FINCA ZAMBIA LIMITED

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2014

FINCA ZAMBIA LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2014

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FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITY

The Company is licensed as a non-banking financial institution in accordance with the provisions of the Banking and Financial Services Act, 1994 (as amended).

The principal activity of the Company is the provision of micro finance services.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Plot 609 Foxdale Court
Zambezi Road
Roma
Lusaka

FINANCIAL RESULTS AND DIVIDENDS

RESULTS	2014 K	2013 K
Total income	**76 039 215**	51 869 509
Net income (after interest expense)	**60 092 040**	43 993 930
Loss for the year	**(2 440 777)**	(1 232 880)

SHARE CAPITAL

On 24 January 2014, a resolution was passed to convert debt of sum total of K5,782,428 to equity. During the year, the Company also received additional capital of K5,640,000 and K4,314,870 on 24 February 2014 and 30 June 2014 respectively. This increased the authorised share capital for Finca Zambia to **K25,392,783** (2013: K10,090,000).

DIRECTORS

The Directors who held office during the year were:

Mike Gama-Lobo	Chairman
Isaiah Chindumba	Director
Maximo Mulenga	Director
Timothy Durgan	Director
Leonardo Polit	Director

The Directors were not remunerated during the year under review.

EMPLOYEES

The average number of employees during each month of the year was as follows:

Month	**2014**	2013
January	**402**	373
February	**395**	370
March	**397**	367
April	**438**	366
May	**442**	366
June	**482**	355
July	**494**	364
August	**490**	357
September	**484**	362
October	**479**	409
November	**476**	412
December	**474**	402

The total remuneration paid to the employees during the year was **K31,000,248** (2013: K24,344,566).

PROPERTY AND EQUIPMENT

The additions to property and equipment during the year amounted to **K9,685,808** (2013: K2,590,919) comprising:

	2014 K	2013 K
Capital work in progress	**7 562 175**	790 228
Computer equipment	**1 068 797**	929 462
Furniture and fittings	**741 162**	326 260
Leasehold improvements	**313 673**	544 969
	9 685 808	2 590 919

Software with a cost of **K893,484** (2013: K112,218) was also acquired during the year.

SUBSEQUENT EVENTS

There have been no material events or circumstances since the reporting date to the date of approval of these financial statements that require disclosure in or adjustment to these financial statements.

FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

GIFTS AND DONATIONS

The Company made no donations during the year (2013: Nil).

EXPORTS

The Company did not export any goods/services during the year (2013: Nil)

RESEARCH AND DEVELOPMENT

The Company did not carry out any research and development activities during the year

HEALTH AND SAFETY OF EMPLOYEES

The Directors are aware of their responsibilities towards the health and safety of employees and have, accordingly, put appropriate measures in place to safeguard the health and safety of employees.

DIVIDENDS

The Company did not declare dividends during the year (2013: K429,501)

AUDITORS

The term of office for Messrs Deloitte & Touche expires at the next Annual General Meeting. The auditors have expressed their willingness to continue serving the Company as auditors. A resolution proposing their re-appointment as auditors to the Company and authorising the Directors to determine their remuneration will be put to the Annual General Meeting.

By order of the Board.

Lusaka, Zambia

Date: 28 April 2015

FINCA ZAMBIA LIMITED

STATEMENT OF RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

Section 164 (6) of the Companies Act, 1994 (as amended) and section 64 of the Banking and Financial Services Act, 1994 (as amended) requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the profit or loss for that year.

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The independent external auditors, Messrs Deloitte & Touche, have audited the financial statements and their report is shown on pages 5 and 6.

The Directors are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability for assets, and to prevent and detect material misstatements. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern in the forseeable future.

In the opinion of the Directors:

- the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the loss of the Company for the financial year ended 31 December 2014;
- the statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2014;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due; and
- the financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies' Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended).

Signed on behalf of the Board by:

DIRECTOR **DIRECTOR**

DATE: 28 APRIL 2015

INDEPENDENT AUDITOR'S REPORT

To the members of
FINCA Zambia Limited

Report on the financial statements

We have audited the accompanying financial statements of FINCA Zambia Limited set out on pages 7 to 52, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies' Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Finca Zambia Limited as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies' Act, 1994 (as amended) and the Banking and Financial Services Acts, 1994 (as amended).

Report on other legal requirements

The Companies Act, 1994 (as amended) requires that in carrying out our audit, we consider and report to you on the following matter: we confirm that, in our opinion, the accounting and other records and registers have been properly kept in accordance with the Act.

In accordance with Section 64(2) of the Banking and Financial Services Act, 1994 (as amended), we report that in our opinion:

- The Company made available all necessary information to enable us to comply with the requirements of this Act;
- 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;
- We are not aware of any transaction that has not been within the powers of the Company or which was contrary to the Act; and
- The Company complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act.

Deloitte & Touche

DELOITTE & TOUCHE
CHARTERED ACCOUNTANTS

ALICE J. TEMBO
PARTNER
M/PC NUMBER 0000564

DATE: 14/05/2015

FINCA ZAMBIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014

Kwacha	NOTES	2014	2013 Restated*	2012 Restated*
Interest and similar income	6	**43 684 122**	29 526 789	27 222 289
Interest expense	7	**(15 947 175)**	(7 875 578)	(3 618 229)
Net interest income		**27 736 947**	21 651 211	23 604 060
Fees and commission income		**27 256 111**	21 107 590	2 633 235
Late payment fees		**847 634**	656 946	439 373
Net fee and commission income		**28 103 745**	21 764 536	3 072 608
		55 840 692	43 415 747	26 676 668
Grant income		**2 751 939**	575 158	171 282
Other operating income		**1 499 409**	3 025	74 890
Other income		**4 251 348**	578 183	246 172
Total operating income		**60 092 040**	43 993 930	26 922 840
Employee benefits expenses		**(31 000 248)**	(24 344 566)	(15 667 447)
Loan impairment charges	13	**(4 433 678)**	(1 737 588)	(849 136)
Depreciation and amortisation expense	8	**(1 638 242)**	(1 334 770)	(789 569)
Net foreign exchange losses		**-**	(383 220)	(78 722)
Other operating and administration expenses		**(26 158 504)**	(18 128 580)	(9 693 019)
Total expenditure		**(63 230 672)**	(45 928 724)	(27 077 893)
(Loss)/profit before tax	8	**(3 138 633)**	(1 934 794)	(155 053)
Income tax credit/(expense)	9	**697 856**	701 914	(205 771)
(Loss) profit and other comprehensive (loss) income for the year		**(2 440 777)**	(1 232 880)	(360 824)

There were no items of other comprehensive income for the year (2013: Nil).

*Certain amounts shown here do not correspond to the 2013 and 2012 financial statements and reflect adjustments made, refer to note 27.

