FINCA ZAMBIA LIMITED

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

FINCA ZAMBIA LIMITED
(Incorporated in Zambia)

REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2020

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FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS

The Directors present their report together with the audited financial statements for the year ended 31 December 2020.

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 loss for the year amounted to K63,143,880 (2019: K21,896,268)

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

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

As at 31 December 2020 FINCA's regulatory capital was below the minimum capital requirement by **K56,550,049** (2019: K21,684,259). This position was regularised on 31 March 2021 through conversion of K 21,525,521 Parent company debts to equity in January 2021 and an equity injection of K 18,689,130 in March 2021.

SHARE CAPITAL

On 30 April 2020, the Company issued 14,503,039 Ordinary shares valued at K1 each (2019: K3,513,324). The total authorised share capital is now K56,430,413 (2019: K41,592,057)

DIRECTORS

The Directors who held office during the year were:

Collins Muyanja	Chairman - Non Executive Director
Lameck Zimba	Non Executive Director
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)
Mike Gama-Lobo	Executive Director (resigned from the Board on 31 October, 2020)
Isaiah Chindumba	Non Executive Director (resigned from the Board on 1 July, 2020)
Jetty Lungu	Executive Director (appointed Ag,CEO on 8 January, 2020)
Chris P Kizza	Executive Director (appointed CEO on 8 January, 2021)

The total remuneration for the Directors in the year under review amounted to **K1,492,391** (2019: K791,774).

No Director had an interest in any significant contract entered into by the company during the year (2019: Nil).

EMPLOYEES

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

Month	2020	2019
January	275	301
February	271	297
March	286	295
April	211	295
May	208	293
June	206	289
July	208	287
August	208	287
September	205	285
October	202	277
November	204	273
December	193	276

The total remuneration paid to the employees and towards staff welfare during the year was **K44,000,262** (2019:K54,415,949).

FINCA ZAMBIA LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

PROPERTY AND EQUIPMENT

The additions to property and equipment during the year amounted to **K9,725,326** (2019: K8,955,258) comprising:

	2020 K	2019 K
Capital work in progress	**9,197,225**	6,466,770
Furniture and fittings	**252,033**	612,579
Computer equipment	**276,068**	1,378,972
Leasehold improvements	-	216,937
Motor Vehicles	-	280,000
	9,725,326	8,955,258

No Software was acquired during the year. (2019: K1,890,134)

GOING CONCERN

The financial statements have been prepared on a going concern basis. This basis presumes that sufficient liquidity will continue to be available to finance the operations of the Company and that the realization of assets and settlement of liabilities will occur in the ordinary course of business. This is deemed appropriate not withstanding that the company has incurred losses of K 63,143,880 (2019: loss of K21,896,268) and deficit in reserves of K 84,405,288 for the year ended 31 December 2020, (2019: reserves deficit of K20,926,091). The Company has financial forecasts for the twelve months from the date of approval of these financial statements taking into consideration the estimation of the business impacts related to COVID 19, market changes, and updates to the Company's business model and related risks.
Accordingly, the Directors consider there to be material uncertainties that cast significant doubt on the Company's ability to continue to operate as a going concern. The Company was unable to obtain a letter of support from the parent company as it is a FINCA Group policy not to issue letters of financial support. The going concern status of the company continues to be dependent on the continued support from the parent company. The Company was also unable to obtain waivers from lenders and as a result, the cash flows may differ from expectations after the reporting date.

GIFTS AND DONATIONS

The Company made no donations during the year (2019: Nil).

EXPORTS

The Company did not export any goods or services during the year (2019: Nil).

RESEARCH AND DEVELOPMENT

The Company did not carry out any research and development activities during the year (2019: 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 (2019: Nil).

CORPORATE GOVERNANCE

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

AUDITORS

The term of office for Messrs Deloitte & Touche expires at the next Annual General Meeting. The auditors have expressed their willingness to continue serving the Company as auditors. A resolution proposing their re-appointment as auditors to the Company and authorising the Directors to determine their remuneration will be put to the Annual General Meeting.

By order of the Board.

Lusaka, Zambia

Date: 01/06/2021

FINCA ZAMBIA LIMITED

STATEMENT OF DIRECTORS RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

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

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

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

The Directors are of the opinion that the financial statements set out on pages 6 to 47 give a true and fair view of the state of the financial affairs of the Company and of its financial performance in accordance with International Financial Reporting Standards and the Companies Act, 2017. The Directors further report that they have implemented and further adhered to the corporate governance principles or practices contained in Part VII, Sections 82 to 122 of the Companies Act, 2017.

Accordingly, the Directors consider there to be material uncertainties that cast significant doubt on the Company's ability to continue to operate as a going concern. The Company was unable to obtain a letter of support from the parent company as it is a FINCA Group policy not to issue letters of financial support. The going concern status of the company continues to be dependent on the continued support from the parent company. The Company was also unable to obtain waivers from lenders and as a result, the cash flows may differ from expectations after the reporting date.

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

Approval of the financial statements

The financial statements of FINCA Zambia Limited, set out on page 6 to 47, were approved by the Board of Directors on ...1st.. June, 2021 and signed on its behalf by:

DIRECTOR
(Colin Muyanja- Chairman)
DATE: 01/06/2021

DIRECTOR
(Franklin J Gamble- Audit Com Chair
01/06/2021

Deloitte.

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Zambia

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INDEPENDENT AUDITOR'S REPORT

To the members of
FINCA Zambia Limited

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of FINCA Zambia Limited (the Company) set out on pages 6 to 47, which comprise the statement of financial position as at the year ended 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

As indicated in note 31 to the financial statements, the company incurred a net loss of K 63,143,880 for the year ended 31 December 2020 (2019: K21,896,268) and, at that date, its total liabilities exceeded its total assets by K27,974,875 (Net Assets 2019: K20,665,966). The note states that the company will continue to receive financial support from the related parties, however, the directors have not provided us with agreements from the parent company committing funding for the foreseeable future. The Company was unable to obtain waivers from the lenders with regards loans with the breached covenants which implies these are repayable on demand. The forecasts furthermore indicate that the Company will in all probability again breach the capital adequacy requirements in the foreseeable future should the parent company not provide additional capital injection in the business. Consequently we were unable to confirm or dispel whether it is appropriate to prepare the financial statements using the going concern basis of accounting.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and presentation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Companies' Act, 2017 and the Banking and Financial Services Act, 2017, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Revised July 2016), parts 1 and 3 of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2018) and other independence requirements applicable to performing audits of financial statements in Zambia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Report on Other Legal and Regulatory Requirements

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

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

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

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

- We have not obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- We are not aware of any transaction that has not been within the powers of the Company or which was contrary to the Act; and
- The minimum capital requirement prescribed by the Banking and Financial regulation was breached at year end. That is, FINCA's regulatory capital was below the minimum capital requirement by K56,550,049 (2019: K21,684,259). This position was regularised on 31 March 2021 through conversion of K 21,525,521 Parent company debts to equity in January 2021 and an equity injection of K 18,689,130 in March 2021.

