

FINCA Zambia Limited

**Report and financial statements
for the year ended 31 December 2023**

FINCA ZAMBIA LIMITED
(Incorporated in Zambia)

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

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FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2023

The Directors present their report together with the audited financial statements for the year ended 31 December 2023.

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 in the United States of America (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 profit for the year amounted to K9,437,149 (2022: Profit of K8,690,257). No dividends were declared or paid to shareholders during the year (2022: nil). The Board of Directors do not recommend the declaration of dividends for the year.

As at 31 December 2023 FINCA's regulatory capital was above the minimum capital requirement by K19,055,116 (2022: Above by K13,715,402). During the year 2023 there was no equity injection.

SHARE CAPITAL

In the year 2023, the Company did not issue any Ordinary shares (2022: Nil). The total authorised share capital is K123,771,209 (2022: K123,771,209).

DIRECTORS

The Directors who held office during the year and to the date of this report were:

Collins Muyanja	Non Executive Director - Chairman
Chana Flavia Musakanya	Non Executive Director (appointed on 8 May, 2019)
Danny Luswili	Non Executive Director (appointed on 26 October, 2020)
Frank Gamble	Non Executive Director (appointed on 24 June, 2020)
Chris P Kizza	Executive Director (appointed CEO on 8 January, 2021)
Keith Sandblom	Executive Director (appointed on 20 October 2023)
Teresa Maru Munlo	Non Executive Director (appointed on 7 November 2023)
Harriet Wikinson	Non Executive Director (appointed on 7 November 2023)

The total remuneration for the Directors in the year under review amounted to K1,429,263 (2022: K1,176,167). No Director had an interest in any significant contract entered into by the company during the year (2022: Nil).

FINCA ZAMBIA LIMITED**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2023****SECRETARY**

The Company Secretary and registered address are:

Sonia Chimuka Mulomba

FINCA Zambia Limited

Corner of Great East/Thabo Mbeki Road

Acacia Park, Arcades

Lusaka

EMPLOYEES

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

Month	2023	2022
January	131	125
February	128	126
March	130	129
April	133	126
May	135	120
June	134	124
July	133	123
August	134	124
September	131	127
October	135	131
November	135	129
December	131	131

The total remuneration paid to the employees and towards staff welfare during the year was K37,928,457 (2022:K29,390,874).

PROPERTY AND EQUIPMENT

The additions to property and equipment during the year amounted to K626,836 (2022: K2,345,588) comprising:

	2023	2022
	K	K
Capital work in progress	220,276	1,652,254
Furniture and fittings	66,500	217,239
Computer equipment	170,659	334,142
Improvements to building	<u>169,401</u>	<u>88,786</u>
	<u><u>626,836</u></u>	<u><u>2,345,588</u></u>

No Software was acquired during the year (2022: Nil).

FINCA ZAMBIA LIMITED**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2023****GIFTS AND DONATIONS**

The Company made no donations during the year (2022: Nil).

EXPORTS

The Company did not export any goods or services during the year (2022: Nil).

RESEARCH AND DEVELOPMENT

The Company did not carry out any research and development activities during the year (2022: 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 (2022: 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.

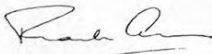
CLIMATE CHANGE

Management is in the process of assessing the impact of climate change on the Company and its investments. They will also assess whether there are measures that can put in place to minimise the impact of the Company's activities on climate change

AUDITORS

The term of office for Grant Thornton 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



Director

Date: 27 March 2024

FINCA ZAMBIA LIMITED

4.

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

Section 246 of the Companies Act, 2017 and section 88 of the Banking and Financial Services Act, 2017 require 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 adheres 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 and the Banking and Financial Services 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 10 to 66 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, the Companies Act, 2017 and the Banking and Financial Services 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 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 pages 10 to 66, were approved by the Board of Directors on 27 March 2024 and signed on its behalf by:


DIRECTOR
DIRECTOR



Grant Thornton

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2nd Floor, West wing
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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 financial statements of FINCA Zambia Limited, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of FINCA Zambia Limited as of 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zambia, and 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.

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.

Partners

Edgar Hamuwele (Managing)
Christopher Mulenga
Wesley Beene
Rodia Milumbe Musonda
Chilala Banda

Audit • Tax • Advisory

Chartered Accountants

Zambian Member of Grant Thornton International

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FINCA ZAMBIA LIMITED (CONTINUED)

Key Audit Matters (continued)

<p>Classification, measurement and impairment of financial assets</p> <p>The company classified, measured and assessed impairment of the company's assets in accordance with IFRS 9 "financial instruments".</p> <p>The Directors are required to review the classifications of assets and align the classifications to the requirements of the reporting standards. The Directors also reviewed the fair valuations and impairment models.</p> <p>Due to the complex and subjective judgements required in estimating the timing and valuation of impairment and in estimating the fair value of assets, this was considered a key audit matter.</p>	<p>We reviewed the classification of the financial assets to ensure compliance with the reporting standards.</p> <p>We reviewed and assessed the reasonableness of the assumptions used.</p> <p>We reviewed the valuation and verified the calculation of the fair values. We also verified the inputs used in the valuations.</p> <p>In considering the reasonableness of the impairment provision, we reviewed the assumptions used in impairment calculations.</p> <p>Based on the procedures performed, we are satisfied that the impairment provision is reasonable and the financial assets were properly classified and valued.</p>
<p>Accounting for derivatives</p> <p>The company adopted hedge accounting as part of its foreign exchange rate exposure risk management and has applied the requirements of IFRS 9 "financial instruments".</p> <p>The Directors are required to review whether the hedged cash flows are highly probable as required by the standard; whether all amounts that require to have been moved to profit or loss; and whether there is any hedge ineffectiveness that should now be recognized in profit or loss.</p> <p>Due to the complex and subjective judgements required in estimating the timing and probability of the cashflows, this was considered a key audit matter.</p>	<p>We reviewed the classification of the financial assets to ensure compliance with the reporting standards.</p> <p>We reviewed the workings and verified the calculation of the derivative financial assets values. We also verified the inputs used in the calculations.</p> <p>In considering the reasonableness of the values, we reviewed the assumptions used in the calculation of the value of the assets.</p> <p>Based on the procedures performed, we are satisfied that the derivative financial assets are properly classified and valued.</p>

Other information

The Directors are responsible for the other information. The other information comprises the Report of the Directors as required by the Companies Act, 2017 which we obtained prior to the date of this auditor's report. The other information does not include the 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 any form of assurance or conclusion thereon.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FINCA ZAMBIA LIMITED (CONTINUED)

Other information (continued)

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 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 annual financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Banking and Financial Services Act, 2017 and the Companies Act, 2017, and for such internal control as the Directors determine is necessary to enable the preparation of the 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 management.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FINCA ZAMBIA LIMITED (CONTINUED)

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

- Conclude on appropriateness of management's 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required in Section 259 (3) of the Companies Act 2017, we consider and report to you that:

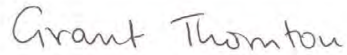
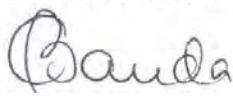
- There is no relationship, interest or debt which we have, as the Auditors, with the Company; and
- There are no serious breaches of corporate governance principles or practices by the directors.

In accordance with the requirements of the Banking and Financial Services Act. 2017, we report that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- There were no transactions that were not within the powers of the Company or which was contrary to the Act;
- The Company has complied with the provisions of this Act and the regulations, guidelines and prescriptions under this Act, and

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF
FINCA ZAMBIA LIMITED (CONTINUED)****Report on other legal and regulatory requirements (continued)**

- There are no transactions or conditions affecting the wellbeing of the Company which have come to our attention that in our opinion are not satisfactory and require rectification.

