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FINCA ZAMBIA LIMITED

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2017

FINCA ZAMBIA LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2017

CONTENTS

FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2017.

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	**2017**	2016
	K	K
Total income	**116 104 453**	108 274 358
Net income (after interest expense)	**91 803 909**	83 398 853
Profit for the year	**1 180 112**	1 420 884

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
Collins Muyanja	Director
Lameck Zimba	Director
Douglas Kamwendo	Director

The total remuneration for the Directors in the year under review amounted to **K 216,759** (2016 K139,089).

EMPLOYEES

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

Month	**2017**	2016
January	**360**	390
February	**355**	385
March	**364**	380
April	**385**	381
May	**381**	376
June	**374**	372
July	**363**	389
August	**357**	374
September	**348**	385
October	**341**	371
November	**334**	374
December	**331**	369

The total remuneration paid to the employees and towards staff welfare during the year was **K45,402,852** (2016:K38,737,939).

PROPERTY AND EQUIPMENT

The additions to property and equipment during the year amounted to **K14,184,129** (2016: K4,571,578) comprising:

	2017	2016
	K	K
Computer equipment	**914 155**	2 322 773
Capital work in progress	**11 945 206**	1 805 656
Leasehold improvements	**578 998**	165 730
Furniture and fittings	**442 585**	277 419
Motor Vehicles	**303 185**	-
	14 184 129	4 571 578

Software with a cost of **K48,595** (2016: K2,075,725) was also acquired during the year. **K10,162,251** has been transferred from work in progress to software representing the cost of the Company's core banking system Orbit R.

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 (2016: Nil).

EXPORTS

The Company did not export any goods/services during the year (2016: 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 (2016: 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:

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 4 to 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 2017;
- 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 2017;
- 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:

Deloitte.

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Lusaka
Zambia

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INDEPENDENT AUDITOR'S REPORT

To the members of
FINCA Zambia Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of FINCA Zambia Limited set out on pages 7 to 37, which comprise the statement of financial position as at 31 December 2017, 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.

In our opinion, the financial statements give a true and fair view of the financial position of Finca Zambia Limited as at 31 December 2017, 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 Act, 1994 (as amended).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Zambia. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters	How our audit addressed the key audit matter
Impairment of loans and advances	
The estimation of credit losses is inherently uncertain and this is a significant judgement area for management. Significant judgement is required by the directors in assessing the impairment against loans and advances. As disclosed in Note 14, the Company recognised impairment on loans amounting to **K8,682,831** (2016: K5,911,216) against loans and advances balance of **K156,434,108** (2016: K139,743,128. This represents the shortfall between the present value of future expected cash flows, discounted at the original effective interest rate, and the carrying value of the advance in respect of loans and advances that exhibit indicators of impairment. The judgements applied in determining the impairment include: • Changes in credit quality; • the probability that an advance will result in loss; and • relevance of macroeconomic factors. We considered impairment against loans and advances as a key audit matter because of the following: • The determination of impairment uses significant judgements coupled with the fact that compliance with IAS 39 Financial Instruments Measurements and Recognition requirements is onerous; and • Economic fundamentals in Zambia together with other factors may impact on the ability of customers to repay loans.	In evaluating the impairment against loans and advances, we assessed the judgements applied by the directors and our procedures included the following: • Considering the qualitative factors that indicate impairment including the amount in arrears, period in arrears and the financial strength of the borrower; • Assessing the adequacy of the impairment raised based on the realisable value and the qualitative factors described above; and • Considering managements' credit control processes to identify impaired advances and testing of relevant key controls in the process. We found that the judgements applied in determining impairment against loans and advances were appropriate and that the amount raised were reasonable.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act, 1994 (as amended) and the Banking and Financial Services Act, 1994 (as amended), which we obtained prior to the date of this auditor's report. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the 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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

The Companies Act, 1994 (as amended) requires that in carrying out our audit, we consider and report to you on the following matter: We confirm that 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