Deloitte & Touche

DELOITTE & TOUCHE

ANDREW NJOVU
PARTNER
PC NUMBER: AUD/F000802

DATE: 01 June 2021

FINCA ZAMBIA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2020

	NOTES	2020 K	2019 K
Interest income	4	74 616 394	130 434 567
Interest expense	5	(33 616 392)	(43 626 209)
Net interest income		41 000 002	86 808 358
Impairment charges for credit losses	14	(40 160)	(44 957 793)
Net interest income after impairment charges for credit losses		40 959 842	41 850 565
Fee and commission income	6	11 893 431	26 010 834
Other (losses) income	7	(1 317 526)	6 078 079
Grant income	7	9 957 256	-
Total other income		8 639 730	6 078 079
Total operating income		61 493 003	73 939 478
Operating expenses	8	(108 036 095)	(101 016 141)
Finance cost	22	(1 726 840)	(1 683 998)
Loss before tax	9	(48 269 932)	(28 760 661)
Income tax (expense) credit	10	(14 873 948)	6 864 393
Total comprehensive loss for the year		(63 143 880)	(21 896 268)

FINCA ZAMBIA LIMITED

STATEMENT OF FINANCIAL POSITION
at 31 December 2020

	NOTES	2020 K	2019 K
ASSETS			
Cash and cash equivalents	12	**37,410,906**	34,745,969
Prepayments and other receivables	13	**4,503,668**	4,848,139
Amounts due from related parties	21	**4,595,267**	2,079,883
Loans and advances to customers	14	**70,396,948**	156,154,701
Derivative financial assets	15	**35,995,939**	16,679,364
Deferred tax asset	11	**-**	14,873,948
Property and equipment	16	**23,246,613**	25,478,693
Right of use assets	17	**5,041,808**	7,903,907
Intangible asset	18	**7,306,391**	9,132,375
Total assets		**188,497,540**	271,896,979
LIABILITIES			
Deposits from customers	19	**45,466,948**	62,832,954
Other financial liabilities	20	**21,774,697**	29,603,700
Amounts due to related parties	21	**83,445,173**	50,548,109
Current tax liability	10	**923,313**	4,573,313
Lease Liabilities	22	**5,646,117**	9,197,656
Borrowings	23	**59,216,167**	94,475,312
Total liabilities		**216,472,415**	251,231,044
EQUITY			
Share capital	24	**56,430,413**	41,592,057
Deficit in reserves		**(84,405,288)**	(20,926,091)
Total equity		**(27,974,875)**	20,665,966
Total equity and liabilities		**188,497,540**	271,896,979

The responsibilities of the Company's Director with regard to the preparation of the financial statements are set out on page 3. The financial statements on pages 6 to 47 were approved by the Board of Directors and authorised for issue on ..1st. June 2021 and were signed on its behalf by:

DIRECTOR
Colin Muyanja

DIRECTOR
Franklin J Gamble

FINCA ZAMBIA LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

	Issued capital	General reserves	Retained earnings deficit	Total
	K	K	K	K
Balance at 1 January 2019	38 078 733	1 440 773	(470 358)	39 049 148
Total comprehensive Loss for the year	-	-	(21 896 268)	(21 896 268)
Adjustment to the general reserves	-	(238)	-	(238)
Transfer general reserves	-	(1 440 535)	1 440 535	-
Issued shares (note 24)	3 513 324	-	-	3 513 324
Balance at 31 December 2019	41 592 057	-	(20 926 091)	20 665 966
Balance at 1 January 2020	41 592 057	-	(20 926 091)	20 665 966
Total comprehensive Loss for the year	-	-	(63 143 880)	(63 143 880)
Adjustment to share capital (note 24)	335 317	-	(335 317)	-
Issued shares (note 24)	14 503 039	-	-	14 503 039
Balance at 31 December 2020	56 430 413	-	(84 405 288)	(27 974 875)

FINCA ZAMBIA LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

	NOTES	2020 K	2019 K
OPERATING ACTIVITIES			
Loss before tax		(48 269 932)	(28 760 661)
Adjusted for non cash items:			
Net foreign exchange loss	22,23	9 470 815	1 193 351
Depreciation and amortisation of non-current assets	16,17,18	9 173 382	10 442 285
Write offs of the work in progress		8 780 775	-
Impairment loss recognised on loans and advances	14	3 644 338	44 957 793
Interest expense recognised in profit or loss	5	31 764 767	42 524 951
Finance cost recognised in profit or loss	22	1 726 840	1 683 998
(Profits) Loss on disposal of propert and equipment		(178 376)	98 614
Gains from derivative financial instruments	15	(25 286 097)	(8 315 947)
Lease Modification gain Charged to statement of comprehensive income	17	(1 338 556)	-
Losses(Gains) on forward exchange swap	7	5 969 522	(4 139 811)
Operating cash flows before changes in working funds		(4 542 522)	59 684 573
Decrease in prepayments and other receivables		344 471	2 564 090
Decrease in loans and advances to customers		82 113 415	19 903 259
Decrease in customer deposits		(17 366 006)	(15 852 160)
(Decrease) Increase in other financial liabilities		(7 828 973)	5 703 570
Increase in amounts due from related parties		(2 515 384)	-
Increase in amounts due to related parties		8 022 149	31 356 098
Cash generated from Operations		58 227 149	103 359 430
Income tax paid	10	(3 650 000)	(281 210)
Interest paid		(36 570 132)	(43 364 896)
Net cash generated from Operating activities		18 007 017	59 713 323
INVESTING ACTIVITIES			
Purchase on property and equipment	16	(9 725 326)	(8 955 258)
Proceeds on disposal		208 264	98 614
Acquisition on intangible assets	18	-	(1 890 134)
Net cash used in investing activities		(9 517 062)	(10 746 778)
FINANCING ACTIVITIES			
Loans repaid	23	(23 257 463)	(41 051 041)
Proceeds from external borrowings	23	-	5 806 184
Proceeds from intercompany debt		12 912 000	-
Repayment of intercompany debt		(14 331 600)	-
Lease Payments	22	(6 381 266)	(5 782 128)
Proceeds from issued shares	24	14 503 039	3 513 324
Net cash used in Financing activities		(16 555 290)	(37 513 661)
Net increase in cash and cash equivalents		(8 065 334)	11 452 884
Effects of exchange rate change on Cash and Cash Equivalents		10 730 271	1 028 953
Net cash and cash equivalents at beginning of the year		34 745 969	22 264 132
Net cash and cash equivalents at end of the year		37 410 906	34 745 969
CASH AND CASH EQUIVALENTS			
Bank and cash balances	12	37 410 906	34 745 969

1. GENERAL INFORMATION

Finca Zambia Limited is a micro finance institution incorporated in Zambia and registered with the Bank of Zambia. The address of its registered office and principal place of business and activities are disclosed in the Director's report on page 1.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Going Concern

Accordingly, the Directors consider there to be material uncertainties that cast significant doubt on the Company's ability to continue to operate as a going concern. The Company was unable to obtain a letter of support from the parent company as it is a FINCA Group policy not to issue letters of financial support. The going concern status of the company continues to be dependent on the continued support from the parent company. The Company was also unable to obtain waivers from lenders and as a result, the cash flows may differ from expectations after the reporting date.

2.3 Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements have been prepared on a going concern basis with a material uncertainty related to going concern. Management has put in counter measures to both course correct and improve business performance, as explained in Note 31.

2.4 Interest income and expense

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

2.4.1 Effective interest rate

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Basis of preparation (continued)

2.4.1 Effective interest rate

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

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

2.4.2 Grant income

Revenue grants are credited directly to the statement of profit or loss when the activity to which they relate has taken place. Revenue grants received during the year but which relate to future activities are shown in the statement of financial position as deferred income and transferred to the statement of profit or loss in the year in which the activity is carried out.

2.4.3 Fee and commission

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

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

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

2.5 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the statement of profit or loss in the year in which they are incurred.

