<u>FINCA ZAMBIA LIMITED</u>

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2015

FINCA ZAMBIA LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2015

CONTENTS **PAGES**

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2015.

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	2015 K	2014 K
Total income	**111 140 588**	76 039 215
Net income (after interest expense)	**84 178 936**	60 092 040
Profit (loss) for the year	**4 387 468**	(2 440 777)

SHARE CAPITAL

There were no changes to the Company's authorised and issued share capital during the year.

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	**2015**	2014
January	**479**	402
February	**540**	395
March	**530**	397
April	**512**	438
May	**510**	442
June	**502**	482
July	**488**	494
August	**481**	490
September	**471**	484
October	**454**	479
November	**434**	476
December	**417**	474

The total remuneration paid to the employees and towards staff welfare during the year was **K36,223,704** (2014: K31,000,248).

PROPERTY AND EQUIPMENT

The additions to property and equipment during the year amounted to **K3,210,272** (2014: K9,685,808) comprising:

	2015 K	2014 K
Computer equipment	**1 772 750**	1 068 797
Leasehold improvements	**760 154**	313 673
Capital work in progress	**361 681**	7 562 175
Furniture and fittings	**315 687**	741 162
	3 210 272	9 685 808

Software with a cost of **K410,182** (2014: K893,484) 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.

GIFTS AND DONATIONS

The Company made no donations during the year (2014: Nil).

EXPORTS

The Company did not export any goods/services during the year (2014: 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 (2014: Nil).

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: 19 April 2016

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 profit of the Company for the financial year ended 31 December 2015;
- 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 2015;
- 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: 19 April 2016

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 50, which comprise the statement of financial position as at 31 December 2015, 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 presentation of these financial statements that give a true and fair view 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 2015, 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 and regulatory 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 JERE TEMBO
AUDIT PARTNER
PC NO.: AUD/F000433

DATE: 26/04/2016

FINCA ZAMBIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2015

	NOTES	2015 K	2014 K
Interest income	5	**55 382 483**	43 684 122
Interest expense	6	**(19 875 515)**	(15 947 175)
Net interest income		**35 506 968**	27 736 947
Impairment charges for credit losses	14	**(7 086 137)**	(4 433 678)
Net interest income after impairment charges for credit losses		**28 420 831**	23 303 269
Fee and commission income	7	**34 283 714**	27 256 111
Late payment fees		**563 753**	847 634
Net fee and commission income		**34 847 467**	28 103 745
Other income	8	**15 471 360**	1 499 409
Grant income		**5 439 278**	2 751 939
Total other income		**20 910 638**	4 251 348
Total operating income		**84 178 936**	55 658 362
Operating expenses	9	**(76 804 753)**	(58 796 995)
Profit (loss) before tax	10	**7 374 183**	(3 138 633)
Income tax (expense)/credit	11	**(2 986 715)**	697 856
Total comprehensive profit (loss) for the year		**4 387 468**	(2 440 777)

There were no items of other comprehensive income for the year (2014: Nil).

FINCA ZAMBIA LIMITED

STATEMENT OF FINANCIAL POSITION
at 31 December 2015

	NOTES	2015 K	2014 K
ASSETS			
Cash and cash equivalents	13	**6 398 425**	14 102 728
Prepayments and other receivables	14	**6 691 887**	4 979 546
Loans and advances to customers	15	**128 728 705**	101 687 975
Amounts due from related parties	22	-	164 017
Current tax asset	11	**1 910 148**	1 574 025
Derivative financial assets	16	**15 277 023**	-
Deferred tax asset	12	-	1 861 133
Property and equipment	17	**8 672 274**	13 242 692
Intangible asset - software	18	**5 898 589**	1 054 099
Total assets		**173 577 051**	138 666 214
LIABILITIES			
Deposits from customers	20	**30 380 627**	21 416 267
Other financial liabilities	21	**19 732 981**	18 620 147
Amounts due to related parties	22	**3 129 896**	1 586 410
Deffered tax liability	12	**1 102 969**	-
Borrowings	23	**90 933 932**	73 134 213
Total liabilities		**145 280 405**	114 757 036
EQUITY			
Share capital	26	**25 392 783**	25 392 783
General reserve	27	**1 258 321**	1 220 205
Retained earnings		**1 645 542**	(2 703 810)
Total equity		**28 296 646**	23 909 178
Total equity and liabilities		**173 577 051**	138 666 214

