

Branch Network



Head Office: Plot No. 6907, Cairo Road P.O. Box 35411, Lusaka, Zambia.
Tel: +260 211 224653/225080/227194 Fax: +260 211 225090
E-mail: izb@izb.co.zm | Swift Code: INZAZMLX | Website: izb.co.zm



Contents

About us.....	4
Our brief timeline.....	6
Chairperson’s statement.....	11
Board of Directors	14
Executive Management	16
Statement on corporate governance.....	18
Development in the Zambian economy.....	24
Performance of the Bank.....	27
Fostering financial inclusion.....	32
Corporate social responsibility.....	35
Directors’ report.....	38
Statement of Directors’ responsibilities in respect of the preparation of financial statements	47
Independent auditor’s report	48
Statement of financial position.....	54
Statement of profit or loss and other comprehensive income	55
Statement of changes in equity.....	56
Statement of cash flows.....	58
Notes to the financial statements.....	59

About us

Vision

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

Mission

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

Brand promise

Supporting You.
Developing Zambia.

Our emblem



Moving forward, dynamic, progressive





Our values

Service

Commitment to delivering quality and reliable service to our customers and the entire nation, enabling economic growth and development.

Integrity

Commitment to the highest level of Ethical moral standards and transparency.

People

Commitment to embracing motivating and retaining motivating and retaining motivating and retaining

Accountability

Commitment to account to all our Stakeholders by operating in a safe and sound manner with compliance to laws and regulations.

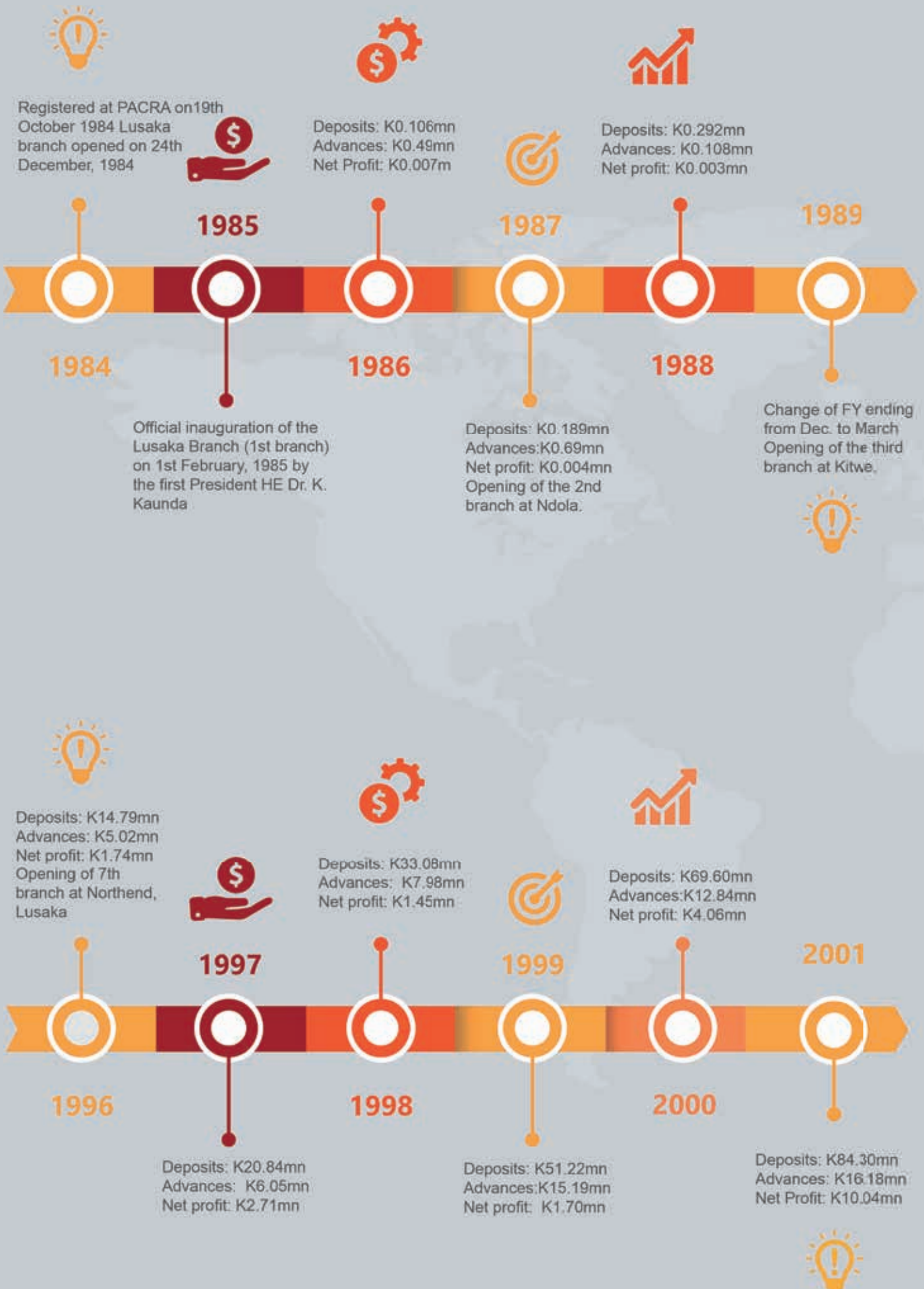
Responsibility

Commitment to supporting the communities in which we operate.

Professionalism

Commitment to act with utmost professionalism in all our workings.

Our Brief Timeline





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

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

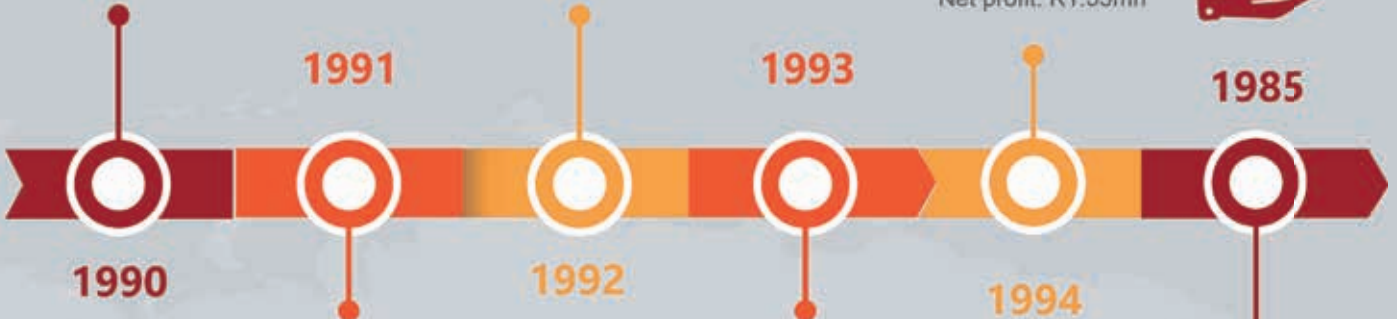
Deposits: K5.21mn
Advances: K1.23mn
Net profit: K1.55mn



1991

1993

1985



1990

1992

1994



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



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

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



Deposits: K150mn
Advances: K18mn
Net profit: K14mn

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

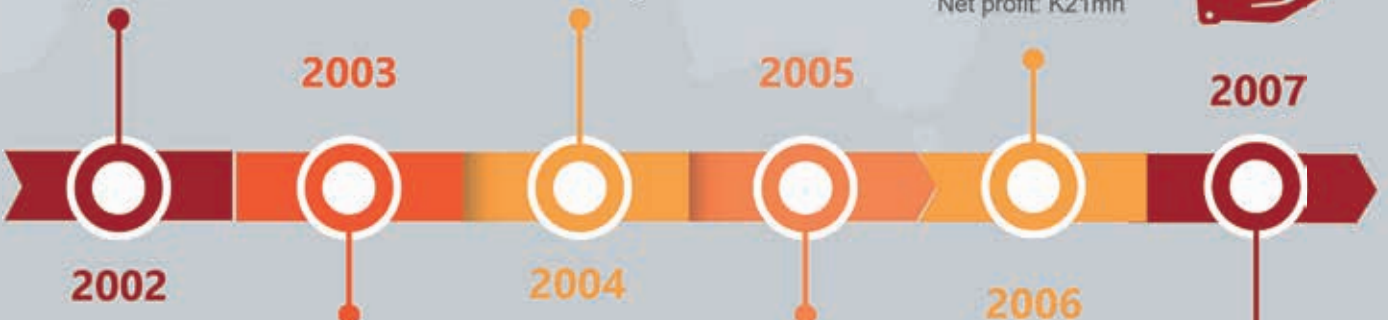
Deposits: K309mn
Advances: K72mn
Net profit: K21mn



2003

2005

2007



2002

2004

2006



Deposits: K273mn
Advances: K25mn
Net profit: K21mn

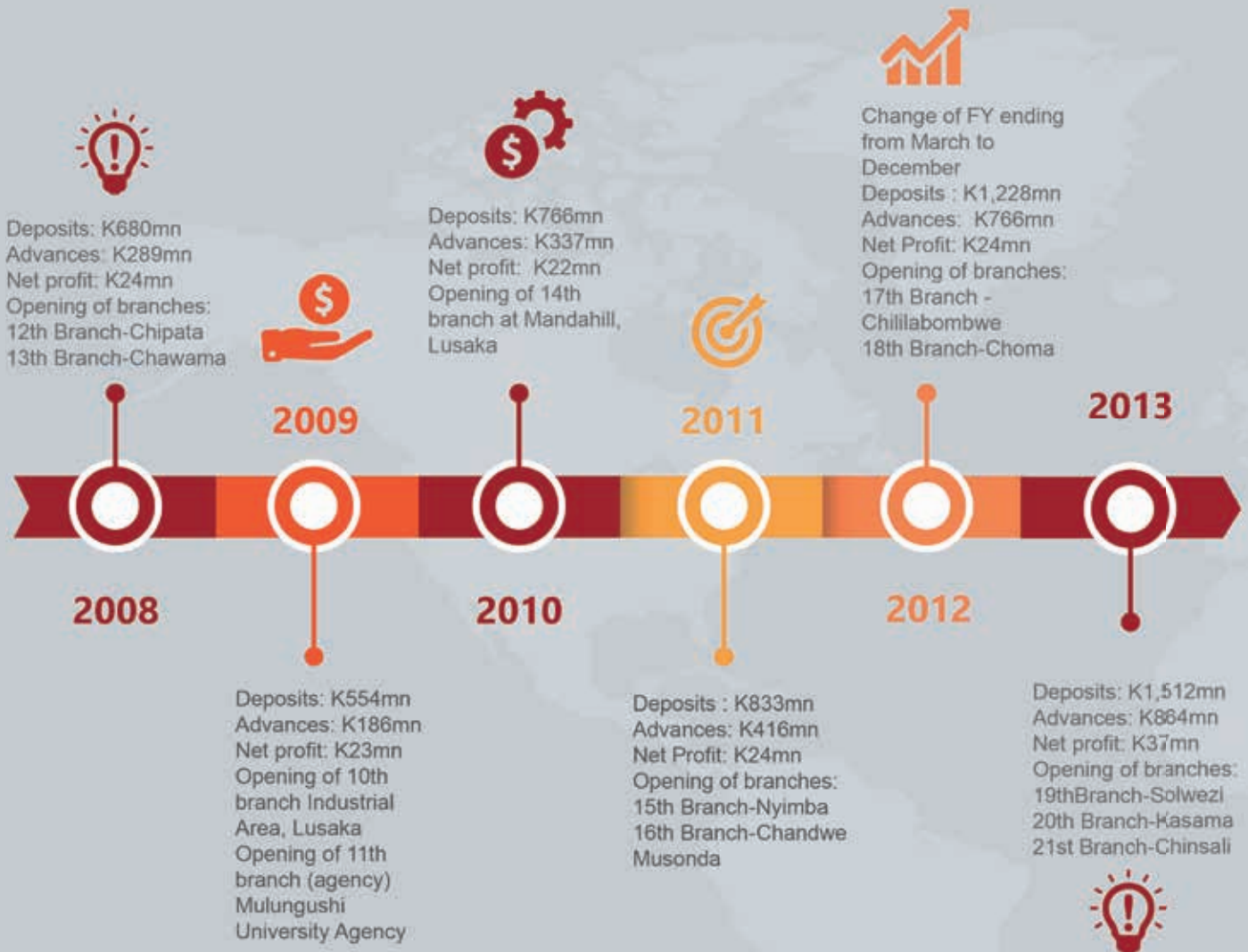


Deposits: K299mn
Advances: K45mn
Net profit: K10mn

Deposits: K452mn
Advances: K130mn
Net profit: K22mn



Our Brief Timeline



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

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

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



Deposits: K3,305mn
 Advances: K1,710mn
 Net profit: K140mn
 An ATM Network of 57
 countrywide.
 At 31st December 2018, the
 Bank has 30 branches
 and 3 agencies.



2014

2015

2016

2017

2018

2019

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



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



Deposits : K4,507mn
 Advances: K2,166mn
 Net Profit: K178 mn
 Opening of Civic Centre
 Agency
 An ATM Network of 60
 countrywide.

SURPPORTING THE NATION'S BROAD BASE AGRICULTURE PRODUCTION



Grain silos at Kembe Estates



Soya beans field at Kembe Estates



Mansa sugar field

Chairperson's statement



Chairperson, Mrs Orlean Moyo

Last year, I announced the Bank's exceptional results amid a bearish economic outlook. I articulated the Bank's strategy for navigating the expected negative downturn which included continued close relations with our stakeholders, heightened vigilance in the growth of the Bank's balance sheet as well as renewed commitment to our valued customers, among other things. Having executed the outlined strategy, I have the pleasure of presenting even better results for the year 2019 than for the previous year.

Economic and Financial Sector Developments

The global economy managed only moderate growth in 2019 on the basis of concerns over international trade flows and increased volatility in the world's financial markets headlined largely by the US/CHINA trade war. On the local front, GDP growth was revised downwards to 2% from the projected 4% with rainfall patterns

The Bank's Operating Results

In a dynamic operating environment, we remain focused on executing our progressive strategy for sustainable growth.

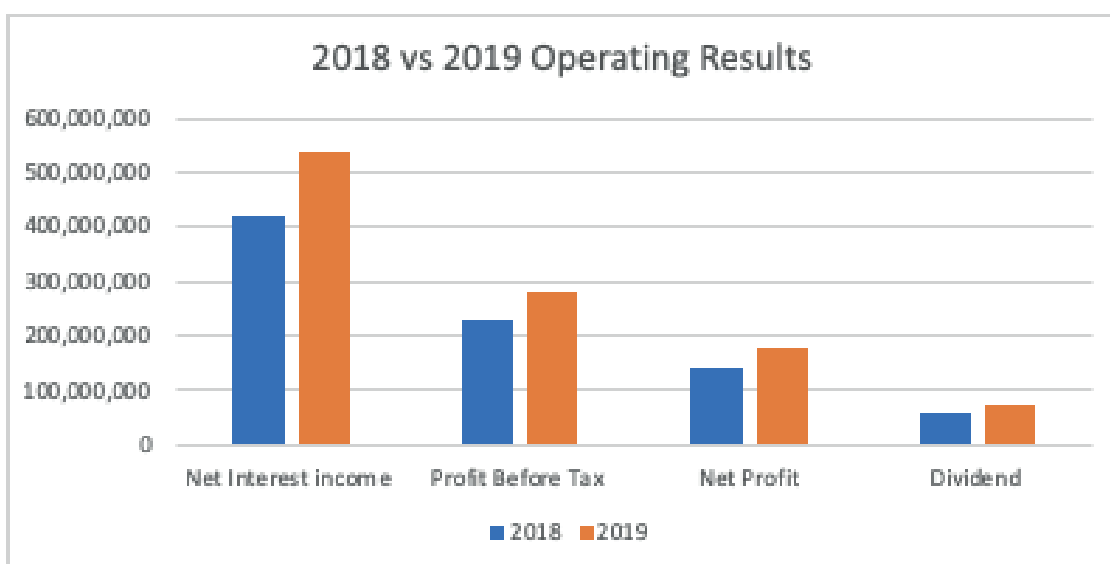
affecting both agriculture and energy production leading to stifled manufacturing, wholesaling and general retail trade. Inflation reached 11.7% against the previous years' close of 7.9%.

In the financial sector, liquidity was tight and expensive, while lending rates surged upwards leading to the increase in non-performing loans which were recorded at 9.8% industry-wide, edging closer to the regulatory tolerance limit of 10%.

These challenges, among others, defined the spirit and culture of our brand and showcased our resilience, our strength, our knowledge and our capability to respond swiftly and navigate the Bank towards its mission. We are proud to have navigated these bearish conditions by continuing to advance our long-term growth strategy, sustaining investment in digital products and building better operational infrastructure to ensure delivery of stakeholder value.

Figure 1

In the figures below, I have highlighted using the orange bars, how the Bank is progressing year on year on key parameters.





The Board Chairperson Mrs Orlean Moyo witnessing the execution of Shareholders Agreement. From the left is Group Chief Executive Officer for the Industrial Development Corporation (IDC) Mr Mateyo Kaluba, The Board Chairperson Mrs Orlean Moyo, Board Member Mr. V. Murar, The Managing Director of Indo Zambia Bank Mr. Maheshkumar Bansal and The General Manager for the Central Bank of India Mr. R.Gupta during the Shareholders Agreement signing ceremony.

IZB attributable profit increased by 27.14% to ZMW178.41million from ZMW140million. Return on average ordinary shareholders' equity was 19.29%, compared with 16.99% in 2018. Return on average total assets was 3.76%, compared with 3.51% for the previous year. The Banks total Business Mix for 2019 was K6,492.92 million as against K4,958.30 million in 2018, representing a rise of 30.95%.The Directors have proposed a dividend of ZMW71.5million for the year 2019 compared with ZMW60million in 2018.

Our improved ability to anticipate the changing needs of customers and deliver an enhanced service experience has been cardinal to our good income and profit growth. Over the years of our existence, we have reshaped and strengthened our capital base and balance sheet, we have improved our competitiveness through product development and operational efficiency, we have modernized our delivery channels, and we have invested in innovation across all segments of our business. The above results therefore represent how we have emerged stronger in many ways, better positioned for the future with a solid business mix and a clear strategy that will enable us to outperform in all market conditions.

Sustaining Performance into the Future

The performance highlighted above positions the Bank to start 2020 in a better position than at the beginning of 2019, supported by consistent growth in business mix, increased debt recovery, more vigilant credit monitoring, efficient liquidity management, continued industrial harmony and increased innovation. However, global economic slowdown is projected for 2020 which entails an even tougher financial reporting period than 2019. In spite of this, we shall continue to focus on the following key areas: -

Customer Service

The Board and Management will keep the entire organisation aligned to the corporate plan while keeping our dedicated staff sufficiently trained and incentivised to deliver against a clear set of Key Performance Indicators. Further, we believe that the key to success is in the development of a high-performing multicultural organisation that understands and innovates to satisfy long-term customer needs.

Credit Monitoring

Credit demand is expected to decrease on account of projected sluggish growth in the economy coupled with higher interest rates. Enhancement of credit monitoring is therefore top priority for the Board and Management. This will ensure we are well positioned at all points of the credit cycle in order to adapt to the expected downturn in the economy which is likely to affect growth in industry credit assets.