2.6 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.7 Retirement benefits

2.7.1 Pension scheme

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

2.7.2 Contract employees

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7.3 National Pension Scheme Authority

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

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

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

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

2.8 Taxation

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

2.8.1 Current tax

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

2.8.2 Deferred tax

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

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

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

2.8.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Property and equipment

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

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

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

The estimated useful lives, residual values and depreciation method are reviewed at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis. Management has estimated the residual values of the property and equipment at 31 December 2020 to be insignificant.

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

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

2.10 Intangible assets

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

2.11 Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments

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

The Company adopted consequential amendments to IFRS 9 Financial Instruments: Disclosures that are applly for disclosures have been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Financial assets and financial liabilities are recognized in the Company's financial position when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

2.12.1 Classification and subsequent measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Company classifies financial assets under IFRS 9 see note 29.

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

2.12.2 Financial Assets

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.2 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:

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

2.12.3 Reclassification

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.4 Impairment of financial assets

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

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

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

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

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

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

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

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

2.12.5 Credit-impaired financial assets

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

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

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

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

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

Purchased or originated credit-impaired financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.6 Modification and derecognition of financial assets

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

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

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

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

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

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset.

2.12.7 Write-off

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

2.12.8 Financial guarantees and loan commitments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial Instruments (continued)

2.12.9 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

2.12.10 Loans and receivables

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

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

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

2.12.11 Derivatives instruments

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

Derivative assets consist of open forward exchange swaps.

2.12.12 Derecognition of financial assets

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general reserves as on appropriation of revenue reserves.

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.13 Financial liabilities

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

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

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

2.13.1 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

3.1 Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations below, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

3.1.1 Measurement of the expected credit loss allowance

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

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

3.1.2 Income taxes

The Company is subject to income taxes in the Republic of Zambia. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the period in which such determination is made.

3.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.2.1 Estimates of asset lives, residual values and depreciation methods

The Directors reviewed the residual values, useful lives and carrying amount of its equipment and other moveable assets to determine the appropriate level of depreciation and whether there is any indication that those assets have suffered an impairment loss. The Directors judged a residual value of zero as a result of the fact that equipment and other moveable assets are not held for trading and are normally scrapped.

4. INTEREST INCOME

	2020 K	2019 K
Arising on:		
Loans to customers	72 262 046	128 392 064
Loans to employees	245 347	688 173
	72 507 393	129 080 237
Cash and short term bank deposits	2 109 001	1 354 330
	74 616 394	130 434 567

Income from portfolio represents interest earned and accrued on loans to customers. Interest on the small group loan product, business loans, small enterprise loans, invoice discounting and order finance is accrued at **7%** (2019: 7%), **6.8%** (2019: 6.8%), **5.6%** (2019: 5.6%) per month respectively. Interest is accrued on a reducing balance basis.

5. INTEREST EXPENSE

	2020	2019
Arising on:	K	K
Borrowings	23 459 167	30 897 999
Deposits due to customers	8 305 600	11 626 952
	31 764 767	42 524 951
Upfornt fees on borrowings	1 851 626	1 101 258
	33 616 392	43 626 209

The weighted average capitalisation rate on funds borrowed generally is 22.5% per annum (2019:16% per annum).

6. FEE AND COMMISSION INCOME

	2020	2019
Credit related fees	6 037 315	16 148 522
Arrangement and deposit fees	3 909 248	5 437 203
Account maintance fees	1 143 634	1 373 084
Insurance administration fee	192 737	316 840
Late penalty fees	610 497	2 735 185
	11 893 431	26 010 834

7. TOTAL OTHER INCOME

7.1 OTHER (LOSSES) INCOME

	2020	2019
(Losses) gains on forward and exchange swap	(5 969 522)	4 139 811
Other operating income	4 651 996	1 938 268
	(1 317 526)	6 078 079

7.2 GRANT INCOME

	2020	2019
Grant income - FI	2 346 257	-
Grant income - others	7 610 999	-
	9 957 256	-

During the year grant income of K2,346,257 in respect of the UNCDF mobile savings project and K7,610,999 relating to RUFEP and Comic relief group savings and agancy commecialisation projects were recognised.

8. OPERATING EXPENSES

	2020	2019
Employee benefit expenses	44 000 262	54 415 949
Other operating and administration expenses	45 391 635	34 964 557
Depreciation and amortisation expense	9 173 383	10 442 285
Net foreign exchange losses	9 470 815	1 193 351
	108 036 095	101 016 142

9. LOSS BEFORE TAX

	2020	2019
Loss before tax is stated after crediting:		
Cash and short term bank deposits (note 4)	2 109 001	1 354 330
(Loss) gain on forward and exchange swap (note 7)	(5 969 522)	4 139 811
Depreciation and amortisation	9 173 382	10 442 285
- Depreciation (note 16 and 17)	7 347 398	8 593 612
- Amortisation (note 18)	1 825 984	1 848 673
Key management remuneration (note 21)	3 994 277	7 128 098
Net foreign exchange losses (note 8)	9 470 815	1 193 351
Directors' remuneration (note 21)	1 492 391	791 774
Management fees (note 21)	6 424 851	6 713 834
Pension contributions	1 299 825	1 710 481

	2020	2019
	K	K
10. TAXATION	2 109 001	1 354 330
Income tax (credit) expense comprise:		
Current tax expense	-	5 588 911
Deferred tax (note 11) Credited / (Debited)	14 873 948	(12 453 305)
Total income tax expense (credit)	14 873 948	(6 864 393)
Current tax (asset) liabilities		
Payable in respect of current year	-	5 588 911
Payable in respect of previous year	4 573 313	(734 388)
	4 573 313	4 854 523
Income tax paid during the year	(3 650 000)	(281 210)
Current tax liability	923 313	4 573 313

11. DEFERRED TAX

Reconciliation of the tax charge:

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

	2020	2019
Loss before tax	(48 269 932)	(28 760 661)
Income tax calculated at 35% on accounting profit	(16 894 476)	(10 066 231)
Non deductible expenses	10 476 015	-
Over provision in prior years	(5 950)	-
Write down of deferred tax assets	21 298 359	3 201 838
Income tax expense (credit)	14 873 948	(6 864 393)

The tax rate used for the 2020 and 2019 reconciliations above is the income tax rate of 35% payable on taxable profits by companies locally.

	2020	2019
11.1 At beginning of year	14 873 948	2 420 643
(Debited)/Credited to profit or loss (note 10)	(14 873 948)	12 453 305
At end of year	-	14 873 948

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

At 31 December 2020	At beginning of year K	(Debited)/Credited to profit or loss K	Credited to Equity K	At end of year asset K
Temporary differences				
- Property and equipment	(2 302 920)	2 302 920	-	-
- Other timing differences	17 176 868	(17 176 868)	-	-
	14 873 948	(14 873 948)	-	-

At 31 December 2019	At beginning of year K	(Debited)/Credited to profit or loss K	Credited to Equity K	At end of year asset K
Temporary differences				
- Property and equipment	(2 191 982)	(110 938)	-	(2 302 920)
- Other timing differences	4 612 625	12 564 243	-	17 176 868
	2 420 643	12 453 305	-	14 873 948

11.2 Deferred tax assets for prior year amounting to K14,873,948 was derecognised in 2020 due to forecasted profits for the next three years not being able to absorb these amounts. The company decided not to recognise deferred tax for the year as they continue to be loss making.

