FINCA ZAMBIA LIMITED

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2019

FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

The Company is licensed as a deposit taking 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.

SHAREHOLDING

FINCA Microfinance Cooperatief U.A incorporated and domiciled in Netherlands holds 99% shareholding, and FINCA International LLC incorporated and domiciled in Maryland - USA holds 1% shareholding.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

FINANCIAL RESULTS AND DIVIDENDS

The net loss for the year amounted to K21 896 268 (2018: K2 825 178)

No dividends were declared or paid to shareholders during the year ended.

The board of directors do not recommend the declaration of dividends for the year

As at 31 December 2019 FINCA's regulatory capital was below the minimum capital requirement by K9 886 430 (2018: K3 794 785). This position was regularised on 30th April 2020 through the conversion of K14 503 039 debt to equity.

SHARE CAPITAL

On 30th December 2019, the Company issued 3 513 324 Ordinary shares valued at K1 each (2018: K12 685 950). The total authorised share Capital is now K41 592 057 (2018: K38 078 733)

DIRECTORS

The Directors who held office during the year were:

Mike Gama-Lobo	Executive Director
Isaiah Chindumba	Non Executive Director
Collins Muyanja	Chairman - Non Executive Director
Lameck Zimba	Non Executive Director
Chana Flavia Musakanya	Non Executive Director (appointed on 8 May, 2019)
Jetty Lungu	Non Executive Director (appointed on 5 April, 2019)
Douglas Kamwendo	Executive Director (resigned on 8 August, 2019)

The total remuneration for the Directors in the year under review amounted to **K791 774** (2018: K426 900).

No Director had an interest in any significant contract entered into by the Bank during the year (2018: Nil).

EMPLOYEES

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

Month	2019	2018
January	**301**	301
February	**297**	293
March	**295**	293
April	**295**	297
May	**293**	294
June	**289**	304
July	**287**	300
August	**287**	306
September	**285**	308
October	**277**	306
November	**273**	301
December	**276**	298

The total remuneration paid to the employees and towards staff welfare during the year was **K54 415 949** (2018:K48 710 803).

PROPERTY AND EQUIPMENT

The additions to property and equipment during the year amounted to **K8 518 725** (2018: K12 004 447) comprising:

	2019	2018
	K	K
Capital work in progress	**1 840 998**	5 717 466
Furniture and fittings	**1 961 078**	2 645 911
Computer equipment	**4 219 713**	2 183 014
Leasehold improvements	**216 936**	1 458 056
Motor Vehicles	**280 000**	-
	8 518 725	12 004 447

Software cost of **K1 890 134** (2018: K231 842) was also acquired during the year.

SUBSEQUENT EVENTS

The business is exposed to macro-economic pressure arising from the poor economic performance, which has been exacerbated by the COVID-19 pandemic. This has resulted in loss of business for a number of our clients – leading to loss of revenue and rise in credit impairments. Management has responded to the crisis by completely restructuring the business model through (1) Review of Sector & Age lending risk appetite (with a focus on repeat business) to only return profitable credit scored facilities and avoid potential impairment losses to a large extent, (2) Realigning cost structure to projected revenues to ensure losses are minimised, (3) Consolidation of the business – deleveraging our Gross Loan Portfolio and generally sweating the balance sheet with a view to emerging stronger at the end of the year 2020.

GIFTS AND DONATIONS

The Company made no donations during the year (2018: Nil).

EXPORTS

The Company did not export any goods/services during the year (2018: Nil).

RESEARCH AND DEVELOPMENT

The Company did not carry out any research and development activities during the year (2018: 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 (2018: 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: 30/04/2020

FINCA ZAMBIA LIMITED

STATEMENT OF RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

Section 246 of the Companies Act, 2017 and the Banking 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 8 to 44 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, even despite the past losses and retained earnings deficit, we 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 strong business case and support from our Parent Company leading to injection of USD 250 000 equity in December 2019 and a further USD 800 000 as at 30 April 2020.

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 8 to 44, prepared by the Chief Financial Officer, a qualified Chartered Accountant, were approved by the Board of Directors on 30 April, 2020 and signed on its behalf by:

DIRECTOR

DATE: 30/4/2020

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 (the "Company") set out on pages 8 to 44, which comprise the statement of the financial position as at 31 December 2019, and the statement of the 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 2019, 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 sections 290 and 291 of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Revised July 2016), parts 1 and 3 of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2018) and other independence requirements applicable to performing audits of financial statements in Zambia. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 31 in the financial statements, which indicates that the Company incurred a loss of K21 896 268 (2018: loss of K2 825 178) during the year ended 31 December 2019 and deficit in reserves amounted to K20 926 091 (2018: deficit of K470 358) as at that date. Further to that, the entity is in breach of various debt covenant with lenders which implies these are now repayable on demand. These events or conditions, along with matters as set forth in Note 31 indicate that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern without continued financial support from the parent company. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in material uncertainity related to going concern section of our report, we have determined the matters described below to be key audit matters to be communicated in our report.

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.	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;

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matter
Impairment of loans and advances	
As at 31 December 2019, the gross loans and advances to customers were **K190 063 564** (2018: K212 904 984) against which an impairment provision of **K52 773 846 (2018: K18 899 110) was made**. This is disclosed in note 29 (Credit risk) and note 14 (Loans and Advances to Customers) 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 loss, 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 2.12 (Financial instruments) to the financial statements.	- 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.

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

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

- Identify and assess the risks of material misstatement of the 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 was in breach of the minimum capital requirement by K9,886,430 (2018: K3,794,785). This position was regularised on 30 April 2020 through the conversion of K14,503,039 debt to equity.

Deloitte & Touche

DELOITTE & TOUCHE

ANDREW NJOVU
PARTNER
PC NUMBER: AUD/F000802

DATE: 30 April 2020

FINCA ZAMBIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	NOTES	2019 K	2018 K
Interest income	4	**130 434 567**	99 907 423
Interest expense	5	**(43 626 209)**	(30 435 264)
Net interest income		**86 808 358**	69 472 159
Impairment charges for credit losses	14	**(44 957 793)**	(11 700 611)
Net interest income after impairment charges for credit losses		**41 850 565**	57 771 548
Fee and commission income	6	**26 010 834**	23 733 060
Other income	7	**6 078 079**	8 467 029
Grant income		-	735 073
Total other income		**6 078 079**	9 202 102
Total operating income		**73 939 478**	90 706 710
Operating expenses	8	**(101 016 141)**	(94 304 573)
Finance Cost	22	**(1 683 998)**	-
Loss before tax	9	**(28 760 661)**	(3 597 863)
Income tax credit	10	**6 864 393**	772 685
Total comprehensive loss for the year		**(21 896 268)**	(2 825 178)

There were no items of other comprehensive income for the year (2018: Nil).