Social and Environmental Focus

At IZB, we understand that there can be no growth without being in touch with the communities in which we operate. During 2019, we did not only participate in several activities that support financial literacy but also continued to support activities that enhance the values of our various cultures. Further, our portfolio growth was partly hinged on financing environmentally viable projects that have positively impacted communities particularly in agriculture and manufacturing. We pledge to continue to adapt appropriately to changing social and environmental trends as we have demonstrated before by continuing to participate in socially viable initiatives both internally and at industry level. Further, we pledge to grow financing towards projects that change the lives of the communities where we operate, in an environmentally intelligent manner



The Board Chairperson Mrs Orlean Moyo in the company of Board Directors and other executive management staff of the bank following the awarding of the Bank's credit rating certificate.

In conclusion, I am proud of the progress the Bank made in 2019 and am confident we will continue to build on this steady progress beyond 2020, especially with the support of our esteemed customers, Shareholders and staff. In a dynamic operating environment, we remain focused on executing our progressive strategy for sustainable growth. Our actions to uphold high standards of service excellence, optimise efficiency and take full advantage of new market opportunities, will ensure we consistently deliver on the objectives and expectations of our customers and stakeholders over the long term.

Orlean Y. Moyo (Mrs)
Chairperson

The performance of the bank in 2019 is therefore a reflection of the successful strategic focus rendered by the Board of Directors and indeed the hard work, passion and resolve of the entire staff.

The Board Chairperson Mrs Orlean Moyo at the Shareholders Agreement signing ceremony.



Board of Directors



Mrs. Orlean Y. Moyo, Board Chairperson

Mrs Orlean Y. Moyo took over as the Board Chairperson of Indo Zambia Bank in February, 2002. Mrs. Moyo has a Bachelor of Arts Degree from University of Zambia and is a Diploma holder in Banking from Manchester Business School, U.K. Mrs. Moyo has over 38 years of rich experience in the Banking and Financial Industry. Mrs Moyo is a Fellow of the Zambia Institute of Banking and Financial Services. Mrs Moyo has served on several boards and Chaired the National Economic and Business Conference Forum in 2017, organised by the Ministry of Trade & Industry, the Zambia Association Chambers of Commerce & Industry and Black Dot.



Mr. Ramesh Chand Thakur, Non-Executive Director

Mr. Thakur was appointed as Non-Executive Director on Indo Zambia Bank Board of Directors in 2019. He holds a Bachelor of Science Degree, a Master of Science Degree, a Post Graduate Diploma in Business Administration, a Diploma in International Banking Management, Diploma in Treasury Investment and Risk Management and is a Certified Associate of the Indian Institute of Bankers. Mr. Thakur's vast experience in Banking is largely in the fields of Credit, Branch Management, Treasury, Foreign Operations as well as Debt Recovery. He currently serves as General Manager – Recoveries at the Bank of India.



Mr. Vijay Vasantrao Murar, Non-Executive Director

Mr. Murar was appointed Non-Executive Director on the Bank's Board of Directors in 2019. He holds a Bachelor's Degree in Science and a Post Graduate Diploma in Taxation. He is a Certified Associate of the Indian Institute of Bankers with over 36 years of International Banking Operations mainly specializing in Treasury. He serves other Board's in reputable companies and professional associations in India. He is currently General Manager in charge of Treasury and International Operations at the Central Bank of India.



Mr. Samuel Mukupa, Non-Executive Director

Mr. Samuel Mukupa, a qualified Teacher/ Lecturer by profession was appointed as a Director on the Board of Indo Zambia Bank on 17th February 2012. He has served as a Member of Parliament from 1991 to 2000. During his tenure as a legislator he served as an Executive Member of the Commonwealth Parliamentary Association/ Union from 1998 to 2000. In 1998 he was appointed Head of Parliamentary Delegation, Election Observer Mission to Germany. Mr Mukupa is also an illustrious businessman and he is serving as the Board Chairperson of the Road Development Agency in Zambia



Mr. Vikramaditya Singh Khichi, Non-Executive Director

Mr. Khichi was appointed as Non-Executive Director on Indo Zambia Bank Board of Directors in 2019. He has an illustrious 33 years in the Banking Sector serving in several capacities as Dena Bank in India before being appointed Executive Director at the Bank of Baroda where he currently serves. He has had a wealth of experience in Retail and Corporate Banking Operations, Debt Recovery, Merchant Banking, Marketing as well as Executive Leadership particularly in Strategy and Policy formulation. He holds a Bachelor's Degree in Science, an M.B.A in Finance and Marketing and is a Certified Associate of the Indian Institute of Bankers. He also serves on the Boards of other companies in insurance and asset management in India.



Mr. Maheskumar M. Bansal, Executive Managing Director

Mr. Bansal was appointed as Managing Director in June 2016. He holds a Bachelor Degree of Science and Laws respectively. He is also a Certified Associate of Indian Institute of Bankers (CAIIB). Mr. Bansal is a seasoned Banker who has held several distinguished positions in the Bank of Baroda in India with a career spanning 35 years which includes international experience managing branches of Bank of Baroda in Uganda.

Executive Management



Maheshkumar M. Bansal
Managing Director



Godwin C. Ngoma
General Manager



Chenjelani C. Banda
Assistant General Manager



Harikrishna Bommareddy
Chief Manager Finance



Christopher Wakunguma
Chief Manager Human Resources



Jagdish Prasad
Chief Manager Credit



Sunil Kumar
Chief Manager Operations



Debjit Mitra
Chief Manager Audit



Mrs Pascalina Mwenso
Chief Manager Compliance



Yotam Mwale
Chief Manager Forex & Treasury



Deepak Wahal
Chief Manager Risk Management



Cuthbert Kondwelani Tembo
Company Secretary & Legal Counsel



Jyoti Nath Sinha
Chief Manager Information Technology

Statement on Corporate Governance

At Indo Zambia Bank Limited, we believe that the highest standards of corporate governance are critical in the effective management of the Bank.

Cognizant of the above, the Bank has continued to adapt its governance practices in response to the changes in regulations and best practices and continues to respond to future corporate governance developments as appropriate. The Bank's corporate governance practices are substantially aligned to the Bank of Zambia Corporate Governance Directives as well as the Companies Act, 2017.

The Shareholders

The Bank's shareholders have responsibility over all critical and strategic matters as required under the Banking and Financial Services Act. As part of their mandate, the Shareholders have delegated management powers to the Board of Directors ("The Board"). The Board has regular dialogue with Shareholders, individually and collectively, which provides Director's with the necessary information to ensure that Shareholder visions are aligned with the Bank.

The Board of Directors

Pursuant to its mandate, the Board oversees the management of the business affairs of the Bank, discharging its responsibilities either directly or through its Committees, with the goal of building sustainable network for all the Bank's stakeholders. The Board is accountable to the Shareholders particularly for policy formulation, strategic direction, monitoring management and operational performance, risk management strategy and overall compliance. The Board delegates the day to day management of the Bank to the Managing Director who is assisted by the General Manager.

The Board is composed of six (6) individuals of unquestionable integrity and character (details on Page 14 and 15). The Managing Director is the only executive director. The Directors have broad skills, experience and expertise across core areas of banking operations. The depth of experience of each Director ensures quality and prompt decision-making as well as effective supervision over the affairs of the Bank.

Board Evaluation

The Board undertakes an annual self-evaluation in accordance with the Bank of Zambia Banking and Financial Services Corporate Governance Directives. This process helps to identify areas of governance that need to be improved. The Board is determined to gravitate towards external evaluation to enhance feedback from this process.

Roles of Chairperson and Managing Director

The roles of Chairperson and Managing Director are separate. Neither exercises unfettered control over decision-making. The Chairperson is an independent Non-Executive Director who is appointed by the Board in line with the Articles of Association. The current Chairperson is Mrs. Orlean Y. Moyo. Amongst other things, she is responsible for the following: -

- Providing leadership to ensure effective functioning of the Board;
- Leading the assessment of Board and Committee performance;
- Leading the monitoring and evaluation of the performance of the Managing Director and senior officers of the Bank;
- Leading the Board and Committee in ensuring effective operational performance, adequate risk management as well as ensuring the development of Board and executive level succession planning.

The Managing Director holds responsibility for, among other things:

- Developing and recommending to the Board, a long-term strategy and vision for the Bank that leads to creation of shareholder value;
- Developing and recommending to the Board annual business plans and budgets that support the Bank's long-term strategy; and Achieving the Bank's financial and operating goals and objectives.

Board Meetings

The Board has scheduled meetings at quarterly intervals. During the financial year ended 31st December 2019, the Board met four times as per details given below:

Board meeting held on	Number of directors attending the board meeting	Number of directors absent during the board meeting
21st March 2019	5	Nil
27th May 2019	5	Nil
3rd September 2019	6	Nil
5th December 2019	6	Nil

*Pending appointment of 1 replacement Director by Shareholders.

The Board also passes resolutions by circulations which are then re-confirmed at the next scheduled Board meeting.

Board Committees

The Board is assisted by a number of Sub-Committees in discharging its obligations in an effective manner. The Sub-Committees that are accountable to the Board are Audit, Loans Review, Risk Management and Nominations & Remunerations Committees. The Chairpersons of the Committees regularly report to the Board. In addition, there are three (3) Management Committees namely; Assets and Liabilities Management Committee (ALCO), Credit and Operational Risk Management Committees. The decisions taken at these Management Committee meetings are reported to the Board.

A description of each other Committees is given below:

Audit Committee

The Audit Committee is comprised of three members. The Committee is responsible for providing strategic direction to the audit function. The Committee oversees the Bank's financial reporting process to ensure fairness, comprehensiveness and credibility of the Bank's financial statement. The Committee is also responsible for formulating policy guidelines on the adequacy of internal controls, systems and procedures. The Committee also interacts with the Internal and External Auditors of the Bank. The Audit Committee as on 31st December 2019

comprised of the following members:

1. Mr. R. C. Thakur (Chairman)
2. Mr. V. S. Khichi
3. Mr. S. Mukupa

The Committee meets on quarterly intervals. During the financial year ended 31st December 2019 the Committee met four times .

Loans Review Committee

The Loans Review Committee comprises of three (3) members. The Committee reviews the quality and collectability of loans at quarterly intervals and reports to the Board.

The Loans Review Committee of the Board as on 31st December 2019 comprised of the following members:

1. Mr. V. V. Murar – Chairman
2. Mr. V. S. Khichi
3. Mr. S. Mukupa

Risk Management Committee

The Committee formulates policies and strategies for integrated risk management, monitors the Bank's exposures – both credit as well as investments, reviews adequacy of risk management processes and internal control systems and ensures compliance of the regulatory framework. The Committee reports its observations and actions taken to the Board.

The Risk Management Committee as on 31st December 2019 comprised of the following members:

1. Mr. S. Mukupa – Chairman
2. Mr. R.C. Thakur
3. Mr. V. S. Khichi

The Risk Management Committee of the Bank meets on quarterly intervals. During the financial year ended 31st December 2019, the Committee met four times.

*Pending appointment of replacement Director by Shareholder

Nominations and Remunerations Committee

The Committee comprises of three members including the Chairperson. The Committee provides oversight over nominations, remuneration and compensation of Directors, Senior Management and other key personnel. The Committee provides its recommendations to the Board of Directors. The Committee as on 31st December 2019 comprised of the following members:

1. Mrs. O.Y. Moyo – Chairperson
2. Mr S Mukupa
3. Mr V.V. Murar

During the financial year ended 31st December, 2019 the Committee met six (6) times.

Management Committees

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

- Asset Liability Management Committee (ALCO)

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

The Asset Liability Management committee as on 31st December 2019 comprised of following members:

1. Mr. Maheshkumar Bansal, Managing Director
2. Mr. Godwin C. Ngoma, General Manager
3. Mr. Chenjelani C. Banda, Assistant General Manager
4. Mr. Harikrishna Bommareddy, Chief Manager (Finance)
5. Mr. Deepak Wahal, Chief Manager (Risk Management)
6. Mr. J. Prasad - Chief Manager (Credit)
7. Mr. C. Wakung'uma, Chief Manager (Human Resources)
8. Mr. J. Sinha, Chief Manager (IT)
9. Mr. C.K. Tembo, Company Secretary & Legal Counsel

10. Mr. S. Kumar, Chief Manager (Operations)
11. Mrs. P.C. Mwenso, Chief Manager (Compliance)
12. Mr. Y. Mwale, Chief Manager (Forex & Treasury)
13. Mr D. Mitra – Chief Manager Audit

- Credit Risk Management Committee (CRMC)

The Committee reviews and recommends Credit Risk Management Policies, Procedures and Strategies for approval by the Board. The Committee also reviews the Bank's credit functioning as well as monitoring the overall credit portfolio for identification, assessment, monitoring and management of credit risks, monitors large NPA accounts, besides reviewing the existing credit products and consider/ approve new credit products from time to time. Mr. Maheshkumar Bansal, the Managing Director is the Chairman of this committee. The Credit Risk Management committee as on 31st December 2019 comprised of following members:

1. Mr. Maheshkumar Bansal, Managing Director
2. Mr. Godwin. C. Ngoma, General Manager
3. Mr. Chenjelani C. Banda, Assistant General Manager
4. Mr. Deepak Wahal, Chief Manager (Risk Management)
5. Mr. J. Prasad, Chief Manager (Credit)
6. Mr. Harikrishna Bommareddy, Chief Manager (Finance)
7. Mr. S. Anand, Chief Manager (Lusaka Main)
8. Mr S. Kumar, Chief Manager (Operations)
9. Mrs. P.C. Mwenso, Chief Manager (Compliance)

- Operational Risk Management Committee (ORMC)

The Committee reviews the systems and procedures of the bank to identify operational weaknesses and suggests measures to rectify the same. The committee also reviews the functioning of application software of the bank and suggests measures to ensure smooth and flawless performance of the application software. The Committee also deliberates on housekeeping issues and devises mechanisms to ensure that all operational issues related to housekeeping are in order.

The committee also reviews various reports on cash shortages, ATM cash shortages, revenue leakages, frauds outstanding, etc. Mr. Maheshkumar Bansal, the Managing Director is the Chairman of this committee.

As on 31st December 2019, the Operational Risk Management committee comprised of the following members:

1. Mr. Maheshkumar Bansal, Managing Director
2. Mr. Godwin C Ngoma, General Manager

3. Mr Chenjelani C Banda – Assistant General Manager
4. Mr. Deepak Wahal, Chief Manager, (Risk Mgmt.)
5. Mr. Harikrishna Bommareddy, Chief Manager, (Finance)
6. Mr. Christopher Wakung'uma, Chief Manager, (Human Resources)
7. Mr. Jyotinath Sinha, Chief Manager, (IT)
8. Mr. S. Anand, Chief Manager, (Lusaka Main)
9. Mr. S. Kumar, Chief Manager (Operations)
10. Mrs. P.C. Mwenso, Chief Manager (Compliance)

- Audit Committee for Closure of Audit Reports

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

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

1. Managing Director
2. General Manager
3. Assistant General Manager
4. Chief Manager – Risk Management
5. Chief Manager -Audit
6. Chief Manager – Credit
7. Chief Manager – Operations

Organisational Ethics and Integrity

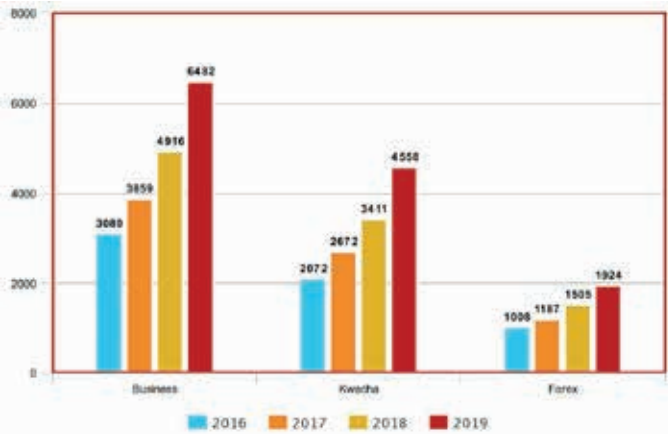
Indo Zambia Bank is fully committed to upholding the principles of Good Corporate Governance and ethical conduct as this is central to our Core Values to ensure safety and soundness of the Bank while enhancing Shareholder value, protecting the best interest of depositors and other stakeholders.

The Bank has internal policies that codify various issues involving anti-money laundering, bribery, political activism, confidentiality and data privacy. The Bank has a zero-tolerance approach towards fraud at any level.

The Bank has put in place a robust Whistle Blowing Policy. Through this Policy, the Bank provides a mechanism for employees to raise ethical, legal, regulatory and other breaches in a manner that protects their identity while ensuring the integrity of reports.



TOTAL BUSINESS:



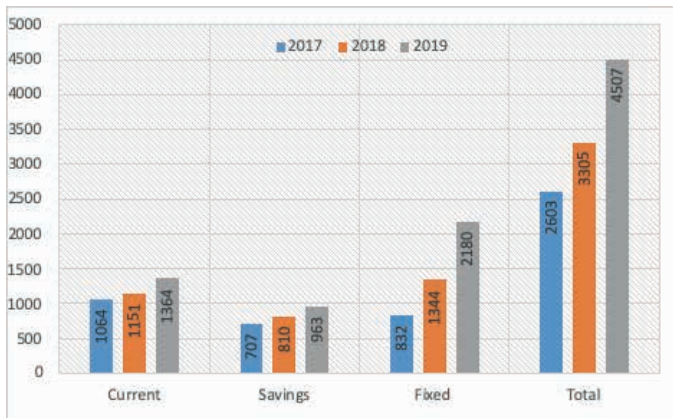
FOREX DEPOSITS



DEPOSITS

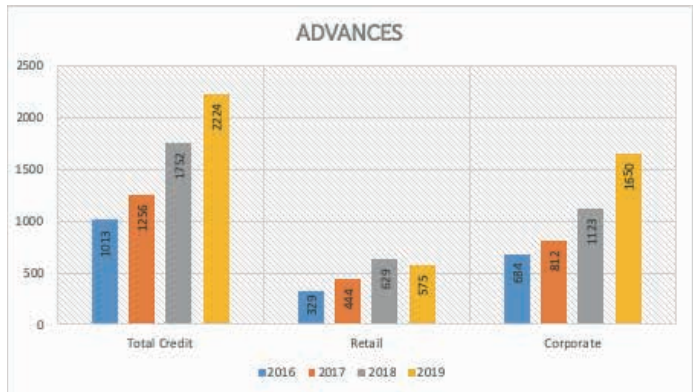
Bank's total deposits increased from K3,305 million as at 31st December, 2018 to K4,507 million as at 31st December, 2019 recording a growth of 36.34%.

Total Deposits



Advances

The Gross Advances of the Bank stood at K2,224 million as at 31st December, 2019 as against K1,752 million as at 31st December, 2018. The bank has made provision for Non-performing assets as per the requirement of the Bank of Zambia / IFRS and also made adequate provision on standard advances to ensure compliance under IFRS. The total provision outstanding on advances as at 31st December, 2019 was K58 million as against K42 million as at 31st December, 2018.



