statutory audit of SCB | **4,183** | 2,789 |
| Non-audit services | **404** | 261 |
| Finance lease cost | **8,828** | 3,848 |
| Regulatory fees | **21,412** | 17,128 |
| Legal and professional fees | **65,350** | 44,346 |
| Other operating expenses | **83,860** | 75,621 |
| **Total** | **559,031** | 386,163 |

Included in other operating expenses is travel costs, consultancy costs, security services, insurance and donations.

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

for the year ended 31 December 2020

## 19 Income tax expense

| | Group and Bank 2020 K'000 | 2019 K'000 |
|---|---|---|
| **a) Current tax expense** | | |
| Current tax charge | **149,486** | 147,402 |
| Under provision in prior years | **3,910** | 12,567 |
| | **153,396** | 159,969 |
| **Deferred tax** | | |
| Origination and reversal of temporary difference | **(139,363)** | (106,468) |
| Adjustments in respect to prior years | **(8,329)** | - |
| **Total income tax (credit)/expense** | **5,704** | 53,501 |

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

### b) Reconciliation of effective tax rate:

| | | Group and Bank 2020 K'000 | | 2019 K'000 |
|---|---|---|---|---|
| (Loss)/Profit before tax | % | **(42,374)** | % | 65,787 |
| Tax calculated at the tax rate of 35% (2019: 35%): | 35 | **(14,831)** | 35 | 23,026 |
| Under provision in prior years | -9 | **3,910** | 19 | 12,567 |
| Adjustments in respect to prior years | 20 | **(8,329)** | - | - |
| Non-deductible expenses | -6 | **24,954** | 27 | 17,908 |
| **Total income tax (credit)/expense in profit or loss** | 40 | **5,704** | 81 | 53,501 |

### c) Net fair value reserves

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

| | Group and Bank | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | | 2019 | | |
| | **Before tax K'000** | **Tax effect K'000** | **Net of tax K'000** | Before tax K'000 | Tax effect K'000 | Net of tax K'000 |
| **FVOCI investment securities** | **177,950** | **(62,282)** | **115,668** | 187,675 | (65,686) | 121,989 |

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

| | Group and Bank 2020 K'000 | 2019 K'000 |
|---|---|---|
| Current tax liabilities at the beginning of the year | **(43,283)** | 31,442 |
| Current income tax charge | **149,486** | 147,402 |
| Tax Refund | **39,372** | - |
| Payments made during the year | **(127,358)** | (234,694) |
| Under provision in prior years | **3,910** | 12,567 |
| Current tax (assets)/liabilities | **(22,127)** | (43,283) |

Included in payments made during the year is advance income tax of **K55,449,404** (2019: K63,055,792 000) on withholding tax on investment securities withheld at source.

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

for the year ended 31 December 2020

## 19 Income tax expense (continued)

### e) Deferred taxation

Deferred taxation is calculated on all temporary differences using an effective tax rate of 35% (2019: 35%). Deferred tax assets and liabilities are attributable to the following:

| | **Group and Bank 2020** | | | Group and Bank 2019 | | |
|---|---|---|---|---|---|---|
| | **Assets K'000** | **Liabilities K'000** | **Net K'000** | Assets K'000 | Liabilities K'000 | Net K'000 |
| Property and equipment | **4,703** | **-** | **4,703** | 962 | - | 962 |
| Other provisions | **60,674** | **-** | **60,674** | 32,371 | - | 32,371 |
| FVOCI investment securities | - | **(132,644)** | **(132,644)** | - | (70,362) | (70,362) |
| Allowance for loan losses | **116,659** | **-** | **116,659** | 59,415 | - | 59,415 |
| Right Of Use Asset (IFRS 16 Leases) | **4,762** | **-** | **4,762** | 2,553 | - | 2,553 |
| Impairment on investment securities | **87,883** | **-** | **87,883** | 55,358 | - | 55,358 |
| Impairment on statutory reserves | **23,670** | **-** | **23,670** | - | - | - |
| | **298,351** | **(132,644)** | **165,707** | 150,659 | (70,362) | 80,297 |

**2020** **Group and Bank**

| | **Opening Balance K'000** | **Recognised in profit or loss K'000** | **Recognised in equity K'000** | **Closing Balance K'000** |
|---|---|---|---|---|
| Property and equipment | **962** | **3,741** | **-** | **4,703** |
| Other provisions | **32,371** | **28,303** | **-** | **60,674** |
| FVOCI investment securities | **(70,362)** | **-** | **(62,282)** | **(132,644)** |
| Allowance for loan losses | **59,415** | **57,244** | **-** | **116,659** |
| Right Of Use Asset (IFRS 16 Leases) | **2,553** | **2,209** | **-** | **4,762** |
| Impairment on Investment securities | **55,388** | **32,525** | **-** | **87,883** |
| Impairment on statutory reserves | **-** | **23,670** | **-** | **23,670** |
| | **80,297** | **147,692** | **(62,282)** | **165,707** |

Included in other provisions are provisions and other liabilities.

2019 Group and Bank

| | Opening Balance K'000 | Recognised in profit or loss K'000 | Recognised in equity K'000 | Closing Balance K'000 |
|---|---|---|---|---|
| Property and equipment | (660) | 1,622 | - | 962 |
| Other provisions | 22,142 | 10,229 | - | 32,371 |
| FVOCI investment securities | (4,676) | - | (65,686) | (70,362) |
| Allowance for loan losses | 22,314 | 37,101 | - | 59,415 |
| Right Of Use Asset (IFRS 16 Leases) | - | 2,553 | - | 2,553 |
| Impairment on Investment securities | - | 55,358 | - | 55,358 |
| Intangible assets | 395 | (395) | - | - |
| | 39,515 | 106,468 | (65,686) | 80,297 |

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

for the year ended 31 December 2020

## 20 (Loss)/Earnings per share

| | Group and Bank 2020 | | | Group and Bank 2019 | | |
|---|---|---|---|---|---|---|
| | Loss | Weighted average Number of shares | Per share amount | Profit | Weighted average Number of shares | Per Share amount Kwacha |
| | K'000 | '000 | Kwacha | K'000 | '000 | K'000 |
| **Basic and diluted (Loss)/earnings** | **(48,078)** | **1,666,981** | **(0.029)** | 12,286 | 1,666,981 | 0.007 |

The calculation of the basic earnings per share is based on the net profit attributable to ordinary shareholders ((loss)/profit after taxation) divided by the weighted average number of ordinary shares in issue during the year. There were no dilutive potential ordinary shares at 31 December 2020 (2019: nil) and basic earnings per share equals diluted earnings per share with no reconciling items.

## 21 Dividends payable

| | Group and Bank 2020 K'000 | 2019 K'000 |
|---|---|---|
| Balance at 1 January | **5,146** | 4,572 |
| No interim dividends for 2020 and 2019 were declared (Dividend paid in 2019 related to 2018 final dividend for minority shareholders) | **-** | (5,001) |
| Less: dividends paid during the year 10% minority share | **-** | 5,001 |
| Dividend claims | **(250)** | 574 |
| **Balance at 31 December** | **4,896** | 5,146 |

Dividends are recognised in the period in which they are declared. The directors did not declare any dividend for 2020 (2019:K Nil)

## 22 Cash on hand and balances at Bank of Zambia

| | Group and Bank 2020 K'000 | 2019 K'000 |
|---|---|---|
| **Cash on hand** | **841,095** | 414,805 |
| **Statutory deposit** | **1,254,796** | 904,378 |
| **Total cash on hand and bank balances at Bank of Zambia** | **2,095,891** | 1,319,183 |
| **Clearing account with Bank of Zambia** | **-** | 263,482 |
| | **2,095,891** | 1,582,665 |

The statutory deposit held with Bank of Zambia, as a minimum reserve requirement, is not available for the Group's daily business. The reserve represents a requirement by the Central Bank and is a per centage of the Group's local and foreign currency liabilities to the public plus Vostro account balances. At 31 December 2020 the per centage was 9% (2019: 9%).

## 22.1 Expected Credit Losses no statutory reserve deposits at Bank of Zambia

See accounting policy 7.29

| | 2020 Stage 1 K'000 | 2020 Stage 2 K'000 | 2020 Total K'000 | 2019 Stage 1 K'000 | 2019 Stage 2 K'000 | 2019 Total K'000 |
|---|---|---|---|---|---|---|
| **ECL on reserves** | | | | | | |
| Balance at 1 January | **-** | **-** | **-** | - | - | - |
| New financial assets originated or purchased | **-** | **67,629** | **67,629** | - | - | - |
| Net remeasurement of loss allowance | **-** | **-** | **-** | - | - | - |
| Foreign exchange movements | **-** | **-** | **-** | - | - | - |
| Balance at 31 December | **-** | **67,629** | **67,629** | - | - | - |

The continued downgrading of the Country by external Rating Agencies had an adverse effect on the Bank's internal Country rating resulting in the Bank taking on significantly higher Credit Loss provisions including ECL on statutory reserve deposits.

## 23 Loans and advances to banks

See accounting policy note 7.9.1

There were no loans and advances to banks as at 31 December 2020.

| | 2020 K'000 | 2019 K'000 |
|---|---|---|
| Loans and advances to local banks | - | 102,000 |
| Less impairment allowance | - | (1) |
| **Total** | - | 101,999 |

## 24 Pledged assets

| | Group and Bank | |
|---|---|---|
| | 2020 K'000 | 2019 K'000 |
| **Treasury bills** | **100,000** | 100,000 |

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

## 25 Investment in subsidiary company

| | | Bank | |
|---|---|---|---|
| | Ownership | 2020 K'000 | 2019 K'000 |
| **Standard Chartered Nominees Zambia Limited** | 100% | **5** | 5 |

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

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

In terms of the Zambia Companies Act, 2017, No. 10 the name and address of the subsidiaries' principal office is: Standard Chartered Nominees Zambia Limited domiciled at Standard Chartered House, Stand No 4642, corner of Mwaimwena Road and Addis ababa drive, Lusaka.

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

for the year ended 31 December 2020

## 26 Financial assets and financial liabilities

### Classification of financial assets and financial liabilities

See accounting policies in note 7.9.

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

**Group and Bank**

| 2020 | Note | Mandatorily at FVTPL K'000 | Amortised Cost K'000 | FVOCI K'000 | Total carrying amount K'000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 42 | - | 5,251,892 | - | 5,251,892 |
| Cash on hand and balances with Bank of Zambia | 22 | - | 2,095,891 | - | 2,095,891 |
| Pledged assets | 24 | - | - | 100,000 | 100,000 |
| Investment securities | 28 | 29,050 | - | 3,513,041 | 3,542,091 |
| Derivative financial instruments | 27 | 4,590 | - | - | 4,590 |
| Loans and advances to banks | 23 | - | - | - | - |
| Loans and advances to customers | 29 | - | 2,410,457 | - | 2,410,457 |
| Other receivable | | - | 215,775 | - | 215,775 |
| **Total** | | 33,640 | 9,974,015 | 3,613,041 | 13,620,696 |
| **Financial Liabilities** | | | | | |
| Amounts payable to group banks | 42 | - | 325,740 | - | 325,740 |
| Amounts payable to non-group banks | 42 | - | 21,266 | - | 21,266 |
| Deposits from customers | 34 | - | 12,214,521 | - | 12,214,521 |
| Derivative financial instruments | 27 | 8,548 | - | - | 8,548 |
| Subordinated liabilities | 38 | - | 84,680 | - | 84,680 |
| Other Payables | | - | 292,740 | - | 292,740 |
| **Total** | | 8,548 | 12,938,947 | - | 12,947,495 |

## 26 Financial assets and financial liabilities (continued)

### Classification of financial assets and financial liabilities (continued)

**Group and Bank**

| 2019 | Note | Mandatorily at FVTPL K'000 | Amortised cost K'000 | FVOCI K'000 | Total carrying amount K'000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 42 | - | 3,381,132 | - | 3,381,132 |
| Cash on hand and balances with Bank of Zambia | 22 | - | 1,582,665 | - | 1,582,665 |
| Pledged assets | 24 | - | - | 100,000 | 100,000 |
| Investment securities | 28 | 67,984 | - | 1,981,431 | 2,049,415 |
| Derivative financial instruments | 27 | 45,273 | - | - | 45,273 |
| Loans and advances to banks | 23 | - | 101,999 | - | 101,999 |
| Loans and advances to customers | 29 | - | 3,131,664 | - | 3,131,664 |
| Other receivables | | - | 119,738 | - | 119,738 |
| **Total** | | 113,257 | 8,317,198 | 2,081,431 | 10,511,886 |
| **Financial Liabilities** | | | | | |
| Amounts payable to group banks | 42 | - | 229,489 | - | 229,489 |
| Amounts payable to non-group banks | 42 | - | 12,297 | - | 12,297 |
| Deposits from customers | 34 | - | 9,289,297 | - | 9,289,297 |
| Derivative financial instruments | 27 | 41,740 | - | - | 41,740 |
| Subordinated liabilities | 38 | - | 56,600 | - | 56,600 |
| Other Payables | | - | 381,145 | - | 381,145 |
| **Total** | | 41,740 | 9,968,828 | - | 10,010,568 |

Included in other receivables are overdrawn suspense accounts, transfer pricing entries and other suspense receivable accounts while other payables include accruals, lease liabilities and unclaimed cashier orders.