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 50 were approved by the Board of Directors and authorised for issue on **19 April 2016** and were signed on its behalf by:

DIRECTOR

DIRECTOR

FINCA ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

	Issued capital	General reserves	Retained earnings	Total
	K	K	K	K
Balance at 31 December 2013	**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	5 782 428	-	-	**5 782 428**
Additions during the year	9 520 355	-	-	**9 520 355**
Balance at 31 December 2014	**25 392 783**	**1 220 205**	**(2 703 810)**	**23 909 178**
Profit for the year	-	-	4 387 468	**4 387 468**
Transfer from revenue reserves (note 27)	-	**38 116**	**(38 116)**	**-**
Balance at 31 December 2015	**25 392 783**	**1 258 321**	**1 645 542**	**28 296 646**

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	NOTES	2015	2014
		K	K
OPERATING ACTIVITIES			
Profit/ (loss) for the year		**4 387 468**	(2 440 777)
Adjusted for non cash items:			
Net foreign exchange loss on borrowings	23	**10 613 700**	-
Depreciation and amortisation of non-current assets	17,18	**3 342 160**	1 638 242
Impairment loss recognised on loans and advances		**7 086 137**	4 433 678
Interest expense recognised in profit or loss		**19 875 515**	15 947 175
Write back of depreciation		**4 185**	-
Gain on disposal of assets		**(10 325)**	(1 831)
Gain on forward exchange swap	8	**(15 277 023)**	-
Income tax expense/ (credit)	11	**2 986 715**	(697 856)
Operating cash flows before changes in working funds		**33 008 532**	18 878 631
Increase in prepayments and other receivables		**(1 712 341)**	(1 373 149)
Increase in loans and advances to customers		**(34 126 867)**	(17 601 995)
Decrease in amounts due from related parties		**164 017**	72 905
Increase in customer deposits		**8 964 360**	6 395 338
Increase in other financial liabilities		**1 112 834**	8 139 017
Increase (decrease) in amounts due to related parties		**1 543 522**	(10 514 209)
Cash generated in operations		**8 954 058**	3 996 539
Income tax paid	11	**(358 736)**	(370 597)
Interest paid		**(19 875 515)**	(15 947 175)
Net cash used in operating activities		**(11 280 193)**	(12 321 234)
INVESTING ACTIVITIES			
Expenditure on property and equipment	17	**(3 210 272)**	(9 685 808)
Expenditure on intangible assets	18	**(410 182)**	(893 484)
Proceeds from disposal of property and equipment		**10 325**	3 669
Net cash used in investing activities		**(3 610 129)**	(10 575 623)

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)
for the year ended 31 December 2015

	NOTES	2015	2014
		K	K
FINANCING ACTIVITIES			
Debt converted to share capital*		**-**	5 782 428
Additional capital received		**-**	9 520 355
Loans repaid	23	**(35 268 121)**	(27 132 982)
Proceeds from borrowings issued	23	**42 454 140**	34 685 150
Net cash generated from financing activities		**7 186 019**	22 854 951
Net decrease in cash and cash equivalents		**(7 704 303)**	(41 906)
Net cash and cash equivalents at beginning of the year		**14 102 728**	14 144 634
Net cash and cash equivalents at end of the year		**6 398 425**	14 102 728
CASH AND CASH EQUIVALENTS			
Bank and cash balances	13	**5 398 425**	5 042 728
Held to maturity investments	13	**1 000 000**	9 060 000
		6 398 425	14 102 728

** Non cash item*

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

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. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING

2.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015:

• ***Annual Improvements to IFRSs 2010 - 2012 Cycle and 2011 –***

The application of amendments has had no impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

2.2 Standards and Interpretations in issue, not yet effective

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

Effective date	Standard, Ammedment or interpretation
1 January 2018	IFRS 9 Financial Instruments IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments. Possible Impact on the financial statements: None
1 January 2016	IFRS 14 Regulatory Deferral Accounts IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter 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. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. Possible Impact on the financial statements: None

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

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

Effective date	Standard, Ammedment or interpretation
1 January 2018	IFRS 15 Revenue from Contracts with Customers IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: • Identify the contract(s) with a customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contract • Recognise revenue when (or as) the entity satisfies a performance obligation. Possible Impact on the financial statements: None
1 January 2016	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied.