Kwacha Deposits



Non-Performing Advances

The total non-performing advances as at 31st December, 2019 was K122 million (in compliance with Bank of Zambia guidelines) as against K114 million as at 31st December, 2018. The bank has been consistently classifying its non-performing assets proactively to ensure compliance with Bank of Zambia guidelines and IFRS in full. As against the gross non-performing advances, the bank has made an overall provision of K118 million (As per IFRS-9 ECL model – K58 million, provision appropriated from retained earnings as Credit Risk Reserve K50 million and interest suspense K 10 million). The Gross and net NPA as at 31st December, 2019 was 5.56% (2018-6.60%) and 0.18% (2018-1.96%) respectively. The provision coverage ratio as at 31st December, 2019 was 96.89%.

SECTORAL EXPOSURE IN % TERMS



Investments

The Bank's investments are in Government Treasury Bills and Government Bonds. The Investment portfolio reached K2,030 million as at 31st December, 2019 from K1,698 million as at 31st December, 2018.

Profitability

The Bank achieved an Operating Profit of K281 million for the year ended 31st December, 2019 as against K226 million for the year ended 31st December, 2018, a growth of 24.04%. The net profit grew by 27.14% from K140 million for year ended 31st December, 2018 to K178 million for the year ended 31st December, 2019.

DEVELOPMENTS IN THE ZAMBIAN ECONOMY IN 2019

- I. In 2019 Zambia's real GDP grew by 2.2% in comparison to 3.7% growth recorded in the year 2018 representing a drop of 1.5%. A significant reduction in economic activity is attributed to increased power deficits and rationing as well as unfavourable exchange rates. In addition, Zambia experienced a significant drought which affected the agricultural sectors adversely in 2019. The mining, manufacturing, construction, ICT, wholesale and retail trade sectors are expected to continue to be the major drivers of growth in the near future, supported by increased power generation capacity. Forecast with the commissioning of the Kariba North bank Hydro power generation plant expected to produce 750 Mega Watts of electricity when operating at full capacity which is projected to be attained by the end of the first quarter of 2020. Down side risks to the growth outlook include reduced demand for Copper from China owing to a global economic slowdown anticipated in the coming year.

II. Inflation Developments

Annual overall inflation edged up to an average 11.7% in the fourth quarter from 8.6% the previous quarter. This spike was largely attributed to the increase in the cost of energy, particularly petroleum products and electricity. The increase in the cost of energy was largely attributed to carry-on effects of the depreciation in exchange rate of the Kwacha against the US Dollar which had a direct effect on fuel pump prices. In addition the implementation of a cost reflective electricity tariff regime by the state utility company led to increased electricity prices. Furthermore, food inflation has continued to pose a threat to the growth prospects of the country with an escalation in the price of staple commodities such as maize meal. The Bank of Zambia estimates that the inflation rate will largely fall outside the 6%-8% band for the next eight (8) quarters from November, 2019. The inflation rate is however expected to reduce following the realization of weather forecasts for above normal rainfall and its direct effect on power generation and agricultural output.

III. Foreign Exchange Market Developments

The kwacha depreciated by 18 % against the US dollar to close the year at an annual average of K14.05 per US dollar from K11.89 per US dollar at the close of 2018. The depreciation was mainly on account of increased net demand for foreign exchange mainly for oil procurement, debt servicing and procurements of agricultural inputs. The continued downgrading of Zambia's credit rating coupled with reduced demand for Zambia's primary export copper also contributed significantly to the continued weakening of the Kwacha.

IV. Balance of Payments Development

Preliminary data indicates that the current account recorded a deficit of US \$ 200 million against a deficit of US \$ 92.40 million in the third quarter of 2019 owing to unfavourable performance of the balances on primary income, services and goods sub accounts as well as increased debt servicing payments.

Sources: Bank Of Zambia Annual Report, Ministry Of Finance Economic Data Report, Zambia Statistical Agency.

GLOBAL GROWTH DEVELOPMENT

According to the IMF, global growth in 2019 is expected to average 3.0% and is forecast at 3.4% in 2020, a downward revision from the July forecasts of 3.2% and 3.5 % respectively.

Global growth continues to lose momentum largely due to persistent trade tensions between the US and China thereby causing a global decline in business and consumer confidence. Heightened policy uncertainties associated with BREXIT alongside geopolitical tensions in the Middle East also rank among the primary reasons for a lower global growth outlook.

The slowdown in the global growth outlook has led to a decline in copper and crude oil prices which have dropped by 3.4% and 7.9% respectively when compared to Quater 2 2019 prices. The lower growth outlook has also precipitated a shift in global liquidity flows into the US economy thereby causing a rise in US equity markets and broad based US dollar strength against other global currencies.

Source: IMF Country Report.





Mealie meal processing plant at Country Millers

FOSTERING NATIONAL INDUSTRIAL DEVELOPMENT



Strongpak Factory

Mealie meal processing plant at Mukuyu Milling

Performance of the Bank



Business mix

The Bank's total business grew by 33.04% to reach K6,672 million as at 31st December, 2019 from K5,015 million as at 31st December, 2018.

	Position as on	Position as on	Position as on
	31 - 12 - 2017 (K Millions)	31 - 12 - 2018 (K Millions)	31 - 12 - 2019 (K Millions)
Business Mix	3,859	5,015	6,672
Deposits	2,603	3,305	4,507
Advances	1,256	1,710	2,166
Net profit	109	140	178
Capital Adequacy Ratio	49.50	41.76	39.91

Developments in the Risk Management

The bank has continued to embed the risk culture across the bank. In the past 24 months the bank conducted Risk Management training from front line staff to Senior Management. The bank has also invested in the state of the art Risk Management tool which has been deployed to enhance Risk Identification, Assessment, Monitoring, Measurement and Response. In order to further entrench Risk Management, the bank has clearly defined responsibilities for management of risk across the bank with three distinct defence lines, with the first line of defence in risk management involving business units within our bank, the second line of defence consists the Risk Management and Compliance function of the bank

which are independent of the business operations of the bank, the third line of defence consist of the internal audit function that is totally independent from the first and second line of defence.

These developments in our risk management environment has allowed us to proactively manage our risk environment ensuring that our mitigation strategies address the identified risks including exposures to concentrations in all exposures and operate within our approved Risk Appetite and that we are sufficiently capitalized.

Bank's Digital Business Platform

The Bank's technology initiatives are clearly focussed on the customer. The Business Transformation Programme, encompassing technology, is being implemented by the Bank with a view to providing the customer with convenient banking on a 24 X 7 basis through deployment of Core Banking Solution with integrated delivery channels like ATM/Visa Debit Cards, POS, Internet, Mobile, SMS, e-Statements etc. The Bank's ultimate objective is to reorient itself as a highly technology enabled Bank of first choice for its customers in order to emerge as a leader in the market place on every single parameter including technology.

The Bank has built and commissioned its own State-of-the-Art Data Centre (DC) for running its centralized banking solution and other applications for all branches. The Data Centre is functioning as a central data hub of the Bank. The Bank is also having a full-fledged Disaster Recovery site with real time data replication. The Bank is having following distinguished IT initiatives for our esteemed customers.

Upgrade Of Core Banking Solution & IT Infrastructure:

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

Internet Banking:

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

Point Of Sale

- A point-of-sale (POS) terminal is a computerized replacement for a cash register. The POS system can include the ability to record and track customer orders, process credit and debit cards, connect to other systems in a network, and manage inventory.

Verified by VISA Project.

Visa Consumer Authentication Service (VCAS / VBV) - Bank has an additional VISA authentication measure for e-commerce transactions.

Mobile Banking:

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

NAPSA (Online Pension Payments Facility)

- The Bank is operating a robust net banking platform for its customer's to facilitate NAPSA payments towards online Pension Contribution by employers.

ZRA Tax-Online:

- Zambia Revenue Authority (ZRA) Tax online facility has been operationalized for online tax/duties assessment and payments.
- With Indo Zambia Bank e-Payment System (epay. izb.co.zm) our customers are able to: View ZRA Tax Obligations, Pay for Taxes Online, View Tax historical payments, Print Tax Obligations and Payment Receipts.
- The Bank has provided options for Non-Customers for paying of ZRA taxes using our ZRA Walk-in module.

VISA Debit Cards:

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

ATM Network:

- Our total ATMs network was 60 as on 31st Dec 2019.
- The Bank has been extending ATM networks on an ongoing basis for customer convenience.
- The Bank is a member of National Financial Switch (NFS). This shall ultimately enable our customers to use ATMs of other banks who are members of NFS.
- The Bank has installed featured base CASH Recycler ATM, where customers can deposit and withdraw using one machine.

SMS Banking, SMS Alerts, E-Statements:

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

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

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

SWIFT:

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

Uses of National Financial Switch:

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

Information Security:

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

Online Customer Complaints

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

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

Statement of Compliance

The Bank has internal policies, rules and procedures to guarantee that management complies with relevant laws and regulations. In addition, the Compliance Department independently monitors the extent to which the Bank complies with its own policies and procedures. Compliance Department is also concerned with aspects of accepting new customers (KYC) and monitoring financial transactions for prevention and detection of Money Laundering and financing of terrorism and proliferation.

There were no significant incidents in 2019 concerning non-compliance with legislation and regulatory supervision .

Human Resources

As at December 2019, the total staff strength was:

Gender	31 Dec 2019		Grand Total
	Male	Female	
Management Staff	89	39	128
Unionised staff	91	96	187
Sub-Total	180	135	315

Staff Professional Development

- In accordance with the Bank's Policy aimed at supporting and enhancing professional development, below is a summary of seven (7) Qualifications that twenty-seven (27) members of staff attained in 2019 with the support of the Bank as per provisions contained in the prevailing Conditions of Service:

Qualifications	Number of staff who attending this qualification in 2019
Masters Degree: General / Banking & finance	5
Bachelor Of Science	1
ACI Operations Certificate	4
Professional Diploma in Banking and Finance	13
Advanced Diploma in Banking	2
Post Graduate Certificate in Retail Banking	1
Certificate in Banking and Finance	1
Total	27



Managing Director Mr Maheshkumar Bansal and ZUFIAW General Secretary Mr Chingati Msiska following the successful completion of salary negotiations for the year 2019.

Our staff members at the Labour Day match past event.



Marketing and Customer Relationship Management

Marketing and Customer Relationship Management remains a critical thrust area of the Bank with regards to acquisition of new customers, servicing the existing customers and creation of customer centric products/processes to enhance value. In 2019, the bank formed Corporate Customer Relations Unit at Head Office with the focus of managing the bank's interactions with both its existing and prospective corporate customers. The bank also deployed a product and marketing development strategy yielding significant outcomes. Further, the Bank intensified its marketing of IT enabled products like ATMs, Visa cards, Point of Sales Terminals, Mobile banking, SMS alerts, e-statements, E-Banking

services and Digital Channels such as internet banking and ZRA Tax online, NAPSA Online facilities as well as intensified CASA and Credit products. The ATM network of the bank has grown to 60 and they have been attractively clad with Bank's brand colours and they are located at all branches and other off-site centres like shopping malls/ university campus/ hospitals etc. The bank also ran several multi-media corporate campaigns using the channels of print and electronic media, radio, stalls at malls, social media and participation at various business events, etc.



Cash recycler machine installed at the IZB Lusaka Main branch





Former Bank of Zambia Deputy Governor - Operations Dr Bwalya Ngandu visiting the Indo Zambia Bank exhibition stand during the Financial Literacy Week.

Fostering Financial Inclusion

The Financial Literacy Week is an annual awareness campaign which is commemorated to educate and sensitize the general public about various topics on managing personal finance. The week is marked by countrywide activities in public locations including schools, business as well as online campaigns. In the year 2019, the bank participated in the 7th Annual Financial Literacy Week exhibition in Kafue in addition to week long activities across the bank's branch network.



Indo Zambia Bank Solwezi staff interacting with the public during the 2019 Financial Literacy Week activities.



Awards and Accolades

First place trophies for Pool and Darts games at the annual Bank of Zambia sports tournament.



CORPORATE SOCIAL RESPONSIBILITY



The Managing Director Mr. Maheshkumar Bansal and General Manager Mr. Godwin C. Ngoma during a Corporate Social Responsibility activity at Fountain of Hope Community School in Chongwe.



Corporate Social Responsibility

Corporate Social Responsibility continues to be one of the important undertakings for the bank and as such in the year 2019, the bank embarked on numerous Corporate Social Responsibilities across its branch network to ensure that we give back to the communities in which we operate.

The bank's main focus in this regard still remains empowerment of underprivileged groups in society in order to elevate them and have them contribute meaningfully to the overall development of the Country.

Some of the CSR activities undertaken during the year are shown in the picture gallery below.



Livingstone staff making a donation to Lubasi and Lushomo homes during the festive period.



**Financial statements
Indo Zambia Bank Limited
for the year ended 31 December 2019**

2019

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Directors' report

The Directors submit their report together with the audited annual financial statements for the year ended 31 December 2019, which disclose the state of affairs and performance of Indo Zambia Bank Limited (the "Bank").

Principal activities

The principal activity of the Bank is the provision of Retail and Commercial Banking and related services to the general public. There have been no significant changes in the Bank's business during the year.

Share capital and beneficial owner(s)

The authorised share capital of the Indo Zambia Bank Limited remained unchanged at 420,000,000 ordinary shares of 1 kwacha each. The issued and fully paid-up share capital remained at 416,000,000 ordinary shares of 1 kwacha each.

The bank shareholding and beneficial ownership is represented as follows:

Name of shareholder	Percentage of shareholding
Industrial Development Corporation	40%
Bank of Baroda	20%
Bank of India	20%
Central Bank of India	20%

There were no changes in the shareholding during the year and there were no beneficial owners.

Operating results

	2019	2018
Net interest income	<u>537,061,075</u>	<u>418,927,862</u>
Profit before income tax	<u>280,937,689</u>	<u>226,497,044</u>
Income tax expense	<u>(102,525,317)</u>	<u>(86,736,416)</u>
Profit for the year	<u>178,412,372</u>	<u>139,760,628</u>

Dividend

During the year, K60,000,000 was paid as dividends to the shareholders for the year ended 31 December 2018 (2017: K55,548,227). After the reporting date, a dividend of K71,500,000 was proposed (2018: K60,000,000). This dividend is subject to approval by the shareholders at the Annual General Meeting.

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Directors' report *(continued)*

Developments during the year

During the year, the bank has set up two retail outlets. At 31 December 2019, the Bank had a total of 30 branches and 5 retail agencies.

Directors

The Directors who held office during the year were:

Mrs O Y Moyo	Chairperson
Mr S Mukupa	Director
Mr R C Thakur	Director
Mr A B Nair	Director – Retired on 30 April 2019
Mr V S Khichi	Director – Appointed on 18 June 2019
Mr V K Murar	Director – Appointed on 15 August 2019
Mr M M Bansal	Managing Director

Interest Register information

During the year, the interests declared, if any, by the Bank officers (a director, company secretary or executive officer of a Bank) were recorded in the minutes of board and committee meetings. The minutes of the board and committee meetings is available for inspection at the Company's registered office.

Directors' interests and emoluments

Except for the Managing Director, no other Director has a service contract with the Bank. No Director had an interest in any significant contract entered into by the Bank during the year (2018: Nil).

Directors' emoluments paid during the year ended 31 December 2019 were K4.10 million (2018: K4.72 million) as disclosed in notes 14 and 29(e) of the financial statements.

Directors' fees paid during the year ended 31 December 2019 were K6.34 million (2018: K5.50 million) as disclosed in notes 13 and 29(c) of the financial statements.

Property and equipment

During the year, the Bank purchased property and equipment amounting to K50.65 million (2018: K6.13 million) which included K0.26 million (2018: K0.11 million) on leasehold improvements as disclosed in note 21 of the financial statements.

Research and developments

During the year, the Bank did not conduct any research and development activities (2018: Nil).

Related party transactions

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

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Directors' report (continued)

Employees

The average number of employees for each month during the period amounted to 314 (2018: 297).

The total remuneration to employees during the year amounted to K203.72 million (2018: K190.20 million) as disclosed in note 14 of the financial statements and the total number of employees was as follows:

January	298	July	313
February	317	August	312
March	319	September	313
April	317	October	316
May	316	November	315
June	315	December	315

Employee Policies

Human Resources and Training has embarked on an exercise to review and update all staff policies.

Health and safety of employees

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

Gifts and donations

The Bank made donations during the year amounting to K0.49 million (2018: K0.39 million) in order to support various charitable organization's and events.

Other material facts, circumstances and events

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

Prohibited borrowings or lending

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

Risk Management and Control

The Bank, through its normal operations, continues to be exposed to a number of risks, the most significant of which are credit, market, operational and liquidity risks. The Bank's risk management objectives, policies and strategies are disclosed in Note 30 to the financial statements.

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Directors' report *(continued)*

Compliance Function

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

Know Your Customer (KYC) and Anti-Money Laundering (AML) Policies


The Bank continues to utilise and update its know-your-customer ("KYC") and anti-money laundering ("AML") policies and comply with current legislation in these areas.

Company Auditor and remuneration

In accordance with the provision of the Articles of Association of the Bank, the auditors PricewaterhouseCoopers Zambia will retire at the forthcoming Annual General Meeting. A resolution for appointing external auditors for the forthcoming year and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

The Auditor remuneration for the year was K976,720 excluding disbursements if any in respect of audit services rendered to the Bank.

Signed on behalf of the Board of Directors



O Y Moyo
Chairperson



M M Bansal
CEO & Managing Director

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Statement of corporate governance

Corporate governance

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

Board of Directors

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

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

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

Other responsibilities and duties:

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

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

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Statement of corporate governance (continued)

Other responsibilities and duties (continued)

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

Board Committees

The Board has established the following committees:

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

The committee-wise responsibilities are as follows:

Board Audit Committee

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

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Statement of corporate governance *(continued)*

Board Risk Management Committee

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

Loans Review Committee

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

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Statement of corporate governance *(continued)*

Nominations and Remuneration Committee

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

Board of Directors evaluation

The Board undertakes an annual self-evaluation in accordance with the Bank of Zambia Banking and Financial Services Corporate Governance Directives. This process helps to identify areas of governance that need to be improved. The Board is determined to gravitate towards external evaluation to enhance feedback from this process.

Risk management and control

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

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

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

Indo Zambia Bank Limited

Annual Report

for the year ended 31 December 2019

Statement of corporate governance *(continued)*

Code of ethics

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

Stakeholder's interest

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

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

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

Indo Zambia Bank Limited

Statement of directors' responsibilities on the financial statements

For the year ended 31 December 2019

The Zambia Companies Act of 2017 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its financial performance. 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 Company adhere to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Zambia Companies Act of 2017.

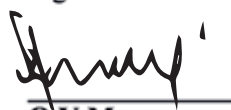
The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Zambia Companies Act.


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

The Directors are of the opinion that the financial statements set out on pages 54 to 148 give a true and fair view of the state of the financial affairs of the Company and of its financial performance in accordance with International Financial Reporting Standards and the Zambia Companies Act of 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Zambia Companies Act of 2017.

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

Signed on behalf of the Board of Directors


O Y Moyo
Chairperson


M M Bansal
CEO & Managing Director

Date: 1 March 2020



Independent auditor's report

To the Shareholders of Indo Zambia Bank Limited

Report on the audit of the annual financial statements

Our opinion

In our opinion, the annual financial statements give a true and fair view of the financial position of Indo Zambia Bank Limited (the "Bank") as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Companies Act, 2017 of Zambia and the Banking and Financial Services Act, 2017 of Zambia.

What we have audited

Indo Zambia Bank Limited's annual financial statements are set out on pages 54 to 148 and comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the annual financial statements, which include a summary of significant accounting policies.

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 annual financial statements* section of our report.

