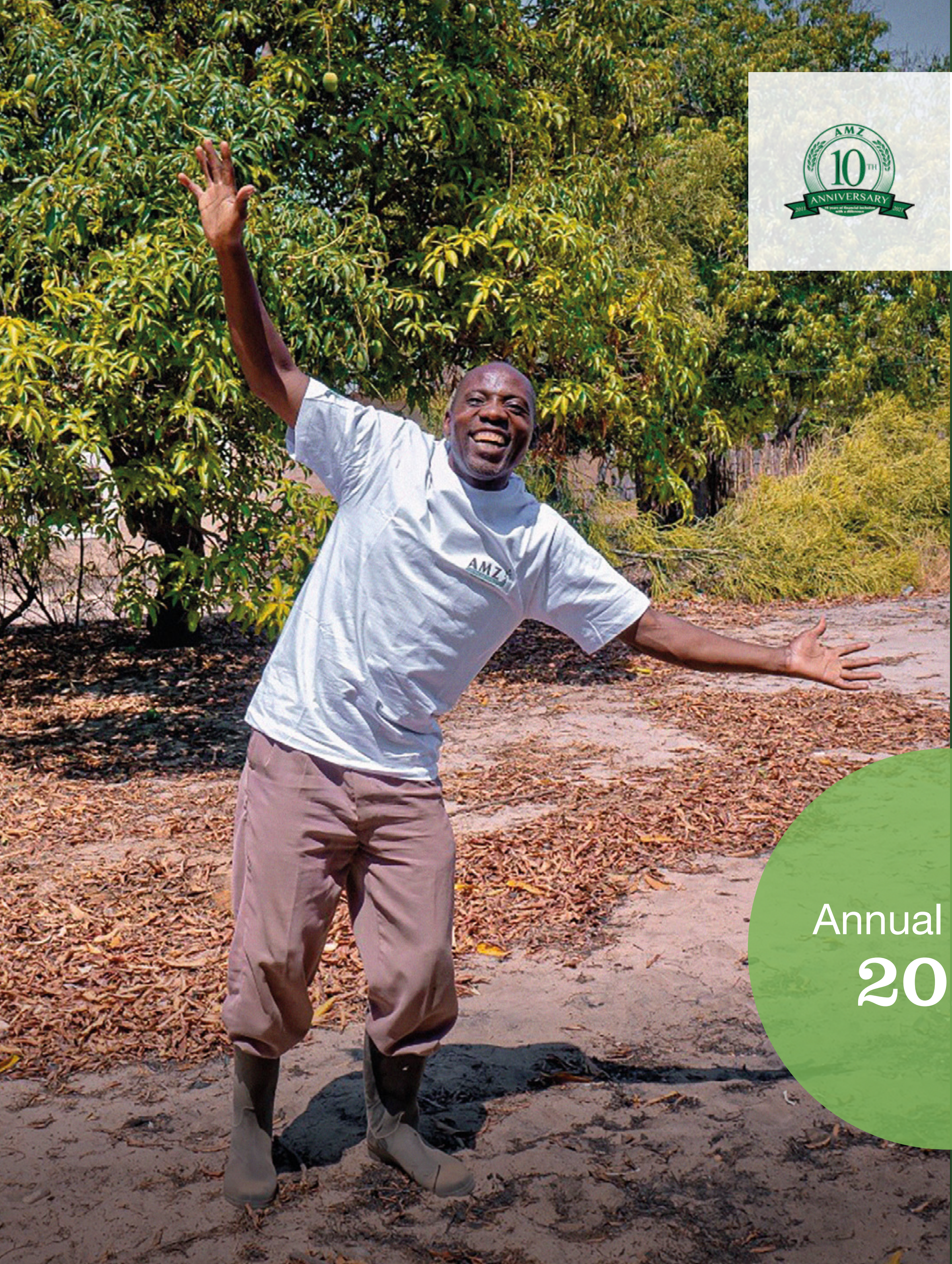


AMZ 10TH ANNIVERSARY 2011 2021

AMZ

AGORA MICROFINANCE ZAMBIA

BREAKING THE BARRIERS TO FINANCE

Annual Report 2021

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

One — Direct outreach to the poor at the national level

Two — Suitability of processes and products

Three — Creation of a dynamic, professional, value-based organization

Four — Long term financial health of the organization

Five — 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. 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:** AMZ staff will treat clients with the utmost respect and dignity. In addition, 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

