FINCA ZAMBIA LIMITED

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2018

FINCA ZAMBIA LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2018

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FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The Company is licensed as a non-banking financial institution in accordance with the provisions of the Banking and Financial Services Act, 2017.

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Plot 22768
Corner of Great East/Thabo Mbeki Road
Acacia Park-Arcades
Lusaka

FINANCIAL RESULTS AND DIVIDENDS

RESULTS	2018 K	2017 K
Total income	**126 003 876**	116 104 453
Net income (after interest expense)	**95 568 612**	91 803 909
(Loss)/Profit for the year	**(2 825 178)**	1 180 112

SHARE CAPITAL

On 10 May 2018, the Company issued 12,685,950 Ordinary shares valued at K1 each (2017:Nil).

DIRECTORS

The Directors who held office during the year were:

Collins Muyanja	Chairman
Mike Gama-Lobo	Director
Isaiah Chindumba	Director
Lameck Zimba	Director
Douglas Kamwendo	Director

The total remuneration for the Directors in the year under review amounted to **K 426,900** (2017 K216,759).

EMPLOYEES

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

Month	2018	2017
January	**301**	360
February	**293**	355
March	**293**	364
April	**297**	385
May	**294**	381
June	**304**	374
July	**300**	363
August	**306**	357
September	**308**	348
October	**306**	341
November	**301**	334
December	**298**	331

The total remuneration paid to the employees and towards staff welfare during the year was **K48,710,803** (2017:K45,402,852).

PROPERTY AND EQUIPMENT

The additions to property and equipment during the year amounted to **K11,939,621** (2017: K14,184,129) comprising:

	2018 K	2017 K
Capital work in progress	**5 717 466**	11 945 206
Furniture and fittings	**2 645 911**	442 585
Computer equipment	**2 183 014**	914 155
Leasehold improvements	**1 458 056**	578 998
Motor Vehicles	**-**	303 185
	12 004 447	14 184 129

Software with a cost of **K231,842** (2017: K48,595) was also acquired during the year.

SUBSEQUENT EVENTS

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

GIFTS AND DONATIONS

The Company made no donations during the year (2017: Nil).

EXPORTS

The Company did not export any goods/services during the year (2017: Nil).

RESEARCH AND DEVELOPMENT

The Company did not carry out any research and development activities during the year (2017: Nil)

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 (2017: Nil).

CORPORATE GOVERNANCE

The Directors are committed to high standards of corporate governance which is fundamental to discharging their leadership responsibilities. The Board applies integrity, principles of good governance and accountability throughout its activities.

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 246 of the Companies Act, 2017 and section 88 of the Banking and Financial Services Act, 2017 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 as at the end of the financial year and of its financial performance. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company. The Directors are further required to ensure the Company adhere to the corporate governance principles or practices contained in Part VII's Sections 82 to 122 of the Companies Act, 2017 and the Banking and Financial Services Act, 2017.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, 2017.

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

The Directors are of the opinion that the financial statements set out on pages 7 to 46 give a true and fair view of the state of the financial affairs of the Company and of its financial performance in accordance with International Financial Reporting Standards and the Companies Act, 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017.

The Directors have made an assessment of the ability of the Company to continue as a going concern and have no reason to believe that the business will not be a going concern for at least twelve (12) months from the date of this statement.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial framework described above.

Approval of the financial statements

The financial statements of FINCA Zambia Limited, set out on page 7 to 45, prepared by the Chief Financial Officer, a qualified Chartered Accountant, were approved by the Board of Directors on 18 July 2019 and signed on its behalf by:

DIRECTOR **DIRECTOR**

Deloitte.

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Lusaka
Zambia

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Registered Auditors
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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 45, which comprise the statement of financial position as at 31 December 2018, 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 2018, 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, 2017 and the Banking and Financial Services Act, 2017.

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 Company exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the impairment provision for loans and advances. Because loans and advances form a major portion of the Company' assets, and due to the significance of the judgements used in classifying loans and advances into various stages stipulated in IFRS 9 and determining related provision requirements, this was a matter of most significance to the audit. As at 31 December 2018, the gross loans and advances to customers were **K212,904,984** (2017: K156,434,108) against which an impairment provision of **K18,899,110 (2017: K8,682,831)**. This is disclosed in note 28 (Credit risk) to the financial statements. The impairment provision policy is presented in accounting policies in note 2 to the financial statements. Loans and advances are stated at amortised cost net of identified impairments. In calculating the impairment, management assesses any observable data which may indicate that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Historical loss experience is used by management in determining the estimated probability of default and recovery rates of future cash flows. These are key areas of judgement as disclosed in note 1.2 (Critical accounting estimates and judgements in applying accounting policies – Impairment of financial assets) to the financial statements.	Our procedures included: - We gained understanding of the Company's key credit processes comprising granting, booking, monitoring and provisioning and tested the relevant internal controls over impairment of loans and advances. - Involvement of our Financial Services Advisory and quantitative credit modelling specialists who performed an assessment of the modelling methodology and performed a recomputation in light of IFRS 9; - Confirming the accuracy of the model by independently recalculating the input parameters; and - Assessment of completeness and accuracy of the data used in the model. Based on the results of our audit procedures, we concluded that management's assessment of the loan loss provision to be reasonable.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act, 2017 and the Banking and Financial Services Act, 2017, 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, 2017 and the Banking and Financial Services Act, 2017, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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.
- 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.

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

Report on Other Legal and Regulatory Requirements

The Companies Act, 2017 requires that in carrying out our audit, we consider the adequacy of the accounting records, other records and registers required by the Acts for purposes of the audit. We confirm that these have been properly kept in accordance with the Act.

Further, Section 259(3) of the Companies Act, 2017 requires that in carrying out our audit, we consider and report that:

- There is no relationship, interest or debt which we have with and in the Company; and
- There are no serious breaches of corporate governance principles or practices by the Directors. This statement is made on the basis of the corporate governance provisions as inshringed in Part VII - corporate governance section of the Companies Act, 2017.

In accordance with the Banking and Financial Services Act, 2017, we report that in our opinion:

- 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 has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act.