**Chartered Accountants**

Chilala Banda (AUD/F004257)
Name of Partner signing on behalf of the Firm

Lusaka

Date: 27 March 2024

FINCA ZAMBIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023


	Note	2023 K	2022 K
Interest income	4	84,479,897	64,124,210
Interest expense	5	<u>(24,414,435)</u>	<u>(15,957,431)</u>
Net interest income		60,065,462	48,166,779
Impairment charges for credit losses	14	<u>(7,495,831)</u>	<u>(4,817,715)</u>
Net interest income after impairment charges for credit losses		<u>52,569,631</u>	<u>43,349,064</u>
Fee and commission income	6	21,707,291	17,825,546
Other income	7(a)	13,085,451	8,249,226
Grant income	7(b)	<u>2,910,710</u>	<u>4,795,542</u>
Total other income		<u>15,996,161</u>	<u>13,044,768</u>
Total operating income		90,273,083	74,219,378
Operating expenses	8	(80,120,457)	(65,015,647)
Finance cost	22	<u>(715,477)</u>	<u>(513,474)</u>
Profit before tax	9	9,437,149	8,690,257
Income tax expense	10(a)	<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>9,437,149</u>	<u>8,690,257</u>

FINCA ZAMBIA LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	Note	2023 K	2022 K
ASSETS			
Cash and cash equivalents	12	39,178,889	17,118,421
Prepayments and other receivables	13	14,661,809	6,748,835
Amounts due from related parties	21(b)	924,674	672,077
Loans and advances to customers	14	157,209,239	118,040,243
Derivative financial assets	15	15,047,748	7,193,572
Property and equipment	16	12,276,908	20,383,541
Current tax asset	10(b)	357,363	361,288
Right of use assets	17	2,763,336	3,989,111
Intangible asset	18	<u>2,361,190</u>	<u>3,881,756</u>
Total assets		<u>244,781,156</u>	<u>178,388,844</u>
LIABILITIES			
Deposits from customers	19	150,171,041	80,286,038
Other financial liabilities	20	11,385,923	15,768,493
Amounts due to related parties	21(a)	33,680,353	25,220,916
Lease liabilities	22	3,437,219	4,395,426
Borrowings	23	<u>6,000,000</u>	<u>22,048,500</u>
Total liabilities		<u>204,674,536</u>	<u>147,719,373</u>
EQUITY			
Share capital	24	123,771,210	123,771,210
Accumulated losses		<u>(83,664,590)</u>	<u>(93,101,739)</u>
Total equity		<u>40,106,620</u>	<u>30,669,471</u>
Total equity and liabilities		<u>244,781,156</u>	<u>178,388,844</u>

The responsibilities of the Company's Directors with regard to the preparation of the financial statements are set out on page 4. The financial statements on pages 10 to 66 were approved by the Board of Directors and authorised for issue on 27 March 2024 and were signed on its behalf by:


DIRECTOR


DIRECTOR

FINCA ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Issued capital K	Accumulated losses K	Total K
Balance at 1 January 2022	123,771,210	(101,791,996)	21,979,214
Total comprehensive income for the year	<u>-</u>	<u>8,690,257</u>	<u>8,690,257</u>
Balance at 31 December 2022	<u>123,771,210</u>	<u>(93,101,739)</u>	<u>30,669,471</u>
Balance at 1 January 2023	123,771,210	(93,101,739)	30,669,471
Total comprehensive income for the year	<u>-</u>	<u>9,437,149</u>	<u>9,437,149</u>
Balance at 31 December 2023	<u>123,771,210</u>	<u>(83,664,590)</u>	<u>40,106,620</u>

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 K	2022 K
OPERATING ACTIVITIES			
Profit before tax		9,437,149	8,690,257
Adjusted for non cash items:			
Net foreign exchange profit	22,23	6,660,634	1,645,581
Depreciation and amortisation of non-current assets	16,17,18	5,665,395	6,707,757
Write offs of the work in progress		7,689,728	451,094
Impairment loss recognised on loans and advances	14	8,064,283	4,989,491
Interest expense recognised in profit or loss	5	24,414,435	15,957,431
Finance cost recognised in profit or loss	22	715,477	513,474
Loss/ (profit) on disposal of property and equipment		(54,662)	21,200
Gains from derivative financial instruments	15	(708,620)	2,991,145
Lease modification gain charged to statement of comprehensive income	17	-	-
(Gains)/ losses on forward exchange swap	15	<u>(7,145,556)</u>	<u>(2,974,756)</u>
Operating cash flows before changes in working funds		54,738,263	38,992,674
(Increase)/ decrease in prepayments and other receivables		(7,912,974)	(2,314,058)
Increase in loans and advances to customers		(47,233,279)	(44,848,300)
Increase in customer deposits		69,885,003	18,416,107
Increase/ (decrease) in other financial liabilities		(4,382,570)	2,870,309
Decrease in amounts due from related parties		(252,597)	3,439,906
Increase/ (decrease) in amounts due to related parties		<u>(630,848)</u>	<u>2,169,825</u>
Cash generated from Operations		64,210,998	18,716,463
Income tax recovered/(paid)	10	3,925	(6,190)
Interest paid		<u>(26,615,911)</u>	<u>(17,643,745)</u>
Net cash generated from / (used in) operating activities		<u>37,599,012</u>	<u>1,066,528</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	16	(626,836)	(2,345,588)
Proceeds on disposal		<u>-</u>	<u>-</u>
Net cash used in investing activities		<u>(626,836)</u>	<u>(2,345,588)</u>

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTE	2023 K	2022 K
FINANCING ACTIVITIES			
Loans repaid	23	(17,813,300)	(25,556,709)
Lease payments	22	<u>(4,126,749)</u>	<u>(2,688,748)</u>
Net cash (used in)/ received from financing activities		<u>(21,940,049)</u>	<u>(28,245,457)</u>
Net movements in cash and cash equivalents			
Effects of exchange rate change on Cash and Cash Equivalents		15,032,127	(29,524,517)
Net cash and cash equivalents at beginning of the year		7,028,341	(2,517,588)
Net cash and cash equivalents at end of the year		<u>17,118,421</u>	<u>49,160,526</u>
		<u>39,178,889</u>	<u>17,118,421</u>
CASH AND CASH EQUIVALENTS			
Bank and cash balances	12	<u>39,178,889</u>	<u>17,118,421</u>

FINCA ZAMBIA LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023****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**a) Statement of compliance**

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

b) 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 financial statements have been prepared on a going concern basis with a material uncertainty related to going concern.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) **Interest and other income and interest 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.

To determine whether to recognize revenue, the Company follows a 5-step process:

- 1) identifying the contracts with a customer;
- 2) identifying the performance obligations;
- 3) determining the transaction price;
- 4) allocating the transaction price to the performance obligations; and
- 5) recognising revenue when/as performance obligations are satisfied.