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

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

Effective date | **Standard, Ammedment or interpretation**

1 January 2016 — Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.
• An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
• An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
• In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss.

Possible Impact on the financial statements: None

1 January 2016 — Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset.

1 January 2016 — Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

Possible Impact on the financial statements: None

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

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

Effective date	Standard, Ammedment or interpretation
1 January 2016	Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. Possible Impact on the financial statements: None
1 January 2016	The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below. The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.
1 January 2016	The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds.

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

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

Effective date	Standard, Ammedment or interpretation
1 January 2016	The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below. (Continued)
	The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.
	Possible Impact on the financial statements: None

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.3.2 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.

3. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

3.5 Provisions (Continued)

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.

3.6 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	20%
Motor	20%
Office	20%
Computer	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 2015 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.

3.12.1 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial assets (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial assets (Continued)

3.12.4 Impairment of financial assets (Continued)

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 Derivatives instruments

A derivative is a financial instrument whose value changes in response to an underlying variable that requires little or no initial investment and that is settled at a future date. All derivatives are accounted for as trading instruments. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and are subsequently measured at fair value through profit and loss.

Derivative assets consist of open forward exchange swaps.

3.12.6 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)

3.12.6 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial liabilities and equity instruments issued by the Company (Continued)

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

4.1 Critical judgments in applying accounting policies (Continued)

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.

4.1.3 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. INTEREST INCOME

	2015	2014
	K	K
Arising on:		
Loans to customers	**54 612 100**	42 696 398
Loans to employees	**325 105**	269 945
	54 937 205	42 966 343
Cash and short term bank deposits	**445 278**	717 779
	55 382 483	43 684 122

Income from portfolio represents interest earned and accrued on loans to customers. Interest on the Village Bank product is accrued at **5%** (2014: 4.2%) and Small Group loan product is accrued at **4.9%** (2014: 4.3%) per month and **4.1%** (2014: 3.8%) average per month on the business loan product. Interest is accrued on a reducing balance basis.

6. INTEREST EXPENSE

	2015	2014
Arising on:		
Borrowings	**17 942 938**	15 260 134
Deposits due to customers	**1 932 577**	687 041
	19 875 515	15 947 175

The weighted average capitalisation rate on funds borrowed generally is **20.1%** per annum (2014:17.7% per annum).

7. FEE AND COMMISSION INCOME

	2015	2014
Account maintance fees	**15 985 227**	4 981 507
Legal and asset inspection fees	**9 513 048**	5 024 650
Arrangement and deposit fees	**5 952 509**	15 599 586
Insurance administration fee	**2 070 435**	1 147 569
Credit related fees	**762 495**	502 799
	34 283 714	27 256 111

8. OTHER INCOME

	2015	2014
Gain on forward exchange swap	**15 277 023**	-
Other operating income	**194 337**	1 499 409
	15 471 360	1 499 409

9. OPERATING EXPENSES

	2015	2014
Employee benefit expenses	**36 223 704**	31 000 248
Other operating and adminstration expenses	**25 319 762**	26 158 505
Net foreign exchange losses	**11 919 127**	-
Depreciation and amortisation expense	**3 342 160**	1 638 242
	76 804 753	58 796 995

	2015	2014
	K	K

10. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax is stated after crediting:

	2015 K	2014 K
Gain on disposal of assets	**10 325**	1 831
Net exchange gains	**-**	1 034 232
and after charging:		
Depreciation and amortisation	**3 342 160**	1 638 242
- Depreciation (note 17)	**1 913 365**	1 544 506
- Amortisation (note 18)	**1 428 795**	93 736
Management fees	**3 196 911**	4 604 595
Key management remuneration	**3 101 289**	2 703 066
Net exchange losses	**1 305 427**	-
Pension contributions	**1 198 449**	1 102 461

11. TAXATION

	2015 K	2014 K
Income tax expense comprise :		
Current tax expense	**22 613**	-
Deferred tax (note 12)	**2 964 102**	(697 856)
	2 986 715	(697 856)
Total income tax credit		
Current tax (asset) liabilities		
Payable in respect of year	**22 613**	-
Receivable in respect of previous year	**(1 574 025)**	(1 203 428)
	(1 551 412)	(1 203 428)
Income tax paid during the year	**(358 736)**	(370 597)
Current tax asset	**(1 910 148)**	(1 574 025)

Subject to agreement with the Zambia Revenue Authority, the Company has tax losses amounting to approximately **K2,263,814** (2014: K4,570,991) 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.