STATEMENT OF FINANCIAL POSITION
at 31 December 2014

Kwacha	NOTES	2014	2013 Restated	2012 Restated
ASSETS				
Cash and cash equivalents	11	**14,102,728**	14,144,634	9,489,117
Prepayments and other receivables	12	**4,979,546**	3,606,397	1,910,131
Loans and receivables	13	**101,687,975**	88,519,658	46,440,532
Amounts due from related parties	21	**164,017**	236,922	11,861
Current tax asset	9	**1,574,025**	1,203,428	-
Deferred tax asset	10	**1,861,133**	1,163,277	235,488
Property and equipment	14	**13,242,692**	5,157,627	3,867,874
Intangible asset	15	**1,054,099**	199,952	121,338
Total assets		**138,666,214**	114,231,895	62,076,341
EQUITY AND LIABILITIES				
Equity				
Share capital	17	**25,392,783**	10,090,000	7,500,000
Non-distributable reserves	18	**1,220,205**	1,220,205	656,865
Revenue reserves	25	**(2,703,810)**	(263,033)	1,962,688
Total equity		**23,909,178**	11,047,172	10,119,553
Liabilities				
Customer deposits	19	**21,416,267**	15,020,929	10,384,990
Other payables	20	**18,620,147**	10,481,130	5,769,022
Amounts due to a related party	21	**1,586,410**	12,100,619	3,655,851
Borrowings	22	**73,134,213**	65,582,045	31,893,105
Current tax liabilities	9	-	-	253,820
Total liabilities		**114,757,036**	103,184,723	51,956,788
Total equity and liabilities		**138,666,214**	114,231,895	62,076,341

The responsibilities of the Company's Directors with regard to the preparation of the financial statements are set out on page 4. The financial statements on pages 7 to 52 were approved by the Board of Directors and authorised for issue on **28 April 2015** and were signed on its behalf by:

DIRECTOR

DIRECTOR

FINCA ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

Kwacha

	Issued capital	Non-distributable reserves	Revenue reserves*	Total
Balance at 31 December 2012 restated*	**7 500 000**	**656 865**	**1 962 688**	**10 119 553**
Loss for the year	-	-	(1 232 880)	**(1 232 880)**
Debt converted to share capital	2 590 000	-	-	**2 590 000**
Dividends paid	-	-	(429 501)	**(429 501)**
Transfer from revenue reserves	-	563 340	(563 340)	-
Balance at 31 December 2013 restated *	**10 090 000**	**1 220 205**	**(263 033)**	**11 047 172**
Loss for the year	-	-	(2 440 777)	**(2 440 777)**
Debt converted to share capital (note 17)	5 782 428	-	-	**5 782 428**
Additions during the year (note 17)	9 520 355	-	-	**9 520 355**
Balance at 31 December 2014	**25 392 783**	**1 220 205**	**(2 703 810)**	**23 909 178**

*Certain amounts shown here do not correspond to the 2013 and 2012 financial statements and reflect adjustments made, refer to note 27

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

Kwacha

	NOTES	2014	2013
OPERATING ACTIVITIES			
Loss for the year		**(2 440 777)**	(1 232 880)
Adjusted for non cash items:			
Depreciation and amortisation of non-current assets	8	**1 638 242**	1 334 770
Impairment loss recognised on loans and advances		**4 433 678**	1 737 588
Interest expense		**15 947 175**	7 875 578
Profit on disposal of assets		**(1 831)**	-
Income tax credit	9	**(697 856)**	(701 914)
Operating cash flows before changes in working funds		**18 878 631**	9 013 143
Increase in prepayments and other receivables		**(1 373 149)**	(1 696 266)
Increase in loans and receivables		**(17 601 995)**	(43 816 714)
Decrease (increase) in amounts due from related parties		**72 905**	(225 061)
Increase in customer deposits		**6 395 338**	4 635 939
Increase in other payables		**8 139 017**	4 712 108
(Decrease) increase in amounts due to a related party		**(10 514 209)**	8 444 768
Cash used in operations		**3 996 539**	(18 932 084)
Income tax paid	9	**(370 597)**	(1 683 123)
Interest paid		**(15 947 175)**	(7 875 578)
Net cash (used in) operating activities		**(12 321 234)**	(28 490 785)
INVESTING ACTIVITIES			
Expenditure on property and equipment	14	**(9 685 808)**	(2 590 919)
Expenditure on intangible assets	15	**(893 484)**	(112 218)
Proceeds from disposal of property and equipment		**3 669**	-
Net cash used in investing activities		**(10 575 623)**	(2 703 137)

STATEMENT OF CASH FLOWS (CONTINUED)

for the year ended 31 December 2014

Kwacha

	NOTES	2014	2013
FINANCING ACTIVITIES			
Debt converted to share capital*	17	**5 782 428**	2 590 000
Additional capital received	17	**9 520 355**	-
Loans repaid	22	**(27 132 982)**	(26 694 520)
Proceeds from borrowings issued	22	**34 685 150**	60 383 460
Dividends paid out		**-**	(429 501)
Net cash generated from financing activities		**22 854 951**	35 849 439
Net (decrease) increase in cash and cash equivalents		**(41 906)**	4 655 517
Net cash and cash equivalents at beginning of the year		**14 144 634**	9 489 117
Net cash and cash equivalents at end of the year		**14 102 728**	14 144 634
CASH AND CASH EQUIVALENTS			
Bank and cash balances	11	**5 042 728**	11 025 842
Held to maturity investments	11	**9 060 000**	3 118 792
		14 102 728	14 144 634

** Non cash item*

1. GENERAL INFORMATION

Finca Zambia Limited is a micro finance institution incorporated in Zambia and registered with the Bank of Zambia. The address of its registered office and principal place of business and activities are disclosed in the Director's report on page 1.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the company has adopted the new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2014.

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* ;
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets; and*
- IFRIC 21 *Levies* .

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the company.

2.2 Standards and Interpretations in issue, not yet effective

Pronouncement	Issued	Effective date
IFRS 14 *Regulatory Deferral Accounts*		
• Adopters of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.	January 2014	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017
IAS 19 *Employee Benefits*		
• Amendments clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	November 2013	Annual periods beginning on or after 1 July 2014
• Amendments resulting from *Annual Improvements 2012-2014 (Clarifies high quality bonds used in estimating the discount rate).*	September 2014	Annual periods beginning on or after 1 July 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

Pronouncement	Issued	Effective date
IFRS 11 *Joint Arrangements*		
• Requires an acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the business combination accounting principles and disclose information required by IFRSs for business combination.	May 2014	Annual periods beginning on or after 1 January 2016
IFRS 3 *Business Combinations*		
• Amendments resulting to Annual Improvements 2010-2012 Cycle (Requires fair value measurement for contingent consideration at each reporting date).	December 2013	Annual periods beginning on or after 1 July 2014
• Annual Improvements 2011-2013 Cycle (Clarifies exclusion from its scope the accounting for the formation of a joint arrangement).	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 8 *Operating Segments*		
• Amendments resulting to Annual Improvements 2010-2012 Cycle (Requires disclosure of the judgments made by management).	December 2013	Annual periods beginning on or after 1 July 2014
IFRS 13 *Fair Value Measurement*		
• Amendments resulting from Annual Improvements 2010-2012 Cycle (Clarifies measurement of certain short-term receivables and payables on an undiscounted basis).	December 2013	Annual periods beginning on or after 1 July 2014
• Annual Improvements 2011-2013 Cycle (Clarifies scope of the portfolio exception in paragraph 52.	December 2013	Annual periods beginning on or after 1 July 2014
IAS 16 *Property, Plant and Equipment*		
• Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation).	December 2013	Annual periods beginning on or after 1 July 2014