(i) ***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 instrument but does not consider the expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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

ii) ***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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) **Interest and other income and interest expense (continued)**iii) ***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.

d) **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.

e) **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.

f) **Retirement benefits**i) ***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.

ii) ***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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Retirement benefits (continued)

iii) <i>National</i>	<i>Pension</i>	<i>Scheme</i>	<i>Authority</i>
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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 up to a set cap. The employer's contribution is charged to the profit or loss in the year in which it arises.

g) Foreign currency translation

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.

h) Taxation

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

i) 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.

ii) 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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) **Taxation (continued)***ii) Deferred tax (continued)*

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.

iii) 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.

i) **Property and equipment**

Improvements to 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:

Improvements to buildings	10%
Furniture and fittings	20%
Motor vehicles	20%
Office equipment	20%
Computer software	25%

The estimated useful lives, residual values and depreciation method are reviewed at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis. Management has estimated the residual values of the property and equipment at 31 December 2023 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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) **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.

k) **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.

l) **Financial instruments**

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.

i) **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. "

ii) **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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Financial instruments (continued)

ii) Financial assets (continued)

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)

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- i) Financial instruments (continued)
- ii) Financial assets (continued)

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;
- 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:

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) **Financial instruments (continued)**ii) **Financial assets (continued)**

- 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).

iii) **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.

iv) **Impairment of financial assets**

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

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

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

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

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

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Financial instruments (continued)

iv) Impairment of financial assets (continued)

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

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

v) 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.

FINCA ZAMBIA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES

l) Financial instruments (continued)

v) Credit-impaired financial assets (continued)

Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Company recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain. The Company did not purchase or originate any credit-impaired financial assets during years 2022 and 2023.

vi) 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).

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) **Financial instruments (continued)**vi) **Modification and derecognition of financial assets (continued)**

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.

vii) **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.

viii) **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.

ix) **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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) **Financial instruments (continued)**x) **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.

xi) **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.

xii) **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 flow 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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

xiii) **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.

a) **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 judgement 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.

a) *Critical judgements* in applying accounting policies

The following are the critical judgements, 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.

i) *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 judgements 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;
type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY (CONTINUED)

a) **Critical judgements in applying accounting policies (continued)**

ii) 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.

b) **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.

i) 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

	2023	2022
	K	K
Arising on:		
Loans to customers	84,004,134	63,846,461
Loans to employees	<u>362,085</u>	<u>240,026</u>
	84,366,219	64,086,487
Cash and short term bank deposits	<u>113,678</u>	<u>37,723</u>
	<u>84,479,897</u>	<u>64,124,210</u>

Income from portfolio represents interest earned and accrued on loans to customers. Interest is accrued monthly on reducing balance basis as follows: Interest on small group loan product, at 6.5% for groups with members ≤ 5 and 6.2% for group with members > 5 (2022: 6.5%), business loans at 6% (2022: 6%), and small enterprise loans is accrued at 5% (2022: 5%) per month respectively.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 K	2022 K
5. INTEREST EXPENSE		
Arising on :		
Borrowings	5,009,912	17,081,049
Borrowings	4,121,214	5,009,912
Deposits due to customers	<u>20,293,221</u>	<u>10,947,519</u>
	<u>24,414,435</u>	<u>15,957,431</u>
<p>The weighted average capitalisation rate on funds borrowed generally is 11.9% per annum (2022: 8.6% per annum).</p>		
6. FEE AND COMMISSION INCOME		
Credit related fees	15,435,165	12,686,076
Arrangement and deposit fees	5,176,877	4,166,699
Account maintenance fees	829,500	854,563
Insurance administration fee	<u>265,749</u>	<u>118,208</u>
	<u>21,707,291</u>	<u>17,825,546</u>
7. TOTAL OTHER INCOME		
(a) OTHER INCOME		
Gains on forward and exchange swap	7,145,556	2,974,756
Other operating income	<u>5,939,895</u>	<u>5,274,470</u>
	<u>13,085,451</u>	<u>8,249,226</u>
(b) GRANT INCOME		
Grant income - others	<u>2,910,710</u>	<u>4,795,542</u>
	<u>2,910,710</u>	<u>4,795,542</u>
<p>During the year grant income of K2,910,710 relating to RUFEP and Comic relief group savings and agency commercialisation projects were recognised.</p>		
8. OPERATING EXPENSES		
Employee benefit expenses	37,928,457	29,390,874
Other operating and administration expenses	29,865,971	27,271,435

Depreciation and amortisation expense	5,665,395	6,707,757
Net foreign exchange losses	<u>6,660,634</u>	<u>1,645,581</u>
	<u>80,120,457</u>	<u>65,015,647</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 K	2022 K
9. PROFIT BEFORE TAX		
Profit before tax is stated after crediting:		
Cash and short term bank deposits (note 4)	113,678	37,723
Gain on forward and exchange swap (note 7) and charging:	<u>7,145,556</u>	<u>2,974,756</u>
- Depreciation (note 16 and 17)	4,144,830	4,999,792
- Amortisation (note 18)	1,520,566	1,707,966
Depreciation and amortisation	5,665,396	6,707,758
Key management remuneration (note 21)	7,298,565	5,541,122
Net foreign exchange losses (note 8)	6,660,634	1,645,581
Directors' remuneration (note 21)	1,429,263	1,176,166
Management fees (note 21)	5,711,782	3,099,976
Pension contributions	<u>1,035,492</u>	<u>816,927</u>
10. TAXATION		
(a) Income tax expense		
Income tax (credit)/expense comprise:		
Current tax expense	-	-
Deferred tax (note 11)	<u>-</u>	<u>-</u>
Total income tax expense/ (credit)	<u>-</u>	<u>-</u>
(b) Current tax (asset)/ liabilities		
Payable in respect of current year	-	-
Payable in respect of previous years	<u>(361,288)</u>	<u>(355,098)</u>
	(361,288)	(355,098)
WHT suffered at source	-	-
Income tax recovered/(paid) during the year	<u>3,925</u>	<u>(6,190)</u>
Current tax (assets)/liability	<u>(357,363)</u>	<u>(361,288)</u>
(c) Reconciliation of the tax charge:		
The total charge for the year can be reconciled to the accounting profit as follows:		
Profit before tax	<u>9,437,149</u>	<u>8,690,257</u>
Income tax calculated on accounting profit	2,831,145	2,607,077
Non deductible expenses	(239,002)	3,542,959

Over provision in prior years	-	-
Write down of deferred tax assets	-	-
Effect of unrecognized temporary differences	(1,727,249)	(6,563,244)
Under/over provision	<u>(864,894)</u>	<u>413,208</u>
Income tax expense	<u><u>-</u></u>	<u><u>-</u></u>

The tax rate used for the 2023 and 2022 reconciliations above is the income tax rate of 30% payable on taxable profits by companies locally.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

10. TAXATION

(d) Analysis of tax losses

	Year incurred	Expiry date	Loss brought forward K	Loss utilised K	Loss carried forward K
B/f	2020	2025	(18,481,646)	13,864,679	(18,727,453)
B/f	2021	2026	<u>(24,387,388)</u>	-	<u>(24,387,388)</u>
			<u><u>(42,869,033)</u></u>	<u><u>13,864,679</u></u>	<u><u>(29,004,354)</u></u>

11. DEFERRED TAX

a) At the beginning of the year

(Debited)/Credited to profit or loss (note 10)

Unrecognised Deferred Tax Assets

At the end of the year-Recognised Deferred Tax Asset

2023
K2022
K

-

-

--12,154,45413,881,704--At the
beginning
of the year
K(Debited)/
Credited
to profit
or loss
KCredited
to equity
KAt the
end
of the
year asset
K**At 31 December 2023**

Temporary differences

- Property and

equipment

-

-

-

-

- Other timing
differences--------At the
beginning
of the year
K(Debited)/
Credited
to profit
or loss
KCredited
to equity
KAt the
end
of the
year asset
K**At 31 December 2022**

Temporary differences

- Property and

equipment

-

-

-

-

- Other timing
differences--------

- (b) The company decided not to recognize deferred tax assets for the year amounting to K12,154,454 due to a loss position in the prior years.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