11. TAXATION (CONTINUED)

	2015	2014
	K	K
Reconciliation of the tax charge:		
The total charge for the year can be reconciled to the accounting profit as follows:		
Profit /(loss) before tax	**7 374 183**	(3 138 633)
Income tax calculated at 35% on accounting profit (loss)	**2 580 964**	(1 098 521)
Current tax expense		-
Tax effect of permanent differences	**405 751**	400 665
Income tax expense (credit)	**2 986 715**	(697 856)

The tax rate used for the 2015 and 2014 reconciliations above is the income tax rate of 35% payable on taxable profits by companies locally.

12. DEFERRED TAX

	2015	2014
At beginning of year	**1 861 133**	1 163 277
Credited to profit or loss (note 11)	**(2 964 102)**	697 856
At end of year	**(1 102 969)**	1 861 133

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

	At beginning of year	**Credited to profit or loss**	At end of year asset
At 31 December 2015			
Temporary differences			
- Property and equipment	**(676 569)**	**(305 225)**	**(981 794)**
- Other timing differences	**2 537 702**	**(2 658 877)**	**(121 175)**
	1 861 133	**(2 964 102)**	**(1 102 969)**
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

13. CASH AND CASH EQUIVALENTS

	2015	2014
	K	K
Bank and cash balances	**5 398 425**	5 042 728
Held to maturity investments	**1 000 000**	9 060 000
	6 398 425	14 102 728

(i) Bank and cash balances

Kwacha bank accounts	**4 382 537**	3 522 868
Cash on hand balances	**992 857**	966 500
US Dollar bank accounts	**23 031**	553 360
	5 398 425	5 042 728
Unrestricted cash	**5 363 047**	5 007 459
Restricted cash	**35 378**	35 269
	5 398 425	5 042 728

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 on savings banked by the Company's borrowers as part of security for loans issued to them.

(ii) Held to maturity investments

Investments in Term Deposits and Bank placements	**1 000 000**	9 060 000

These are short term investments in the form of term deposits with commercial banks and other financial institutions. The outstanding balance had a tenure of 364 days, with an effective interest rate of **14%** (2014:14%).

14. PREPAYMENTS AND OTHER RECEIVABLES

Interest accrued on loans	**4 074 638**	3 047 881
Prepayments	**1 925 742**	1 063 762
Other interest receivable	**526 789**	725 395
Staff advances	**139 138**	71 613
Sundry receivables	**25 580**	70 896
	6 691 887	4 979 546

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.

15. LOANS AND ADVANCES TO CUSTOMERS

	2015	2014
	K	K
At the beginning of the year	**101 687 975**	88 519 658
Advanced during the year	**123 157 033**	101 108 907
Impairment loss provision	**(5 306 662)**	(3 574 580)
Repayments during the year	**(90 809 641)**	(84 366 010)
	128 728 705	101 687 975
Gross amounts receivable	**134 035 367**	105 262 555
Impairment charges for credit losses	**(5 306 662)**	(3 574 580)
	128 728 705	101 687 975

Maturity analysis:

	2015	2014
Amounts receivable within one year	**96 626 834**	75 219 192
Amounts receivable after one year	**32 101 871**	26 468 783
	128 728 705	101 687 975

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 advances to customers

Specific allowance for Impairment

Included in the loans to customers are individually impaired loan receivables with the balance of **K5,306,662** (2014: K3,574,580). 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.

The movement on the loan loss provision is shown below:

	2015	2014
At 1 January	**3 574 580**	1 618 178
Charge for the year	**7 086 137**	4 433 678
Write offs	**(5 354 055)**	(2 477 475)
At 31 December	**5 306 662**	3 574 580

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%.