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

	Pronouncement	Issued	Effective date
	IFRS 1 ***First time Adoption of International Financial Reporting Standards***		
•	Annual Improvements 2011-2013 Cycle (clarifies which versions of IFRSs can be used on initial adoption).	December 2013	Annual periods beginning on or after 1 July 2014
	IAS 24 ***Related Party Disclosures***		
•	Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities).	December 2013	Annual periods beginning on or after 1 July 2014
	IAS 40 ***Investment Property***		
•	Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities).	December 2013	Annual periods beginning on or after 1 July 2014
	IAS 38 ***Intangible Assets***		
•	Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation).	December 2013	Annual periods beginning on or after 1 July 2014
	IAS 27 ***Separate Financial Statements***		
•	Amends to permit investments in subsidiaries, joint ventures and associate to be optionally accounted for using the equity method.	August 2014	Annual periods beginning on or after 1 July 2016
	IFRS 10 ***Consolidated Financial Statements***		
•	Clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	September 2014	Annual periods beginning on or after 1 July 2016
	Consolidation exception for investment entities	December 2014	Annual periods beginning on or after 1 July 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

IFRS 5 *Non-current Assets Held and Discontinued Operation*		
• Amendments resulting from Annual Improvements 2012-2014 Cycle (Clarifies the reclassification of an asset from held for sale to held for distribution or vice versa.)	September 2014	Annual periods beginning on or after 1 July 2016
IFRS 7 *Financial Instrument; Disclosure*		
• Amendments resulting from Annual Improvements 2012-2014 (Clarifies on offsetting disclosures.)	September 2014	Annual periods beginning on or after 1 July 2016
IAS 1 *Presentation of Financial Statements*		
• Amendments resulting from Annual Improvements 2012-2014 (Amendments to address perceived impediments to preparers exercising their judgments in presenting their Financial reports)	September 2014	Annual periods beginning on or after 1 July 2016
IFRS 12 Disclosure of Interests in Other Entities		
• Consolidation exception for investment entities	December 2014	Annual periods beginning on or after 1 July 2016

The Directors of the Company anticipate that other than IFRS 9 (financial instrument: Disclosures) and IFRS 15 (Revenue from contracts with customers), these Standards and Interpretations in future periods will have no significant impact on the financial statements of

The Directors of the Company anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

The Directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the company performs a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)on a basis consistent with the prior year, except for the adoption of the revised accounting standards which have been described in note 2.

3.2 Basis of preparation

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and value added tax during the year.

3.3.1 Interest Income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition (Continued)

3.3.2 Grant income

Revenue grants are credited directly to the statement of profit or loss when the activity to which they relate has taken place. Revenue grants received during the year but which relate to future activities are shown in the statement of financial position as deferred income and transferred to the statement of profit or loss in the year in which the activity is carried out.

3.3.3 Fee and commission

Fees and commission are generally recognised on an accrual basis when the service has been provided.

3.4 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the statement of profit or loss in the year in which they are incurred.

3.5 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Retirement benefits

3.6.1 Pension scheme

The Company's employees are members of a separately administered defined contribution pension scheme. These payments to the defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to the contributions. The Company's contributions are charged to the profit or loss as they become payable in accordance with the rules of the scheme.

3.6.2 Contract employees

For fixed term contract employees a gratuity is payable at the end of the contract period. Contract periods range from one to two years. Gratuity is expensed to profit or loss as the service is rendered.

3.6.3 National Pension Scheme Authority

The Company contributes to the National Pension Authority Scheme for its eligible employees as provided for by law. Membership is compulsory and monthly contributions by both employer and employees are made. The employer's contribution is charged to the profit or loss in the year in which it arises.

3.7 Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the entities operate (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in Zambian Kwacha (‘K’), which is the functional currency of the Company and the presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the Company’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax as follows:

3.8.1 Current tax

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

3.8.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.8.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

Leasehold buildings, equipment and motor vehicles held for use in the supply of services, or for administrative purposes, are stated in the statement of financial position at historical cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, over their estimated useful lives, using the straight-line method at the following annual rates:

Leasehold land and buildings	10%
Furniture and fittings	20%
Motor vehicles	20%
Office equipment	20%
Computer software	25%

The estimated useful lives, residual values and depreciation method are reviewed at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis. Management has estimated the residual values of the property and equipment at 31 December 2014 to be insignificant.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Repairs and maintenance expenses are charged to the statement of profit and loss during the period which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the company.

3.10 Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of tangible and intangible assets excluding goodwill

At each financial reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.12 Financial assets

Financial assets are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: "loans and receivables'', "other receivables", "held to maturity" and "cash and cash equivalents". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans originated by the Company by providing money directly to the borrower are categorised as loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial assets (Continued)

3.12.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

3.12.2 Loans and receivables

Loans and receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

All loans and advances are recognised when cash is advanced to borrowers.

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables (including other receivables, bank balances and cash, and amounts due from related parties) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.12.3 Held to maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

3.12.4 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial assets (Continued)

3.12.4 Impairment of financial assets (Continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.12.5 Derecognition of financial assets

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general reserves as on appropriation of revenue reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial assets (Continued)

3.12.5 Derecognition of financial assets (Continued)

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.13 Financial liabilities and equity instruments issued by the Company

3.13.1 Classification as debt or equity

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

3.13.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3.13.3 Financial liabilities

The Company's principal financial liabilities are borrowings, other payables and amounts due to related parties. Borrowings, other payables and amounts due to related parties are initially measured at fair value, net of transaction costs.

Borrowings, other payables and amounts due to related parties are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

3.13.4 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations below, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

4.1.1 Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in that group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4.1.2 Held to maturity investments

The Company follows the guidance on IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The Directors have reviewed the Company's held to maturity financial assets in light of its capital maintenance and liquidity requirements and have confirmed the Company's positive intention and ability to hold those assets to maturity.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Critical judgments in applying accounting policies (Continued)

4.1.3 Income taxes

The Company is subject to income taxes in the Republic of Zambia. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the period in which such determination is made.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 Estimates of asset lives, residual values and depreciation methods

The Directors reviewed the residual values, useful lives and carrying amount of its equipment and other moveable assets to determine the appropriate level of depreciation and whether there is any indication that those assets have suffered an impairment loss. The Directors judged a residual value of zero as a result of the fact that equipment and other moveable assets are not held for trading and are normally scrapped.