12. CASH AND CASH EQUIVALENTS

	2020	2019
Bank and cash balances	K	K
Cash on hand balances	1 031 040	1 865 097
Kwacha bank accounts	8 220 157	12 753 785
US Dollar bank accounts	28 169 363	20 147 518
Impairment loss	(9 654)	(20 431)
	37 410 906	34 745 969
Total unrestricted cash	37 338 699	34 675 186
Restricted cash	72 207	70 783
	37 410 906	34 745 969

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

	2020	2019
Sundry receivables	1 019 768	2 415 861
Prepayments	3 104 629	2 310 542
Staff advances	379 271	116 418
Loan repayments pending appropriation	-	5 318
	4 503 668	4 848 139

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

	2020	2019
At the beginning of the year	156 154 701	209 932 694
Advanced during the year	82 914 632	217 865 565
Interest accrued on loans	15 083 963	2 938 161
Impairment loss provision	(19 818 319)	(52 773 844)
Loans written back	-	8 307 980
Repayments during the year	(163 938 029)	(230 115 855)
	70 396 948	156 154 701
Gross amounts receivable	75 131 304	190 063 564
Interest accrued on loans	15 083 963	18 864 981
Impairment charges for credit losses	(19 818 319)	(52 773 844)
	70 396 948	156 154 701

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 **K19,818,319** (2019: K52,773,844). 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.

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The movement on the loan loss provision is shown below:	2020 K	2019 K
At 1 January	52 773 844	18 899 110
Charge for the year	40 160	44 957 793
Write offs	(36 599 863)	(11 083 059)
Stage 3 interset Income	3 604 178	-
At 31 December	19 818 319	52 773 844

'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:

Balance as at 1 January	52 773 844	18 899 110
Transfer to expected credit losses for loans to customers	(32 955 525)	33 874 734
Balance as at 31 December	19 818 319	52 773 844

In determining the recoverability of loans and receivables, the Company considers any delays in the monthly loan repayments from the date the loan was initially granted on an ongoing basis and any delayed monthly repayments. Where the monthly loan repayments are in arrears, the entire loan balance outstanding from the customer is provided for based on the loan performance at various percentage rates from 0.12% to 100%.

Current	71 577 853	156 605 993
1 - 7 days	87 285	1 146 141
8 - 30 days	2 183 677	9 604 664
31 - 60 days	821 467	4 922 774
61 - 90 days	1 327 734	4 764 679
91 - 180 days	1 187 782	14 373 346
Over 180 days	13 029 470	17 510 947
	90 215 268	208 928 544

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

	2020 K	2 019 K
Derivative financial assets arising from:		
Financial derivative at 1 January 2020	16 679 364	4 223 606
(Losses) Gains on forward exchange swap	(5 969 522)	4 139 811
Gains from derivative financial assets	25 286 097	8 315 947
Financial derivative at 31 December 2020	35 995 939	16 679 364

The gross notional amount for the derivative is K55,098,000 or (USD2,600,000) as at 31 December 2020 (2019: K36,538,580)

16. PROPERTY AND EQUIPMENT

Cost	Leasehold land and buildings	Motor vehicles	Computer equipment	Furniture and fittings	Capital work in progress	Total
	K	K	K	K	K	K
At 1 January 2019	7 478 845	459 143	9 765 140	5 967 508	8 618 711	32 289 347
Additions	216 937	280 000	1 378 972	612 579	6 466 770	8 955 258
Transfers	-	-	-	-	-	-
Write off to profit or loss	-	-	-	-	(186 602)	(186 602)
Disposals	-	-	(63 328)	-	-	(63 328)
At 31 December 2019	7 695 782	739 143	11 080 784	6 580 087	14 898 879	40 994 675
At 1 January 2020	7 695 782	739 143	11 080 784	6 580 087	14 898 879	40 994 675
Additions	-	-	276 068	252 033	9 197 225	9 725 326
Transfers	543 341	-	29 759	100 624	(673 723)	-
Write off to profit or loss	-	-	-	-	(8 780 775)	(8 780 775)
Disposals	-	(155 958)	(113 101)	-	-	(269 059)
At 31 December 2020	8 239 122	583 185	11 273 510	6 932 744	14 641 606	41 670 167
DEPRECIATION						
At 1 January 2019	2 712 586	241 860	6 001 311	2 803 271	-	11 759 027
Charge for year	762 045	93 304	1 972 389	968 858	-	3 796 597
Eliminated on disposal	-	-	(39 643)	-	-	(39 643)
At 31 December 2019	3 474 631	335 164	7 934 057	3 772 129	-	15 515 981
At 1 January 2020	3 474 631	335 164	7 934 057	3 772 129	-	15 515 981
Charge for year	757 564	116 636	1 370 149	902 394	-	3 146 743
Eliminated on disposal	-	(155 958)	(80 357)	(2 856)	-	(239 171)
At 31 December 2020	4 232 195	295 842	9 223 849	4 671 667	-	18 423 553
Carrying amount						
At 31 December 2020	4 006 927	287 343	2 049 661	2 261 077	14 641 606	23 246 613
At 31 December 2019	4 221 151	403 979	3 146 727	2 807 958	14 898 879	25 478 694

In accordance with Companies Act, 2017, the Register of Land and Buildings is available for inspection by members and their duly authorised agents at the registered records office of the Company.

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

17. RIGHT OF USE ASSETS

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

	2020	2019
Cost	K	K
At 1 January 2019	12 700 922	12 700 922
Additions	4 343 779	-
Modifications	(3 025 187)	-
Termination of leases	(878 220)	-
Lease Modification gain Charged to I/s	(1 338 556)	-
At 31 December 2020	11 802 737	12 700 922
Accumulated depreciation		
At 1 January 2019	4 797 015	-
Charge for year	4 200 655	4 797 015
Termination of leases	(2 236 741)	-
At 31 December 2020	6 760 929	4 797 015
At 31 December 2020	5 041 808	7 903 907

17.1 Amount recognised in profit or loss

	2020	2019
Depreciation of right of use asset	4 200 655	4 797 015
Sub total		

17.2 The Company has 14 buildings, with an average of 2 years lease periods.

18. INTANGIBLE ASSETS

	2020	2019
	K	K
Cost		
At 1 January	14 793 381	12 903 247
Acquisitions	-	1 890 134
Balance at 31 December	14 793 381	14 793 381
Amortisation		
At 1 January	5 661 006	3 812 333
Amortisation for the year	1 825 984	1 848 673
Balance at 31 December	7 486 990	5 661 006
Carrying amounts		
Balance at 31 December	7 306 391	9 132 375

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

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

19. DEPOSITS FROM CUSTOMERS

	2020 K	2019 K
Voluntary savings	45 151 164	61 730 750
Collateral savings deposits	315 784	1 102 204
	45 466 948	62 832 954

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

20. OTHER FINANCIAL LIABILITIES

	2020 K	2019 K
Sundry and other payables	4 846 820	7 482 382
Gratuity and leave provisions	8 600 324	11 245 834
Deferred grant income	7 912 649	8 521 434
Deferred income	313 523	2 054 948
Amounts to due to local banks	-	169 900
Unearned interest income	101 381	129 172
	21 774 697	29 603 670

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

21. RELATED PARTY TRANSACTIONS

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

The Company has balances arising from transactions with;

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

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

	2020 K	2019 K
FINCA Microfinance Global Services (FMGS)	615 430	-
FINCA Network Support Services BV	5 809 421	6 713 834
	6 424 851	6 713 834

Year end balances

(a) Amounts due to related parties

	2020 K	2019 K
Arising on:		
FINCA Microfinance Global Services (FMGS)	2 770 772	-
FINCA Network Support Services	9 521 343	4 269 966
FINCA Microfinance Holding Company LLC (FMH)	21 190 000	14 053 300
KFW - Subodinated Debt Principle	44 499 000	29 511 930
Accrued interest on Loans	5 464 058	2 712 913
	83 445 173	50 548 109
Amounts falling due within one year	38 946 173	21 036 179
Amounts falling due after one year	44 499 000	29 511 930

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

(b) Amounts due from related parties

	2020 K	2019 K
Amounts due from related parties	4 595 267	2 079 883

21. RELATED PARTY TRANSACTIONS (CONTINUED)

The outstanding balance of K21,190,000 comprises unsecured debt of $1,000,000 disbursed in August 2020 with interest rates of 6.75% for a tenure of 1 year.