2021 was a tumultuous year for the entire world, and while Zambia escaped the kind of pandemic impact faced by many countries, it had its own share of ups and downs. The year was marked by high inflation and a deteriorating currency, which stabilised and then strengthened towards the second half of the year once national elections were completed and change of government had taken place. Markets reposed their confidence in Zambia for accomplishing a seamless change of government and then for renegotiating its debt and the related economic reforms with the IMF.

Tanmay Chetan
Chairperson

All this while, AMZ continued its march and accomplished many firsts during the year. Its performance on growth, outreach, asset quality and its general financial and social performance are all in line with its plans and well ahead of the market.

AMZ is now firmly established as the country's premier rural microfinance institution. In addition to being the largest (by customer numbers) retail operator in Zambia, it possesses a long track-record of financial viability as well as strong asset quality. Almost 90% of its clients are rural, mostly small farmers, and its depth of reach is indicated by its average loan size of just US$90.

During 2021, AMZ opened new branches, added new products (notably farm equipment leasing), converted all its offices to solar, and undertook several technology upgrades, including the operationalisation of a real-time geo-tracking tool for its field operations. At the same time, AMZ grew substantially during the year and finished the year with over 125,000 active clients – up 55% from the previous year. Its loan book has also grown proportionally and now exceeds US$10 million. Its progress on non-credit products also continued, with its health insurance product with over 20,000 active policies, and over 36,000 mobile money transactions carried out during the year. In summary, we could not have expected better results for 2021, and the strong progress places us in an ever-stronger position for future consolidation.

During 2022, AMZ will take some substantial steps with the clients at the centre of its plans. Of these, perhaps the most significant would be the reduction in interest rates for customers, with the plans being to lower effective rates substantially for clients with a longer track record with AMZ. Other products will also have lower effective rates, bringing the overall reduction in cost to clients by about 10% across all loan products. Another new initiative being operationalised as we speak is a farm equipment leasing product, which seems to have overwhelming demand but suffers from a lack of capital. The product is currently in trials and will likely be launched during the year. Other upgrades in technology, establishment of a Social Performance Committee, and further improvements in efficiency as well as trials of more eco-friendly strategies in operations are all planned for 2022. Alongside all the above, we expect to keep growing and reaching more clients deeper in the market during the year. It will be an exciting, eventful year by all accounts.

As always, I wish to extend my gratitude to the leadership, staff and clients of AMZ for a stellar year, and look forward to our continued journey to expand financial inclusion further in Zambia.

With best wishes,
Tanmay Chetan

AMZ has established itself as both the country's premier rural microfinance institution as well as the largest (by customer numbers).

CEO Report

The Zambian economy showed a strong rebound in the second half of the year, resulting in a good recovery from the volatility seen in the previous year. For most economic sectors, the year saw increased activity, as well as turnaround from the adverse effects of COVID 19 experienced in 2020. By the end of the year, an improved outlook for the economy was the forecast from most experts.

Susan Chibanga
CEO

For AMZ, 2021 was rewarding on many fronts. Activities were centered around new partnerships, various technologies, scale through geographical expansion and product diversification, and increased operational efficiencies. These combined efforts resulted in AMZ recording their most significant milestones in its decade of operations.

AMZ recorded a significant 81% increase over 2020 in total operating income. This was fueled by strong balance sheet growth, operational efficiency, and a substantial drive in non-credit offerings.

The practical implementation of the strategic plan and the specific business plan for the year has seen the consolidation of the first decade of operations. It sets the organization firmly for the next phase of its evolution. In hindsight, the achievements of the journey yield a sense of pride and a clear distinction of our business operations in the market.

Scale and spread:

During the year, the organization expanded its operations geographically. As a highlight, we set foot in the Eastern province with three of the four branches which became operational. AMZ's operations are now spread across all ten provinces in Zambia. Management remains committed to leveraging the immense opportunities that the province offers.