12. CASH AND CASH EQUIVALENTS	2023	2022
Bank and cash balances	K	K
Cash on hand balances	777,897	281,307
Kwacha bank accounts	23,488,736	5,537,498
US Dollar bank accounts	14,917,916	11,302,277
Impairment loss	<u>(5,660)</u>	<u>(2,661)</u>
	<u>39,178,889</u>	<u>17,118,421</u>
Total unrestricted cash	39,178,889	17,118,421
Restricted cash	<u>-</u>	<u>-</u>
	<u>39,178,889</u>	<u>17,118,421</u>

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	2023	2022
	K	K
Sundry receivables	1,386,459	1,027,129
Prepayments	13,060,908	5,564,275
Staff advances	<u>214,442</u>	<u>157,431</u>
	<u>14,661,809</u>	<u>6,748,835</u>

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

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

14. LOANS AND ADVANCES TO CUSTOMERS	2023	2022
	K	K
At the beginning of the year	118,040,243	78,181,101
Advanced during the year	242,149,765	192,207,474
Interest accrued on loans	9,160,163	6,848,620
Impairment loss provision	(9,177,464)	(5,441,657)
Repayments during the year	<u>(202,963,468)</u>	<u>(153,755,295)</u>
At the end of the year	<u>157,209,239</u>	<u>118,040,243</u>
Gross amounts receivable	157,226,540	116,633,280
Interest accrued on loans	9,160,163	6,848,620
Impairment charges for credit losses	<u>(9,177,464)</u>	<u>(5,441,657)</u>
	<u>157,209,239</u>	<u>118,040,243</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

Movement in the impairment loss on loans and advances to customers**Specific allowance for Impairment**

Included in the loans to customers are individually impaired loan receivables with the balance of K9,177,464 (2022: K5,441,657). 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:

	2023	2022
	K	K
At 1 January	5,441,657	10,343,580
Charge for the year	7,495,831	4,817,715
Write offs	(4,328,476)	(9,891,414)
Stage 3 interest		
Income	568,452	171,776
At 31 December	<u>9,177,464</u>	<u>5,441,657</u>

The impairment charge on the statement of cash flows is the sum of IFRS 9 stage three interest income provision and charge on the loans receivable.

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

	2023	2022
	K	K
Balance as at 1 January	5,441,657	10,343,580
Transfer to expected credit losses for loans to customers	<u>3,735,807</u>	<u>(4,901,923)</u>
Balance as at 31 December	<u>9,177,464</u>	<u>5,441,657</u>

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%.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2023	2022
	K	K
Current	150,916,360	114,008,750
1 - 7 days	245,144	42,221
8 - 30 days	4,968,268	3,438,051
31 - 60 days	1,110,753	479,350
61 - 90 days	1,734,791	576,884
91 - 180 days	1,712,028	2,576,600
Over 180 days	<u>5,699,359</u>	<u>2,360,044</u>
	<u>166,386,703</u>	<u>123,481,900</u>

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

	2023	2022
	K	K
Derivative financial assets arising from:		
Financial derivative at 1 January 2023	7,193,572	7,209,961
Gains on forward exchange swap	7,145,556	2,974,756
Gains/(losses) from derivative financial assets	<u>708,620</u>	<u>(2,991,145)</u>
Financial derivative at 31 December 2023	<u>15,047,748</u>	<u>7,193,572</u>

The gross notional amount for the derivative is K30,822,480 or (USD1,200,000) as at 31 December 2023 (2022: K21,716,400).

FINCA ZAMBIA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

16.PROPERTY AND EQUIPMENT

Cost	Improvements to buildings K	Motor vehicles K	Computer equipment K	Furniture and fittings K	Capital work in progress K	Total K
At 1 January 2022	8,288,703	583,185	11,351,137	6,932,294	15,807,236	42,962,555
Additions	141,952	-	334,142	217,239	1,652,255	2,345,588
Transfers	88,786	-	-	58,269	(147,055)	-
Write off to profit or loss	-	-	-	-	(451,094)	(451,094)
Disposals	<u>(3,310,724)</u>	<u>-</u>	<u>(6,613,845)</u>	<u>(3,409,438)</u>	<u>-</u>	<u>(13,334,007)</u>
At 31 December 2022	<u>5,208,717</u>	<u>583,185</u>	<u>5,071,434</u>	<u>3,798,364</u>	<u>16,861,342</u>	<u>31,523,042</u>
At 1 January 2023	5,208,717	583,185	5,071,434	3,798,364	16,861,342	31,523,042
Additions	169,401	-	170,659	66,500	220,276	626,836
Write off to profit or loss	(421,656)	-	-	-	(7,268,072)	(7,689,728)
Disposals	<u>-</u>	<u>(280,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(280,000)</u>
At 31 December 2023	<u>4,956,462</u>	<u>303,185</u>	<u>5,242,093</u>	<u>3,864,864</u>	<u>9,813,546</u>	<u>24,180,150</u>
DEPRECIATION						
At 1 January 2022	4,998,950	412,479	10,320,373	5,510,695	-	21,242,497
Charge for the year	548,978	91,371	768,530	663,090	-	2,071,969
Eliminated on disposals	<u>(2,376,939)</u>	<u>-</u>	<u>(6,597,397)</u>	<u>(3,200,629)</u>	<u>-</u>	<u>(12,174,965)</u>
At 31 December 2022	<u>3,170,989</u>	<u>503,850</u>	<u>4,491,506</u>	<u>2,973,156</u>	<u>-</u>	<u>11,139,501</u>
At 1 January 2023	3,170,989	503,850	4,491,506	2,973,156	-	11,139,501
Charge for the year	527,173	-	350,306	428,574	-	1,306,053
Eliminated on disposals	<u>(341,346)</u>	<u>(200,666)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(542,012)</u>
At 31 December 2023	<u>3,356,816</u>	<u>303,184</u>	<u>4,841,812</u>	<u>3,401,730</u>	<u>-</u>	<u>11,903,542</u>
Carrying amount						
At 31 December 2023	<u>1,599,646</u>	<u>1</u>	<u>400,281</u>	<u>463,134</u>	<u>9,813,546</u>	<u>12,276,908</u>
At 31 December 2022	<u>2,037,728</u>	<u>79,335</u>	<u>579,928</u>	<u>825,208</u>	<u>16,861,342</u>	<u>20,383,541</u>

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

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

17. RIGHT OF USE ASSETS

The Company adopted IFRS 16 as from 1 January, 2019. The Company applied the modified retrospective 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.

	2023	2022
	K	K
Cost		
At 1 January 2023	12,539,210	8,639,346
Additions	1,613,001	3,899,864
Modifications	<u>(2,005,543)</u>	<u>-</u>
At 31 December 2023	<u>12,146,668</u>	<u>12,539,210</u>
Accumulated depreciation		
At 1 January 2022	8,550,099	5,776,559
Charge for year	2,838,776	2,927,822
Lease Modification gain charged to income statement	<u>(2,005,543)</u>	<u>(154,282)</u>
At 31 December 2023	<u>9,383,332</u>	<u>8,550,099</u>
At 31 December 2023	<u>2,763,336</u>	<u>3,989,111</u>
 (a) Amount recognised in profit or loss		
Depreciation of right of use asset	<u>2,838,776</u>	<u>2,927,822</u>
 (b) The Company operates 10 leases, with an average of 2 years lease periods.		
 18. INTANGIBLE ASSETS	 2023	 2022
	K	K
Cost		
At 1 January	11,754,875	14,793,381
Write offs	<u>-</u>	<u>(3,038,506)</u>
Balance at 31 December	<u>11,754,875</u>	<u>11,754,875</u>
Amortisation		
At 1 January	7,873,119	9,203,633
Amortisation for the year	1,520,566	1,707,966
Write offs	<u>-</u>	<u>(3,038,480)</u>
Balance at 31 December	<u>9,393,685</u>	<u>7,873,119</u>
Carrying amounts		
Balance at 31 December	<u>2,361,190</u>	<u>3,881,756</u>