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

Independence

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

PricewaterhouseCoopers, PwC Place, Stand No 2374, Thabo Mbeki Road, P.O. Box 30942, Lusaka, Zambia
T: +260 (211) 334 000, F: +260(211) 256474, www.pwc.com/zm



Report on the audit of the annual financial statements (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>1. Impairment of loans and advances</p> <p>The Bank's gross loans and advances as at 31 December 2019 amounted to K2,224 million and an expected credit loss provision totaling K58 million. This forms a significant portion of the Bank's assets.</p> <p>In coming up with the expected credit loss provision, the bank relies on actuarial models. The Bank exercises significant judgment in assumptions used to come up with the expected credit loss. Key judgements are applied in determining the following inputs to the models:</p> <ul style="list-style-type: none"> • Probabilities of Default (PD) • Loss Given Default (LGD) • Forward-looking information • Exposure at Default (EAD) <p>Additional information about loans and advances is presented in Notes 6 and 19 of the financial statements.</p>	<p>We carried out the following procedures:</p> <p>Reviewed the Bank's methodology for determining expected credit losses and evaluated this against the requirements of IFRS 9.</p> <p>Tested the data inputs used in the model through comparing these to the primary source or independent third parties, where applicable.</p> <p>Challenged how the directors have determined the staging by reviewing management and board credit committee meeting minutes and corroborated the same through review of corresponding customer credit files.</p> <p>Obtained an understanding of the basis used to determine the probabilities of default and re-calculated the probabilities based on the Bank's past credit related financial information using our internal actuarial valuation specialists.</p> <p>For loss given default we traced the expected future cash flows from collateral for a sample of bank's customers to information produced by external valuers. We also tested directors' assumptions on the timing of the cash flows based on the Bank's empirical evidence.</p> <p>For forward looking assumptions used in the expected credit loss calculations, we held discussions with management and the directors, and corroborated the assumptions using publicly available information.</p>



Report on the audit of the annual financial statements (continued)

Other information

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

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

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

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

Responsibilities of the Directors for the annual financial statements

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

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

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

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.



Report on the audit of the annual financial statements (continued)

Auditor's responsibilities for the audit of the annual financial statements (continued)

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

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

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



Report on other legal and regulatory requirements

The Companies Act, 2017 of Zambia

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

- i. as required by section 259 (3)(a), there is a relationship, interest or debt which, ourselves, as the Bank Auditor, have in the Bank;
- ii. as required by section 259 (3)(b), there are serious breaches by the Company's Directors, of corporate governance principles or practices contained in Sections 82 to 122 of Part VII of the Companies Act, 2017 of Zambia; and
- iii. in accordance with section 250 (2), as regards loans made to a Bank, Officer (a director, company secretary or executive officer of the company), the Bank does not state the:
 - particulars of any relevant loan made during the financial year to which the accounts apply, including any loan which was repaid during that year; or
 - amount of any relevant loan, whenever made, which remained outstanding at the end of the financial year.

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



Report on other legal and regulatory requirements (continued)

The Banking and Financial Services Act, 2017 of Zambia


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

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- there are transactions or conditions affecting the ability of the Bank to continue as a going concern which have come to our attention and that in our opinion are not satisfactory and require rectification; and
- any transaction undertaken by the Bank which was not within the powers of the Bank or which was contrary to this Act or other relevant law came to our attention;
- the Bank had non-performing or restructured loans outstanding, whose individual values exceeded 5% of the Bank's regulatory capital.

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


PricewaterhouseCoopers
Chartered Accountants
Lusaka

Date: 6 March 2020


Andrew Chibuye
Practicing Certificate Number: AUD/F002378
Partner signing on behalf of the firm

Indo Zambia Bank Limited

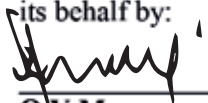
Statement of financial position

as at 31 December 2019

In Zambian Kwacha

	Notes	2019	2018
Assets			
Cash balances with other banks	17	753,279,822	542,144,997
Balances at Central Bank	17	533,315,040	264,727,058
Investment securities	18	2,030,030,024	1,698,923,493
Loans and advances to customers	19	2,166,074,860	1,710,012,172
Other assets	20	88,615,203	99,374,347
Property and equipment	21a	153,239,693	121,462,455
Right of Use Assets	21b	50,499,941	-
Deferred tax asset	15d	21,215,294	4,509,610
Total assets		5,796,269,877	4,441,154,132
Liabilities			
Deposits from customers	22	4,506,578,010	3,305,477,096
Lease Liabilities	21b	54,116,927	-
Other liabilities	23	213,824,491	223,913,495
Current tax liabilities	15c	30,003,161	38,659,959
Total liabilities		4,804,522,589	3,568,050,550
Equity			
Share capital	25	416,000,000	416,000,000
Statutory reserve		15,000,000	15,000,000
Fidelity reserve		126,369	126,369
Credit risk reserve		50,209,880	31,513,275
Revaluation reserve		18,679,600	19,109,220
Retained earnings		491,731,439	391,354,718
Total equity attributable to the equity holders of the bank		991,747,288	873,103,582
Total liabilities and equity		5,796,269,877	4,441,154,132

These financial statements were approved by the board of directors on 1 March 2020 and were signed on its behalf by:


O Y Moyo
 Chairperson


M M Bansal
 CEO & Managing Director


Cuthbert K Tembo
 Company Secretary

The notes on pages 59 to 148 are an integral part of these financial statements.

Indo Zambia Bank Limited

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

In *Zambian Kwacha*

		2019	2018
Interest income	8	833,149,914	552,984,543
Interest expense	9	<u>(296,088,839)</u>	<u>(134,056,681)</u>
Net interest income		537,061,075	418,927,862
Fee and commission income	10	80,496,143	87,870,823
Net trading income	11	42,302,704	40,842,694
Other operating income	12	<u>11,249,714</u>	<u>13,374,751</u>
Total operating income		671,109,636	561,016,130
Impairment loss on financial instruments	6a(iii)	(17,227,961)	(24,755,536)
Administrative expenses	13	(81,186,306)	(70,753,509)
Operating expenses	14	<u>(291,757,680)</u>	<u>(239,010,041)</u>
Profit before income tax		280,937,689	226,497,044
Income tax expense	15a	<u>(102,525,317)</u>	<u>(86,736,416)</u>
Profit for the year		178,412,372	139,760,628
Other comprehensive income:			
Other comprehensive income		-	-
Total comprehensive income		178,412,372	139,760,628

The notes on pages 59 to 148 are an integral part of these financial statements.

Indo Zambia Bank Limited

Statement of changes in equity

for the year ended 31 December 2019

In *Zambian Kwacha*

	Share capital	Statutory reserves	Fidelity reserves	Revaluation reserves	Credit risk reserves	Retained earnings	Total
Balance at 1 January 2018	416,000,000	15,000,000	126,369	19,538,840	-	325,515,356	776,180,565
Adjustment on initial application of IFRS-9, net of tax (See note 16B)	-	-	-	(660,954)	-	12,479,282	12,479,282
Total comprehensive income for the year	-	-	-	-	-	139,760,628	139,760,628
Profit for the year	-	-	-	-	-	139,760,628	139,760,628
Other comprehensive income	-	-	-	(660,954)	-	660,954	-
Amortisation of revaluation surplus	-	-	-	231,334	-	-	231,334
Deferred tax on amortisation of revaluation surplus	-	-	-	(429,620)	-	152,900,864	152,471,244
Total comprehensive income for the year, net of tax	-	-	-	-	-	(55,548,227)	(55,548,227)
Transactions with owners, recorded directly in equity	-	-	-	-	31,513,275	(31,513,275)	-
Dividend paid	-	-	-	-	-	-	-
Adjustment for Bank of Zambia provision	-	-	-	-	-	-	-
Balance at 31 December 2018	416,000,000	15,000,000	126,369	19,109,220	31,513,275	391,354,718	873,103,582
Balance at 1 January 2019	416,000,000	15,000,000	126,369	19,109,220	31,513,275	391,354,718	873,103,582
Adjustment on initial application of IFRS-9, net of tax (See note 16B)	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	178,412,372	178,412,372
Profit for the year	-	-	-	-	-	178,412,372	178,412,372
Other comprehensive income	-	-	-	(660,954)	-	660,954	-
Amortisation of revaluation surplus	-	-	-	231,334	-	-	231,334
Deferred tax on amortisation of revaluation surplus	-	-	-	(429,620)	-	179,073,327	178,643,706
Total comprehensive income for the year, net of tax	-	-	-	-	-	(60,000,000)	(60,000,000)
Transactions with owners, recorded directly in equity	-	-	-	-	-	(18,696,605)	-
Dividend paid	-	-	-	-	-	-	-
Adjustment for Bank of Zambia provision	-	-	-	-	-	-	-
Balance at 31 December 2019	416,000,000	15,000,000	126,369	18,679,600	50,209,880	491,737,439	991,747,288

The notes on pages 59 to 148 are an integral part of these financial statements

Indo Zambia Bank Limited

Statement of changes in equity *(continued)* *for the year ended 31 December 2019*

Statutory reserve

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

Fidelity reserve

The fidelity reserve arises from compliance with section 159 of the Banking and Financial Services Act 2017, which requires the Bank to maintain a special reserve account for the purpose of making good any loss resulting from potential negligence and dishonesty of directors, the chief executive officer, managers or employees. In addition, the Bank has taken out an insurance policy with an approved insurer for this purpose.

Revaluation reserve

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

Credit risk reserve

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

Retained earnings

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

The notes on pages 59 to 148 are an integral part of these financial statements.

Indo Zambia Bank Limited

Statement of cash flows

for the year ended 31 December 2019

In Zambian Kwacha

	Note	2019	2018
Cash flow from operating activities			
Profit for the year		178,412,372	139,760,628
Adjustment for			
▪ Profit on sale of property, plant and equipment	12	(252,005)	(96,190)
▪ Depreciation	21	17,085,156	18,200,923
▪ Amortisation of right of use asset	21b	10,874,680	-
▪ Write off fixed assets		1,592,441	-
▪ Payment of interest on lease liabilities		5,145,388	-
▪ Exchange differences		(4,011,157)	(3,170,823)
▪ Tax expense	15(a)	102,525,317	86,736,416
▪ Interest expense	9	296,088,839	134,056,681
▪ Interest income	8	(833,149,914)	(552,984,543)
		<u>(225,688,883)</u>	<u>(177,496,908)</u>
Changes in:			
▪ Loans and advances to customers		(456,062,688)	(404,440,738)
▪ Other assets		10,759,144	(37,416,847)
▪ Customer deposits		1,201,100,914	647,337,610
▪ Other liabilities		(10,089,004)	65,426,488
		<u>520,019,483</u>	<u>93,507,435</u>
Tax paid	15(c)	(127,656,466)	(75,354,758)
Interest paid	9	(296,088,839)	(134,056,681)
Interest received	8	833,149,914	552,984,543
Net cash generated from operating activities		<u>929,424,092</u>	<u>437,080,539</u>
Cash flows from investing activities			
Acquisition of property and equipment	21	(50,646,304)	(6,125,762)
Acquisition of investment securities	18	(331,106,531)	(354,221,008)
Proceeds from disposal of property and equipment		443,475	96,190
Net cash utilised in investing activities		<u>(381,309,360)</u>	<u>(360,250,580)</u>
Cash flows from financing activities			
Repayment of principal on lease liabilities		(7,257,694)	-
Payment of interest on lease liabilities		(5,145,388)	-
Dividends paid		(60,000,000)	(55,548,227)
Net cash flows utilised in financing activities		<u>(72,403,082)</u>	<u>(55,548,227)</u>
Net increase/(decrease) in cash and cash equivalents		475,711,650	21,281,732
Cash and cash equivalents at 1 January		806,872,055	782,419,500
Effect of exchange rate fluctuations on cash held		4,011,157	3,170,823
Cash and cash equivalents at 31 December	17	<u>1,286,594,862</u>	<u>806,872,055</u>
Represented by:			
Cash and cash equivalents		<u>902,538,479</u>	<u>623,833,879</u>

The notes on pages 59 to 148 are an integral part of these financial statements.

Indo Zambia Bank Limited

Notes to the financial statements

for the year ended 31 December 2019

1 Reporting entity

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

2 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act and the Banking and Financial Services Act of Zambia. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). They were approved by the Bank’s Board of Directors. The board of directors have the power to amend the financials statements after issue.

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

3 Functional and presentation currency

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

4 Use of judgements and estimates

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

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

(a) Judgements

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

4 Use of judgements and estimates *(continued)*

(a) Judgements *(continued)*

- Note 6(a)(iii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.
- Notes 32(g)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes.

- Note 6(a)(iii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 26: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Note 32(g)(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- Note 15d: Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.

5 Changes in accounting policies

(i) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019.

- IFRS 16 Leases
- Interpretation 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

5 Changes in accounting policies *(continued)*

a. IFRS 16 Lease Accounting

The bank applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

Previously, the bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 21(b) & 32.

On transition to IFRS 16, the bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

ii. As a lessee

As a lessee, the bank leases some branch and office premises and IT equipment. The bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the bank. Under IFRS 16, the bank recognises right-of-use assets and lease liabilities for leases of branch premises, ATM premises and ATM machines – i.e. these leases are on-balance sheet.

Further, the bank has entered new lease for officer's residence and ATM premises during the year ended 31 December 2019.

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

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the bank's incremental borrowing rate as at 1 January 2019 (see Note 21b). The right-of-use assets was assumed to equal lease liability as at 1 January 2019.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

5 Changes in accounting policies *(continued)*

a. IFRS 16 Lease Accounting *(continued)*

iii. As a lessee *(continued)*

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

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);
- used hindsight when determining the lease term.
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics reliance on previous assessments on whether leases are onerous

On transition to IFRS 16, the bank recognised right-of-use assets and lease liabilities as at 1 January 2019.

	1 January 2019
Right of use assets	58,003,214
Lease liabilities	58,003,214

For the impact of IFRS 16 on profit or loss for the period, see Note 21(b). For the details of accounting policies under IFRS 16 and IAS 17, see Note 21(b).

When measuring lease liabilities for leases that were classified as operating leases, the bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 15% and 7% for rentals quoted in kwacha and dollar respectively.

	1 January 2019
Operating lease commitments for rentals in quoted Kwacha at 31 December 2018 under IAS 17	34,233,615
Operating lease commitments for rentals in Dollar Kwacha equivalent as at 31 December 2018	38,776,749
Discounted using the incremental borrowing rate at 1 January 2019	55,304,214
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease	-
Recognition of restoration costs	2,700,000
Lease liabilities recognised at 1 January 2019	58,003,214

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

5 Changes in accounting policies *(continued)*

b. Interpretation 23 (IFRIC 23) :Uncertainty over Income Tax Treatments

During the year, the Bank adopted IFRIC 23 . The standard provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management has assessed the existing models against the specific guidance in the Interpretation and also considered the impact on income tax accounting. Based on this assessment, there were no material impact on the Bank

c. Amendments to IFRS 9 – ‘Financial instruments’ on prepayment features with negative compensation and modification of financial liabilities

The Bank adopted amendments to IFRS 9 as issued by the International Accounting standards Board (IASB) effective 1 January 2019. The narrow-scope amendment covers two issues:

- The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings

There application of the standard did not have a material impact on the Bank.

(ii). New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Bank. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)* for the year ended 31 December 2019

6 Financial risk review

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

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

a) Credit risk

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

i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

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

			2019			
	Note	12-month PD Ranges	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost						
Grades 1: Low-fair risk		0.24%-100%	1,943,144,890	-	-	1,943,144,890
Grades 2: Medium risk		0.55%-100%	-	43,847,704	-	43,847,704
Grades 3: Higher risk		0.55%-100%	-	83,239,979	-	83,239,979
Grade 4: Substandard		100%	-	-	44,331,506	44,331,506
Grade 5: Doubtful		100%	-	-	6,192,901	6,192,901
Grade 6: Loss		100%	-	-	103,611,086	103,611,086
Gross carrying amount	19		1,943,144,890	127,087,683	154,135,493	2,224,368,066
Loss allowance	19		(5,175,765)	(3,880,707)	(49,236,734)	(58,293,206)
Carrying amount	19		1,937,969,125	123,206,976	104,898,759	2,166,074,860
Debt investments securities at amortised cost						
Grades 1: Low-fair risk		3.5%	2,031,461,538	-	-	2,031,461,538
Loss allowance			(1,431,514)	-	-	(1,431,514)
Carrying amount	18		2,030,030,024	-	-	2,030,030,024
Financial guarantee contracts & loan commitments						
Grades 1: Low-fair risk		6.68%	38,380,079	-	-	38,380,079
Loss allowance			(468,920)	-	-	(468,920)
Carrying amount			37,911,159	-	-	37,911,159

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

i) Credit quality analysis *(continued)*

	Note	12-month PD Ranges	Stage 1	Stage 2	2018 Stage 3	Total
Loans and advances to customers at amortised cost						
Grades 1: Low-fair risk		0.09%-100%	1,582,788,196	-	-	1,555,474,250
Grades 2: Medium risk		1.80%-100%	-	27,093,172	-	27,093,172
Grades 3: Higher risk		5.20%-100%	-	13,869,137	-	13,869,137
Grade 4: Substandard		100%	-	-	18,337,197	18,337,197
Grade 5: Doubtful		100%	-	-	68,293,285	68,293,285
Grade 6: Loss		100%	-	-	42,047,213	42,047,213
Gross carrying amount	19		1,582,788,196	40,962,309	128,677,695	1,752,428,200
Loss allowance	19		(4,978,563)	(844,249)	(36,593,216)	(42,416,028)
Carrying amount	19		1,577,809,633	40,118,060	92,084,479	1,710,012,172
Debt investments securities at amortised cost						
Grades 1: Low-fair risk		0.00%	1,698,923,493	-	-	1,698,923,493
Loss allowance			-	-	-	-
Carrying amount	18		1,698,923,493	-	-	1,698,923,493
Financial guarantee contracts & loan commitments						
Grades 1: Low-fair risk		4.45%	42,438,636	-	-	42,438,636
Loss allowance			(48,915)	-	-	(48,915)
Carrying amount			42,389,721	-	-	42,389,721

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

i) Credit quality analysis *(continued)*

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

	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost – gross carrying				
Current & Overdue < 30 days	1,943,144,890	-	-	1,943,144,890
Overdue > 30 days	-	127,087,683	154,135,493	281,223,176
Total	1,943,144,890	127,087,683	154,135,493	2,224,368,066
Debt investments securities at amortised cost				
Current & Overdue < 30 days	2,031,461,538	-	-	2,031,461,538
Total	2,031,461,538	-	-	2,031,461,538

	2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost – gross carrying				
Current & Overdue < 30 days	1,582,788,196	-	-	1,582,788,196
Overdue > 30 days	-	40,962,309	128,677,695	169,640,004
Total	1,582,788,196	40,962,309	128,677,695	1,752,428,200
Debt investments securities at amortised cost				
Current & Overdue < 30 days	1,698,923,493	-	-	1,698,923,493
Total	1,698,923,493	-	-	1,698,923,493

ii) Collateral held and other credit enhancements

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

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

Type of credit exposure

Exposure that is subject to collateral requirements

	<i>Note</i>	2019	2018	Principal type of collateral held
Loans and advances to retail customers	19			
Mortgage lending		83,332,074	136,005,525	Residential property
Other retail lending		65,104,589	82,169,191	Vehicles and other tangible assets
Loans and advances to corporate customers	19			
Other		1,326,406,794	1,084,556,340	Commercial property, floating charges over movable assets
Investments Sovereign Securities	18	2,030,030,024	1,698,923,493	Sovereign guarantee by Government Republic of Zambia

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as premises, inventory and accounts receivable
- Charges over financial instruments such as debt instruments; and
- Cash

Longer-term finance and lending to corporate entities are generally secured. Certain personal credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank in certain instances, may seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral quality and values are determined through professional appraisals commissioned by the Bank at origination of credit facilities. Assessed open market values (OMV) of collateral are subject to internal haircuts in determining collateral adequacy for lending purposes. For IFRS impairment considerations, it is the Bank's policy to use the forced sale values (FSV) of collateral less the estimated allocated costs to dispose of collateral. The Bank is not permitted to sell or repledge the collateral in the absence of default by owner.