## 27 Derivative financial instruments

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

| | Group and Bank 2020 | | Group and Bank 2019 | |
|---|---|---|---|---|
| | **Assets K'000** | **Liabilities K'000** | Assets K'000 | Liabilities K'000 |
| Interest rate swap | **1,659** | **1,010** | 7,349 | 7,199 |
| Cross currency swap | **2,931** | **7,538** | 37,924 | 34,541 |
| **Total** | **4,590** | **8,548** | 45,273 | 41,740 |

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

for the year ended 31 December 2020

## 28 Investment securities

| | Group and Bank 2020 K'000 | Group and Bank 2019 K'000 |
|---|---|---|
| Investment securities at fair value through profit or loss | **29,050** | 67,984 |
| FVOCI investment securities | **3,513,041** | 1,981,431 |
| **Total** | **3,542,091** | 2,049,415 |

| **Fair value through profit or loss** | **Group and Bank 2020** | | | Group and Bank 2019 | | |
|---|---|---|---|---|---|---|
| | **Treasury bills K'000** | **Government bonds K '000** | **Total K '000** | Treasury bills K '000 | Government bonds K '000 | Total K '000 |
| **Of which mature:** | | | | | | |
| Within one year | - | - | - | - | - | - |
| Within one to five years | - | **29,050** | - | - | 67,984 | 67,984 |
| **Total** | - | **29,050** | - | - | 67,984 | 67,984 |

| Fair value through other comprehensive income | **Group and Bank 2020** | | | | Group and Bank 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Treasury Bills K'000** | **Equity shares and trade Investments K'000** | **Government bonds K'000** | **Total K'000** | Treasury Bills K'000 | Equity shares and trade Investments K'000 | Government bonds K'000 | Total K'000 |
| **Of which mature:** | | | | | | | | |
| Within one year | **3,413,665** | - | - | **3,413,665** | 1,050,484 | - | - | 1,050,484 |
| Within one to five years | - | - | **98,868** | **98,868** | - | - | 930,439 | 930,439 |
| More than five years | - | **508** | - | **508** | - | 508 | - | 508 |
| **Total** | **3,413,665** | **508** | **98,868** | **3,513,041** | 1,050,484 | 508 | 930,439 | 1,981,431 |

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

for the year ended 31 December 2020

## 28 Investment securities (continued)

### 28.1 Investment securities at FVOCI

**Group and Bank**

| 31 December 2020 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Grade 1-11: Low-fair risk | - | 3,542,091 | - | 3,542,091 |
| Grade 12: Substandard | - | - | - | - |
| Grade:13 Doubtful | - | - | - | - |
| Grade 14 Loss | - | - | - | - |
| Carrying amount | | **3,542,091** | | **3,542,091** |
| Loss allowance | - | (251,099) | - | (251,099) |
| | - | **3,290,992** | - | **3,290,992** |

| 31 December 2019 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Grade 1-11: Low-fair risk | 1,880,123 | 169,292 | - | 2,049,415 |
| Grade 12: Substandard | - | - | - | - |
| Grade:13 Doubtful | | | | |
| Grade 14 Loss | - | - | - | - |
| Carrying amount | 1,880,123 | 169,292 | | 2,049,415 |
| Loss allowance | (145,022) | (30,374) | | (175,396) |
| | 1,735,101 | 138,918 | - | 1,874,019 |

Financial statements

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

for the year ended 31 December 2020

## 28 Investment securities (continued)

### 28.2 Impairment allowance for investment securities

| 2020 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|
| **Investment securities at FVOCI** | | | | |
| | | | | |
| Balance at 1 January | **145,022** | **30,374** | - | **175,396** |
| - Transfer to Stage 1 | - | - | - | - |
| - Transfer to Stage 2 | **(145,022)** | **145,022** | - | - |
| - Transfer to Stage 3 | - | - | - | - |
| Net re-measurement of loss allowance | - | **175,396** | - | **175,396** |
| | | | - | |
| New financial assets originated or purchased | - | **161,893** | - | **161,893** |
| Financial assets that have been derecognised | - | - | - | - |
| (Write off)/recoveries | - | - | - | - |
| Unwind of discount | | | - | |
| Foreign exchange movements | - | **(86,190)** | - | **(86,190)** |
| | | | - | |
| Balance as at 31st December 2020 | - | **251,099** | - | **251,099** |

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

## 29 Loans and advances to customers

| | 2020 K'000 | 2019 K'000 |
|---|---|---|
| Corporate Lending | 1,333,245 | 578,792 |
| Commercial Lending | 221,221 | 1,156,382 |
| Consumer Lending | 1,195,138 | 1,583,458 |
| | 2,749,604 | 3,318,632 |
| Less impairment allowance | (339,147) | (186,968) |
| **Total** | **2,410,457** | **3,131,664** |

## 29.1 Loans and advances to customers

| | **Group and Bank 2020** | | | Group and Bank 2019 | | |
|---|---|---|---|---|---|---|
| | **Gross amount K'000** | **Impairment allowance K'000** | **Carrying amount K'000** | Gross amount K'000 | Impairment allowance K'000 | Carrying amount K'000 |
| **Consumer, Private and Business Banking:** | | | | | | |
| Mortgage lending | **119,474** | **(1,124)** | **118,350** | 141,279 | (2,296) | 138,983 |
| Personal loans | **985,850** | **(88,216)** | **897,634** | 1,346,850 | (109,639) | 1,237,211 |
| Overdrafts | **89,814** | **(10,480)** | **79,334** | 95,329 | (1,807) | 93,522 |
| | **1,195,138** | **(99,820)** | **1,095,318** | 1,583,458 | (113,742) | 1,469,716 |
| **Commercial Banking:** | | | | | | |
| Term loans | **151,560** | **(43,864)** | **107,696** | 892,631 | (36,913) | 855,718 |
| Overdrafts | **69,661** | **(14,454)** | **55,207** | 263,751 | (27,244) | 236,507 |
| | **221,221** | **(58,318)** | **162,903** | 1,156,382 | (64,157) | 1,092,225 |
| **Corporate & Institutional Banking:** | | | | | | |
| Term loans | **470,890** | **(103,474)** | **367,416** | 107,016 | (3,619) | 103,397 |
| Overdrafts | **862,355** | **(77,535)** | **784,820** | 471,775 | (5,450) | 466,325 |
| | **1,333,245** | **(181,009)** | **1,152,236** | 578,791 | (9,069) | 569,723 |
| **Total** | **2,749,604** | **(339,147)** | **2,410,457** | 3,318,631 | (186,968) | 3,131,664 |

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

for the year ended 31 December 2020

## 29 Loans and advances to customers (continued)

## 29.2 Impairment for Loans and advances to customers

| Group and Bank | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
| **Loans and advances to customers amortised cost** | | | | | | | | |
| Balance at 1 January | 19,075 | 116,770 | 51,123 | 186,968 | 19,354 | 34,157 | 10,244 | 63,755 |
| - Transfer to Stage 1 | 225,772 | (225,772) | - | - | 43,623 | (43,623) | - | - |
| - Transfer to Stage 2 | (166,833) | 237,194 | (70,361) | - | (61,312) | 72,014 | (10,702) | - |
| - Transfer to Stage 3 | - | (127,306) | 127,306 | - | - | (48,467) | 48,467 | - |
| Net re-measurement of loss allowance | 78,014 | 887 | 108,068 | 186,968 | 1,665 | 14,081 | 48,009 | 63,755 |
| New financial assets originated or purchased | 155,438 | 175 | 120 | 155,733 | 54,851 | - | - | 54,851 |
| Financial assets that have been derecognised | (3,088) | (1,446) | (126,610) | (131,144) | (1,186) | (4,946) | (36,815) | (42,947) |
| (Write off)/recoveries | - | - | (99,567) | (99,567) | - | - | (80,177) | (80,177) |
| Foreign exchange and other movements | (98,222) | 158,039 | 167,340 | 227,157 | (36,255) | 107,635 | 120,106 | 191,486 |
| Balance as at 31st December 2020 | 132,142 | 157,654 | 49,351 | 339,147 | 19,075 | 116,770 | 51,123 | 186,968 |

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

for the year ended 31 December 2020

## 29 Loans and advances to customers (continued)

### 29.2 Impairment for Loans and advances to customers (continued)

| | 2020 | | | |
|---|---|---|---|---|
| | **Stage 1 K'000** | **Stage 2 K'000** | **Stage 3 K'000** | **Total K'000** |
| **Loans and advances to customers at amortised cost** | | | | |
| Retail Banking customers | | | | |
| Balance at 1 January | **17,980** | **84,024** | **11,738** | **113,742** |
| - Transfer to Stage 1 | **190,716** | **(190,716)** | **-** | **-** |
| - Transfer to Stage 2 | **(101,869)** | **115,406** | **(13,537)** | **-** |
| - Transfer to Stage 3 | **-** | **(93,367)** | **93,367** | **-** |
| Net remeasurement of loss allowance | **106,827** | **(84,653)** | **91,568** | **113,742** |
| New financial assets originated or purchased | **83,576** | **174** | **120** | **83,870** |
| Financial assets that have been derecognised | **(3,088)** | **(1,446)** | **(53,070)** | **(57,604)** |
| (Write off)/recoveries | **-** | **-** | **(30,586)** | **(30,586)** |
| Foreign exchange and other movements | **(97,943)** | **92,749** | **(4,408)** | **(9,602)** |
| Balance as at 31st December 2020 | **89,372** | **6,824** | **3,624** | **99,820** |

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

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

for the year ended 31 December 2020

## 29 Loans and advances to customers (continued)

### 29.2 Impairment for Loans and advances to customers (continued)

| 2020 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | | | | |
| Corporate and Institution Banking | | | | |
| Balance at 1 January | 505 | 5,023 | 3,541 | 9,069 |
| - Transfer to Stage 1 | 27,809 | (27,809) | - | - |
| - Transfer to Stage 2 | (61,553) | 116,712 | (55,159) | - |
| - Transfer to Stage 3 | - | (12,159) | 12,159 | - |
| Net re-measurement of loss allowance | (33,239) | 81,767 | (39,459) | 9,069 |
| New financial assets originated or purchased | 68,843 | 1 | - | 68,844 |
| Financial assets that have been derecognised | - | - | (10,534) | (10,534) |
| (Write off)/recoveries | - | - | (39,076) | (39,076) |
| Foreign exchange and other movements | 7,162 | 66,751 | 78,792 | 152,705 |
| Balance as at 31st December 2020 | 42,766 | 148,519 | (10,277) | 181,008 |

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

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

for the year ended 31 December 2020

## 29 Loans and advances to customers (continued)

### 29.2 Impairment for Loans and advances to customers (continued)

| 2020 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | | | | |
| Commercial Banking customers | | | | |
| Balance at 1 January | 588 | 27,724 | 35,845 | 64,157 |
| - Transfer to Stage 1 | 7,247 | (7,247) | - | - |
| - Transfer to Stage 2 | (3,411) | 5,076 | (1,665) | - |
| - Transfer to Stage 3 | - | (21,780) | 21,780 | - |
| Net re-measurement of loss allowance | 4,424 | 3,773 | 55,960 | 64,157 |
| New financial assets originated or purchased | 3,019 | - | - | 3,019 |
| Financial assets that have been derecognised | - | - | (63,006) | (63,006) |
| Write offs | - | - | (29,905) | (29,905) |
| Foreign exchange and other movements | (7,442) | (1,461) | 92,956 | 84,053 |
| Balance as at 31st December 2020 | 1 | 2,312 | 56,005 | 58,318 |

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

## 30 Other assets

| | Group and Bank | |
|---|---|---|
| | 2020 K'000 | 2019 K'000 |
| Prepayment of operational costs | 2,101 | 6,230 |
| Sundry debt | 138,936 | 73,696 |
| Other assets – acceptance | - | 179,962 |
| Sundry and other receivables | 216,148 | 119,738 |
| **Total** | 357,185 | 379,626 |

Financial statements

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

for the year ended 31 December 2020

## 31 Property and equipment

### Group and Bank

| | Property and improvements K'000 | Right of use assets K'000 | Equipment and motor vehicles K'000 | Capital work-in-progress K'000 | Total K'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2019 | 17,269 | - | 117,240 | 11,057 | 145,566 |
| Recognition of right of use on Initial application of IFRS 16 | - | 3,787 | - | - | 3,787 |
| Transfer to/(from) WIP | - | - | 499 | (499) | - |
| Additions | - | 67,260 | 10,237 | 8,326 | 85,823 |
| Disposals | (685) | - | (768) | - | (1,453) |
| Capitalised software reclassified to intangible (note 33) | - | - | (25,327) | - | (25,327) |
| Effects of movement in exchange rates | (411) | - | - | - | (411) |
| At 31 December 2019 | 16,173 | 71,047 | 101,881 | 18,884 | 207,985 |
| At 1 January 2020 | **16,173** | **71,047** | **101,881** | **18,884** | **207,985** |
| Transfer to/(from) WIP | **-** | **-** | **-** | **-** | **-** |
| Additions | **-** | **110,300** | ***30,437** | *** 3,950** | **144,687** |
| Disposals | **(81)** | **(22,128)** | **(13,970)** | **(17,195)** | **(53,374)** |
| Assets held for sale(Note 32) | **(12,620)** | **-** | **(44,661)** | **-** | **(57,281)** |
| Effects of movement in exchange rates | **-** | **6,154** | **-** | **-** | **6,154** |
| At 31 December 2020 | **3,472** | **165,373** | **73,687** | **5,639** | **248,171** |
| **Accumulated depreciation and impairment losses** | | | | | |
| At 1 January 2019 | 5,729 | - | 74,863 | - | 80,592 |
| Recognition of right of use on Initial application of IFRS 16 | - | 86 | - | - | 86 |
| Depreciation Charge for the year | 382 | 8,339 | 21,026 | - | 29,747 |
| Disposal | (229) | - | (213) | - | (442) |
| Capitalised software reclassified to intangible asset (note 33) | - | - | (21,445) | - | (21,445) |
| Effects of movement in exchange rates | (430) | 480 | - | - | 50 |
| At 31 December 2019 | 5,452 | 8,905 | 74,231 | - | 88,588 |
| At 1 January 2020 | **5,452** | **8,905** | **74,231** | **-** | **88,588** |
| Depreciation Charge for the year | **372** | **28,192** | **14,324** | **-** | **42,888** |
| Disposal | **(28)** | **(8,478)** | **(9,981)** | **-** | **(18,487)** |
| Assets held for sale(Note 32) | **(4,397)** | **-** | **(43,123)** | - | **(47,520)** |
| Effects of movement in exchange rates | **-** | **3,544** | - | - | **3,544** |
| At 31 December 2020 | **1,399** | **32,163** | **35,451** | **-** | **69,013** |
| **Carrying amounts** | | | | | |
| **At 31 December 2020** | **2,073** | **133,210** | **38,236** | **5,639** | **179,158** |
| At 31 December 2019 | 10,721 | 62,142 | 27,650 | 18,884 | 119,397 |

## 32 Held for Sale

See accounting policy 8.7

| | Property and improvements K'000 | Equipment Fixture and fittings K'000 | Total K'000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 31 December 2020 | 12,620 | 44,661 | 57,281 |
| **Accumulated depreciation** | | | |
| Balance at 31 December 2020 | 4,397 | 43,123 | 47,520 |
| **Carrying amounts** | | | |
| Balance at 31 December 2020 | **8,223** | **1,538** | **9,761** |

Assets held for sale are carried at lower of carrying amount and fair value less cost to sale. Assets held for sale are under RB and Property. There were no assets held for sale in 2019.