DELOITTE & TOUCHE

ANDREW NJOVU
PARTNER
PC NUMBER: AUD/F000802

DATE: 12 AUGUST 2019

FINCA ZAMBIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2018

	NOTES	2018 K	2017 K
Interest income	4	**99 907 423**	91 814 910
Interest expense	5	**(30 435 264)**	(24 300 544)
Net interest income		**69 472 159**	67 514 366
Impairment charges for credit losses	14	**(11 700 611)**	(11 002 874)
Net interest income after impairment charges for credit losses		**57 771 548**	56 511 492
Fee and commission income	6	**21 947 613**	22 358 338
Late payment fees		**1 785 447**	756 089
Net fee and commission income		**23 733 060**	23 114 427
Other income	7	**8 467 029**	53 574
Grant income		**735 073**	2 601 290
Total other income		**9 202 102**	2 654 864
Total operating income		**90 706 710**	82 280 783
Operating expenses	8	**(94 304 573)**	(79 780 564)
(Loss) profit before tax	9	**(3 597 863)**	2 500 219
Income tax credit (expense)	10	**772 685**	(1 320 107)
Total comprehensive (loss) profit for the year		**(2 825 178)**	1 180 112

There were no items of other comprehensive income for the year (2017: Nil).

FINCA ZAMBIA LIMITED

STATEMENT OF FINANCIAL POSITION
at 31 December 2018

	NOTES	2018 K	2017 K
ASSETS			
Cash and cash equivalents	12	**22 264 132**	8 215 180
Prepayments and other receivables	13	**25 418 932**	11 843 324
Loans and advances to customers	14	**194 005 874**	147 751 277
Derivative financial assets	15	**4 223 606**	1 962 777
Deferred tax asset	11	**2 420 643**	428 724
Current tax asset	10	**734 388**	-
Property and equipment	16	**20 530 320**	11 731 217
Intangible asset - software	17	**9 090 914**	11 308 082
Total assets		**278 688 809**	193 240 581
LIABILITIES			
Deposits from customers	18	**78 685 114**	79 471 370
Other financial liabilities	19	**31 460 926**	31 368 178
Amounts due to related parties	20	**1 958 545**	2 379 222
Current tax liability	10	-	170 786
Borrowings	21	**127 535 076**	48 521 973
Total liabilities		**239 639 661**	161 911 528
EQUITY			
Share capital	23	**38 078 733**	25 392 783
General reserve	24	**1 440 773**	1 440 773
(Deficit in reserves) Retained earnings		**(470 358)**	4 495 497
Total equity		**39 049 148**	31 329 053
Total equity and liabilities		**278 688 809**	193 240 581

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 45 were approved by the Board of Directors and authorised for issue on 18 July 2019 and were signed on its behalf by:

DIRECTOR

DIRECTOR

FINCA ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Issued capital	General reserves	Retained earnings	Total
	K	K	K	K
Balance at 1 January 2017	**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 as previously stated	**25 392 783**	**1 440 773**	**4 495 497**	**31 329 053**
IFRS 9 adjustment*	-	-	(2 140 677)	**(2 140 677)**
Balance at 31 December 2017 as restated	**25 392 783**	**1 440 773**	**2 354 820**	**29 188 376**
Balance at 1 January 2018 as restated	**25 392 783**	**1 440 773**	**2 354 820**	**29 188 376**
Loss for the year	-	-	(2 825 178)	**(2 825 178)**
Issued shares (note 23)	12 685 950	-	-	**12 685 950**
Balance at 31 December 2018	**38 078 733**	**1 440 773**	**(470 358)**	**39 049 148**

*The adjustments to retained earning is a result of initial application of IFRS 9 model for expected credit losses net of taxes at 35%

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	NOTES	2018 K	2017 K
OPERATING ACTIVITIES			
(Loss) Profit before tax		**(3 597 863)**	2 500 219
Adjusted for non cash items:			
Net foreign exchange loss (gain) on borrowings	21	**6 752 981**	(2 480 312)
Depreciation and amortisation of non-current assets	16,17	**5 120 367**	6 523 129
Impairment recognised on loans and advances	14	**11 700 611**	11 002 874
Interest expense recognised in profit or loss		**29 139 627**	24 300 544
Loss (gain) on disposal of assets		**4 638**	(46 814)
(Profit) loss on forward exchange swap	7	**(4 318 189)**	1 877 631
Operating cash flows before changes in working funds		**44 802 172**	43 677 271
Increase in prepayments and other receivables		**(13 575 608)**	(3 807 483)
Increase in loans and advances to customers		**(60 718 027)**	(24 922 239)
(Decrease) increase in customer deposits		**(786 256)**	42 208 187
Increase in other financial liabilities		**949 739**	9 896 135
Decrease in amounts due to related parties		**(420 677)**	(990 477)
Cash (used in) generated from operations		**(29 748 658)**	66 061 394
Income tax paid	10	**(972 917)**	(2 280 105)
Interest paid		**(29 996 616)**	(24 300 544)
Net cash (used in) generated from operating activities		**(60 718 191)**	39 480 745
INVESTING ACTIVITIES			
Expenditure on property and equipment	16	**(12 004 447)**	(14 184 129)
Expenditure on intangible assets	17	**(231 842)**	(48 595)
Proceeds from disposal of property and equipment		-	46 814
Net cash used in investing activities		**(12 236 289)**	(14 185 910)
FINANCING ACTIVITIES			
Loans repaid	21	**(14 593 038)**	(51 357 705)
Proceeds from borrowings issued	21	**86 853 160**	22 116 800
Proceeds from derivative financial instruments	15	**2 057 360**	3 938 402
Proceeds from issued shares	23	**12 685 950**	-
Net cash generated used in financing activities		**87 003 432**	(25 302 503)
Net increase (decrease) in cash and cash equivalents		**14 048 952**	(7 668)
Net cash and cash equivalents at beginning of the year		**8 215 180**	8 222 848
Net cash and cash equivalents at end of the year		**22 264 132**	8 215 180
CASH AND CASH EQUIVALENTS			
Bank and cash balances	12	**22 264 132**	8 215 180

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 Changes in accounting policies

In the current year, the Company adopted IFRS 9 as issued by the IASB in July 2014 with a date of initial application of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7: Financial Instruments: Disclosures.