The outstanding balance of K44,499,000 comprises unsecured debt of $2,100,000 disbursed in January 2019 with interest rates of 2.5% for a tenure of 5years.

(b) Compensation of key Management personnel

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

	2020	2019
	K	K
Directors	1 492 391	791 744
Management	3 994 277	7 128 098

22 LEASE LIABILITIES

	2020	2019
At beginning of the year	12 318 099	12 318 099
Finance cost	1 726 840	1 683 998
Lease repayments	(6 381 266)	(5 782 128)
Exchange loss on valuation of foreign denominated leases	(2 017 556)	977 687
Current liabilities	2 912 319	6 047 694
Non-current liabilities	2 733 798	3 149 962
Lease liabilities included in the statement of financial position as at 31 December 2020	5 646 117	9 197 656

The weighted average incremental borrowings applied to lease liabilities is 27% for leases in Zambian Kwacha, and 11% for leases denominated in United States Dollars.

23 BORROWINGS

	2020	2019
At beginning of the year	94 475 312	123 049 867
Loans received	-	5 806 184
Repayments	(23 257 463)	(41 051 041)
Accrued interest on borrowings	2 853 857	6 670 302
Exchange loss on valuation of foreign denominated loans	(14 855 539)	-
At end of the year	59 216 167	94 475 312

All loans denominated in United States Dollars are hedged and exchange losses/gains are accounted for under derivate financial assets in note 15.

	2020	2019
Due to:		
(i) Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF Symbiotics	16 499 574	35 471 505
(ii) Developing World Markets (DWM)	-	23 380 911
(iii) Grameen Credit Agricole MicroFinance Foundation	10 480 680	9 599 669
(iv) MCE Social Capital	21 560 094	15 203 502
(v) Ecumenical Development Cooperative Society UA Oikocredit	10 675 819	10 819 726
	59 216 167	94 475 312
Less: amounts falling due within one year	59 216 167	(79 271 810)
Amounts falling due after one year	-	15 203 502

23. BORROWINGS (CONTINUED)

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

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

This outstanding balance comprises unsecured debt of K16,172,309 obtained in August 2018 and converted to USD of 763,204.80 with interest rate of 5.241% per annum starting August 2020.

(ii) Grameen Crédit Agricole Microfinance Foundation

The outstanding balance of K9,000,000 comprises 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 34 months.

(iii) MCE Social Capital

The outstanding balance of K21,191,000 comprises unsecured debt of USD 1,000,000 disbursed in December 2018 with interest rates of 6.75% for a tenure of 3 years.

(iv) Ecumenical Development Cooperative Society UA - Oikocredit

The outstanding balance is K10,000,000 disbursed in September 2019 at floating interest rate of 16.51% for a tenure of 2 years and is unsecured.

All loans with covenant breached have been classified as current as repayment can be called upon imminently, and all with convenant breach waivers up .

Lender	Principal & accrued interest	Covenant limit	Covenant actual value	Waiver received [Yes/No]
MCE Social Capital	21 560 094	PAR 30 <10%, CAR >15%, W/off Ratio <5%, Net Un-hedged FX <20%, OSS >95%, Risk Covr Ratio >60%	PAR 30 =16.2% CAR =-39%, W/off Ratio =14.1%, Net Un-hedged FX =173%, OSS =10.6%, Risk Covr Ratio =68.6%	Yes
Regional MSME Investment Fund for Sub-Saharan Africa S.A, SICAV-SIF Symbiotics	16 499 574	PAR 30<15%, CAR >15%, Net Un-hedged FX [-50%< x <150%], Uncovered Capital Ratio <25%	CAR =-39%, PAR 30 =16.2%, Debt to equity =-4.53, OSS =10.6%	Yes
Ecumenical Development Cooperative Society UA - Oikocredit	10 675 819	CAR >15%, PAR 30 <8%, Debt to equity [not greater 8:1], OSS >100%	CAR =-39%, PAR 30 =16.2%, Debt to equity =-4.53, OSS =10.6%	Yes
Grameen Crédit Agricole Microfinance Foundation	5 171 101 5 309 579	ROA >0%, CAR >15%, PAR 30<15%, OCP [-20%>X>20%]	ROA =-142%, CAR =-39%, OCP =173%, PAR 30 =16.2%	Yes Yes

24. ISSUED CAPITAL

	2020 K	2019 K
Authorised, issued and fully paid:		
At beginning of the year	41 592 057	38 078 733
Adjustments to share capital	335 317	-
14 503 039 ordinary shares of K1 each	14 503 039	3 513 324
At end of the year	56 430 413	41 592 057

On 30 April 2020, the Company issued 14,503,039 ordinary shares valued at K1 each (2019: 3,513,324). Prior during the year an adjustment was made against share capital to align to records held at PACRA relating to the allocation of shares that was not corrected in the general ledger.

25. GENERAL RESERVE

The Company has charged the impairment loss on loans and advances in accordance with IFRS 9. The difference of the charge for impairment on loans and advances based on Statutory Instrument No.142 and the charge based on International Financial Reporting Standards (IFRS 9) has been charged to Statement of Profit or loss because the provisons carried in the books based on Internationational Financial Reporting Standards are higher than the same calculation based on statutory requirements.

	2020 K	2019 K
At beginning of the year	-	1 440 773
Transfer to retained earnings	-	(1 440 773)
At end of the year	-	-

26. CAPITAL COMMITMENTS

As at 31 December 2020, the Parent Company had made Capital Commitements to the Tune of USD 1,865,833 to be injected before 31 March 2021 and as at May 2021 USD1,015,833 and USD850,000 was injected in Jan and March 2021 respectively.

27. CONTINGENT LIABILITIES

There following are cases giving rise to contingent liabilities as at 31 December 2020.

1. The employee has 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 defence is premised on the engagements that were made with the former CEO and his performance which justified the extension of the probation. Claim is unliquidated damages, prorated salary and gratuity amounting to a total value of ZMW 1,000,000.

28. EVENTS AFTER THE REPORTING DATE

The Company took measures in 2021 to strengthen its equity position particularly in response to effects from COVID-19 by injecting USD 1,015,833 and USD 850,000 as equity in Jan and March 2021 respectively to mitigate eroded capital.

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

	2020 K	2019 K
The gearing ratio at the year end was as follows:		
Debt (i)	80 406 167	108 528 612
Less: Cash and cash equivalents	(37 410 906)	(34 745 969)
Net debt	42 995 261	73 782 643
Equity (ii)	(27 974 875)	20 665 966
Net debt to equity ratio	-154%	357%

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;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain a strong capital base to support the development of its business.

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.