Intangible assets consist of the carrying value of various software programs including 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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

19. DEPOSITS FROM CUSTOMERS	2023	2022
	K	K
Voluntary savings	149,847,441	80,058,853
Collateral savings deposits	<u>323,600</u>	<u>227,185</u>
	<u>150,171,041</u>	<u>80,286,038</u>

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

20. OTHER FINANCIAL LIABILITIES		
Sundry and other payables	3,163,060	6,261,561
Gratuity and leave provisions	5,524,203	6,199,067
Deferred grant income	1,450,954	2,311,797
Deferred income	1,838,609	1,569,431
Unearned interest income	<u>(590,903)</u>	<u>(573,363)</u>
	<u>11,385,923</u>	<u>15,768,493</u>

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 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:

	2023	2022
	K	K
FINCA Network Support Services BV	<u>5,711,782</u>	<u>3,099,976</u>
	<u>5,711,782</u>	<u>3,099,976</u>

FINCA ZAMBIA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

21. RELATED PARTY TRANSACTIONS (CONTINUED)

	2023	2022
	K	K
Year end balances		
(a) Amounts due to related parties		
Arising on:		
FINCA Network Support Services	1,538,977	2,169,825
KFW – Subordinated Debt Principle	30,822,480	21,716,400
Accrued interest on Loans	<u>1,318,896</u>	<u>1,334,691</u>
	<u>33,680,353</u>	<u>25,220,916</u>
Analysed as:		
Amounts falling due within one year	2,857,873	3,504,516
Amounts falling due after one year	<u>30,822,480</u>	<u>21,716,400</u>
	<u>33,680,353</u>	<u>25,220,916</u>

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

The outstanding balance of K30,822,480 comprises unsecured debt of \$1,200,000 disbursed in January 2019 with interest rates of 2.5% for a tenure of 7years.

(b) Amounts due from related parties	2023	2022
	K	K
Amounts due from related parties	<u>924,674</u>	<u>672,077</u>
	<u>924,674</u>	<u>672,077</u>
(c) Compensation of key Management personnel		
The remuneration of key Management and Directors during the year was as follows:		
	2023	2022
	K	K
Directors	<u>1,429,263</u>	<u>1,176,166</u>
Management	<u>7,298,565</u>	<u>5,541,122</u>

22. LEASE LIABILITIES

At the beginning of the year	4,395,426	3,002,614
Additions	3,293,128	3,042,928
Finance cost	715,477	513,474
Lease repayments	(4,126,749)	(2,688,748)
Exchange gain on valuation of foreign denominated leases	<u>(840,063)</u>	<u>525,158</u>
At the end of the year	<u>3,437,219</u>	<u>4,395,426</u>
Analysed as follows:		
Current liabilities	2,420,864	3,268,157
Non-current liabilities	<u>1,016,356</u>	<u>1,127,269</u>
Lease liabilities included in the statement of financial position as at 31 December 2023	<u>3,437,219</u>	<u>4,395,426</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

22. LEASE LIABILITIES (CONTINUED)

The weighted average incremental borrowings applied to lease liabilities is 25% for leases in Zambian Kwacha, and 11% for leases denominated in United States Dollars.

23. BORROWINGS	2023 K	2022 K
At the beginning of the year	22,048,500	48,633,669
Repayments	(17,813,300)	(25,556,709)
Exchange loss/(gain) on valuation of foreign denominated loans	<u>1,764,800</u>	<u>(1,028,460)</u>
At the end of the year	<u><u>6,000,000</u></u>	<u><u>22,048,500</u></u>

The KfW loan denominated in United States Dollars is hedged and exchange losses/gains are accounted for under derivate financial assets in note 15.

Due to:	2023 K	2022 K
(i) Grameen Credit Agricole MicroFinance Foundation	-	3,000,000
(ii) MCE Social Capital	-	9,048,500
(iii) Ecumenical Development Cooperative Society UA Oikocredit	<u>6,000,000</u>	<u>10,000,000</u>
	6,000,000	22,048,500
Less: amounts falling due within one year	<u>4,000,000</u>	<u>16,048,500</u>
Amounts falling due after one year	<u><u>2,000,000</u></u>	<u><u>6,000,000</u></u>

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

- (i) Grameen Crédit Agricole Microfinance Foundation
The outstanding balance of K3,000,000 in 2022 comprised unsecured debt disbursed of K7,500,000 in August 2018 with interest rate of 28.06% and K7,500,000 in September 2018 with interest rate of 33.85% both a tenure of 58 months. The loan was repaid in the year.
- (ii) MCE Social Capital
The outstanding balance of K9,048,500 in 2022 comprised unsecured debt of USD 500,000 disbursed in December 2018 with interest rates of 6.75% for a tenure of 5 years. The loan was repaid in the year.
- (iii) Ecumenical Development Cooperative Society UA - Oikocredit
The outstanding balance is K6,000,000 disbursed in September 2019 at floating interest rate of based on 182 days Treasury Bill rate plus 9%. The facility is repriced every six months. The loan tenure is 6 years and is unsecured.

The Company was compliant with all the Covenants.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 202323. **BORROWINGS (CONTINUED)**

Lender	Principal & accrued interest	Covenant limit	Covenant actual value	Waiver received [Yes/No]
Ecumenical Development Cooperative Society UA - Oikocredit	6,000,000	CAR \geq 16.5%,FX -10<X<10%, NPL <15%,Liquidity Ratio \geq 7%, Cost-to-Income <95%	CAR= 25.47 %, OCP 10.69, NPL=5.44%,Liquidity Ratio=16.18%, Cost-to-Income =75.02%	N/A

24. SHARE CAPITAL	2023	2022
	K	K
Authorised, issued and fully paid:		
At the beginning of the year	<u>123,771,210</u>	<u>123,771,210</u>
At the end of the year	<u>123,771,210</u>	<u>123,771,210</u>

In the year 2023, the Company did not issue any ordinary shares (2022:Nil).

25. **GENERAL RESERVE**

Nothing was charged through General Reserves and Profit and loss in the year 2023 (2022:Nil)

26. **CAPITAL COMMITMENTS**

As at 31 December 2023, the Company had made no any capital commitments.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

27. CONTINGENT LIABILITIES

The following is a case giving rise to contingent liabilities as at 31 December 2023.

An employee sued FINCA Zambia in the High Court alleging constructive dismissal. The claim disputes the extension of his probation and alleges that the Board did not provide support to the employee. FINCA Zambia's defense is premised on the engagements that were made with the former CEO and his performance which justified the extension of the probation. This claim is for unliquidated damages, prorated salary and gratuity amounting to a total value of K1,000,000.

28. EVENTS AFTER THE REPORTING DATE

The company recorded a profit in Q1 2024 and remained compliant on Capital Adequacy Ratio as per Bank of Zambia requirement.

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	2023	2022
	K	K
The gearing ratio at the year end was as follows:		
Debt (i)	6,000,000	22,048,500
Less: Cash and cash equivalents	<u>(39,178,889)</u>	<u>(17,118,421)</u>
Net debt	<u>(33,178,889)</u>	<u>4,930,079</u>
Equity (ii)	<u>40,106,620</u>	<u>30,669,471</u>
Net debt to equity ratio	<u>-83%</u>	<u>16%</u>

FINCA ZAMBIA LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023****29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)**

The industry average is 200%.

- (i) Debt is defined as long-term and short-term borrowings, as detailed in note 21 and 23 excluding subordinated debt.
- (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.