The effect of initially applying these standards is mainly attributed to the following:

- an increase/decrease in impairment losses recognized on financial assets;
- additional disclosures related to IFRS 9
- change in write-off policy and reversal of previously written-off instruments

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, as described below.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
	K	K	K	K
Amortised Cost				
Cash and Cash Equivalents	8 179 853	-	(2 195)	8 177 658

The re-measurement of bank balances and short-term deposits, which are classified as cash and cash equivalent, are financial instruments and included in the scope of IFRS 9, hence are subject to ECL.

Loans to Customers at amortized cost				
Opening balance- IAS 39	147 751 277	-	-	147 751 277
Remeasurement	-	-	(3 289 973)	(3 289 973)
Closing balance-IFRS 9	**147 751 277**	**-**	**(3 289 973)**	**144 461 304**

The re-measurement relates to additional impairment as a result of transition from IAS39 incurred losses to IFRS9 expected credit losses model.

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
	K	K	K	K
Fair value through profit or loss (FVPL)				
Derivative financial instruments				
Opening balance- IAS 39	-	-	-	-
Addition: From FVPL (IAS 39)	-	1 962 777	-	1 962 777
Closing balance-IFRS 9	**-**	**1 962 777**	**-**	**1 962 777**

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018 (continued)

	IAS 39 carrying amount 31 December 2017 K	Reclassifications K	Remeasurements K	IFRS 9 carrying amount 1 January 2018 K
Financial Assets at FVPL (IAS 39)				
Derivative financial instruments				
Opening balance- IAS 39	1 962 777	-	-	1 962 777
Subtraction to Derivative Financial Instrument (IFRS 9)	-	(1 962 777)		(1 962 777)
Closing balance-IFRS 9	**1 962 777**	**(1 962 777)**	-	-

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Loan loss allowance under IAS 39/Provision under IAS 37 K	Reclassifications K	Remeasurements K	Loan loss allowance under IFRS 9 K
Cash and Cash Equivalent	-	-	2 195	2 195
Loans to Customers	8 682 831	-	3 289 873	11 972 704
Total	**8 682 831**	**-**	**3 292 068**	**11 974 899**

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Interest income and expense (continued)

2.3.1 Effective interest rate

Interest is recognised, in profit or loss, using the effective interest rate method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- purchased or originated credit impaired financial assets. For those financial assets, the Company applies the credit adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

- financial assets that are not purchased or originated credit impaired financial assets but subsequently have become credit impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimate future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial intrument but does not consider the expected credit losses. The calculation includes all fees paid or received betweem parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The credit adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit impaired financial asset. When calculating the credit adjusted effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial asset and expected credit losses.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Retirement benefits

2.6.1 Contract employees

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

2.6.2 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.

2.7 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 profit.

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

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

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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%

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 2018 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 (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 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 is treated as a revaluation decrease.

Where an impairment 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 been recognised for the asset in prior years. A reversal of an impairment 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 is treated as a revaluation increase.

2.12 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below. The full impact of adopting the standard is set out in note 28.

Financial assets and financial liabilities are recognized in the Company's financial position when the Company becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.1 Classification and subsequent measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Company classifies financial assets under IFRS 9 see note 28.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

2.12.2 Financial Assets

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

On initial recognition, financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, the Company may irrevocably designate such financial asset to be measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company's financial assets classified into the measurement categories are as following:

Financial assets	Business Model	SPPI	Measurement Category
Cash and cash equivalents	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Restricted cash	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Derivative financial instruments	Other business model	Cash flows are not solely payments of principal and interest	FVPL (Mandatory)

<u>*Business model assessment*</u>

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.2 Financial Assets (Continued)

Business model assessment (continued)

- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets (e.g., non-recourse loans); and
- Features that modify consideration of the time value of money (e.g., periodical reset of interest rates).

2.12.3 Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Company's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

2.12.4 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Company recognizes loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

With the exception of purchased or originated credit-impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.4 Impairment of financial assets (continued)

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR).

The Company measures ECL on a collective basis for portfolios of loans that share similar economic risk characteristics.

More information on measurement of ECLs is provided in note 28, including details on how instruments are grouped when they are assessed on a collective basis.

2.12.5 Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- The disappearance of an active market for a security because of financial difficulties; or
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit-impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Company recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain. The Company did not purchase or originate any credit-impaired financial assets during years 2017 and 2018.

2.12.6 Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Company renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Company assesses whether this modification results in derecognition. In accordance with the Company's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Company considers the following:

- Quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Company deems the arrangement is substantially different leading to derecognition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.6 Modification and derecognition of financial assets (continued)

If the terms are substantially different, the Company derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred 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 recognizes 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 recognize the financial asset.

2.12.7 Write-off

Financial assets are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains.

2.12.8 Financial guarantees and loan commitments

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees and loan commitments are included within impairment allowance.

2.12.9 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.

2.12.10 Loans and receivables

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

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

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

2.12.11 Derivatives instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.12 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

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

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

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

2.13.1 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

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Company's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgment or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgments is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

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 Measurement of the expected credit loss allowance

The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses). A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

3.2.1 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

	2018 K	2017 K
Arising on:		
Loans to customers	**99 235 496**	90 991 546
Loans to employees	**589 225**	420 060
	99 824 721	91 411 606
Cash and short term bank deposits	**82 702**	403 304
	99 907 423	91 814 910

Income from portfolio represents interest earned and accrued on loans to customers. Interest on the Small Group loan product, business loans, small enterprise loans, invoice discounting and order finance is accrued at **7%** (2017: 4.9%), **6.8%** (2017: 4.1%), **5.6%**, **6%** and **10%** average per month respectively . Interest is accrued on a reducing balance basis.

5. INTEREST EXPENSE

	2018 K	2017 K
Arising on:		
Borrowings	**21 896 264**	13 396 022
Deposits due to customers	**8 539 000**	10 904 522
	30 435 264	24 300 544

The weighted average capitalisation rate on funds borrowed generally is 15**%** per annum (2017:20.1% per annum).