STATEMENT OF FINANCIAL POSITION
at 31 December 2019

	NOTES	2019 K	2018 K
ASSETS			
Cash and cash equivalents	12	**34 745 969**	22 264 132
Prepayments and other receivables	13	**6 928 022**	9 492 112
Loans and advances to customers	14	**156 154 701**	209 932 694
Derivative financial assets	15	**16 679 364**	4 223 606
Deferred tax asset	11	**14 873 948**	2 420 643
Current tax asset	10	-	734 388
Property and equipment	16	**25 478 693**	20 530 320
Right of Use Assets	17	**7 903 907**	-
Intangible asset - software	18	**9 132 375**	9 090 914
Total assets		**271 896 979**	278 688 809
LIABILITIES			
Deposits from customers	19	**62 832 954**	78 685 114
Other financial liabilities	20	**29 603 669**	23 900 099
Amounts due to related parties	21	**50 548 109**	14 004 581
Current tax liability	10	**4 573 313**	-
Lease Liabilities	22	**9 197 656**	-
Borrowings	23	**94 475 312**	123 049 867
Total liabilities		**251 231 013**	239 639 661
EQUITY			
Share capital	24	**41 592 057**	38 078 733
General reserve	25	-	1 440 773
Deficit in reserves		**(20 926 091)**	(470 358)
Total equity		**20 665 966**	39 049 148
Total equity and liabilities		**271 896 979**	278 688 809

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 8 to 44 were approved by the Board of Directors and authorised for issue on 20 April 2020 and were signed on its behalf by:

DIRECTOR **DIRECTOR**

FINCA ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Issued capital	General reserves	Retained earnings deficit	Total
	K	K	K	K
Balance at 1 January 2018	**25 392 783**	**1 440 773**	**2 354 820**	**29 188 376**
Loss for the year	-	-	(2 825 178)	**(2 825 178)**
Issued shares	12 685 950	-	-	12 685 950
Balance at 31 December 2018	**38 078 733**	**1 440 773**	**(470 358)**	**39 049 148**
Balance at 1 January 2019	**38 078 733**	**1 440 773**	**(470 358)**	**39 049 148**
Loss for the year	-	-	(21 896 268)	**(21 896 268)**
Adjustment of prior's retained earnings	-	(238)		**(238)**
Transfer general reserves	-	(1 440 535)	1 440 535	-
Issued shares	3 513 324	-	-	**3 513 324**
Balance at 31 December 2019	**41 592 057**	**-**	**(20 926 091)**	**20 665 966**

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	NOTES	2019 K	2018 K
OPERATING ACTIVITIES			
Loss before tax		**(28 760 661)**	(3 597 863)
Adjusted for non cash items:			
Net foreign exchange loss	8,22,23	**1 182 163**	6 752 981
Depreciation and amortisation of non-current assets	16,17,18	**10 442 285**	5 120 367
Impairment loss recognised on loans and advances	14	**44 957 793**	11 700 611
Interest expense recognised in profit or loss	5	**42 524 951**	29 139 627
Finance cost recognised in profit or loss	22	**1 683 998**	-
Loss on disposal of assets		**98 614**	4 638
(Gains) losses from derivative financial instruments	15	**(8 315 947)**	2 057 360
Gains on forward exchange swap	7	**(4 139 811)**	(4 318 189)
Operating cash flows before changes in working funds		**59 673 385**	46 859 532
Decrease (increase) in prepayments and other receivables		**2 564 090**	(13 575 608)
Decrease (increase) in loans and advances to customers		**19 903 259**	(60 718 027)
Decrease in customer deposits		**(15 852 160)**	(786 256)
Increase in other financial liabilities		**5 703 570**	949 739
Increase (Decrease) in amounts due to related parties		**32 058 319**	(420 677)
Cash generated from (used in) operations		**104 050 463**	(27 691 298)
Income tax paid	10	**(281 210)**	(972 917)
Interest paid	5	**(43 364 896)**	(29 996 616)
Net cash generated from (used in) generated operating activities		**60 404 357**	(58 660 831)
INVESTING ACTIVITIES			
Purchase on property and equipment	16	**(8 518 725)**	(12 004 447)
Acquisition on intangible assets	18	**(1 890 134)**	(231 842)
Net cash used in investing activities		**(10 408 859)**	(12 236 289)
FINANCING ACTIVITIES			
Loans repaid	23	**(41 051 041)**	(14 593 038)
Proceeds from borrowings issued	23	**5 806 184**	86 853 160
Lease Payments	22	**(5 782 128)**	-
Proceeds from issued shares	24	**3 513 324**	12 685 950
Net cash generated (used) in operating activities		**(37 513 661)**	84 946 072
Net increase in cash and cash equivalents		**12 481 837**	14 048 952
Net cash and cash equivalents at beginning of the year		**22 264 132**	8 215 180
Net cash and cash equivalents at end of the year		**34 745 969**	22 264 132
CASH AND CASH EQUIVALENTS			
Bank and cash balances	12	**34 745 969**	22 264 132

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

The Company applied IFRS 16 retrospectively from 1 January 2019, using the modified retrospective approach. Comparatives, as permitted by IFRS 16, are not restated under this approach. There was no impact to opening retained earnings on adoption of IFRS 16. IFRS 16 replaces IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract being the lessee and the lessor.

The standard requires lessees to capitalise all significant lease arrangements on inception of the lease as right-of-use assets with corresponding finance lease liabilities on the statement of financial position. The Company has included the right-of-use assets within 'Right-of-use assets' on the statement of financial position. As at 1 January 2019, a right-of-use asset of K12 700 922 was recognised with a corresponding finance lease liability on the statement of financial position. The net impact to earnings for the year ended 31 December 2019 resulting from the difference between operating lease charges under IAS 17 and the IFRS 16 income statement expenses (deprecation and finance costs) is not significant. Operating lease charges will continue to be recognised for short-term leases and leases of low value items.

2.3 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.

The financials statements have been prepared on a going concern basis, despite significant losses made over the past two years which resulted from an extremely tough macro economic environment. Management has put in counter measures to both course correct and improve business performance, as explained in Note 31.

2.4 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.

2.4.1 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Interest income and expense (continued)

2.4.1 Effective interest rate (continued)

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.

2.4.2 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.

2.4.3 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.

2.5 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.

2.6 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.

2.7 Retirement benefits

2.7.1 Pension scheme

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

2.7.2 Contract employees

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

2.7.3 National Pension Scheme Authority

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Foreign currencies

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

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

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

2.8 Taxation

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

2.8.1 Current tax

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

2.8.2 Deferred tax

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

2.9 Property and equipment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Property and equipment (continued)

The estimated useful lives, residual values and depreciation method are reviewed at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis. Management has estimated the residual values of the property and equipment at 31 December 2019 to be insignificant.

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

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

2.10 Intangible assets

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

2.11 Impairment of tangible and intangible assets excluding goodwill

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

2.12 Financial 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 replaced IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Company adopted consequential amendments to IFRS 9 Financial Instruments: Disclosures that are applly for disclosures have 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.