Indo Zambia Bank Limited

Notes to the financial statements (continued)
for the year ended 31 December 2019

6 Financial risk review (continued)

a) Credit risk (continued)

ii) Collateral held and other credit enhancements (continued)

2019	Maximum credit exposure	Cash	Property	3 rd party/ govt guarantee	Other securities	Total collateral	Net exposure	Corresponding ECLs
Financial assets								
Cash balances with other banks	753,279,822	-	-	-	-	-	753,279,822	-
Balances at Central Bank	533,315,040	-	-	-	-	-	533,315,040	-
Investment securities	2,030,030,024	-	-	-	-	-	2,030,030,024	1,431,514
Loans and advances to customers	2,224,368,066	127,278,647	1,142,049,161	385,549,017	352,512,625	2,007,389,450	216,978,616	58,293,206
Other assets	88,615,203	-	-	-	-	-	88,615,203	-
Total financial assets	5,629,608,155	127,278,647	1,142,049,161	385,549,017	352,512,625	2,007,389,450	3,622,218,075	59,724,720
Off balance sheet								
Financial guarantees	29,126,595	15,118,288	24,895,378	-	4,366,458	44,380,125	(15,253,529)	206,794
Letters of credit	9,253,484	919,046	1,750,533	-	236,283	2,905,862	6,347,622	262,126
Total off balance sheet	38,380,079	16,037,334	26,645,912	-	4,602,741	47,285,987	(8,905,907)	468,920
Total (including off balance sheet)	5,667,988,234	143,315,981	1,168,695,072	385,549,017	357,115,366	2,054,675,436	3,613,312,798	60,193,640

Indo Zambia Bank Limited

Notes to the financial statements (continued)
for the year ended 31 December 2019

6 Financial risk review (continued)

a) Credit risk (continued)

ii) Collateral held and other credit enhancements (continued)

2018	Maximum credit exposure	Cash	Property	3 rd party/ govt guarantee	Other securities	Total collateral	Net exposure	Corresponding ECLs
Financial assets								
Cash balances with other banks	542,144,997	-	-	-	-	-	542,144,997	-
Balances at Central Bank	264,727,058	-	-	-	-	-	264,727,058	-
Investment securities	1,698,923,493	-	-	-	-	-	1,698,923,493	-
Loans and advances to customers	1,752,428,200	128,750,850	758,429,063	169,802,325	197,303,286	1,254,285,524	498,142,676	42,416,028
Other assets	99,374,347	-	-	-	-	-	99,374,347	-
Total financial assets	4,357,598,095	128,750,850	758,429,063	169,802,325	197,303,286	1,254,285,524	3,103,312,571	42,416,028
Off balance sheet								
Financial guarantees	33,763,305	9,771,746	23,338,478	-	5,542,571	38,652,795	(4,889,490)	31,567
Letters of credit	8,675,331	372,183	252,116	-	479,111	1,103,409	7,571,921	17,348
Total off balance sheet	42,438,636	10,143,929	23,590,594	-	6,021,682	39,756,205	2,682,431	48,915
Total (including off balance sheet)	4,400,036,731	138,894,779	782,019,657	169,802,325	203,324,968	1,294,041,729	3,105,995,002	42,464,943

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

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

Residential mortgage lending

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

	2019	2018
LTV ratio		
Less than 50%	7,868,299	37,557,999
51–70%	7,165,073	30,859,403
71–90%	4,511,715	26,891,272
91–100%	4,254,174	10,892,183
More than 100%	111,124,284	831,211
Total	134,923,545	107,032,068
Credit-impaired loans		
	2019	2018
Less than 50%	15,671	412,193
51–70%	5,276	764,194
More than 70%	1,207,440	1,116,220
Total	1,228,387	2,292,607

Loans and advances to corporate customers

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

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

The table below sets out the carrying amount and the value of identifiable collateral (mainly Cash, commercial & mortgaged property) held against loans and advances to customers measured at amortised cost, other than reverse sale-and-repurchase agreements. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

	2019		2018	
	Carrying amount	Collateral	Carrying amount	Collateral
Stages 1 and 2	1,012,935,378	815,835,760	908,695,261	436,697,431
Stage 3	124,168,102	63,580,771	115,185,799	55,710,435
Total	1,137,103,480	879,416,531	1,023,881,060	492,407,866

Other types of collateral and credit enhancements

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

Assets obtained by taking possession of collateral

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

	2019	2018
Property	6,423,200	5,395,000

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

Investment securities

The Bank currently invests in Treasury bills and Bonds. These instruments are measured at amortised cost and held in the business model, "Held to Collect". Cash flows from these instruments are mainly the contractual principle and interest. These cash flow characteristics pass the "SPPI" test. The Bank does not hold these instruments for purposes of selling in the secondary market but rather holds them to maturity. The Bank does not acquire any investments with an intention to engage in trading to realise value from favourable movements in market price. These investments are guaranteed by Government Republic of Zambia by way of sovereign guarantee

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

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

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

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

Credit risk grades

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Credit risk grades *(continued)*

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Credit risk grades *(continued)*

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to Probability of Default (D).

Corporate loan portfolio

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

Grading	12-month weighted-average	Internal rating
Grades 1: Low-fair risk	3.00	AAA to AA
Grades 2: Medium risk	20.94	A
Grades 3: Higher risk	16.75	A
Grades 4-6: Substandard, doubtful, loss	100.00	B-C (Default)

Retail loan portfolio

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

Grading	12-month weighted-average PD
Grades 1: Low-fair risk	2.17
Grades 2: Medium risk	16.15
Grades 3: Higher risk	20.99
Grades 4-6: Substandard, doubtful, loss	100.00

Investment securities:

Debt investment securities with Government Republic of Zambia are graded as low-fair risk. The Bank has no other debt investment securities other than with the Government Republic of Zambia. In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The currency in which the debt is denominated and Government's ability to print money.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iv) Amounts arising from ECL *(continued)*

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

Credit risk grades *(continued)*

Balances with other banks including central Bank

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

Other assets

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

Generating the term structure of PD

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

The Bank generates probabilities of default using the migration matrix. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Determining whether credit risk has increased significantly

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

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

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

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

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Significant increase in credit risk *(continued)*

Definition of default

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

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

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

Quantitative criteria:

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

Qualitative criteria

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Definition of default *(continued)*

Incorporation of forward-looking information

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Incorporation of forward-looking information *(continued)*

The economic scenarios used as at 31 December 2019 included the following key indicators for Zambia for the years ending 31 December 2020 to 2024.

	2020	2021	2022	2023	2024
Commercial lending rates	Base 28% Upside 25% Downside 31%	Base 29% Upside 26% Downside 31%	Base 29% Upside 27% Downside 32%	Base 30% Upside 27% Downside 33%	Base 29% Upside 26% Downside 32%
Inflation rate	Base 10% Upside 5% Downside 15%	Base 10% Upside 4% Downside 15%	Base 9% Upside 4% Downside 14%	Base 9% Upside 3% Downside 14%	Base 8% Upside 3% Downside 14%
GDP per capita	Base 1,929 Upside 2,208 Downside 1,650	Base 2,097 Upside 2,376 Downside 1,818	Base 2,265 Upside 2,544 Downside 1,986	Base 2,433 Upside 2,712 Downside 2,154	Base 2,601 Upside 2,880 Downside 2,322
Copper Prices	Base 6,588 Upside 7,282 Downside 5,894	Base 6,810 Upside 7,504 Downside 6,116	Base 7,040 Upside 7,734 Downside 6,346	Base 8,204 Upside 8,898 Downside 7,510	Base 8,741 Upside 9,435 Downside 8,047

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years from 2015 to 2019.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iv) Amounts arising from ECL *(continued)*

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

Incorporation of forward-looking information *(continued)*

The economic scenarios used as at 31 December 2018

	2019	2020	2021	2022	2023
Commercial lending rates	Base 6% Upside 25% Downside 27%	Base 6% Upside 24% Downside 27%	Base 6% Upside 23% Downside 26%	Base 6% Upside 23% Downside 25%	Base 6% Upside 22% Downside 25%
Inflation rate	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%	Base 6% Upside 3% Downside 9%
GDP per capita	Base 1,674 Upside 1,683 Downside 1,665	Base 1,687 Upside 1,695 Downside 1,678	Base 1,699 Upside 1,708 Downside 1,691	Base 1,712 Upside 1,720 Downside 1,703	Base 1,725 Upside 1,733 Downside 1,716
Government T-bill	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%	Base 7.5% Upside 3% Downside 12%

Sensitivity analysis

The most significant macro-economic assumptions affecting the ECL allowance are: lending rates and exchange rates. To test the sensitivity of the impairment to changes in the relevant macro-economic factors, an assumption that an improvement or downturn in these factors would result in a 10% decrease or increase, in the forecast probabilities of default resulting in an increase/(decrease) of K1.02 m of impairment for the year.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Measurement of ECL

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

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

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

The methodology of estimating PDs is discussed above under the heading ‘Generating the term structure of PD’.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

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

Measurement of ECL *(continued)*

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

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

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

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

Indo Zambia Bank Limited

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

In *Zambian Kwacha*

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

Loss allowance

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

Movement in ECL was as follows;

	2019			Total
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at amortised cost*				
Balance at 1 January	4,978,563	844,249	36,593,216	42,416,028
Transfer to Stage 1	7,402,277	(418,932)	(6,983,345)	-
Transfer to Stage 2	(317,441)	595,028	(277,587)	-
Transfer to Stage 3	(162,973)	(256,133)	419,106	-
Net remeasurement of loss allowance	(8,261,487)	2,663,281	(5,468,958)	(11,067,164)
New financial assets originated or purchased	1,536,826	453,214	24,954,302	26,944,342
Write-offs/ Recoveries	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance at 31 December	5,175,765	3,880,707	49,236,734	58,293,206

	2018			Total
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at amortised cost*				
Balance at 1 January	3,158,053	148,866	14,361,284	17,668,203
Transfer to Stage 1	57,486	(57,486)	-	-
Transfer to Stage 2	(145,603)	146,101	(498)	-
Transfer to Stage 3	951,542	(51,878)	(899,664)	-
Net remeasurement of loss allowance	(1,351,008)	249,478	31,988,321	30,886,791
New financial assets originated or purchased	2,308,093	409,168	645,189	3,362,450
Write-offs/ Recoveries	-	-	(9,501,416)	(9,501,416)
Foreign exchange and other movements	-	-	-	-
Balance at 31 December	4,978,563	844,249	36,593,216	42,416,028

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

Indo Zambia Bank Limited

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

In Zambian Kwacha

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iii) Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

	Stage 1	2019 Stage 2	Stage 3	Total
Loans and advances to retail customers at amortised cost				
Balance at 1 January	2,490,135	656,605	10,523,135	13,669,875
Transfer to Stage 1	1,810,948	(285,586)	(1,525,362)	-
Transfer to Stage 2	(177,789)	429,310	(251,521)	-
Transfer to Stage 3	(99,635)	(192,767)	292,402	-
Net remeasurement of loss allowance	(1,988,364)	864,851	2,349,226	1,225,713
New financial assets originated or purchased	782,845	399,470	416,954	1,599,269
Write-offs/ Recoveries	-	-	-	-
Balance at 31 December	2,818,140	1,871,883	11,804,834	16,494,857

	Stage 1	2018 Stage 2	Stage 3	Total
Loans and advances to retail customers at amortised cost				
Balance at 1 January	2,044,931	92,996	4,632,120	6,770,047
Transfer to Stage 1	17,335	(16,336)	(999)	-
Transfer to Stage 2	(58,578)	58,578	-	-
Transfer to Stage 3	(41,600)	(41,593)	83,193	-
Net remeasurement of loss allowance	(1,112,941)	178,243	7,011,556	6,076,858
New financial assets originated or purchased	1,640,988	384,717	398,770	2,424,475
Write-offs/ Recoveries	-	-	(1,601,505)	(1,601,505)
Balance at 31 December	2,490,135	656,605	10,523,135	13,669,875

	Stage 1	2019 Stage 2	Stage 3	Total
Loans and advances to corporate customers at amortised cost				
Balance at 1 January	2,488,428	187,644	26,070,081	28,746,153
Transfer to Stage 1	5,591,329	(133,346)	(5,457,983)	-
Transfer to Stage 2	(139,652)	165,718	(26,066)	-
Transfer to Stage 3	(63,338)	(63,366)	126,704	-
Net remeasurement of loss allowance	(6,273,122)	1,798,429	(7,818,184)	(12,292,877)
New financial assets originated or purchased	753,980	53,744	24,537,349	25,345,073
Write-offs/ Recoveries	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance at 31 December	2,357,625	2,008,823	37,431,901	41,798,349

Indo Zambia Bank Limited

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

In *Zambian Kwacha*

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iv) Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

	Stage 1	2018 Stage 2	Stage 3	Total
Loans and advances to corporate customers at amortised cost				
Balance at 1 January	1,113,122	55,870	9,729,164	10,898,156
Transfer to Stage 1	1,113,185	(38,659)	(1,074,526)	-
Transfer to Stage 2	(87,025)	86,118	907	-
Transfer to Stage 3	(74,992)	(8,880)	83,872	-
Net remeasurement of loss allowance	(242,967)	68,744	24,984,156	24,809,933
New financial assets originated or purchased	667,105	24,451	246,419	937,975
Write-offs/ Recoveries	-	-	(7,899,911)	(7,899,911)
Balance at 31 December	2,488,428	187,644	26,070,081	28,746,153
			2019	2018
Debt investment securities at amortised cost				
Balance at 1 January			-	-
Net remeasurement of loss allowance			-	-
New financial assets originated or purchased			1,431,514	-
Balance at 31 December			1,431,514	-
			2019	2018
Financial guarantee contracts & loan commitments				
Balance at 1 January			48,915	41,204
Net remeasurement of loss allowance			(31,369)	-
New loan commitments and financial guarantees issued			451,374	7,711
Balance at 31 December			468,920	48,915

The following table provides a reconciliation between:

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In Zambian Kwacha

6 Financial risk review *(continued)*

a) Credit risk *(continued)*

iv) Amounts arising from ECL *(continued)*

2019	Loans and advances to customers at amortised cost	Debt investment securities at amortised cost	Loan commitments and financial guarantee contracts	Total
Net remeasurement of loss allowance	(11,067,164)	-	(31,369)	(11,098,533)
New financial assets originated or purchased	26,944,342	1,431,514	451,374	28,827,230
Total	15,877,178	1,431,514	420,005	17,728,697
Recoveries of amounts previously written off/ impaired/ other adjustment	(80,731)	-	-	(80,731)
Total	15,796,447	1,431,514	420,005	17,647,966
2018	Loans and advances to customers at amortised cost	Debt investment securities at amortised cost	Loan commitments and financial guarantee contracts	Total
Net remeasurement of loss allowance	30,886,791	-	-	30,886,791
New financial assets originated or purchased	3,362,450	-	7,711	3,370,161
Total	34,249,241	-	7,711	34,256,952
Recoveries of amounts previously written off/ impaired	(9,501,416)	-	-	(9,501,416)
Total	24,747,825	-	7,711	24,755,536

There is significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance. Loss allowances are on account of subdued economic conditions, crop failures during the year and fluctuations in exchange rates.

Indo Zambia Bank Limited

Notes to the financial statements (continued)

for the year ended 31 December 2019

6 Financial risk review (continued)

a) Credit risk (continued)

iv) Concentration of credit risk

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

	Loans and advances to customers		Investment securities	
	2019	2018	2019	2018
1 Agriculture,	86,364,109	99,297,499	-	-
2 Mining and quarrying	2,363,735	13,937,296	-	-
3 Manufacturing	342,929,312	254,905,785	-	-
4 Electricity, gas, water and energy	-	3,744,243	-	-
5 Construction	9,979,733	12,450,406	-	-
6 Wholesale and retail trade	196,434,374	213,298,511	-	-
7 Restaurants and hotels	5,860,384	5,133,109	-	-
8 Transport, storage and communications	76,221,790	62,603,865	-	-
9 Financial services	5,813,396	7,050,055	-	-
10 Community, social and personal services	15,925,485	17,098,718	-	-
11 Real estate	69,069,319	87,623,277	-	-
12 Government	823,016,580	316,622,446	2,026,208,342	1,698,923,493
13 Others	532,096,645	616,246,962	-	-
Carrying amount	<u>2,166,074,860</u>	<u>1,710,012,172</u>	<u>2,026,208,342</u>	<u>1,698,923,493</u>

v) Offsetting financial assets and financial liabilities

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

b) Liquidity risk

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

i. Exposure to liquidity risk

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

	2019	2018
At 31 December	79.15%	82.74%
Average for the period	73.00%	79.56%
Maximum for the period	87.76%	91.17%
Minimum for the period	64.44%	66.86%

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

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

Indo Zambia Bank Limited

Notes to the financial statements (continued) for the year ended 31 December 2019

In Zambian Kwacha

6 Financial risk review (continued)

b) Liquidity risk (continued) ii. Maturity analysis for financial liabilities and financial assets

The following table below analyses financial assets and financial liabilities of the Bank into relevant contractual, undiscounted maturity groupings:

	2019	Carrying amount	Gross nominal	up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Financial assets								
Cash balances at Bank of Zambia	533,315,040	533,315,040	149,258,657	-	-	-	384,056,383	-
Cash and cash equivalents	753,279,822	753,279,822	753,279,822	-	-	-	-	-
Investment securities	2,030,030,024	2,031,461,538	299,227,620	109,641,567	1,294,333,388	189,005,721	139,253,242	
Loans and advances to customers	2,166,074,860	2,224,368,066	461,519,273	158,025,496	286,540,749	1,204,695,039	113,587,509	
Other assets	88,615,203	88,615,203	3,819,294	38,031,104	35,336,311	-	11,428,494	
Total financial assets	5,571,314,949	5,631,039,669	1,667,104,666	305,698,167	1,616,210,448	1,777,757,143	264,269,245	
Financial liabilities								
Deposits from customers	(4,506,578,010)	(4,506,578,010)	(759,527,654)	(410,857,543)	(1,658,539,190)	(1,677,653,623)	-	
Other liabilities	(213,824,491)	(213,824,491)	(38,745,668)	(3,795,193)	(10,644,431)	(9,978,022)	(150,192,257)	
Lease liabilities	(54,116,927)	(54,116,927)	(625,000)	(1,250,000)	(5,625,000)	(46,616,927)	-	
Corporate tax liability	(30,003,161)	(30,003,161)	(30,003,161)	-	-	-	-	
Total financial liabilities	(4,804,522,589)	(4,804,522,589)	(828,901,483)	(415,902,736)	(1,674,808,621)	(1,734,717,492)	(150,192,257)	
Net liquidity gap	766,792,360	826,517,080	838,203,183	(110,204,569)	(58,598,173)	43,039,651	114,076,988	