ANDREW NJOVU
PARTNER
PC NUMBER: AUD/F000802

DATE: 17 APRIL 2018

FINCA ZAMBIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

	NOTES	2017 K	2016 K
Interest income	4	**91 814 910**	81 828 749
Interest expense	5	**(24 300 544)**	(24 875 505)
Net interest income		**67 514 366**	56 953 244
Impairment charges for credit losses	14	**(11 002 874)**	(13 925 433)
Net interest income after impairment charges for credit losses		**56 511 492**	43 027 811
Fee and commission income	6	**22 358 338**	25 852 988
Late payment fees		**756 089**	1 020 528
Net fee and commission income		**23 114 427**	26 873 517
Other income (loss)	7	**53 574**	(6 905 592)
Grant income		**2 601 290**	8 166 972
Total other income		**2 654 864**	1 261 380
Total operating income		**82 280 783**	71 162 708
Operating expenses	8	**(79 780 564)**	(67 168 366)
Profit before tax	9	**2 500 219**	3 994 342
Income tax expense	10	**(1 320 107)**	(2 573 458)
Total comprehensive profit for the year		**1 180 112**	1 420 884

There were no items of other comprehensive income for the year (2016: Nil).

FINCA ZAMBIA LIMITED

STATEMENT OF FINANCIAL POSITION
at 31 December 2017

	NOTES	2017 K	2016 K
ASSETS			
Cash and cash equivalents	12	**8 215 180**	8 222 848
Prepayments and other receivables	13	**11 843 324**	8 035 841
Loans and advances to customers	14	**147 751 277**	133 831 912
Derivative financial assets	15	**1 962 777**	7 778 810
Deferred tax asset	11	**428 724**	1 167 233
Property and equipment	16	**11 731 217**	10 611 112
Intangible asset - software	17	**11 308 082**	4 718 592
Total assets		**193 240 581**	174 366 348
LIABILITIES			
Deposits from customers	18	**79 471 370**	37 263 183
Other financial liabilities	19	**31 368 177**	21 472 042
Amounts due to related parties	20	**2 379 222**	3 369 699
Current tax liability	10	**170 786**	1 869 293
Borrowings	21	**48 521 973**	80 243 190
Total liabilities		**161 911 528**	144 217 407
EQUITY			
Share capital	23	**25 392 783**	25 392 783
General reserve	24	**1 440 773**	1 281 918
Retained earnings		**4 495 497**	3 474 240
Total equity		**31 329 053**	30 148 941
Total equity and liabilities		**193 240 581**	174 366 348

The responsibilities of the Company's Directors with regard to the preparation of the financial statements are set out on page 3. The financial statements on pages 7 to 37 were approved by the Board of Directors and authorised for issue on April 2018 and were signed on its behalf by:

DIRECTOR **DIRECTOR**

FINCA ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Issued capital	General reserves	Retained earnings	Total
	K	K	K	K
Balance at 1 January 2016	**25 392 783**	**1 258 321**	**1 645 542**	**28 296 646**
Profit for the year	-	-	1 420 884	**1 420 884**
Transfer from revenue reserves (note 24)	-	23 597	(23 597)	-
Adjustments to property and equipment *	-	-	431 411	**431 411**
Balance at 31 December 2016	**25 392 783**	**1 281 918**	**3 474 240**	**30 148 941**
Profit for the year	-	-	1 180 112	**1 180 112**
Transfer from revenue reserves (note 24)	-	158 855	(158 855)	-
Balance at 31 December 2017	**25 392 783**	**1 440 773**	**4 495 497**	**31 329 053**

*The adjustments to Property and equipment relate the VAT and withholding tax which should have been recognized in prior years when the assets were initially capitalised.

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	NOTES	2017 K	2016 K
OPERATING ACTIVITIES			
Profit before tax		**2 500 219**	3 994 342
Adjusted for non cash items:			
Net foreign exchange gain on borrowings	21	**(2 480 312)**	(3 209 400)
Depreciation and amortisation of non-current assets	16,17	**6 523 129**	6 032 886
Impairment loss recognised on loans and advances	14	**11 002 874**	13 925 433
Interest expense recognised in profit or loss		**24 300 544**	24 875 505
Write back of depreciation and amortisation	16,17	**-**	(4 528 054)
Impairment of property and equipment	16	**-**	4 383 657
Adjustment to property and equipment		**-**	431 411
Gain on disposal of assets		**(46 814)**	-
Loss on forward exchange swap	7	**1 877 631**	7 498 213
Operating cash flows before changes in working funds		**43 677 271**	53 403 993
Increase in prepayments and other receivables		**(3 807 483)**	(1 343 954)
Increase in loans and advances to customers		**(24 922 239)**	(19 028 642)
Increase in customer deposits		**42 208 187**	6 882 556
Increase in other financial liabilities		**9 896 135**	1 739 062
(Decrease) increase in amounts due to related parties		**(990 477)**	239 803
Cash generated from operations		**66 061 394**	41 892 818
Income tax paid	10	**(2 280 105)**	(1 064 218)
Interest paid		**(24 300 544)**	(24 875 505)
Net cash generated from operating activities		**39 480 745**	15 953 095
INVESTING ACTIVITIES			
Expenditure on property and equipment	16	**(14 184 129)**	(4 571 578)
Expenditure on intangible assets	17	**(48 595)**	(2 075 752)
Proceeds from disposal of property and equipment		**46 814**	-
Net cash used in investing activities		**(14 185 910)**	(6 647 330)

