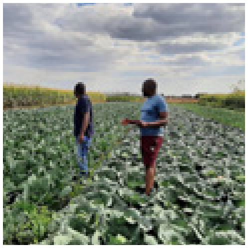
AMZ

AGORA MICROFINANCE ZAMBIA

BREAKING THE BARRIERS TO FINANCE

Annual Report 2022



Vision & Mission

Vision: A Zambia where economic opportunities for the poor enable them to improve their livelihoods, move out of poverty and be equal members of society.

Mission: To contribute to the economic well-being of the poor through effective provision of appropriate financial services.

Contents

AMZ's Principal Long-Term Goals

1. Direct outreach to the poor at the national level
2. Suitability of processes and products
3. Creation of a dynamic, professional, value-based organization
4. Long term financial health of the organization
5. Improvement in clients' financial stability and incomes

Code of Practice for Client Protection

Agora Microfinance Zambia Limited, a company limited by shares, was established during 2011 with the objective of providing financial service to the financially excluded (largely rural) population of Zambia. With a view to creating a high-quality financial institution for the unbanked, the following principles were established:

Code of Practice for Client Protection

- **Avoidance of over-indebtedness:** AMZ staff will take reasonable steps to ensure that credit will be extended only to borrowers who have demonstrated an adequate ability to repay and that loans will not put borrowers at significant risk of over-indebtedness. Besides, AMZ will strive to provide other financial products as demanded by the clients (insurance, deposits, etc.) that will mitigate the risk of over-indebtedness.
- **Dignified and Respectful Treatment of Clients at all times:s.** AMZ staff will treat clients with the utmost respect and dignity. Also, staff will not impose undue religious, political, or any other practices on clients during AMZ interactions.
- **Client data privacy/confidentiality:** Sharing of individual client information only as part of a credit bureau, any mandatory requirements by law, or upon receiving explicit consent from the client.
- **Ethical Collection Practices:** Collection practices that do not harass or create undue pressure for loan repayments from clients who are not wilful defaulters, that is, who have had a genuine loss in livelihood or any other crisis in the household. The use of excessive force and/or abusive practices will not be tolerated.
- **No discrimination:** Clients are not to be discriminated against based on age, gender, tribe, or any other factor as long as they meet eligibility criteria for AMZ products. All clients have an equal opportunity to participate, speak, and express themselves. Women and minority groups will be encouraged to speak during village bank (VB) meetings and also take up leadership positions.
- **Transparent and responsible pricing:** AMZ is committed to full disclosure of product information to clients. Clients must be fully aware of the terms and conditions of the available financial services so that they can make informed decisions. Also, AMZ prices its products considering affordability for the clients. All product costs will be transparently disclosed to clients.
- **Fair, transparent, and consistent complaint resolution:** All AMZ client complaints will be treated fairly, transparently, and consistently as per the AMZ policies and procedures without infringing on the clients' rights. AMZ to implement systems to ensure the clients' right to be heard as well as monitoring systems to assess the incidence and severity of customer complaints and grievances.

Chairperson's Report

The year 2022 was generally stable to positive for the Zambian economy, despite the turmoil around the world. The Zambian Kwacha rebounded in the second half of the year, buoyed by the resumption of negotiations between the Government and the International Monetary Fund. This had a positive effect on inflation, which was under stress otherwise from the rising fuel prices and food inflation. The economy was also boosted by substantial Government investment into the social sector and resulting large scale employment generation.

Tanmay Chetan
Chairperson

AMZ marches on in its quest for a deeper and wider impact to financial inclusion, and 2022 was no different. Its reach extended to even more parts of Zambia through new branches, totalling 30 across all provinces in the country by the end of the year. The number of active loan clients and the provision of insurance and mobile money services all saw stable growth during the year, even if the pace of growth was more organic than in the previous few years. Importantly, a few new initiatives were put into motion – aspects of our work that should prepare us well for the coming years – that reflect the efforts to achieve our mission in the most effective manner possible.

As mentioned, our operations' growth slowed a little compared to previous years. Part of it was deliberate, as the management took a conscious decision to delay branch openings in the wake of technical and other upgrades that were underway during the year. Nevertheless, our portfolio and client numbers grew in the range of 20% over the previous year.

We made some important strides with our information systems and are well underway in building a middleware that connects all the different software and systems in use in the Company. The middleware allows us to create a data warehouse and substantially improves our capacity for connecting relevant pieces of information seamlessly, as well as improved data analytics. The first phase of this implementation was completed during the year, which now brings our core-banking system, client assessment system, as well as mobile money and insurance platforms within the middleware. The second phase of creating analytics dashboards and data warehouse will be completed early in the new year. We are excited at the possibilities this upgrade will provide us with.

Another area of work that saw substantial progress was the establishment of our research and social performance framework. We had been working on this over the past two years, but it was only during 2022 that the entire approach took proper shape. We have now created our social performance framework, customised for AMZ but still referenced to internationally accepted metrics and standards. Amongst other things, the framework will allow us to focus on understanding our clients better and monitoring the changes to their livelihoods and well-being over time. In addition, the framework will help us improve our Client Protection Practices (CPP) through close oversight of our CPP adherence. The additional element of the environment has also been included in the framework, given the critical need for this to be reflected in our work. Aside from the framework itself, we also began conducting detailed research on many areas of work, outlined later in this Annual Report. The Social Performance Committee of the Board was also activated and began its work by reviewing the activities of the Research Department and reporting to the Board.

The next year is likely to be a year of many positive changes for AMZ. We are actively looking for new equity partners as we slowly progress toward our immediate goal to apply for a deposit license. If this search is successful, AMZ will be poised well for the next phase of its evolution as a deposit-taking financial institution. Alongside, we will be inducting more independent experts into the governance of the Company. Further work on a risk-based approach to client assessments, products, and processes is also underway. Client-level research will begin this year, providing us with important insights along the way. And to make the best use of all the new information, we will be leveraging the new information middleware to help us create fast, efficient systems for data analytics that aids decision-making.

None of the above would be possible without the strong leadership and close oversight of the Company – for which I am grateful to the management and the board of AMZ. Equally, the branch and sales team, and the support structure around them, deserve much appreciation for having built a strong, sizeable operation despite the many constraints in our work. And as always, my gratitude to our trusting clients, without whose support none of this would achieve much. I look forward to all of us working together in the new year.

With best wishes,
Tanmay Chetan

CEO's Report

While we continued consolidating our operations in 2022, we also began a process of a deep dive into our mission and formulate its social performance goals clearly. At the governance level, the Research and Social Performance Committee of the Board was set with the aim of reinforcing its focus in driving our impact related goals. Unveiling the narrative to the numbers is a key component of our efforts. We recognize that the destinies of the client and the institution are intimately tied, therefore, appreciating their journey in this relationship becomes paramount to determining the outcomes of our work.

Susan Chibanga
Chief Executive Officer

Having attained a good level of scale, efficiency, and sustainability over the years, the organization was able to pass on some of these benefits to its clients by way of a reduction in lending rates. Whereas there is still more to be done in this regard, this was a step in the right direction and indeed a tail event.

Geographically, the organization extended its reach into six new locations. The diversification strategy has leveraged growth prospects, in reaching the unbanked and underserved communities. We aim to offer economic opportunities through a diversified portfolio of offerings that speak to the client's needs. In this regard, the launch of our farm equipment lease product in all our branches offered to the existing and potential clients, was a new initiative in the year.

As part of its strategy of increased analytics in decision-making, AMZ has invested in advanced technology to address this. The needs of our clients are constantly changing and so is consumer behavior. To fully appreciate the dynamics, analyzing trends is crucial. To this end, AMZ has implemented a new middleware across its systems. The first phase commenced in the fourth quarter of 2022. The middleware will integrate all existing systems and through its warehouse, data will be harnessed to inform decisions. We are excited with this development as it promises a scientific way to validate assumptions.

We encountered a confluence of factors such as an unprecedented level of staff turnover due to government hires, instability in fuel pump prices exaggerated by the Russian invasion of Ukraine, and the unexpectedly low prices of major agriculture produce including tomatoes and maize, and as a result the organization chronicled slow growth in its operations. However, this created an opportunity to strengthen resilience in responding to external shocks and identify ways to mitigate potential inherent risks. New products and processes at our end were explored, with a view to enabling clients to reduce their exposures or risks in their livelihoods

Management further aims to develop and sustain a thriving corporate culture that attracts and retains a complement of competent and diversified talent. AMZ will prioritize aligning employees to the company's mission while ensuring equal opportunities

Globally, 2023 anticipates a potential recession, high inflation and lending rates, volatility in commodity prices, a fragile labor market, and bottlenecks in supply chains owing to wider-ranging lockdowns in China and challenges in major world economies. The landscape is further challenged by climate change which has impacted economic production in many countries.

Being cognizant of these challenges, we are prepared for a range of economic scenarios including growing competition in our market niche, and potential devaluation in the local currency. It is foreseen that among the main initiatives in the year 2023, will be the expansion of non-credit product lines, strengthening of systems and technology, implementation of research and social performance tools, and the augmentation of operational efficiency.

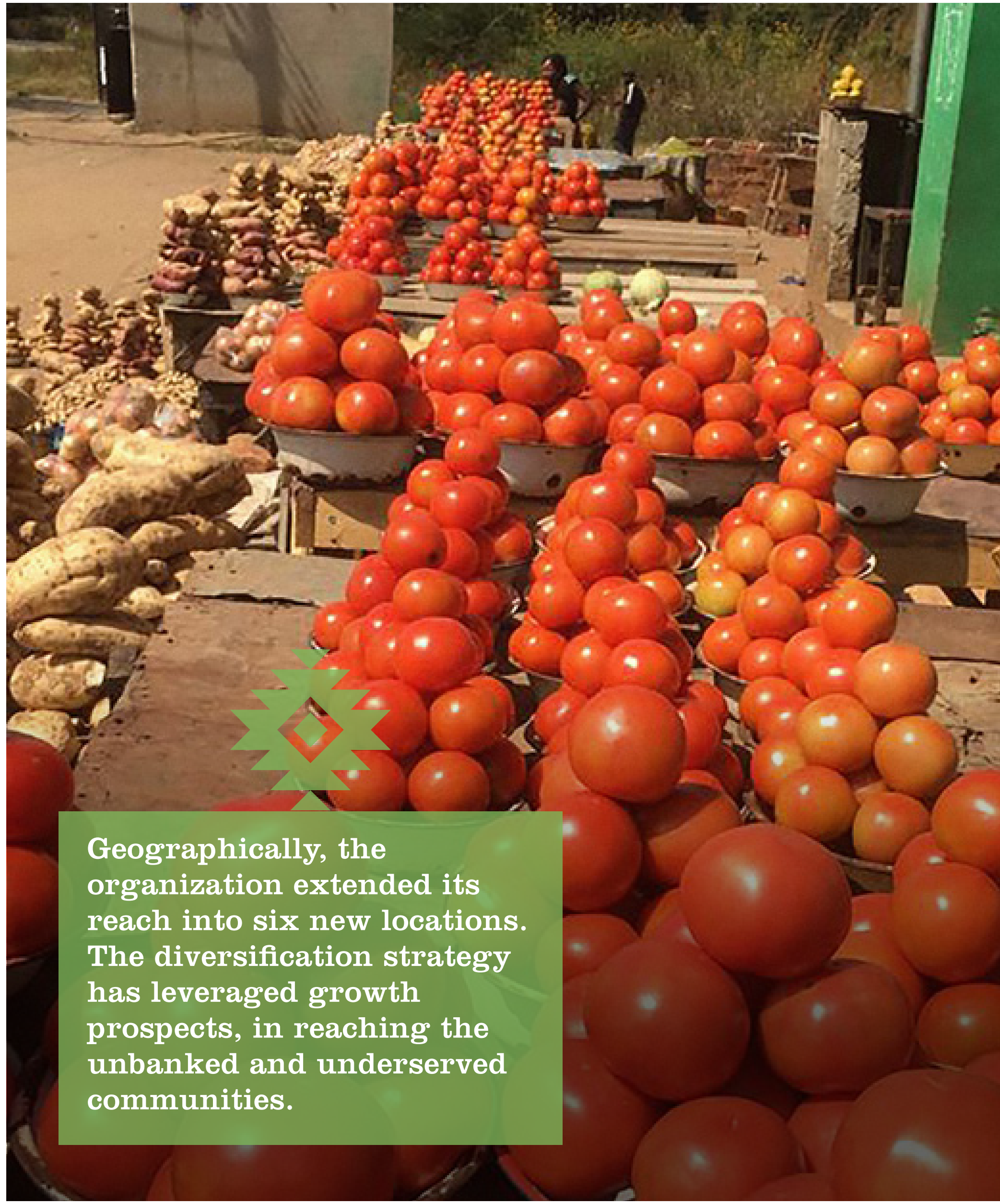
My sincere thanks to the staff for their dedication, perseverance, and understanding as we sought to improve the overall customer experience yet again this year. I'm proud of their efforts in this regard and the feedback from customers has been positive. In 2023 we are looking at investing further in the quality of our engagement with clients through technology, enhanced employee training programs, and a solid employee recognition and rewards system.

Many thanks go to all of our partners who continue to support the mission and in so doing, the community that we serve.

On behalf of the Executive Leadership Team and staff, I'd like to thank our diligent Board of Directors for their unwavering support, encouragement, and guidance during another challenging year.

Given our digital approach, balance sheet strength, and the tenacity of our staff, we remain resolute in delivering balanced outcomes for all. I am confident that we will continue breaking the barriers to finance for our clients and the communities.

Susan Chibanga
CEO



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Board of Directors

Tanmay Chetan
Chairperson

Tanmay is the Chairperson of the Board and a member of various committees of the Board.

He is a Co-Founder of the Agora Group and as part of his role he supervises and manages the overall strategy development and execution at the Group level.