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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Capital Management (Continued)

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		772,237	-
2 - Domestic	0.0%	772,237	-
3 - Foreign	0.0%	0.0%	-
4 Balances held with commercial banks:		38,406,652	-
5 a) Domestic		38,406,652	-
6 - with residual maturity of up to 12 months	20.0%	38,406,652	7,681,330
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		157,209,239	157,209,239
23 - Portion secured by cash or treasury bills	0.0%	323,600	-
24 - Loans repayable in instalments and secured by a mortgage on owner-occupied residential property	50.0%	62,059,163	31,029,582
25 - Others	100.0%	94,826,476	94,826,476
26 Premises of Institution	100.0%	-	-
27 Acceptances	100.0%	-	-
28 Other assets	100.0%	48,393,028	48,393,028
29 Investment in equity of other companies	100.0%	-	-
30 TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)		244,781,156	181,930,416

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

OFF BALANCE SHEET OBLIGATIONS	Risk weight	Balance (net of allowance for losses)	Risk- weighted assets (1 x 2 x 3)
Letters of credit	%	(3) K	K
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)		<u>244,781,156</u>	<u>181,930,416</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Capital management (Continued)

Computation of capital position	31 December 2023 K	31 December 2022 K
PRIMARY (TIER 1) CAPITAL ADDITIONS:		
(a) Paid-up common shares	123,771,210	123,771,210
(b) Eligible preferred shares	-	-
(c) Capital grants (Share premium)	-	-
(d) Retained earnings	(83,664,590)	(93,101,739)
(e) Non distributive reserves	-	-
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total	<u>40,106,620</u>	<u>30,669,471</u>
SUBTRACTIONS:		
(i) Goodwill and other intangible assets	(2,361,190)	(3,881,756)
(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)	<u>(2,361,190)</u>	<u>(3,881,756)</u>
OTHER ADJUSTMENTS:		
Provisions*	-	-
Assets of little or no realizable value (note 3) specify details or use separate list if necessary:	-	-
Other adjustments (specify)	-	-
Sub-total (Other adjustments)	-	-
(n) Total Subtractions (B): (Sub-total A above+Other adjustments)	-	-
(o) TOTAL PRIMARY CAPITAL (h - n)	<u>37,745,430</u>	<u>26,787,715</u>
SECONDARY (TIER 2) CAPITAL		
(a) Eligible preferred shares	-	-
(b) Eligible subordinated term debt (note 23)	8,599,248	8,599,248
(c) Eligible loan stock/capital	-	-
(d) Eligible general provisions	-	-
(e) Revaluation reserves. Maximum is 40% of revaluation	-	-
(f) Other specify	-	-

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Capital management (Continued)

	2023	2022
	K	K
ELIGIBLE SECONDARY CAPITAL	<u>8,599,248</u>	<u>8,599,248</u>
(the maximum amount of secondary capital is limited to 100% of primary capital)	-	-
ELIGIBLE TOTAL CAPITAL (I(o) + III) (Regulatory capital)	46,344,678	35,386,963
MINIMUM TOTAL CAPITAL REQUIREMENT:	<u>27,289,562</u>	<u>21,671,561</u>
(15% of total on and off balance sheet risk-weighted assets as established in the first schedule)		
CAPITAL ADEQUACY (I + III - IV)	<u>19,055,116</u>	<u>13,715,402</u>

As at 31 December 2023 FINCA's regulatory capital was above the minimum capital requirement by K19,055,116 (2022: above by K13,715,402).

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 non 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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Financial risk management objectives

(a) Introduction and overview

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

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

Credit risk management

Credit risk management refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk in respect of loans and receivables. Credit risk on loans and receivables is high, however, all loans are monitored on a monthly basis and non-performing loans are identified. The monthly repayments are monitored on an ongoing basis and any non 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.

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

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

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 202329. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)
Credit risk management (continued)

(a) Introduction and overview (continued)

Expected credit loss measurement (continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk

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

- The remaining lifetime PD as at the reporting date; with
- The remaining lifetime PD for this point in time 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 Company is reasonably confident that a borrower is able to service the renewed payment schedule.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (continued)

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 distinct characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Company considers 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

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)
Credit risk management (continued)**Definition of default (continued)**

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.

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 K350,000)
- Large (for loan amounts greater than K350,001)

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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (continued)**Probability of default (PD) (continued)**

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 2023 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 2023

	GDP 50% K	No change K	GDP -17% K
Impairment on loan portfolio			
Small	753,657	753,657	625,535
Large	<u>8,423,807</u>	<u>8,423,807</u>	<u>6,991,759</u>
Total impairment on loan portfolio	<u>9,177,464</u>	<u>9,177,464</u>	<u>7,617,294</u>
Other financial instruments			
Cash and cash equivalents	-	<u>5,660</u>	-
Total impairment charges on credit losses	<u>9,177,464</u>	<u>9,183,124</u>	<u>7,617,294</u>

Year ended 31 December 2022

Impairment on loan portfolio			
Small	560,073	560,073	464,861
Large	<u>4,881,584</u>	<u>4,881,584</u>	<u>4,051,715</u>
Total impairment on loan portfolio	<u>5,441,657</u>	<u>5,441,657</u>	<u>4,516,576</u>
Other financial instruments			
Cash and cash equivalents	-	<u>2,661</u>	-
Total impairment charges on credit losses	<u>5,441,657</u>	<u>5,444,318</u>	<u>4,516,576</u>

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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

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.

Credit quality of loans to customers

Year ended 31 December 2023

	Stage 1	Stage 2	Stage 3	Total
	K	K	K	K
SMALL				
Gross Carrying amount				
Current	6,645,298	1,828,138	8	8,473,444
Past due 1-30 days	-	649,048	-	649,048
Past due 31-60 days	-	209,835	-	209,835
Past due 61-90 days	-	73,964	-	73,964
Past due more than 90 days	-	-	623,924	623,924
Total gross carrying amount	6,645,298	2,760,985	623,932	10,030,215
Loss Allowance				
For on-balance sheet exposure	(66,955)	(225,042)	(461,661)	(753,658)
Net Small Loans Portfolio	6,578,343	2,535,943	162,271	9,276,557
LARGE				
Gross Carrying amount				
Current	140,111,842	596,287	7,398	140,715,527
Past due 1-30 days	-	4,507,669	-	4,507,669
Past due 31-60 days	-	893,106	-	893,106
Past due 61-90 days	-	1,641,973	-	1,641,973
Past due more than 90 days	-	-	6,759,603	6,759,603
Total gross carrying amount	140,111,842	7,639,035	6,767,001	154,517,878

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Credit quality of loans to customers (continued)

Year ended 31 December 2023 (continued)

	Stage 1	Stage 2	Stage 3	Total
Loss Allowance	K	K	K	K
For on-balance sheet exposure	<u>(2,039,257)</u>	<u>(1,655,503)</u>	<u>(4,729,046)</u>	<u>(8,423,806)</u>
Net Large Loans Portfolio	<u>138,072,585</u>	<u>5,983,532</u>	<u>2,037,955</u>	<u>146,094,072</u>
Total net loan portfolio	<u>144,650,928</u>	<u>8,519,475</u>	<u>2,200,226</u>	<u>155,370,629</u>