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)

Business model assessment

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;

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.2 Financial Assets (Continued)

Business model assessment (continued)

- 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;
- 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:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.4 Impairment of financial assets (continued)

- 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.

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.

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.

<u>*Purchased or originated credit-impaired financial assets*</u>

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

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.

2.12.12 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.

3.1.2 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

	2019 K	2018 K
Arising on:		
Loans to customers	**128 392 064**	99 235 496
Loans to employees	**688 173**	589 225
	129 080 237	99 824 721
Cash and short term bank deposits	**1 354 330**	82 702
	130 434 567	99 907 423

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%** (2018: 7%), **6.8%** (2018: 6.8%), **5.6%**, **6%** and **10%** average per month respectively . Interest is accrued on a reducing balance basis.

5. INTEREST EXPENSE

	2019 K	2018 K
Arising on:		
Borrowings	**30 897 999**	20 600 627
Deposits due to customers	**11 626 952**	8 539 000
	42 524 951	29 139 627
Upfornt fees on borrowings	**1 101 258**	1 295 637
	43 626 209	30 435 264

Total interest paid on loans in the year was **K43 364 896** (2018: K29 996 616)

The weighted average capitalisation rate on funds borrowed generally is 16**%** per annum (2018:13% per annum).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

6. FEE AND COMMISSION INCOME

	2019 K	2018 K
Credit related fees	**16 148 522**	16 304 163
Arrangement and deposit fees	**5 437 203**	4 138 847
Account maintance fees	**1 373 084**	1 357 094
Insurance administration fee	**316 840**	147 509
Late penalty fees	**2 735 185**	1 785 447
	26 010 834	23 733 060

7. OTHER INCOME

	2019 K	2018 K
Gains on forward and exchange swap	**4 139 811**	4 318 189
Other operating income	**1 938 268**	4 148 840
	6 078 079	8 467 029

8. OPERATING EXPENSES

	2019 K	2018 K
Employee benefit expenses	**54 415 949**	48 710 803
Other operating and adminstration expenses	**34 964 557**	34 408 526
Depreciation and amortisation expense	**10 442 284**	5 120 367
Net foreign exchange losses realised/unrealised	**1 193 351**	6 064 877
	101 016 141	94 304 573

9. LOSS BEFORE TAX

	2019 K	2018 K
Loss before tax is stated after crediting:		
Cash and short term bank deposits	**1 354 330**	82 702
Gains on forward and exchange swap	**4 139 811**	4 318 189
Depreciation and amortisation	**10 442 285**	5 120 367
- Depreciation (note 16 and 17)	**8 593 612**	3 200 711
- Amortisation (note 18)	**1 848 673**	1 919 656
Key management remuneration	**7 128 098**	6 107 386
Net exchange losses	**1 193 351**	6 064 877
Directors' remuneration	**791 774**	426 900
Management fees	**6 596 869**	4 814 632
Pension contributions	**1 710 481**	1 441 042

10. TAXATION

	2019 K	2018 K
Income tax (credit) expense comprise :		
Current tax expense	**5 588 911**	67 743
Deferred tax (note 11)	**(12 453 305)**	(840 428)
	(6 864 393)	(772 685)
Total income tax credit		
Current tax (asset) liabilities		
Payable in respect of year	**5 588 911**	67 743
Payable in respect of previous year	**(734 388)**	170 786
	4 854 523	238 529
Income tax paid during the year	**(281 210)**	(972 917)
Current tax liability (asset)	**4 573 313**	(734 388)

Reconciliation of the tax charge:

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

	2019 K	2018 K
Loss before tax	**(28 760 661)**	(3 597 863)
Income tax calculated at 35% on accounting profit	**(10 066 231)**	(1 259 252)
Tax effect of permanent differences	**3 201 838**	486 567
Income tax credit	**(6 864 393)**	(772 685)

The tax rate used for the 2019 and 2018 reconciliations above is the income tax rate of 35% payable on taxable profits by companies locally.

11. DEFERRED TAX

	2019 K	2018 K
At beginning of year	**2 420 643**	428 724
Credited to profit or loss (note 10)	**12 453 305**	840 428
Credited to equity*	**-**	1 151 491
At end of year	**14 873 948**	2 420 643

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

	At beginning of year K	Charged to profit or loss K	Credited to Equity K	At end of year asset K
At 31 December 2019				
Temporary differences				
- Property and equipment	**(2 191 982)**	**(110 939)**	**-**	**(2 302 920)**
- Other timing differences	**4 612 625**	**12 564 243**	**-**	**17 176 868**
	2 420 643	**12 453 305**	**-**	**14 873 948**

	At beginning of year K	Charged to profit or loss K	Credited to Equity K	At end of year asset K
At 31 December 2018				
Temporary differences				
- Property and equipment	(1 884 315)	(307 667)	-	(2 191 982)
- Other timing differences	2 313 039	1 148 095	1 151 491	4 612 625
	428 724	840 428	1 151 491	2 420 643

12. CASH AND BANK

	2019 K	2018 K
Bank and cash balances		
Cash on hand balances	**1 844 666**	1 476 325
Kwacha bank accounts	**12 753 785**	8 290 660
US Dollar bank accounts	**20 147 518**	12 497 147
	34 745 969	22 264 132
Unrestricted cash	**34 675 186**	22 194 045
Restricted cash	**70 783**	70 087
	34 745 969	22 264 132

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

	2019 K	2018 K
Sundry receivables	**4 495 744**	6 199 662
Prepayments	**2 310 542**	2 879 042
Staff advances	**116 418**	
Loan repayments pending appropriation	**5 318**	413 408
	6 928 022	9 492 112

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

	2019 K	2018 K
At the beginning of the year	**209 932 694**	144 461 404
Advanced during the year	**217 865 565**	244 770 505
Interest accrued on loans	**2 938 161**	15 926 820
Impairment loss provision	**(52 773 844)**	(18 899 110)
Loans written back	**8 307 980**	2 997 414
Repayments during the year	**(230 115 855)**	(179 324 339)
	156 154 701	209 932 694

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2019 K	2018 K
Gross amounts receivable	**190 063 564**	212 904 984
Interest accrued on loans	**18 864 981**	15 926 820
Impairment charges for credit losses	**(52 773 844)**	(18 899 110)
	156 154 701	209 932 694

Maturity analysis:

	2019 K	2018 K
Amounts receivable within one year	**75 586 647**	91 513 467
Amounts receivable after one year	**80 568 054**	118 419 227
	156 154 701	209 932 694

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 **K52 773 844** (2018: K18 899 110). The impairment recognised represents the difference between the carrying amount of these loan receivables and present value of the proceeds expected to be recovered from these customers.

The movement on the loan loss provision is shown below:

	2019 K	2018 K
At 1 January	**18 899 110**	11 972 704
Charge for the year	**44 957 793**	11 700 611
Write offs	**(11 083 059)**	(4 774 205)
At 31 December	**52 773 844**	18 899 110

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

Balance as at 1 January 2019	**18 899 110**
Transfer to expected credit losses for loans to customers	33 874 734
Balance as at 31 December 2019	**52 773 844**

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%.