Prior to co-founding the Agora Group, Tanmay has worked as a CEO of AMK Plc, Cambodia as well as having worked in development finance consulting for several years.

Tanmay holds a Master's in Public Administration from the Harvard Kennedy School and an MBA from the Indian Institute of Forest Management.

Glenda Chintu Mazakaza
Director & Chair Audit & Finance Committee

Glenda is the Chairperson of the Audit and Finance Committee. Glenda is director at Mint Advisory Services Limited, a business consultancy firm, which she owns and runs with a business partner.

She has more than thirty years of experience in both the public and private sector. She is currently Vice Chancellor of Brook Besor University a registered private university in Zambia and has previously held senior management positions at KPMG Zambia, the Road Transport and Safety Agency, and the Zambia Revenue Authority. She brings to AMZ valuable knowledge of the local financial, legal and human resources landscape.

Glenda holds degrees in Business Administration from the Copperbelt University, Bachelor of Law from the Zambian Open University, Masters in Business Administration - Finance from the University of Zambia and is a Fellow of the Association of Chartered and Certified Accountants and Zambia Institute of Chartered Accountants. She is also qualified member of the Bar in Zambia and practices as an Advocate.

Maluba H. Wakung'uma
Director & Chair Remuneration and Nominations Committee

Maluba is the Chairperson of the Remuneration and Nominations Committee. She is a microfinance professional with over 17 years hands-on experience of managing microfinance operations at different levels. In 2010-2014, she served as the Chief Executive Officer of the Company. In January 2014, Maluba stepped down as CEO, but remains active on the Board of Directors, guiding AMZ strategy.

Prior to AMZ she worked for five years as the Financial Services Manager for the UNDP-Grameen-MBT microfinance project and prior to that as Program Manager for microfinance operations with ECLOF. Maluba is currently the Managing Director of FINCUZA Institute Ltd which provides training in microfinance and small business development.

Maluba has a BA Degree in Development Studies and Public Administration from the University of Zambia and a Diploma in Small Business Planning and Promotion from New Delhi, India, as well as a certificate in Management of Microfinance from the International Training Centre of the ILO in Turin, Italy. She is also an ILO and TEVET accredited trainer.

Jitske Cnossen
Director and member Audit & Finance Committee

Jitske is an Independent Director (as of 2023, she is the Chief Operating Officer of the Agora Group and a Director of AMZ, but no longer an Independent Director) of the Board and a member of the Audit & Finance Committee. In her new role with the Agora Group, Jitske is involved with both the equity and debt arms of the Group's business, with a focus on expanding the Group's reach into new markets.

Prior to joining Agora, Jitske has worked as a Financial Sustainability Officer for a non-profit working with women entrepreneurs. She was also an Investment Officer with FMO, the Dutch Development Bank, for many years prior to that.

Here she gained extensive experience in impact investing in the financial sector in Africa with a focus on micro, small and medium enterprises, consumer protection and female leadership.

Jitske has a Master's degree in General Economics from the University of Groningen.

Susan Chibanga
Chief Executive Officer

Susan is a Chartered Accountant with 13 years of post-qualifying experience in Zambia, 8 years have been at management level in microfinance. She joined Agora Microfinance in 2016 as a Chief Financial Officer, a position she held till her appointment as Chief Executive Officer. Prior to joining Agora, she worked with FINCA Zambia serving in various positions within the finance department and was responsible for influencing the implementation of the finance strategy. Susan has experience in strategic planning and implementation, business analysis, financial management, risk management, as well as Leadership and people management, gained through the various positions she has held in a variety of industries including mining, construction, hospitality, and financial services.

Susan is a member of the Association of Chartered Certified Accountants (ACCA) and holds a Bachelor of Science degree from the University of Zambia.

Corporate Structure

Board of Directors

Tanmay Chetan
Chairperson

Glenda Mazakaza
Director, Chair AFC

Maluba Wakung'uma
Director, Chair RNC

Jitske Cnossen
Director, Chair ALCO

Susan Chibanga
Director, CEO

Senior Management

Susan Chibanga
Chief Executive Officer

Mwape Mwila
Deputy Chief Executive Officer

Mangani Muselema
Chief Financial Officer

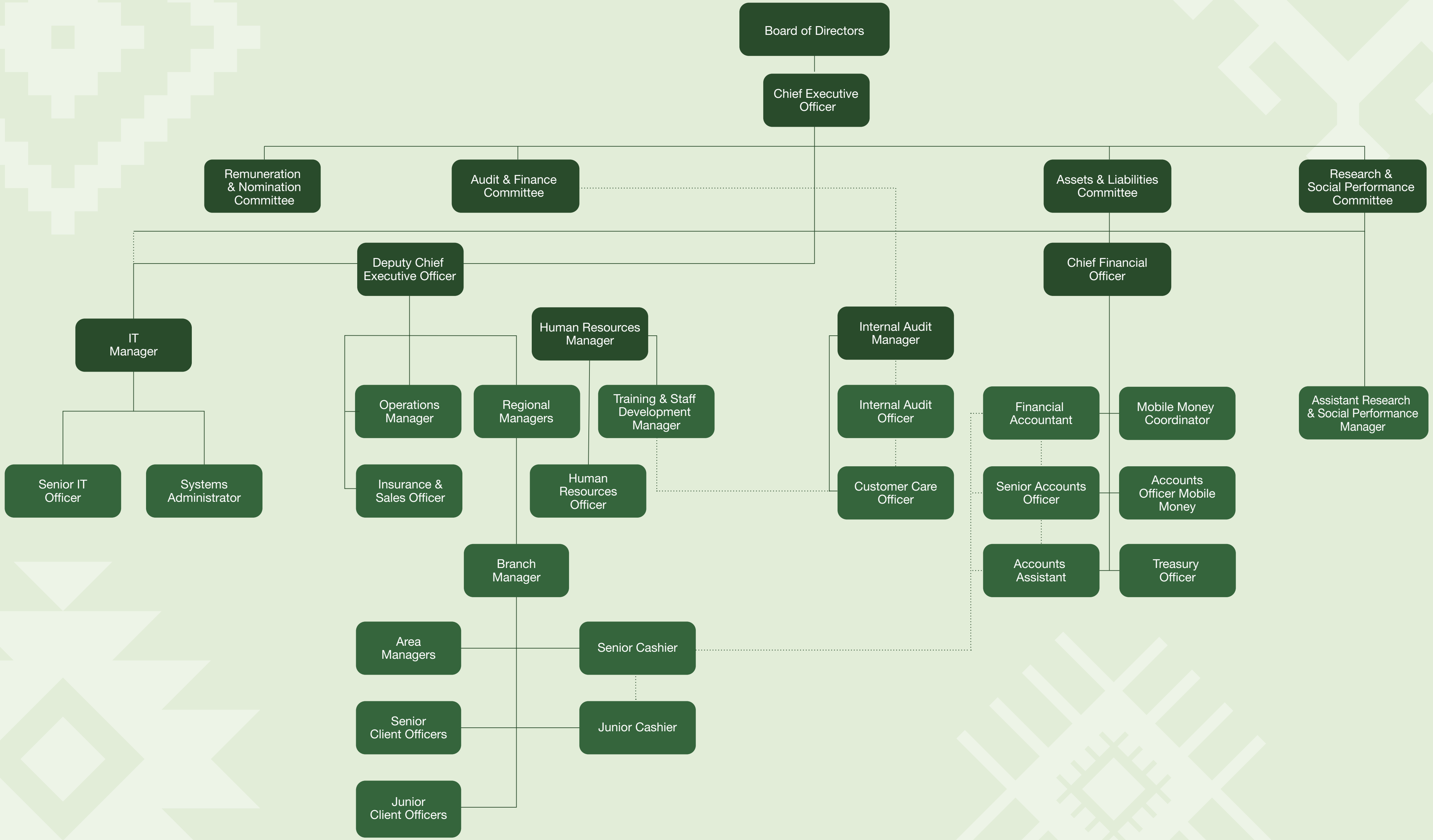
Milimo Silenga
Human Resource Manager

Joseph Lungu
Internal Audit Manager

Gerald Kalyondo
IT Manager

AMZ's shareholders appoint the Board of Directors. The Board of Directors governs the operations of AMZ, ensuring adherence to the mission and objectives by guiding AMZ's strategic direction. The Board members meet at least once per quarter and combine expertise in microfinance, banking, legal and development fields.

The Board is supported by the Audit and Finance Committee, the Assets and Liabilities Committee, the Remuneration and Nomination Committee and the Research and Social Performance Committee. The Board of Directors appoints the Chief Executive Officer (CEO), who heads the management team, which includes five departments (Operations, Finance, Human Resources, Information Technology and Internal Audit). AMZ's organisation structure consists of senior management and back-office support functions at the head office, and front-office sales and support staff in its 30 branch locations.



Areas of Operations

AMZ is headquartered in Lusaka and currently operates from the following branches:

Head Office
Plot 57A Lukanga Road,
Off Zambezi Road, Roma, Lusaka.
Post net 745, Manda Hill, Lusaka
Telephone: +260 968 820 574

Central Province
Chibombo
Kabwe
Mkushi
Mumbwa

Copperbelt Province
Kitwe
Ndola

Eastern Province
Lundazi
Chipata
Petauke

Luapula Province
Kawambwa
Mansa

Lusaka Province
Chongwe
Lusaka

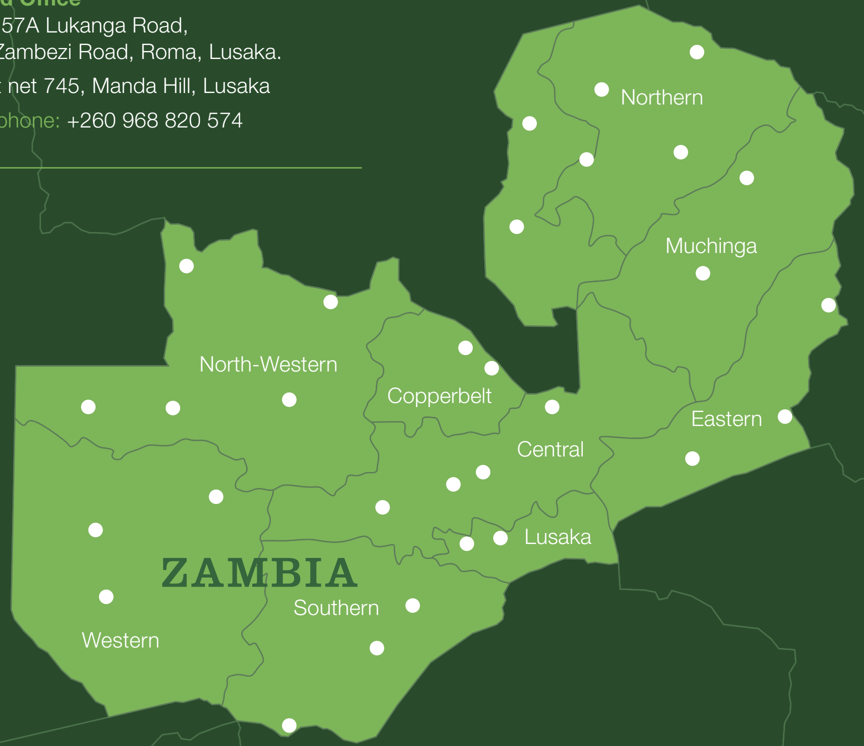
Muchinga Province
Chinsali
Mpika

Northern Province
Kasama
Mbala
Mporokoso
Luwingu

North-Western Province
Mwinilunga
Kabompo
Kasempa
Solwezi

Southern Province
Choma
Monze

Western Province
Kaoma
Livingstone
Mongu
Senanga
Zambezi



Chibombo
Along Great North Road, Plot No. 11, New Boma
Telephone: +260 953 243 603

Chinsali
Plot LN1002892-2D56, Kasama Road, Opposite Chinsali Post Office, Chinsali
Telephone: +260 950 612 167

Chongwe
Shop 5, plot 8958 / M, Great East Road
Telephone: +260 950 846134

Chipata
Office No. 3, Abubakar Bax Complex. Plot No. 2083, Highway Road, Chipata
Telephone: +260 956 949 979

Choma
Office #11 and 12 of L Tembo Complex, Plot #1077 Lusaka Road
Telephone: +260 954 039 243

Kabompo
Plot no. 2721, M8 Road, Indeco, Kabompo
Telephone:+260 974 282 558

Kaoma
C and C Building, Plot No. 1375 Freedom Way
Telephone: +260 957 419 283

Kabwe
Shop No.10, Stand No. 10652, Sunshare Building, Great North Road
Telephone: +260 956 312014

Kasama
Plot/Stand No. 4387 Central Town, Luwingu Road Area
Telephone: +260 770 950 668

Kasempa
Address: Along Mumbwa Road, Opposite Mount Meru filling station

Kawambwa
Plot/Stand No. 617 Independence Avenue
Telephone: +260 954 435 357

Kitwe
Plot/Stand No. 1051, Shop 4, Accra Road, Kitwe
Telephone: + 260 955 282 568

Livingstone
Address: Stand Number 103, Mosi-o-tunya road, Shop B, Akapelwa facing, Livingstone.