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)
for the year ended 31 December 2017

	NOTES	2017 K	2016 K
FINANCING ACTIVITIES			
Loans repaid	21	**(51 357 705)**	(26 568 592)
Proceeds from borrowings issued	21	**22 116 800**	19 087 250
Proceeds from derivative financial instruments	15	**3 938 402**	-
Net cash used in financing activities		**(25 302 503)**	(7 481 342)
Net (decrease) increase in cash and cash equivalents		**(7 668)**	1 824 423
Net cash and cash equivalents at beginning of the year		**8 222 848**	6 398 425
Net cash and cash equivalents at end of the year		**8 215 180**	8 222 848
CASH AND CASH EQUIVALENTS			
Bank and cash balances	12	**8 215 180**	8 222 848

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. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 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.

2.3 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.

2.3.1 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' or 'interest expense' in profit or loss using the effective interest method.

Interest income from a financial asset is recognised when it is probable that economic benefits will flow to the Bank and the amount of income 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.

Effective interest rate

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation of the effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition (continued)

2.3.2 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.

2.3.3 Fee and commission

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

Other fees and commission income, including account servicing fees and sales commission and placement fees, are recognised as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

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

2.4 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.

2.5 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.

2.6 Retirement benefits

2.6.1 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.

2.6.2 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.

2.6.3 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 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.

2.8 Taxation

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

2.8.1 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.

2.8.2 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

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.

2.8.3 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.

2.9 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%

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Property and equipment (continued)

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 2017 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.

2.10 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.

2.11 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.

2.12 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (continued)

2.12.1 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.

2.12.2 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

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.

2.12.3 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.

2.12.4 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.

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.

2.13 Financial liabilities and equity instruments issued by the Company

2.13.1 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.

2.13.2 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.

2.13.3 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial liabilities and equity instruments issued by the Company (continued)

2.13.3 Financial liabilities (continued)

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

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.

2.13.4 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.

3. 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.

3.1 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.

3.1.1 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.

3.1.2 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.

3.2 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.

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

3.2 Key sources of estimation uncertainty (continued)

3.2.1 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.

4. INTEREST INCOME

	2017 K	2016 K
Arising on:		
Loans to customers	**90 991 546**	81 250 239
Loans to employees	**420 060**	401 021
	91 411 606	81 651 260
Cash and short term bank deposits	**403 304**	177 489
	91 814 910	81 828 749

Income from portfolio represents interest earned and accrued on loans to customers. Interest on the Village Bank product is accrued at **3.8%** (2016: 3.8%) and Small Group loan product is accrued at **4.9%** (2016: 4.9%) per month and **4.1%** (2016: 4.1%) average per month on the business loan product. Interest is accrued on a reducing balance basis.

5. INTEREST EXPENSE

	2017 K	2016 K
Arising on:		
Borrowings	**13 396 022**	20 422 740
Deposits due to customers	**10 904 522**	4 452 765
	24 300 544	24 875 505

The weighted average capitalisation rate on funds borrowed generally is **20.1%** per annum (2016:20.1% per annum).