## 33 Intangible assets

| Cost | Customer Relationship K'000 | Goodwill K'000 | Capitalised software K'000 | Total K'000 |
|---|---|---|---|---|
| Balance at 1 January 2019 | 33,691 | 13,476 | - | 47,167 |
| Cost transfer from property and equipment (note 31) | - | - | 25,327 | 25,327 |
| Acquisitions | - | - | 49,275 | 49,275 |
| | 33,691 | 13,476 | 74,602 | 121,769 |
| **Balance at 1 January 2020** | **33,691** | **13,476** | **74,602** | **121,769** |
| **Acquisitions** | **-** | **-** | **58,579** | **58,579** |
| **Impairment** | | **(13,476)** | **(8,645)** | **(22,121)** |
| **Balance at 31 December 2020** | **33,691** | **-** | **124,536** | **158,227** |
| **Accumulated amortisation and impairment losses** | | | | |
| Balance at 1 January 2020 | 33,691 | - | - | 33,691 |
| Amortisation transfer from property and equipment | - | - | 21,445 | 21,445 |
| Amortisation for the year | - | - | 13,945 | 13,945 |
| At 31 December 2019 | 33,691 | - | 35,390 | **69,081** |
| **Balance at 1 January 2020** | **33,691** | **-** | **35,390** | **69,081** |
| **Amortisation for the year** | **-** | **-** | **20,593** | **12,885** |
| **Impairment** | | | **(1,585)** | **(1,585)** |
| **Balance at 31 December 2020** | **33,691** | **-** | **54,398** | **88,089** |
| **Carrying amounts** | | | | |
| **At 31 December 2020** | **-** | **-** | **70,138** | **70,138** |
| At 31 December 2019 | - | **13,476** | **39,212** | **52,688** |

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

For the purposes of impairment testing, the entire goodwill is allocated to the Corporate and Institutional Banking unit

The entire goodwill was impaired in 2020 (2019: nil)

The recoverable amounts for the Corporate and Institutional Banking CGU has been calculated based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. Value in use was determined in a similar manner as in 2019.

- Key assumptions used in the calculation of the value in use were the following: Cash flows were projected based on forecasts and budgets for short/medium term growth (one to five years) using budgets compiled in November of the current year through to the end of November for the following year. The cash flows for a further 20 years are extrapolated using a constant growth rate of 2% (in line with the annual GDP). The long-term growth rate management used is based on a forecast for a ten-year average GDP for country specific units; or global GDP for business specific units and is applied after the latest approved budget (one to five years) up to twenty years. The forecast period is based on the Group's long-term perspective with respect to the operations of this CGU. After factoring in the above assumptions, the carrying amount was found to be impaired hence the write off of the goodwill. This was on the back of constraints on the performance of the Group due to challenging microeconomic fandamentals and increased ECL.

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

Impairment on software relates to a Retail Banking program which was not deployed in the Africa and the Middle East markets which resulted in an impairment.

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

for the year ended 31 December 2020

## 34 Deposits from customers

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Consumer, Private and Business Banking | | |
| Savings accounts | **596,062** | 509,312 |
| Term deposits | **1,305,908** | 1,048,173 |
| Current deposit | **3,623,215** | 2,135,981 |
| | **5,525,185** | 3,693,466 |
| **Corporate and Institutional Banking** | | |
| Savings accounts | **3,382** | 2,787 |
| Term deposits | **1,686,259** | 1,572,683 |
| Current deposit | **4,676,593** | 3,096,952 |
| | **6,366,234** | 4,672,422 |
| **Commercial Banking** | | |
| Savings accounts | **3,047** | 20,485 |
| Term deposits | **15,228** | 53,002 |
| Current deposits | **304,827** | 849,922 |
| | **323,102** | 923,409 |
| **Total** | **12,214,521** | 9,289,297 |

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Repayable on demand | **10,451,472** | 7,166,181 |
| Repayable with agreed maturity dates or periods of notice, by residual maturity: | | |
| - Three months or less | **844,412** | 344,608 |
| - Between three months and one year | **583,030** | 1,700,843 |
| - After one year | **335,607** | 77,665 |
| **Total** | **12,214,521** | 9,289,297 |

Included in deposits from customers were deposits amounting to K720,034,779 (2019: K504,258,000) held as collateral for irrevocable commitments under import letters of credit.

## 35 Other liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| | **2020 K'000** | 2019 K'000 | **2020 K'000** | 2019 K'000 |
| Settlement and clearing accounts | **31,362** | 81,315 | **31,362** | 81,315 |
| Lease Liability (refer to note 44) | **163,640** | 69,438 | **163,640** | 69,438 |
| Accrued expenses | **76,575** | 85,594 | **76,575** | 85,594 |
| Accounts payable and sundry creditors | **292,494** | 155,510 | **292,499** | 155,515 |
| Unearned fee and commissions | **51,903** | 12,932 | **51,903** | 12,932 |
| Acceptances | **-** | 179,966 | **-** | 179,966 |
| **Total** | **615,974** | 584,755 | **615,979** | 584,760 |

## 36 Provisions

| | Operational risk K'000 | Litigation K'000 | Restructuring K'000 | Total K'000 |
|---|---|---|---|---|
| **Balance at 1 January 2019** | - | 40,673 | 27,426 | 68,099 |
| Arising during the year | 244 | 15,395 | 43,691 | 59,330 |
| Utilisation | - | - | (21,895) | (21,895) |
| **31 December 2019** | **244** | **56,068** | **49,222** | **105,534** |
| Arising during the year | - | 26,943 | 84,864 | 111,807 |
| Utilisation | - | (6,524) | (132,114) | (138,638) |
| **31 December 2020** | **244** | **76,487** | **1,972** | **78,703** |

There was no unwinding of discount for the liabilities during the period under review.

**Legal proceedings**

There were some legal proceedings outstanding against the Group at 31 December 2020. Provisions have been made in the financial statements in respect of such claims, based on professional advice and management's best estimates of the settlement amount. The timing of any outflows in the form of any settlement is uncertain.

Restructuring provisions relate to final payments due to employees whose positions have been declared redundant as at 31 December

Operational risk provisions exclude litigation and regulatory enforcement and include liabilities arising from the breakdown of internal processes and controls or from external events resulting in economic outflow.

## 37 Financial guarantees, letters of credit and commitments

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

| **Group and Bank 2020** | **1 year K'000** | **2 – 5 years K'000** | **Total K'000** |
|---|---|---|---|
| Loans commitments | **805,040** | **-** | **805,040** |
| Guarantees | **102,649** | **478,815** | **581,464** |
| Letters of credit | **-** | **-** | **-** |
| Total | **907,689** | **478,815** | **1,386,504** |

| **Group and Bank 2019** | 1 year K'000 | 2 – 5 years K'000 | Total K'000 |
|---|---|---|---|
| Loans commitments | 406,473 | - | 406,473 |
| Guarantees | 192,646 | 215,579 | 408,225 |
| Letters of credit | 10 | - | 10 |
| Total | 599,129 | 215,579 | 814,708 |

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

for the year ended 31 December 2020

## 37 Financial guarantees, letters of credit and commitments (continued)

### 37.1 Capital commitments

The table below shows the Group's capital commitments.

There were no capital commitments as at 31st December 2020.

2019

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

## 38 Subordinated liabilities

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| At 1 January 2020 | **56,600** | 47,700 |
| Exchange difference | **28,080** | 8,900 |
| **At 31 December 2020** | **84,680** | 56,600 |

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

The interest charge is 3.93% above 3 months LIBOR payable on a quarterly basis. The loan is to be fully repaid in one installment on 31st October 2024. The outstanding amounts reflected on the statement of financial position are the Kwacha equivalent of USD4 million. Interest payable as at 31 December 2020 amounting to K 3,613,433 (2019: K3,044, 000) is included in accruals and other payables.

The Group applied for additional subordinated loan from the parent company and all approvals for the injection have been received. The draw down will be made as per business requirements. There was no draw down as at 31 December 2020.

The Group has not had any defaults of interest or other breaches with respect to its subordinated loan during the year ended 31 December 2020 (2019: no defaults).

## 39 Share capital

| **Bank**<br><br>**Authorized** | **Number of ordinary shares (million) 2020** | **Ordinary shares K'000 2020** | Number of ordinary shares (million) 2019 | Ordinary Shares capital K'000 2019 |
|---|---|---|---|---|
| At 1 January - ordinary shares of K0.25<br>Issued during the year<br>Standing consolidation | **1,800** | **450,000** | 1,800 | 450,000 |
| **At 31 December - ordinary shares of K0.25** | **1,800** | **450,000** | 1,800 | 450,000 |
| **Issued and fully paid** | | | | |
| **At 31 December** | **1,667** | **416,745** | 1,667 | 416,745 |
| **At 1 January Ordinary shares of K0.25** | **1,667** | **416,745** | 1,667 | 416,745 |

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

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

for the year ended 31 December 2020

## 40 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities presented according to when they are expected to be recovered or settled.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Within 12 months K'000** | **After 12 months K'000** | **Total K'000** | Within 12 months K'000 | After 12 months K'000 | Total K'000 |
| **Assets** | | | | | | |
| Cash and cash equivalents | **5,251,892** | **-** | **5,251,892** | 3,381,132 | - | 3,381,132 |
| Cash on hand and balances at Bank of Zambia | **2,095,891** | **-** | **2,095,891** | 1,582,665 | - | 1,582,665 |
| Pledged assets | **100,000** | **-** | **100,000** | 100,000 | - | 100,000 |
| Derivative financial instruments | **4,590** | **-** | **4,590** | 45,273 | - | 45,273 |
| Loans and advances to banks | **-** | **-** | **-** | 101,999 | - | 101,999 |
| Loans and advances to customers | **1,205,097** | **1,205,360** | **2,410,457** | 1,568,446 | 1,563,218 | 3,131,664 |
| Investment securities | **3,517,046** | **25,045** | **3,542,091** | 1,617,846 | 431,569 | 2,049,415 |
| Investment in subsidiaries | **-** | **-** | **-** | - | - | - |
| Assets held for sale | **9,761** | **-** | **9,761** | - | - | - |
| Property and equipment | **-** | **179,158** | **179,158** | - | 119,397 | 119,397 |
| Intangible assets | **-** | **70,138** | **70,138** | - | 52,688 | 52,688 |
| Current tax assets | **-** | **-** | **-** | 43,283 | | 43,283 |
| Deferred tax assets | **165,707** | **-** | **165,707** | - | 80,297 | 80,297 |
| Prepayments and other receivables | **357,185** | **-** | **357,185** | 379,626 | - | 379,626 |
| **Total assets** | **12,707,169** | **1,479,701** | **14,186,870** | 8,820,270 | 2,247,169 | 11,067,439 |
| **Liabilities** | | | | | | |
| Amounts payable to group banks | **325,740** | **-** | **325,740** | 229,489 | - | 229,489 |
| Amounts payable to non group banks | **21,266** | **-** | **21,266** | 12,297 | - | 12,297 |
| Derivative financial instruments | **8,548** | **-** | **8,548** | 41,740 | - | 41,740 |
| Deposits from customers | **11,915,093** | **299,428** | **12,214,521** | 9,211,632 | 77,665 | 9,289,297 |
| Dividends payable | **4,896** | **-** | **4,896** | 5,146 | - | 5,146 |
| Subordinated liabilities | **-** | **84,680** | **84,680** | - | 56,600 | 56,600 |
| Provisions | **2,216** | **76,487** | **78,703** | 49,222 | 56,068 | 105,290 |
| Current tax liabilities | **22,127** | **-** | **22,127** | - | - | - |
| Accruals and other payables | **615,974** | **-** | **615,974** | 584,755 | - | 584,755 |
| **Total liabilities** | **12,915,860** | **460,595** | **13,376,455** | 10,134,281 | 190,333 | 10,324,614 |
| **Net** | **(208,691)** | **1,019,106** | **810,415** | (1,314,013) | 2,056,837 | 742,825 |

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

for the year ended 31 December 2020

## 41 Capital management

Regulatory capital

The Bank's main objectives when managing capital are:

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

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

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

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed and maintained by the Bank of Zambia for supervisory purposes. The required information is filed with the Bank of Zambia on a monthly basis. In implementing current capital requirements, Bank of Zambia requires banks to:

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

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

| **Computation of regulatory capital position at 31 December** | **Bank** | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| **I Primary (Tier 1) Capital** | | |
| (a) Paid-up common shares | **416,745** | 416,745 |
| (b) Capital contributed | **62,312** | 62,312 |
| (c) (Accumulated losses)/retained earnings | **63,469** | 112,285 |
| (d) Statutory reserves | **12,285** | 12,285 |
| **(e Sub-total A (items a to g)** | **554,811** | 603,627 |
| **Less:** | | |
| (e) Goodwill and other intangible assets | **(70,138)** | (52,688) |
| (f) Net unrealized gains on FVOCI | **246,343** | 130,675 |
| **(g) Sub-total B (items i to m)** | **176,205** | 77,987 |
| **Other adjustments** | | |
| Provisions | **-** | - |
| Assets of little or no realised value | **(2,101)** | (5,827) |
| **(p) Sub-total C (other adjustments)** | **(2,101)** | (5,827) |
| **(p) Total primary capital [ h – ( n to o)]** | **728,915** | 675,787 |
| **II Secondary (tier 2) capital** | | |
| (a) Eligible subordinated term debt | **84,680** | 56,600 |
| **(b) Total secondary capital** | **84,680** | 56,600 |
| **III Eligible secondary capital** | **84,680** | 56,600 |
| (The maximum amount of secondary capital is limited to 100% of primary capital) | | |
| **IV Eligible total capital (I(p) + III) (Regulatory capital)** | **813,595** | 732,387 |
| **V Minimum total capital requirement (10% of total on and off balance sheet risk weighted assets)** | **520,000** | 520,000 |
| **VI Excess (IV minus V)** | **293,595** | 212,387 |
| **Risk weighted assets** | **4,890,381** | 4,315,168 |
| Tier 1 Capital ratio | **14.90%** | 15.66% |
| Total Capital ratio | **16.63%** | 16.97% |

## 42 Additional cashflow information

**Cash and cash equivalents at end of year**

| **2020** | Notes | **2020 K'000** | 2019 K'000 |
|---|---|---|---|
| Cash on hand | 22 | **841,095** | 678,286 |
| Cash and short term funds at group Banks | | **4,276,747** | 3,005,685 |
| Cash and short term funds at non group Banks | | **22,495** | 21,697 |
| Placements with foreign non group banks | | **952,650** | 353,750 |
| **Total cash and cash equivalents as per statement of financial position** | | **5,251,892** | 4,059,418 |
| Amounts payable to group Banks | | **(325,740)** | (229,489) |
| Amounts payable to non group Banks | | **(21,266)** | (12,297) |
| **Total cash and cash equivalents as per statement of cash flows** | | **5,745,981** | 3,817,632 |

| | | |
|---|---|---|
| **Changes in liabilities arising from financing activities** | | |
| Opening balance | **56,600** | 47,700 |
| Cash flow items: | | |
| FX movement | **28,080** | 8,900 |
| **Ending balance** | **84,680** | 56,600 |

## 42.1 Reclassification in the cash flow statement

During the course of the year, the Bank reclassified statutory reserves from cash and cash equivalents. The reclassification has been made because the statutory reserve deposit is not available for the day to day use in the management of the business. The amount of K904,379,000 has been reclassified from cash and cash equivalents and movements therein are now presented in changes in operating activities. The reclassification has been made retrospectively by adjusting the affected line items of previously issued financial statements.