5. GOING CONCERN

The financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Company incurred a loss for the year of **K2,440,778** (2013: K1,232,880) and at year end there is a deficit on revenue reserves of **K2,703,810** (2013: K263,033). The directors consider that the company will continue to operate for the foreseeable future within the available resources due to the following factors:

- the Company recorded increased Interest income in the year under review of **K43,684,122** (2013: K29,526,789);

- the Company has sufficient cash resources of **K14,102,728** (2013: K14,144,634) which enables it to meet its day to day working capital requirements and meet its present and future obligations as they fall due;

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5. GOING CONCERN (CONTINUED)

- the Company has sufficient current assets to meet the current obligations with its current assets exceeding its current liabilities. The company recorded current assets of **K122,508,292** (2013: K107,711,039) and current liabilities of **K41,622,823** (2013: K37,602,678).
- the Company's shareholders have also formally committed to continued support as necessary on arm's length basis, and as shown in the year, additional capital funding of K15,392,783 was made available.

On the basis of cash flow information prepared by the Directors and after consultation with its shareholders, the Directors consider that the Company will continue to operate for the foreseeable future within the available financial resources. Accordingly, the Directors are of the opinion that the preparation of these financial statements on the going concern basis is appropriate.

6. REVENUE

	2014	2013
Arising on:		
Loans to customers	**42 696 398**	29 296 947
Loans to employees	**269 945**	68 220
	42 966 343	29 365 167
Cash and short term bank deposits	**717 779**	161 622
	43 684 122	29 526 789

Income from portfolio represents interest earned and accrued on loans to customers. Interest on the Village Bank product is accrued at 4.2% (2013: 3.5%) and Small Group loan product is accrued at 4.3% (2013: 3.5%) per month and 4.2**%** (2013: 3.5%) average per month on the business loan product. Interest is accrued on a reducing balance basis.

7. INTEREST EXPENSE

Arising on:		
Loans (borrowings)	**15 260 134**	7 671 048
Interest on deposits	**687 041**	185 474
On bank overdrafts	**-**	19 055
	15 947 175	7 875 578

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7. INTEREST EXPENSE (CONTINUED)

	2014	2013

The weighted average capitalisation rate on funds borrowed generally is 17.7% per annum (2013:17.1% per annum).

8. LOSS BEFORE TAX

	2014	2013
Loss before tax is stated after crediting:		
Net exchange gains	**1 034 232**	-
Gain on disposal of assets	**1 831**	-
and after charging:		
Management fees	**4 604 595**	3 011 748
Key management remuneration	**2 703 066**	1 934 064
Depreciation and amortisation	**1 638 242**	1 334 770
- Depreciation (note 13)	**1 544 506**	1 301 166
- Amortisation (note 14)	**93 736**	33 604
Pension contributions	**1 102 461**	827 410
Net exchange losses	**-**	383 220

9. TAXATION

	2014	2013
Income tax expense comprise:		
Current tax expense	**-**	225 875
Deferred tax (note 9)	**(697 856)**	(927 789)
Total income tax credit	**(697 856)**	(701 914)
Current tax (asset) liabilities		
Payable in respect of year	**-**	225 875
(Receivable) payable in respect of previous year	**(1 203 428)**	253 820
	(1 203 428)	479 695
Income tax paid during the year	**(370 597)**	(1 683 123)
Current tax asset (liability)	**(1 574 025)**	(1 203 428)

Subject to agreement with the Zambia Revenue Authority, the Company has tax losses amounting to approximately **K4,570,991** (2013: Nil) available to be carried forward for a period of not more than five years from the year in which they were first incurred for set off against taxable profits from the same source.

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	2014	2013
9. TAXATION (CONTINUED)		

Reconciliation of the tax charge:

The total charge for the year can be reconciled to the accounting profit as follows:

	2014	2013
Loss before tax	**(3 138 633)**	(1 934 794)
Income tax calculated at 35% on accounting loss	**(1 098 521)**	(677 178)
Tax effect of permanent differences	**400 665**	(24 736)
Income tax (credit) expense	**(697 856)**	(701 914)

The tax rate used for the 2014 and 2013 reconciliations above is the income tax rate of 35% payable on taxable profits by companies locally.

10. DEFERRED TAX

	2014	2013
At beginning of year	**1 163 277**	235 488
Credited to profit or loss (note 9)	**697 856**	927 789
At end of year	**1 861 133**	1 163 277

The following are the major deferred tax assets (liabilities) recognised by the Company and their movements in the year:

	At beginning of year asset	credited to profit or loss	At end of year asset
At 31 December 2014			
Temporary differences			
- Property and equipment	**(486 086)**	**(190 483)**	**(676 569)**
- Other timing differences	**1 649 363**	**888 339**	**2 537 702**
	1 163 277	**697 856**	**1 861 133**
At 31 December 2013			
Temporary differences			
- Property and equipment	(513 763)	27 677	(486 086)
- Other timing differences	749 251	900 112	1 649 363
	235 488	927 789	1 163 277

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11. CASH AND CASH EQUIVALENTS

	2014	2013
Bank and cash	**5 042 728**	11 025 842
Held to maturity investments	**9 060 000**	3 118 792
	14 102 728	14 144 634

(i) Bank and Cash balances

	2014	2013
Kwacha bank accounts	**3 522 868**	10 108 262
Cash on hand balances	**966 500**	828 580
US Dollar bank accounts	**553 360**	89 000
	5 042 728	11 025 842
Unrestricted cash	**5 042 728**	7 580 032
Restricted cash	**-**	3 445 810
	5 042 728	11 025 842

Cash and balances with banks represents balances held at commercial banks for operations, cash held at the company's vault and petty cash.

Restricted cash is cash pledged as collateral and represents savings banked by the Company's borrowers as part of security for loans issued to them.

(ii) Held to maturity investments

	2014	2013
Investments in Term Deposits and Bank placements	**9 060 000**	3 118 792

These are short term investments in the form of term deposits with commercial banks and other financial institutions, with an average tenure of less than 90 days, with an average effective interest rate of **14.81%** (2013: 5%). These are recognised at an amortised cost during the tenure period.

12. PREPAYMENT AND OTHER RECEIVABLES

	2014	2013
Interest accrued on loans	**3 047 881**	993 691
Prepayments	**1 063 762**	2 251 226
Other Interest receivable	**725 395**	995 272
Staff advances	**71 613**	271 902
Sundry receivables	**70 896**	87 998
	4 979 546	3 606 397

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12. PREPAYMENT AND OTHER RECEIVABLES (CONTINUED)

	2014	2013

No allowance has been made for estimated irrecoverable amounts from other receivables and prepayments as the Directors believe that the full amount is recoverable.

The Directors consider that the carrying amount of other receivables approximate their fair value.

13. LOANS AND RECEIVABLES

Opening balance	**88 519 658**	46 440 532
Advanced during the year	**101 108 907**	197 054 280
impairment loss provision	**(3 574 580)**	(1 618 178)
Repayments during the year	**(84 366 010)**	(153 356 976)
	101 687 975	88 519 658
Gross amounts receivable	**105 262 555**	90 137 836
Impairment loss on loans and receivables	**(3 574 580)**	(1 618 178)
	101 687 975	88 519 658
Maturity analysis:		
Amounts receivable within one year	**75 219 192**	87 288 995
Amounts receivable after one year	**26 468 783**	1 230 663
	101 687 975	88 519 658

Before accepting any new customer, the Company carries out an affordability check to assess the potential customer's credit worthiness and defines credit limits by customer. Limits attributed to customers are reviewed on an going basis and as and when customers make application for additional loans.