6. FEE AND COMMISSION INCOME

	2017	2016
Credit related fees	**14 701 727**	14 879 715
Arrangement and deposit fees	**4 053 282**	5 326 314
Account maintance fees	**2 395 769**	3 963 222
Insurance administration fee	**1 207 560**	1 683 857
Legal and asset inspection fees	**-**	(120)
	22 358 338	25 852 988

7. OTHER INCOME

	2017	2016
Loss on forward exchange swap	**(1 877 631)**	(7 498 213)
Other operating income	**1 931 205**	592 621
	53 574	(6 905 592)

8. OPERATING EXPENSES

	2017	2016
Employee benefit expenses	**45 402 852**	38 737 939
Other operating and adminstration expenses	**28 370 484**	26 030 268
Depreciation and amortisation expense	**6 523 129**	6 032 886
Net foreign exchange gains	**(515 901)**	(3 632 727)
	79 780 564	67 168 366

9. PROFIT BEFORE TAX

Profit before tax is stated after crediting:		
Net exchange gains	**515 901**	3 632 727
and after charging:		
Depreciation and amortisation	**6 523 129**	6 032 886
- Depreciation (note 16)	**2 901 773**	2 728 773
- Amortisation (note 17)	**3 621 356**	3 304 113
Key management remuneration	**5 250 322**	5 152 395
Directors' remuneration	**216 759**	139 089
Management fees	**3 073 201**	3 369 699
Pension contributions	**1 426 165**	1 448 045

10. TAXATION

Income tax expense comprise :		
Current tax expense	**581 598**	3 740 691
Deferred tax (note 11)	**738 509**	(1 167 233)
	1 320 107	2 573 458
Total income tax credit		
Current tax (asset) liabilities		
Payable in respect of year	**581 598**	3 740 691
Payable (receivable) in respect of previous year	**1 869 293**	(807 180)
	2 450 891	2 933 511
Income tax paid during the year	**(2 280 105)**	(1 064 218)
Current tax liability	**170 786**	1 869 293

Reconciliation of the tax charge:

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

Profit before tax	**2 500 219**	3 994 342
Income tax calculated at 35% on accounting profit	**875 077**	1 398 020
Tax effect of permanent differences	**445 030**	1 175 438
Income tax expense	**1 320 107**	2 573 458

The tax rate used for the 2017 and 2016 reconciliations above is the income tax rate of 35% payable on taxable profits by companies locally.

11. DEFERRED TAX

At beginning of year	**1 167 233**	(1 102 969)
Credited (charged) to profit or loss (note 10)	**(738 509)**	2 270 202
At end of year	**428 724**	1 167 233

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

	At beginning of year K	**Credited to profit or loss K**	**At end of year asset K**
At 31 December 2017			
Temporary differences			
- Property and equipment	**(1 144 272)**	**(740 043)**	**(1 884 315)**
- Other timing differences	**2 311 505**	**1 534**	**2 313 039**
	1 167 233	**(738 509)**	**428 724**

11. DEFERRED TAX (CONTINUED)

		2017 K	2016 K
At 31 December 2016			
Temporary differences			
- Property and equipment	(981 794)	(162 478)	(1 144 272)
- Other timing differences	(121 175)	2 432 680	2 311 505
	(1 102 969)	2 270 202	1 167 233

12. CASH AND BANK

	2017	2016
Bank and cash balances	**8 215 180**	8 222 848
Bank and cash balances		
Kwacha bank accounts	**1 235 110**	5 715 541
Cash on hand balances	**1 887 202**	1 269 595
US Dollar bank accounts	**5 092 868**	1 237 712
	8 215 180	8 222 848
Unrestricted cash	**8 179 853**	8 187 121
Restricted cash	**35 327**	35 727
	8 215 180	8 222 848

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.

13. PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
Interest accrued on loans	**9 052 743**	6 093 619
Prepayments	**1 895 724**	1 247 407
Sundry receivables	**360 895**	400 315
Staff advances	**533 962**	293 843
Other interest receivable	-	657
	11 843 324	8 035 841

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.

14. LOANS AND ADVANCES TO CUSTOMERS

	2017	2016
At the beginning of the year	**139 746 128**	128 728 705
Advanced during the year	**212 696 383**	217 842 681
Impairment loss provision	**(8 682 831)**	(5 911 216)
Repayments during the year	**(196 008 403)**	(206 828 258)
	147 751 277	133 831 912
Gross amounts receivable	**156 434 108**	139 743 128
Impairment charges for credit losses	**(8 682 831)**	(5 911 216)
	147 751 277	133 831 912
Maturity analysis:		
Amounts receivable within one year	**75 586 647**	92 639 723
Amounts receivable after one year	**72 164 630**	41 192 189
	147 751 277	133 831 912

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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 **K8,682,831** (2016: K5,911,216). 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:

	2017 K	2016 K
At 1 January	**5 911 216**	5 306 662
Charge for the year	**11 002 874**	13 925 433
Write offs	**(8 231 359)**	(13 320 879)
At 31 December	**8 682 731**	**5 911 216**

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:

	2017 K	2016 K
Current	**135 713 582**	125 097 855
1 - 7 days	**3 224 888**	235 043
8 - 30 days	**6 866 640**	5 848 250
31 - 60 days	**2 289 511**	2 692 592
61 - 90 days	**1 721 038**	1 865 924
Over 90 days	**6 618 449**	4 003 463
	156 434 108	**139 743 128**

	2017 K	2016 K
Ageing of past due but not impaired		
61- 90 days	**1 721 038**	1 865 924
Over 90 days	**6 618 449**	4 003 463
Total	**8 339 487**	**5 869 387**

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.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	2017	2016
	K	K
Derivative financial assets arising from:		
Financial delivative at 1 January 2017	**7 778 810**	15 277 023
Loss on forward exchange swap	**(1 877 631)**	(7 498 213)
Proceeds from delivative financial assets	**(3 938 402)**	-
Financial delivative at 31 December 2017	**1 962 777**	7 778 810

Two loans with derivative financial instruments matured during the year and K3,938,402 (USD405,875) was received at the end of the hedge contract.

16. 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 2016	5 579 814	257 185	7 328 377	3 021 550	-	16 186 926
Additions	165 730	-	2 322 773	277 419	1 805 656	4 571 578
Impairment of assets	(638 088)	-	(3 088 734)	(656 835)	-	(4 383 657)
Transfers	334 335	-	304 900	48 131	(687 366)	-
At 31 December 2016	**5 441 791**	**257 185**	**6 867 316**	**2 690 265**	**1 118 290**	**16 374 847**
At 1 January 2017	5 441 791	257 185	6 867 316	2 690 265	1 118 290	16 374 847
Additions	578 998	303 185	914 155	442 585	11 945 206	14 184 129
Transfers	-	-	-	-	(10 162 251)	(10 162 251)
Disposals	-	(101 227)	-	-	-	(101 227)
At 31 December 2017	**6 020 789**	**459 143**	**7 781 471**	**3 132 850**	**2 901 245**	**20 295 498**

16. PROPERTY AND EQUIPMENT (CONTINUED)

DEPRECIATION	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 2016	1 725 613	257 185	4 038 119	1 493 735	-	7 514 652
Charge for year	572 753	-	1 640 249	515 771	-	2 728 773
Write back of depreciation	(714 387)	-	(3 028 038)	(737 265)	-	(4 479 690)
At 31 December 2016	**1 583 979**	**257 185**	**2 650 330**	**1 272 241**	**-**	**5 763 735**
At 1 January 2017	1 583 979	257 185	2 650 330	1 272 241	-	5 763 735
Charge for year	607 161	25 265	1 669 831	599 516	-	2 901 773
Eliminated on Disposal	-	(101 227)		-	-	(101 227)
At 31 December 2017	**2 191 140**	**181 223**	**4 320 161**	**1 871 757**	-	**8 564 281**
Carrying amount						
At 31 December 2017	**3 829 649**	**277 920**	**3 461 310**	**1 261 093**	**2 901 245**	**11 731 217**
At 31 December 2016	3 857 812	-	4 216 986	1 418 024	1 118 290	10 611 112

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.

17. INTANGIBLE ASSETS - SOFTWARE

	2017 K	2016 K
Cost		
At 1 January 2017	**9 622 310**	7 546 558
Acquisitions	**48 595**	2 075 752
Transfer	**10 162 251**	-
Balance at 31 December 2017	**19 833 156**	9 622 310
Amortisation		
At 1 January 2017	**4 903 718**	1 647 969
Amortisation for the year	**3 621 356**	3 304 113
Write back of amortisation	-	(48 364)
Balance at 31 December 2017	**8 525 074**	4 903 718
Carrying amounts		
Balance at 31 December 2017	**11 308 082**	4 718 592

Intangible assets consist of the carrying value of various software programs including the payroll system as well as the software for the Company's core banking system Orbit R. Amortisation for the year includes accelerated depreciation for Flexcube and one months depreciation on Orbit R at 12.5% per annum.

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.