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The age of gross loans receivable is as follows:

	2015 K	2014 K
Current	**117 442 200**	96 297 840
1 - 7 days	**133 746**	328 100
8 - 30 days	**4 559 115**	3 747 226
31 - 60 days	**1 585 686**	1 620 135
61 - 90 days	**640 699**	728 210
Over 90 days	**4 367 260**	2 541 044
	128 728 706	105 262 555
Ageing of past due but not impaired		
61- 90 days	**640 699**	728 210
Over 90 days	**4 367 260**	2 541 044
Total	**5 007 959**	3 269 254

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.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 K	2014 K
Derivative financial assets arising from:		
Forward swap	**15 277 023**	-

17. PROPERTY AND EQUIPMENT

Cost	Leasehold land and buildings	Motor vehicles	Computer equipment	Furniture and fittings	Capital work in progress	Total
	K	K	K	K	K	K
At 1 January 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)	(54 399)
Disposals	-	-	(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 1January 2015	3 396 421	257 185	5 341 542	2 559 699	7 854 321	19 409 168
Additions	760 154	-	1 772 750	315 687	361 681	3 210 272
Transfers	1 423 239	-	578 943	350 681	(8 216 002)	(5 863 139)
Disposals	-	-	(364 858)	(204 517)	-	(569 375)
At 31 December 2015	**5 579 814**	**257 185**	**7 328 376**	**3 021 549**	**-**	**16 186 926**
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**
At 1 January 2015	1 415 751	257 185	3 142 650	1 350 890	-	6 166 477
Charge for year	309 861	-	1 256 142	347 362	-	1 913 365
Write back of depreciation	-	-	4 185	-	-	4 185
Eliminated on disposal	-	-	(364 858)	(204 517)	-	(569 375)
At 31 December 2015	**1 725 613**	**257 185**	**4 038 119**	**1 493 735**	**-**	**7 514 652**
Carrying amount						
At 31 December 2015	**3 854 201**	**-**	**3 290 257**	**1 527 814**	**-**	**8 672 274**
At 31 December 2014	1 980 670	-	2 198 890	1 208 809	7 854 321	13 242 692

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.

18. INTANGIBLE ASSETS - SOFTWARE

	2015 K	2014 K
Cost		
At 1 January 2015	**1 273 273**	325 391
Acquisitions	**410 182**	893 484
Transfer from capital work in progress	**5 863 103**	54 398
Balance at 31 December 2015	**7 546 558**	1 273 273
Amortisation		
At 1 January 2015	**219 174**	125 439
Amortisation for the year	**1 428 795**	93 736
Balance at 31 December 2015	**1 647 969**	219 174
Carrying amounts		
Balance at 31 December 2015	**5 898 589**	1 054 099

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.

19. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2015 and 2014.

20. DEPOSITS FROM CUSTOMERS

Voluntary savings	**29 329 560**	20 197 441
Collateral savings deposits	**1 051 067**	1 218 826
	30 380 627	21 416 267

Deposits from customers consist of customers' collateral savings and voluntary savings.

21. OTHER FINANCIAL LIABILITIES

Sundry and other payables	**6 442 305**	5 181 383
Gratuity	**5 597 426**	5 531 156
Deferred income	**4 068 171**	2 129 512
Accrued interest on borrowings	**3 578 182**	2 594 629
Loan repayments pending appropriation	**46 897**	3 183 467
	19 732 981	18 620 147

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

22. 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 has balances arising from transactions with:

- FINCA Microfinance Holdings LLC (FMH), the company's parent company.
- FINCA Micro Holding LLC (Africa Hub) a company with common shareholders with holding company FINCA Micro Finance LLC ("FMH") and incorporated in Uganda.

The net effect of related party transactions on the results for the year are as follows:

	2015 K	2014 K
FINCA Micro Holding LLC (Africa Hub)	**2 962 131**	1 512 238
FINCA Microfinance Holdings LLC (FMH)	**3 583 373**	5 426 296
	6 545 504	6 938 534

Year end balances

(a) Amounts due from related parties

FINCA Micro Holding LLC (Africa Hub)	**-**	118 086
Finca International	**-**	45 931
	-	164 017

(b) Amounts due to related parties

Arising on:
Intercompany borrowings (note 23)

FINCA Micro Holding LLC (Africa Hub)	**2 095 324**	903 839
Finca International	**1 034 572**	682 570
	3 129 896	1 586 410
Amounts falling due within one year	**3 129 896**	1 586 410

Amounts due to FINCA Micro Holdings LLC are in form of flexcube license cost payable, annual rental

Amounts due to FINCA International are license fees payable.