	2019 K	2018 K
Current	**142 465 422**	189 255 027
1 - 7 days	**1 042 652**	1 760 727
8 - 30 days	**8 737 421**	8 505 042
31 - 60 days	**4 478 278**	6 316 053
61 - 90 days	**4 334 458**	2 263 002
91 - 180 days	**13 075 520**	1 428 225
Over 180 days	**15 929 815**	3 376 908
	190 063 564	**212 904 984**

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 ASSETS

	2019 K	2018 K
Derivative financial assets arising from:		
Financial derivative at 1 January 2019	**4 223 606**	1 962 777
Gains on forward exchange swap	**4 139 811**	4 318 189
Gains (Losses) from derivative financial assets	**8 315 947**	(2 057 360)
Financial derivative at 31 December 2019	**16 679 364**	4 223 606

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 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**
At 1 January 2019	7 478 845	459 143	9 765 140	5 967 508	8 618 711	32 289 347
Additions	216 936	280 000	4 219 713	1 961 078	1 840 998	8 518 725
Transfers	-	-	-	-	-	-
Write off to profit or loss	-	-	-	-	(186 602)	(186 602)
Disposals	-	-	(63 328)	-	-	(63 328)
At 31 December 2019	**7 695 781**	**739 143**	**13 984 853**	**7 928 586**	**10 646 311**	**40 994 674**
DEPRECIATION						
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**
At 1 January 2019	2 712 586	241 860	6 001 311	2 803 271	-	11 759 027
Charge for year	762 045	93 304	1 972 389	968 858	-	3 796 597
Eliminated on Disposal	-	-	(39 643)	-	-	(39 643)
At 31 December 2019	**3 474 631**	**335 164**	**7 934 057**	**3 772 129**	-	**15 515 981**
Carrying amount						
At 31 December 2019	**4 221 150**	**403 979**	**6 050 796**	**4 156 457**	**10 646 311**	**25 478 693**
At 31 December 2018	4 766 259	217 283	3 763 830	3 164 237	8 618 711	20 530 320

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.

17. Right of use asset

The Company adopted IFRS 16 as from 1 January, 2019. The Company applied the modified restrospective approach, which requires the recognition of the cumulative effect of initially applying IFRS 16, as of 1 January, 2019, to the retained earnings and not restate prior years. When doing so, the Company also made use of the practical expedient to not recognise a right-of-use asset or a lease liability for leases for which the lease term ends within 12 months of the date of initial application

Cost	**2019**	**2018**
	K	**K**
At 1 January 2019	**12 700 922**	-
Additions	-	-
Modifications	-	-
Termination of lease	-	-
At 31 December 2019	**12 700 922**	-
Accumulated depreciation		
At 1 January 2019	-	
Charge for year	**4 797 015**	
Termination of lease	-	-
At 31 December 2019	**4 797 015**	-
At 31 December 2019	**7 903 907**	-

17.1 Amount recognised in profit or loss

Depreciation of right of use asset	**4 797 015**	-
Expenses relating to short term leases	-	-
	4 797 015	-

17.2 Amount recognised in the statement of cash flows

Total cash outflow for leases	**5 782 128**	-

The Company has 15 buildings, with an average of 2 years lease period.

18. INTANGIBLE ASSETS

	2019 K	2018 K
Cost		
At 1 January	**12 903 247**	19 833 156
Acquisitions	**1 890 134**	231 842
Write offs	**-**	(6 632 397)
Transfer	**-**	(529 354)
Balance at 31 December	**14 793 381**	12 903 247
Amortisation		
At 1 January	**3 812 333**	8 525 074
Amortisation for the year	**1 848 673**	1 919 656
Write back of amortisation	**-**	(6 632 397)
Balance at 31 December	**5 661 006**	3 812 333
Carrying amounts		
Balance at 31 December	**9 132 375**	9 090 914

Intangible assets consist of the carrying value of various software programs including the payroll system as well as the software for the Company's core banking system Orbit R.

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

19. DEPOSITS FROM CUSTOMERS

	2019 K	2018 K
Voluntary savings	**61 730 750**	78 604 078
Collateral savings deposits	**1 102 204**	81 036
	62 832 954	78 685 114

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

20. OTHER FINANCIAL LIABILITIES

Sundry and other payables	**7 482 382**	7 711 702
Gratuity and Leave Provisions	**11 245 834**	6 956 808
Deferred grant income	**8 521 434**	4 813 016
Deferred income	**2 054 948**	4 377 455
Amounts to due to local banks	**169 900**	-
Unearned interest income	**129 171**	40 278
Loan repayments pending appropriation	**-**	840
	29 603 669	23 900 099

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

21. RELATED PARTY TRANSACTIONS

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

The Company has balances arising from transactions with:

- FINCA Microfinance Holdings LLC (FMH), the company's parent company.
- FINCA Network Support Services B.V a company with common shareholders with holding company FINCA Micro Finance LLC ("FMH") and incorporated in Uganda.

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

	2019 K	2018 K
FINCA Network Support Services	**6 713 834**	4 526 211

21. RELATED PARTY TRANSACTIONS (CONTINUED)

Year end balances

(a) Amounts due to related parties

	2019 K	2018 K
Arising on:		
FINCA Network Support Services	**4 269 966**	1 958 545
FINCA Microfinance Holding Company LLC (FMH)	**14 053 300**	11 924 800
KFW - Subodinated Debt Principle	**29 511 930**	-
Accrued interest on Loans	**2 712 913**	121 236
Amounts falling due within one year	**50 548 109**	14 004 581

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

The outstanding balance of K14 053 300 comprises unsecured debt of $1 000 000 disbursed in June 2019 with interest rates of 6% for a tenure of 1 year.

The outstanding balance of K29 511 930 comprises unsecured debt of $2 000 000 disbursed in January 2019 with interest rates of 2.5% for a tenure of 5years.