Lundazi
Plot 609 Chama Road, Lundazi
Telephone: +260 979 81 1713

Lusaka
Shop No. 22A, Kanele Mall, Kafue Road
Telephone: +260 955 628 490

Luwingu
Address: Plot# 310 Wamukulu Raod Burma, Luwingu
Telephone:

Mansa
Plot/Stand No. 819 Cathedral Road, Chibote Area
Telephone: +260 972 740 277

Mbala
Plot/Stand No.923B President Avenue
Telephone: +260 957 750 062

Mkushi
Plot No. 2079, Ndanji complex, Independence Avenue, Mkushi
Telephone: +260 760 128 855

Mongu
Plot 331 Mubonda House along Independence Avenue
Telephone: +260 955 316 842

Monze
Plot No. 10C, Independence Avenue, Monze
Telephone: +260 (0) 977 874 696

Mpika
Plot No. 4040, Wilmo Building, Great North Road, Mpika
Telephone: +260 (0) 950 824 354

Mumbwa
Plot #271 Luangwa Road
Telephone: +260 955 559 223

Mwinilunga
Address: 41546 Ikelenge Road, Boma, Mwinilunga

Ndola
A1 Langford House, Junction Broad Way & President Avenue North
Telephone: +260 950 664 380

Petauke
Kazumba House, Plot No. 1/246, Boma Road, Petauke
Telephone: +260 956 955 974

Mporokoso
Address: Plot #91 Old Sengelelo Market, Mporokoso

Senanga
Nzuli Commercial Area, Senanga Main Market
Telephone: +260 976 261 045

Solwezi
Office #8 Chikola Complex, Plot #361 Chikola Street
Telephone: +260 955 745 790

Zambezi
Address: Plot No 127, Chipatela Road, Zambezi

Opening Hours: Monday - Friday 08:00 - 17:00

Products & Services

AMZ Products and Services

Through our philosophy of "finance at your doorstep", AMZ staff are able to work closely within otherwise financially excluded rural communities, providing previously inaccessible products and services.

Loans

Our loan products are designed to meet the varied life-cycle and cashflow needs of our clients.

- General purpose loans (Flexi 1, Flexi 2);
- Small Business Group Loan (SBGL);
- Small Group & Individual Lima Loans;
- Micro, Small and Medium Enterprise (MSME)

Insurance

We provide a mandatory credit life insurance for clients and in addition offer a voluntary Funeral and Hospitalisation Insurance (Hospi-Cash). We also offer weather index insurance for agriculture loans. Credit life insurance and weather index insurance are bundled with the relevant loan products whereas funeral and hospitalisation insurance is voluntary and also offered to non-clients.

Mobile Money

We work as a super-agent as well as normal agents for 3 largest mobile network operators (MNOs) to facilitate domestic remittances. As a super-agent, we help the agents of MNOs to manage their liquidity in partnership with our branches. As normal agents we facilitate branch walking clients to perform Cash in and Cash out transactions.

Leasing

Following on from the pilot in 2021 the farm equipment leasing product is now being tested across all the branches during the year.

Flexi Loans

Flexi loans are group-based loans offered to households who typically have multiple livelihoods, both Farming and non-farming with more regular cash flows. This loan requires a group guarantee and collateral pledged to the group. The loans range from ZMW 500 – ZMW 6,500 (USD 29-371) and are paid in monthly instalments. The use of the loans is varied, usually supporting a mix of household cash needs. A typical household will use the loan for micro-enterprise, farming inputs, school fees and other consumption needs of the families. Clients make monthly payments with maximum loan term of 12 months.

Small Business Group Loan

This loan is aimed at traders with consistent daily, weekly and/or monthly cash flows. This loan requires a group guarantee and collateral pledged to the group. Repayments allow for flexibility according to the cash flow patterns of the business and the maximum term is 12 months. The loans range from ZMW 1,000 – ZMW 12,000 (USD 57-686) per group member.

Lima Loans

These loans are offered in either groups or to individuals (based on loan size) and are aimed at households, semi-commercial / subsistence farmers and small commercial farmers engaged in crop production. The loan needs could be for investment (vehicles, machinery, equipment, working animals, land expansion) or working capital (including crop production requirements such as organic and mineral fertilisers, fuel, insecticides, herbicides, salaries, rent).

Lima group loans of ZMW 1,000 – ZMW 10,000 (USD 57-571) are available to each member in a group of between 10-15 members, with a maximum term of 12 months and grace period on principal repayment of up to 6 months. Weather index insurance is bundled in for rain fed crops and covers excess rainfall or drought scenarios.

Individual Lima loans range from ZMW 10,001 – ZMW 50,000 (USD 571-2,857) with a maximum term of 12 months and grace period on principal repayment of up to 6 months. Weather index insurance is bundled in for rain fed crops and covers excess rainfall or drought scenarios.

Individual Micro Business Loan

This loan is aimed at individuals or micro businesses with a regular cashflow and annual turnover of ZMW 50,000 – ZMW 1,000,000 (USD 2,857 – 57,143). Loans of ZMW 10,001 – ZMW 115,000 (USD 571 – 6,571) are available and are secured by both guarantor(s) and collateral (moveable and immovable assets) with a maximum term of 36 months.

Small and Medium Enterprise (SME)

This loan is aimed at the lower end of small and medium enterprises with a regular cashflow and a turnover of up to ZMW 5,000,000 (USD 285,714). Clients include both individuals and businesses. Loans of ZMW 100,001 – 200,000 (USD 5,714 – 11,429) are available and are secured by both guarantor(s) and collateral (moveable and immovable assets) with a maximum term of 36 months.

Makina Farm Equipment Lease

The Makina lease is aimed mechanizing small-scale farmers involved in crop production and/or post-harvest value addition with productive agricultural equipment. This is in partnership with equipment suppliers in-country. The lease ranges from ZMW 5,000 – ZMW 75,000 (USD 286 – 4,286) and are secured by both guarantor(s) and collateral (moveable and immovable assets) with a maximum term of 36 months. The leased equipment is also used as collateral.

Insurance

Our Credit Life Insurance is a mandatory product for all existing AMZ borrowers. Our Funeral and Hospitalisation Insurance is an affordable, voluntary family insurance product available to both AMZ clients as well as non-clients. We also offer a weather index insurance (based on live satellite data) for agriculture loans obtained during the farming season.

Mobile Money

These partnerships aim to strengthen the financial inclusion of the rural poor. As agents we serve walk-in mobile money clients with cash deposits and withdrawals. As a super-agent, we help MNOs strengthen their distribution through the provision of E-float and cash management to agents. We currently serve more than 3,600 agents countrywide.

Operational and Financial Highlights

148,382
Active Borrowers

54%
Women Borrowers

4,733
Village Banks

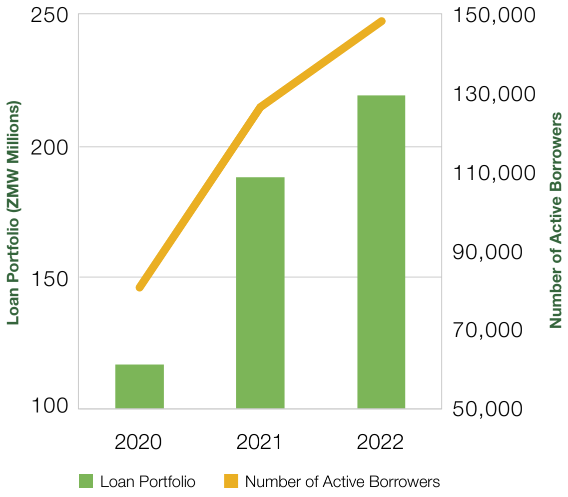
ZMW
219m
Loan Portfolio

92%
Rural Borrowers

	2020	2021	2022
No. of Branches	20	24	30
No. of Village Banks	2,590	3,812	4,733
No. of Active Borrowers	80,556	126,492	148,382*
• Women Borrowers	56%	58%	54%
• No of Rural borrowers	92%	93%	92%
Loan Portfolio (USD)	5,479,242	11,276,516	12,110,327
Loan Portfolio (ZMW)	116,790,581	187,802,475	219,256,254
PAR 30 Days	1.71%	1.47%	1.95%
Average Loan Size (USD)	68	89	82
Average Loan Size (ZMW)	1,450	1,485	1,478
Average Loans Size / Estimated GNI per capita	5%	7%	7%

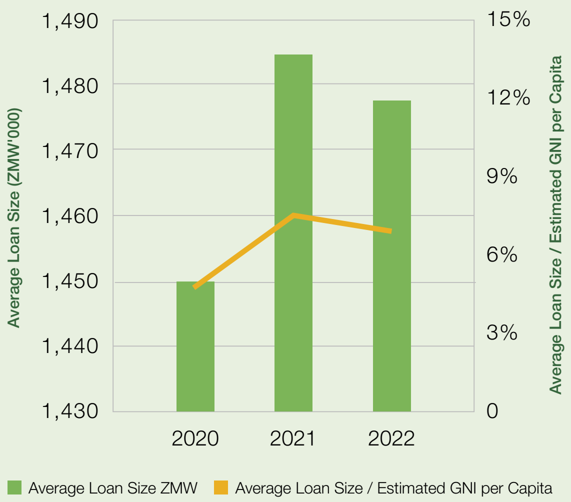
* Historically, AMZ has reported active loan accounts as active clients (in error). This has been corrected going forward, however it has not been changed here to maintain comparability. The total number of active clients as at end 2022 are 131,600'.

Loan Portfolio vs No. of Active Borrowers

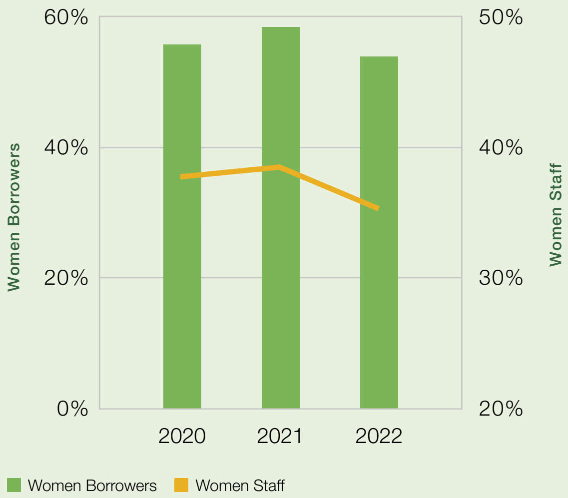


Operating Cost & Efficiency

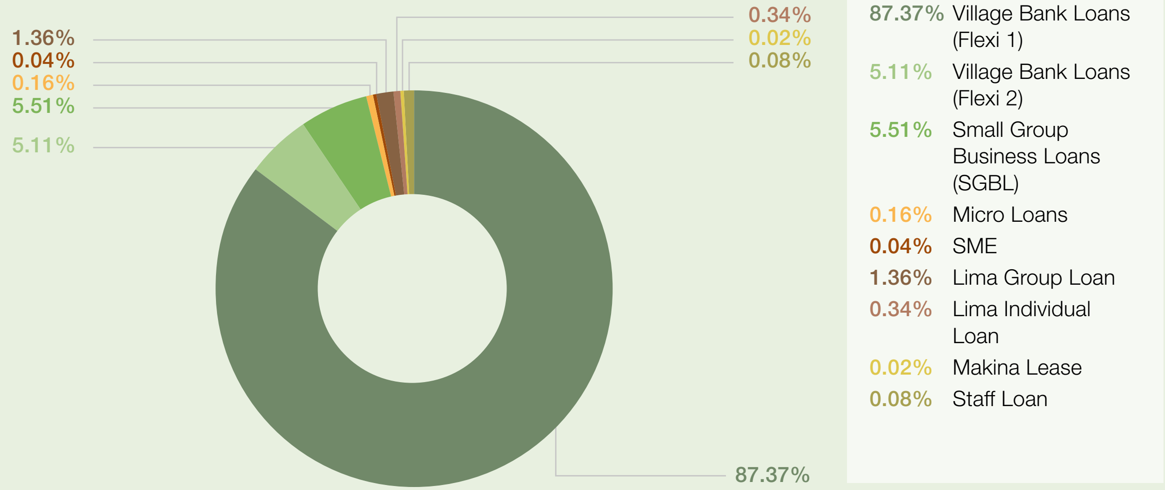
Average Loan Size & Average Loan Size / Estimated GNI per Capita



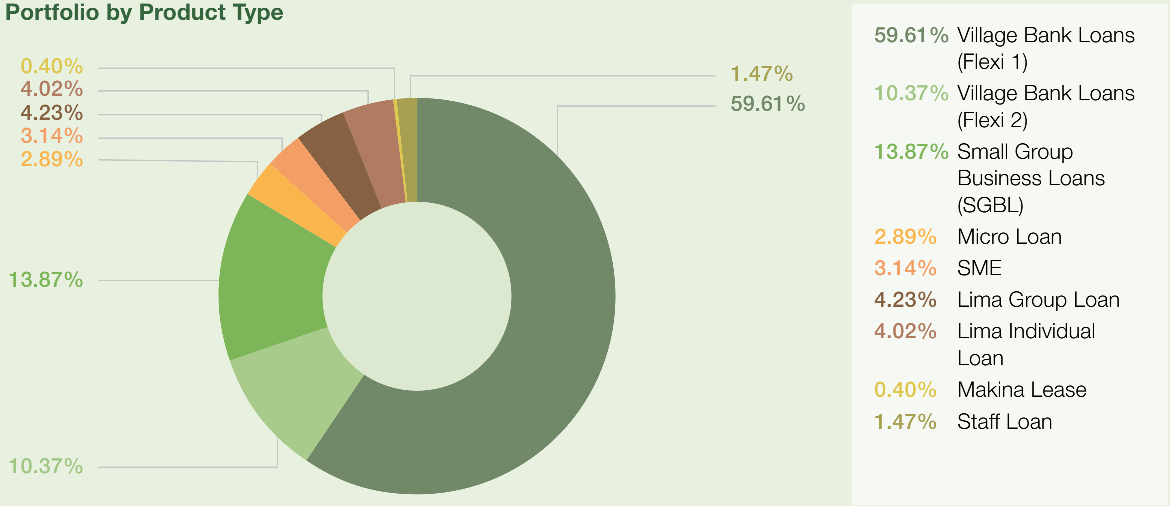
Gender Distribution



Client by Product Type



Portfolio by Product Type



	2020	2021	2022
Margin Analysis (as a % of average loan portfolio)			
a) Interest and Fee Income	79.5%	82.8%	**71.0%**
b) Cost of Funds	23.5%	22.1%	**20.3%**
c) Net Interest Margin (a-b)	56.0%	60.7%	**50.7%**
d) Loan Loss Provision	0.6%	0.8%	**1.5%**
e) Net Margin before Operating Expenses (c-d)	55.4%	59.9%	**49.2%**
f) Personnel Cost	24.8%	22.3%	**22.0%**
g) Admin Cost	22.8%	23.7%	**23.1%**
h) Total Operating Cost (f+g)	47.6%	46.1%	**45.2%**
Net Margin (h-e)	7.8%	13.8%	**4.1%**
Financial Ratios			
Operating Self Sufficiency	109.9%	125.3%	**110.7%**
Solvency Ratio (Equity/Assets)	31.3%	30.0%	**30.0%**
Debt/Equity	2.20	2.33	**2.33**
Operating Cost Ratio	47.6%	46.1%	**45.2%**
Return on Equity	11.5%	26.1%	**13.1%**

110.7%
Operating Self Sufficiency

45.2%
Operating Cost Ratio

13.1%
Return on Equity

Financial Inclusion in 2022: The building blocks for social performance management in AMZ

2022 was a landmark year for AMZ's Social Performance Management (SPM) efforts. Set as one of the key areas identified at the start of the year for further development, the year just ended saw us establish processes and systems that will enable the measurement, monitoring and achievement of our social goals in a scientific manner in the years to come.