(c) Compensation of key Management personnel

The remuneration of key Management during the year was as

Short term benefits	**3 101 289**	2 703 066

	2015	2014
	K	K
23. BORROWINGS		
At beginning of the year	**73 134 213**	65 582 045
Loans received	**42 454 140**	34 685 150
Repayments	**(35 268 121)**	(27 132 982)
Exchange loss on valuation of foreign denominated loans	**10 613 700**	-
At end of the year	**90 933 932**	73 134 213
Due to:		
Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF Symbiotics	**30 933 690**	18 481 270
FINCA Micro Holdings LLC (Africa Hub)	**27 476 500**	-
Stichting Triodos-Doen/Stichting Hivos-Triodos Fonds	**17 085 000**	17 085 000
Access Africa Fund(Microvest)	**11 585 000**	6 089 700
Microfinance Enhancement Facility SA. SICAV-SIF BO	**3 853 742**	23 323 243
ResponsibilAbility SICAV (Lux) Microfinance Lenders (VA)	**-**	8 155 000
	90 933 932	73 134 213
Less: amounts falling due within one year	**(32 566 378)**	(27 549 063)
Amounts falling due after one year	**58 367 554**	45 585 150

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

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

This is an outstanding balance of K30,933,690 comprising of unsecured debt of K4,519,350 and K6,318,300 disbursed in March and November 2014 with interest rates of 18.00% and 18.50% per annum respectively. The loans are both for the tenure of 3 years. Additional debt capital of K4,387,080; K10,683,960 and K5,025,000 was obtained in March, August and September 2015 with interest rate of 22.5%, 23.1% and 25% per annum respectively. The loans are a tenure of 3, 3 and 2 years respectively

(ii) FINCA Micro Holdings LLC (Africa Hub)

The outstanding balance of K27,476,500 comprises unsecured debt of $1,500,000 and $1,000,000 disbursed in May and June 2015 with interest rates of 6% for a tenure of 2 years. The loans had been hedged with MFX solutions under a normal non deliverable hedge at rates of 23% and 22% respectively.

(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%.

23. BORROWINGS (CONTINUED)

(v) Microvest-Access Africa Fund

The outstanding balance of K 11,585,000 comprises unsecured debt of K6,089,700 disbursed in June 2014 with interest rates of 17% repayable in 2 years and unsecured debt of $500,000 disbursed in April 2015 with interest rates of 5.5% repayable in 2 years. The later has been hedged under a forward arrangement.

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

This is an outstanding balance of K3,853,742 comprising of unsecured debt. Principle amount of K11,572,800 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.

24. OPERATING LEASE ARRANGEMENTS

FINCA Zambia Limited 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.

	2015	2014
	K	K
Rental expense on leasehold building	**3 079 337**	2 892 549
Rentals prepaid on leaseholds		
Less than one year	**221 434**	277 233
Between 1 and 5 years	**36 026**	36 026
	257 460	313 259

25. CONTINGENT LIABILITIES

The Company has a contingent liability relating to legal cases in which two former employees sued the Company for unfair dismisal. In the event that the Company losses the cases, the total liability to the Company would amount to K91,636. Accordingly the lawyers estimate the chances of winning the cases at 50%. There were no other contingent liabilities as at 31 December 2015 and 2014.

26. ISSUED CAPITAL

Authorised, issued and fully paid:

25,392,783 (2014:25,392,783) ordinary shares of K1 each	**25 392 783**	25 392 783

27. GENERAL RESERVE

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 been transferred from revenue reserves to the non-distributable reserves because the provisons carried in the books based on Internationational Financial Reporting Standards are lower than the same calculation based on statutory requirements.

28. FINANCIAL INSTRUMENTS

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.

Capital management

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in notes 26 and 26 respectively.

Gearing ratio	**2015**	2014
	K	K
The gearing ratio at the year end was as follows:		
Debt (I)	**90 933 932**	73 134 213
Less: Cash and cash equivalents	**(6 398 425)**	(14 102 728)
Net debt	**84 535 507**	59 031 485
Equity (ii)	**28 296 646**	23 909 178
Net debt to equity ratio	**299%**	247%

The industry average is 200%.

(I) Debt is defined as long-term and short-term borrowings, as detailed in note 23.