Financial statements

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

for the year ended 31 December 2020

## 43 Contingent liabilities and commitments

### 43.1 Financial guarantees, letters of credit and other undrawn commitments

The nominal values of Financial guarantees, letters of credit are disclosed together with their ECL impacts in Note .48

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

### 43.2 Legal claims

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Group is involved in various litigation, arbitration and regulatory proceedings, in Zambia in the ordinary course of its business. The Group has formal controls and policies for managing legal claims. Based on professional legal advice, the Group provides and/or discloses amounts in accordance with its accounting policies described in Note 7.24. At year end, the Group had several unresolved legal claims.

At year end, the Group had several unresolved corporate and employee related legal claims .

The Directors are aware that any amounts noted with respect to the on-going cases are only an estimate as the final liability is dependent on the conclusion of the underlying legal proceedings or disputes'.

## 44 Leases

The Group has entered into commercial leases for premises, equipment and motor vehicles. The leases have an average life of between three and five years. There are no restrictions placed upon the lessee by entering into these.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (refer to Note 7.18).

### a. Leases as lessee (IFRS 16)

The Group leases a number of branch and office premises and motor vehicles. The leases typically run for a period of 1-6 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every lease renewal to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

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

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

## 44 Leases (continued)

### a. Leases as lessee (IFRS 16) (continued)

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

**i. Right-of-use assets and depreciation**

Right-of-use assets and depreciation relate to leased branch and office premises that are presented within property and equipment (see note 31)

**Right-of-use assets**

| | Group and Bank 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Branch and office premises K'000 | Motor Vehicle K'000 | Total K'000 | Branch and office premises K'000 | Motor Vehicle K'000 | Total K'000 |
| Balance at 1 January | 18,437 | 52,610 | 71,047 | 3,701 | - | 3,701 |
| Additions | 79,397 | 30,903 | 110,300 | 14,650 | 52,610 | 67,260 |
| Disposals | (17,319) | (4,809) | (22,128) | - | - | - |
| Effect of movement in exchange rates | 6,154 | - | 6,154 | 86 | - | 86 |
| Balance at 31 December | 86,669 | 78,704 | 165,373 | 18,437 | 52,610 | 71,047 |

**Depreciation**

| | Group and Bank 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Branch and office premises K'000 | Motor Vehicle K'000 | Total K'000 | Branch and office premises K'000 | Motor Vehicle K'000 | Total K'000 |
| Balance at 1 January | 7,300 | 1,605 | 8,905 | - | - | - |
| Depreciation charge | 6,920 | 21,272 | 28,192 | 6,820 | 1,605 | 8,425 |
| Disposal | (8,478) | - | (8,478) | - | - | - |
| Effect of movement in exchange rates | 3,544 | - | 3,544 | 480 | - | 480 |
| Balance at 31 December | 9,286 | 22,877 | 32,163 | 7,300 | 1,605 | 8,905 |

**ii) Amounts recognised in statement of income or loss**

| | 2020 K'000 | 2019 K'000 |
|---|---|---|
| Depreciation | 28,192 | 8,425 |
| Lease interest expense | 8,828 | 3,848 |
| Expenses relating to short term leases | 9,283 | 6,868 |
| Expenses relating to low value assets | - | 2,935 |

**iii) Maturity Analysis**

i. The following tables set out a maturity analysis of lease liabilities held as at 31 December 2020

**Group and Bank**

**Non property** — **2020**

| One year or less K'000 | Between one year and two years K'000 | Between two years and five years K'000 | More than five years K'000 | Total K'000 |
|---|---|---|---|---|
| 9,285 | 12,974 | 34,274 | 24,634 | 81,167 |

**Non property** — 2019

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

**Property leases** — **2020**

| One year or less K'000 | Between one year and two years K'000 | Between two years and five years K'000 | More than five years K'000 | Total K'000 |
|---|---|---|---|---|
| 854 | 3,761 | 77,692 | 166 | 82,473 |

**Property leases** — 2019

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

Lease liabilities are reported within other liabilities on the statement of financial position (see note 35)

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

for the year ended 31 December 2020

## 44 Leases (continued)

### iv) Extension options

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

### v) Impact on Financial Statement

The total cash outflow during the year for premises and motor vehicle leases was K35 million.

## 45 Related parties

### a. Parent and controlling party

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

### b. Related party transactions

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

**Group transactions**

| | Note | Group and Bank 2020 K'000 | 2019 K'000 |
|---|---|---|---|
| Amounts due from group companies | 42 | **4,276,747** | 3,005,684 |
| Amounts due to group companies | 42 | **(325,740)** | (229,489) |
| **Total** | | **3,951,007** | 2,776,195 |

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

**Income and expenditure**

| | Group and Bank 2020 K'000 | 2019 K'000 |
|---|---|---|
| Recharges and other expenses | **(165,730)** | (28,530) |
| Commissions and net interest income | **23,879** | 47,235 |
| **Total** | **(141,851)** | 18,705 |

### c. Directors and key management personnel transactions

**Loans**

| | Group and Bank 2020 | | | | Group and Bank 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Executive directors K'000 | Connected entities to directors K'000 | Key management staff K'000 | Total K'000 | Executive directors K'000 | Connected entities to directors K'000 | Key management staff K'000 | Total K'000 |
| **Loans outstanding at 1 January** | **1,433** | **16,744** | **17,326** | **35,503** | 522 | 17,302 | 13,208 | 31,032 |
| Loans issued during the year | **1,127** | **9,990** | **2,363** | **13,480** | 1,298 | 3,687 | 9,348 | 14,333 |
| Relocated/ resigned / promoted | **(1,116)** | **-** | **(3,727)** | **(4,843)** | - | | (1,395) | (1,395) |
| Loan repayments during the year | **(484)** | **(6,351)** | **(2,008)** | **(8,843)** | (387) | (4,245) | (3,835) | (8,467) |
| **Loans outstanding at 31 December** | **960** | **20,383** | **13,954** | **35,297** | 1,433 | 16,744 | 17,326 | 35,503 |
| Executive directors | **960** | **-** | **-** | **960** | 1,433 | - | - | 1,433 |
| Non executive directors | **-** | **20,383** | **-** | **20,383** | - | 16,744 | - | 16,744 |
| Interest and fee income earned: | **142** | **1,368** | **1,444** | **2,954** | 33 | 1,167 | 177 | 1,377 |

## 45 Related parties (continued)

### c. Directors and key management personnel transactions

**Loans (continued)**

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

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

At 31 December 2020 there were no loan obligations to Independent Non executive directors in their personal capacity.

At 31 December 2020, the total amounts to be disclosed under Zambia Companies Act, 2017, No. 10 about loans and advances were as follows;

| Name of borrower | Opening Balance 1Jan 2020 K'000 | Issued during the year K'000 | Loan repayments during the year K'000 | Amount outstanding 31 Dec 2020 K'000 | Average interest Rate (%) | Composition |
|---|---|---|---|---|---|---|
| Executive director A | 317 | 445 | (395) | 367 | 11% | Personal loan and Credit card |
| Executive director B - outgoing | 1,116 | - | (1,116) | - | 10% | Personal loan and Mortgage |
| Executive director B – Incoming. | - | 682 | (89) | 593 | 9.67 | Mortgage, Personal loan and Credit card |
| Officer A | 278 | 600 | (89) | 789 | 10% | Personal loan |
| Officer B | 4,249 | - | (140) | 4,109 | 9% | Mortgage, Personal loan and Credit card |
| Officer D | 778 | 450 | (520) | 708 | 10% | Mortgage, Personal loan and Credit card |
| Officer E | 3,838 | - | (163) | 3,675 | 10% | Mortgage, Personal loan and Credit card |
| Officer F | 1,428 | 449 | (311) | 1,566 | 11% | Personal loan and Credit card |
| Officer G | 285 | 407 | (306) | 386 | 11% | Personal loan and Credit card |
| Officer H | 2,502 | - | (2,502) | - | 10% | Mortgage and Credit card |
| Officer I | 2,502 | 448 | (409) | 2,541 | 9% | Mortgage, Personal loan and Credit card |
| Officer J | 1,225 | - | (1,225) | - | 9% | Mortgage, Personal loan and Credit card |
| Officer K | - | 9 | (6) | 3 | 12% | Credit card |
| Officer L | 243 | - | (64) | 179 | 11% | Mortgage and Credit card |
| | 18,761 | 3,490 | (7,335) | 14,916 | | |

Other than as disclosed in the Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any directors, connected person or officer of the Company which have to be disclosed under the Act.

## Deposits

| | Group and Bank 2020 | | | | Group and Bank 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Executive directors K'000 | Connected entities to directors K'000 | Management staff K'000 | Total K'000 | Executive directors K'000 | Connected entities to directors K'000 | Management staff K'000 | Total K'000 |
| **Deposit at 1 January** | 96 | 457 | 1,193 | 1,746 | 126 | 2,944 | 754 | 3,824 |
| **Net movement** | 839 | 2,421 | 3,749 | 7,009 | (30) | (2,487) | 439 | (2,078) |
| **Deposits at 31 December** | 935 | 2,878 | 4,942 | 8,755 | 96 | 457 | 1,193 | 1,746 |

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

for the year ended 31 December 2020

## 45 Related party transactions (continued)

### c. Directors and key management personnel transactions (continued)

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Salaries and allowances and short term benefits | **51,343** | 41,001 |
| Pension contributions | **3,477** | 2,917 |
| **Total** | **54,820** | 43,918 |

| | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 **K'000** |
| **Directors' remuneration** | | |
| **Executive directors** | | |
| Salaries and allowances | **6,952** | 6,291 |
| Pension contributions | **428** | 401 |
| **Total** | **7,380** | 6,692 |

| **Non-executive directors** | Group and Bank | |
|---|---|---|
| | **2020 K'000** | 2019 K'000 |
| Fees and benefits | **1,268** | 1,044 |

### Disposal of assets

There were no Group assets sold to the non-executive directors (2019: nil).

## 46 Events after reporting date

There are no events after the reporting date that require disclosure in these financial statements.

However, the Group continues to monitor the impact of the COVID-19 pandemic on its operations and its capacity to generate revenue and continue being viable. The Group has put in place measures to protect both staff and clients from the pandemic and ensure there is no or minimal disruptions to its operations.

At the date of preparation of these financial statements, there were no issuances of debt or equity or re-financing undertaken.

## 47 Fair values measurement

### 47.1. Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

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

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

## 47 Fair values of financial instruments (continued)

### 47.2. Valuation governance (continued)

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

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

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

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



### 47.3. Financial instruments measured at fair value - fair value hierarchy

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

**Group and Bank**

| 31 December 2020 | Level 1 K'000 | Level 2 K'000 | Level 3 K'000 | Total K'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Pledged assets | - | 100,000 | - | 100,000 |
| Derivative financial assets | - | 4,590 | - | 4,590 |
| Investment securities | - | 3,542,091 | - | 3,542,091 |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 8,548 | - | 8,548 |

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

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

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

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

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

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

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

for the year ended 31 December 2020

## 47 Fair values of financial instruments (continued)

### 47.4 Financial instruments not measured at fair value

The carrying amount approximates the fair value for the below financial instruments at the reporting date

| Group and Bank | | Total fair value K'000 |
|---|---|---|
| **31 December 2020** | Note | |
| **Assets** | | |
| Cash on hand and balances with Bank of Zambia | 22 | **2,095,891** |
| Loans and advances to Banks | 23 | **-** |
| Cash and cash equivalents | 42 | **5,251,892** |
| Loans and advances to customers | 29 | **2,410,457** |
| Other assets | 30 | **357,185** |
| **Liabilities** | | |
| Amounts payable to group banks | 42 | **325,740** |
| Amounts payable to non-group banks | 42 | **21,266** |
| Deposits from customers | 34 | **12,214,521** |
| Dividends payable | 21 | **4,896** |
| Other liabilities | 35 | **615,974** |
| Subordinated liabilities | 38 | **84,680** |

| 31 December 2019 | | Total fair value K'000 |
|---|---|---|
| **Assets** | | |
| Cash on hand and balances with Bank of Zambia | 22 | 1,582,665 |
| Loans and advances to banks | 23 | 101,999 |
| Cash and cash equivalents | 42 | 3,381,132 |
| Loans and advances to customers | 29 | 3,131,664 |
| Other assets | 30 | 379,626 |
| **Liabilities** | | |
| Amounts payable to group banks | 42 | 229,489 |
| Amounts payable to non-group banks | 42 | 12,297 |
| Deposits from customers | 34 | 9,289,297 |
| Dividends payable | 21 | 5,146 |
| Other liabilities | 35 | 584,755 |
| Subordinated liabilities | 38 | 56,600 |

## 47 Fair values of financial instruments (continued)

### 47.5 Valuation techniques

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

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

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date. The carrying amounts of financial assets and liabilities are representative of the Group's position at 31 December 2020 and are in the opinion of the directors not significantly different from their respective fair values due to generally short periods to maturity dates. Fair values are generally determined using valuation techniques or where available, published price quotations from an active market.

## 48 Risk Management

### 48.1 Introduction and risk profile

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

For information on the Group's financial risk management framework, see note 48 to the financial statements.

Whilst risk is inherent in the Group's activities, it is managed through an Enterprise Risk Management Framework (ERMF), including ongoing identification, measurement and monitoring, and subject to risk limits and other controls. The ERMF:

- establishes common principles and standards for the management and control of all risks, and to inform behaviour across the organisation;
- provides a shared framework and language to improve awareness of risk management processes and provides clear accountability and responsibility for risk management.