Remarkably, AMZ crossed the 100,000 mark in clientele, maintaining a 90% rural outreach and serving 57% women in its portfolio. The average loan sizes remain at the lower end bracket of <$100.

Product diversification:

The expansion of non-credit lines was integral to the organization's success during the year. Under the mobile money umbrella, AMZ enhanced its partnerships with MNOs, particularly in the Northern Region, where it serves some agents. By year-end, AMZ served more than 3,500 agents, turning around over ZMW 400m in transaction value.

With voluntary micro insurance, AMZ recorded significant growth. The number of active policies increased by over 100% compared to 2020. The uptake of the product was impressive. Management is now looking into sustainability and value proposition for the client.

As the year drew to a close, AMZ introduced a farm equipment lease product on a test basis. The Makina farm equipment lease has been designed to address the need for sophisticated machinery for smallholder farmers. Clients with agriculture as their main source of livelihood form a large portion of our rural portfolio, which is AMZ's majority client base.

Due to the limited resources and financial constraints these farmers have, most are unable to purchase outright productive farm equipment and rely heavily on manual labour for the cultivation of their fields, a process that is rudimentary and inefficient. By providing clients access to leasing agricultural equipment, we are pleased to say that the Makina Lease Product has the potential to transform livelihoods through boosting agricultural productivity and household incomes.

Efficiency and asset quality:

Operational efficiency remains a significant focus area for sustainability. Key contributors to the efficiency included client officer caseloads, monitoring operating costs, optimizing the digital platforms, and ensuring high portfolio quality. On average, our Client Officers managed 735 clients each, while PAR30 remained under 2% despite the significant growth recorded.

Key initiatives for 2022:

As we look ahead at the coming year, AMZ has its lens on a number of areas to further propel growth. These are detailed separately in the annual report.

Conclusion:

Our strategic direction aims to reach new frontiers through geographical expansion and product diversification. Pivotal to this end are the efficiencies attained through digitization, Client Officer productivity, high levels of portfolio quality, and a robust risk management framework.

I take this opportunity to thank the Management and staff for their commitment and tenacity in driving the results. Much appreciation goes to our customers for entrusting us with the responsibility to contribute to their economic well-being. We remain resolute in effectively providing you with the appropriate financial services. Likewise, we thank our partners who have believed and supported the AMZ mission over the years.

I also wish to express my profound gratitude to the Board of Directors for their strong support and guidance as we drive AMZ to become Zambia's preferred financial service provider. Last but not least, many thanks go to our shareholders for their support, trust, and confidence.

We are confident of continuing to support our customers, driving operational excellence, and delivering balanced outcomes.

Board of Directors

Tanmay Chetan
Chairperson

Tanmay is the Chairperson of the Board and a member of the Audit and Finance Committee. He is also a member of the Remuneration and Nominations Committee. He is also a co-founder of the Agora group. He is the Managing Partner of Agora Microfinance LLP and a Supervisory Board Member of Agora Microfinance N.V.

Tanmay has worked in microfinance for over 16 years, with his previous work including credit ratings, consulting, investment management and implementation. He has been engaged with Agora since 2008, from its conceptualisation to its present form.

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
& 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 of the Board and a member of the Audit & Finance Committee. She is a Gender Consultant and also works at the non-profit Scalabrini in South Africa as a Financial Sustainability Officer. In this capacity she supports a portfolio of female entrepreneurs in creating a sustainable livelihood.

Jitske has worked for over 7 years at FMO, the Dutch Development Bank. 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.

Wanjiku Wanyeki
Director

Wanjiku joined the Board as Director in September 2021. She works for Agora Microfinance Partners LLP as their Senior Portfolio Manager, based in Lusaka, and is responsible for building a portfolio of high performing MFIs in Africa, and supporting existing investees as necessary.

She brings over 15 years of extensive experience in the financial sector, including portfolio and product development, business planning and performance analysis.

Wanjiku holds an MSC Computer Science from the California State University and a Bachelor of Arts, Mathematics & Economics from the University of Nairobi.

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.