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

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;

28. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies (Continued)

- 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) K**	**Risk-weighted assets (1 x 2) K**
	ASSETS			
	Notes and coin			
1	- Domestic	0%	992 857	-
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%	4 382 537	876 507
6	- with residual maturity of more than 12 months	100%	-	-
	b) Foreign			
7	- with residual maturity of up to 12 months	20%	23 031	4 606
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%	1 000 000	-
12	- Other government securities	20%	-	-
13	- Issued by Local Government Units	100%	-	-
14	- Private securities	100%	-	-

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2015

28. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies (Continued)

a) Calculation of risk weighted assets (Continued)

		Risk weight % (1)	Balance (net of allowance for losses) (2) K	Risk-weighted assets (1 x 2) K
	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%	128 728 705	128 728 705
22	- Inter-bank advances and loans/advances			
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%	19 337 008	19 337 008
28	Investment in equity of other companies	100%	-	-
	TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)		**154 464 138**	**148 946 827**

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			-

28. FINANCIAL INSTRUMENTS (CONTINUED)

Significant accounting policies (Continued)

a) Calculation of risk weighted assets (Continued)

			Balance (net of allowance for losses) (3) K	Risk-weighted assets (1 x 2 x 3) K
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 sheet)		**154 464 138**	**148 946 827**

Computation of capital position	**31 December 2015**	31 December 2014
PRIMARY (TIER 1) CAPITAL ADDITIONS:		
(a) Paid-up common shares	**25 392 783**	25 392 783
(b) Eligible preferred shares		-
(c) Capital grants (Share premium)		-
(d) Retained earnings	**1 645 542**	(2 703 810)
(e) Non distributive reserves	**1 258 321**	1 258 321
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total	**28 296 646**	23 909 178
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)	-	-

28. FINANCIAL INSTRUMENTS (CONTINUED)

	31 December 2015 K	31 December 2014 K
Significant accounting policies (Continued)		
a) Calculation of risk weighted assets (Continued)		
Sub-total (Other adjustments)	-	-
(n) Total Subtractions (B): (Sub-total A above+Other adjustments)	-	-
(o) TOTAL PRIMARY CAPITAL (h - n)	**28 296 646**	23 909 178
SECONDARY (TIER 2) CAPITAL		
(a) Eligible preferred shares		
(b) Eligible subordinated term debt (note 25)	-	-
(c) Eligible loan stock/capital	-	-
(d) Eligible general provisions	-	-
(e) Revaluation reserves. Maximum is 40% of revaluation	-	-
(f) Other. specify	-	-
ELIGIBLE SECONDARY CAPITAL	-	-
(the maximum amount of secondary capital is limited to 100% of primary capital)	-	-
ELIGIBLE TOTAL CAPITAL (I(o) + III) (Regulatory capital)	**28 296 646**	23 909 178
MINIMUM TOTAL CAPITAL REQUIREMENT: (15% of total on and off balance sheet risk-weighted assets as established in the first schedule)	**24 052 149**	20 799 932
CAPITAL ADEQUACY (I + III - IV)	**4 244 497**	3 109 246

Financial risk management objectives

(a) Introduction and overview

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

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

Kwacha

28. FINANCIAL INSTRUMENTS (CONTINUED)

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.

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.

Kwacha

28. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (Continued)

Year ended 31 December 2015

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Assets						
Bank and cash balances	5 398 425	-	-	-	-	**5 398 425**
Held to maturity investments	1 000 000	-	-	-	-	**1 000 000**
Other receivables	6 691 887	-	-	-	-	**6 691 887**
Derivative financial assets	-	-	-	15 277 023	-	**15 277 023**
Loans and receivables	122 135 060	2 226 385	1 749 099	2 618 161	-	**128 728 705**
Total assets	**135 225 372**	**2 226 385**	**1 749 099**	**17 895 184**	-	**157 096 040**

Year ended 31 December 2015

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Liabilities						
Deposits from customers	17 690 782	5 685 048	7 000 247	4 550	-	**30 380 627**
Other financial liabilities	573 176	7 120 074	6 442 305	5 597 426	-	**19 732 981**
Amounts due to related parties	-	2 095 324	362 572	672 000	-	**3 129 896**
Borrowings	-	20 063 078	12 503 300	58 367 554	-	**90 933 932**
Total liabilities	**18 263 958**	**34 963 524**	**26 308 424**	**64 641 530**	**-**	**144 177 436**
Total equity	-	-	-	-	**28 296 646**	**28 296 646**