Indo Zambia Bank Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2019

In Zambian Kwacha

6 Financial risk review (*continued*)

b) w (*continued*)

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

The following table below analyses financial assets and financial liabilities of the Bank into relevant contractual, undiscounted maturity groupings:
2018

	Carrying amount	Gross nominal	up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Financial assets							
Cash balances at Bank of Zambia	264,727,058	264,727,058	81,688,882	-	-	183,038,176	-
Cash and cash equivalents	542,144,997	542,144,997	542,144,997	-	-	-	-
Investment securities	1,698,923,493	1,698,923,493	234,453,000	204,320,879	977,474,759	69,368,929	213,305,926
Loans and advances to customers	1,710,012,172	1,752,428,200	182,600,934	125,014,758	348,584,930	1033,031,297	63,196,281
Other assets	99,374,347	99,374,347	33,125,547	36,050,127	20,336,311	-	9,862,362
Total financial assets	4,315,182,067	4,357,598,095	1,074,013,360	365,385,764	1,346,396,000	1,285,438,402	286,364,569
Financial liabilities							
Deposits from customers	(3,305,477,096)	(3,305,477,096)	(468,001,334)	(241,715,571)	(1,395,497,577)	(1,200,262,614)	-
Other liabilities	(223,913,495)	(223,913,495)	(21,450,597)	(37,077,493)	-	-	(165,385,405)
Corporate tax liability	(38,659,959)	(38,659,959)	(38,659,959)	-	-	-	-
Total financial liabilities	(3,568,050,550)	(3,568,050,550)	(528,111,890)	(278,793,064)	(1,395,497,577)	(1,200,262,614)	(165,385,405)
Net liquidity gap	747,131,517	789,547,545	545,901,470	86,592,700	(49,101,577)	85,175,788	120,979,164

Indo Zambia Bank Limited

Notes to the financial statements *(continued)* for the year ended 31 December 2019

In *Zambian Kwacha*

6 Financial risk review *(continued)*

b) Liquidity risk *(continued)*

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

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

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

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

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

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

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

	2019	2018
Financial assets		
Investment securities	1,703,202,575	1,416,248,638
Loans and advances to customers	906,085,518	656,200,622
	<u>2,609,288,093</u>	<u>2,072,449,260</u>
Financial liabilities		
Deposits from customers	<u>2,828,924,387</u>	<u>2,105,214,482</u>

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

	2019	2018
Financial assets		
Investment securities	328,258,963	282,674,855
Loans and advances to customers	1,318,282,548	1,096,227,578
	<u>1,646,541,511</u>	<u>1,378,902,433</u>
Financial liabilities		
Deposits from customers	<u>1,677,653,623</u>	<u>1,200,262,614</u>

Indo Zambia Bank Limited

Notes to the financial statements (continued) for the year ended 31 December 2019

In Zambian Kwacha

6 Financial risk review (continued)

b) Liquidity risk (continued)

iii. Liquidity reserves

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

	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Balances with central banks	533,315,040	533,315,040	264,727,058	264,727,058
Cash and cash equivalents	753,279,822	753,279,822	542,144,997	542,144,997
Unencumbered debt securities issued by sovereigns	2,010,070,618	2,010,070,618	1,675,389,113	1,675,389,113
Undrawn credit lines granted by other banks*	70,550,000	70,550,000	59,575,000	59,575,000
Total liquidity reserves	3,367,215,480	3,367,215,480	2,541,836,168	2,541,836,168

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

iv. Net debt reconciliation

The section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2019	2018
Cash and cash equivalents	1,286,594,862	806,872,055
Borrowings	-	-
Lease liabilities	(54,116,927)	-
Total liquidity reserves	1,232,477,935	806,872,055
Cash and cash equivalents	1,286,594,862	806,872,055
Gross debt – fixed interest rates	(54,116,927)	-
Gross debt – variable interest rates	-	-
Total liquidity reserves	1,232,477,935	806,872,055

2019	Liabilities from financing activities		Other assets	Total
	Borrowings	Leases	Cash & cash equivalents	
Net balance as at 1 January 2019	-	(58,003,214)	806,872,055	748,868,841
Cash flows	-	3,886,287	475,711,650	479,597,937
Foreign exchange differences	-	-	4,011,157	4,011,157
Net balance as at 31 December 2019	-	(54,116,927)	1,286,594,862	1,232,477,935
2018	Liabilities from financing activities		Other assets	Total
	Borrowings	Leases	Cash & cash equivalents	
Net balance as at 1 January 2018	-	-	782,419,500	782,419,500
Cash flows	-	-	21,281,732	21,281,732
Foreign exchange differences	-	-	3,170,823	3,170,823
Net balance as at 31 December 2018	-	-	806,872,055	806,872,055

Indo Zambia Bank Limited

Notes to the financial statements (continued) for the year ended 31 December 2019

In Zambian Kwacha

6 Financial risk review (continued)

b) Liquidity risk (continued)

iv. Financial assets available to support future funding

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

	<i>Not e</i>	Encumbered Pledged as collateral (at Fair value)	Unencumbered		Total
			Available as collateral	Other	
31 December 2019					
Cash balances at Bank of Zambia*	17	-	533,315,040	-	533,315,040
Cash and cash equivalents	17	-	583,718,983	169,560,839	753,279,822
Investment securities	18	19,959,406	2,010,070,618	-	2,030,030,024
Loans and advances to customer	19	-	-	2,166,074,860	2,166,074,860
Other financial assets	20	-	-	88,615,203	88,615,203
Total assets		19,959,406	3,127,104,641	2,424,250,902	5,571,314,949
31 December 2018					
Cash balances at Bank of Zambia*	17	-	264,727,058	-	264,727,058
Cash and cash equivalents	17	-	439,925,940	102,219,057	542,144,997
Investment securities	18	23,534,380	1,675,389,113	-	1,698,923,493
Loans and advances to customer	19	-	-	1,710,012,172	1,710,012,172
Other financial assets	20	-	-	99,374,347	99,374,347
Total assets		23,534,380	2,380,042,111	1,911,605,576	4,315,182,067

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

v. Financial assets pledged as collateral

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2019 and 2018 is shown in the preceding table.

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

At 31 December 2019, the fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default was K60 million (2018: K122 million). There were no assets that were repledged or sold in the year.

Indo Zambia Bank Limited

Notes to the financial statements (continued) for the year ended 31 December 2019

In *Zambian Kwacha*

6 Financial risk review (continued)

c) Market risk

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

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

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

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

2019	Total	Zero rate instruments	Floating rate instruments	Fixed rate instruments		
				Less than 3 months	3 months – 1 year	Over 1 year
Cash balances at Bank of Zambia	533,315,040	533,315,040	-	-	-	-
Cash and cash equivalents	753,279,822	693,279,822	-	60,000,000	-	-
Investment securities	2,030,030,024	-	-	408,869,187	1,294,333,388	326,827,449
Loans and advances to customers	2,166,074,860	-	-	619,547,739	286,540,809	1,259,986,312
Other assets	88,615,203	88,615,203	-	-	-	-
Total financial assets	5,571,314,949	1,315,210,065	-	1,088,416,926	1,580,874,197	1,586,813,761
Financial liabilities						
Deposits from customers	(4,506,578,010)	(1,088,679,639)	-	(759,956,496)	(1,263,249,675)	(1,394,692,200)
Lease liabilities	(54,116,927)	-	-	-	-	(54,116,927)
Other liabilities	(213,824,491)	(213,824,491)	-	-	-	-
Total financial liabilities	(4,774,519,428)	(1,302,504,130)	-	(759,956,496)	(1,263,249,675)	(1,448,809,127)
Interest rate gap position	796,795,521	12,705,935	-	328,460,430	317,624,522	138,004,634
2018						
	Total	Zero rate instruments	Floating rate instruments	Fixed rate instruments		Over 1 year
				Less than 3 months	3 months – 1 year	
Cash balances at Bank of Zambia	264,727,058	264,727,058	-	-	-	-
Cash and cash equivalents	542,144,997	420,144,997	-	122,000,000	-	-
Investment securities	1,698,923,493	-	-	438,773,879	977,474,759	282,674,855
Loans and advances to customers	1,710,012,172	-	1,404,825,818	32,874,852	7,340,169	264,971,333
Other assets	99,374,347	99,374,347	-	-	-	-
Total financial assets	4,315,182,067	784,246,402	1,404,825,818	593,648,731	984,814,928	547,646,188
Financial liabilities						
Deposits from customers	(3,305,477,096)	(677,615,578)	(1,150,209,462)	(564,678,328)	(250,829,414)	(662,144,314)
Other liabilities	(223,913,495)	(223,913,495)	-	-	-	-
Total financial liabilities	(3,529,390,591)	(901,529,073)	(1,150,209,462)	(564,678,328)	(250,829,414)	(662,144,314)
Interest rate gap position	785,791,476	(117,282,671)	254,616,356	28,970,403	733,985,514	(114,498,126)

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

6 Financial risk review *(continued)*

c) Market risk *(continued)*

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

Interest rate sensitivity analysis

	2019		2018	
	ZMW	US\$	ZMW	US\$
Increase in basis points	0.50	0.50	0.50	0.50
Sensitivity of annual net interest income (in millions)	4.22	(0.02)	(4.72)	(2.83)
Decrease in basis points	0.50	0.50	0.50	0.50
Sensitivity of annual net interest income (in millions)	(4.22)	0.02	4.72	2.83

ii) Exposure to currency risks – non-trading portfolios

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

Indo Zambia Bank Limited

Notes to the financial statements (*continued*)
for the year ended 31 December 2019

In Zambian Kwacha

6 Financial risk review (*continued*)

c) Market risk (*continued*)

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

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

	US dollar	Pound	Euro	Rand	Rupce	Kwacha	Total
2019							
Monetary assets	1,425,197,614	14,981,668	7,861,178	5,405,376	80,749	4,139,003,658	5,592,530,243
Monetary liabilities	(1,430,712,562)	(14,787,474)	(7,749,740)	(5,215,444)	(99,062)	(3,291,841,380)	(4,750,405,662)
Net recognised position	(5,514,948)	194,194	111,438	189,932	(18,313)	847,162,278	842,124,581
2018							
Monetary assets	1,028,104,777	23,091,130	5,253,166	6,828,621	460,449	3,377,415,989	4,441,154,132
Monetary liabilities	(1,019,752,152)	(22,139,882)	(3,943,008)	(6,392,372)	(126,793)	(2,515,696,343)	(3,568,050,550)
Net recognised position	8,352,625	951,248	1,310,158	436,249	333,656	861,719,646	873,103,582

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)* for the year ended 31 December 2019

In *Zambian Kwacha*

6 Financial risk review *(continued)*

c) Market risk *(continued)*

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

Exchange rate sensitivity

A strengthening (weakening) of the Kwacha by 10 percent, as indicated below against the USD, GBP, Euro, Rupee and ZAR at 31 December 2019 would have increased (decreased) equity and profit or loss by the amounts shown below. This computation is based on the foreign exchange rate variance that the company considered reasonably possible at the reporting date. The computation assumes all the other variables remain constant.

	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2019				
USD	551,495	551,495	(551,495)	(551,495)
GBP	(19,419)	(19,419)	19,419	19,419
Euro	(11,144)	(11,144)	11,144	11,144
ZAR	(18,993)	(18,993)	18,993	18,993
Rupee	1,831	1,831	(1,831)	(1,831)
31 December 2018				
USD	835,264	835,264	(835,264)	(835,264)
GBP	95,125	95,125	(95,125)	(95,125)
Euro	131,016	131,016	(131,016)	(131,016)
ZAR	43,625	43,625	(43,625)	(43,625)
Rupee	33,366	33,366	(33,366)	(33,366)

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

6 Financial risk review *(continued)*

d) Capital management

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

- To comply with the capital requirements set by the Bank of Zambia;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.
- maintain the dividend policy and dividend declarations of the Group while taking into consideration shareholder and regulatory expectations

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Zambia for supervisory purposes. The required information is filed with the Bank of Zambia on a monthly basis.

i. Regulatory capital

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

- To maintain the higher of a minimum 10% ratio of total capital to total risk-weighted assets or hold a minimum K 520 million whichever is higher;
- Maintain primary or Tier 1 capital of not less than 5% of total risk weighted assets; and
- Maintain total capital of not less than 10% of risk-weighted assets plus risk-weighted unrecognised items.

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

6 Financial risk review *(continued)*

d) Capital management *(continued)*

i. Regulatory capital *(continued)*

Computation of capital position

	2019	2018
I Primary (Tier 1) Capital		
(a) Paid-up common shares	416,000,000	416,000,000
(b) Eligible preferred shares	-	-
(c) Contributed surplus	-	-
(d) Retained earnings	488,857,998	387,703,767
(e) General reserves	126,369	126,369
(f) Statutory reserves	15,000,000	15,000,000
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total A (items a to g)	919,984,367	818,830,136
Subtractions:		
(i) Goodwill and other intangible assets	-	-
(j) Investments in unconsolidated subsidiaries and associates	-	-
(k) Lending of a capital nature to subsidiaries and associates	-	-
(l) Holding of other banks' or financial institutions' capital instruments	-	-
(m) Assets pledged to secure liabilities	-	-
(n) Sub-total B (items i to m)	-	-
Provisions	-	-
Assets of little or no realised value	-	-
Other adjustments (prepayment)	-	-
(o) Sub-total C (other adjustments)	-	-
(p) Total primary capital [h – (n to o)]	919,984,367	818,830,136
II Secondary (tier 2) capital		
(a) Eligible preferred shares	-	-
(b) Eligible subordinated term debt	-	-
(c) Eligible loan stock / capital	-	-
(d) Eligible general provisions	-	-
(e) Revaluation reserves. (Maximum is 40% of revaluation reserves)	7,471,840	7,643,688
(f) Other	-	-
(g) Total secondary capital	7,471,840	7,643,688
III Eligible secondary capital	7,471,840	7,643,688
(The maximum amount of secondary capital is limited to 100% of primary capital)		
IV Eligible total capital (I(p) + III) (Regulatory capital)	927,456,207	826,473,824
V Minimum total capital requirement (10% of total on and unrecognized risk weighted assets)	(520,000,000)	(520,000,000)
VI Excess (IV minus V)	407,456,207	306,473,824

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In Zambian Kwacha

6 Financial risk review *(continued)*

d) Capital management *(continued)*

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

ii. Capital allocation

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)* for the year ended 31 December 2019

In Zambian Kwacha

8 Interest income

See accounting policies in note 32 b

	2019	2018
Loans and advances to customers	469,769,074	309,242,665
Investment securities	346,816,939	229,763,257
Other	16,563,901	13,978,621
	<u>833,149,914</u>	<u>552,984,543</u>

9 Interest expense

See accounting policies in note 32 b

Deposits from customers	293,438,220	131,780,077
Other	2,650,619	2,276,604
	<u>296,088,839</u>	<u>134,056,681</u>

10 Fee and commission income

See accounting policies in note 32 c

Retail banking customer fees	76,203,768	82,741,699
Loans and advances fees	4,292,375	5,129,124
	<u>80,496,143</u>	<u>87,870,823</u>

Performance obligations and revenue recognition policies

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In Zambian Kwacha

10 Fee and commission income *(continued)*

See accounting policy 32(c)

Performance obligations and revenue recognition policies *(continued)*

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

11 Net trading income

See accounting policies in note 32 d

	2019	2018
Foreign currency transaction gains	<u>42,302,704</u>	<u>40,842,694</u>

12 Other income

Gain on disposal of property and equipment	252,005	96,190
Cheque book charges	1,307,096	1,333,979
Swift charges recovered	4,749,312	4,299,017
Correspondent banking charges receivable	4,699,628	3,670,980
Farmer input support programme income	0	3,546,213
Other income	241,673	428,372
	<u>11,249,714</u>	<u>13,374,751</u>

Indo Zambia Bank Limited

Notes to the financial statements *(continued)* for the year ended 31 December 2019

In *Zambian Kwacha*

13	Administrative expenses	2019	2018
	Audit fees	1,019,708	1,895,000
	Non audit services	500,000	500,000
	Directors fees (Note 29e)	6,337,481	5,498,379
	Depreciation	17,085,156	18,200,923
	Stationery	5,496,033	4,035,041
	Swift and telephone	2,296,529	2,114,887
	Security charges	7,890,013	5,648,574
	BOZ charges	11,430,748	11,817,504
	Repairs and maintenance	1,514,959	3,969,778
	Payment gateway charges	6,051,830	4,726,597
	Fuel expenses	3,530,615	1,648,654
	Administrative expenses	<u>18,033,233</u>	<u>10,698,172</u>
		81,186,304	70,753,509
14	Operating expenses		
	Staff costs	203,724,211	186,823,695
	National Pension Scheme Authority contributions	3,781,257	3,374,863
	Directors' emoluments (Note 29e)	4,103,053	4,724,192
	Property related expenses	2,566,814	8,169,272
	Depreciation on right of use assets	10,874,680	-
	Interest expense on Leases	5,145,388	-
	Advertising	16,867,207	6,880,329
	License fees	8,485,891	7,301,263
	ICT expenses	19,979,975	6,485,350
	Office expenses	<u>16,229,204</u>	<u>15,251,077</u>
		291,757,680	239,010,041
15	Income taxes		
	<i>See accounting policies in note 32 e</i>		
	a) Current tax expense		
	Current year	118,999,668	92,384,461
	Current tax under provision in prior year (2018)	-	2,298,664
	Deferred tax (note 15(d))	<u>(16,474,351)</u>	<u>(7,946,709)</u>
	Total income tax expense	<u>102,525,317</u>	<u>86,736,416</u>

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

15 Income taxes *(continued)*

b) Reconciliation of effective tax rate

Profit before income tax		280,937,690		226,497,044
Tax calculated at the tax rate of	35%	98,328,192	35%	79,273,966
Non-deductible expenses – penalties	0%	9,420	2%	3,411,986
Non-deductible expenses - others	1%	4,305,101	1%	1,976,758
Deferred tax adjustment for prior year	0%	(117,396)	0%	(224,958)
Current tax under provision in prior year		-	1%	2,298,664
Total income tax expense in profit or loss	36%	102,525,317	39%	86,736,416

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

Current tax liability/(asset) at the beginning of the year	38,659,959	19,331,592
Charge for the year – 2018	-	2,298,664
Adjusted opening balance	38,659,959	21,630,256
Charge for the year	118,999,668	92,384,461
Tax paid	(127,656,466)	(75,354,758)
Current tax liability at the end of the year	30,003,161	38,659,959

Indo Zambia Bank Limited

Notes to the financial statements (continued)
for the year ended 31 December 2019

In Zambian Kwacha

15(d) Deferred tax assets and liabilities

See accounting policies in note 32 e

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

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Property and equipment	(3,669,826)	(3,349,061)	-	-	(3,669,826)	(3,349,061)
Revaluation	-	-	12,705,570	12,705,570	12,705,570	12,705,570
Amortisation of revaluation surplus	(1,191,643)	(960,309)	-	-	(1,191,643)	(960,309)
Bad debts provision	(24,449,765)	(19,056,089)	-	-	(24,449,765)	(19,056,089)
Right Of Use Assets	(1,260,688)	-	6,719,613	6,719,613	(1,260,688)	(1,260,688)
Adjustment to opening IFRS 9 provision	-	-	-	-	6,719,613	6,719,613
Clearing account provision	(569,334)	(569,334)	-	-	(569,334)	(569,334)
Employee Provisions	(9,499,221)	-	-	-	(9,499,221)	-
	(40,640,477)	(23,934,793)	19,425,183	19,425,183	(21,215,294)	(4,509,610)

ii) Movement in temporary differences during the year

	Balance at 1 January 2018	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2018	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2019
Property and equipment	(2,100,570)	(1,248,491)	-	(3,349,061)	(320,765)	-	(3,669,826)
Revaluation	12,705,570	-	-	12,705,570	-	-	12,705,570
Amortisation of revaluation surplus	(728,975)	-	(231,334)	(960,309)	-	(231,334)	(1,191,643)
Bad debts provision	(12,357,871)	(6,698,218)	-	(19,056,089)	(5,393,676)	-	(24,449,765)
Right of use of Asset	-	-	-	-	(1,260,688)	-	(1,260,688)
Adjustment to opening IFRS 9 provision	-	-	6,719,613	6,719,613	-	-	6,719,613
Clearing account provision	(569,334)	-	-	(569,334)	-	-	(569,334)
Employee Provisions	-	-	-	-	(9,499,221)	-	(9,499,221)
	(3,051,180)	(7,946,709)	6,488,279	(4,509,610)	(16,474,350)	(231,334)	(21,215,294)

All balances are non current.