Year ended 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
SMALL	K	K	K	K
Gross Carrying amount				
Current	6,273,833	496,721	6	6,770,560
Past due 1-30 days	-	434,256	-	434,256
Past due 31-60 days	-	171,258	-	171,258
Past due 61-90 days	-	141,059	-	141,059
Past due more than 90 days	<u>-</u>	<u>-</u>	<u>467,489</u>	<u>467,489</u>
Total gross carrying amount	<u>6,273,833</u>	<u>1,243,294</u>	<u>467,495</u>	<u>7,984,622</u>
Loss Allowance				
For on-balance sheet exposure	<u>(122,937)</u>	<u>(116,669)</u>	<u>(320,468)</u>	<u>(560,074)</u>
Total loss allowance	<u>(122,937)</u>	<u>(116,669)</u>	<u>(320,468)</u>	<u>(560,074)</u>
Net Small Loans Portfolio	<u>6,150,896</u>	<u>1,126,625</u>	<u>147,027</u>	<u>7,424,548</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Credit quality of loans to customers (continued)

Year ended 31 December 2022 (continued)

LARGE	Stage 1	Stage 2	Stage 3	Total
	K	K	K	K
Gross Carrying amount				
Current	104,007,113	1,643,938	-	105,651,051
Past due 1-30 days	-	3,009,468	7,299	3,016,767
Past due 31-60 days	-	306,465	-	306,465
Past due 61-90 days	-	434,482	-	434,482
Past due more than 90 days	-	-	4,519,543	4,519,543
Total gross carrying amount	<u>104,007,113</u>	<u>5,394,353</u>	<u>4,526,842</u>	<u>113,928,308</u>
Loss Allowance				
For on-balance sheet exposure	(1,330,418)	(385,000)	(3,166,165)	(4,881,583)
For off-balance sheet exposure				
Net Large Loan Portfolio	<u>102,676,695</u>	<u>5,009,353</u>	<u>1,360,677</u>	<u>109,046,725</u>
Total net loan portfolio	<u>108,827,591</u>	<u>6,135,978</u>	<u>1,507,704</u>	<u>116,471,273</u>
Other financial instruments				
for the year ended 31 December 2022				
Gross carrying amount				
Cash and cash equivalents	17,118,421	-	-	17,118,421
Loss Allowance				
For on-balance sheet exposure	(2,661)	-	-	(2,661)
Total	<u>17,115,760</u>	<u>-</u>	<u>-</u>	<u>17,115,760</u>
Other financial instruments				
for the year ended 31 December 2023				
Cash and cash equivalents	39,178,889	-	-	39,178,889
Loss Allowance				
For on-balance sheet exposure	(5,660)	-	-	(5,660)
Total	<u>39,173,229</u>	<u>-</u>	<u>-</u>	<u>39,173,229</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

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 2023

	Gross carrying amount	Loss allowance	Amortized cost
	K	K	K
Loan portfolio in default (Stage 3)			
Small	623,931	(461,661)	162,270
Large	<u>6,767,001</u>	<u>(4,729,046)</u>	<u>2,037,955</u>
Total	<u>7,390,932</u>	<u>(5,190,707)</u>	<u>2,200,225</u>

Year ended 31 December 2022

	Gross Carrying amount	Loss Allowance	Amortized Cost
	K	K	K
Loan portfolio in default (Stage 3)			
Small	467,495	(320,468)	147,027
Large	<u>4,526,842</u>	<u>(3,166,165)</u>	<u>1,360,677</u>
Total	<u>4,994,337</u>	<u>(3,486,633)</u>	<u>1,507,704</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Significant increase in credit risk

Year ended 31 December 2023

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance as of 1 January 2023	122,936	116,669	320,468	560,073
Transfer from Stage 1 to Stage 2	(111,446)	294,253	-	182,807
Transfer from Stage 2 to Stage 1	29,004	(167,528)	-	(138,524)
Transfer from Stage 2 to Stage 3	-	(305,142)	420,091	114,949
Transfer from Stage 3 to Stage 2	-	1	(6)	(5)
Transfer from Stage 1 to Stage 3	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total transfers	<u>(82,442)</u>	<u>(178,416)</u>	<u>420,085</u>	<u>159,227</u>
New financial instrument originated or purchased	217,073	412	-	217,485
Repayment of principal amount	(185,774)	296,538	54,767	165,531
Changes in interest accrual	-	-	-	-
Modification of contractual cash flows of financial instruments	-	-	-	-
Derecognition during the period	(4,839)	(10,161)	-	(15,000)
Write-offs	<u>-</u>	<u>-</u>	<u>(333,659)</u>	<u>(333,659)</u>
	<u>26,460</u>	<u>286,789</u>	<u>(278,892)</u>	<u>34,357</u>
Loss Allowance as of 31 December 2023	<u>66,954</u>	<u>225,042</u>	<u>461,661</u>	<u>753,657</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

LARGE	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance as of 1 January 2023	1,330,418	385,000	3,166,165	4,881,583
Transfer from Stage 1 to Stage 2	(596,535)	2,983,395	-	2,386,860
Transfer from Stage 2 to Stage 1	278,521	(1,810,828)	-	(1,532,307)
Transfer from Stage 2 to Stage 3	-	(1,868,776)	4,026,007	2,157,231
Transfer from Stage 3 to Stage 2	-	395	(24,961)	(24,566)
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	<u>(318,014)</u>	<u>(695,814)</u>	<u>4,001,046</u>	<u>2,987,218</u>
New financial instrument originated or purchased	1,555,190	199,006	869,197	2,623,393
Repayment of principal amount	(494,709)	2,191,566	704,754	2,401,611
Changes in interest accrual	-	-	-	-
Modification of contractual cash flows of financial instruments	-	-	-	-
Derecognition during the period	(33,627)	(424,256)	(20,297)	(478,180)
Write-offs	-	-	<u>(3,991,818)</u>	<u>(3,991,818)</u>
Loss allowance as of 31 December 2023	<u>2,039,258</u>	<u>1,655,502</u>	<u>4,729,047</u>	<u>8,423,807</u>
Total loss allowance as of 31 December 2023	<u>2,106,213</u>	<u>1,880,544</u>	<u>5,190,708</u>	<u>9,177,465</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Year ended 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
SMALL	K	K	K	K
Loss Allowance as of 1 January 2022	37,173	7,951	449,931	495,055
Transfer from Stage 1 to Stage 2	(21,335)	82,751	-	61,416
Transfer from Stage 2 to Stage 1	4,841	(47,915)	-	(43,074)
Transfer from Stage 2 to Stage 3	-	(143,020)	304,146	161,126
Transfer from Stage 3 to Stage 2	-	164	(877)	(713)
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	<u>(16,494)</u>	<u>(108,020)</u>	<u>303,269</u>	<u>178,755</u>
New financial instrument originated or purchased	70,258	349	-	70,607
Repayment of principal amount	34,631	225,751	34,338	294,720
Changes in interest accrual	-	-	-	-
Modification of contractual cash flows of financial instruments	-	-	-	-
Derecognition during the period	(2,632)	(9,362)	-	(11,994)
Write-offs	-	-	(467,070)	(467,070)
Loss Allowance as of 31 December 2022	<u>122,936</u>	<u>116,669</u>	<u>320,468</u>	<u>560,073</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

LARGE	Stage 1	Stage 2	Stage 3	Total
Loss Allowance as of 1 January 2022	K	K	K	K
Transfer from Stage 1 to Stage 2	386,488	201,424	9,260,613	9,848,525
Transfer from Stage 2 to Stage 1	(144,180)	754,813	-	610,633
Transfer from Stage 2 to Stage 3	51,028	(342,556)	-	(291,528)
Transfer from Stage 3 to Stage 2	-	(1,094,287)	2,660,956	1,566,670
Transfer from Stage 1 to Stage 3	-	2,665	(207,390)	(204,725)
Total transfers	<u>(93,152)</u>	<u>(679,365)</u>	<u>2,453,566</u>	<u>1,681,049</u>
New financial instrument originated or purchased	589,944	35,948	4,728	630,620
Repayment of principal amount	473,491	863,419	903,409	2,240,319
Changes in interest accrual	-	-	-	-
Modification of contractual cash flows of financial instruments	-	-	-	-
Derecognition during the period	(26,352)	(36,426)	(22,139)	(84,917)
Write-offs	-	-	(9,434,012)	(9,434,012)
Total loss allowance as of 31 December 2022	<u>1,330,419</u>	<u>385,000</u>	<u>3,166,165</u>	<u>4,881,584</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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.