Kwacha

28. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (Continued)

Year ended 31 December 2015

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	5 + years	Total
Total equity and liabilities	18 263 958	34 963 524	26 308 424	64 641 530	28 296 646	172 474 082
Net liquidity gap	**116 961 414**	**(32 737 139)**	**(24 559 325)**	**(46 746 346)**	**28 296 646**	**(15 378 042)**
Year ended 31 December 2014						
Bank and cash balances	5 042 728	-	-	-	-	5 042 728
Held to maturity investments	-	8 060 000	1 000 000	-	-	9 060 000
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 arelated parties	-	164 017	-	-	-	164 017
Total assets	**16 563 818**	**21 672 219**	**62 663 523**	**18 970 945**	**-**	**119 870 504**
Liabilities						
Deposits from customers	8 566 507	6 424 880	6 424 880	-	-	21 416 267
Other financial liabilities	-		2 941 049	-	-	2 941 049
Amounts due to related parties	-	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)	(3 116 613)

Kwacha

28. 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 2015:

Amount		**Scenario 1 10% increase in variable interest rates**	**Scenario 1 10% decrease in variable interest rates**
Loss before tax	7 374 183	5 386 632	9 361 735

Assuming no management action, a rise would decrease net interest income for 2015 by **K1,987,552** (2014: K1,594,718), while a fall would increase net interest income by the same amount.

b) Foreign Exchange risks - Appreciation/ Depreciation of USD by 72%

The foreign exchange risks sensitivity analysis is based on an incremental 72% parallel fall or rise in the US Dollar exchange rate during the year ended 31 December 2015.

Kwacha

28. FINANCIAL INSTRUMENTS (CONTINUED)

Market risks - sensitivity analysis (Continued)

b) Foreign Exchange risks - Appreciation/ Depreciation of USD by 72% (Continued)

		Scenario 1 72% increase variable Foreign exchange rates	Scenario 1 72% decrease variable Foreign exchange rates
Loss before tax	7 374 183	8 345 527	6 629 536

Assuming no management action, a rise would decrease net income for 2015 by **K971,343** (2014:K103,423), while a fall would increase net interest income by the same amount.

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.

Kwacha

28. FINANCIAL INSTRUMENTS (CONTINUED)

Market risks - sensitivity analysis (Continued)

b) Foreign Exchange risks - Appreciation/ Depreciation of USD by 72% (Continued)

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) (Continued)

	2015		2014	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Loans and receivables:				
– other receivables	**6 691 887**	**6 691 887**	3 915 784	3 915 784
– loans and receivables	**128 728 705**	**128 728 705**	101 687 975	101 687 975
– Derivative financial assets	**15 277 023**	**15 277 023**	-	-
– amounts due from related parties	**-**	**-**	164 017	164 017
Total	**150 697 615**	**150 697 615**	105 767 776	105 767 776
Financial liabilities				
Financial liabilities held at amortised cost:				
– deposits from customers	**30 380 627**	**30 379 822**	21 416 267	21 416 267
– other financial liabilities	**6 442 305**	**6 442 305**	2 941 049	2 941 049
– amounts due to related parties	**3 129 896**	**3 129 896**	1 586 410	1 586 410
– borrowings	**90 933 932**	**90 933 932**	73 134 213	73 134 213
Total	**130 886 760**	**130 885 955**	99 077 939	99 077 939

Kwacha

28. FINANCIAL INSTRUMENTS (CONTINUED)

Market risks - sensitivity analysis (Continued)

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

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) (Continued)

	Fair value hierarchy as at 31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and receivables:				
– other receivables	-	-	6 691 887	6 691 887
– loans and receivables	-	-	128 728 705	128 728 705
– Derivative financial assets	-	15 277 023	-	15 277 023
Total	**-**	**15 277 023**	**135 420 592**	**150 697 615**
Financial liabilities				
Financial liabilities held at amortised cost:				
– deposits from customers	-	-	30 379 822	30 379 822
– other financial liabilities	-	-	6 442 305	6 442 305
– borrowings	-	-	90 933 932	90 933 932
Total	**-**	**-**	**127 756 059**	**127 756 059**

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.

29. 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.