Movement in the impairment loss on loans and receivables

Specific allowance for Impairment

Included in the loans to customers are individually impaired loan receivables with the balance of **K3,574,580** (2013: K1,618,178). The impairment recognised represents the difference between the carrying amount of these trade receivables and present value of the proceeds expected to be recovered from these debtors.

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13. LOANS AND RECEIVABLES (CONTINUED)

	2014	2013
The movement on the loan loss provision is shown below:		
At 1 January	**1 618 178**	675 508
Charge for the year	**4 433 678**	1 737 588
Write offs	**(2 477 475)**	(794 917)
At 31 December	**3 574 580**	1 618 178

In determining the recoverability of loans and receivables, the Company considers any delays in the monthly loan repayments from the date the loan was initially granted on an ongoing basis and any delayed monthly repayments. Where the monthly loan repayments are in arrears, the entire loan balance outstanding from the customer is provided for based on the loan performance at various percentage rates from 0.12% to 100%.

The age of gross loans receivable is as follows:

	2014	2013
Current	**92 723 260**	85 663 299
1 - 7 days	**328 100**	585 755
8 - 30 days	**3 747 226**	1 636 620
31 - 60 days	**1 620 135**	589 962
61 - 90 days	**728 210**	387 547
Over 90 days	**2 541 044**	1 274 654
	101 687 975	90 137 836

	2014	2013
Ageing of past due but not impaired		
61- 90 days	**728 210**	387 547
Over 90 days	**2 541 044**	1 274 654
Total	**3 269 254**	1 662 200

As at the reporting date there were no loans and receivables due from Directors.

The Company does not recognise any income once a loan is recognised as being impaired.

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14. PROPERTY AND EQUIPMENT

Cost	Leasehold land and buildings	Motor vehicles	Computer equipment	Furniture and fittings	Capital work in progress	Total
At 1 January 2013	1 906 050	257 185	3 170 124	1 427 303	432 201	7 192 863
Additions	544 969	-	929 462	326 260	790 228	2 590 919
Transfers	340 758	-	88 135	23 335	(452 228)	-
At 31 December 2013	**2 791 777**	**257 185**	**4 187 721**	**1 776 898**	**770 201**	**9 783 782**
At 1January 2014	2 791 777	257 185	4 187 721	1 776 898	770 201	9 783 782
Additions	313 673	-	1 068 797	741 162	7 562 175	9 685 808
Transfers	290 971	-	91 047	41 638	(478 055)	(54 398)
Eliminated on disposal	-	-	(6 023)	-	-	(6 023)
At 31 December 2014	**3 396 421**	**257 185**	**5 341 542**	**2 559 699**	**7 854 321**	**19 409 168**
At 1 January 2013	564 323	257 185	1 640 019	863 462	-	3 324 989
Charge for year	454 042	-	660 473	186 651	-	1 301 166
At 31 December 2013	**1 018 365**	**257 185**	**2 300 492**	**1 050 113**	**-**	**4 626 155**
At 1 January 2014	1 018 365	257 185	2 300 492	1 050 113	-	4 626 155
Charge for year	397 386	-	846 343	300 777	-	1 544 507
Eliminated on disposal	-	-	(4 185)	-	-	(4 185)
At 31 December 2014	**1 415 751**	**257 185**	**3 142 650**	**1 350 890**	**-**	**6 166 477**
Carrying amount						
At 31 December 2014	**1 980 670**	**-**	**2 198 891**	**1 208 809**	**7 854 321**	**13 242 692**
At 31 December 2013	1 773 412	-	1 887 229	726 785	770 201	5 157 627

In accordance with Section 193 of the Companies Act, 1994, the Register of Land and Buildings is available for inspection by members and their duly authorised agents at the registered records office of the Company.

The Directors consider that the carrying values of the assets are not materially different from their fair values.

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15. INTANGIBLE ASSETS

	2014	2013
Cost		
At 1 January 2014	**325 391**	213 173
Acquisitions	**893 484**	112 218
Transfer from work in progress	**54 398**	-
Balance at 31 December 2014	**1 273 273**	325 391
Amortisation		
At 1 January 2014	**125 439**	91 835
Amortisation for the year	**93 736**	33 604
Balance at 31 December 2014	**219 174**	125 439
Carrying amounts		
Balance at 31 December 2014	**1 054 099**	199 952

Intangible assets consist of the carrying value of various software programs including the payroll system as well as the software for the Company's banking operations and financial reporting. A new banking software Flexcube, was acquired during the year.

The Directors consider that the fair value of the property is at least equal to their carrying values as reflected in the statement of financial position.

16. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2014 and 2013.

17. ISSUED CAPITAL

Authorised, issued and fully paid:

	2014	2013
25,392,783 (2013:10,090,000) ordinary shares of K1 each	**25 392 783**	10 090 000

On 24 January 2014, a resolution was passed to convert debt of sum total of K5,782,428 to equity. During the year, the Company also received additional capital of K5,640,000 and K4,314,870 on 24 February 2014 and 30 June 2014 respectively. This increased the authorised share capital for the Company to **K25,392,783** (2013: K10,090,000).

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18. NON-DISTRIBUTABLE RESERVES

	2014	2013

The Company has charged the impairment loss on loans and advances in accordance with IAS 39. The difference of the charge for impairment on loans and advances based on Statutory Instrument No.142 and the charge based on International Financial Reporting Standards (IAS 39) has not been transferred from revenue reserves to the non-distributable reserves because the provisons we are carrying in our books based on Internationational Financial Reporting Standards are higher than the same calculation based on statutory requirements

19. CUSTOMER DEPOSITS

	2014	2013
Opening Voluntary savings	**20 197 441**	11 963 599
Opening Collateral savings deposits	**1 218 826**	3 057 330
	21 416 267	15 020 929

Customer deposits consist of customers' collateral savings and voluntary savings.

20. OTHER PAYABLES

	2014	2013
Gratuity	**5 531 156**	3 528 806
Sundry and other payables	**5 181 383**	2 011 086
Loan repayments pending appropriation	**3 183 467**	-
Accrued interest on borrowings	**2 594 629**	2 249 599
Deferred income	**2 129 512**	2 691 639
	18 620 147	10 481 130

The Directors consider that the carrying amounts of payables approximate their fair values.

21. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of FINCA Microfinance Cooperatief UA. The ultimate parent company is FINCA Micro Finance LLC ("FMH") incorporated in the United States of America.