Indo Zambia Bank Limited

Notes to the financial statements (continued)
for the year ended 31 December 2019

In Zambian Kwacha

16 Financial assets and financial liabilities

a. Classification of financial assets and financial liabilities

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

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

31 December 2019	Note	2019		2018	
		Amortised cost	Total carrying amount	Amortised cost	Total carrying amount
Cash balances at Bank of Zambia	17	533,315,040	533,315,040	264,727,058	264,727,058
Cash and cash equivalents	17	753,279,822	753,279,822	542,144,997	542,144,997
Investment securities:					
Measured at amortised cost	18	2,030,030,024	2,030,030,024	1,698,923,493	1,698,923,493
Loans and advances to customers:					
Measured at amortised cost	19	2,166,074,860	2,166,074,860	1,710,012,172	1,710,012,172
Other assets	20	88,615,203	88,615,203	99,374,347	99,374,347
Total financial assets		5,571,314,949	5,571,314,949	4,315,182,067	4,315,182,067
Deposits from customers	22	4,506,578,010	4,506,578,010	3,305,477,096	3,305,477,096
Other liabilities	23	213,824,491	213,824,491	223,913,495	223,913,495
Total financial liabilities		4,720,402,501	4,720,402,501	3,529,390,591	3,529,390,591

17 Cash and cash equivalents

See accounting policies in note 32 h

	2019	2018
Balances at Central Bank		
Current balances at Bank of Zambia	149,258,657	81,688,882
Bank of Zambia statutory reserve	384,056,383	183,038,176
Total	533,315,040	264,727,058
Current	149,258,657	81,688,882
Non current	384,056,383	183,038,176
Total	533,315,040	264,727,058

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

17 Cash and cash equivalents (continued)

Cash and balances with other banks

Cash on hand	169,560,839	102,219,057
Balances with local banks	60,000,000	122,000,000
Balance with banks abroad	523,718,983	317,925,940
Total	<u>753,279,822</u>	<u>542,144,997</u>
Current	<u>753,279,822</u>	<u>542,144,997</u>

The total statutory reserve held with Bank of Zambia, as a minimum reserve requirement, is not available for the Bank's daily business. The reserve represents a requirement by the Banking and Financial Services Act and is a percentage of the Bank's local and foreign currency liabilities to the public. At 31 December 2019, the required percentage was 9% (2018: 5%). Therefore this is not added to the cashflow statement.

18 Investment securities

See accounting policies in note 32 j

	2019	2018
Treasury bills	1,699,380,893	1,378,992,143
Government bonds	332,080,645	319,931,350
Total	<u>2,031,461,538</u>	<u>1,698,923,493</u>
Impairment loss provision	<u>(1,431,514)</u>	-
Net of impairment	<u>2,030,030,024</u>	<u>1,698,923,493</u>
Current	1,702,002,812	1,378,992,143
Non current	<u>328,027,212</u>	<u>319,931,350</u>
Total	<u>2,030,030,024</u>	<u>1,698,923,493</u>

Included in investment securities are treasury bills with a total face value of K25 million (2018: K25 million) pledged as security by the Bank for transactions with various counter parties and the Zambia Electronic Clearing House.

The movement in Government securities is as follows:

	Treasury	Government Bonds	Total
Opening balance	1,378,992,143	319,931,350	1,698,923,493
Additions	1,761,646,750	168,405,473	1,926,230,541
Disposals	1,441,258,000	156,256,178	1,597,514,178
Closing balance	<u>1,699,380,893</u>	<u>332,080,645</u>	<u>2,031,461,538</u>

Indo Zambia Bank Limited

Notes to the financial statements (continued)

for the year ended 31 December 2019

In Zambian Kwacha

19 Loans and advances to customers (continued)

Analysis of off balance sheet facilities

Contingent liabilities, commitments

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

Impairment on off balance sheet exposures is performed by adjusting the gross exposure by the credit conversion factor (CCFs) and in turn adjusting the converted exposure by multiplying by the Loss Given Default (LGD). Credit conversion factors (CCFs) are derived using guidance set forth in Basel-II.

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

2019	Gross amount	Impairment	Carrying amount
Financial guarantees	29,126,595	(206,794)	28,919,801
Letters of credit	9,253,484	(262,126)	8,991,358
Total	38,380,079	(468,920)	37,911,159
2018			
Financial guarantees	33,763,305	(31,567)	33,731,738
Letters of credit	8,675,331	(17,348)	8,657,983
Total	42,438,636	(48,915)	42,389,721
		2019	2018
Current		37,911,159	42,438,636
20 Other assets		2019	2018
Inter branch accounts receivable		5,469	193,963
Prepaid expenses		5,904,512	1,359,444
Visa settlement receivables		4,786,046	24,646,728
Staff loan receivables		47,343,766	42,975,539
National financial switch settlement receivables		1,173,330	14,468,789
Recoverable deposits		11,428,494	9,862,362
Other assets		17,973,586	5,867,522
		88,615,203	99,374,347
Current		77,186,709	89,511,985
Non current		11,428,494	9,862,362
		88,615,203	99,374,347

Indo Zambia Bank Limited

Notes to the financial statements (continued) for the year ended 31 December 2019

In Zambian Kwacha

21a Property and equipment

See accounting policies in note 32a

	Land and buildings	Leasehold improvements	Motor vehicles	Computer and office equipment	Furniture and fixtures	Capital work in progress	Total
Cost/ revalued assets							
At 1 January 2018	92,495,570	31,046,120	5,968,017	52,016,648	42,800,318	641,431	224,968,104
Additions	7,800	110,206	1,404,598	2,991,379	1,249,779	362,000	6,125,762
Transfers	-	126,079	-	54,821	63,185	(244,085)	-
Disposals	-	-	(326,730)	-	(78,836)	-	(405,566)
Balance at 31 December 2018	92,503,370	31,282,405	7,045,885	55,062,849	44,034,445	759,346	230,688,300
At 1 January 2019	92,503,370	31,282,405	7,045,885	55,062,849	44,034,445	759,346	230,688,300
Additions	13,725,254	264,866	503,207	7,469,886	3,417,631	25,265,460	50,646,304
Transfers	10,006,700	-	-	10,789,605	1,390,560	(22,186,865)	-
Disposals	-	-	(937,492)	-	(21,832)	-	(959,324)
Write-off	-	(1,759,864)	-	(289,414)	(721,621)	(645,213)	(3,416,113)
At 31 December 2019	116,235,324	29,787,406	6,611,600	73,032,926	48,099,184	3,192,728	276,959,167
Depreciation							
Balance at 1 January 2018	3,848,911	14,473,825	2,946,022	37,360,641	32,801,089	-	91,430,488
Charge for the year	1,834,995	2,581,449	822,736	8,098,219	4,863,524	-	18,200,923
Disposals	-	-	(326,730)	-	(78,836)	-	(405,566)
At 31 December 2018	5,683,907	17,055,275	3,442,028	45,458,859	37,585,776	-	109,225,845
Balance at 1 January 2019	5,683,907	17,055,275	3,442,028	45,458,859	37,585,776	-	109,225,845
Charge for the year	1,836,115	2,754,767	1,091,712	7,263,592	4,139,105	-	17,085,156
Disposals	-	-	(748,985)	-	(18,870)	-	(767,855)
Write-off	-	(831,478)	-	(284,774)	(720,217)	-	(1,836,469)
At 31 December 2019	7,520,022	18,978,564	3,784,754	52,437,677	40,998,456	-	123,719,474
Carrying amounts							
At 31 December 2018	86,819,463	14,227,130	3,603,857	9,603,990	6,448,669	759,346	121,462,455
At 31 December 2019	108,715,302	10,808,843	2,826,845	20,595,249	7,100,728	3,192,728	153,239,693

Included in property and equipment are fully depreciated assets with a cost of K68.67 million (2018: K44.91 million). In December 2015, land and buildings were revalued by Fairworld Properties Limited, Registered Valuation Surveyors, on the basis of open market. The revaluation surplus arising was K 4.59 million. In the opinion of the directors, the carrying value of land and buildings at 31 December 2019 approximates fair value.

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

21a Property and equipment *(continued)*

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

	2019	2018
Cost	33,538,869	33,538,869
Accumulated depreciation	<u>(5,091,964)</u>	<u>(4,421,187)</u>
Net book value	<u>28,446,905</u>	<u>29,117,682</u>

Measurement of fair value

(i) Fair value hierarchy

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

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

The fair value measurement for land and building has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(i) Valuation technique and inputs

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

Indo Zambia Bank Limited

Notes to the financial statements(continued)

for the year ended 31 December 2019

In Zambian Kwacha

21b Leases

See accounting policies in note 32m

A. Leases as lessee

The bank leases a number of branches, ATM premises, residence for officers and ATM machines. The leases typically run for a period of one year to 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals.

Information about leases for which the bank is a lessee is presented below:

i) Right-of-use assets

	Branch , ATM premises, residence and ATM machines
Balance at 1st January 2019	58,003,214
Additions	3,371,407
Depreciation charge for the year	(10,874,680)
Balance at 31st December 2019	50,449,941

ii) Lease Liabilities

	Branch , ATM premises, residence and ATM machines
Balance at 1st January 2019	58,003,214
Additions	3,371,407
Interest expense	5,145,388
Lease payments	(12,403,082)
Balance at 31st December 2019	54,116,927

iii) Maturity Analysis – contractual undiscounted cash flows

Rent in Kwacha	
Between one year and five years	29,953,736
More than five years	4,279,879
Rent quoted in dollars(amounts in kwacha)	
Less than one year	163,497
Between one year and five years	37,624,390
More than five years	988,862
Total undiscounted Lease liabilities as at 31 December 2018	73,010,364

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2019

In *Zambian Kwacha*

21b Leases *(continued)*

A. Leases as lessee *(continued)*

iv) Breakdown of Amounts recognised in the balance sheet

Right of use assets	31 December 2019	1 January 2019
Office space	33,389,418	39,691,873
ATM premises	5,689,639	6,496,968
ATM Machines	9,451,498	11,814,373
Officer's Residence	1,969,386	-
	<u>50,499,941</u>	<u>58,003,214</u>
Lease Liabilities	31 December 2019	1 January 2019
Office space	33,470,049	37,791,873
ATM premises	5,624,615	5,696,968
ATM Machines	10,309,669	11,814,373
Officer's Residence	1,812,594	-
	<u>51,216,927</u>	<u>55,303,214</u>
Restoration costs		
Office space	1,800,000	1,800,000
ATM premises	1,000,000	900,000
Officer's Residence	100,000	-
	<u>2,900,000</u>	<u>2,700,000</u>
Total Lease Liability	<u>54,116,927</u>	<u>58,003,214</u>

- Residence pertains to lease for Officer's residence which was entered into on 21st May 2019. Prior payments were directly expensed off and have not been considered for capitalisation. In addition new leases were entered into at Pinnacle Mall and Lusaka civic centre during the year which resulted in increases in restoration costs
- No restoration costs were considered for ATM machines as the vendor is responsible for the dismantling costs.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2019

In *Zambian Kwacha*

21b Leases *(continued)*

A. Leases as lessee *(continued)*

v) Amounts recognised in the statement of profit and loss

The statement of profit and loss shows the following amounts relating to leases:

Depreciation charge of Right of use assets

	2019
Office space	6,718,957
ATM Premises	1,317,480
ATM Machines	2,362,874
Officer's Residence	475,369
	<u>10,874,680</u>

Amounts recognised in statement of cash flows

Interest expense

	2019
Office space	3,066,812
ATM premises	569,216
ATM Machines	1,428,998
Officer's Residence	80,362
	<u>5,145,388</u>

Principal payments

	2019
Office space	4,020,919
ATM premises	1,199,911
ATM Machines	1,504,703
Officer's Residence	532,161
	<u>7,257,694</u>

Amounts recognised as short term leases

	2019
Officer's Residence	762,534
	<u>762,534</u>

Short term leases are leases with lease agreement less than 12 months and bank is intended not to continue after the expiry of lease. Short term leases pertain to the leases closed during the year 2019 and leases expiring during the year 2020.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2019

In Zambian Kwacha

21(b) Leases *(continued)*

A. Leases as lessee *(continued)*

vi) The Bank's leasing activities and how these are accounted for

The bank leases various offices, ATM machines, residence, and ATM space. Rental contracts are typically made for fixed periods of 1 year to 10 years, but may have extension options as described in (v) below.

Contracts may contain both lease and non-lease components. The bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the vendor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the bank.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Bank under residual value guarantees
- The exercise price of a purchase option if the Bank is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the bank exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2019

In *Zambian Kwacha*

21b Leases *(continued)*

A. Leases as lessee *(continued)*

vii) The Bank's leasing activities and how these are accounted for

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- For rentals quoted in kwacha the incremental borrowing rate is determined as BOZ policy rate plus a credit risk premium of five (5) per cent whereas for lease payments quoted in dollar, the incremental borrowing rate is determined as Libor rate plus credit risk premium of 5%.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate takes effect, the lease liability is reassessed and adjusted against the right-of-use asset.

An 5% change in the Incremental borrowing rate would have resulted in the following:

	Increase	Decrease
Interest expense	1,592,887	-
Lease liability	-	4,606,790
Depreciation expense	-	1,067,951
Right of use	5,131,725	-
Profit	-	524,936

Lease payments are allocated between principal and interest expense on leases. The Interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the bank revalue its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the bank.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*

for the year ended 31 December 2019

In *Zambian Kwacha*

21b Leases *(continued)*

A. Leases as lessee *(continued)*

viii) The Bank's leasing activities and how these are accounted for **(continued)**

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture

vii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the bank at average of three (3) years. These are used to maximise operational flexibility in terms of managing the assets used in the bank's operations. The majority of extension and termination options held are exercisable only by the bank and not by the respective vendor.

viii) Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of branch premises, ATM premises and ATM machines, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The extension options in officer's residence have not been included in the lease liability, because the bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)* for the year ended 31 December 2019

In *Zambian Kwacha*

22 Deposits from customers

See accounting policies in note 32k

	2019	2018
Current & demand deposits	1,363,351,910	1,150,909,593
Savings deposits	963,239,830	810,276,206
Term deposits	<u>2,179,986,270</u>	<u>1,344,291,297</u>
	<u>4,506,578,010</u>	<u>3,305,477,096</u>
Current:		
• Repayable on demand	2,326,591,740	1,961,185,799
• Three months or less	605,249,444	393,366,632
• Between three months and one year	1,417,043,637	926,910,880
Non current		
• Between one year and three years	<u>157,693,189</u>	<u>24,013,785</u>
	<u>4,506,578,010</u>	<u>3,305,477,096</u>

23 Other liabilities

See accounting policies in note 32g

Bills payable	3,795,193	4,873,445
Indirect taxes payable	8,186,092	6,214,411
Accrued expenses	19,883,431	15,666,629
Employee provisions	150,192,256	140,125,495
Foreign exchange swaps	-	8,958,500
National financial switch settlement payables	2,103,890	16,301,410
Cash margins	9,978,022	8,730,836
Forex settlements	6,169,783	11,292,991
Other liabilities	13,046,904	11,700,863
Impairment for off balance sheet assets (note 26)	<u>468,920</u>	<u>48,915</u>
	<u>213,824,491</u>	<u>223,913,495</u>
Current	<u>53,654,212</u>	<u>58,528,090</u>
Non current	<u>160,170,279</u>	<u>165,385,405</u>
	<u>213,824,491</u>	<u>223,913,495</u>

24 Property and Equipment written off

(See accounting policies in note 32n)

The Bank wrote off some items relating to furniture and fittings in its continued modernisation of its branch network. The amounts written off have been included in the income statement.

Furniture and Fittings	3,416,113	1,836,469
------------------------	-----------	-----------

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

25 Share capital *(continued)*

See accounting policies in note 32 *q*

	Number of ordinary shares 2019	Ordinary share capital 2018	Dividends 2019	Dividends 2018
Authorised				
Ordinary shares of K 1 each	<u>420,000,000</u>	<u>420,000,000</u>		
Issued and fully paid				
Ordinary shares of K 1 each	<u>416,000,000</u>	<u>416,000,000</u>	-	-
Dividends				
Dividends per share			<u>0.172</u>	<u>0.144</u>

The holders of ordinary shares are entitled to vote at meetings of the Bank and to dividends as declared from time to time. After the reporting date, a dividend of K71,500,000 (2018:K60,000,000) was proposed. The dividends have not been recognised as liabilities, therefore, there are no tax consequences.

26 Contingent liabilities

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

There were contingent liabilities as at 31 December 2019 amounting to K37.91 million (2018: K42.38 million). These are financial guarantees and letters of credit, which are not recognised in the statement of financial position.

	2019	2018
Financial guarantees (note 19)	<u>29,126,595</u>	<u>33,763,305</u>
Acceptances and letters of credit (note 19)	<u>9,253,484</u>	<u>8,675,331</u>
Total	<u>38,380,079</u>	<u>42,438,636</u>
Impairment	<u>(468,920)</u>	<u>(48,915)</u>
Net carrying amount	<u>37,911,159</u>	<u>42,389,721</u>

Nature of contingent liabilities

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

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

27 Subsequent events

A dividend of K0.172 per share (2018: K0.144) was proposed after the reporting date.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

28 Capital commitments

During the year 2019, the bank has purchased a commercial land for development of new corporate office. The bank has expected capital commitments of K 55 million for period of two years. All the capital commitments are current.

29 Related party transactions

The Bank's major shareholder is Industrial Development Corporation (40%), Bank of Baroda (20%), Bank of India (20%) and Central Bank of India (20%). There are other companies which are related to Indo Zambia Bank Limited through the Industrial Development Company.

Nature of transactions:

- During the year bank has lent the credit facilities to Industrial Development Corporation.
- In the normal course of business, current accounts are operated and placings of foreign currencies are made with Bank of Baroda and Bank of India at market rates.
- Loans and advances to with key management and officers of the bank are offered at preferential rates.
- Transactions with shareholders and related entities are undertake based on the normal business terms and conditions as though it were an external party.