Social Performance is not incidental: the achievement of a balanced double bottom line (financial and social performance) requires deliberate management. With this view, in September 2019, AMZ created a Research and Social Performance (R&SP) Department, strengthened in 2022 with the recruitment of its Head and the establishment of the Research and Social Performance Committee (RSPC) at the level of its Board of Directors. Its overall objective is to play a vital part in translating the mission and principles of the company into practice and monitor the progress towards its achievement.

The key questions that the system will aim to address are built around:

- **Clients and overall outreach:** What is the profile of our clients, and to what extent does this match our intentions as stated in our mission?
- **Service and product suitability:** What is the clients' response to our products/services? Are they appropriate, and to what extent are clients satisfied with them?
- **Impact:** What financial and social impact is our work creating with our clients over time? Are there ways to improve the impact?

As a first step, AMZ has developed its SPM framework, including a Client Protection (CP) action plan.

SG1
WHO?

Social Goal 1: WHO
is the desired target to reach?
The poor

I. Direct outreach to the poor at the national level

SG2
HOW?

Social Goal 2: HOW
to serve the desired target?

Through effective provision of appropriate financial services

I. Direct outreach to the poor at the national level

II. Suitability of processes and products

III. Long term financial health of the organization

IV. Create a dynamic, professional, value-based

SG3
WHY?

Social Goal 3: WHY
to reach the desired target?

To contribute to their economic well-being

V. Improve clients' financial stability and income

Figure 1. Analysis of AMZ social mission and strategic goals

The framework, coming from AMZ's roots, has been designed starting from the existing strategic pillars of the company and being aligned with internationally accepted standards[1].

The core of the framework is its attention towards its clients. Providing financial services to greater numbers of poor and financially excluded people is deemed fundamental for AMZ. AMZ has seen remarkable growth in this area and is now working to strengthen internal client protection practices and at the same time, the R&SP Department is currently setting up a number of clients' surveys to hear their voices about their preference, needs, financial behaviours, satisfaction and other client protection practices. Alongside, AMZ is developing its own methodology to create a deep understanding of client profiles: their key socio-demographic features, living standards / poverty levels, and changes in their economic well-being over time.

The framework also deals with the promotion of good policies and practices to ensure a healthy staff environment. In doing so, in 2022 AMZ has developed a better understanding of some staff behaviors through work-place data as well as staff satisfaction surveys. AMZ gave serious consideration to the responses received and accordingly took the necessary corrective actions (on aspects such as workload management and internal communications). Staff satisfaction surveys are conducted every year to understand emerging issues and address them in a timely manner.

[1] i.e., the Universal Standards of Social and Environmental Performance Management (USSEPM) promoted by the Social Performance Task Force (SPTF) and the Client Protection Principles (Cerise+SPTF).

Achievements 2022

Strategy and Governance

- R&SP Department Strengthened
- RSPC established
- Social performance management framework developed
- Client protection action plan developed

Research

- Staff workload survey
- Staff satisfaction survey
- Designed research methodologies for:
  CP and client satisfaction survey
  Non-client research
  Clients' profiling
  Competition analysis

Along with a rich set of indicators to monitor (i.e., breadth and depth of outreach, quality of the services, staff and environmental information, clients' economic well-being), the SPM / CP plans include other concrete activities for the years to come. First, **research involving different stakeholders at different levels will be carried out to understand** the nature of demand and existing supply, as well as staff satisfaction and welfare; second, **client protection practices will be improved** in terms of policies, procedures, training and internal control mechanisms, involving all departments - indeed SPM is not related to a single department but it intended as part of the core strategy and thinking.

Key Initiatives

Planned Activities for 2023

- SPM monitoring
- Demand side studies: CP and client satisfaction survey, non-client research, clients' profiling, impact assessment
- Supply side studies: competition analysis
- HR studies: staff satisfaction
- CP improvements across all departments

The expected outcome of all these activities is to strengthen our understanding of clients, build further transparency and accountability towards clients, establish the coherence between the practice and the mission; noticeably, findings from the research will assist AMZ in making data-driven decisions and client protection improvements would **maintain AMZ as a first choice amongst clients**, with the ultimate goal to achieve greater depth, reach, quality and sufficiency of financial services for the un-banked.

Key Initiatives 2023

2023 ...

AMZ has recognized the following thematic areas as its focus for 2023:

- Consolidation of a talent management strategy
- Strengthening of the client assessment process/moving to risk-based product pricing
- Implementation of research to capture client profiles and their progress
- Establishment of a data and analytics-based information systems
- Identification of green energy alternatives for operations and service delivery

Directors' Report

for the year ended
31 December 2022

The Directors' present their report on the activities of Agora Microfinance Zambia Limited ("AMZ") or "the Company"), together with the financial statements for the financial year ended 31 December 2022.

1 Principal activities

The principal activity of the Company is to provide financial services to the rural and urban un-banked population in Zambia.

2 The Company

The Company was incorporated on 7 May 2010, under the Companies Act of Zambia as a private company limited by shares. The Company is also licensed under the Banking and Financial Services Act of Zambia to conduct microfinance services. The address of its registered office and principal place of business is:

Agora Microfinance Zambia Limited
Plot 57A Lukanga Road, Roma
P O Box 745 Post Net
Lusaka

The Company had 30 branches as at 31 December 2022 (2021: 24 branches).

3 Shareholding

Agora Microfinance Zambia Limited's shareholding consists of Agora Microfinance NV with 88.79% shares, Moringaway Limited with 9.66% and Agora Multipurpose Co-operative with 1.56%. The total number of authorised ordinary shares is 6,500,000 with a par value of ZMW10 per share.

Details of the Company's authorised and issued share capital are included in note 14 in the notes to the financial statements.

4 Results for the year

The Company's results for the year are as follows:

	2022 ZMW	2021 ZMW
Interest income calculated using the effective interest rate method	95,814,186	77,211,595
Profit before income tax	15,966,527	25,020,018
Profit for the year	10,395,814	15,311,770

5 Dividends

The Directors' did not propose a dividend to be declared in 2022 (2021: Nil).

6 Directors' remuneration

Directors' fees paid during the year were ZMW 462,984 (2021: ZMW 557,474) as disclosed in note 21 in the notes to the financial statements.

7 Directors' and secretary

The names of the directors' and the secretary who held office during the year and up to the date of signing the report are as follows:

Directors'

Tanmay Chetan
Chairperson

Maluba Wakung'uma
Non-Executive Director

Glenda Chintu Mazakaza
Non-Executive Director

Susan Chibanga
Executive Director/CEO

Jitske Cnossen
Non-Executive Director

Wanjiku Mwangi
Non-Executive Director
Resigned on 13 July 2022

Company Secretary

MINT Advisory

8 Average number and remuneration of employees

Total employee benefits expense for the year was ZMW 45,146,024 (2021: ZMW34,053,322) as disclosed in note 9 in the notes to the financial statements. The average number of employees throughout the year was 365 (2021: 300).

Month	Number	Month	Number
January	317	July	367
February	319	August	398
March	313	September	395
April	361	October	395
May	356	November	395
June	373	December	391

9 Gifts and donations

There were no donations made during the year (2021: Nil).

10 Property and equipment

The Company acquired property and equipment amounting to ZMW21,076,378 (2021: ZMW 18,435,294), as disclosed in note 15 in the notes to the financial statements. In the opinion of the Directors', the recoverable amount as disclosed on the property and equipment are not less than the amount at which they are included in the financial statements.

11 Research and development

The were no expenditure incurred for research and development during the year (2021: ZMW Nil).

12 Related party transactions

Related party transactions during the year consisted of a series of loan agreements with the Company's shareholders and remuneration of key management. Further information about these transactions are included in note 21 in the notes to the financial statements.

Directors' Report

for the year ended
31 December 2022

13 Prohibited borrowings or lending

There were no prohibited borrowings during the year (2021: Nil).

14 Know your customer ("KYC") and money laundering policies

All KYC requirements are conducted by the branches and filed in hard copy at branch level. Additionally, all potential borrowers are checked using the Credit Reference Bureau.

15 Corporate governance

Importance of corporate governance

AMZ is governed by the Articles of Association as revised on 28 March 2022 The 'Articles' define the corporate governance structure and mandate of directors' and senior management. The AMZ Business and strategic plan also outlines in detail the governance structure which includes the Shareholders, Board of Directors', Audit and Finance, Remuneration and Nomination, Asset and liability, and the Research and Social Performance Committees.

Board committees

During the year 2022, the Board met four times. The Audit and Finance Committee (AFC) met three times, Remuneration and Nomination Committee (RNC) met three times and Asset and liability Committee met three times. In addition, the Research and Social performance Committee (RSPC) was created during the year and met one time.

16 Other material facts, circumstances and events

The Directors' are not aware of any material facts, circumstances or events which occurred between the accounting date, the date of this report and the date of approval of these financial statements by the Board which might influence an assessment of the Company's financial position or the results of its operations

17 Auditors

In accordance with the provisions of the Articles of Association of the Company, the Auditors, Messrs KPMG Chartered Accountants ("KPMG"), will retire as Auditors of the Company at forthcoming Annual General Meetings and having expressed willingness to continue in office, a resolution for their re-appointment and fixing their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Company Secretary

Date: 31 March 2023

Director's responsibilities in respect of the preparation of financial statements

The Directors' are responsible for the preparation of the financial statements of Agora Microfinance Zambia Limited ("the Company") that give a true and fair view, comprising the statement of financial position as at 31 December 2022, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in compliance with the requirements of the Companies Act and the Banking and Financial Services Act of Zambia. In addition, the Directors' are responsible for preparing the directors' report.

The Directors' are also responsible for such internal controls as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedule included in these financial statements.

The Directors' have assessed the ability of the Company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework described above.

Approval of the financial statements

The financial statements of Agora Microfinance Zambia Limited, as identified in the first paragraph, were approved by the Board of Directors on 31 March 2023 and are signed by:

Director

Director

Independent auditor's report

To the shareholders of Agora Microfinance Zambia Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Agora Microfinance Zambia Limited ("the Company") set out on pages 10 to 56, which comprise the statement of financial position as at 31 December 2022, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements give a true and fair view of the financial position of Agora Microfinance Zambia Limited as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in compliance with the requirements of the Companies Act and Banking and Financial Services Act of Zambia.

Basis for opinion

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

Key audit matter

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

Impairment of loans and advances to customers

See note 4 use of estimates and judgements, note 12 loans and advances to customers, note 23(a) credit risk section of the financial instruments fair value and risk management, and note 28(d) financial assets and liabilities accounting policies.

Key audit matter

Loans and advances to customers a mount to ZMW 224,041,289 which constitute 77% of the total assets of the Company. The total allowance for credit losses on these financial instruments at 31 December 2022 was ZMW 2.47 million.

The key areas of judgement include:

- Assumptions used in the expected credit loss model such as forward looking macro-economic factors (e.g. foreign exchange rates, inflation, unemployment rates, interest rates, country reserve rates and gross domestic product ("GDP"));
- The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"); and
- The identification of exposures with significant increase in credit risk ("SICR").

Due to the significance of loans and advances to customers, the increased credit risk and the significant judgement and estimation uncertainty, this matter was a key audit matter in our audit of the financial statements.

How the matter was addressed in our audit

Our audit procedures included:

- With the involvement of our internal model validation specialists, we assessed whether the modelling principles applied to the PD, EAD, LGD in the credit risk model followed IFRS 9 - Financial Instruments (IFRS 9). In addition, we considered whether stress tests had been incorporated in the macroeconomic factors such as gross domestic product (GDP)) for reasonableness by comparing to independent statistical analyses.
- We assessed whether the staging of loans into stage 1, 2 or 3 based on the number of days overdue was allocated appropriately and met the Company's definition of significant increase in credit risk.
- We assessed the completeness and accuracy of the data used in the ECL model such as loan exposures, days arrears, asset classification and other customer specific data by comparing the inputs to supporting documentation such as customer statements.
- We assessed the adequacy of the disclosures in the financial statements in accordance with the requirements of IFRS 9, *Financial Instruments*.

Independent auditor's report (continued)

To the shareholders of Agora Microfinance Zambia Limited

Report on the audit of the financial statements (continue)

Other information

The Directors' are responsible for the other information. The other information comprises the Director's Report as required by the Companies Act of Zambia, Directors' responsibilities in respect of the preparation of financial statements and the details of operating expenditure. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors' are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in compliance with the requirements of the Companies Act and Banking and Financial Services Act of Zambia, and for such internal control as the Directors' determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

Companies Act of Zambia

In accordance with Section 259 (3) (a) of the Companies Act of Zambia (the Act), we consider and report that:

- there is no relationship, interest or debt we have with the Company; and
- there were no serious breaches of corporate governance principles or practices by the Directors'. This statement is made on the basis of the corporate governance provisions of the Act, Part VII – Corporate Governance of the Companies Act of Zambia.