(b) Compensation of key Management personnel

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

	2019 K	2018 K
Directors	**791 744**	426 900
Management	**7 128 098**	6 107 386

22 LEASE LIABILITY

	2019	2018
At beginning of the year	**12 318 099**	-
Finance cost	**1 683 998**	-
Lease repayments	**(5 782 128)**	-
Exchange loss on valuation of foreign denominated leases	**977 687**	-
Current liabilities	**6 047 694**	-
Non-current liabilities	**3 149 962**	-
Lease liabilities included in the statement of financial position as at 31 December 2019	**9 197 656**	-

The weighted average incremental borrowings applied to lease liabilities is 26.2% for leases in ZMW, and 10% for lease in USD

23 BORROWINGS

	2019 K	2018 K
At beginning of the year	**123 049 867**	48 521 973
Loans received	**5 806 184**	74 928 360
Repayments	**(41 051 041)**	(14 593 038)
Accrued interest on borrowings	**6 670 302**	7 439 591
Exchange loss (gain) on valuation of foreign denominated loans	-	6 752 981
At end of the year	**94 475 312**	123 049 867

All loans in USD are hedged and exchange losses/gains are accounted for under derivate in note 15

	2019 K	2018 K
Due to:		
Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF Symbiotics	**35 471 505**	49 717 260
Developing World Markets (DWM)	**23 380 911**	35 774 400
Grameen Credit Agricole MicroFinance Foundation	**9 599 669**	16 721 600
MCE Social Capital	**15 203 502**	14 924 800
Ecumenical Development Cooperative Society UA Oikocredit	**10 819 726**	5 911 807
	94 475 312	123 049 867
Less: amounts falling due within one year	**(79 271 810)**	(31 164 116)
Amounts falling due after one year	**15 203 502**	91 885 751

23. BORROWINGS (CONTINUED)

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

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

This is an outstanding balance comprises unsecured debt of K9 517 800 , K3 962 320 ,K6 191 640 and K14 000 000 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 K21 079 950 comprises unsecured debt of USD 500 000 and USD 1 000 000 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 USD 500 000 and 20.75% on the USD 1 000 000.

(iii) Grameen Crédit Agricole Microfinance Foundation

The outstanding balance of K9,000,000 comprises unsecured debt disbursed as K4 500 000 in August 2018 with interest rate of 28.06% and K4 500 000 in September 2018 with interest rate of 33.85% for a tenure of 34 months.

(v) MCE Social Capital

The outstanding balance of K14 053 300 comprises unsecured debt of USD 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 K10 000 000 disbursed in September 2019 at floating interest rate of 16.51% for a tenure of 2 years and is unsecured.

All loans with covenant breached have been classified as current as repayment can be called upon imminently, except MCE Social Capital with convent breach waiver valid until 31st January, 2020.

<table>
<tr><th>Lender</th><th>Principal & accrued interest</th><th>Covenant limit</th><th>Covenant actual value</th><th>Waiver received [Yes/No]</th></tr>
<tr><td>MCE Social Capital</td><td>15 203 502</td><td>PAR 30 <10%, CAR >15%, W/off Ratio <5%, Net Un-hedged FX <20%, OSS >95%, Risk Covr Ratio >60%</td><td>PAR 30 =25% CAR =21%, W/off Ratio =5%, Net Un-hedged FX =6%, OSS =86%, Risk Covr Ratio =107%</td><td>Yes</td></tr>
<tr><td rowspan="2">Developing World Markets</td><td>15 128 415</td><td rowspan="2">CAR >15%, ROA >0%, ROE >0%, PAR 30<9%, Liquidity >15%, Annual Writeoff Ratio <9%, Risk Covr Ratio >60%, OSS >70%, Open Loan Exposure <50%, Net Un-hedged FX [-25%< x <25%]</td><td rowspan="2">CAR =10.5%, ROA =7.4%, ROE =57.42%, PAR 30 =25.1%, Liquidity =15%, Annual Writeoff Ratio =8%, Risk Coverage Ratio =107%, OSS =84%, Open Loan Exposure =11%, Net Un-hedged FX =6%</td><td>No</td></tr>
<tr><td>8 252 496</td><td>No</td></tr>
<tr><td rowspan="4">Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF Symbiotics</td><td>4 071 284</td><td rowspan="4">PAR 30<15%, CAR >15%, Net Un-hedged FX [-50%< x <150%], Uncovered Capital Ratio <25%</td><td rowspan="4">PAR 30 =25.1%, CAR =21%, Net Un-hedged FX =6%, Uncovered Capital Ratio =14%</td><td>No</td></tr>
<tr><td>9 823 085</td><td>No</td></tr>
<tr><td>6 293 802</td><td>No</td></tr>
<tr><td>15 283 333</td><td>No</td></tr>
<tr><td>Ecumenical Development Cooperative Society UA - Oikocredit</td><td>10 819 726</td><td>CAR >15%, PAR 30 <8%, Debt to equity [not greater 8:1], OSS >100%</td><td>CAR =21%, PAR 30 =25.1%, Debt to equity =5.99, OSS =84%</td><td>No</td></tr>
<tr><td rowspan="2">Grameen Crédit Agricole Microfinance Foundation</td><td>4 794 648</td><td rowspan="2">ROA >0%, CAR >15%, PAR 30<15%, OCP [-20%>X>20%]</td><td rowspan="2">ROA =7.4%, CAR =21%, OCP =6%, PAR 30 =25.1%</td><td>No</td></tr>
<tr><td>4 805 021</td><td>No</td></tr>
</table>

24. ISSUED CAPITAL

	2019 K	2018 K
Authorised, issued and fully paid:		
At beginning of the year	**38 078 733**	25 392 783
12 685 950 ordinary shares of K1 each	**3 513 324**	12 685 950
At end of the year	**41 592 057**	38 078 733

On 30 December 2019, the Company issued 3 513 324 Ordinary shares valued at K1 each (2018: 12 685 950).

25. 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.

	2019 K	2018 K
At beginning of the year	**1 440 773**	1 440 773
Transfer to retained earnings	**(1 440 773)**	-
At end of the year	**-**	1 440 773

26. CAPITAL COMMITMENTS

There were no capital commitments as at 31 December 2019 and 2018.

27. CONTINGENT LIABILITIES

There following are cases giving rise to contingent liabilities as at 31 December 2019.

1. Plaintiff has sued the Company for wrong listing on the credit reference bureau. Orders for Directions have been issued by the Court and compliance with the same is ongoing. Trial date is yet to be set. Probability in favor of FINCA is 50%, and value of claim is K100 000

2. The employee has sued FINCA in the High Court alleging unlawful and unfair dismissal and claiming payment of unpaid salary for period during his suspension; damages for breach of contract, defamation and malicious prosecution. Trial is on-going and matter comes up for hearing in February, 2020. Probability in favor of FINCA is 50% and value of claim is ZMW 30,990

3. The employee has sued FINCA in the High Court alleging unlawful and/or unfair dismissal .Trial concluded and awaiting delivery of judgment. Probability in favor of FINCA is 50%, and value of claim is ZMW 54,000

4. FINCA paid K843 631 in provisional tax out of the total liability of K5 588 911 (after audit adjustment) representing a 15% of the total liability. The Income Tax Act requires that by the third quarter of the respective charge year, at least two thirds (66.67%) should be paid in provisional taxes. Failure to which, a penalty of 25% of the underpaid amount is charged and should be paid to the Zambia Revenue Authority ("ZRA"). FINCA is therefore exposed to a potential estimated penalty of K720 577 for underpayment of provisional taxes.