6. FEE AND COMMISSION INCOME

	2018	2017
Credit related fees	**16 304 163**	14 701 727
Arrangement and deposit fees	**4 138 847**	4 053 282
Account maintance fees	**1 357 094**	2 395 769
Insurance administration fee	**147 509**	1 207 560
	21 947 613	22 358 338

7. OTHER INCOME

	2018	2017
Profit (Loss) on forward and exchange swap	**4 318 189**	(1 877 631)
Other operating income	**4 148 840**	1 931 205
	8 467 029	53 574

8. OPERATING EXPENSES

	2018	2017
Employee benefit expenses	**48 710 803**	45 402 852
Other operating and adminstration expenses	**34 408 526**	28 370 484
Depreciation and amortisation expense	**5 120 367**	6 523 129
Net foreign exchange losses (gains)	**6 064 877**	(515 901)
	94 304 573	79 780 564

11. DEFERRED TAX (CONTINUED)

At 31 December 2017	At beginning of year K	Charged to profit or loss K	Credited to Equity K	At end of year asset K
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

12. CASH AND BANK

	2018 K	2017 K
At 1 January	**8 179 853**	8 179 853
Adjustment upon adoption of IFRS 9*	**(2 195)**	-
Balance as at 1 January as restated	**8 177 658**	**8 179 853**

* The bank balances and short-term deposits, which are classified as cash and cash equivalent, are financial instruments and included in the scope of IFRS 9, hence are subject to ECL. The probability of country default was determined as per National Risk Rating Statistics and applied on the cash and cash equivalents balances for IFRS 9 purposes.

	2018 K	2017 K
Bank and cash balances		
Cash on hand balances	**1 476 325**	1 887 202
Kwacha bank accounts	**8 290 660**	1 235 110
US Dollar bank accounts	**12 497 147**	5 092 868
	22 264 132	8 215 180
Unrestricted cash	**22 194 045**	8 179 853
Restricted cash	**70 087**	35 327
	22 264 132	8 215 180

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

	2018 K	2017 K
Interest accrued on loans	**15 926 820**	9 052 743
Sundry receivables	**6 199 662**	360 895
Prepayments	**2 879 042**	1 895 724
Staff advances	**413 408**	533 962
	25 418 932	11 843 324

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

	2018 K	2017 K
At 1 January	**147 751 277**	147 751 277
Adjustment upon adoption of IFRS 9	**(3 289 873)**	-
Balance as at 1 January as restated	**144 461 404**	147 751 277
At the beginning of the year	**144 461 404**	139 746 128
Advanced during the year	**244 770 505**	212 696 383
Impairment loss provision	**(18 899 110)**	(8 682 831)
Loans written back*	**2 997 414**	-
Repayments during the year	**(179 324 339)**	(196 008 403)
	194 005 874	147 751 277

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2018 K	2017 K
Gross amounts receivable	**212 904 984**	156 434 108
Impairment charges for credit losses	**(18 899 110)**	(8 682 831)
	194 005 874	147 751 277
Maturity analysis:		
Amounts receivable within one year	**75 586 647**	75 586 647
Amounts receivable after one year	**118 419 227**	72 164 630
	194 005 874	147 751 277

* Loans written back after change in write off policy from 6 to 9 months following implementation of IFRS9

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 **K18,899,110** (2017: K8,682,831). 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:	2018 K	2017 K
At 1 January	**8 682 831**	5 911 216
Adjustment upon adoption of IFRS 9	**3 289 873**	-
Balance as at 1 January as restated*	**11 972 704**	5 911 216
Charge for the year	**11 700 611**	11 002 874
Write offs	**(4 774 205)**	(8 231 259)
At 31 December	**18 899 110**	8 682 831

The following table shows the movement in lifetime expected credit Losses for loans to customers since the adoption of IFRS 9

Balance as at 31 December 2017 as previously stated	**8 682 831**
Initial application of IFRS 9 adjustment	3 289 873
Balance as at 1 January 2018 restated	**11 972 704**
Transfer to expected credit losses for loans to customers	6 926 406
Balance as at 31 December 2018	**18 899 110**

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:	2018 K	2017 K
Current	**189 255 027**	135 713 582
1 - 7 days	**1 760 727**	3 224 888
8 - 30 days	**8 505 042**	6 866 640
31 - 60 days	**6 316 053**	2 289 511
61 - 90 days	**2 263 002**	1 721 038
Over 90 days	**4 805 133**	6 618 449
	212 904 984	**156 434 108**

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

	2018	2017
	K	K
Derivative financial assets arising from:		
Financial derivative at 1 January 2018	**1 962 777**	7 778 810
Profit (loss) on forward exchange swap	**4 318 189**	(1 877 631)
Proceeds from derivative financial assets	**(2 057 360)**	(3 938 402)
Financial derivative at 31 December 2018	**4 223 606**	1 962 777

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 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
Impairment of assets	-	(101 227)	-	-	-	(101 227)
Transfers	-	-	-	-	(10 162 251)	(10 162 251)
At 31 December 2017	**6 020 789**	**459 143**	**7 781 471**	**3 132 850**	**2 901 245**	**20 295 498**
Write off of amortisation						
At 1 January 2018	6 020 789	459 143	7 781 471	3 132 850	2 901 245	20 295 498
Additions	1 458 056	-	2 183 014	2 645 911	5 717 466	12 004 447
Transfers	-	-	(188 745)	188 747	-	2
Disposals	-	-	(10 600)	-	-	(10 600)
At 31 December 2018	**7 478 845**	**459 143**	**9 765 140**	**5 967 508**	**8 618 711**	**32 289 347**
DEPRECIATION						
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
Write back of depreciation	-	(101 227)	-	-	-	(101 227)
At 31 December 2017	**2 191 140**	**181 223**	**4 320 161**	**1 871 757**	**-**	**8 564 281**
At 1 January 2018	2 191 140	181 223	4 320 161	1 871 757	-	8 564 281
Charge for year	521 446	60 637	1 687 115	931 514	-	3 200 711
Eliminated on Disposal	-	-	(5 965)	-	-	(5 965)
At 31 December 2018	**2 712 586**	**241 860**	**6 001 311**	**2 803 271**	**-**	**11 759 027**
Carrying amount						
At 31 December 2018	**4 766 259**	**217 283**	**3 763 830**	**3 164 237**	**8 618 711**	**20 530 320**
At 31 December 2017	3 829 649	277 920	3 461 310	1 261 093	2 901 245	11 731 217

In accordance with Companies Act, 2017, 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.