The Company during the year carried out transactions with related parties as detailed below:

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21. RELATED PARTY TRANSACTIONS (CONTINUED)

Year end balances

(a) Amounts due from related companies

	2014	2013
FINCA Micro Holding LLC (Africa Hub)	**118 086**	196 650
Finca International	**45 931**	-
FINCA Africa Information Services Company Limited	**-**	39 167
FINCA Malawi Limited	**-**	1 105
	164 017	236 922

The above companies are subsidiaries of the group, FINCA Micro Holdings LLC.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts due from related parties. These amounts are as a result of the trading activities of the Company.

(b) Amounts due to a related company

	2014	2013
Arising on:		
Intercompany borrowings		
Royalty fees payable, Flexcube	**-**	10 854 550
Lisence fees and Lisence interest payable	**682 570**	794 201
Subordinated debt	**-**	451 868
FINCA Africa IT services Ltd payable	**903 839**	-
	1 586 410	12 100 619
Amounts falling due within one year	**1 586 410**	12 100 619

Amounts due to a related party are amounts due to FINCA Micro Holdings LLC in form of royalties payable, flexcube lisence cost payable and interest on lisence. Flexcube lisence is leased over a period of 5 years.

(c) Compensation of key Management personnel

The remuneration of key Management during the year was as follows:

	2014	2013
Short term benefits	**2 703 066**	1 934 064

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22. BORROWINGS

	2014	2013
At beginning of the year	**65 582 045**	31 893 105
Loans received	**34 685 150**	60 383 460
Loans repaid	**(27 132 982)**	(26 694 520)
At end of the year	**73 134 213**	65 582 045
Due to:		
Microfinance Enhancement Facility SA. SICAV-SIF BO	**23 323 243**	21 653 600
Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF (number 1) Symbiotics	**18 481 270**	10 664 970
Stichting Triodos-Doen/Stichting Hivos-Triodos Fonds	**17 085 000**	10 736 862
ResponsibilAbility SICAV (Lux) Microfinance Lenders (rA)	**8 155 000**	18 775 000
Access Africa Fund(Microvest)	**6 089 700**	-
Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF (number 2)	**-**	2 181 520
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V ("FMO")	**-**	1 570 093
	73 134 213	65 582 045
Less: amounts falling due within one year	**(27 549 063)**	21 358 170
Amounts falling due after one year	**45 585 150**	44 223 875

Loan terms for each of the above stated loans are as follows:

(i) Microfinance Enhancement Facility SA. SICAV-SIF (Blue Orchard)

This is an outstanding balance of K23,323,243 comprising of unsecured debt broken down as: K 5,378,900; K2,682,500 and K3,689,043 disbursed in March, April and November of 2013 with interest rates of 16.2%, 16.4% and 17.2% per annum respectively for a period of 2 years. Additional debt capital of 11,572,800 was obtained in February 2014 with interest rate of 18.5% for a period of 2 years. Interest is accrued daily based on a 360 day calender for the actual number of days elapsed. it is paid semi annually in arrears.

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22. BORROWINGS (CONTINUED)

(ii) Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF (Number 2) Symbiotics

The outstanding balance amounting to K18,481,270 made up of unsecured debt of K2,181,520 and K5,462,100 disbursed in June 2013 with interest rates of 16.35%;16.35% respectively. Additional debt capital of 4,519,350 and 6,318,300 was obtained in March and November 2014 with interest rate of 18.0% and 18.5% respectively all for a period of 2 years.

(iii) Stichting Triodos-Doen/Stichting Hivos-Triodos Fonds

The outstanding loan balance of K17,085,000 comprises of unsecured loans of 5,600,000 disbursed in December 2013 and K5,300,000 and K6,185,000 disbursed in July and October 2014 respectively. A floating interest rate is charged based on Treasury bill 90 days rate determined by the Bank of Zambia and a margin of 7% per annum, with a minimum of 12% and a maximum of 18%.

(iv) ResponsibilAbility SICAV (Lux) Microfinance Lenders (rA)

The outstanding balance of K8,155,000 comprises of unsecured debt of K2,757,500 and K5,397,500 disbursed in June and August 2013 with interest rates of 16.75% and 16.8% respectively for a tenure of 2 years.

(v) Microvest-Access Africa Fund

This is unsecured debt of K6,089,700 disbursed in June 2014 with interest rates of 17% repayable in 2 years.

23. OPERATING LEASE ARRANGEMENTS

FINCA Zambia leases a number of offices under operating leases. The leases typically run for a period of 5 years, with an option to renew the lease after that date. Lease payments are reviewed every year to reflect market rentals.

	2014	2013
Rental expense on leasehold building	**2 892 549**	1 404 166
Rentals prepaid on leaseholds		
Less than one year	**277 233**	458 146
Between 1 and 5 years	**36 026**	180 000
	313 259	638 146

24. CONTINGENT LIABILITIES

The Company did not have contingent liabilities as at 31 December 2014 and 2013.

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25. EVENTS AFTER THE REPORTING DATE

There have been no material events or circumstances since the reporting date to the date of approval of these financial statements that require disclosure in or adjustment to these financial statements.

26. FINANCIAL INSTRUMENTS

Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in notes 11 and 17 respectively.

Gearing ratio	**2014**	2013
The gearing ratio at the year end was as follows:		
Debt (I)	**73 134 213**	65 582 045
Less: Cash and cash equivalents	**(14 102 728)**	(14 144 634)
Net debt	**59 031 485**	51 437 411
Equity (ii)	**23 909 178**	11 047 172
Net debt to equity ratio	**247%**	466%

The industry average is 200%.

(I) Debt is defined as long-term and short-term borrowings, as detailed in note 22.

(ii) Equity includes all capital and reserves of the Company.

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies to the financial statements.

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

- To comply with the capital requirements set by the Bank of Zambia;
- To safeguard the Company'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.

Table below shows the computation of the Company's risk weighted assets and capital position as required by Cap. 387 of the Banking and Financial Services Act, 1994 (as amended).

a) Calculation of risk weighted assets

		Risk weight % (1)	**Balance (net of allowance for losses) (2)**	**Risk-weighted assets (1 x 2)**
	ASSETS			
	Notes and coin			
1	- Domestic	0%	966 500	-
2	- Foreign	0%	-	-
	Balances held with Bank of Zambia			
3	- statutory reserves	0%	-	-
4	- other balances	0%	-	-
	Balances held with commercial banks:			
	a) Domestic			
5	- with residual maturity of up to 12 months	20%	3 522 868	704 574
6	- with residual maturity of more than 12 months	100%	-	-
	b) Foreign			
7	- with residual maturity of up to 12 months	20%	553 360	110 672
8	- with residual maturity of more than 12 months	100%	-	-
	Assets in transit			
9	- From other commercial banks	50%	-	-
10	- From branches of reporting bank	20%	-	-
	Investment in debt securities			
11	- Treasury bills and placements	0%	9 060 000	-
12	- Other government securities	20%	-	-
13	- Issued by Local Government Units	100%	-	-
14	- Private securities	100%	-	-

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies (Continued)

a) Calculation of risk weighted assets (Continued)