Banking and Financial Services Act of Zambia

In accordance with section 97(2) of the Banking and Financial Services Act of Zambia, we consider and report that:

- The Company made available all necessary information to enable us to comply with the requirements of this Act;
- The Company has complied with the provisions, regulations, rules and regulatory statements specified in or under this Act; and
- There were no transactions or events that came to our attention that affect the well-being of the Company that are not satisfactory and require rectification including:
  - (i) transactions that are not within the powers of the Company or which is contrary to this Act; or
  - (ii) a non-performing loan that is outstanding, has been restructured or the terms of the repayment have been extended, whose principal amount exceeds five percent or more of the regulatory capital of the Company.

KPMG Chartered Accountants

31 March 2023

Cheelo Hamuwele
Partner singing on behalf of the Firm

AUD/F001044

Statement of financial position

as at 31 December 2022

In Zambian Kwacha

	Notes	2022	2021
Assets			
Cash and cash equivalents	11	11,608,687	9,713,058
Prepayments and other receivables	13	7,970,444	5,794,911
Loans and advances to customers	12	224,041,289	193,191,520
Property and equipment	15	40,342,068	23,448,494
Right-of-use assets	22(a)	4,706,654	2,822,695
Intangible assets	16	2,271,080	2,106,816
Deferred tax assets	20(d)	126,493	241,486
Total assets		291,066,715	237,318,980
Liabilities			
Current tax liabilities	20(c)	1,664,717	5,708,664
Amounts due to related parties	21(iii)	306,666	148,428
Deferred income	17	-	1,188,000
Other payables	18	7,210,641	10,889,145
Lease liabilities	22(d)	4,643,263	2,738,314
Borrowings	19	189,803,848	145,417,163
Total liabilities		203,629,135	166,089,714
Equity			
Share capital	14	62,638,710	62,038,710
Share premium		2,466,137	2,466,137
Revaluation reserve	20(d)	5,212,500	-
Retained earnings		17,120,233	6,724,419
Total equity		87,437,580	71,229,266
Total equity and liabilities		291,066,715	237,318,980

These financial statements were approved by the Board of Directors on 31 March 2023 and were signed by:

....

Director Director

The notes on pages 14 to 56 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2022

In Zambian Kwacha

	Notes	2022	2021
Interest income calculated using the effective interest method	5	95,814,186	77,211,595
Interest expense	7	(41,310,158)	(33,649,921)
Net interest income		54,504,028	43,561,674
Impairment losses on loans and advances	12(c)	(3,050,797)	(1,172,358)
Net interest income after impairment charges		51,453,231	42,389,316
Fee and commission income	6	53,929,816	52,939,525
Other income	8	2,247,956	833,805
Other operating income		56,177,772	53,773,330
Total operating income		107,631,003	96,162,646
Finance income	10	1,799,520	6,030,340
Finance costs	10	(1,556,039)	(7,033,854)
Net finance income/(costs)		243,481	(1,003,514)
Operating expenses	9	(91,907,957)	(70,139,114)
Profit before income tax		15,966,527	25,020,018
Income tax expense	20(a)	(5,570,713)	(9,708,248)
Profit for the year		10,395,814	15,311,770
Other comprehensive income			
Items that will not be reclassified to profit and loss			
Revaluation surplus (net of tax)	15	5,212,500	-
Total comprehensive income		15,608,314	15,311,770

The notes on pages 14 to 56 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2022

In Zambian Kwacha

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
Balance as at 1 January 2021	52,038,710	2,466,137	-	(8,587,351)	45,917,496
Total comprehensive income for the year					
Profit for the year	-	-	-	15,311,770	15,311,770
Transactions with owners recognised directly in equity					
Shares issued	10,000,000	-	-	-	10,000,000
Balance as at 31 December 2021	62,038,710	2,466,137	-	6,724,419	71,229,266
Balance as at 1 January 2022	**62,038,710**	**2,466,137**	**-**	**6,724,419**	**71,229,266**
Total comprehensive income					**-**
Profit for the year	**-**	**-**	**-**	**10,395,814**	**10,395,814**
Other comprehensive income					
Revaluation surplus	**-**	**-**	**5,212,500**	**-**	**5,212,500**
	62,038,710	**2,466,137**	**5,212,500**	**17,120,233**	**86,837,580**
Transactions with owners recognised directly in equity					
Shares issued	**600,000**	**-**	**-**	**-**	**600,000**
Balance as at 31 December 2022	**62,638,710**	**2,466,137**	**5,212,500**	**17,120,233**	**87,437,580**

Retained earnings

Retained earnings are the brought forward recognised income net of expenses of the Company plus current year profits attributable to shareholders.

Share premium

Share premium represents the amounts paid by shareholders, over the nominal value, for their shares.

Revaluation reserve

Revaluation reserve arises from the periodic revaluation of land and represents the excess of the revalued amount over the carrying value of the land at the date of revaluation. Deferred tax arising in the respect of revaluation of land is charged directly against revaluation reserves in accordance with International Accounting standard (IAS) 12: *Income Taxes*

The notes on pages 14 to 56 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2022

In Zambian Kwacha

	Notes	2022	2021
Cash flows from operating activities			
Profit for the year		**10,395,814**	15,311,770
Adjustment for:			
Interest expense	7	**41,310,158**	33,649,921
Depreciation property and equipment	15	**9,379,617**	6,451,670
Depreciation right-of-use-asset	22 (a)	**2,648,437**	1,662,730
Amortisation	16	**584,867**	313,472
Profit on disposal of equipment		**(11,038)**	(7,802)
Income tax expense	20(a)	**5,570,713**	9,708,248
		69,878,568	67,090,009
Changes in			
Loans and advances		**(30,849,769)**	(73,558,662)
Prepayments and other receivables		**(2,175,533)**	(1,451,037)
Amounts due to related parties		**158,238**	(3,472,799)
Deferred income		**(1,188,000)**	1,188,000
Other payables		**(3,678,504)**	5,655,079
Cash generated from/(used in) operations		**32,145,000**	(4,549,410)
Income tax paid	20(C)	**(9,499,667)**	(5,459,329)
Interest paid		**(37,591,177)**	(29,665,632)
Net cash used in operating activities		**(14,945,844)**	(39,674,371)
Cash flows from investing activities			
Acquisition of land, property and equipment		**-**	-
Acquisition of property and equipment	15	**(21,305,732)**	(18,435,294)
Acquisition of intangibles	16	**(519,777)**	(1,777,317)
Proceeds from disposal		**26,725**	25,000
Net cash used in financing activities		**(21,798,784)**	(20,187,611)

Statement of cash flows (continued)

for the year ended 31 December 2022

In Zambian Kwacha

	Notes	2022	2021
Cash flows from financing activities			
Proceeds from issue of share capital	14	-	10,000,000
Proceeds from borrowings	19	113,132,372	81,527,272
Repayment of borrowings	19	(71,023,170)	(28,562,854)
Payment of lease liabilities	22(c)	(3,468,945)	(2,363,155)
Net cash from financing activities		38,640,257	60,601,263
Net increase in cash and cash equivalents		1,895,629	739,281
Cash and cash equivalents at 1 January		9,713,058	8,973,777
Cash and cash equivalents at 31 December	11	11,608,687	9,713,058

The notes on pages 14 to 56 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2022

In Zambian Kwacha

1. Reporting entity

Agora Microfinance Zambia Limited ("AMZ" or "the Company") is incorporated in Zambia under the Companies Act of Zambia as a Company Limited by shares, and is domiciled in Zambia. The Company is also licensed under the Banking and Financial Services Act of Zambia, to conduct microfinance services. The address of its registered office is Plot 57A Lukanga Road Roma, Zambezi Road, Lusaka.

The Company's principal activity is to provide financial services to the rural and urban un-banked population in Zambia.

Details of the Company's accounting policies are included in note 28 in the notes to the financial statements.

2. Basis of accounting

a) Statement of compliance

These financial statements have been prepared in accordance IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in compliance with the requirements of the Companies Act and the Banking and Financial Services Act of Zambia.

Trade payables and other liabilities have continued to be settled in the normal course of business. Accordingly, the financial statements have been prepared on a going concern basis.

They were authorised for issue by the Company's Board of Directors on ………….. 2023.

b) Basis of measurements

The financial statements have been prepared on the historical cost basis except where otherwise stated.

3. Functional and presentation currency

These financial statements are presented in Zambian Kwacha ("Kwacha"), which is the Company's functional currency. Unless otherwise indicated, the financial information is rounded off to the nearest Kwacha.

4. Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2023 are included in the following note:

Note 23 (a)(v) – impairment of financial instruments determining inputs into the ECL measurements model including incorporation of forward-looking information.

Notes to the financial statements (continued)

for the year ended 31 December 2022

In Zambian Kwacha

5. Interest income

	2022	2021
Loans and advances to customers	94,917,714	76,726,921
Investment securities at amortised cost	896,472	484,674
	95,814,186	77,211,595

6. Fee and commission income

	2022	2021
Loan processing charges	49,640,422	49,302,463
Commission on insurance fees	4,289,394	3,637,062
	53,929,816	52,939,525

Insurance fees refers to the commission from the micro-insurance credit life product as well a hospital and funeral insurance cover. AMZ sells micro insurance products from Sanlam Life Insurance on which AMZ obtains a commission of 10% from the insurance company.

The table below provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers including significant payment terms and the related revenue recognition policies.

Type of service	Type of service Nature and timing of satisfaction of performance obligation, including significant payment terms	Revenue recognised under IFRS 15
Insurance fee commission	This income is made up of credit life insurance and hospital and funeral insurance sold on behalf of Sanlam. AMZ is an agent and has no obligation to underwrite the insurance. Therefore, AMZ only collects premiums on behalf of the insurance companies and earns a commission.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loan processing fee income	Fee is charged upfront as percentage of facility amounts.	Revenue related to transactions is recognised at the point in time when transaction takes place.

7. Interest expense

	2022	2021
Interest bearing borrowings	40,347,585	32,943,343
Interest expense on leases *(note 22(b))*	962,573	706,578
	41,310,158	33,649,921

8. Other income

	2022	2021
Donations	1,188,000	-
Recoveries of loans written off	-	15,000
Gain on disposal	11,038	7,802
Mobile money commission	1,038,611	788,621
Other income	10,307	22,382
	2,247,956	833,805

9. Operating expenses

	2022	2021
Employee benefits *(note 9.1)*	44,795,857	33,995,510
Depreciation Property and equipment *(note 15)*	9,379,617	6,451,670
Depreciation Right-of-use-asset*(22(a))*	2,648,437	1,662,730
Amortisation *(note 16)*	584,867	313,472
Auditors remuneration	798,074	1,091,201
Other expenses	33,701,105	26,624,531
	91,907,957	70,139,114

Notes to the financial statements (continued)

for the year ended 31 December 2022

9.1 Employee benefits

	2022	2021
Salaries	27,511,842	20,550,028
Statutory obligations	2,237,712	1,617,683
Incentives	8,201,927	6,991,344
Leave pay, pension and other staff costs	6,844,376	4,836,455
	44,795,857	33,995,510

10. Net finance income/(costs)

	2022	2021
Finance income		
Exchange gains	1,799,520	6,030,340
Finance cost		
Exchange losses	(1,556,039)	(7,033,854)
Net finance income/(costs)	243,481	(1,003,514)

11. Cash and cash equivalents

	2022	2021
Cash on hand	92,881	570,828
Bank balances	6,857,890	1,487,186
Mobile money E-value	4,657,916	966,716
Money market placements	-	6,688,328
	11,608,687	9,713,058

12. Loans and advances to customers

	2022	2021
a) Summary		
Loans and advances	219,256,252	187,802,475
Accrued interest	7,251,838	6,561,987
Gross loans and advances	226,508,090	194,364,462
Less: Provision for impairment of loans and advances	(2,466,801)	(1,172,942)
	224,041,289	193,191,520
b) Maturity		
Due:		
- Within 1 month	12,080,749	4,021,597
- Between 1 to 3 months	28,655,744	21,243,396
- Between 3 months and 1 year	171,664,261	157,848,872
- Greater than 1 year	6,855,498	4,688,610
Loans and advances to customers	219,256,252	187,802,475

c) Movements in provisions for impairment of loans and advances are as follows:

	2022	2021
At 1 January	1,172,942	1,100,416
Charge for the year	3,050,797	1,172,358
Bad debts written off	(1,756,938)	(1,099,832)
At 31 December	2,466,801	1,172,942

Notes to the financial statements (continued)

for the year ended 31 December 2022

13. Prepayments and other receivables

	2022	2021
Prepayments	5,668,154	4,439,281
Staff advances	500,964	342,423
Other receivables	1,420,119	335,268
Mobile money commission receivable	381,207	381,586
Interest receivable on placements	-	296,353
	7,970,444	5,794,911

14 Share capital

	Number of ordinary shares 2022	Ordinary share capital 2022	Number of ordinary shares 2021	Ordinary share capital 2021
Authorised				
Ordinary shares class A	95,000	950,000	95,000	950,000
Ordinary shares class B	6,405,000	64,050,000	6,405,000	64,050,000
Total	6,500,000	65,000,000	6,500,000	65,000,000
Issued and fully paid				
Ordinary shares of K 10 each (class A)	95,000	950,000	95,000	950,000
Ordinary shares of K 10 each (class B)	6,168,871	61,688,710	6,108,871	61,088,710
	6,263,871	62,638,710	6,203,871	62,038,710

14 Share capital continued

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2021	95,000	6,405,000	6,500,000
At 31 December 2021	95,000	6,405,000	6,500,000
At 1 January 2022	95,000	6,405,000	6,500,000
At 31 December 2022	95,000	6,405,000	6,500,000

The following movements in issued share capital occurred during the period:

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2021	950,000	51,088,710	52,038,710
Issued during the year	-	10,000,000	10,000,000
At 31 December 2021	950,000	61,088,710	62,038,710
At 1 January 2022	950,000	61,608,710	62,038,710
At Issued during the year	-	600,000	600,000
At 31 December 2021	950,000	61,688,710	62,638,710

During the year, the Company did not receive any equity injection. However, there was a share issuance to Agora Multipurpose Co-operative of 60,000 shares at ZMW10 per share with a value of ZMW 600,000.