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Year end balances

(a) Amounts due to related parties	**2018**	2017
Arising on:	**K**	K
FINCA Network Support Services	**1 958 545**	2 379 222
Amounts falling due within one year	**1 958 545**	2 379 222

Amounts due to FINCA Network Support Services B.V are fees payable for licenses business applications support.

(b) Compensation of key Management personnel

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

Short term benefits	**6 107 386**	5 152 395

21 BORROWINGS

At beginning of the year	**48 521 973**	80 243 190
Loans received	**86 853 160**	22 116 800
Repayments	**(14 593 038)**	(51 357 705)
Exchange loss (gain) on valuation of foreign denominated loans	**6 752 981**	(2 480 312)
At end of the year	**127 535 076**	48 521 973
Due to:		
Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF Symbiotics	**48 717 260**	30 116 540
Developing World Markets (DWM)	**35 774 400**	-
Grameen Credit Agricole MicroFinance Foundation	**15 000 000**	-
FINCA Microfinance Holding Company LLC (FMH)	**11 924 800**	10 017 800
MCE Social Capital	**11 924 800**	-
Ecumenical Development Cooperative Society UA Oikocredit	**4 193 816**	8 387 633
	127 535 076	48 521 973
Less: amounts falling due within one year	**(31 164 116)**	(25 088 840)
Amounts falling due after one year	**96 370 960**	23 433 133

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 comprises 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 K9,517,800 , K3,962,320 ,K6,191,640 and K14,000,000 were obtained in April, May ,June ,and August 2018 with interest rate of 20.50%, 22.00% , 22.00% and 25% per annum respectively. The loans have a tenure of 2 years.

(ii) Developing World Markets

The outstanding balance of K35,774,400 comprises unsecured debt of $1,000,000 and $2,000,000 disbursed in February 2018 with interest rates of 6.5% for a tenure of 2 years. The loans had been hedged with MFX solutions under a normal non deliverable hedge at rates of 19% on the $1,000,000 and 20.75% on the $2,000,000.

21. BORROWINGS (CONTINUED)

(iii) Grameen Crédit Agricole Microfinance Foundation

The outstanding balance of K15 million comprises unsecured debt disbursed as K7,500,00 in August 2018 with interest rate of 28.06% and K7,500,000 in September 2018 with interest rate of 33.85% for a tenure of 34months.

(iv) FINCA Microfinance Holding Company LLC (FMH)

The outstanding balance of K11,924,800 comprises unsecured debt of $1,000,000 disbursed in March 2018 with interest rates of 6% for a tenure of 11 months.

(v) MCE Social Capital

The outstanding balance of K11,924,800 comprises unsecured debt of $1,000,000 disbursed in December 2018 with interest rates of 6.75% for a tenure of 3 years.

(vi) Ecumenical Development Cooperative Society UA - Oikocredit

The outstanding balance is K4,193,816 disbursed in April 2016 at floating interest rate of 16.51% for a tenure of 3 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.

	2018	2017
	K	K
Rental expense on leasehold building	**5 012 006**	4 066 084
Rentals prepaid on leaseholds		
Less than one year	**564 656**	598 386
	564 656	598 386

23. ISSUED CAPITAL

Authorised, issued and fully paid:

At beginning of the year	**25 392 783**	25 392 783
12,685,950 ordinary shares of K1 each	**12 685 950**	-
At end of the year	**38 078 733**	25 392 783

On 10 May 2018, the Company issued 12,685,950 Ordinary shares valued at K1 each (2017:Nil).

24. GENERAL RESERVE

The Company has charged the impairment loss on loans and advances in accordance with IFRS 9. 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 (IFRS 9) has been charged to Statement of Profit or loss because the provisons carried in the books based on Internationational Financial Reporting Standards are higher than the same calculation based on statutory requirements.

25. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2018 and 2017.

26. CONTINGENT LIABILITIES

There were no other contingent liabilities as at 31 December 2018.

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 21, 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	**2018** **K**	2017 K
The gearing ratio at the year end was as follows:		
Debt (i)	**127 535 076**	48 521 973
Less: Cash and cash equivalents	**(22 264 132)**	(8 215 180)
Net debt	**105 270 944**	40 306 793
Equity (ii)	**39 049 148**	31 329 053
Net debt to equity ratio	**270%**	129%

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 the Banking and Financial Services Act, 2017.

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%	1 476 325	-
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%	20 787 807	4 157 561
6	- with residual maturity of more than 12 months	100%	-	-
	b) Foreign			
7	- with residual maturity of up to 12 months	20%	-	-
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%	6 087 000	-
18	- loans to or guaranteed by local government units	100%	-	-
19	- mortgage on owner- occupied residential property	50%	80 357 000	40 178 500
20	- loans to parastatals	100%	-	-
21	- Others	100%	107 561 874	107 561 874
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%	62 418 803	62 418 803
28	Investment in equity of other companies	100%	-	-
	TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)		**278 688 809**	**214 316 738**

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)		**278 688 809**	**214 316 738**

Computation of capital position	**31 December 2018**	31 December 2017
PRIMARY (TIER 1) CAPITAL ADDITIONS:		
(a) Paid-up common shares	**38 078 733**	25 392 783
(b) Eligible preferred shares	-	-
(c) Capital grants (Share premium)	-	-
(d) Retained earnings	**(470 358)**	4 495 497
(e) Non distributive reserves	**1 440 773**	1 440 773
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total	**39 049 148**	31 329 053
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*	(1 605 508)	-
Assets of little or no realizable value (note 3)	-	-
Other adjustments (specify)	-	-

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)	**31 December 2018 K**	31 December 2017 K
Significant accounting policies (Continued)		
a) Calculation of risk weighted assets (Continued)		
Sub-total (Other adjustments)	-	-
(n) Total Subtractions (B): (Sub-total A above+Other adjustments)	-	-
(o) TOTAL PRIMARY CAPITAL (h - n)	**39 049 148**	31 329 053
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)	**39 049 148**	31 329 053
MINIMUM TOTAL CAPITAL REQUIREMENT:	**32 147 511**	**27 943 519**
(15% of total on and off balance sheet risk-weighted assets as established in the first schedule)		
CAPITAL ADEQUACY (I + III - IV)	**6 901 637**	3 385 534

* The provisions relate to relief from Bank of Zambia on IFRS 9 adjustments made.