18. DEPOSITS FROM CUSTOMERS

	2017	2016
Voluntary savings	**79 390 346**	37 089 510
Collateral savings deposits	**81 024**	173 673
	79 471 370	37 263 183

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

19. OTHER FINANCIAL LIABILITIES

	2017	2016
Sundry and other payables	**12 203 847**	8 706 461
Gratuity	**6 610 407**	6 603 348
Accrued interest on borrowings	**8 417 816**	3 430 644
Deferred income	**2 885 822**	2 698 093
Deferred grant income	**1 237 840**	-
Loan repayments pending appropriation	**12 445**	33 496
	31 368 177	21 472 042

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

20. 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.

20. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company has balances arising from transactions with:

- FINCA Microfinance Holdings LLC (FMH), the company's parent company.
- FINCA Network Support Services 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:

	2017	2016
	K	K
FINCA Network Support Services	**4 272 153**	2 590 913

Year end balances

(a) Amounts due to related parties

Arising on:		
FINCA Network Support Services	**2 379 222**	3 369 699
Amounts falling due within one year	**2 379 222**	3 369 699

Amounts due to FINCA Micro Holdings LLC are in form of flexcube license cost payable, annual rental payable and interest on licenses.

Amounts due to FINCA Network Support Services are license fees payable.

(b) Compensation of key Management personnel

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

Short term benefits	**5 152 395**	5 152 395

21 BORROWINGS

At beginning of the year	**80 243 190**	90 933 932
Loans received	**22 116 800**	19 087 250
Repayments	**(51 357 705)**	(26 568 592)
Exchange gain on valuation of foreign denominated loans	**(2 480 312)**	(3 209 400)
At end of the year	**48 521 973**	80 243 190
Due to:		
Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF Symbiotics	**30 116 540**	26 414 340
FINCA Microfinance Holding Company LLC (FMH)	**10 017 800**	24 802 000
Ecumenical Development Cooperative Society UA-Oikocredit	**8 387 633**	12 581 450
Stichting Triodos-Doen/Stichting Hivos-Triodos Fonds	-	11 485 000
Access Africa Fund (Microvest)	-	4 960 400
Microfinance Enhancement Facility SA. SICAV-SIF BO	-	-
	48 521 973	80 243 190
Less: amounts falling due within one year	**(25 088 840)**	(37 455 301)
Amounts falling due after one year	**23 433 133**	42 787 889

21. BORROWINGS (CONTINUED)

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 comprise unsecured debt of K10,033,000 disbursed in December 2017 with interest rate of 22.5%per annum and K5,012,500 disbursed in November 2017 with interest rate of 22.5% per annum. Additional debt capital of K4,387,080 and K10,683,960 was obtained in March and August with interest rate of 22.5% and 23.1% per annum respectively. The loans have tenure 2 years.

(ii) FINCA Microfinance Holding Company LLC (FMH)

The outstanding balance of K10,017,800 comprises unsecured debt of $1,000,000 disbursed in May and July 2017 with interest rates of 6% for a tenure of 2 years. The loan had been hedged with MFX solutions under a normal non deliverable hedge at rates of 16.87%

(iii) Ecumenical Development Cooperative Society UA - Oikocredit

The outstanding balance is K8,387,633 disbursed in April 2016 at floating interest rate of 15.65 for a tenure of 3.5 years and is unsecured.

22. 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.

	2017	2016
	K	K
Rental expense on leasehold building	**4 066 084**	3 486 559
Rentals prepaid on leaseholds Less than one year	**598 386**	533 119
	598 386	533 119

23. ISSUED CAPITAL

Authorised, issued and fully paid:

25,392,783 (2016:25,392,783) ordinary shares of K1 each	**25 392 783**	25 392 783

24. 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.

25. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2017 and 2016.

26. CONTINGENT LIABILITIES

There were no other contingent liabilities as at 31 December 2017.

27. 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.

28. FINANCIAL RISK AND 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.

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 12 and 23 respectively.

Gearing ratio	**2016**	2015
	K	K
The gearing ratio at the year end was as follows:		
Debt (I)	**48 521 973**	80 243 190
Less: Cash and cash equivalents	**(8 215 180)**	(8 222 848)
Net debt	**40 306 793**	72 020 342
Equity (ii)	**31 329 053**	30 148 941
Net debt to equity ratio	**129%**	**239%**

The industry average is 200%.