Notes to the financial statements

for the year ended 31 December 2022

15. Property and equipment

	Land	Leasehold improvements	Capital work in progress	Motor vehicles and Bikes	Computer and office equipment	Furniture and fittings	Total
Cost							
At 1 January 2021	-	2,548,815	-	7,763,266	5,691,883	1,905,593	17,909,557
Additions	-	1,114,311	5,064,505	5,859,874	5,669,613	726,991	18,435,294
Disposals	-	-	-	(60,000)	-	-	(60,000)
At 31 December 2021	-	3,663,126	5,064,505	13,563,140	11,361,496	2,632,584	36,284,851
At 1 January 2022	-	3,663,126	5,064,505	13,563,140	11,361,496	2,632,584	36,284,851
Additions	7,937,500	4,187,808	2,489,550	1,197,969	4,662,601	600,950	21,076,378
Transfers	-	-	(5,064,293)	3,148,342	1,493,255	422,696	-
Disposals	-	(73,535)	-	(2,158,654)	(525,703)	(161,574)	(2,919,466)
Revaluation	5,212,500	-	-	-	-	-	5,212,500
At 31 December 2022	13,150,000	7,777,399	2,489,762	15,750,797	16,991,649	3,494,656	59,654,263
Depreciation							
At 1 January 2021	-	674,095	-	3,220,610	1,802,546	730,238	6,427,489
Charge for the year	-	641,599	-	3,176,351	2,212,117	421,603	6,451,670
Disposals	-	-	-	(42,802)	-	-	(42,802)
At 31 December 2021	-	1,315,694	-	6,354,159	4,014,663	1,151,841	12,836,357
At 1 January 2022	-	1,315,694	-	6,354,159	4,014,663	1,151,841	12,836,357
Charge for the year	-	1,152,518	-	4,214,038	3,438,278	574,783	9,379,617
Disposals	-	(73,535)	-	(2,153,358)	(515,312)	(161,574)	(2,903,779)
At 31 December 2022	-	2,394,677	-	8,414,839	6,937,629	1,565,050	19,312,195
Carry amounts							
At 31 December 2022	13,150,000	5,382,722	2,489,762	7,335,958	10,054,020	1,929,606	40,342,068
At 31 December 2021	-	2,347,432	5,064,505	7,208,981	7,346,833	1,480,743	23,448,494

15. Property and equipment (continued)

Measurement of fair values

i) Fair value hierarchy

The fair value of the land and property was determined at ZMW13,150,000 in 2022 by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The fair value measurement for property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

If the plant and leasehold were stated on a historical cost basis, the amounts would be as follows:

	2022	2021
Cost	7,937,500	-
Depreciation	-	-
Carrying amount at 31 December	7,937,500	-

The valuation was in line with the Company's accounting policy to recognise its leasehold land and buildings at fair value.

ii) Valuation techniques and significant unobservable inputs

Valuation technique	Significant unobservable inputs	Inter-relationships between key unobservable inputs and fair value measurement
The valuation technique used is the direct comparison. This valuation method involves comparing the past sales of same land in the area.	The key assumptions were as follows: (i) Remaining useful life of the property; and (ii) Cost of acquiring of the same or similar land.	The estimated fair value would increase or decrease if there is a change in the unobservable inputs.

Notes to the financial statements (continued)

for the year ended 31 December 2022

16. Intangible assets

	Capital work in progress	Software	Total
Cost			
At 1 January 2021	-	1,498,988	1,498,988
Additions	1,340,886	436,431	1,777,317
At 31 December 2021	1,340,886	1,935,419	3,276,305
At 1 January 2022	1,340,886	1,935,419	3,276,305
Additions	229,354	519,777	749,131
Transfers	(1,340,886)	1,340,886	-
At 31 December 2022	229,354	3,796,082	4,025,436
Amortisation			
At 1 January 2021	-	856,017	856,017
Charge for the year	-	313,472	313,472
At 31 December 2021	-	1,169,489	1,169,489
At 1 January 2022	-	1,169,489	1,169,489
Charge for the year	-	584,867	584,867
At 31 December 2022	-	1,754,356	1,754,356
Carrying amounts			
At 31 December 2022	229,354	2,041,726	2,271,080
At 31 December 2021	1,340,886	765,930	2,106,816

17. Deferred income

	2022	2021
Balance 1 January	1,188,000	-
Deferred in the year	-	1,188,000
Released to income	(1,188,000)	-
Balance at 31 December	-	1,188,000

The Company engaged in a number of projects which included digitalisation of its loan process, mobile money scaling and development of a scoring tool for the agriculture products.

During the year the Company recognised in income received from Financial Sector Deepening Limited (FSDZ) relating to the agriculture loan evaluation system amounting to ZMW 1,188,000 (2021: Nil), as disclosed in note 17 in the notes to the financial statements.

18. Other payables

	2022	2021
Withholding tax*	2,455,129	5,406,909
Insurance fees payable to Sanlam	413,267	108,672
Insurance fees payable to Mayfair	235,739	369,149
Audit and tax fees	377,950	472,209
Staff welfare	988,134	2,088,916
Other creditors and accruals	1,557,363	1,214,444
Other statutory obligations	1,183,059	1,228,846
	7,210,641	10,889,145

* The Company recognised ZMW2,517,623 in the 2021 financial year which relates to excess withholding tax that was paid to Zambia Revenue Authority for the years 2018, 2019 and 2020, based on the approval of reduced tax rates arising from the tax residence of our lenders.

Notes to the financial statements (continued)

for the year ended 31 December 2022

19. Borrowings

	Principal	Maturity	Currency	Interest rate/ (excl. WHT)	Carrying value ZMW
31 December 2022					
Grameen Credit Agricole(GCA)	36,031,052	15 Jun 2024	ZMW	AVG 25.5%	**16,534,186**
Oiko Credit	24,000,000	14 Apr 2025	ZMW	22.5%	**18,010,403**
Triple Jump	31,114,825	15 Oct 2024	ZMW	AVG26.9%	**32,749,447**
Bank of Zambia	60,000,000	16 May 2027	ZMW	AVG8.25%	**63,671,949**
MCE Social Capital	17,906,100	27 Jan 2025	ZMW	23%	**18,649,701**
FMO Entrepreneurial Development Bank	39,793,250	15 Jun 2027	ZMW	21.4%	**40,188,162**
At 31 December 2021					**189,803,848**
31 December 2021					
Grameen Credit Agricole(GCA)	36,031,052	15 Jun 2024	ZMW	AVG 25.5%	28,386,946
Oiko Credit	24,000,000	14 Apr 2025	ZMW	22.5%	25,210,890
Moringaway	60,000,000	30 Sep 2024	ZMW	21.5%	36,424,575
Triple Jump	31,114,825	15 Oct 2024	ZMW	AVG26.9%	22,816,799
Bank of Zambia	20,000,000	2 Nov 2026	ZMW	8%	21,405,209
FMO Entrepreneurial Development Bank	32,185,740	11 Oct 2022	ZMW	18.40%	11,172,744
					145,417,163

All borrowings except Bank of Zambia facility held have no security.

- The Grameen Credit Agricole loan was at an average rate of 24%.
- The Triple Jump facility had an interest rate of at average of 26.9%.
- The Bank of Zambia facility had an interest rate of at 8% secured by shareholder guarantee. During the year under review, the Company obtained an additional ZMW 40 million under the same terms as the previous borrowings.
- The MCE Social Capital facility had an interest rate of 23%.
- The FMO Entrepreneurial Development Bank facility is set at 7.4% above the Zambian Government 182-day treasury bill rate.

19. Borrowings (continued)

Movements of borrowings

	GCA	OIKO	Moringa way	Triple Jump	FMO	MCE	Bank of Zambia	Total
2022								
At 1 January	28,031,053	24,000,000	36,047,825	21,616,146	10,728,580	-	20,000.000	140,423,604
Drawdown	-	-	-	15,433,022	39,793,250	17,906,100	40,000,000	113,132,372
Repayments	(11,512,422)	(6,800,000)	(36,047,825)	(5,934,343)	(10,728,580)	-	-	(71,023,170)
	16,518,631	17,200,000	-	31,114,825	39,793,250	17,906,100	60,000,000	182,532,806
Accrued Interest	15,556	810,403	-	1,634,622	394,912	743,600	3,671,949	7,271,042
At 31 December	16,534,187	18,010,403	-	32,749,447	40,188,162	18,649,700	63,671,949	189,803,848
2021								
At 1 January	2,205,450	-	32,580,318	17,803,029	21,457,160	-	,10,486,101	84,532,058
Drawdown	27,531,052	24,000,000	10,734,861	9,747,460	-	-	9,513,899	81,527,272
Repayments	(1,705,449)	-	(10,194,482)	(5,934,343)	(10,728,580)	-	-	(28,562,854)
Capitalised interest	-	-	2,361,923	-	-	-	-	2,361,923
Foreign exchange	-	-	565,205	-	-	-	-	565,205
	28,031,053	24,000,000	36,047,825	21,616,146	10,728,580	-	,20000,000	140,423,604
Accrued Interest	355,893	1,210,890	376,750	1,200,653	444,164	-	1,405,209	4,993,559
At 31 December	28,386,946	25,210,890	36,424,575	22,816,799	11,172,744	-	21,405,209	145,417,163

Notes to the financial statements (continued)

for the year ended 31 December 2022

20. Income tax expense

		2022		2021
a) Tax expense				
Current tax		5,455,720		9,843,802
Deferred tax expense/(income)		114,993		(135,554)
Income tax expense		5,570,713		9,708,248

b) Reconciliation of effective tax rate

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

		2022		2021
Profit before tax		15,966,527		25,020,018
Income tax using corporate tax rate	*30%*	4,789,958	*35%*	8,757,006
Non-deductible expenses	*5%*	720,651	*3%*	710,257
Effect of change in the deferred tax rate	*0%*	60,104	*1%*	240,985
Total income tax expense	*35%*	5,570,713	*39%*	9,708,248

c) Movement in statement of financial position

	2022	2021
Balance at 1 January	5,708,664	1,324,191
Charge for the year	5,455,720	9,843,802
Tax paid	(9,499,667)	(5,459,329)
Balance at 31 December	1,664,717	5,708,664

20. Income tax expense (continued)

d) Deferred tax assets and liabilities

The Company has no tax losses available for utilisation against future taxable income (2021: Nil).

Recognized deferred tax assets

Following a stable estimate of the Company's future results from operating activities, and based on future projected profitable growth, the Company recognised deferred tax assets amounting to **ZMW 126,493** (2021: ZMW 241,486). The business plan prepared by Management shows that the Company will continue to make sufficient available profits for the period 2022 – 2024, with which the deferred tax asset can be utilised.

Management anticipates they will be able to meet their budget forecasts for the year based on growth of the loan book and increased capital injection from shareholders and increase in external borrowings. Additionally, Management has intentions to increase other lines of income such as mobile money transactions.

	Balance at 1 January 2022	Recognised in income	Balance at 31 December 2022	Deferred tax asset	Deferred tax liabilities
2022					
Property, plant and equipment-cost	443,044	(169,149)	273,895	-	273,895
Loan loss provision – IFRS 9	(351,883)	(388,158)	(740,041)	(740,041)	-
IFRS 16 - leases	25,315	(8,322)	16,993	-	16,993
Incentive and ESOP provisions	(571,831)	86,744	(485,087)	(485,087)	-
BOZ provision	213,869	593,878	807,747	-	807,747
	(241,486)	114,993	(126,493)	(1,225,128)	1,098,635

	Balance at 1 January 2021	Recognised in income	Balance at 31 December 2021	Deferred tax asset	Deferred tax liabilities
2021					
Property, plant and equipment-cost	552,647	(109,603)	443,044	-	443,044
Loan loss provision – IFRS 9	(385,146)	33,263	(351,883)	(351,883)	-
IFRS 16 - leases	(140,583)	165,898	25,315	-	25,315
Incentive and ESOP provisions	(280,874)	(290,957)	(571,831)	(571,831)	-
Leave provision	(48,110)	48,110	-	-	-
BOZ provision	196,134	17,735	213,869	-	213,869
	(105,932)	(135,554)	(241,486)	(923,714)	682,228

Notes to the financial statements (continued)

for the year ended 31 December 2022

21 Related party transactions

Parent and ultimate controlling party

AMZ is owned and controlled by Agora Microfinance NV ("AMNV"), Moringaway and Agora Multipurpose Co-operative. The Company has carried out transactions with its shareholders, the ultimate parent is AMNV.