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 risk
- 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)

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 risk
- currency risk

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.

Credit risk measurement

(a) Loans and advances (incl. loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. For risk management reporting purposes, the Company considers and consolidates loan size as an element of credit risk exposure. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

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

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

- Quantitative test based on movement in PD;
- Forbearance status; and
- A backstop of 30 days past due.

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

"Forbearance" occurs upon restructuring, i.e. prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower's financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment schema of the loan. Restructuring only occurs when the appropriate division of the bank is reasonably confident that a borrower is able to service the renewed payment schedule.

Multiple economic scenarios form the basis of determining the PD at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different PD. It is the weighting of these different scenarios that forms the basis of a weighted average PD that is used to determine whether credit risk has significantly increased. Forward-looking information includes the future prospects of the economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.
The Company considers the following as constituting an event of default:

- The contract is past due more than 90 days; or
- The credit obligations reflected in the contract is unlikely to be paid to the Company in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Company takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Company uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Credit-impaired assets in Stage 3 undergo a probationary period of 6 months after the material credit obligations of the Contract are met before moving to Stage 2.

Write-off

When periodic collective historical recovery analysis indicates that the Company does not expect significant additional recoveries after certain months in default ("MID"), it is the policy of the Company to write-off loans on a collective basis.

Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is K4,774,205

Grouping with similar credit risk characteristics

Financial assets are split into three segments for the purposes of PD calculation:

- Small (for loan amounts up to K20,000)
- Medium (for loan amounts between K20,001 and K159,999)
- Large (for loan amounts greater than K160,000)

The segments above reflect the level of assessment of client creditworthiness, with the Large segment exhibiting a comparatively stricter assessment. The historical default rate is utilized as an indicator of strictness, such that the difference in default rates is maximized between the segments.

Rating Model

All available information (product groups, industries, etc.) are used to derive internal ratings for each segment. In such a way groups with the same risk characteristics are created and used afterwards to adjust the PD curve of the segment.

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Measurement of ECL

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

Probability of default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

Probability of Default is modeled by survival function, which is based on hazard rates.

Hazard rates are obtained by Cox proportional hazard model, which is a semi-parametric model, it uses assumed simple form for effect of covariates and the exact value of free parameters is estimated with partial likelihood. The baseline is obtained by non-parametrical methods. A macroeconomic overlay can be directly included into the hazard function through a time-dependent variable. From obtained hazard rates, then Point-in-Time ("PiT") PD is derived, i.e. marginal PDs assigned to a respective date.

Observation period for modeling cox hazard rates is 5 years.

Set out below are the changes to the ECL as at 31 December 2018 and 2017 that would result from reasonably possible changes in the macroeconomic parameter from the actual assumptions used in the Company's economic variable assumptions.

Year ended 31 December 2018

Impairment on loan portfolio	**GDP 50% K**	**No change K**	**GDP -17% K**
Small	2 811 213	2 755 626	2 938 556
Medium	-	-	-
Large	16 535 522	16 143 484	17 422 504
Total impairment on loan portfolio	**19 346 735**	**18 899 110**	**20 361 060**
Other financial instruments			
Cash and cash equivalents	**28 932**	**28 932**	**28 932**
Total impairment charges on credit losses	**19 375 667**	**18 928 042**	**20 389 992**

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD model considers cash recoveries only. LGD is calculated on a discounted cash flow basis using the EIR as the discounting factor.

Exposure at default (EAD)

EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

Non-Incorporation of forward-looking information

The Company did not incorporate forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly, this is because the methodology used does not allow for such analysis.

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

Credit quality of loans to customers

Year ended 31 December 2018

	Stage 1 K	Stage 2 K	Stage 3 K	Total K
SMALL				
Gross carrying amount				
Current	10 436 942	-	2 293	10 439 236
Past due 1-30 days	96 887	426 658	-	523 545
Past due 31-60 days	-	265 845	-	265 845
Past due 61-90 days	-	218 683	3 768	222 451
Past due more than 90 days	-	-	2 579 241	2 579 241
Total	**10 533 829**	**911 186**	**2 585 302**	**14 030 317**
Loss allowance				
For on balance exposure	(273 852)	(153 157)	(2 328 617)	(2 755 626)
For off balance exposure	-	-	-	-
Total	**10 259 978**	**758 029**	**256 685**	**11 274 691**
LARGE				
Gross carrying amount				
Current	127 202 975	42 672 835	140 820	170 016 631
Past due 1-30 days	177 235	10 925 822	-	11 103 057
Past due 31-60 days	-	6 981 079	-	6 981 079
Past due 61-90 days	-	2 350 151	55 789	2 405 940
Past due more than 90 days	-	-	8 367 960	8 367 960
Total gross carrying amount	**127 380 210**	**62 929 887**	**8 564 569**	**198 874 666**
Loss allowance				
For on balance exposure	(3 381 900)	(5 897 489)	(6 864 095)	(16 143 483)
For off balance exposure	-	-	-	-
Total loss allowance	**123 998 310**	**57 032 397**	**1 700 474**	**182 731 183**
Total net loan portfolio	**134 258 288**	**57 790 426**	**1 957 159**	**194 005 874**
Other financial instruments				
Cash and cash equivalents	**22 264 132**	**-**	**-**	**22 264 132**

Year ended 31 December 2017

	Stage 1 K	Stage 2 K	Stage 3 K	Total K
SMALL				
Gross carrying amount				
Current	12 691 064	-	6 299	12 697 364
Past due 1-30 days	591 448	1 581 910	-	2 173 358
Past due 31-60 days	-	957 519	-	957 519
Past due 61-90 days	-	604 069	-	604 069
Past due more than 90 days	-	-	2 230 727	2 230 727
Total gross carrying amount	**13 282 512**	**3 143 499**	**2 237 027**	**18 663 037**
Loss allowance				
For on balance exposure	(436 691)	(389 301)	(1 789 033)	(2 615 026)
For off balance exposure	-	-	-	-
Total loss allowance	**12 845 821**	**2 754 197**	**447 993**	**16 048 012**