The core components of the ERMF include our risk principles and standards, principal risk types, definitions of roles and responsibilities, and governance structure. In 2017 we completed a thorough review of our ERMF which included changes in our Principal Risk Types and strengthening of the three lines of defence.This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non–trading risks. It is also subject to country risk and various operating and business risks.

### 48.2 Risk management structure

The Chief Risk Officer, supported by assessment from the Head of Compliance must ensure that the Group submits a Country level Risk Management Framework ("RMF") for recommendation by the Executive Risk Committee and approval by the Board or Board level committee at least annually and within 12 months of the implementation of any changes to the Group level ERMF.

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

for the year ended 31 December 2020

## 48.2 Risk management structure (continued)

To ensure the effectiveness of the Enterprise Risk Management Framework roles and responsibilities for risk management are defined under a Three Lines of Defence model as shown below;

| Lines of Defence | Definition | Key responsibilities include |
|---|---|---|
| First | The businesses and functions engaged in or supporting revenue generating activities that own and manage risks. | • Propose the risks required to undertake revenue-generating activities<br>• Identify, monitor, and escalate risks and issues to Second Line and Senior Management and promote a healthy risk culture and good conduct.<br>• Manage risks within Risk Appetite, set and execute remediation plans (where applicable) and ensure laws and regulations are being complied with. |
| Second | The control functions independent of the First Line that provides oversight and challenge of risk management to provide confidence to the Chief Risk Officer, the Management Team and the Board. | • Identify, monitor, and escalate risks and issues to the Chief Risk Officer, the Senior Management and the Board and promote a healthy risk culture and good conduct.<br>• Oversee and challenge First Line risk taking activities and review First Line risk proposals and make decisions. |
| Third | The independent assurance provided by the Internal Audit Function, of the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line. | • Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes.<br>• Independently assess the adequacy of the design of controls and their operating effectiveness. |

The Group's Treasury is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

The Group's policy is that risk management processes throughout the Group are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Group's compliance with them. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit Committee.

## 48.3 Risk mitigation and risk culture

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Group actively uses collateral to reduce its credit risks (see below).

The Chief Risk Officer ("CRO") maintains a dynamic risk scanning process with inputs on the internal and external risk environment, as well as potential threats and opportunities from business and client perspective. This process is managed by the CRO with input from the Risk Framework Owners, and the Businesses. This is in addition to the risk identification as part of the Strategy Review process.

The CRO oversees the principal risk types and the sub-types that are inherent to the strategy and business model through the dynamic risk scanning process considers near term emerging risks on the horizon that can be measured and mitigated to some extent, and uncertainties that are longer term matters that should be on the radar but not yet fully measurable. The CRO considers new risks or reprioritised existing risks and outputs from the dynamic risk scanning process as part of the Strategy Review.

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.4. Risk measurement and reporting systems

The Group's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all of the businesses is processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division.

The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

At all levels of the Group's operations, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up–to–date information.

It is the Group's policy to ensure that a robust risk awareness is embedded in its organisational risk culture. Employees are expected to take ownership and be accountable for the risks the Group is exposed to that they decide to take on. The Group's continuous training and development emphasises that employees are made aware of the Group's risk appetite and they are supported in their roles and responsibilities to monitor and keep their exposure to risk within the Group's risk appetite limits. Compliance breaches and internal audit findings are important elements of employees' annual ratings and remuneration reviews.

### 48.5. Risk governance and risk management strategies and systems

### 48.5.1 Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

## 48.6 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk department of the Group's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit 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.

### 48.6.1. Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Group is also exposed to, or protected from, the risk of default of the underlying entity referenced by the derivative. However, to reflect potential losses, the Group applies portfolio-based debit and credit value adjustments.

With gross–settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation, but the counterparty fails to deliver the counter value.

### 48.6.2. Credit–related commitments risks

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. 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.

### 48.6.3. Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

### 48.6.3.1 Definition of default, impaired and cure

The Group considers a financial instrument defaulted for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

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 12 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Group's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in Note 7.13.

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.6.3.1 Definition of default, impaired and cure (continued)

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

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

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

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

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

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

### 48.6.3.2 The Group's internal rating and PD estimation process

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

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

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

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

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

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

**Corporate and institutional and Commercial**

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

## Grading

| CIB | | Average PD (%) | |
|---|---|---|---|
| 1-5 | Investment | 0.39 | BBB- |
| 6-8 | Sub investment | 1.37 | BBB- |
| 9-11 | Sub investment | 1.39 | BBB- |
| 12 | GSAM | 68.9 | BBB- |
| 13-14 | GSAM -Default | 80.5 | BBB- |

| CB | | Average PD (%) | |
|---|---|---|---|
| 1-5 | Investment | 0 | BBB- |
| 6-8 | Sub investment | 0 | BBB- |
| 9-11 | Sub investment | 13.77 | BBB- |
| 12 | GSAM | 25.59 | BBB- |
| 13-14 | GSAM -Default | 100 | BBB- |

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.6.3.2 The Group's internal rating and PD estimation process (continued)

**RB**

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

**Grading**

| | **2020** | 2019 |
|---|---|---|
| Grade 11: Low-fair risk | **2.36%** | 2.2% |
| Grades 12–14: Substandard, doubtful, loss | **100%** | 100% |

### 48.6.3.3 Exposure at default and Loss given default

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

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

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

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

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

For stage 3 financial assets, the determination of lifetime expected credit losses will be similar to the IAS 39 approach; for example, loan loss allowances within Corporate & Institutional Banking will be based on the present value of estimated future cash flows for individual clients. The estimated cash flows will, however, be based on a probability range of scenarios. Where the cash flows include realisable collateral, the values used will incorporate forward-looking information.

Where the contractual terms of a financial asset have been modified due to financial difficulties (forbearance, for example) and the asset has not been derecognised, a modification loss is recognised as part of 'Impairment' in the statement of income or loss and other comprehensive income. The loss represents the difference between the present value of the cash flows before and after the modification, discounted at the original effective interest rate. Unlike IAS 39, however, no loss allowance is recorded in the statement of financial position,vas the modification loss is offset against the gross carrying amount of the asset.

For debt instruments held at FVOCI, the statement of financial position amount reflects the instrument's fair value, with the expected credit loss allowance held as a separate reserve within other comprehensive income.

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

### Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Credit impaired financial debt instruments are graded 12-14 on the Group's internal credit grading system. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of income or loss and other comprehensive income. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the statement of income or loss and other comprehensive income.

### Measurement of ECL

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

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

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

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.6.3 Impairment assessment (continued)

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

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

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

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

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

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for POCI instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

#### Instruments Location of expected credit loss provisions

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

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

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

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

#### Recognition

#### 12 months expected credit losses (Stage 1)

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

### 48.6.3.4 Significant increase in credit risk

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

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

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

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

## 48 Risk Management (continued)

### 48.6.3.4 Significant increase in credit risk (continued)

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

#### Credit impaired (or defaulted) exposures (Stage 3)

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

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

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

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

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

#### Determining whether credit risk has increased significantly

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

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling:

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

The Group uses a number of qualitative and quantitative measures in assessing SICR. Quantitative measures relate to the relative and absolute changes in the lifetime PD compared with those expected at initial recognition. Qualitative factors include placement of loans on non-purely precautionary early alert, classification as higher risk (CG 12) or where principal and/or interest payments are 30 days or more past due.

Further, SICR will be considered when major sovereign rating agencies significantly downgrade a country and there is a 50% drop in copper prices. The Group has significant exposures to the mines and their capacity to meet their obligations will be affected. This is applicable for all segments.

### 48.6.4. Analysis of inputs to the ECL model under multiple economic scenarios

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

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

The approach follows the following steps:

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

a) A weighted average PD term structure for the significant deterioration assessment
b) A weighted average 12-month and lifetime ECL

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

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

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

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.6.4. Analysis of inputs to the ECL model under multiple economic scenarios (continued)

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

### 48.6.5 Overview of modified and forborne loans

#### Modified financial assets

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

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

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

#### Forborne loans

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

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

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

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

### 48.6.6 Analysis of risk concentration

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

| | Group and Bank | | | |
|---|---|---|---|---|
| | Loans and advances to customers | | Investment securities | |
| | **2020 K'000** | 2019 | **2020 K'000** | 2019 K'000 |
| Carrying amount | **2,410,457** | 3,131,664 | **3,542,091** | 2,049,415 |
| **Corporate and Commercial:** | | | | |
| Agriculture | **384,684** | 487,338 | **-** | - |
| Commerce | **396,408** | 380,458 | **-** | - |
| Financial services | **4,458** | 23,406 | **-** | - |
| Mining and quarrying | **180,352** | 236,765 | **-** | - |
| Manufacturing | **151,435** | 241,287 | **-** | - |
| Transport, Storage | **6,092** | 9,677 | **-** | - |
| Construction | **191,710** | 191,457 | **-** | - |
| Investment Securities | **-** | - | **3,542,091** | 2,049,415 |
| **Consumer:** | | | | |
| Mortgages | **118,350** | 140,879 | **-** | - |
| Unsecured lending | **976,968** | 1,420,397 | **-** | - |
| **Total** | **2,410,457** | 3,131,664 | **3,542,091** | **2,049,415** |

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.6 Credit risk (continued)

#### 48.6.6 Analysis of risk concentration (continued)

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

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 48.6.3.3.

There were no loans and advances to banks during 2020.

| | | 2019 | | | |
|---|---|---|---|---|---|
| | Notes | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Tota K'000 |
| Loans and advances to banks at amortised cost- gross carrying amount | | | | | |
| Grade 1-11: Low-fair risk | | 102,000 | - | - | 102,000 |
| Gross carrying amount | | 102,000 | - | - | 102,000 |
| Loss Allowance | 23 | (1) | - | - | (1) |
| | | 101,999 | - | - | 101,999 |

| | | **2020** | | | |
|---|---|---|---|---|---|
| | Notes | **Stage 1 K'000** | **Stage 2 K'000** | **Stage 3 K'000** | **Total K'000** |
| Loans and advances to customers at amortised cost | | | | | |
| Grade 1-11: Low-fair risk | | **1,464,709** | **1,026,137** | **49,272** | **2,540,118** |
| Grade 12: Substandard | | **-** | **-** | **505** | **505** |
| Grade:13 Doubtful | | **-** | **-** | **68,369** | **68,369** |
| Grade 14 Loss | | **-** | **-** | **140,613** | **140,613** |
| Gross carrying amount | | **1,464,709** | **1,026,136** | **258,759** | **2,749,604** |
| Loss allowance | 29 | **(132,142)** | **(157,654)** | **(49,351)** | **(339,147)** |
| | | **1,332,567** | **868,482** | **209,408** | **2,410,457** |

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

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.6 Analysis of risk concentration (continued)

**Investment securities**

| | Note | 2020 Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|---|
| Grade 1-11: Low-fair risk | | - | 3,542,091 | - | 3,542,091 |
| Carrying amount | 25 | - | 3,542,091 | - | 3,542,091 |
| Loss allowance | | - | (251,099) | - | (251,099) |
| | | - | 3,290,992 | - | 3,290,992 |

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

| Loan commitments | Note | 2020 Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|---|
| Grade 1-11: Low-fair risk | | 570,610 | 234,430 | - | 805,040 |
| Carrying amount | 37 | 570,610 | 234,430 | - | 805,040 |
| Loss allowance | | 592 | 16,901 | - | 17,493 |
| | | 571,202 | 251,331 | - | 822,533 |
| **Financial guarantee contracts** | | | | | |
| Grade 1-11: Low-fair risk | | 495,338 | 74,482 | 11,644 | 581,464 |
| Carrying amount | 37 | 495,338 | 74,482 | 11,644 | 581,464 |
| Loss allowance | | 1 | 2,433 | - | 2,434 |
| | | 495,339 | 76,915 | 11,644 | 583,898 |

| Loan commitments | Note | 2019 Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|---|
| Grade 1-11: Low-fair risk | | 276,052 | 130,421 | - | 406,473 |
| Carrying amount | 37 | 276,052 | 130,421 | - | 406,473 |
| Loss allowance | | 3,545 | 2,904 | - | 6,449 |
| | | 279,597 | 133,325 | - | 412,922 |
| Financial guarantee contracts | | | | | |
| Grade 1-11: Low-fair risk | | 155,406 | 33,950 | - | 189,356 |
| Carrying amount | 37 | 155,406 | 33,950 | - | 189,356 |
| Loss allowance | | 96 | - | - | 96 |
| | | 155,502 | 33,950 | - | 189,452 |

## 48 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.7 Amounts arising from ECL

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

Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

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

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

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

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

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

## Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

**Write-offs of credit impaired instruments and reversal of impairment**

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Credit impaired financial debt instruments are graded 12-14 on the Group's internal credit grading system. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of income or loss and other comprehensive income. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the statement of income or loss and other comprehensive income.

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.7 Amounts arising from ECL (continued)

| Group and Bank | Note | 2020 Stage 1 K'000 | 2020 Stage 2 K'000 | 2020 Stage 3 K'000 | 2020 Total K'000 | 2019 Stage 1 K'000 | 2019 Stage 2 K'000 | 2019 Stage 3 K'000 | 2019 Total K'000 |
|---|---|---|---|---|---|---|---|---|---|
| Loans and advances to banks amortised cost | | | | | | | | | |
| Balance at 1 January | | - | - | - | - | - | - | - | - |
| - Transfer to Stage 1 | | - | - | - | - | - | - | - | - |
| - Transfer to Stage 2 | | - | - | - | - | - | - | - | - |
| - Transfer to Stage 3 | | - | - | - | - | - | - | - | - |
| Net re-measurement of loss allowance | | | | | | - | - | - | - |
| New financial assets originated or purchased | | | | | | 1 | - | - | 1 |
| Financial assets that have been derecognised | | | | | | - | - | - | - |
| (Write off)/recoveries | | - | - | | | - | - | - | - |
| Unwind of discount | | - | - | - | - | - | - | - | - |
| Foreign exchange and other movements | | - | - | - | - | - | - | - | - |
| Balance as at 31st December 2020 | | - | - | - | - | 1 | - | - | 1 |

| Group and Bank | 2020 Stage 1 K'000 | 2020 Stage 2 K'000 | 2020 Stage 3 K'000 | 2020 Total K'000 | 2019 Stage 1 K'000 | 2019 Stage 2 K'000 | 2019 Stage 3 K'000 | 2019 Total K'000 |
|---|---|---|---|---|---|---|---|---|
| **Loans and advances to customers amortised cost** | | | | | | | | |
| Balance at 1 January | 19,075 | 116,770 | 51,123 | 186,968 | 19,354 | 34,157 | 10,244 | 63,755 |
| - Transfer to Stage 1 | 225,772 | (225,772) | - | - | 43,623 | (43,623) | - | - |
| - Transfer to Stage 2 | (166,833) | 237,194 | (70,361) | - | (61,312) | 72,014 | (10,702) | - |
| - Transfer to Stage 3 | - | (127,306) | 127,306 | - | - | (48,467) | 48,467 | - |
| Net re-measurement of loss allowance | 78,014 | 886 | 108,068 | 186,968 | 1,665 | 14,081 | 48,009 | 63,755 |
| New financial assets originated or purchased | 155,438 | 175 | 120 | 155,733 | 54,851 | - | - | 54,851 |
| Financial assets that have been derecognised | (3,088) | (1,446) | (126,610) | (131,144) | (1,186) | (4,946) | (36,815 | (42,947) |
| (Write off)/recoveries | - | - | - | - | - | - | (80,177) | (80,177) |
| Unwind of discount | - | - | (99,567) | (99,567) | - | - | - | - |
| Foreign exchange and other movements | (98,223) | 158,040 | 167,340 | 227,157 | (36,255) | 107,635 | 120,106 | 191,486 |
| Balance as at 31st December 2020 | 132,141 | 157,654 | 49,351 | 339,147 | 19,075 | 116,770 | 51,123 | 186,968 |

Gross carrying amounts in the loans and advances reduced year on year by 17% on account of the derisking of the personal loan book and exiting of the Commercial Banking business. This reduced the Financial assets that have been Derecognised by over 100% mainly in the RB and CB segments.