		Risk weight % (1)	**Balance (net of allowance for losses) (2)**	**Risk-weighted assets (1 x 2)**
	Bills of exchange			
15	- Portion secured by cash or treasury bills	0%	-	-
16	- Others	100%	-	-
	Loans repayable in instalments and secured by a			
17	- Portion secured by cash or treasury bills	0%	-	-
18	- loans to or guaranteed by local government units	100%	-	-
19	- mortgage on owner- occupied residential property	50%	-	-
20	- loans to parastatals	100%	-	-
21	- Others	100%	101 687 975	101 687 975
22	- Inter-bank advances and loans/advances guaranteed by			
23	- with residual maturity of 12 months	20%	-	-
24	- with a residual maturity of more than 12 months	100%	-	-
25	Bank premises	100%	-	-
26	Acceptances	100%	-	-
27	Other assets	100%	22 875 512	22 875 512
28	Investment in equity of other companies	100%	-	-
	TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)		**138 666 215**	**125 378 733**

OFF BALANCE SHEET OBLIGATIONS

		Risk weight % (2)	Balance (net of allowance for losses) (3) K	Risk-weighted assets (1 x 2 x 3) K
	Letters of credit			
29	- sight import letters of credit	20%	-	-
30	- portion secured by Cash/Treasury bills	0%	-	-
31	- standby letters of credit	100%	-	-
32	- portion secured by Cash/Treasury bills	0%	-	-
33	- export letters of credit confirmed	20%	-	-
34	- Guarantees and indemnities			-
35	- guarantees for loans, trade and securities	100%	-	-
36	- portion secured by Cash/Treasury bills	0%	-	-
37	- performance bonds	50%	-	-
38	- portion secured by Cash/Treasury bills	0%	-	-
39	- securities purchased under resale agreement	100%	-	-
40	- other contingent liabilities	100%	-	-
41	- net open position in foreign currencies	100%	-	-
	TOTAL RISK-WEIGHTED ASSETS (off balance sheet)		-	-
	TOTAL RISK-WEIGHTED ASSETS (on and off-balance she		**138 666 215**	**125 378 733**

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Computation of capital position	31 December 2014	31 December 2013
PRIMARY (TIER 1) CAPITAL ADDITIONS:		
(a) Paid-up common shares	**25 392 783**	10 090 000
(b) Eligible preferred shares	**-**	-
(c) Capital grants (Share premium)	**-**	-
(d) Retained earnings	**(2 703 810)**	941 533
(e) Non distributive reserves	**1 220 205**	1 220 205
(f) Statutory reserves	**-**	-
(g) Minority interests (common shareholders' equity)	**-**	-
(h) Sub-total	**23 909 178**	12 251 738
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	**-**	**-**
Sub-total (A) (items i to m)	**-**	-
OTHER ADJUSTMENTS:		
Provisions (note 2)	**-**	-
Assets of little or no realizable value (note 3)	**-**	-
Other adjustments (specify)	**-**	-
Sub-total (Other adjustments)	**-**	-
(n) Total Subtractions (B): (Sub-total A above+Other adjustments)	**-**	**-**
(o) TOTAL PRIMARY CAPITAL (h - n)	**23 909 178**	12 251 738
SECONDARY (TIER 2) CAPITAL		
(a) Eligible preferred shares		
(b) Eligible subordinated term debt (note 25)	**-**	352 582
(c) Eligible loan stock/capital	**-**	-
(d) Eligible general provisions	**-**	-
(e) Revaluation reserves. Maximum is 40% of revaluation	**-**	-
(f) Other. specify	**-**	-
ELIGIBLE SECONDARY CAPITAL	**-**	352 582
(the maximum amount of secondary capital is limited to 100% of primary capital)	**-**	-
ELIGIBLE TOTAL CAPITAL (I(o) + III) (Regulatory capital)	**23 909 178**	12 604 320
MINIMUM TOTAL CAPITAL REQUIREMENT:	**20 799 932**	**18 806 810**
(15% of total on and off balance sheet risk-weighted assets as established in the first schedule)		
CAPITAL ADEQUACY (I + III - IV)	**3 109 246**	**(6 202 490)**

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives

(a) Introduction and overview

Finca Zambia has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- currency risk

Interest rate risk management

The Company is exposed to interest rate risk as the Company borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings. The exposure to interest rate risk is evaluated regularly by management to align with interest rate views and defined risk appetite, by either positioning the balance sheet or protecting interest expense through different interest rate cycles. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Credit risk management

Credit risk management refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk in respect of loans and receivables. Credit risk on loans and receivables is high, however, all loans are monitored on a monthly basis and non performing loans are identified. The monthly repayments are monitored on an ongoing basis and any none compliance is immediately flagged by management and adequate provision made against non performing loans. The credit risk on liquid funds is limited because the counterparties are first-class banks.

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

The Company manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities. The liquidity risk of the financial liabilities at the reporting date is as detailed below.

The following table detail the Company's remaining contractual maturity for its non-derivate financial assets and liabilities. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

Year ended 31 December 2014

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Assets						
Bank and cash balances	5 042 728	8 060 000	1 000 000	-	-	**14 102 728**
Other receivables	3 915 784	-	-	-	-	**3 915 784**
Loans and receivables	7 605 306	13 448 202	61 663 523	18 970 945	-	**101 687 975**
Amounts due from related parties	-	164 017	-	-	-	**164 017**
Total assets	**16 563 818**	**21 672 219**	**62 663 523**	**18 970 945**	-	**119 870 504**

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

Year ended 31 December 2014

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Liabilities						
Customers Deposits	8 566 507	6 424 880	6 424 880	-	-	**21 416 267**
Other Payables	-		2 941 049	-	-	**2 941 049**
Amounts due to a related party	-	914 410	-	672 000	-	**1 586 410**
Borrowings		3 689 043	23 860 020	45 585 150	-	**73 134 213**
Total liabilities	**8 566 507**	**11 028 333**	**33 225 950**	**46 257 150**	**-**	**99 077 939**
Total equity	-	-	-	-	23 909 178	23 909 178
Total equity and liabilities	8 566 507	11 028 333	33 225 950	46 257 150	23 909 178	122 987 117
Net liquidity gap	**7 997 311**	**10 643 886**	**29 437 573**	**(27 286 205)**	**(23 909 178) 0**	**(3 116 613)**

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Year ended 31 December 2013						
Bank and cash balances	14 144 634	-	-	-	-	14 144 634
Other receivables	1 355 172	-	-	-	-	1 355 172
Loans and receivables	85 690 975	977 509	620 511	1 230 663	-	88 519 658
Amounts due from a related party	-	236 922	-	-	-	236 922
Total assets	101 190 781	1 214 431	620 511	1 230 663	-	104 256 385
Liabilities						
Customers Deposits	6 008 372	4 506 279	4 506 279	-	-	15 020 929
Other Payables	-	8 217 496	-	-	-	8 217 496
Amounts due to a related party	-	12 100 619	-	-	-	12 100 619
Borrowings	5 136 862	-	39 087 013	21 358 170	-	65 582 045
Total liabilities	-	24 824 393	43 593 292	21 358 170	-	100 921 088
Total equity	-	-	-	-	12 307 243	12 307 243
Total equity and liabilities	-	24 824 393	43 593 292	21 358 170	12 307 243	113 228 332
Net liquidity gap	101 190 781	(23 609 963)	(42 972 781)	(20 127 507)	(12 307 243)	(8 971 947)

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Market risks - sensitivity analysis

The objective of the Company's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Company's profile.