(I) Debt is defined as long-term and short-term borrowings, as detailed in note 21.

(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;
- 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.

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- To maintain a strong capital base to support the development of its business.

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Significant accounting policies (Continued)

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%	1 887 202	-
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%	1 235 110	247 022
6	- with residual maturity of more than 12 months	100%	-	-
	b) Foreign			
7	- with residual maturity of up to 12 months	20%	5 092 869	1 018 574
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%	-	-
12	- Other government securities	20%	-	-
13	- Issued by Local Government Units	100%	-	-
14	- Private securities	100%	-	-
	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%	147 751 277	147 751 277
22	- Inter-bank advances and loans/advances guaranteed by other banks:			
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%	37 274 124	37 274 124
28	Investment in equity of other companies	100%	-	-
	TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)		**193 240 581**	**186 290 997**

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

OFF BALANCE SHEET OBLIGATIONS

Significant accounting policies (Continued)

	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 sheet)		**193 240 581**	**186 290 997**

Computation of capital position	**31 December 2017**	31 December 2016
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	**4 495 497**	3 474 240
(e) Non distributive reserves	**1 440 773**	1 281 918
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total	**31 329 053**	30 148 941
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 RISK AND CAPITAL MANAGEMENT (CONTINUED)

Significant accounting policies (Continued)

	31 December 2017 K	31 December 2016 K
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)	**31 329 053**	30 148 941
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)	**31 329 053**	30 148 941
MINIMUM TOTAL CAPITAL REQUIREMENT:	**27 943 650**	24 052 149
(15% of total on and off balance sheet risk-weighted assets as established in the first schedule)		
CAPITAL ADEQUACY (I + III - IV)	**3 385 403**	4 244 497

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

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.

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

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 2016

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	Total
Assets	K	K	K	K	K
Bank and cash balances	8 222 848	-	-	-	**8 222 848**
Other receivables	6 093 619	400 972	293 843	-	**6 788 434**
Derivative financial assets	-	-	7 778 810	-	**7 778 810**
Loans and receivables	3 067 064	12 256 609	77 316 050	41 192 189	**133 831 912**
Total assets	**17 383 531**	**12 657 581**	**85 388 703**	**41 192 189**	**156 622 004**
Liabilities					
Deposits from customers	10 111 624	20 107 323	7 041 036	3 200	**37 263 183**
Other financial liabilities	1 475 265	8 022 163	5 475 101	6 499 513	**21 472 042**
Amounts due to related parties	-	1 095 323	1 362 572	911 804	**3 369 699**
Borrowings	-	4 193 817	43 087 100	32 962 273	**80 243 190**
Total liabilities	**11 586 889**	**33 418 626**	**56 965 809**	**40 376 790**	**142 348 114**

Year ended 31 December 2017

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	Total
Assets	K	K	K	K	K
Bank and cash balances	8 215 180	-	-	-	8 215 180
Other receivables	9 052 743	360 895	533 962	-	9 947 600
Derivative financial assets	-	-	1 962 777	-	1 962 777
Loans and receivables	4 980 214	11 890 778	63 157 620	67 722 665	147 751 277
Total assets	**22 248 137**	**12 251 673**	**65 654 359**	**67 722 665**	**167 876 834**
Liabilities					
Deposits from customers	29 513 574	31 086 448	18 871 348	-	79 471 370
Other financial liabilities	3 475 265	9 771 095	7 344 394	10 777 424	31 368 178
Amounts due to related parties	2 379 222	-	-	-	2 379 222
Borrowings	-	4 387 080	20 701 760	23 433 133	48 521 973
Total liabilities	**35 368 061**	**45 244 623**	**46 917 502**	**34 210 557**	**161 740 743**

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (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 2017:

Amount	K	Scenario 1 10% increase in variable interest rates	Scenario 1 10% increase in variable interest rates
Profit before tax	2 500 219	70 166	4 930 273

Assuming no management action, a rise would decrease net interest income for 2017 by **K2,430,054** (2016: K 2,487,551), 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 2017.

	K	Scenario 1 variable Foreign	Scenario 1 variable Foreign
Profit before tax	2 500 219	2 252 188	2 748 250

Assuming no management action, a rise would decrease net income for 2017 by **K248,031** (2016:K706,068), while a fall would increase net interest income by the same amount.

29. 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.