Senior Management

Susan Chibanga
Chief Executive Officer

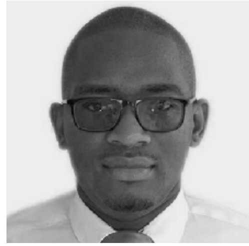
Susan is a Chartered Accountant with 13 years of post-qualifying experience in Zambia, 8 years have been at management level in microfinance. She joined Agora Microfinance in 2016 as a Chief Financial Officer, a position she held till her appointment as Chief Executive Officer. Prior to joining Agora, 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.

Mwape Mwila
Deputy Chief Executive Officer

Mwape has over 17 years experience in Microfinance industry in Zambia. He started his career in Microfinance sector in 2001 as a Credit Officer with Care Pulse Zambia. He has worked in other institutions – Pride Zambia, Madison Finance and now Agora Microfinance Zambia. Mwape has been with Agora Microfinance Zambia since its inception. He has risen through the ranks from Branch Manager, Business Development Manager, Operations Manager and is currently Deputy CEO.

Mwape holds a Diploma in Marketing from Evelyn Hone College and a Bachelors of Arts Degree in Marketing from University of Lusaka.



Mangani Muselema
Chief Financial Officer

Mangani is a certified accountant having over 4 years of work experience in audit, accounting and finance. He has served as auditor and Financial Controller and brings to the Company skill and knowledge in Financial Forecasting, Business Modeling, Strategic Planning, Financial Analysis, and Financial Reporting.

Mangani has ACCA and a Bachelor's degree in Accountancy from the Copperbelt University.

Samba Kapambwe
Human Resources Manager

Samba is a human resource practitioner with over eleven years of hands on experience in the field at various levels dealing with labour-related matters, employee welfare, industrial relations and collective bargaining. Prior to joining AMZ, he worked for Maamba Collieries, a coal mine in the southern province of Zambia as a Human Resources Officer. After that he joined Dunavant Zambia Limited in a similar capacity but with a larger scope of work and workforce, coordinating western and central regions.

Samba holds a BA degree in Development studies and Public Administration from the University of Zambia.

Joseph Lungu
Internal Controls Manager

Joseph has 10 years of hands on experience in Microfinance. Before joining AMZ, he worked for VisionFund Zambia as Assistant Accountant and Credit Supervisor in charge of Solwezi branch. After that, he joined FINCA Zambia as Internal Control Officer and rose through the ranks of Senior Internal Control Officer and acting Internal Control Manager.

Joseph is currently pursuing his MBA - Finance and holds a Chartered Accountant Zambia professional qualification of the Zambia Institute of Chartered Accountants. He is a Certified Anti-Money Laundering Specialist, certified by the Association of Certified Anti-Money Laundering Specialists (ACAMS-Miami, USA) and holds a Post Graduate Certificate in Risk Management from the Zambia Institute of Banking and Financial Services (ZIBFS).

Timothy Kasolo
IT Manager

Timothy is a seasoned ICT Networks and Security specialist and digital financial services enthusiast. Prior to joining AMZ, Timothy worked for Izwe Loans Zambia PLC as IT Manager and was responsible for their IT operations. He has over ten years of experience working in the ICT field in various banking, MFI and NGO industries.

Timothy is a holder of Bachelor of Information Technology & Security and completed his MBA in 2019. He is also a qualified Cisco Certified Network Associate (CCNA) and has completed an Introduction of FinTech. He is a member of British Computer Society (BCS), Information Systems Audit Control Association (ISACA) and Information Technology Association of Zambia (ICTSZ).

Corporate Structure

Board of Directors

Tanmay Chetan
Chairperson

Glenda Mazakaza
Director, Chair AFC

Maluba Wakung'uma
Director, Chair RNC

Jitske Cnossen
Director

Wanjiku Wanyeki
Director

Susan Chibanga
Director, CEO

Senior Management

Susan Chibanga
Chief Executive Officer

Mwape Mwila
Deputy Chief Executive Officer

Mangani Muselema
Chief Financial Officer

Samba Kapambwe
Human Resources Manager

Joseph Lungu
Internal Controls Manager

Timothy Kasolo
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 and the Remuneration and Nomination Committee. The Board of Directors appoints the Chief Executive Officer (CEO), who heads the management team, which includes five departments (Operations, Finance, Human Resources, and Information Technology). 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 24 branch locations.