28. EVENTS AFTER THE REPORTING DATE

The business is exposed to Macro-economic fundamentals which are indicating an economic slowdown heightened by COVID-19 issue which are undoubtedly expected to adversely affect the business going forward. Management's response to this has trigger a business restructure and the following strategies have been implemented in 2020; (1) Sector & Age lending risk appetite (with a focus on repeat business) to only return profitable credit scored facilities and avoid potential impairment losses to a large extent, (2) Realigning our cost structure to projected revenues to ensure losses are minimised, (3) Consolidation of the business - deleveraging our GLP and generally sweating the balance sheet with a view to emerging stronger at the end of the year 2020.

29. 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	**2019** **K**	2018 K
The gearing ratio at the year end was as follows:		
Debt (i)	**108 528 612**	127 535 076
Less: Cash and cash equivalents	**(34 745 969)**	(22 264 132)
Net debt	**73 782 643**	105 270 944
Equity (ii)	**20 665 966**	39 049 148
Net debt to equity ratio	**357%**	270%

The industry average is 200%.

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

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

Significant accounting policies

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

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

- To comply with the capital requirements set by the Bank of Zambia;
- 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;
- 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;
- To maintain a strong capital base to support the development of its business.

29. 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 %	Balance (net of allowance for losses) K	Risk-weighted assets (1 x 2) K
	ASSETS			
1	**Notes and coin**		**1 931 460**	-
2	- Domestic	0.0%	1 931 460	-
3	- Foreign	0.0%	0.0%	-
4	**Balances held with commercial banks:**		**32 850 951**	-
5	a) Domestic		32 814 509	-
6	- with residual maturity of up to 12 months	20.0%	32 814 509	6 562 902
7	- with residual maturity of more than 12 months	100.0%	-	-
8	b) Foreign		-	-
9	- with residual maturity of up to 12 months	20.0%	-	-
10	- with residual maturity of more than 12 months	100.0%	-	-
11	**Assets in transit**		-	-
12	- From other commercial banks	50.0%	-	-
13	- From branches of reporting financial service provider	20.0%	-	-
14	**Investment in debt securities**		-	-
15	- Treasury bills	0.0%	-	-
16	- Other government securities	20.0%	-	-
17	- Issued by Local Government Units	100.0%	-	-
18	- Private securities	100.0%	-	-
19	**Bills of Exchange**		-	-
20	- Portion secured by cash or treasury bills	0.0%	-	-
21	- Others	100.0%	-	-
22	**Loans and advances**		**156 154 701**	**156 154 701**
23	- Portion secured by cash or treasury bills	0.0%	-	-
24	- Loans repayable in instalments and secured by a mortgage on owner-occupied residential property	50.0%	76 515 803	38 257 902
25	**- Others**	100.0%	79 638 898	79 638 898
26	Premises of Institution	*100.0%*	-	-
27	Acceptances	*100.0%*	-	-
28	**Other assets**	*100.0%*	80 959 867	80 959 867
29	**Investment in equity of other companies**	*100.0%*	-	-
30	**TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)**		**271 896 979**	**205 419 568**

	OFF BALANCE SHEET OBLIGATIONS	Risk weight % (2)	Balance (net of allowance for losses) (3) K	Risk-weighted assets (1 x 2 x 3) K
	Letters of credit			
31	- sight import letters of credit	20%	-	-
32	- portion secured by Cash/Treasury bills	0%	-	-
33	- standby letters of credit	100%	-	-
34	- portion secured by Cash/Treasury bills	0%	-	-
35	- export letters of credit confirmed	20%	-	-
36	- Guarantees and indemnities			-
37	- guarantees for loans, trade and securities	100%	-	-
38	- portion secured by Cash/Treasury bills	0%	-	-
39	- performance bonds	50%	-	-
40	- portion secured by Cash/Treasury bills	0%	-	-
41	- securities purchased under resale agreement	100%	-	-
42	- other contingent liabilities	100%	-	-
43	- net open position in foreign currencies	100%	-	-
	TOTAL RISK-WEIGHTED ASSETS (off balance sheet)		-	-
	TOTAL RISK-WEIGHTED ASSETS (on and off-balance sheet)		**271 896 979**	**205 419 568**

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Significant accounting policies (Continued)

Computation of capital position	31 December 2019 K	31 December 2018 K
PRIMARY (TIER 1) CAPITAL ADDITIONS:		
(a) Paid-up common shares	**41 592 057**	38 078 733
(b) Eligible preferred shares	-	-
(c) Capital grants (Share premium)	-	-
(d) Retained earnings	**(20 926 091)**	(470 358)
(e) Non distributive reserves	-	1 440 773
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total	**20 665 966**	39 049 148
SUBTRACTIONS:		
(i) Goodwill and other intangible assets	(9 132 375)	(9 090 914)
(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)	(9 132 375)	(9 090 914)
OTHER ADJUSTMENTS:		
Provisions*	(1 070 339)	(1 605 508)
Assets of little or no realizable value (note 3)	-	-
Other adjustments (specify)	-	-
Sub-total (Other adjustments)	-	-
(n) Total Subtractions (B): (Sub-total A above+Other adjustments)	-	-
(o) TOTAL PRIMARY CAPITAL (h - n)	**10 463 253**	28 352 726
SECONDARY (TIER 2) CAPITAL		
(a) Eligible preferred shares		
(b) Eligible subordinated term debt (note 25)	10 463 253	-
(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)	**20 926 505**	28 352 726
MINIMUM TOTAL CAPITAL REQUIREMENT:	**30 812 935**	**32 147 511**
(15% of total on and off balance sheet risk-weighted assets as established in the first schedule)		
CAPITAL ADEQUACY (I + III - IV)	**(9 886 430)**	**(3 794 785)**

As at 31 December 2019 FINCA's regulatory capital was below the minimum capital requirement by **K9 886 430** (2018: K3 794 785). This position was regularised on 30th April 2020 through the conversion of **K14 503 039** debt to equity.

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

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Significant accounting policies (Continued)

Interest rate risk management

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

Credit risk management

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

Liquidity risk management

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

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

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
- 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).

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

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.

"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.

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

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.

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 2019 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 2019

	GDP 50%	No change	GDP -17%
Impairment on loan portfolio	**K**	**K**	**K**
Small	2 576 276	2 789 418	2 874 228
Medium	-	-	-
Large	48 834 217	49 984 426	49 906 650
Total impairment on loan portfolio	**51 410 493**	**52 773 844**	**52 780 878**
Other financial instruments			
Cash and cash equivalents	-	**20 431**	-
Total impairment charges on credit losses	**51 410 493**	**52 794 275**	**52 780 878**

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.