The relevant transactions and balances are as below:

i) Borrowings

	2022	2021
Loan principle from Moringaway	-	36,047,825
Interest due to Moringaway	-	376,750
Total (note 19)	-	36,424,575

ii) Interest

	2022	2021
Interest paid to Moringaway	5,665,600	8,077,643

iii) Amounts due to related parties

	2022	2021
Guarantee fee payable to AMNV	306,666	-
EDP service fees advanced from Agora Microfinance Partners LLP	-	148,428
	306,666	148,428

During the year, the Company obtained a facility from Bank of Zambia amounting to ZMW40 million which is guaranteed by the shareholder Agora AMNV.

iv) Issuance of shares

	2022	2021
Agora Multipurpose Co-operative	600,000	0

21 Related party transactions (continued)

v) Transactions with Directors' or Key management personnel

Key management

	2022	2021
Salaries and other short-term employment benefits	4,990,884	4,350,917
Loans and advances to Key management personnel	890,812	187,361

Detailed listing of loans and advances to Directors' and key management personal

	1-Jan-22			31-Dec-22		
	Opening Amounts ZMV	Additions / Disbursements ZMV	Repayments / transfers out ZMV	Closing amounts ZMV	Weighted interest range	Nature of loan
Director 1	195,825	-	(39,492)	156,333		-
Officer 1	21,932	100,250	(57,215)	64,967	13%	Staff Personal Loan
Officer 2	85,890	290,725	(95,176)	281,439	13%	Staff Personal Loan
Officer 3	79,539	200,500	(108,944)	171,095	13%	Staff Personal Loan
Officer 4	-	163,711	(2,252)	161,459	13%	Staff Personal Loan
Officer 5	-	260,650	(48,798)	211,852	13%	Staff Personal Loan
	383,186	1,015,836	(351,877)	1,047,145		

The RNC Committee of the Board sets interest rates for staff loans annually, based on the local treasury bill interest rates and on the principle that staff loans are offered at or close to the cost of funds available to the Company. The rate set for 2022 was 13% (relevant T-Bill Rate at the beginning of 2022 was 9%). Interest rates charged on balances outstanding from related parties are thirty seven percent of the rates that would be charged in arm's length transactions. The interest charged on balances outstanding from related parties amounted to **ZMW 109,918** (2021: ZMW 56,071).

As of 31 December 2022 the balances with key management personnel are allocated to stage 1 and stage 3 and have a loss allowance of ZMW 3,430 (2021 ZMW 1,244). During 2022 ZMW 1,695 impairment loss was recognised in profit or loss in respect of these balances (2021: ZMW 1,244).

vi) Directors' fees

	2022	2021
Directors' fees paid	462,984	557,474

Notes to the financial statements (continued)

for the year ended 31 December 2022

22 Leases

Leases as lessee (IFRS 16)

The Company leases office space. The leases typically run for a period of 1 years to 3 years with an option to renew the lease after that date. Lease payments are renegotiated every time after the lease term to reflect market rentals.

Information about leases for which the Company is a lessee is presented below:

a) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented below:

2022

	2022	2021
Balance at 1 January	2,822,695	1,745,195
Depreciation charge for the year	(2,648,437)	(1,662,730)
Additions to right-of-use assets	4,532,396	3,433,700
De-recognition of right-of-use assets	-	(693,470)
Balance at 31 December	4,706,654	2,822,695

b) Amounts recognised in profit or loss

Interest on lease liabilities	962,573	706,578

c) Amounts recognised in statement of cash flows

	2022	2021
Total cash out-flow for leases	3,468,945	2,363,155

d) Lease liability

Non-current portion of lease liabilities	2,133,331	764,008
Current portion of lease liabilities	2,509,932	1,974,306
Balance at 31 December	4,643,263	2,738,314

23 Financial instrument fair value and risk management

Financial risk management

Introduction and overview

The Company has exposure to the following risks from its use of financial assets and liabilities:

- credit risk;
- liquidity risk;
- market risks; and
- operational risks.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The effective management of risk is critical to earnings and financial position within AMZ where the culture encourages sound commercial decision making which adequately balances risk and reward.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company's approach to risk management is based on an established governance process and relies both on individual responsibility and collective oversight. This approach balances stringent corporate oversight with independent risk management structures within the Company.

Naturally, the Company faces a number of risks when conducting its business which it may choose to take, transfer or mitigate as described.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk).

(i) Management of credit risk

In order to manage this risk, the Board has a defined credit policy for the Company, which is documented and forms the basis of all credit decisions. The Company also makes allowance for impairment in line with the requirement of IFRS 9.

Management evaluates credit risk relating to customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, considering their financial position, past experience and other factors. Individual risk limits are set based on internal and/or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Credit guarantee insurance is purchased when deemed appropriate in cases of death or disability. Credit risk on other financial assets were conducted but did not materialise into a significant adjustment.

Notes to the financial statements (continued)

for the year ended 31 December 2022

23 Financial instrument fair value and risk management (continued)

(ii) Credit quality analysis

The table below sets out information about the credit quality of loans and advances to customers and the allowance for impairment/loss held by the Company against those assets.

The carrying amount of loans and advances to customers represents the main credit exposure. The maximum exposure to credit risk on these assets at the reporting date was:

Loans and advances to customers

	2022	2021
Stage 1 – Performing	222,229,739	192,739,893
Stage 2 – Not late	2,119,591	862,882
Stage 3 – Late	2,158,760	761,687
Gross loans and advances to customers	226,508,090	194,364,462

(ii) Credit quality analysis

Impairment losses

The aging of loans and advances to customers at reporting date was:

	2022	2021
Neither past due nor impaired	217,658,268	189,290,695
Past due 1-29 days	4,589,854	3,433,985
Past due 30-59 days	1,311,601	659,926
Past due 60-89 days	807,990	218,169
Past due 90-119 days	505,124	187,088
Past due >120 days	1,635,253	574,599
Gross	226,508,090	194,364,462
Provision for impairment	(2,466,801)	(1,172,942)
	224,041,289	193,191,520

Impaired loans and advances are loans and advances for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreements.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(iii) Concentrations of risk of financial assets with credit risk exposure

Industry sector risk concentrations within the customer loan portfolio was as follows:

	2022	2021
Agriculture and allied	21,073,615	19,784,542
Manufacturing, mining and production	250,784	355,394
Trade and services	193,448,177	162,115,305
Other sectors	11,735,514	12,109,221
	226,508,090	194,364,462

The majority of the Company's customers are individuals, who access financial services, either in community bank, solidarity groups, or as individuals. There is no distinct market that is dominant.

(iv) Collateral held and other credit enhancement

In order to determine the credit worth of a particular client, Agora Microfinance has established a robust system for client assessment which includes determination of the cashflows of the business, determination of the value of collateral as well as the financial capability of the guarantor. In the case of group lending a three-tier guarantee is applied. All these factors help to determine the credit quality of the loan extended to the clients. Agora Microfinance ensures that the collateral pledged for Small and Medium Size Entities (SMSE) loans have a value that is at least 150% of the value of the loan facility requested by the client. This helps to mitigate the credit risk and, in the event that the collateral has to be liquidated, there is surety that the loan will be recovered.

As of 31 December 2022 the non-performing loans value was **ZMW 889,604** (2021: ZMW 572,802) and the collateral pledged against it amounted to **ZMW 5,029,729** (2021: ZMW 2,901,076).

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the credit risk (i.e., 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 qualitative and quantitative information and analysis based on the Company's experience, expert credit assessment and forward-looking information.

The Company primarily identifies 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 on initial recognition of the exposure.

Notes to the financial statements (continued)

for the year ended 31 December 2022

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL (continued)

Because of the absence of credit ratings in Zambia, the Company allocates exposure to a credit risk grade based on data that is determined to be predictive of the risk of default (including but not limited to audited financial statements, management accounts, cash flow projections, available regulatory and press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

The Company has assumed that the credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the reporting date. The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment-grade".

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 60 days past due. At 60 days past due (two months of non- payment consecutively), non-payment by the borrower can no longer be attributable to any administrative inconvenience but rather possible financial stress or character issues and the likelihood of catching up is remote with a possibility of the arrears remaining permanently. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 90 days past due; and
- The average time between the identification of significant increase in credit risk and default appears reasonable.

Sensitivity analysis

If all the stage 2 instruments were stage 1, the ECL would have reduced by ZMW 201,699 as shown below. This analysis assumes that all other variables remain constant.

	2022	2021
Impairment level with stage 2 loans	2,466,801	1,172,942
Impairment level with stage 2 loans assumed as stage 1	(2,265,102)	(1,057,938)
Movement	201,699	115,004

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL (continued)

The impairment provision decreases due to the reduction in credit risk. Exposures are not generally transferred from 12-month ECL measurement to credit- impaired and there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Modified financial assets

The contractual terms of the financial assets may be modified for a number of reasons, including changing the market conditions and other factors not related to a current or potential credit deterioration of the borrower. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD as at the reporting date based on modified terms with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company has adopted the Banking and Financial Services Act definition of default which takes into account the aging of the loan and the relevant provisioning percentages.

Incorporation of forward-looking information

The Company incorporates forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a "base case" view of the future direction of relevant economic variables and representative range of other possible forecast scenarios based on advice from the risk committee and economic experts and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by the government and monetary authorities and selected private-sector and academic forecasters.

The base case represents a best estimate and is aligned with information used by the Company for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Company also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and ECL for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2022 included the following key indicators for the years ending 31 December 2021 and 2022:

- Each respective loan effective interest rate;
- Gross Domestic Product (GDP) growth 3%; and
- Macro-Economic data such as foreign exchange, inflation, interest, country reserve and unemployment rates has been sourced from IMF for Zambia. The data is available for annual frequency. For Correlation analysis, interpolation has been done at quarterly level.

The predicted relationships between the key indicators and the default and loss rates on various portfolios of financial assets have been developed by analysing historical data over the past 5 years.

Notes to the financial statements (continued)

for the year ended 31 December 2022

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL (continued)

Measurement of ECL

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

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the average quotient of principal amounts impaired and delinquent trade receivables based on the five-year default history. Beyond a point of collectability, 100% PD is assumed. The PDs are adjusted to reflect forward-looking information as described above. Changes in the rating for the counterparty or exposure lead to a change in the estimate of the associated PD.

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 and the expected cashflows from realizability of collateral discounted at the effective interest rate. The LGD models consider the structure, seniority of the claim and counterparty industry. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as a discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of the financial asset is its gross carrying amount.

As described above the subject to using a maximum of a 12- month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped in the basis of shared risk characteristics, which include:

- Instrument type;
- Credit risk gradings;
- Date of initial recognition;
- Industry; and
- Geographic location of the customer.

The groupings are subject to regular review to ensure that exposures within the particular group remain appropriately homogeneous.

Write off policy

The Company writes off a loan balance (and any related allowances for impairment losses) when the Company determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. Write offs are approved by the Board before they are actioned.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Company ensures it has sufficient funds on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of expense circumstances that cannot reasonably be predicted such as natural disasters.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Management of liquidity risk (continued)

Proactive liquidity management in line with Company liquidity standards ensured that, despite volatile and constrained liquidity environments at the onset of the Covid-19 pandemic, adequate liquidity was maintained to fully support balance sheet strategies. This has been achieved through continuous engagements with lenders for instance over the last two years the Company secured ZMW 60 million from Bank of Zambia. At the same time consideration has been provided to the adequacy of contingent funding, ensuring sufficiency to accommodate unexpected liquidity demands. The Company continues to leverage the extensive deposit franchises across the portfolio to ensure that it has the appropriate amount, tenor and diversification of funding to support its current and forecast asset base while minimising cost of funding.

(ii) Maturity analysis for financial liabilities

Liquidity risk is monitored on a weekly basis by the Finance department and controlled as far as possible by ensuring the mismatch between maturing liabilities and investment of these funds are kept at a minimum.

The table below analyses assets and liabilities of the Company into relevant maturity based on the remaining period at reporting date to the contractual maturity date.

The gross nominal inflow/(outflow) disclosed in the table below represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability.

	Carrying amount	Gross nominal outflows	Less than 1 year	Between 1 – 3 years
31 December 2022				
Liabilities				
Amount due to related parties	306,666	306,666	306,666	-
Borrowings	189,803,848	246,937,637	74,699,316	172,238,321
Other payables	7,210,641	7,210,641	7,210,641	-
Lease liabilities	4,643,263	6,594,365	2,762,233	3,832,132
Total liabilities	201,964,418	261,049,309	84,978,856	176,070,453

	Carrying amount	Gross nominal outflows	Less than 1 year	Between 1 – 3 years
31 December 2021				
Liabilities				
Amount due to related parties	148,428	148,428	148,428	-
Borrowings	145,417,163	193,439,124	80,718,868	112,720,256
Other payables	10,889,145	10,889,145	10,889,145	-
Lease liabilities	2,738,314	3,185,952	1,974,305	1,211,647
Total liabilities	159,193,050	207,662,649	93,730,746	113,931,903

The table above shows the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The Company's expected cash flows on these instruments vary significantly from this analysis.

Notes to the financial statements (continued)

for the year ended 31 December 2022

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

c) Market risk

Market risk is the risk where changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's credit standing) will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps between the Company's borrowing rates and its fixed onward lending rates. Management also monitors the movement in Treasury bills rates of 182 days on a quarterly basis and then relates this to the amounts that they expect to pay in interest to the respective lenders. This also helps determine the minimum lending rate for the Company which will minimise or avoid interest rate gap losses as well as ensure that the Company has adequate return on funds available for lending.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

Exposure to interest rate risk – non-trading portfolios (continued)

A summary of the Company's interest rate gap position on non-trading portfolios is as follows:

	Interest rate	Carrying amount	Less than 3 months	3-12 months	1-5 years
31 December 2022					
Loans and advances to customers	Fixed	224,041,289	45,534,017	171,664,261	6,843,011
Total assets		224,041,289	45,534,017	171,664,261	6,843,011
Borrowings	Fixed /Variable	189,803,848	51,589,886	49,765,623	88,448,339
Lease liabilities	Fixed	4,643,263	574,158	1,935,774	2,133,331
Total liabilities		194,447,111	52,164,044	51,701,397	90,581,670
Interest rate gap		29,594,178	(6,630,027)	119,962,864	(83,738,659)

The negative interest rate gaps in less than 3 months and 1 to 5 years is covered by the assets maturing in the less than 12 months, which are reinvested in the core business of lending to clients.