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		1 128 891	-
2 - Domestic	0.0%	1 128 891	-
3 - Foreign	0.0%	0.0%	-
4 Balances held with commercial banks:		36 282 015	-
5 a) Domestic		36 282 015	-
6 - with residual maturity of up to 12 months	20.0%	36 282 015	7 256 403
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		70 396 948	70 396 948
23 - Portion secured by cash or treasury bills	0.0%	315 784	-
24 - Loans repayable in instalments and secured by a mortgage on owner-occupied residential property	50.0%	32 470 732	16 235 366
25 - Others	100.0%	37 610 432	37 610 432
26 Premises of Institution	*100.0%*	-	-
27 Acceptances	*100.0%*	-	-
28 Other assets	*100.0%*	80 689 686	80 689 686
29 Investment in equity of other companies	*100.0%*	-	-
30 TOTAL RISK-WEIGHTED ASSETS (on-balance sheet)		188 497 540	141 791 887

OFF BALANCE SHEET OBLIGATIONS	Risk weight % (2)	Balance (net of allowance for losses) (3) K	Risk-weighted assets (1 x 2 x 3) K
Letters of credit			
31 - sight import letters of credit	20%	-	-
32 - portion secured by Cash/Treasury bills	0%	-	-
33 - standby letters of credit	100%	-	-
34 - portion secured by Cash/Treasury bills	0%	-	-
35 - export letters of credit confirmed	20%	-	-
36 - Guarantees and indemnities		-	-
37 - guarantees for loans, trade and securities	100%	-	-
38 - portion secured by Cash/Treasury bills	0%	-	-
39 - performance bonds	50%	-	-
40 - portion secured by Cash/Treasury bills	0%	-	-
41 - securities purchased under resale agreement	100%	-	-
42 - other contingent liabilities	100%	-	-
43 - net open position in foreign currencies	100%	-	-
TOTAL RISK-WEIGHTED ASSETS (off balance sheet)		-	-
TOTAL RISK-WEIGHTED ASSETS (on and off-balance sheet)		188 497 540	141 791 887

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Capital managment (Continued)

Computation of capital position

	31 December 2020 K	31 December 2019 K
PRIMARY (TIER 1) CAPITAL ADDITIONS:		
(a) Paid-up common shares	56 430 413	41 592 057
(b) Eligible preferred shares	-	-
(c) Capital grants (Share premium)	-	-
(d) Retained earnings	(84 405 288)	(20 926 091)
(e) Non distributive reserves	-	-
(f) Statutory reserves	-	-
(g) Minority interests (common shareholders' equity)	-	-
(h) Sub-total	(27 974 875)	20 665 966
SUBTRACTIONS:		
(i) Goodwill and other intangible assets	(7 306 391)	(9 132 375)
(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)	(7 306 391)	(9 132 375)
OTHER ADJUSTMENTS:		
Provisions*	-	(1 070 339)
Assets of little or no realizable value (note 3)	-	-
Other adjustments (specify)	-	-
Sub-total (Other adjustments)	-	-
(n) Total Subtractions (B): (Sub-total A above+Other adjustments)	-	-
(o) TOTAL PRIMARY CAPITAL (h - n)	(35 281 266)	10 463 253
SECONDARY (TIER 2) CAPITAL		
(a) Eligible preferred shares		
(b) Eligible subordinated term debt (note 23)	20 064 912	25 081 140
(c) Eligible loan stock/capital	-	-
(d) Eligible general provisions	-	-
(e) Revaluation reserves. Maximum is 40% of revaluation	-	-
(f) Other specify	-	-
ELIGIBLE SECONDARY CAPITAL	-	-
(the maximum amount of secondary capital is limited to 100% of primary capital)	-	-
ELIGIBLE TOTAL CAPITAL (I(o) + III) (Regulatory capital)	(35 281 266)	10 463 253
MINIMUM TOTAL CAPITAL REQUIREMENT:	21 268 783	32 147 511
(15% of total on and off balance sheet risk-weighted assets as established in the first schedule)		
CAPITAL ADEQUACY (I + III - IV)	(56 550 049)	(21 684 259)

As at 31 December 2020 FINCA's regulatory capital was below the minimum capital requirement by K56,550,049 (2019: K21,684,259). This position was regularised on 31 March 2021 through conversion of USD 1,015,833 (K21,525,521) parent company debts to equity in January 2021 and an equity injection of USD850,000 (K18,689,130) in March 2021.

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Capital management (Continued)

Interest rate risk management

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

Credit risk management

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

Liquidity risk management

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

Financial risk management objectives

(a) Introduction and overview

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

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

Credit risk management

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

(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.

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Expected credit loss measurement

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

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

Significant increase in credit risk

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

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

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

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

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

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

Definition of default

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

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Expected credit loss measurement

Definition of default

The Company considers the following as constituting an event of default:

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

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

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

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

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

Write-off

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

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 K159,999)
- Large (for loan amounts greater than K160,000)

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

Rating Model

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

Measurement of ECL

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

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

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

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Measurement of ECL (Continued)

Probability of default (PD)

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

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

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

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

Observation period for modeling cox hazard rates is 5 years.

Set out below are the changes to the ECL as at 31 December 2020 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 2020

	GDP 50% K	No change K	GDP -17% K
Impairment on loan portfolio			
Small	2 028 196	2 069 036	1 717 300
Large	17 596 685	17 749 283	14 731 904
Total impairment on loan portfolio	19 624 881	19 818 319	16 449 204
Other financial instruments			
Cash and cash equivalents	-	9 654	-
Total impairment charges on credit losses	19 624 881	19 827 973	16 449 204
Year ended 31 December 2019			
Impairment on loan portfolio			
Small	2 576 276	2 789 418	2 874 228
Large	48 834 217	49 984 426	49 906 650
Total impairment on loan portfolio	51 410 493	52 773 844	52 780 878
Other financial instruments			
Cash and cash equivalents	-	20 431	-
Total impairment charges on credit losses	51 410 493	52 794 275	52 780 878

Loss given default (LGD)

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

Exposure at default (EAD)

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

Non-Incorporation of forward-looking information

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

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Credit quality of loans to customers

Year ended 31 December 2020

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Gross Carrying amount				
Current	7 825 756	3 078	-	7 828 834
Past due 1-30 days	2 496	49 685	-	52 181
Past due 31-60 days	-	11 473	-	11 473
Past due 61-90 days	-	34 973	-	34 973
Past due more than 90 days	-	-	2 898 371	2 898 371
Total gross carrying amount	7 828 252	99 209	2 898 371	10 825 832
Loss Allowance				
For on-balance sheet exposure	(179 921)	(23 168)	(1 865 947)	(2 069 036)
Net Small Loans Portfolio	7 648 331	76 041	1 032 424	8 756 796
LARGE				
Gross Carrying amount				
Current	41 969 285	17 632 308	2 531	59 604 124
Past due 1-30 days	-	2 067 315	-	2 067 315
Past due 31-60 days	-	786 441	-	786 441
Past due 61-90 days	-	1 525 092	12 132	1 537 224
Past due more than 90 days	-	-	15 394 331	15 394 331
Total gross carrying amount	41 969 285	22 011 156	15 408 994	79 389 435
Loss Allowance				
For on-balance sheet exposure	(884 903)	(2 453 359)	(14 411 021)	(17 749 283)
Net Large Loans Portfolio	41 084 382	19 557 797	997 973	61 640 152
Total net loan portfolio	48 732 713	19 633 838	2 030 397	70 396 948