The increase in impairments for the CIB segment was mainly on account of both the internal country downgrade and sovereign downgrade coupled with increased loan exposures. The downgrades increased the credit risk of customers in the CIB segment particularly for clients without parental guarantee, impairments for CIB went up by over 100% year on year while RB and CB impairments reduced by 12% and 9% respectively.

Included in foreign exchange and other movements are changes in risk parameters, loss and allowances.

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.6 Credit risk (continued)

#### 48.6.7 Amounts arising from ECL (continued)

| | Note | 2020 Stage 1 K'000 | 2020 Stage 2 K'000 | 2020 Stage 3 K'000 | 2020 Total K'000 |
|---|---|---|---|---|---|
| **Loans and advances to customers at amortised cost** | | | | | |
| Retail Banking customers | | | | | |
| Balance at 1 January | | 17,980 | 84,024 | 11,738 | 113,742 |
| - Transfer to Stage 1 | | 190,716 | (190,716) | - | - |
| - Transfer to Stage 2 | | (101,869) | 115,406 | (13,537) | - |
| - Transfer to Stage 3 | | - | (93,367) | 93,367 | - |
| Net remeasurement of loss allowance | | 106,827 | (84,653) | 91,568 | 113,742 |
| New financial assets originated or purchased | | 83,576 | 174 | 120 | 83,870 |
| Financial assets that have been derecognised | | (3,088) | (1,446) | (53,070) | (57,604) |
| (Write off)/recoveries | | - | - | (30,586) | (30,586) |
| Foreign exchange and other movements | | (97,943) | 92,749 | (4,408) | (9,602) |
| Balance as at 31st December 2020 | 29 | 89,372 | 6,824 | 3,624 | 99,820 |

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

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.7 Amounts arising from ECL (continued)

| | Note | 2020 Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
|---|---|---|---|---|---|
| Loans and advances to customers at amortised cost | | | | | |
| Corporate and Institution Banking | | | | | |
| Balance at 1 January | | **505** | **5,023** | **3,541** | **9,069** |
| - Transfer to Stage 1 | | **27,809** | **(27,809)** | **-** | **-** |
| - Transfer to Stage 2 | | **(61,553)** | **116,712** | **(55,159)** | **-** |
| - Transfer to Stage 3 | | **-** | **(12,159)** | **12,159** | **-** |
| Net re-measurement of loss allowance | | **(33,239)** | **81,767** | **(39,459)** | **9,069** |
| New financial assets originated or purchased | | **68,843** | **1** | **-** | **68,844** |
| Financial assets that have been derecognised | | **-** | **-** | **(10,534)** | **(10,534)** |
| (Write off)/recoveries | | **-** | **-** | **(39,076)** | **(39,076)** |
| Foreign exchange and other movements | | **7,162** | **66,751** | **78,792** | **152,705** |
| Balance as at 31st December 2020 | 29 | **42,766** | **148,519** | **(10,277)** | **181,008** |

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

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

for the year ended 31 December 2020

## 48.6 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.7 Amounts arising from ECL (continued)

| | | 2020 | | | |
|---|---|---|---|---|---|
| | | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
| **Loans and advances to customers at amortised cost** | Note | | | | |
| Commercial Banking customers | | | | | |
| Balance at 1 January | | 588 | 27,724 | 35,845 | 64,157 |
| - Transfer to Stage 1 | | 7,247 | (7,247) | - | - |
| - Transfer to Stage 2 | | (3,411) | 5,076 | (1,665) | - |
| - Transfer to Stage 3 | | - | (21,780) | 21,780 | - |
| Net re-measurement of loss allowance | | 4,424 | 3,773 | 55,960 | 64,157 |
| New financial assets originated or purchased | | 3,019 | - | - | 3,019 |
| Financial assets that have been derecognised | | - | - | (63,006) | (63,006) |
| Write offs | | - | - | (29,905) | (29,905) |
| Foreign exchange and other movements | | (7,442) | (1,461) | 92,956 | 84,053 |
| Balance as at 31st December 2020 | 29 | 1 | 2,312 | 56,005 | 58,318 |

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

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

for the year ended 31 December 2020

## 48.6 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.7 Amounts arising from ECL (continued)

| | 2020 | | | |
|---|---|---|---|---|
| | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
| **Investment securities at FVOCI** | | | | |
| Balance at 1 January | 145,022 | 30,374 | - | 175,396 |
| - Transfer to Stage 1 | - | - | - | - |
| - Transfer to Stage 2 | (145,022) | 145,022 | - | - |
| - Transfer to Stage 3 | - | - | - | - |
| Net re-measurement of loss allowance | - | 175,396 | - | 175,396 |
| New financial assets originated or purchased | - | 161,893 | - | 161,893 |
| Financial assets that have been derecognised | - | - | - | - |
| (Write off)/recoveries | - | - | - | - |
| Unwind of discount | | | - | |
| Foreign exchange and other movements | - | (86,190) | - | (86,190) |
| | | | - | |
| Balance as at 31st December 2020 | - | 251,099 | - | 251,099 |

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

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.7 Amounts arising from ECL (continued)

See accounting policy 7.29

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Stage 1 K'000 | Stage 2 K'000 | Total K'000 | Stage 1 K'000 | Stage 2 K'000 | Total K'000 |
| **ECL on statutory reserves** | | | | | | |
| Balance at 1 January | - | - | - | - | | - |
| New financial assets originated or purchased | - | 67,629 | 67,629 | - | | - |
| Net remeasurement of loss allowance | - | - | - | - | | - |
| Foreign exchange and other movements | - | - | - | - | | - |
| Balance at 31 December | - | 67,629 | 67,629 | - | | - |

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 | Stage 1 K'000 | Stage 2 K'000 | Stage 3 K'000 | Total K'000 |
| **Loan commitments and financial guarantee contracts** | | | | | | | | |
| Balance at 1 January | 3,641 | 2,903 | - | 6,544 | 496 | 2,180 | | 2,676 |
| | | | | | - | - | - | - |
| - Transfer to Stage 1 | 1,956 | (1,956) | - | - | 312 | (312) | - | - |
| - Transfer to Stage 2 | (75,197) | 75,197 | - | - | (4,842) | 4,842 | - | - |
| - Transfer to Stage 3 | - | (715) | 715 | - | - | (75) | 75 | - |
| Net remeasurement of loss allowance | (69,600) | 75,429 | 715 | 6,544 | (4,034) | 6,635 | 75 | 2,676 |
| New loan commitments and financial guarantees | 74,188 | - | - | 74,188 | 4,434 | - | - | 4,434 |
| Foreign exchange and other movements | (3,994) | (56,096) | (715) | (60,805) | 3,241 | (3,732) | (75) | (566) |
| Balance at 31 December | 594 | 19,333 | - | 19,927 | 3,641 | 2,903 | - | 6,544 |

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.7 Amounts arising from ECL (continued)

The following table provides a reconciliation between:

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

| 2020 | Cash and balances at Bank of Zambia K'000 | Loans and advances to banks K'000 | Loans and advances to customers K'000 | Investment securities K'000 | Loan commitments and financial guarantee contracts K'000 | Total K'000 |
|---|---|---|---|---|---|---|
| Net remeasurement of loss allowance | - | - | 119,208 | 89,206 | (71,373) | 137,041 |
| New financial assets originated or purchased | 67,629 | - | 155,734 | 160,897 | 77,387 | 461,647 |
| Total | 67,629 | - | 274,942 | 250,103 | 6,014 | 598,688 |
| Recoveries of amounts previously written off | | - | (131,036) | (174,400) | - | (305,544) |
| Total | 67,629 | - | 143,906 | 75,703 | 6,014 | 293,252 |

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

## 48 Risk Management (continued)

## 48.6 Credit risk (continued)

### 48.6.8 Collateral held and other credit enhancements

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

| | Note | 2020<br>Total<br>K'000 | 2019<br>Total<br>K'000 | Principal type of collateral held |
|---|---|---|---|---|
| Investment securities | 28 | **3,542,091** | 2,049,415 | None |
| Trading derivative assets | 27 | **4,590** | 45,273 | None |
| **Loans and advances to consumer customers** | | | | |
| Mortgage lending | | **119,474** | 141,279 | Residential property |
| Personal loans | | **936,289** | 1,294,005 | None |
| Credit cards | | **43,988** | 44,840 | None |
| Auto loans | | **5,573** | 8,005 | None |
| Overdraft | | **89,814** | 95,329 | None |
| | 29 | **1,195,138** | 1,583,458 | |
| **Loans and advances to commercial and corporate Industrial customers** | | | | |
| Term loans | | **622,450** | 999,647 | |
| Overdrafts | | **932,016** | 735,526 | |
| | 29 | **1,554,466** | 1,735,173 | Commercial property, floating charges over corporate assets |

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

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

### 48.6.9 Offsetting financial assets and financial liabilities

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

### 48.6.10 Impaired loans and advances and investment securities

For details of impaired financial assets see note 48.6.3.

## 48.7 Liquidity risk and funding management

Liquidity risk is defined as the risk that the Group does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Group on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.7 Liquidity risk and funding management (continued)

The Group has developed internal control processes and contingency plans for managing liquidity risk. Assets and Liabilities Committee (ALCO) is responsible for managing the Group's liquidity risk through comprehensive policies, governance and review procedures, stress testing, monitoring of limit sets to ensure these are in line with the overall liquidity risk appetite and strategy of the Group. The treasury department of the group is responsible for working with other departments within the Group to ensure the liquidity risk strategy is executed. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Group also has lines of credit that it can access to meet liquidity needs. Net liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month.

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

| Core liquid asset ratios | Group and Bank | |
|---|---|---|
| | **2020** | 2019 |
| At 31 December | **79%** | 45% |
| Average for the period | **71%** | 47% |
| Maximum for the period | **96%** | 63% |
| Minimum for the period | **38%** | 35% |

The minimum required by Bank of Zambia for core liquid assets is 9% (2019: 9%).

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

| Advances to deposit ratios | Group and Bank | |
|---|---|---|
| | **2020** | 2019 |
| At 31 December | **20%** | 33% |
| Average for the period | **24%** | 36% |
| Maximum for the period | **34%** | 39% |
| Minimum for the period | **18%** | 31% |

The Group stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a per centage of core customer current accounts and savings accounts, together with term funding with a remaining term to maturity in excess of one year.

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

| 2020 | Carrying amount K'000 | Gross Nominal outflow K'000 | Less than one month K'000 | One month to three months K'000 | Three months to one year K'000 | One to five years K'000 | More than five years K'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Amounts payable to group banks | 325,740 | 325,740 | 44,459 | 154,261 | 127,020 | - | - |
| Amounts payable to non-group banks | 21,266 | 21,266 | 21,266 | - | - | - | - |
| Deposits from customers | 12,214,521 | 12,219,930 | 10,456,881 | 844,412 | 583,030 | 335,607 | - |
| Lease liabilities | 163,640 | 190,871 | - | 7 | 11,819 | 179,045 | - |
| Other payables | 129,101 | 129,101 | 129,101 | - | - | - | - |
| Subordinated liabilities | 84,680 | 102,306 | - | - | - | - | 102,306 |
| **Total non-derivative liabilities** | 12,938,948 | 12,989,214 | 10,651,707 | 998,680 | 721,869 | 514,652 | 102,306 |
| **Derivative liabilities** | | | | | | | |
| Derivative financial instruments | 8,548 | 8,548 | 8,548 | - | - | - | - |
| **Total derivative liabilities** | 8,548 | 8,548 | 8,548 | - | - | - | - |
| **Off Balance sheet financial liabilities** | | | | | | | |
| Loan commitments | 805,040 | 805,040 | - | - | 805,040 | - | - |
| Guarantees | 581,464 | 581,464 | 21,241 | 2,758 | 78,651 | 445,743 | 33,071 |
| Letters of credit | - | - | - | - | - | - | - |
| **Off Balance sheet financial liabilities** | 1,386,504 | 1,386,504 | 21,241 | 2,758 | 883,691 | 445,743 | 33,071 |

## 48 Risk Management (continued)

### 48.7 Liquidity risk and funding management (continued)

**Group and Bank**

| 2019 | Carrying amount K'000 | Gross Nominal outflow K'000 | Less than one month K'000 | One month to three months K'000 | Three months to one year K'000 | One to five years K'000 | More than five years K'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | | | |
| Amounts payable to group banks | 229,489 | 229,489 | 56,768 | 87,822 | 70,750 | 14,149 | - |
| Amounts payable to non-group banks | 12,297 | 12,297 | 12,297 | - | - | - | - |
| Deposits from customers | 9,289,297 | 9,342,945 | 7,219,829 | 344,608 | 1,700,843 | 77,665 | - |
| Lease liabilities | 64,000 | 70,919 | - | - | 5,311 | 65,608 | - |
| Other payables | 317,145 | 317,145 | 317,145 | - | - | - | - |
| Subordinated liabilities | 56,600 | 73,123 | - | - | - | - | 73,123 |
| **Total non-derivative liabilities** | 9,968,828 | 10,045,918 | 7,606,039 | 432,430 | 1,776,904 | 157,422 | 73,123 |
| **Derivative liabilities** | | | | | | | |
| Derivative financial instruments | 41,740 | 41,740 | 41,740 | - | - | - | - |
| **Total derivative liabilities** | 41,740 | 41,740 | 41,740 | - | - | - | - |
| **Off Balance sheet financial liabilities** | | | | | | | |
| Loan commitments | 406,473 | 406,473 | - | - | 406,473 | - | |
| Guarantees | 408,025 | 408,025 | 3,290 | 42,063 | 147,293 | 211,659 | |
| Letters of credit | 10 | 10 | 10 | - | - | - | |
| **Off Balance sheet financial liabilities** | 814,508 | 814,508 | 3,300 | 42,063 | 553,766 | 211,659 | |