Market risk is the risk that movements in market risk factors including foreign exchange rates and interest rates will reduce the entity's income or capital.

A principal part of the entity's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios and the sensitivity of future earnings and capital to varying foreign exchange rates. The entity aims through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital.

a) Interest rate risks - increase/decrease of 10% in net interest margin

The interest Rate Risks sensitivity analysis is based on the assumption that changes in the market interest rates affect the interest income or expenses of variable interest financial instruments:

The table below sets out the impact on current profit before taxation of an incremental 10% parallel fall or rise in all yield curves at the beginning of the current financial year beginning on 1 January 2014:

		Scenario 1	Scenario 1
Amount	(1 594 718)	**10% increase in variable interest rates**	**10% decrease in variable interest rates**
Loss before tax	(3 138 633)	(4 733 350)	(1 543 915)

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Market risks - sensitivity analysis (continued)

a) Interest rate risks - increase/decrease of 10% in net interest margin (Continued)

Assuming no management action, a rise would decrease net interest income for 2014 by **K1,594,718** (2013: K787,558), while a fall would increase net interest income by the same amount.

b) Foreign Exchange risks - Appreciation/ Depreciation of USD by 10%

The foreign exchange risks sensitivity analysis is based on an incremental 10% parallel fall or rise in the US Dollar exchange rate during the year ended 31 December 2014.

			Scenario 1 10% increase variable Foreign exchange rates	Scenario 1 10% decrease variable Foreign exchange rates
Amount	103 423			
Loss before tax		(3 138 633)	(3 035 209)	(3 242 056)

Assuming no management action, a rise would decrease net income for 2014 by **K103,423** (2013:K10,751), while a fall would increase net interest income by the same amount.

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements

The information set out below provides information about how the Company determines fair values of various financial assets and financial liabilities.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	2014		2013	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
– other receivables	3 915 784	3 915 784	1 355 172	1 355 172
– loans and receivables	101 687 975	101 687 975	88 519 658	88 519 658
– amounts due from related parties	164 017	164 017	236 922	236 922
Total	**105 767 776**	**105 767 776**	90 111 751	90 111 751

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements (continued)

	2014		2013	
	Carrying	**Fair value**	Carrying	Fair value
Financial liabilities				
Financial liabilities held at amortised cost:				
– customer deposits	21 416 267	21 416 267	15 020 929	15 020 929
– other payables	2 941 049	2 941 049	8 217 496	8 217 496
– amounts due to a related party	1 586 410	1 586 410	12 100 619	12 100 619
– borrowings	73 134 213	73 134 213	65 582 045	65 582 045
Total	**99 077 939**	**99 077 939**	100 921 088	100 921 088

	Fair value hierarchy as at 31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and receivables:				
– other receivables	-	-	3 915 784	3 915 784
– loans and receivables	-	-	101 687 975	101 687 975
– amounts due from related parties	-	-	164 017	164 017
Total	**-**	**-**	**105 767 776**	**105 767 776**

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26. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements (continued)

	2014		2013	
	Carrying	**Fair value**	Carrying	Fair value
Financial liabilities				
Financial liabilities held at amortised cost:				
– customer deposits	-	21 416 267	-	21 416 267
– other payables	-	2 941 049	-	2 941 049
– amounts due to a related party	-	-	1 586 410	1 586 410
– borrowings	-	73 134 213	-	73 134 213
Total	**-**	**97 491 529**	**1 586 410**	**99 077 939**

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

27. PRIOR YEAR ADJUSTMENTS

The Company offers Credit life insurance to its customers as part of the Company's credit offering. The Company deducts insurance fees from the client accounts and forwards the same to the insurance company in line with a fee-sharing agreement

During the year 2014, management noticed a debit balance on the credit life payable account. This account is used to record premiums payable to African Life Assurance for loans disbursed in a particular month. After an investigation was conducted by Corporate internal audit, it was found that administration fee income amounting to K1,938,571 was wrongly posted resulting in overstating the profits for the prior years namely 2012 and 2013 by K1,876,654 and K61,917 respectively. This was presented before the Board and approval was given to restate the accounts for 2012 and 2013 and to pass the adjustment against equity in 2014.

The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Impact on equity (increase/(decrease) in equity)

	2013	2012
	K	K
Other payables	**(61 917)**	(1 876 654)
Net impact on equity	**(61 917)**	(1 876 654)

Impact on statement of profit or loss (increase/(decrease) in profit)

	2013	2012
	K	K
Fees and commission income	**(61 917)**	(1 876 654)
Income tax credit	**21 671**	656 829
Net impact on profit for the year	**(40 246)**	(1 219 825)

FINCA ZAMBIA LIMITED

APPENDIX I - DETAILED INCOME STATEMENT
for the year ended 31 December 2014

Kwacha		
NET INTEREST INCOME	**2014**	2013
Interest and similar income	**43 684 122**	29 526 789
Interest expense	**(15 947 175)**	(7 875 578)
	27 736 947	21 651 211
OTHER OPERATING INCOME		
Fees and commission income	**27 256 111**	21 169 507
Grant income	**2 751 939**	575 158
Other operating income	**1 499 409**	3 025
Late payment fees	**847 634**	656 946
TOTAL INCOME	**60 092 040**	44 055 847
OPERATING EXPENSES		
Salaries and wages	**31 000 248**	24 344 566
MSA, royalty fees, affiliation	**5 115 504**	3 011 748
Loan impairment charges	**4 433 678**	1 737 588
Travelling and accommodation	**3 827 791**	3 288 554
Rent	**2 892 549**	1 401 166
Write offs approved by board	**2 217 002**	-
Communication (telephones, Internet and postage)	**1 868 381**	1 297 474
Depreciation and armotisation	**1 638 242**	1 334 770
Faisql SSBV expenses	**1 512 238**	108 981
Consumables and office supplies	**1 471 949**	1 289 181
Other professional fees	**1 340 357**	896 197
Staff training	**940 543**	873 757
Marketing costs	**893 587**	596 843
Security	**770 561**	679 605
Taxes other than on income	**668 834**	2 136 094
Equipment rental	**498 942**	197 937
Other expenses	**657 059**	942 422
Licensing fees, meeting and software	**276 399**	188 189
Repairs and maintenance	**276 246**	270 156
Audit fees	**249 318**	132 194
Bank charges	**234 554**	297 754
Motor vehicle expenses	**142 686**	224 624
Utilities	**136 566**	133 032
Legal professional fees	**117 021**	85 268
Insurance	**50 416**	77 405
Net foreign exchange losses	**-**	383 220
	63 230 672	45 928 724
LOSS BEFORE TAX	**(3 138 633)**	(1 872 877)