(a) *Balances due to other banks (all balances are current)*

	2019	2018
Bank of Baroda	207,236,081	34,406,888
Bank of India	44,006,281	42,826,158
	<u>251,242,362</u>	<u>77,233,046</u>

b) *Interest paid by*

Bank of Baroda	<u>1,499,333</u>	<u>659,241</u>
----------------	------------------	----------------

c) *Deposits (All balances are current)*

Government of the Republic of Zambia - (Central Government)	<u>74,823,341</u>	<u>49,159,579</u>
--	-------------------	-------------------

Indo Zambia Bank Limited

Notes to the financial statements (continued) for the year ended 31 December 2019

In Zambian Kwacha

29 Related party transactions (continued)

d) Key management compensation (Key management personnel includes executive management)

	2019	2018
Salaries and short-term benefits	32,735,364	22,195,816
Terminal benefits	5,829,623	6,357,349
	<u>38,564,987</u>	<u>28,553,165</u>

e) Directors' remuneration

Directors' fees (Note 13)	6,337,481	5,498,379
Directors' emoluments (Note 14)	4,103,053	4,724,192
	<u>10,440,534</u>	<u>10,222,571</u>

f) Related party loans

	Directors	Key management
2019		
Loans outstanding at beginning of the year	597,620	6,078,321
Loan advances during the year	814,950	5,916,400
Loan repayments during the year	(704,793)	(2,210,606)
Loans outstanding at end of the year	<u>707,777</u>	<u>9,784,115</u>
Interest earned	<u>34,046</u>	<u>1,091,614</u>

2018

Loans outstanding at beginning of the year	97,796	6,585,984
Loan advances during the year	728,410	2,083,856
Loan repayments during the year	(228,586)	(2,591,519)
Loans outstanding at end of the year	<u>597,620</u>	<u>6,078,321</u>
Interest earned	<u>43,552</u>	<u>1,008,281</u>

Transactions with Directors and Officers

Name of borrower	Opening Balance 1st Jan 2019	Issued during the year	Loan repayments during the year	Amount outstanding	Average interest Rate (%)	Composition
Non-Executive Director	597,620	814,950	(704,793)	707,777	25.25	Personal loan
	<u>597,620</u>	<u>814,950</u>	<u>(704,793)</u>	<u>707,777</u>		
Officer1	2,545,720	808,000	(497,452)	2,856,268	20.60	Mortgage, Personal loan and Vehicle loan
Officer2	1,741,927	606,730	(738,742)	1,609,915	17.55	Mortgage, Personal loan and Vehicle loan
Officer3	1,292,849	1,411,000	(774,017)	1,929,832	15.08	Mortgage, Personal loan and Vehicle loan
Officer4	497,825	-	(27,331)	470,494	11.06	Mortgage, Personal loan and Vehicle loan
Officer5	-	2,840,670	(89,139)	2,751,531	11.06	Mortgage, Personal loan and Vehicle loan
Officer6	-	150,000	(43,792)	106,208	11.06	Mortgage, Personal loan and Vehicle loan
Officer7	-	100,000	(40,133)	59,867	11.06	Mortgage, Personal loan and Vehicle loan
	<u>6,078,321</u>	<u>5,916,400</u>	<u>(2,210,606)</u>	<u>9,784,115</u>		

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

In *Zambian Kwacha*

29 Related party transactions *(continued)*

f) Related party loans *(continued)*

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

2019

	Connected entities to directors/ Key Management	Related Companies
Loans outstanding at beginning of the year	9,403,853	111,552,692
Loan advances during the year	4,009,390	247,000,000
Loan repayments during the year	3,492,036	(665,397)
Loans outstanding at end of the year	9,921,207	357,887,295
Interest earned	2,860,538	66,809,933

2018

Loans outstanding at beginning of the year	1,389,190	-
Loan advances during the year	7,970,657	111,552,692
Loan repayments during the year	44,006	-
Loans outstanding at end of the year	9,403,853	111,552,692
Interest earned	1,972,015	7,004,436

g) Related party deposits

2019

	Directors	Key management
Balance at beginning of the year	741,820	2,574,859
(Withdraw)/deposit during the year	839,228	(84,430)
Balance at end of the year	1,581,048	2,490,429

2018

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

29 Related party transactions *(continued)*

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

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

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

The total cumulative deposits held by entities owned by Industrial Development Corporation as at 31 December 2019 was K11.87 million (2018: K45.50 million). Normal terms and conditions apply on the deposit accounts held by these entities. The transactions with the Bank were at arm's length.

The following entities that are owned by IDC did not have any deposit and loan accounts with the Bank as at 31 December 2019:

<ul style="list-style-type: none">• Afrox Zambia PLC• Kariba Minerals Limited• Lusaka Trust Hospital• Medical Stores Limited• Mpulungu Harbour Corporation Limited• Mukuba Hotel Limited• Mulungushi Village Complex Limited• Mupepetwe Engineering & Contracting Limited• Nanga Farms PLC• Nitrogen Chemicals of Zambia Limited• Zambia Daily Mail Limited• Zambia International Trade Fair Limited• Zambia Printing Company Limited• Engineering Services Corporation - ESCO Limited;• Indeni Petroleum Refinery Limited• Lusaka South Multi Facility Economic Zone Limited;	<ul style="list-style-type: none">• Zamcapitol Enterprises Limited• Times Printpak Zambia Limited• ZANACO PLC• ZCCM-Investment Holdings PLC• Kagem Minerals Limited• NIEC Business School• Mulungushi Textiles Limited• Mulungushi International Conference Centre• Superior Milling Company Limited• Zambia China Mulungushi Textiles• Zampalm Limited• Zambia Railways Limited and;• ZSIC General insurance Limited
---	---

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

30 Financial risk management

a) Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risks

Risk management framework

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

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

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

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

b) Credit risk

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

30 Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit, the Head of Credit, the Credit Committee or the board of directors as appropriate.
- Reviewing and assessing credit risk Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the risk gradings to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Risk.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Credit, which may require appropriate corrective action to be taken
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

30 Financial risk management *(continued)*

c) Liquidity risk

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

Management of liquidity risk

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

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

30 Financial risk management *(continued)*

d) Market risk

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

i) Management of market risks

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

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

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

ii) Exposure to market risk – Non-trading portfolios

Interest rate risk

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

31 Basis of measurement

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

32 Significant accounting policies

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

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

- a) Foreign currency
- b) Interest income and expense
- c) Fees and commission
- d) Net trading income
- e) Income Tax
- f) Employee benefits
- g) Financial assets and financial liabilities
 - i. Recognition and initial measurement
 - ii. Classification
 - iii. Derecognition
 - iv. Modifications of financial assets and financial liabilities
 - v. Offsetting
 - vi. Fair value measurement
 - vii. Impairment
 - viii. Designation at fair value through profit or loss
- h) Cash balances with other banks and Balances at Central Bank
- i) Loans and advances
- j) Investment securities
- k) Deposit from customers
- l) Collateral
- m) Leases
- n) Property and equipment
- o) Impairment of non-financial assets
- p) Provisions
- q) Share capital and reserves
- r) Fiduciary Activities
- s) Financial guarantees and loan commitments
- t) Acceptances and letters of credit
- u) Other assets

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

a) Foreign currency

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

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

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

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

b) Interest income and expense

Effective interest rate

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

b) Interest income and expense *(continued)*

Effective interest rate *(continued)*

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

b) Interest income and expense *(continued)*

Presentation

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

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

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

- financial liabilities measured at amortised cost;

c) Fees and commission

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

d) Net trading income

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

e) Income Tax

Income tax

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

Current tax

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

Deferred tax

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

Deferred tax is not recognised for:

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

e) Income Tax *(continued)*

Deferred tax *(continued)*

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is offset in the balance sheet as there is legal right to do this with the Tax authority in which the Bank operates.

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

f) Employee benefits

i) Defined contribution plan

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

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

ii) Short term benefits

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

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

iii) Terminal benefits:

Normal retirement

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

Retirement on medical grounds

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

g) Financial assets and financial liabilities

i) Recognition and initial measurement

Financial assets

Financial assets is made up of the following asset category:

- Cash and cash equivalents
- Cash balances at central Bank
- Loans and advances
- Investment securities
- Other Assets

Recognition

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

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

Classification and subsequent measurement

On initial recognition, the bank applies the business model to classify the financial asset as amortised costs.

A financial asset is measured at amortised cost if it meets both of the following conditions:

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

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 37. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

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

i) Recognition and initial measurement *(continued)*

Business model assessment

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

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

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

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

i) Recognition and initial measurement *(continued)*

Business model assessment *(continued)*

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

Investment securities

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

Other Assets

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

Cash and Cash Equivalents and cash balances at Central Bank

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions. Cash and balances with other banks are carried at amortised cost in the statement of financial position

Loans and Advances

Loans and advances include term loans, scheme loans, overdrafts and mortgages and other such similar products. Loans and advances have a contractual tenor over which the Bank recovers its contractual principle and interest. The cash flow characteristics meet the definition of "SPPI".

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

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

Financial liabilities

Recognition

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

Classification and subsequent measurement

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Financial guarantees are not recognised on the balance sheet until they crystallise.

iii) Derecognition

Financial assets

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

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

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

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

iii) Derecognition *(continued)*

Financial liabilities

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

iv) Offsetting

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

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

v) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

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

vi) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.
- Cash and cash equivalents
- Other assets

The Bank measures loss allowances at an amount equal to lifetime ECL, except for

- Investment in government securities (which are deemed as low credit risk) at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 6(A)(iii)).

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

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

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

Measurement of ECL

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

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

See also Note 6(a)(iii).

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

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

Restructured financial assets

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

- Recoveries of amounts previously written off are included in the income statement under other income/losses

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

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

Write-off (continued)

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

Non-integral financial guarantee contracts

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

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

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

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

h) Cash balances with other banks and Balances at Central Bank

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

i) Loans and advances

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

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

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

j) Investment securities

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

k) Deposits from customers

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

l) Collateral

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

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

m) Leases

The bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

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

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

i) Bank acting as a lessee

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

m) Leases *(continued)*

i) Bank acting as a lessee *(continued)*

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

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

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

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

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

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

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

The bank presents right-of-use assets and lease liabilities as separate line item in the statement of financial position.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

m) Leases *(continued)*

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

Short-term leases and leases of low-value assets

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

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

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

i) As a lessee

The bank did not have any finance leases under IAS 17. Assets held under other leases were classified as operating leases and were not recognised in the bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

n) Property and equipment

Recognition and measurement

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

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

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

Subsequent expenditure

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

n) Property and equipment *(continued)*

Recognition and measurement *(continued)*

Depreciation

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

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

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

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

Revaluation of property

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

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

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

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

n) Property and equipment *(continued)*

Revaluation surplus

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

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

Capital work in progress

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

o) Impairment of non-financial assets

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

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

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

Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

p) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Restructuring A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

q) Share capital and reserves

i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

ii) Prepaid capital contributions

Amounts received in respect of prepayments for shares not yet issued, and for which there is no possibility that the Bank may be required to refund the amount received and the Bank's obligation is to deliver only a fixed number of shares, are credited to a separate category of equity as funds awaiting allotment of shares.

iii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

r) Fiduciary activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. These assets are excluded from these financial statements, as they are not assets of the Bank.

Indo Zambia Bank Limited

Notes to the financial statements *(continued)*
for the year ended 31 December 2019

32 Significant accounting policies *(continued)*

s) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see g(vii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments:

- from 1 January 2018: the Bank recognises a loss allowance (see g(vii));
- before 1 January 2018: the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

t) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as unrecognised transactions and disclosed as contingent liabilities.

u) Other Assets

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

Shareholders



Industrial Development Corporation

(Zambia) Limited
61 Independence Avenue, Prospect Hill
P.O. Box 37232, Lusaka, Zambia
Tel: +260 211 843567 or +260 211 843568
or +260 967 773007
Email: info@idc.co.zm



Bank of Baroda,

Baroda Corporate Centre, Plot No. C-26, Block G,
Bandra Kurla Complex, Bandra (East), Mumbai
400051
Phone No. : +91-22 6698 5000-04
Fax No. : +91-22 2652 3500
Email: gm.international.bcc@bankofindia.com



Bank of India

Star House C - 5, "G" Block,
Bandra Kurla Complex,
Bandra (East),
Mumbai 400 051.
Tel: +91-22-66684444
Fax: +91-22-2204 4336
Email: cmbdboi@bom5.vsnl.net.in

Relationships beyond banking.



Central Bank of India

Star House C - 5, "G" Block,
Bandra Kurla Complex,
Bandra (East),
Mumbai 400 051.
Tel: +91-22-66684444
Email: info@centralbankofindia.co.in



INDO ZAMBIA BANK

SUPPORTING YOU. DEVELOPING ZAMBIA.

BRANCH CONTACTS

Name of Branch	Address	Tel No.	Fax. No	Email Address
LUSAKA PROVINCE				
1. Lusaka Main	Plot No. 6907, Cairo Road P. O. Box 35411, Lusaka	0211 222622/222614 0211 225078/237125	0211 222618	cmlusm@izb.co.zm
Foreign Department	Plot No. 6907, Cairo Road P. O. Box 35411, Lusaka	0211 238924/225039 0211 228245/220348	0211 222613	cmfgn@izb.co.zm
2. Northend	Plot 830, Malasha Junction P. O. Box 35411, Lusaka	0211 222616 0211 232219/235076	0211 223972	cmnorthend@izb.co.zm
3. Kamwala	Plot 228 (A) Chilumbulu Road P. O. Box 35411, Lusaka	0211 235717/238863 0211 234058	0211 238571	bmkamwala@izb.co.zm
4. Industrial	Plot 284, Mumbwa Road P. O. Box 35411, Lusaka	0211 286218/286223 0211 846070	0211 286219	bmindl@izb.co.zm
5. Chandwe Musonda	Prinx Park Chandwe Musonda Road P. O. Box 35411, Lusaka	0211 223552 0211 223553	0211 221589	bmchandwe@izb.co.zm
6. Manda Hill	Plot No. 1860B, Manda Hill Shopping Mall P. O. Box 35411, Lusaka	0211 250867 0211 250882/250885	0211 250869	bmmandahill@izb.co.zm
7. Crossroads	Crossroads Shopping Mall Leopards Hill Road P. O. Box 35411, Lusaka	0211 268490 0211 268492	0211 268491	bmcrossroads@izb.co.zm
8. Chawama	Plot 27/100 Spar Chawama Shopping Mall P. O. Box 35411, Lusaka	0211 840537/840538 0211 840539	0211 840541	bmchawama@izb.co.zm
9. Chilanga	S/D 1880, Kafue Road P. O. Box 35115, Chilanga	0211 278464 0211 278448	0211 278443	bmchilanga@izb.co.zm
10. Chilenje	Plot No. 22/25 New Chilenje, Lusaka	0211 267667	0211 267668	bmchilenje@izb.co.zm
11. Kafue	Plot No. 1076, Lusaka Road	0211 311617	0211 311600	bmkafe@izb.co.zm
13. Lusaka Civic Centre Agency	Stand No LUS/3249/REM Independence Avenue Lusaka	0211 220105	0211 220100	civiccentre@izb.co.zm
12. Longacres	Longacres shoppig mall	-	-	bmlongacres@izb.co.zm
CENTRAL PROVINCE				
14. Kabwe	Great North Road P. O. Box 8025, Kabwe	0215 222104/222105 0215 221133	0215 224823	bmkabwe@izb.co.zm
15. Mulungushi University Agency	Mulungushi University Kabwe	-	-	-
16. Serenje	Stand 19, Convent Road, Serenje	0215 382036	0215 382035	bmserenje@izb.co.zm
COPPERBELT PROVINCE				
17. Ndola Main	Plot No. 30, President Avenue, P. O. Box 73283, Ndola	0212 621347 0212 611126/611124 0212 610779	0212 615421	cmndola@izb.co.zm
18. Jacaranda	Jacaranda Shopping Mall, Plot No. 3539, Corner Mushili/Kabwe Road, Po Box 73283 Ndola	0212 650711 0212 650712	0212 650713	bmjacaranda@izb.co.zm



INDO ZAMBIA BANK

SUPPORTING YOU. DEVELOPING ZAMBIA.

BRANCH CONTACTS

Name of Branch	Address	Tel No.	Fax. No	Email Address
COPPERBELT PROVINCE				
19. Kitwe	Kaunda Square P. O. Box 20500, Kitwe	0212 226624/226088 0212 230904	0212 226369	cmkitwe@izb.co.zm
20. Chingola	Plot No. 1860, Kwacha Street P. O. Box 11225, Chingola	0212 314410/314411 0212 314430	0212 314412	bmchingola@izb.co.zm
21. Chililabombwe	Plot No. 2100 Midway avenue chililabombwe	0212 380045/380044	0212 380043	bmchililabombwe@izb.co.in
NORTH-WESTERN PROVINCE				
22. Solwezi	Plot No. 408/409, Town Centre P.O. Box 110476, Solwezi	0218 821767 0218 821757	0212 821834	bmsolwezi@izb.co.zm
23. Solwezi Civic Centre Agency	Plot No. 17979 Independence Avenue, Solwezi	–	–	–
NORTHERN PROVINCE				
24. Kasama	Stand No. 9, Independence Av. P.O. Box 410217, Kasama	0214 221105	0214 221108	bmkasama@izb.co.zm
25. Mungwi	Plot No. 1031, Mungwi	0216 245018	0216 245024	bmmungwi@izb.co.zm
MUCHINGA PROVINCE				
26. Chinsali	Plot No. 2008, Victor Ng'andu Road P.O. Box 480273, Chinsali	0214 565054 0214 565010	0214 565057	bmchinsali@izb.co.zm
LUAPULA PROVINCE				
27. Mansa	Stand No. 170 Corner Mulenshi/Chembe Rds P. O. Box 710291, Mansa	0212 821524 0212 821525	0212 821510	bmmansa@izb.co.zm
EASTERN PROVINCE				
28. Nyimba	Plot NYI 1700, Great East Road P. O. Box 570034, Nyimba	0216 374022/374023 0216 374024	0216 374025	bmnyimba@izb.co.zm
29. Chipata	Plot S/D 2310A, Hospital Road P. O. Box 511054, Chipata	0216 221579/221574 0216 221744/221746	0216 221576	bmchipata@izb.co.zm
30. Lundazi	Stand 2553, Lundazi	0216 480212 0216 480213	0216 480214	bmlundazi@izb.co.zm
SOUTHERN PROVINCE				
31. Choma	Stand 79A, Livingstone Road P. O. Box 630577, Choma	0213 220115 0213 220114	0213 220116	bmchoma@izb.co.zm
32. Livingstone	Plot No. 122/A, Mosi O Tunya Road P. O. Box 60399, Livingstone	0213 322625/322626 0213 322695	0213 322627	bmlstone@izb.co.zm
33. Livingstone Civic Centre Agency	Stand No. LIV 1962 Mosi-o-Tunya Road, Livingstone	–	–	–
34.imba	Stand No. 03, Plot No. 26 Lusaka Road,imba	0213 344430	0213 344429	bmzimba@izb.co.zm
WESTERN PROVINCE				
35. Mongu	Plot No. 3255, Independence Avenue, P. O. Box 910089 Mongu	0217 221409 0217 221422	0217 221434	bmmongu@izb.co.zm