Year ended 31 December 2019

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Gross Carrying amount				
Current	13 793 927	342	7 594	13 801 863
Past due 1-30 days	29 443	531 546	-	560 989
Past due 31-60 days	-	247 170	-	247 170
Past due 61-90 days	-	263 268	1 712	264 980
Past due more than 90 days	-	-	2 156 294	2 156 294
Total gross carrying amount	13 823 370	1 042 326	2 165 600	17 031 296
Loss Allowance				
For on-balance sheet exposure	(687 099)	(324 162)	(1 862 967)	(2 874 228)
Total loss allowance	(687 099)	(324 162)	(1 862 967)	(2 874 228)
Net Small Loans Portfolio	13 136 271	718 164	302 633	14 157 068

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

Credit quality of loans to customers (continued)

LARGE	Stage 1	Stage 2	Stage 3	Total
Gross Carrying amount	K	K	K	K
Current	120 876 051	4 600 386	7 718 437	133 194 874
Past due 1-30 days	77 092	6 683 180	3 157 991	9 918 263
Past due 31-60 days	-	2 726 793	3 204 935	5 931 728
Past due 61-90 days	-	2 368 888	3 716 066	6 084 954
Past due more than 90 days	-	-	36 774 465	36 774 465
Total gross carrying amount	120 953 143	16 379 247	54 571 894	191 904 284
Loss Allowance				
For on-balance sheet exposure	(5 412 399)	(4 005 739)	(40 488 513)	(49 906 651)
For off-balance sheet exposure				
Net Large Loan Portfolio	115 540 744	12 373 508	14 083 381	141 997 633
Total net loan portfolio	128 677 015	13 091 672	14 386 014	156 154 701

	Stage 1	Stage 2	Stage 3	Total
Other financial instruments for the year ended 31 December 2019				
Gross carrying amount				
Cash and cash equivalents	22 293 064	-	-	22 293 064
Loss Allowance				
For on-balance sheet exposure	(28 932)	-	-	(28 932)
Total	22 264 132	-	-	22 264 132
Other financial instruments for the year ended 31 December 2020				
Cash and cash equivalents	37 420 560	-	-	37 420 560
Loss Allowance				
For on-balance sheet exposure	(9 654)	-	-	(9 654)
Total	37 410 906	-	-	37 410 906

During the years ended 31 December 2020 and 2020, the Company modified the contractual cash flows on certain loans to customers. All such loans were transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses.

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 2020

	Gross Carrying Amount	Loss Allowance	Amortized Cost
	K	K	K
Loan portfolio in default (Stage 3)			
Small	2 898 371	(1 865 947)	1 032 424
Large	15 408 994	(14 411 021)	997 973
Total	**18 307 365**	**(16 276 968)**	**2 030 397**

Year ended 31 December 2019	Gross Carrying amount	Loss Allowance	Amortized Cost
	K	K	K
Loan portfolio in default (Stage 3)			
Small	2 165 600	(1 807 996)	357 604
Large	54 571 894	(40 568 234)	14 003 660
Total	**56 737 494**	**(42 376 230)**	**14 361 264**

Significant increase in credit risk

Year ended 31 December 2020

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance as of 1 January 2020	666 825	314 597	1 807 996	2 789 418
Transfer from Stage 1 to Stage 2	(241 291)	561 374	-	320 083
Transfer from Stage 2 to Stage 1	34 007	(300 767)	-	(266 760)
Transfer from Stage 2 to Stage 3	-	(1 124 049)	1 245 535	121 486
Transfer from Stage 3 to Stage 2	-	256	(4 336)	(4 080)
Transfer from Stage 1 to Stage 3	(14 304)	-	3 606	(10 698)
Total transfers	(221 588)	(863 186)	1 244 805	160 030
New financial instrument originated or purchased	449 548	1 989	31 772	483 309
Repayment of principal amount	(712 784)	568 628	945 667	801 511
Changes in interest accrual	-	-	-	-
Modification of contractual cash flows of financial instruments	(44)	1 759	-	1 715
Derecognition during the period	(2 036)	(619)	(30 416)	(33 071)
Write-offs	-	-	(2 133 876)	(2 133 876)
Loss Allowance as of 31 December 2020	179 921	23 167	1 865 948	2 069 036

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

LARGE	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance as of 1 January 2020	5 423 056	4 013 626	40 568 234	50 004 916
Transfer from Stage 1 to Stage 2	(3 904 677)	8 092 849	-	4 188 172
Transfer from Stage 2 to Stage 1	1 862 336	(6 219 700)	-	(4 357 364)
Transfer from Stage 2 to Stage 3	-	(6 260 863)	8 029 605	1 768 742
Transfer from Stage 3 to Stage 2	-	1 230 148	(5 498 317)	(4 268 169)
Transfer from Stage 1 to Stage 3	(31 953)	-	25 922	(6 031)
Total transfers	(2 074 294)	(3 157 566)	2 557 210	(2 674 649)
New financial instrument originated or purchased	678 365	1 542 467	2 143 399	4 364 232
Repayment of principal amount	(3 412 123)	412 291	2 989 425	(10 407)
Changes in interest accrual	-	-	-	-
Modification of contractual cash flows of financial instruments	385 368	(143 554)	154 128	395 942
Derecognition during the period	(115 469)	(213 907)	(950 123)	(1 279 498)
Write-offs	-	-	(33 051 253)	(33 051 253)
Total loss allowance as of 31 December 2020	1 064 825	2 476 525	16 276 968	19 818 318

Year ended 31 December 2019

SMALL	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Loss Allowance as of 1 January 2019				
Transfer from Stage 1 to Stage 2	(231 340)	503 073	-	271 733
Transfer from Stage 2 to Stage 1	35 505	(218 778)	-	(183 273)
Transfer from Stage 2 to Stage 3	-	(1 042 027)	1 782 721	740 694
Transfer from Stage 3 to Stage 2	-	4 620	(6 831)	(2 211)
Transfer from Stage 1 to Stage 3	-	-	-	-
Total transfers	(195 835)	(753 112)	1 775 890	826 944
New financial instrument originated or purchased	491 846	31	79 442	571 319
Repayment of principal amount	89 323	906 333	430 667	1 426 322
Changes in interest accrual	-	-	-	-
Modification of contractual cash flows of financial instruments	-	-	-	-
Derecognition during the period	-	-	-	-
Write-offs	-	-	-	-
Loss Allowance as of 31 December 2019	385 334	153 252	2 285 999	2 824 585

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Credit risk management (Continued)

Significant increase in credit risk (Continued)

LARGE

Loss Allowance as of 1 January 2019				
Transfer from Stage 1 to Stage 2	(4 092 979)	17 736 335	-	13 643 356
Transfer from Stage 2 to Stage 1	2 768 791	(11 514 733)	-	(8 745 942)
Transfer from Stage 2 to Stage 3	-	(21 806 642)	32 897 811	11 091 169
Transfer from Stage 3 to Stage 2	-	110 450	(161 196)	(50 746)
Transfer from Stage 1 to Stage 3	(258 056)	-	3 069 431	2 811 375
Total transfers	(1 582 244)	(15 474 590)	35 806 046	18 749 212
New financial instrument originated or purchased	2 097 664	470 303	1 852 754	4 420 721
Repayment of principal amount	3 017 531	13 612 046	8 780 037	25 409 614
Changes in interest accrual	222 630	435 870	711 211	1 369 711
Modification of contractual cash flows of financial instruments	-	-	-	-
Derecognition during the period	-	-	-	-
Write-offs	-	-	-	-
Total loss allowance as of 31 December 2019	4 140 916	(803 119)	49 436 046	52 773 843

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

The following table detail the Company's remaining contractual maturity for its non-derivate financial assets and liabilities. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