### 48.7.1 Analysis of encumbered and unencumbered assets

Below is the analysis of the Group's encumbered and unencumbered assets that would be available to obtain additional funding as securities. For this purpose, encumbered assets are:

- Assets which have been pledged as collateral (e.g., which are required to be separately disclosed under IFRS 7)

Or

- Assets that an entity believes it is restricted from using to secure funding, for legal or other reasons, which may include market practice or sound risk management. Restrictions related to the legal position of certain assets, for example, those held by consolidated securitisation vehicles or in pools for covered bond issuances, may vary in different jurisdictions

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.7 Liquidity risk and funding management (continued)

### 48.7.1 Analysis of encumbered and unencumbered assets (continued)

Unencumbered assets are the remaining assets that the Group owns.

| | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|
| **2020** | **Pledged as collateral K'000** | **Uncollateralised K'000** | **Available as collateral K'000** | **Uncollateralised K'000** | **Total K'000** |
| **Cash on hand and balances at Bank of Zambia** | - | - | 773,435 | 1,322,456 | 2,095,891 |
| **Pledged assets** | - | - | - | 100,000 | 100,000 |
| **Derivative financial instruments** | - | - | - | 4,590 | 4,590 |
| **Loans and advances to customers** | - | - | - | 2,410,457 | 2,410,457 |
| **Investment securities** | - | - | - | 3,542,091 | 3,542,091 |
| **Assets held for sale** | | | | 9,761 | 9,761 |
| **Property and equipment** | - | - | - | 179,158 | 179,158 |
| **Prepayments and other receivables** | - | - | - | 77,846 | 77,846 |
| **Total** | - | - | 773,435 | 7,646,359 | 8,419,794 |
| 2019 | Pledged as collateral K'000 | Uncollateralised K'000 | Available as collateral K'000 | Uncollateralised K'000 | Total K'000 |
| Cash on hand and balances at Bank of Zambia | | | 678,207 | 904,458 | 1,582,665 |
| Pledged assets | - | - | - | 100,000 | 100,000 |
| Derivative financial instruments | - | - | - | 45,273 | 45,273 |
| Loans and advances to banks | - | - | - | 101,999 | 101,999 |
| Loans and advances to customers | - | - | - | 3,131,664 | 3,131,664 |
| Investment securities | - | - | - | 2,049,415 | 2,049,415 |
| Property and equipment | - | - | - | 119,397 | 119,397 |
| Prepayments and other receivables | - | - | - | 52,688 | 52,688 |
| Total | - | - | 678,207 | 6,504,894 | 7,183,101 |

## 48.8 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading (the Trading book) or non–trading (the Banking book) portfolios and manages each of those portfolios separately.

### 48.8.1 Exposure to Interest rate risk - non-trading portfolios

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

## 48 Risk Management (continued)

## 48.8 Market risk (continued)

### 48.8.1 Exposure to interest rate risk - non-trading portfolios (continued)

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

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

| | Group and Bank | | | |
|---|---|---|---|---|
| | **2020** | | 2019 | |
| **Financial assets** | **K (%)** | **USD (%)** | K (%) | USD (%) |
| Government bonds | **33.32** | **-** | 30.11 | - |
| Treasury bills | **24.29** | **-** | 23.81 | - |
| Loans and advances | **24** | **6** | 23.38 | 6.88 |
| Staff mortgages and other loans | **10** | **-** | 10.00 | 10.00 |
| **Financial liabilities** | | | | |
| Placements with other banks | **-** | **0.96** | 13.36 | 2.29 |
| Customer deposits | **0.44** | **0.01** | 1.48 | 0.38 |

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

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.
- Fair value reserves arising from increases or decreases in fair values of FVOCI financial instruments reported directly in other comprehensive income.

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.8 Market risk (continued)

### 48.8.1 Exposure to interest rate risk - non-trading portfolios (continued)

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

**Group and Bank**

| | | | | | Fixed rate instruments | | |
|---|---|---|---|---|---|---|---|
| | | Total | Zero rate instrument | Floating rate instruments | Less than three months | Three months to one year | Between one and five years |
| **2020** | | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| **Assets** | | | | | | | |
| Cash on hand and balances at Bank of Zambia | | 2,095,891 | 2,095,891 | - | - | - | - |
| Cash and cash equivalents | | 5,251,892 | 2,182,242 | - | 2,117,000 | 952,650 | - |
| Investment securities | | 3,542,091 | 508 | - | 762,483 | 2,754,108 | 24,992 |
| Derivative financial instruments | | 4,590 | - | - | 4,590 | - | - |
| Loans and advances to banks | | - | - | - | - | - | - |
| Loans and advances to customers | | 2,410,457 | - | 2,410,457 | - | - | - |
| **Total assets** | | 13,304,921 | 4,278,641 | 2,410,457 | 2,884,073 | 3,706,758 | 24,992 |
| **Liabilities** | | | | | | | |
| Amounts payable to group banks | | 325,740 | 44,459 | - | 154,261 | 127,020 | - |
| Amounts payable to non-group banks | | 21,266 | 21,266 | - | - | - | - |
| Deposits from customers | | 12,214,521 | 9,848,972 | 602,500 | 844,412 | 583,030 | 335,607 |
| Derivative financial instruments | | 8,548 | - | - | 8,548 | - | - |
| Subordinated liabilities | | 84,680 | - | 84,680 | - | - | - |
| Lease liabilities | | 163,640 | 163,640 | - | 6 | 10,133 | 153,501 |
| **Total liabilities** | | 12,818,395 | 10,078,337 | 687,180 | 1,007,227 | 720,183 | 489,108 |
| **Gap** | | 486,526 | (5,799,696) | 1,723,277 | 1,876,846 | 2,986,575 | (464,116) |
| | | | | | | | |
| **Impact of increase in** | 5% | 86,164 | - | 86,164 | - | - | - |
| **interest rate** | 10% | 172,328 | - | 172,328 | - | - | - |
| **Impact of decrease in** | 2.5% | (43,082) | - | (43,082) | - | - | - |
| **interest rate** | 7.5% | (129,246) | - | (129,246) | - | - | - |

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

On the impact, a positive means increase in the profit and equity and negative means reduction in the profit and equity. Therefore a 5% increase in interest rates would increase the profitability and equity by **K86,164.** Fair value changes arising from increase or decrease in fair value of FVOCI instruments are recorded directly in equity.

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

for the year ended 31 December 2020

**48 Risk Management** (continued)

**48.8 Market risk** (continued)

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

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

| **Group and Bank** | | | | Fixed rate instruments | | |
|---|---|---|---|---|---|---|
| | Total | Zero rate instrument | Floating rate instruments | Less than three months | Three months to one year | Between one and five years |
| 2019 | K'000 | K'000 | K'000 | K'000 | K'000 | K'000 |
| **Assets** | | | | | | |
| Cash on hand and balances at Bank of Zambia | 1,582,665 | 1,582,665 | - | - | - | - |
| Cash and cash equivalents | 3,381,132 | 308,650 | - | 2,718,732 | 353,750 | - |
| Investment securities | 2,049,415 | 508 | - | 767,239 | 850,099 | 431,569 |
| Derivative financial instruments | 45,273 | - | - | 45,273 | - | - |
| Loans and advances to banks | 101,999 | - | 101,999 | - | - | - |
| Loans and advances to customers | 3,131,664 | - | 3,131,664 | - | - | - |
| **Total assets** | 10,292,148 | 1,891,823 | 3,233,663 | 3,531,244 | 1,203,849 | 431,569 |
| **Liabilities** | | | | | | |
| Amounts payable to group banks | 229,489 | 56,768 | - | 87,821 | 70,750 | 14,150 |
| Amounts payable to non-group banks | 12,297 | 12,297 | - | - | - | - |
| Deposits from customers | 9,289,297 | 6,633,597 | 532,584 | 344,608 | 1,700,843 | 77,665 |
| Derivative financial instruments | 41,740 | - | - | 41,740 | - | - |
| Subordinated liabilities | 56,600 | - | 56,600 | - | - | - |
| Lease liabilities | 64,000 | 64,000 | - | - | 4,793 | 59,207 |
| **Total liabilities** | 9,693,423 | 6,766,662 | 589,184 | 474,169 | 1,776,386 | 151,022 |
| **Gap** | 598,725 | (4,874,839) | 2,644,479 | 3,057,075 | (572,537) | 280,547 |
| **Impact of increase in** | 132,224 | - | 132,224 | | - | - |
| **interest rate** | 264,448 | - | 264,448 | - | - | - |
| **Impact of decrease in** | (66,112) | - | (66,112) | - | - | - |
| **interest rate** | (198,336) | | (198,336) | - | - | - |

On the impact, a positive means increase in the profit and equity and negative means reduction in the profit and equity. Therefore a 5% increase in interest rates would increase the profitability and equity by K132,224. Fair value changes arising from increase or decrease in fair value of FVOCI instruments are recorded directly in equity.

Financial statements

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

## 48.8 Market risk (continued)

### 48.8.2 Currency risk

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

**Group and Bank**

| **2020** | **K** | **USD** | **GBP** | **ZAR** | **Euro** | **Others** | **Total** |
|---|---|---|---|---|---|---|---|
| | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** | **K'000** |
| Monetary assets | **6,419,875** | **5,871,464** | **923,246** | **117,550** | **772,602** | **180,473** | **14,285,210** |
| Monetary liabilities | **(5,493,997)** | **(6,497,825)** | **(45,590)** | **(58,520)** | **(778,135)** | **(166,007)** | **(13,040,074)** |
| **Net position** | **925,878** | **(626,361)** | **877,656** | **59,030** | **(5,533)** | **14,466** | **1,245,136** |
| **Impact of 5% depreciation of the local currency** | | **(31,318)** | **43,883** | **2,951** | **(277)** | | **15,239** |
| **Impact of 10% depreciation of the local currency** | | **(62,636)** | **87,766** | **5,902** | **(554)** | | **30,478** |

A 10% depreciation in local currency will have an K30m impact on the statement of financial position's net position.

**Group and Bank**

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

A 10% depreciation in local currency will have an K18m impact on the statement of financial position's net position.

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

## 48 Risk Management (continued)

### 48.8 Market risk (continued)

### 48.8.2 Currency risk (continued)

The following exchange rates applied during the year:

Group and Bank

| | Average rate | | Reporting rate | |
|---|---|---|---|---|
| | **2020 K** | 2019 K | **2020 K** | 2019 K |
| USD | **19.17** | 12.67 | **21.17** | 14.15 |
| GBP | **24.74** | 16.32 | **28.89** | 18.68 |
| ZAR | **1.25** | 0.88 | **1.44** | 1.01 |
| EUR | **19.99** | 14.30 | **25.98** | 15.89 |

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

| Group and Bank | **2020 K'000** | 2019 K'000 |
|---|---|---|
| USD | **(626,362)** | (756,729) |
| GBP | **877,656** | 1,238,013 |

## 48.9 Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Group, directly by impairing the value of the Group or indirectly through an obligor's ability to meet its obligations to the Group. Generally, these occurrences relate, but are not limited, to:

- sovereign events such as defaults or restructuring;
- political events such as contested elections or referendums;
- restrictions on currency movements;
- non–market currency convertibility;
- regional conflicts;
- economic contagion from other events such as sovereign default issues or regional turmoil;
- banking and currency crisis; and
- natural disasters.

The Group manages its Country Risk exposures following the principle of diversification across geographies. Risk Appetite focusses on monitoring Gross Country Risk exposure to a single country as a percentage of aggregated Gross Country Risk exposure across all countries. Overall concentration is managed through a 15% cap to avoid over-concentration in one country. Furthermore, concentration risks to certain sectors and tenor concentration risks are assessed as part of the Country Risk Appetite Mandates ("CRAM").

The Country Risk function monitors exposures through the Country Risk Dashboard, which includes a broad range of indicators (in addition to Credit Risk exposure) including intragroup, issuer risk, and equity investments.

When the risk outlook for a country changes, Country Risk will promptly initiate an out-of-cycle review to ensure the sovereign rating and Country Risk limits accurately capture our assessment of the risks facing the Group.

## 48.10 Operational and business risk

Operational Risk (OR) is the potential for loss arising from inadequate or failed internal processes and systems, human error or from the impact of external events, including legal risks. These risks are primarily mitigated through the deployment of a strong and reliable system of controls.

The Operational Risk Type Framework (ORTF) sets out the approach to measure and assess OR control effectiveness across the Group. All risks, regardless of risk type, are required to be assessed in line with the ORTF. The ORTF also sets out the overall risk management approach for all Risk Types not designated as Principal Risks.

The Group aims to manage operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise. Adherence to this Operational Risk Appetite (RA) statement is monitored through several Board-approved metrics with breach and escalation thresholds.

The levels of inherent and residual risk are assessed for all risks in the Group. Inherent risk is an expression of the exposure arising as a consequence of the business activity in the absence of any mitigation. Residual risk is the level of risk remaining after mitigation is applied. Mitigation can include a combination of controls, insurance and/or business volume reduction. The process owner is responsible for ensuring that necessary mitigation is taken to maintain residual risk within the Group's tolerance.

The Group reviews external and internal events to identify improvements to its control environment. Events that result in either financial or non-financial impacts are recorded. Root Cause Reviews are conducted for significant OR events to identify incremental control enhancements for implementation.

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

for the year ended 31 December 2020

## 48 Risk Management (continued)

### 48.10 Operational and business risk (continued)

The Country Head of Operational Risk is responsible for Operational Risk in country. The Country Non-Financial Risk Committee (CNFRC) oversees the management of operational risk and ensures that it meets the standards of the ORTF. The CNFRC meets regularly to review the Group's significant risks and to ensure appropriateness and adequacy of mitigating action plans. The CEO is the chairman of the CNFRC.