	Less than 1 month K	1 - 3 month K	3 months to 1 year K	1 - 5 years K	Total K
Year ended 31 December 2022					
Assets					
Bank and cash balances	17,118,421	-	-	-	17,118,421
Other receivables	157,431	1,027,129	-	-	1,184,560
Derivative financial assets	-	-	7,193,572	-	7,193,572
Loans and receivables	<u>2,681,028</u>	<u>8,567,707</u>	<u>75,038,912</u>	<u>31,752,596</u>	<u>118,040,243</u>
Total assets	<u>19,956,880</u>	<u>9,594,836</u>	<u>82,232,484</u>	<u>31,752,596</u>	<u>143,536,796</u>
Liabilities					
Deposits from customers	40,970,283	6,026,755	33,289,000	-	80,286,038
Other financial liabilities	6,261,561	2,309,514	1,702,173	5,495,245	15,768,493
Amounts due to related parties	3,504,516	-	-	21,716,400	25,220,916
Borrowings	<u>-</u>	<u>-</u>	<u>16,048,500</u>	<u>6,000,000</u>	<u>22,048,500</u>
Total liabilities	<u>50,736,360</u>	<u>8,336,269</u>	<u>51,039,673</u>	<u>33,211,645</u>	<u>143,323,947</u>
Liquidity gap	<u>(30,779,480)</u>	<u>1,258,567</u>	<u>31,192,811</u>	<u>(1,459,049)</u>	<u>212,849</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

Year ended 31 December 2023	Less than 1 month	1 – 3 months	3 months to 1 year	1 -5 years	Total
	K	K	K	K	K
Assets					
Bank and cash balances	39,178,889	-	-	-	39,178,889
Other receivables	214,442	1,386,459	-	-	1,600,901
Derivative financial assets	-	-	15,047,748	-	15,047,748
Loans and receivables	<u>13,997,995</u>	<u>9,302,233</u>	<u>79,614,438</u>	<u>54,294,573</u>	<u>157,209,239</u>
Total assets	<u>53,391,326</u>	<u>10,688,692</u>	<u>94,662,186</u>	<u>54,294,573</u>	<u>213,036,777</u>
Liabilities					
Deposits from customers	53,973,480	14,422,964	81,774,597	-	150,171,041
Other financial liabilities	3,163,061	2,235,412	1,395,031	4,592,419	11,385,923
Amounts due to related parties	2,857,873	-	-	30,822,480	33,680,353
Borrowings	-	-	<u>4,000,000</u>	<u>2,000,000</u>	<u>6,000,000</u>
Total liabilities	<u>59,994,414</u>	<u>16,658,376</u>	<u>87,169,628</u>	<u>37,414,899</u>	<u>201,237,317</u>
Liquidity gap	<u>(6,603,088)</u>	<u>(5,969,684)</u>	<u>7,492,558</u>	<u>16,879,674</u>	<u>11,799,460</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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 2022:

Amount	Scenario 1	Scenario 2
	10% increase in variable interest rates	10% decrease in variable interest rates
	K	K
Profit before tax	<u>9,437,149</u>	<u>11,878,592</u>

Assuming no management action, a rise would decrease net interest income for 2023 by K2,441,443 (2022: K1,595,742), 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 2023.

	Scenario 1	Scenario 1
	variable Foreign	variable Foreign
	K	K
Profit before tax	<u>9,437,149</u>	<u>8,771,086</u>

Assuming no management action, a rise would decrease net income for 2023 by K666,063 (2022:K164,558), while a fall would increase net interest income by the same amount.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

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 recognized in the financial statements approximate their fair values.

	2023		2022	
	Carrying amount K	Fair value K	Carrying amount K	Fair value K
Financial assets				
Loans and receivables:				
– other receivables	1,600,901	1,600,901	1,184,560	1,184,560
– loans and receivables	157,209,239	148,031,775	118,040,243	93,102,046
– Derivative financial assets	<u>15,047,748</u>	<u>15,047,748</u>	<u>7,193,572</u>	<u>7,193,572</u>
Total	<u>173,857,888</u>	<u>164,680,424</u>	<u>126,418,375</u>	<u>101,480,178</u>
	2023		2022	
	Carrying amount K	Fair value K	Carrying amount K	Fair value K
Financial liabilities				
Financial liabilities held at amortised cost:				
– deposits from customers	150,171,041	140,737,893	80,286,038	76,046,802
– other financial liabilities	11,385,923	11,385,923	15,768,493	15,768,493
– amounts due to related parties	33,680,353	33,680,353	25,220,916	25,220,916
– borrowings	<u>6,000,000</u>	<u>6,000,000</u>	<u>22,048,500</u>	<u>22,048,500</u>
Total	<u>201,237,317</u>	<u>191,804,169</u>	<u>143,323,947</u>	<u>139,084,711</u>

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

30. FAIR VALUE MEASUREMENTS

	Fair value hierarchy as at 31 December 2023			Total
	Level 1	Level 2	Level 3	
Financial assets	K	K	K	K
Loans and receivables:				
– other receivables	-	-	1,600,901	1,600,901
– loans and receivables	-	157,209,239	-	157,209,239
– Derivative financial assets	-	-	15,047,748	15,047,748
Total	-	157,209,239	16,648,649	173,857,888
Financial liabilities				
Financial liabilities held at amortised cost:				
– deposits from customers	-	150,171,041	-	150,171,041
– other financial liabilities	-	-	11,385,923	11,385,923
– borrowings	-	6,000,000	-	6,000,000
Total	-	156,171,041	11,385,923	167,556,964
	Fair value hierarchy as at 31 December 2022			Total
	Level 1	Level 2	Level 3	
Financial assets	K	K	K	K
Loans and receivables:				
– other receivables	-	-	1,184,560	1,184,560
– loans and receivables	-	118,040,243	-	118,040,243
– Derivative financial assets	-	-	7,193,572	7,193,572
Total	-	118,040,243	8,378,132	126,418,375
Financial liabilities				
Financial liabilities held at amortised cost:				
– deposits from customers	-	80,286,038	-	80,286,038
– other financial liabilities	-	-	15,768,493	15,768,493
– borrowings	-	22,048,500	-	22,048,500
Total	-	102,334,538	15,768,493	118,103,031

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.

FINCA ZAMBIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

30. FAIR VALUE MEASUREMENTS

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. Adoption of New and Revised Standards

(a) Some accounting pronouncements which have become effective from 1 January 2023 and have therefore been adopted do not have a significant impact on the Bank's financial results or position. Other Standards and amendments that are effective for the first time in 2023 and could be applicable to the Company are:

- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 17 Insurance Contracts (Amendments to IFRS 17 and IFRS 4)
- Initial application of IFRS 17 and IFRS 9 (comparative information)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Disclosure of Accounting Policies (Amendments to IAS1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

These amendments do not have a significant impact on these financial statements and therefore the disclosures have not been made.

(b) **New and revised Standards in issue but not yet effective**

amendments to existing Standards, and Interpretations have been published by the IASB or IFRIC. None of these Standards or amendments to existing Standards have been adopted early by the Company.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lack of Exchangeability (Amendments to IAS 21)

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's financial statements.