29. FAIR VALUE MEASUREMENTS (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)

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	K	K	K	K
Loans and receivables:				
- other receivables	11 843 324	11 843 324	8 035 841	8 035 841
- loans and receivables	147 751 277	147 751 277	133 831 912	133 831 912
- Derivative financial assets	1 962 777	1 962 777	7 778 810	7 778 810
Total	161 557 378	161 557 378	149 646 563	149 646 563
Financial liabilities				
Financial liabilities held at amortised cost:				
- deposits from customers	79 471 370	79 471 370	37 263 183	37 263 183
- other financial liabilities	31 368 177	31 368 177	21 472 043	21 472 043
- amounts due to related parties	2 379 222	2 379 222	3 369 699	3 369 699
- borrowings	48 521 973	48 521 973	80 243 190	80 243 190
Total	161 740 742	161 740 742	142 348 115	142 348 115

	Fair value hierarchy as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets	K	K	K	K
Loans and receivables:				
- other receivables	-	-	11 843 324	11 843 324
- loans and receivables	-	-	147 751 277	147 751 277
- Derivative financial assets	-	1 962 777	-	1 962 777
Total	-	1 962 777	159 594 601	161 557 378
Financial liabilities				
Financial liabilities held at amortised cost:				
- deposits from customers	-	-	79 471 370	79 471 370
- other financial liabilities	-	-	31 368 177	31 368 177
- borrowings	-	-	48 521 973	48 521 973
Total	-	-	159 361 520	159 361 520

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.

30. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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

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

In the current year, the Company 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 2017.

Amendments to IAS 7 *Disclosure Initiative*

The Company has applied these amendments in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of amounts payable to group Companys and amounts payable to other Companys as disclosed in notes 26 and 30 to the financial statements. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. The application of these amendments has had no impact on the Company's financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The Company has applied these amendments in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle in the current year.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements as the Company has no interests in subsidiaries , associates or joint ventures.

31.2 New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments1
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)1
IFRS 16	Leases2
Amendments to IAS 40	Transfers of Investment Property1
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle1
IFRIC 22	Foreign Currency Transactions and Advance Consideration1

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
3 Effective for annual periods beginning on or after a date to be determined.

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

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.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company are still in the process of assessing the impact of this standard on the operations of the Company. The Company will adopt the IFRS 9 from the effective date of 1 January 2018; apply it retrospectively and recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as of 1 January 2018. We are continuing to evaluate the impact of this guidance on our financial statements. We expect that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

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

31.2 New and revised IFRSs in issue but not yet effective (Continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should 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. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors are still in the process of the assessing the impact of this standard on the operations of the Company. It is anticipated that the implementation of this standard may not have a material impact on the financial statements of the Company.
The Company plans to adopt the new standard on the required effective date using the full retrospective method.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

For finance leases where the Company is a lessee, as the Company has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Company is a lessor (for both operating and finance leases), the directors of the Company do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Company

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

31.2 New and revised IFRSs in issue but not yet effective (Continued)

Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should there be a change in use of any of its properties.

Annual Improvements to IFRSs 2014 - 2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at Fair Value through Profit and Loss (FVTPL) is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The directors of the Company do not anticipate that the application of the amendments in the future will have any impact on the financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Company does not have any associate or joint venture that is an investment entity.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non- monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements. This is because the Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

Our Client Service Standards

1. Determine, on each engagement, who our clients are and directly ascertain their expectations for our performance.
2. Analyse our clients' needs and professional service requirements.
3. Develop client service objectives that will enable us to fulfill our professional responsibilities, satisfy our clients' needs, and exceed their expectations. Prepare an appropriate client service plan to achieve these client service objectives.
4. Execute the client service plan in a manner that ensures commitments are met, potential problems anticipated, and surprises avoided.
5. Establish effective and creative communication, both internal and external, to enhance client perceptions of value and quality of our service.
6. Provide management with insights on the condition of their business and meaningful suggestions for improvement.
7. Continually broaden and strengthen our relationships with key management personnel to facilitate effective communication and foster client loyalty.
8. Ensure that any professional, technical, or client service problem is resolved promptly with timely consultation in an environment of mutual respect.
9. Obtain from the client, either formally or informally, a regular assessment of our performance.
10. Receive fees that reflect the value of services provided and responsibilities assumed and are considered fair and reasonable by our clients.