Year ended 31 December 2019

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	Total
Assets	K	K	K	K	K
Bank and cash balances	34 745 969	-	-	-	34 745 969
Other receivables	121 736	2 310 542	-	-	2 432 278
Derivative financial assets	-	-	16 679 364	-	16 679 364
Loans and receivables	43 988 849	27 473 527	45 335 890	39 356 435	156 154 701
Total assets	78 856 554	29 784 069	62 015 254	39 356 435	210 012 312
Liabilities					
Deposits from customers	12 406 050	8 195 171	42 231 733	-	62 832 954
Other financial liabilities	1 575 234	18 830 775	3 149 963	6 047 697	29 603 669
Amounts due to related parties	-	21 036 179	-	29 511 930	50 548 109
Borrowings	94 475 312	-	-	-	94 475 312
Total liabilities	108 456 596	48 062 125	45 381 696	35 559 627	237 460 044
Liquidity gap	(29 600 042)	(18 278 056)	16 633 558	3 796 808	(27 447 732)

Year ended 31 December 2020

	Less than 1 month	1 - 3 month	3 months to 1 year	1 - 5 years	Total
Assets	K	K	K	K	K
Bank and cash balances	37 410 906	-	-	-	37 410 906
Other receivables	379 271	1 019 768		-	1 399 039
Derivative financial assets	-	-	35 995 939	-	35 995 939
Loans and receivables	8 014 411	25 514 576	20 526 863	16 341 098	70 396 948
Total assets	45 804 588	26 534 344	56 522 802	16 341 098	145 202 832
Liabilities					
Deposits from customers	24 458 019	6 026 755	14 982 174	-	45 466 948
Other financial liabilities	4 846 820	3 648 731	3 302 595	9 976 551	21 774 697
Amounts due to related parties	-	38 946 173	-	44 499 000	83 445 173
Borrowings	59 216 167	-	-	-	59 216 167
Total liabilities	88 521 006	48 621 659	18 284 769	54 475 551	209 902 985
Liquidity gap	(42 716 418)	(22 087 315)	38 238 033	(38 134 453)	(64 700 153)

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 2020:

Amount		Scenario 1 10% increase in variable interest rates	Scenario 2 10% decrease in variable interest rates
	K	K	K
Loss before tax	(48 269 932)	(51 631 570)	(43 907 310)

Assuming no management action, a rise would decrease net interest income for 2020 by **K3,361,638** (2019: K4,531,020), 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 2020.

		Scenario 1 variable Foreign	Scenario 1 variable Foreign
	K	K	K
Loss before tax	(48 269 932)	(47 322 850)	(49 217 013)

Assuming no management action, a rise would decrease net income for 2020 by K869,679 (2019:K119,335), while a fall would increase net interest income by the same amount.

30. FAIR VALUE MEASUREMENTS

The information set out below provides information about how the Company determines fair values of various financial assets and financial liabilities.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	K	K	K	K
Loans and receivables:				
– other receivables	1 399 039	1 399 039	4 617 480	4 617 480
– loans and receivables	70 396 948	67 398 715	156 154 701	145 223 872
– Derivative financial assets	35 995 939	35 995 939	16 679 364	16 679 364
Total	107 791 926	104 793 693	177 451 545	166 520 716

30. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required) (Continued)

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities	K	K	K	K
Financial liabilities held at amortised cost:				
– deposits from customers	45 466 948	45 011 883	62 832 954	70 372 908
– other financial liabilities	21 774 697	21 774 697	29 603 669	29 603 669
– amounts due to related parties	83 445 173	83 445 173	50 548 109	51 862 360
– borrowings	59 216 167	59 216 167	94 475 312	115 259 881
Total	209 902 985	209 447 920	237 460 044	267 098 818

Fair value hierarchy as at 31 December 2019

	Level 1	Level 2	Level 3	Total
Financial assets	K	K	K	K
Loans and receivables:				
– other receivables	-	-	4 617 480	4 617 480
– loans and receivables	-	156 154 701	-	156 154 701
– Derivative financial assets		-	16 679 364	16 679 364
Total	-	156 154 701	21 296 844	177 451 545
Financial liabilities				
Financial liabilities held at amortised cost:				
– deposits from customers	-	62 832 954	-	62 832 954
– other financial liabilities	-	-	29 603 669	29 603 669
– borrowings	-	94 475 312	-	94 475 312
Total	-	157 308 266	29 603 669	186 911 935

Fair value hierarchy as at 31 December 2020

	Level 1	Level 2	Level 3	Total
Financial assets	K	K	K	K
Loans and receivables:				
– other receivables	-	-	1 399 039	1 399 039
– loans and receivables	-	70 396 948	-	70 396 948
– Derivative financial assets	-	-	35 995 939	35 995 939
Total	-	70 396 948	37 394 978	107 791 926
Financial liabilities				
Financial liabilities held at amortised cost:				
– deposits from customers	-	45 466 948	-	45 466 948
– other financial liabilities	-	-	21 774 697	21 774 697
– borrowings	-	59 216 167	-	59 216 167
Total	-	104 683 115	21 774 697	126 457 812

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

31. GOING CONCERN

The financial statements have been prepared on a going concern basis. This basis presumes that sufficient liquidity will continue to be available to finance the operations of the Company and that the realization of assets and settlement of liabilities will occur in the ordinary course of business. This is deemed appropriate not withstanding that the company has incurred losses of K 63,143,880 and deficit in reserves of K 84,405,288 for the year ended 31 December 2020 (as of 31 December 2019 losses and deficit in reserves amounted to K21,896,268 and 20,926,091 respectively). Further to that, the Company's regulatory capital was below the minimum capital requirement by K56,550,049 (2019: K21,684,259).

Current year losses were driven by a limitation imposed on disbursements in reaction to COVID 19 which resulted in a 60% decline in loan portfolio and correspondingly interest income. Losses in 2020 were forecasted as no new funding was projected to be secured.

This projection was realized and a handshake agreement with external lenders was put in place in the latter half of 2020 putting a hold on all principal payments due during this time. Consequently, the decline in portfolio resulted in breaches in debt covenants. A wavier letter from external lenders was received covering said breaches through to 31 December 2020.

The Company took measures in 2020 to strengthen its equity position particularly in response to effects from COVID-19. In May 2020 the Parent Company converted K14,503,039 (USD 800,000) of debt into equity. In addition, initiatives related to staff and employee-related costs and the streamlining of other operating expenses were done in the latter half of the year.

Accordingly, the Directors consider there to be material uncertainties that cast significant doubt on the Company's ability to continue to operate as a going concern. The Company was unable to obtain a letter of support from the parent company as it is a FINCA Group policy not to issue letters of financial support. The going concern status of the company continues to be dependent on the continued support from the parent company. The Company was also unable to obtain waivers from lenders and as a result, the cash flows may differ from expectations after the reporting date.

32. Adoption of New and Revised Standards

32.1 New and amended IFRS Standards that are effective for the current year

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID- 19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c There is no substantive change to other terms and conditions of the lease.

32. Adoption of New and Revised Standards (continued)

32.1 New and amended IFRS Standards that are effective for the current year (continued)

In the current financial year, the Company has not been impacted by the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the Company has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards	The Company has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

32.2 New and revised Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment—Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts—Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments and IFRS 16 Leases*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an Company will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

32. Adoption of New and Revised Standards (continued)

32.2 New and revised Standards in issue but not yet effective

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an Company also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an Company recognises such sales proceeds and related costs in profit or loss. The Company measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the Company's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The Company shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.