29. 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 2019

	Stage 1 K	Stage 2 K	Stage 3 K	Total K
SMALL				
Gross Carrying amount				
Current	13 793 927	342	7 594	13 801 863
Past due 1-30 days	29 443	531 546	-	560 989
Past due 31-60 days	-	247 170	-	247 170
Past due 61-90 days	-	263 268	1 712	264 980
Past due more than 90 days	-	-	2 156 294	2 156 294
Total	**13 823 370**	**1 042 326**	**2 165 600**	**17 031 296**
Loss Allowance				
For on-balance sheet exposure	(666 825)	(314 597)	(1 807 996)	(2 789 418)
For off-balance sheet exposure	-	-	-	-
Net Small Loans Portfolio	**13 156 545**	**727 729**	**357 604**	**14 241 878**
LARGE				
Gross Carrying amount				
Current	120 876 051	4 600 386	7 718 437	133 194 874
Past due 1-30 days	77 092	6 683 180	3 157 991	9 918 263
Past due 31-60 days	-	2 726 793	3 204 935	5 931 728
Past due 61-90 days	-	2 368 888	3 716 066	6 084 954
Past due more than 90 days	-	-	36 787 919	36 787 919
Total gross carrying amount	**120 953 143**	**16 379 247**	**54 585 348**	**191 917 738**
Loss Allowance				
For on-balance sheet exposure	(5 423 056)	(4 013 626)	(40 568 234)	(50 004 915)
For off-balance sheet exposure	-	-	-	-
Net Large Loans Portfolio	**115 530 087**	**12 365 621**	**14 017 114**	**141 912 823**
Total net loan portfolio	**128 686 632**	**13 093 350**	**14 374 718**	**156 154 701**
Other financial instruments				
Cash and cash equivalents	**34 766 400**	**-**	**-**	**34 766 400**

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 gross carrying amount	**10 533 829**	**911 186**	**2 585 302**	**14 030 317**
Loss Allowance				
For on-balance sheet exposure	(273 852)	(153 157)	(2 328 617)	(2 755 626)
For off-balance sheet exposure	-	-	-	-
Total loss allowance	**10 259 978**	**758 029**	**256 685**	**11 274 691**

29. 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	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	-	9 981 079	926 820	10 907 899
Past due 61-90 days	-	9 350 151	55 789	9 405 940
Past due more than 90 days	-	-	13 367 960	13 367 960
Total gross carrying amount	**127 380 210**	**72 929 887**	**14 491 389**	**214 801 486**
Loss Allowance				
For on-balance sheet exposure	(3 381 900)	(5 897 489)	(6 864 095)	(16 143 483)
For off-balance sheet exposure	-	-	-	-
Total loss allowance	**123 998 310**	**67 032 397**	**7 627 294**	**198 658 003**
Total net loan portfolio	**134 258 288**	**67 790 426**	**7 883 979**	**209 932 694**
Other financial instruments				
Gross carrying amount				
Cash and cash equivalents	22 293 064	-	-	22 293 064
Loss Allowance				
For on-balance sheet exposure	(28 932)	-	-	(28 932)
For off-balance sheet exposure	-	-	-	-
Total	**22 264 132**	**-**	**-**	**22 264 132**

During the years ended 31 December 2019 and 2018, 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 2019

	Gross Carrying Amount K	Loss Allowance K	Amortized Cost K	Fair Value of Collateral K
Loan portfolio in default (Stage 3)				
Small	2 165 599	(1 807 996)	357 603	-
Medium	-	-	-	-
Large	52 391 070	(40 568 234)	11 822 836	-
Total	**54 556 669**	**(9 192 712)**	**12 180 439**	**-**

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**	**-**

29. 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 2019

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance as of 1 January 2019	13 440 911	3 143 499	2 237 027	18 821 437
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)**	**2 009 289**	**3 859 242**	**-**
New financial instrument originated or purchased	29 461 691	5 446	-	29 467 137
Repayment of principal amount	(26 053 773)	(4 118 052)	(954 359)	(31 126 184)
Changes in interest accrual	716 982	118 180	913 669	1 748 831
Modification of contractual cash flows of financial instruments				
Derecognition during the period	(112 504)	(23 245)	-	
Write-offs	-	-	(3 308 939)	(3 308 939)
Loss Allowance as of 31 December 2019	**11 584 776**	**1 135 117**	**2 746 640**	**15 602 282**

LARGE	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance as of 1 January 2019				
Transfer from Stage 1 to Stage 2	(5 262 269)	5 262 269	-	-
Transfer from Stage 2 to Stage 1	795 770	(795 770)	-	-
Transfer from Stage 2 to Stage 3	-	(2 345 640)	2 345 640	-
Transfer from Stage 3 to Stage 2	-	6 968	(6 968)	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	**(4 466 499)**	**2 127 827**	**2 338 672**	**-**
New financial instrument originated or purchased	40 223 100	9 006	10 611 020	50 843 126
Repayment of principal amount	(32 952 664)	(2 141 002)	(366 168)	(35 459 834)
Changes in interest accrual	(148 501)	135 309	(10 071 970)	(10 085 162)
Modification of contractual cash flows of financial instruments	-	-	-	
Derecognition during the period	(27 072)	-	-	
Write-offs	-	-	(2 907 368)	(2 907 368)
Loss Allowance as of 31 December 2019	**2 628 364**	**131 140**	**(395 814)**	**2 390 762**
Total loss allowance as of 31 December	**14 213 140**	**1 266 257**	**2 350 826**	**17 993 044**

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	13 440 911	3 143 499	2 237 027	18 821 437
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)**	**2 009 289**	**3 859 242**	**-**

29. 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)	(31 809 793)
Changes in interest accrual	703 199	96 607	857 596	1 657 402
Derecognition during the period	-	-	-	-
Write-offs	(112 504)	(23 245)	(3 308 939)	(3 444 688)
Gross carrying amount as of 31 December 2018	**11 195 006**	**911 187**	**2 585 302**	**14 691 495**
LARGE				
Gross carrying amount as of 1 January 2018	92 863 849	43 219 828	6 512 190	142 595 867
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)**	**25 785 451**	**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)	(2 882 194)	(145 827 247)
Changes in interest accrual	10 252 714	423 744	1 013 653	11 690 111
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	**135 436 716**	**65 632 607**	**8 573 487**	**209 932 694**

29. 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 2018

	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	22 264 132	-	-	-	22 264 132
Other receivables	2 879 042	6 199 662	413 408	-	9 492 112
Derivative financial assets	-	-	4 223 606	-	4 223 606
Loans and receivables	17 173 180	7 926 670	55 834 820	128 998 024	209 932 694
Total assets	**42 316 354**	**14 126 332**	**60 471 834**	**128 998 024**	**245 912 544**
Liabilities					
Deposits from customers	28 258 209	8 195 171	42 231 733	-	78 685 114
Other financial liabilities	6 021 173	-	17 878 926	-	23 900 099
Amounts due to related parties	-	-	14 004 581	-	14 004 581
Borrowings	11 831 100	4 439 035	5 012 000	101 767 732	123 049 867
Total liabilities	**46 110 482**	**12 634 206**	**79 127 240**	**101 767 732**	**239 639 661**