	Interest rate	Carrying amount	Less than 3 months	3-12 months	1-5 years
31 December 2021					
Loans and advances to customers	Fixed	193,191,520	32,250,090	157,892,241	3,049,189
Total assets		193,191,520	32,250,090	157,892,241	3,049,189
Borrowings	Fixed /Variable	145,417,163	12,887,424	45,105,393	87,424,346
Lease liabilities	Fixed	2,738,314	1,044,438	1,146,213	547,663
Total liabilities		148,155,477	13,931,862	46,251,606	87,972,009
Interest rate gap		45,036,043	18,318,228	111,640,635	(84,922,820)

Notes to the financial statements (continued)

for the year ended 31 December 2022

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk

Currency risk is the risk of adverse movements in exchange rates that will result in a decrease in the value of foreign exchange assets or an increase in the value of foreign currency liabilities. The organisation does not hedge its foreign assets or liabilities. The Company undertakes certain transactions denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arises.

The company is exposed to foreign exchange risk primarily with respect to some bank balances and loans which are denominated in United States dollars and Euro.

A summary of the Company's foreign currency exposure on its financial assets and liabilities in Kwacha is as follows:

	EURO (ZMW exposure)	USD (ZMW exposure)	ZMW	Total
31 December 2022				
Assets				
Loans and advances to customers	-	-	224,041,289	224,041,289
Cash and cash equivalents	8,771	198,460	11,401,456	11,608,687
Other receivables (less prepayments)	-	-	2,302,290	2,302,290
Total assets	8,771	198,460	237,745,035	237,952,266
Liabilities				
Other payables	-	-	7,210,641	7,210,641
Amount due to related parties	-	-	306,666	306,666
Lease liabilities	-	1,013,229	3,630,034	4,643,263
Borrowings	-	-	189,803,848	189,803,848
Total liabilities	-	1,013,229	200,951,189	201,964,418
Net exposure	8,771	(814,769)	36,793,846	35,987,848

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk

	EURO (ZMW exposure)	USD (ZMW exposure)	ZMW	Total
31 December 2021				
Assets				
Loans and advances to customers	-	-	193,191,520	193,191,520
Cash and cash equivalents	85,326	2,948	9,624,784	9,713,058
Other receivables (less prepayments)	-	-	1,355,630	1,355,630
Total assets	85,326	2,948	204,171,934	204,260,208
Liabilities				
Other payables	-	-	10,889,145	10,889,145
Amount due to related parties	-	60,428	88,000	148,428
Lease liabilities	-	133,942	2,604,372	2,738,314
Borrowings	-	-	145,417,163	145,417,163
Total liabilities	-	194,370	158,998,680	159,193,050
Net exposure	85,326	(191,422)	45,173,254	45,067,158

Notes to the financial statements (continued)

for the year ended 31 December 2022

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

The following significant exchange rates were applied during the period:

Average rate		Spot rate	
2022 USD	2021 USD	2022 USD	2021 USD
18.08	16.68	19.23	18.88

Sensitivity analysis

A 10 percent strengthening of the Zambian Kwacha against the USD and EURO at 31 December would have (decreased)/increased the profits by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2021.

		Profit and loss	
2022 USD	2021 USD	2022 USD	2021 USD
81,477	19,142	877	(8,533)

A 10 percent weakening of the Zambian Kwacha against the above currency at 31 December would have had the equal but opposite effect on the profit for the year, on the basis that all other variables remain constant.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(e) Compliance risk

Compliance is an independent core risk management activity, which also has unrestricted access to the Managing Director and the Chairman of the Board. The Company is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the Company's compliance risk.

Money laundering control and occupational health and safety (including aspect of environmental risk management) are managed within the Compliance function and there are increasingly onerous legislative requirements being imposed in both these areas.

The Company has adopted anti-money laundering policies including "Know Your Customer" policies and procedures and adheres to the country's anti-money laundering legislation and the Bank of Zambia's regulations and directives.

The management of compliance risk has become a distinct discipline within the Company's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities is undertaken to manage the risk such as identifying the regulatory universe and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the "Know-Your-Customer procedures" and Prohibition and Prevention of Money Laundering Act number 14 of 2001 as amended by Act number 44 of 2010. Anti-money laundering procedures and legislation became an area of major focus for the Company especially in 2018.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(ii) Currency risk

Accounting classifications and fair values

The table below sets out the Company's classification of financial assets and financial liabilities, and their fair values (excluding accrued interest):

	Amortised cost	Total Carrying amount	Fair value
31 December 2022			
Assets			
Cash and cash equivalents	11,608,687	11,608,687	11,608,687
Loans and advances to customers	224,041,289	224,041,289	224,041,289
Other receivables (less prepayment)	2,302,290	2,302,290	2,302,290
	237,952,266	237,952,266	237,952,266
Liabilities			
Other liabilities	7,210,641	7,210,641	7,210,641
Lease liabilities	4,643,263	4,643,263	4,643,263
Borrowings	189,803,848	189,803,848	189,803,848
Amount due to related parties	306,666	306,666	306,666
	201,964,418	201,964,418	201,964,418

Notes to the financial statements (continued)

for the year ended 31 December 2022

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(ii) Currency risk (continued)

	Amortised cost	Total Carrying amount	Fair value
31 December 2021			
Assets			
Cash and cash equivalents	9,713,058	9,713,058	9,713,058
Loans and advances to customers	193,191,520	193,191,520	193,191,520
Other receivables (less prepayment)	1,355,630	1,355,630	1,355,630
	204,260,208	204,260,208	204,260,208
Liabilities			
Other liabilities	10,889,145	10,889,145	10,889,145
Lease liabilities	2,738,314	2,738,314	2,738,314
Borrowings	145,417,163	145,417,163	145,417,163
Amount due to related parties	148,428	148,428	148,428
	159,193,050	159,193,050	159,193,050

24 Capital management

Regulatory capital

The Company's regulator (Bank of Zambia) sets and monitors capital requirements for the Company as a whole. In implementing current capital requirements, Bank of Zambia requires the Company to maintain a minimum 15% ratio of total capital to total risk-weighted assets. The Company's regulatory capital is analysed into two tiers:

- Primary (Tier 1) capital, which includes paid-up common shares, retained earnings, statutory reserves less adjustment of assets of little or no realisable value.
- Secondary (Tier 2) capital, which includes qualifying subordinated term debt and revaluation reserves limited to a maximum of 40%. The maximum amount of total secondary capital is limited to 100% of primary capital.

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future developments of the business. There were no changes in the Company's approach to capital management during the period.

24 Capital management continued

Regulatory capital (continued)

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

- To comply with 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 its development of its business.

Capital position

I Primary (Tier 1) capital

		2022	2021
(a)	Paid-up common shares	62,638,710	62,038,710
(b)	Share premium	2,466,137	2,466,137
(c)	Retained earnings	17,120,234	6,724,419
(d)	**Sub-total A (items a to d)**	82,225,081	71,229,266
	Less		
(e)	Goodwill and other intangible assets	(2,271,080)	(765,930)
(g)	**Sub-total B (items d to f)**	79,954,001	70,463,336
(h)	**Total primary capital**	79,954,001	70,463,336
II	**Secondary (Tier 2) capital**		
	Revaluation reserves. Maximum is 40% of revaluation reserve.	2,085,000	-
III	**Eligible secondary capital**		
	(The maximum amount of secondary capital is limited to 100% of primary capital)	2,085,000	-
IV	**Eligible total capital (I (g) + III)**		
	(Regulatory capital)	82,039,001	70,463,336
V	**Minimum total capital requirement**		
	15% total on and off-balance sheet risk-weighted assets	(42,264,178)	(34,415,155)
VI	**Excess** (IV minus V)	39,774,823	36,048,181

Notes to the financial statements (continued)

for the year ended 31 December 2022

25 Capital commitments

There were no material capital commitments as of 31 December 2022 (2021: nil).

26 Contingent liabilities

The were no material contingent liabilities (2021: ZMW 250,000).

27 Subsequent events

There were no significant events after the reporting date requiring disclosure or adjustment to these financial statements.

28 Significant accounting policies

Set out below is an index of the significant accounting policies the details of which are available on the pages that follow:

a) Property and equipment
b) Intangible assets
c) Foreign currency transactions
d) Financial assets and liabilities
e) Loans and advances
f) Cash and cash equivalent
g) Income tax
h) Share capital and reserves
i) Impairment of non-financial assets
j) Employee benefits
k) Interest income and expense
l) Fees and commission
m) Leases

28 Significant accounting policies (continued)

(a) Property and equipment

(i) Recognition and measurement

Equipment is initially measured at cost less accumulated depreciation and any accumulated impairment loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located;
- capitalised borrowing costs; and
- Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Any gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

28 Significant accounting policies (continued)

(a) Property and equipment (continued)

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of the asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the expected useful lives of each part of an item or property and equipment, since this most closely reflects the expected pattern consumption of the future economic benefits embodied in the asset. Land is not depreciable.

The useful lives of items of equipment have been assessed as follows:

Item	Average useful life
Furniture and fittings	4 - 5 years
Motor vehicles	4 years
Motor bikes	3 years
Computer and office equipment	3 - 4 years
Leasehold improvements	Length of the lease
Capital work in progress	Not depreciable

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss.

The gain or loss arising from the derecognition of an item of equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

(iv) Revaluation

An external, independent valuation expert, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Company`s land every 5 years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

The surplus arising on the revaluation of properties is initially credited to a revaluation surplus, which is a non-distributable reserve.

If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset, thereafter the remaining decrease is recognised in profit or loss.

(b) Intangible assets

Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits of the asset to which it relates. All other expenditure is recognised in profit or loss as incurred. Software is amortized on a straight-line basis in the profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software is three years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the financial statements (continued)

for the year ended 31 December 2022

28 Significant accounting policies (continued)

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. However, foreign currency differences arising on retranslation are recognised in profit or loss.

(d) Financial assets and liabilities

i) Recognition and initial measurement

The Company recognises deposits with financial institutions and loans and borrowings on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus or minus for a financial asset or financial liability not measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

Financial assets

Classification

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) or FVTPL.

A financial asset is measured at amortised 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 cashflows that are SPPI.

A debt instrument is measured at FVOCI only 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 (SPPI).

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

ii) Classification (continued)

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Other financial liabilities comprise trade and other payables, amounts due to related parties and loans and borrowings.

Business model assessment

Assessment 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;
- average 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).

The Company holds a portfolio of long-term fixed-rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

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.

iii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Notes to the financial statements (continued)

for the year ended 31 December 2022

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

iii. Derecognition (continued)

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

v. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Company of similar transactions such as in the Company's trading activity.

vi. Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Company recognises transfers between levels of the fair value hierarchy as of the end of th reporting period during which the change has occurred.

vii. Impairment

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

Notes to the financial statements (continued)

for the year ended 31 December 2022

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

vii. Impairment (continued)

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

vii. Impairment (continued)

Restructured financial assets (continued)

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as 'Stage 3 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- 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;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial* guarantee *contracts*: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

(e) Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- lease receivables.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(g) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Notes to the financial statements (continued)

for the year ended 31 December 2022

28 Significant accounting policies (continued)

(g) Income tax (continued)

i) Current tax

Current tax comprises the expected tax payable or receivable on taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Current taxes and liabilities are offset in the statement of financial position only if the Company legal right and intention to settle on the net basis.

ii) Deferred tax

The Company applies IAS 12 – *Income taxes*, which states that deferred tax asset is recognised in respect of deductible temporary differences. A deferred tax asset should be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves.

(h) Share capital and reserves

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(i) Impairment of non-financial assets

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

28 Significant accounting policies (continued)

(g) Income tax (continued)

Non-financial assets (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

All employees are members of the National Pension Scheme Authority to which both employees and the Company contribute. During 2019, the Company operated a mandatory private pension scheme with Madison Life Insurance through the Madison Pension Trust Fund. Employer contribution and later changed to Saturnia Regna Pension Trust limited, employer contribution is 4% of basic salary and employee contribution is 3% of basic salary. Obligations for both public and private contributions are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees. In addition, employees may qualify for performance-based incentives as per the Company's internal rules.

There are no expected gratuity payments as per employees' contracts of employment.

(k) Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes base interest rate and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Notes to the financial statements (continued)

for the year ended 31 December 2022

28 Significant accounting policies (continued)

(k) Interest income and expense (continued)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(l) Fees and commission

Fees 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, investment management fees, sales commission, placement fees and syndication fees- are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual

(m) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

28 Significant accounting policies (continued)

(m) Leases (continued)

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the financial statements (continued)

for the year ended 31 December 2022

29 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted, however, the Company has not early adopted the new or amended standards in preparing these financial statements.

a) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

b) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*
- *Lease liability in a sale and leaseback (Amendments to IFRS 16)*

Unaudited - Appendix
Agora Microfinance Zambia Limited

Details of operating expenditure for the year ended 31 December 2022

	As on 31 December 2022	As on 31 December 2021
Advertising and branding	252,372	85,248
Computer expenses	234,469	79,233
Travel – foreign	52,001	64,061
Other premises costs	1,124,925	1,145,511
Insurance	458,705	307,089
Directors' fees	535,847	413,621
Telephone expenses	608,896	451,307
Bank charges	846,421	425,138
Office expenses	102,055	207,943
Recruitment and training	532,922	464,930
Legal fees	(295,836)	259,556
Information Technology	2,676,885	2,231,183
Licensing expenses	524,749	405,036
Audit fees	798,074	1,091,201
Professional fees	275,027	695,329
Consultancy fees	1,066,617	357,373
Security expenses	2,790,744	2,290,531
Stationery	2,766,569	2,471,690
Repairs and maintenance	4,102,526	2,789,061
Travel – local	2,457,690	1,534,606
Fuel on motor bikes and vehicles	6,934,184	4,398,189
Depreciation and amortisation	12,612,921	8,427,872
General expenses	5,653,337	5,547,896
Salary and wages	44,795,857	33,995,510
Total expenses	91,907,957	70,139,114

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AGORA MICROFINANCE ZAMBIA
BREAKING THE BARRIERS TO FINANCE

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