### 48.11 Compliance risk

Compliance risk is the potential for penalties or loss to the Group or for an adverse impact to Group's clients, stakeholders or to the integrity to markets operated in through a failure on our part to comply with laws or regulations.

The Compliance function develops and deploys relevant policies and standards setting out requirements and controls for adherence by the Group to ensure continued compliance with applicable laws and regulations. The Compliance Risk Type Framework ("CRTF") sets out the overall risk management approach for Compliance Risk.

The Compliance Risk Framework Owner relies on the compliance risk assessment, control standard setting, control monitoring and compliance assurance activities, to ensure that the CRTF and its underpinning policies are operating as expected to mitigate the risk that they cover. Appropriate processes and controls are used as primary tools to mitigate Compliance risk. To do so, the requirements set out in the Operational Risk Type Framework are followed to ensure a consistent approach to the management of processes and controls. Furthermore, the effectiveness of the CRTF and its underpinning policies are reviewed and attested to on an annual basis.

The Group has no appetite for breaches in laws and regulations; whilst recognising that regulatory non-compliance cannot be entirely avoided, the Group strives to reduce this to an absolute minimum.

Determination of whether the Group remains within risk appetite is through monitoring of approved metrics which includes, but is not limited to, applicable material regulations which have not been implemented in a timely manner, tracking of regulatory enforcement actions and breaches as well as monitoring the Group's relationship with its key college of regulators.

The Group's ongoing efforts to manage compliance with applicable laws and regulation follows a cycle of activities detailed in the CRTF. Key activities include but not limited to:

- Risk assessment: Periodic risk assessments incorporating both a qualitative and quantitative review are undertaken for each compliance risk area
- Policies, Standards and controls: Policy ownership and responsibility for defining standards and controls for each compliance risk area is allocated to the function with the appropriate expertise to manage that risk. An annual evidence-based attestation of the effectiveness of policies must be made by policy owners as part of the Enterprise Risk Management Framework (ERMF) effectiveness review process.
- Training and communication: Regulatory requirements are often complex and span multiple businesses, functions and jurisdictions. Many elements of Compliance risk are difficult to control solely through preventative or detective controls and so the provision of appropriate training and communication is a core element of the management of Compliance risk. This includes communicating controls and stating how we expect our staff to act when executing their responsibilities.
- Effectiveness review: The Compliance function is responsible for performing an annual effectiveness review of the RTF and supporting policies.
- Information and analysis: Management information is an essential support tool for planning and decision-making. Compliance also uses management information to drive its risk and governance reporting. Compliance is continually seeking to improve methods of analysing the information available to determine if there are trends in regulatory development or areas within the Group's controls that require attention.

# Appendix

## Five year summary

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| | K'000 | K'000 | K'000 | K'000 Restated | K'000 |
| Operating profit before impairment provisions | 250,878 | 369,517 | 470,171 | 498,142 | 583,168 |
| Net impairment provisions against loans and advances | (293,252) | (303,730) | (55,784) | (41,138) | (20,580) |
| | | | | | |
| (Loss)/Profit before taxation | (42,374) | 65,787 | 414,387 | 457,004 | 562,588 |
| (Loss) Profit attributable to shareholders | (48,078) | 12,286 | 230,051 | 209,549 | 347,179 |
| | | | | | |
| Loans and advances to customers | 2,410,457 | 3,131,664 | 2,886,321 | 2,612,689 | 2,758, 591 |
| Total assets | 14,186,870 | 11,067,439 | 9,746,335 | 8,799,379 | 8,210,943 |
| | | | | | |
| Deposits from customers | 12,214,521 | 9,289,297 | 8,204,152 | 7,304,664 | 6,797,789 |
| | | | | | |
| Shareholders' funds | 810,415 | 613,551 | 798,082 | 752,473 | 647,030 |

**Earnings per ordinary share**

| | | | | | |
|---|---|---|---|---|---|
| Basic earnings per share (Kwacha) | (0.029) | 0.007 | 0.138 | 0.126 | 0.208 |
| Dividends per share (Kwacha) | (0.03) | 0.01 | 0.14 | 0.13 | 0.20 |

**Ratios**

| | | | | | |
|---|---|---|---|---|---|
| Post-tax return on ordinary shareholders' funds | (6%) | 2% | 37% | 35% | 49% |
| Basic cost/income ratio | 78% | 67% | 58% | 54% | 45% |

Note that this table does not form part of the audited financial staments

Financial statements

# Principal Addresses

## Head Office

**Standard Chartered Bank Zambia Plc**
Standard Chartered House,
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road.
P.O. Box 32238
Lusaka, Zambia 10101
Tel: +260 (211) 422000-15

## Executive Management Team

**Herman Kasekende**
Managing Director and Chief Executive Officer

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road.
P.O. Box 32238, Lusaka
Tel: +260 (211) 422401

**Kelvin Bwalya**
Executive Director Finance and Administration/ Chief Financial Officer

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road.
P.O. Box 32238, Lusaka
Tel: +260 (211) 422147

**DeepPal Singh**
Head of Consumer, Private and Business Banking

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road.
P.O. Box 31353, Lusaka
Tel: +260 (211) 422700

**Emmy Kumwenda**
Head,Corporate and Institutional Banking (CIB)

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road P.O. Box 31353, Lusaka
Tel: +260 (211) 422625

**Olusegun Omoniwa**
Head of Wealth Management - Zambia and Southern Africa

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road P.O. Box 31353, Lusaka
Tel: +260 (211) 422625

**Simon Burutu**
Senior Credit Officer

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road P.O. Box 32238, Lusaka
Tel: +260 (211) 422238

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

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road P.O. Box 32238, Lusaka
Tel: +260 (211) 422251

**Peter Zulu**
Head of Conduct, Financial Crime and Compliance.

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road P.O. Box 32238, Lusaka
Tel: +260 (211) 422513

**Mutu Mubita**
Head of Human Resources

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road.
P.O. Box 32238, Lusaka
Tel: +260 (211) 422301

**Rose Kavimba**
Head, Legal & Company Secretary

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road.
P.O. Box 32238, Lusaka
Tel: +260 (211) 422512

**Fanwell Phiri**
Country Chief Risk Officer

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road and Addis ababa road
Tel: +260 (211) 422700

**Christine Matambo**
Head of Corporate Affairs, Brand & Marketing

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa road P.O. Box 32238, Lusaka
Tel: +260 (211) 422402

**Marshal Shampongo**
Head of Internal Audit

Standard Chartered Bank Zambia Plc
Stand No 4642, corner of Mwaimwena Road
and Addis ababa
P.O. Box 31353, Lusaka
Tel: +260 (212) 312227
Tel: +260 (212) 422480-89

# Branch Network

**LUSAKA**
**Lusaka Head Office  Branch**
P.O. Box 32238, Lusaka
Tel:  +260 (211) 422051/56

**Northend Branch**
P.O. Box 31353, Lusaka
Tel: +260 (211) 422600-20

**United Nations (UN) Agency Branch**
P.O. Box Lusaka 33610
Tel: +260 (211) 386200
Priority Banking- Lusaka

**COPPERBELT**
**Zambia Way Branch**
P.O. Box 20061, Kitwe
Tel: +260 (212) 422750-80

# Dividend

At a Board meeting held on 26 February 2021, the directors did not recommend any dividend payout for the year 31 December 2020 owing to constraints on the current year performance.

**By Order of the Board**
**Rose Kavimba**
Company Secretary
26 February 2021

# STANDARD CHARTERED BANK ZAMBIA PLC

[Incorporated in the Republic of Zambia]
Company registration number: 6525
Share Code: SCZ
ISIN: ZM0000000094
["SCZ" or "the Bank"]

## NOTICE OF THE 50TH ANNUAL GENERAL MEETING

Notice is hereby given that the 50th Annual General Meeting of the fully paid-up shareholders of Standard Chartered Bank Zambia Plc in respect of the period ended 31 December 2020, will be held virtually on https://eagm.creg.co.zw/eagm/login.aspx on Friday, 30 April 2021 at 10:00 hours. The voting at the Annual General Meeting will be conducted electronically on https://eagm.creg.co.zw/eagm/login.aspx.

**All shareholders are encouraged to make arrangements to participate in the Annual General Meeting through the eAGM link provided.**

**The meeting is convened to transact the following business:**

1. **Call to order, tabling proxies, and announcement regarding quorum**

2. **Resolution 1 – Adoption of Minutes**

   To confirm, adopt and sign the Minutes of the AGM held on 4 September 2020.

3. **Resolution 2- Adoption of Chairman's Report, Directors' Report and Financial Statements**

   To receive, approve and adopt the Financial Statements for the year ended 31 December 2020 and the reports of the Chairman, Directors and Auditors.

4. **Resolution 3 – Dividend**

   To approve a recommendation from the Board of Directors not to declare a dividend for the year ended 31 December 2020.

5. **Resolution 4 – Amendment of Articles of Association**

   To approve by Special Resolution the Amendment of Articles 56, 115 & 122 of the Articles of Association of the Bank to Align it to the Companies Act no. 10 of 2017 of the Laws of Zambia.

6. **Resolution 5 – Appointment of Auditors**

   To appoint EY as auditors from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorize the Directors to set their remuneration.

7. **Resolution 6 – Appointment and Re-Appointment of Directors**

   To re-elect each of Caleb M Fundanga, Robin P Miller, Doreen Kapambwe Chiwele, Munakopa Sikaulu, Kweku Bedu-Addo, Herman Kasekende and Kelvin Bwalya, who retire by rotation in terms of the Companies Act, and who, being eligible, offer themselves for re-election.

8. **Resolution 7 – Remuneration of the Directors**

   To authorize the Board to fix the remuneration of the Directors.

9. **To transact any other business that may properly be transacted at the Annual General Meeting.**

   A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak, and, on a poll, vote in his/her stead. Proxy forms are available from the Company Secretary.

**Notes:**

i. The proceedings of the Meeting will be streamed live through the following link, and shareholders are required to register in advance.

https://eagm.creg.co.zw/eagm/login.aspx

ii. Shareholders and proxies are requested to **Sign Up now**. Please sign up onto the link with the credentials that shall be forwarded to you via email and phone.

The key steps to follow are as given below:

a. Sign up on the **("eAGM platform") given.**
b. Log into the **("eAGM platform")** and register to attend the meeting

iii. To sign up for the Meeting, a shareholder must have a working email and an active cell phone number.

iv. The window for signing up for the Meeting shall be open on Monday, 12 April 2021 and automatically close at the commencement of the Meeting on Friday, 30 April 2021 at 10:00 hours. Registration will commence at 08:00 hours on the day of the meeting. A shareholder who does not register before the start of the meeting will not be able to do so when the meeting starts.

v. After registering, a shareholder will be allowed to join the meeting.

vi. To fully participate in the AGM, a shareholder must have a reliable internet connection.

vii. Queries on how to log into the Meeting, registration or on the voting process can be channelled to the Corpserve Transfer Agents on info@Corpservezambia.com.zm or james@Corpservezambia.com.zm: Or phone **+260950968435, +260955899375, +260979946143**

viii. A member entitled to attend and vote at the meeting is entitled to appoint any person (whether a member of the Company or not) to attend and, on a poll, to vote in his/her stead. Proxy forms are obtainable from the Company Secretary and must be lodged at the Registered Office of the Company, **5th floor, Standard Chartered House,** Corner Nasser/ Mwaimwena roads, Rhodespark, or emailed to Rose.Kavimba@sc.com. before the commencement of the AGM.

**By Order of the Board**

**Rose N Kavimba**
**Company Secretary**

**Issued in Lusaka, Zambia on 31 March 2021**

| **Lusaka Securities Exchange Sponsoring Broker** | |
|---|---|
| STOCKBROKERS ZAMBIA LIMITED | T \| +260-211-232456<br>E \| advisory@sbz.com.zm<br>W \| www.sbz.com.zm<br>Stockbrokers Zambia Limited (SBZ) is a member of the Lusaka Securities Exchange and is regulated by the Securities and Exchange Commission of Zambia |
| | **First Issued on 31 March 2021** |

# FORM OF PROXY

................................ 2021

I/We, ........................................................................... (full names in block letters) of ...........................................................................

...........................................................................................................................................................................................

member/members of Standard Chartered Bank Zambia Plc, hereby appoint

...........................................................................................................................................................................................

of ......................................................................................................................................................................................

as my/our proxy to attend and speak, on poll, vote instead of me/us at the Fiftieth Annual General Meeting of the Company, to be held on Friday, 30 April 2021 and at every Adjournment thereof:

| | In favour | Against |
|---|---|---|
| **Resolution 1** – To confirm, adopt and sign the minutes of the AGM held on 4 September 2020. | ☐ | ☐ |
| **Resolution 2** – To receive, approve and adopt the Chairman's Report, Directors' Report and Financial Statements for the year ended 31 December 2020. | ☐ | ☐ |
| **Resolution 3** – To approve a recommendation from the Board Of Directors not to pay a dividend for the year ended 31 December 2020. Remuneration. | ☐ | ☐ |
| **Resolution 4** – To approve by Special Resolution the Amendment of Articles 56, 115 & 122 of the Articles of Association of the Bank to Align it to the Zambia Companies Act No. 10 of 2017 of the Laws of Zambia. | ☐ | ☐ |
| **Resolution 5** – Re-appointment of EY as Auditors For 2021-22 and to authorize the directors to fix their Remuneration. | ☐ | ☐ |
| **Resolution 6** – (i) Confirm the appointment of the following as Director: | | |
| Caleb Fundanga | ☐ | ☐ |
| Munakopa Sikaulu | ☐ | ☐ |
| Kweku Bedu-Addo | ☐ | ☐ |
| Robin P Miller | ☐ | ☐ |
| Herman Kasekende | ☐ | ☐ |
| Kapambwe Doreen Chiwele | ☐ | ☐ |
| Kelvin Bwalya | ☐ | ☐ |
| **Resolution 7:** To authorise the Board to fix their remuneration. | ☐ | ☐ |
| | ☐ | ☐ |

Signature(s) ...........................................................................

Certificate Number(s) ............................................................

## NOTE:

The Form of Proxy shall be:

a) In the case of an individual, signed by the appointer or by his Attorney.

b) In the case of a corporation, signed either by an Attorney or Officer of the Corporation on its behalf or be given under its common seal.

**Shareholders are encouraged to deposit their instruments of proxy at the Registered Office of the Company.**

Financial statements