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

Credit quality of loans to customers (continued)

LARGE **Gross carrying amount**	**Stage 1** **K**	**Stage 2** **K**	**Stage 3** **K**	**Total** **K**
Current	91 719 653	31 320 976	-	123 040 629
Past due 1-30 days	-	8 495 012	-	8 495 012
Past due 31-60 days	-	1 595 012	-	1 595 012
Past due 61-90 days	-	1 418 101	-	1 418 101
Past due more than 90 days	-	-	6 512 190	6 512 190
Total gross carrying amount	**91 719 653**	**42 829 101**	**6 512 190**	**141 060 944**
Loss allowance				
For on balance exposure	(2 105 044)	(2 589 169)	(4 663 465)	(9 357 678)
For off balance exposure	-	-	-	-
Total loss allowance	**89 614 609**	**40 239 932**	**1 848 725**	**131 703 265**
Total net loan portfolio	**102 460 430**	**42 994 129**	**2 296 718**	**147 751 277**
Other financial instruments				
Gross carrying amount				
Cash and cash equivalents	22 293 064	-	-	22 293 064
Loss allowance				
For on balance exposure	(28 932)	-	-	(28 932)
For off balance exposure	-	-	-	-
Total	**22 264 132**	**-**	**-**	**22 264 132**

During the years ended 31 December 2018 and 2017, the Company modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses.

Analysis of collateral and other credit enhancements

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Year ended 31 December 2018

	Gross Carrying Amount **K**	**Loss Allowance** **K**	**Amortized Cost** **K**	**Fair Value of Collateral** **K**
Loan portfolio in default (Stage 3)				
Small	2 585 302	(2 328 617)	132 203	-
Medium	-	-	-	-
Large	8 573 488	(6 864 095)	1 342 456	-
Total	**11 158 790**	**(9 192 712)**	**1 474 659**	**-**

Year ended 31 December 2017

	Gross Carrying amount **K**	**Loss Allowance** **K**	**Amortized Cost** **K**	**Fair Value of Collateral** **K**
Loan portfolio in default (Stage 3)				
Small	2 237 027	(1 789 033)	230 164	-
Medium	-	-	-	-
Large	6 512 190	(4 663 465)	1 280 909	-
Total	**8 749 217**	**(6 452 498)**	**1 511 073**	**-**

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

Credit quality of loans to customers (continued)

Year ended 31 December 2018

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss allowance as of 1 January 2018	489 862	436 702	2 006 863	2 933 427
Transfer from Stage 1 to Stage 2	(342 513)	717 509	-	374 996
Transfer from Stage 2 to Stage 1	60 632	(415 421)	-	(354 789)
Transfer from Stage 2 to Stage 3	-	(1 795 795)	3 016 000	1 220 205
Transfer from Stage 3 to Stage 2	-	-	(371)	(371)
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	**(281 881)**	**(1 493 707)**	**3 015 629**	**1 240 041**
New financial instrument originated or purchased	316 771	1 311	-	318 082
Changes in PDs/LGDs/EADs	(209 520)	1 076 549	739 547	1 606 575
Derecognition during the period	(26 741)	(6 819)	-	(33 560)
Write-offs	-	-	(3 308 939)	(3 308 939)
Loss allowance as of 31 December 2018	**288 491**	**14 036**	**2 453 099**	**2 755 626**
LARGE				
Loss allowance as of 1 January 2018	2 361 351	2 904 423	5 231 281	10 497 055
Transfer from Stage 1 to Stage 2	(2 305 538)	10 109 582	-	7 804 044
Transfer from Stage 2 to Stage 1	1 096 673	(6 276 247)	-	(5 179 574)
Transfer from Stage 2 to Stage 3	-	(6 011 939)	8 200 667	2 188 728
Transfer from Stage 3 to Stage 2	-	13 213	(119 322)	(106 109)
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	**(1 208 865)**	**(2 165 391)**	**8 081 346**	**4 707 090**
New financial instrument originated or purchased	1 546 356	1 090 145	340 903	2 977 404
Changes in PDs/LGDs/EADs	2 096 077	4 689 099	1 048 921	7 834 098
Derecognition during the period	(1 463 132)	(822 064)	(46 848)	(2 332 044)
Write-offs	-	-	(7 540 117)	(7 540 117)
Loss allowance as of 31 December 2018	**3 331 788**	**5 696 213**	**7 115 485**	**16 143 485**
Total loss allowance as of 31 December 2018	**3 620 279**	**5 710 248**	**9 568 584**	**18 899 112**

Respective movements in the gross carrying amounts of loans to customers for the year ended 31 December 2018, for small and large loans are as follows:

Year ended 31 December 2018

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Gross carrying amount as of 1 January 2018	12 489 213	2 984 549	2 218 135	17 691 896
Transfer from Stage 1 to Stage 2	(7 268 406)	7 268 406	-	-
Transfer from Stage 2 to Stage 1	1 399 875	(1 399 875)	-	-
Transfer from Stage 2 to Stage 3	-	(3 859 242)	3 859 242	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	**(5 868 531)**	**2 009 288**	**3 859 242**	**-**

28. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

Credit quality of loans to customers (continued)