Year ended 31 December 2019

	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	34 745 969	-	-	-	34 745 969
Other receivables	2 432 278	4 495 744	-	-	6 928 022
Derivative financial assets	-	-	16 679 364	-	16 679 364
Loans and receivables	43 988 849	27 473 527	45 335 890	39 356 435	156 154 701
Total assets	**81 167 096**	**31 969 271**	**62 015 254**	**39 356 435**	**214 508 056**
Liabilities					
Deposits from customers	12 406 050	8 195 171	42 231 733	-	62 832 954
Other financial liabilities	1 575 234	18 830 775	3 149 963	6 047 697	29 603 669
Amounts due to related parties	-	21 036 179	-	29 511 930	50 548 109
Borrowings	-	79 271 810	-	15 203 502	94 475 312
Total liabilities	**13 981 284**	**127 333 935**	**45 381 696**	**50 763 129**	**237 460 044**

29. 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 2019:

Amount		Scenario 1 10% increase in variable interest rates	Scenario 2 10% decrease in variable interest rates
	K	K	K
Loss before tax	(28 760 661)	(33 123 281)	(25 717 134)

Assuming no management action, a rise would decrease net interest income for 2019 by **K4,531,020** (2018: K3,043,525), 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 2019.

		Scenario 1 variable Foreign	Scenario 1 variable Foreign
	K	K	K
Loss before tax	(28 760 661)	(28 641 326)	(28 879 996)

Assuming no management action, a rise would decrease net income for 2019 by K119,335 (2018:K703,772), while a fall would increase net interest income by the same amount.

30. 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.

	2019		2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets	**K**	**K**	K	K
Loans and receivables:				
- other receivables	**6 928 022**	**6 928 022**	9 492 112	9 492 112
- loans and receivables	**156 154 701**	**145 223 872**	209 932 694	209 932 694
- Derivative financial assets				
	16 679 364	**16 679 364**	4 223 606	4 223 606
Total	**179 762 087**	**168 831 258**	223 648 412	223 648 412

30. 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)

	2019		2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial liabilities	**K**	**K**	K	K
Financial liabilities held at amortised cost:				
- deposits from customers	**62 832 954**	**70 372 908**	78 685 114	78 685 114
- other financial liabilities	**29 603 669**	**29 603 669**	23 900 099	23 900 099
- amounts due to related parties	**50 548 109**	**51 862 360**	14 004 581	14 004 581
- borrowings	**94 475 312**	**115 259 881**	123 049 867	123 049 867
Total	**237 460 044**	**267 098 818**	239 639 661	239 639 661

	Fair value hierarchy as at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets	**K**	**K**	K	K
Loans and receivables:				
- other receivables	-	-	6 928 022	6 928 022
- loans and receivables	-	156 154 701	-	156 154 701
- Derivative financial assets	16 679 364	-	-	16 679 364
Total	**16 679 364**	**156 154 701**	**6 928 022**	**179 762 087**
Financial liabilities				
Financial liabilities held at amortised cost:				
- deposits from customers	-	62 832 954	-	62 832 954
- other financial liabilities	-	-	29 603 669	29 603 669
- borrowings	-	94 475 312	-	94 475 312
Total	**-**	**157 308 266**	**29 603 669**	**186 911 935**

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.

31. GOING CONCERN

The financial statements have been prepared on a going concern basis. This basis presumes that sufficient funds will continue to be available to finance the operations of the Company and that the realisation of assets and settlement of liabilities, including any contingent obligations and commitments will occur in the ordinary course of the business. This basis remains appropriate despite the Company having continued to incur losses from prior year as well as forecasted losses for 2020 of K13 million. The losses have significantly increased from K 2 825 178 in prior year to K 21 896 268 and the deficit in reserves increased to K20 926 021 as at 31 December 2019. The poor performance was on account of significant impairments of K 44 957 793 that were charged to the statement of profit or loss in the year ended 31 December 2019 and consequently this resulted in breaches in debt covenants which implied that the loans amounting to K79 271 810 are now repayable on demand.

The Directors have made an assessment of the ability of the Company to continue as a going concern and believe that the business will remain a going concern for at least twelve (12) months from the date of the report of the financial statements. This assessment is backed by a strong business case which includes financial support from the parent company which led to an equity injection of USD 250 000 in December 2019 and a further USD 800 000 conversion of parent company debt to equity in April 2020.

Other significant issues impacting the business are the current breaches of various debt covenants with lenders, which implies that these loans of K79 271 810 are now repayable on demand. As at the date of this report on the financial statements, loans that matured have been settled amounting to K 33 358 683 and the balance outstanding was K 45 913 157.

Based on the 2020 forecasts management have projected a loss of K 13 million for the year ended 31 December 2020, and a net decrease in cash flows of K77 million. This is mainly driven by slower issue of loans, repayment of all maturing lender obligations with no new debt being contracted. The Company has embarked on a business restructure to help sustain the Company with actions planned around cost optimisation such reducing the workforce, reducing the number of branches, relocation of head office premises and the postponement of capital expenditure to reduce costs. As at the date of this report 25% of the workforce have been paid separation costs amounting to K7.2 million, net of taxes.

32. New Standards and Interpretations

In the current year, the Company has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ('IASB") and the International Financial Reporting Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2019.

32.1 New and revised Standards and Interpretations with effect to the disclosure to the financial statements

General impact of application of IFRS 16

In the current year, the Company, for the first time, has applied IFRS 16 Leases (as issued by the IASB in January 2016), that is effective for the annual periods that begin on or after 1 January 2019

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 1.8. The impact of the adoption of IFRS 16 on the Company's financial statements is described in note 30.

The Company has applied IFRS 16 using the modified retrospective approach in which the cumulative effect of initial application is recognised in retained earnings at 01 January 2019 anf therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4

32.2 New and revised Standards and Interpretations that ae effective and adopted in the current year

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

IAS 12	Income Taxes - amendments resulting from Annual Improvements 2015-2019 Cycle (income tax consequences of dividends)
IAS 19	Employee Benefits - amendments regarding plan amendments, curtailments or
IAS 23	Borrowing costs - amendments resulting from Annual Improvements 2015-2017 Cycle (borrowing costs eligible for capitalisation)
IFRS 9	Financial Instruments - amendments regarding prepayment features with negative compensation and modification of financial liabilities
IFRS 16	Leases - original issue
IFRIC 23	Uncertainity over Income Tax Treatments

32.3 Standards and Interpretations in issue but not yet effective

At the date of authorization 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 1	Presentation of Financial Statements - (effective 1 January 2020) amendments regarding the classification of liabilities (effective 1 January 2020)
IAS 8	Accounting policies, Changes in Accounting Estimates and Errors - amendments regarding the definition of material (effective 1 January 2020)
IFRS 7	Financial Instruments - amendments regarding pre-replacement issues in the context of the IBOR reform (effective 1 January 2020)
IFRS 9	Financial Instruments - amendments regarding prepayment features with negative compensation and modification of financial liabilities (effective 1 January 2020)
IFRS 17	Insurance Contracts - original issue (effective 1 January 2021)