Year ended 31 December 2018

SMALL	**Stage 1** **K**	**Stage 2** **K**	**Stage 3** **K**	**Total** **K**
New financial instruments originated or purchased	29 461 691	5 446	-	29 467 137
Repayment of principal amount	(26 429 760)	(4 320 409)	(1 059 624)	(31 809 794)
Changes in interest accrual	901 914	123 907	1 099 944	2 125 765
Derecognition during the period	(112 504)	(23 245)	-	(135 749)
Write-offs	-	-	(3 308 939)	(3 308 939)
Gross carrying amount as of 31 December 2018	**10 442 023**	**779 537**	**2 808 757**	**14 030 317**
LARGE				
Gross carrying amount as of 1 January 2018	86 156 240	40 098 035	6 041 810	132 296 085
Transfer from Stage 1 to Stage 2	(68 222 984)	68 222 984	-	-
Transfer from Stage 2 to Stage 1	30 926 513	(30 926 513)	-	-
Transfer from Stage 2 to Stage 3	-	(11 627 429)	11 627 429	-
Transfer from Stage 3 to Stage 2	-	116 409	(116 409)	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	**(37 296 471)**	**25 785 450**	**11 511 020**	**-**
New financial instruments originated or purchased	177 491 336	51 940 705	430 595	229 862 636
Repayment of principal amount	(96 208 300)	(46 736 753)	(2 882 193)	(145 827 247)
Changes in interest accrual	9 841 941	406 766	973 042	11 221 749
Derecognition during the period	(11 666 412)	(9 000 368)	(471 660)	(21 138 440)
Write-offs	-	-	(7 540 117)	(7 540 117)
Gross carrying amount as of 31 December 2018	**128 318 333**	**62 493 836**	**8 062 497**	**198 874 666**
Total gross carrying amount as of 31 December 2018	**138 760 357**	**63 273 372**	**10 871 254**	**212 904 984**

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 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**

Year ended 31 December 2018

Assets	K	K	K	K	K
Bank and cash balances	22 264 132	-	-	-	22 264 132
Other receivables	15 926 820	6 199 662	413 408	-	22 539 890
Derivative financial assets	-	-	4 223 606	-	4 223 606
Loans and receivables	17 173 180	7 926 670	55 834 820	113 071 203	194 005 874
Total assets	**55 364 132**	**14 126 332**	**60 471 834**	**113 071 203**	**243 033 501**
Liabilities					
Deposits from customers	28 258 209	8 195 171	42 231 733	-	78 685 114
Other financial liabilities	13 582 000	-	17 878 926	-	31 460 926
Amounts due to related parties	-	-	1 958 545	-	1 958 545
Borrowings	11 831 100	4 439 035	5 012 000	106 252 941	127 535 076
Total liabilities	**53 671 309**	**12 634 206**	**67 081 204**	**106 252 941**	**239 639 661**

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 2018:

Amount	**K**	**Scenario 1 10% increase in variable interest rates**	**Scenario 2 10% decrease in variable interest rates**
Profit before tax	(3 597 863)	(6 641 388)	(554 338)

Assuming no management action, a rise would decrease net interest income for 2018 by **K3,043,525** (2017: K2,430,054), 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 2018.

	K	**Scenario 1 variable Foreign**	Scenario 1 variable Foreign
Profit before tax	(3 597 863)	(2 922 565)	(4 273 161)

Assuming no management action, a rise would decrease net income for 2018 by **K703,772** (2017:K248,031), 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)

	2018		2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets	**K**	**K**	K	K
Loans and receivables:				
- other receivables	**25 418 932**	**25 418 932**	11 843 324	11 843 324
- loans and receivables	**194 005 874**	**194 005 874**	147 751 277	147 751 277
- Derivative financial assets	**4 223 606**	**4 223 606**	1 962 777	1 962 777
Total	**223 648 412**	**223 648 412**	161 557 378	161 557 378
Financial liabilities				
Financial liabilities held at amortised cost:				
- deposits from customers	**78 685 114**	**78 685 114**	79 471 370	79 471 370
- other financial liabilities	**31 460 926**	**31 460 926**	31 368 177	31 368 177
- amounts due to related parties	**1 958 545**	**1 958 545**	2 379 222	2 379 222
- borrowings	**127 535 076**	**127 535 076**	48 521 973	48 521 973
Total	**239 639 661**	**239 639 661**	161 740 742	161 740 742

Fair value hierarchy as at 31 December 2018

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	**K**	**K**	K	K
Loans and receivables:				
- other receivables	-	-	25 418 932	25 418 932
- loans and receivables	-	-	194 005 874	194 005 874
- Derivative financial assets	-	4 223 606	-	4 223 606
Total	**-**	**4 223 606**	**219 424 806**	**223 648 412**
Financial liabilities				
Financial liabilities held at amortised cost:				
- deposits from customers	-	-	78 685 114	78 685 114
- other financial liabilities	-	-	31 460 926	31 460 926
- borrowings	-	-	127 535 076	127 535 076
Total	**-**	**-**	**237 681 116**	**237 681 116**

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

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 2018.

31.1 New and revised Standards and Interpretations with no material effect on the financial statements

The following relevant Standards and Interpretations have been applied in these financial statements. However, they did not have any material impact on the Company's financial statements but may impact the accounts for future transactions or arrangements.

IFRS 4	Insurance contracts - amendments regarding the interaction of IFRS 4 and IFRS 9
IFRS 15	Revenue from Contracts with Customers - original issue
IFRS 15	Revenue from Contracts with Customers - clarifications to IFRS 15
IFRIC 22	Foreign Currency Transactions and Advance Consideration

The adoption of IFRS 15 did not impact the timing or amount of interest and fees income recognised.

31.2 Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but effective on annual period on or after the respective dates as indicated:

IAS 1	Presentation of Financial Statements - amendments regarding the definition of material (effective 1 January 2020)
IAS 12	Income Taxes - amendments resulting from Annual Improvements 2015-2017 Cycle (income tax consequences of dividends) (effective 1 January 2019)
IAS 19	Employee Benefits - amendments regarding plan amendments, curtailment or settlements (effective 1 January 2019)
IAS 23	Borrowing costs - amendments resulting from Annual Improvements 2015-2017 Cycle (borrowing costs eligible for capitalisation) (effective 1 January 2019)
IFRS 9	Financial Instruments - amendments regarding prepayment features with negative compensation and modifications of financial liabilities (effective 1 January 2019)
IFRS 16	Leases - original issue (effective 1 January 2019)
IFRS 17	Insurance Contracts - original issue (effective 1 January 2021)
IFRIC 23	Uncertainty over Income Tax Treatments (effective 1 January 2019)

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.

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

31.2 Standards and Interpretations in issue but not yet effective (Continued)

IFRS 16 Leases (Continued)

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 financial statements.