Areas of Operation

AMZ is headquartered in Lusaka and currently operates 24 branches throughout 10 provinces of Zambia.

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

North-Western Province
Kabompo
Solwezi

Southern Province
Choma
Monze

Western Province
Kaoma
Mongu
Senanga

Chibombo
Along Great North Road, Plot No. 11, New Boma
Telephone: +260 953 243 603
Opening Hours:
Monday - Friday
08:00 - 17:00

Chinsali
Plot LN1002892-2D56, Kasama Road, Opposite Chinsali Post Office, Chinsali
Telephone: +260 950 612 167
Opening hours:
Monday - Friday
08:00 - 17:00

Chipata
Office No. 3, Abubakar Bax Complex, Plot No. 2083, Highway Road, Chipata
Telephone: +260 956 949 979
Opening hours:
Monday - Friday
08:00 - 17:00

Choma
Office No.11 & 12 of L Tembo Complex, Plot No. 1077, Lusaka Road
Telephone: +260 954 039 243
Opening hours:
Monday - Friday
08:00 - 17:00

Chongwe
Shop 5, Plot No. 8958 / M, Great East Road
Telephone: +260 950 846134
Opening Hours:
Monday - Friday
08:00 - 17:00

Kabompo
Plot No. 2721, M8 Road, Indeco, Kabompo
Telephone: +260 974 282 558
Opening hours:
Monday - Friday
08:00 - 17:00

Kabwe
Shop No.10, Stand No. 10652, Sunshare Building, Great North Road
Telephone: +260 956 312 014
Opening Hours:
Monday - Friday
08:00 - 17:00

Kaoma
C and C Building, Plot No. 1375, Freedom Way
Telephone: +260 957 419 283
Opening Hours:
Monday - Friday
08:00 - 17:00

Kasama
Plot / Stand No. 4387, Central Town, Luwingu Road Area
Telephone: +260 770 950 668
Opening hours:
Monday - Friday
08:00 - 17:00

Kawambwa
Plot/Stand No. 617, Independence Avenue
Telephone: +260 954 435 357
Opening hours:
Monday - Friday
08:00 - 17:00

Kitwe
Plot/Stand No. 1051, Shop 4, Accra Road, Kitwe
Telephone: +260 955 282 568
Opening hours:
Monday - Friday
08:00 - 17:00

Lundazi
Plot No. 609, Chama Road, Lundazi
Telephone: +260 979 811 713
Opening hours:
Monday - Friday
08:00 - 17:00

Lusaka
Shop No. 22A, Kanele Mall, Kafue Road
Telephone: +260 955 628 490
Opening Hours:
Monday - Friday
08:00 - 17:00

Mansa
Plot/Stand No. 819, Cathedral Road, Chibote Area
Telephone: +260 972 740 277
Opening hours:
Monday - Friday
08:00 - 17:00

Mbala
Plot/Stand No.923B, President Avenue
Telephone: +260 957 750 062
Opening hours:
Monday - Friday
08:00 - 17:00

Mongu
Plot No. 331, Mubonda House, along Independence Avenue
Telephone: +260 955 316 842
Opening Hours:
Monday - Friday
08:00 - 17:00

Mkushi
Plot No. 2079, Ndanji complex, Independence Avenue, Mkushi
Telephone: +260 760 128 855
Opening Hours:
Monday - Friday
08:00 - 17:00

Monze
Plot No. 10C, Independence Avenue, Monze
Telephone: +260 977 874 696
Opening hours:
Monday - Friday
08:00 - 17:00

Mpika
Plot No. 4040, |Wilmo Building, Great North Road, Mpika
Telephone: +260 950 824 354
Opening hours:
Monday - Friday
08:00 - 17:00

Mumbwa
Plot No. 27, Luangwa Road
Telephone: +260 955 559 223
Opening Hours:
Monday - Friday
08:00 - 17:00

Ndola
A1 Langford House, Junction Broad Way & President Avenue North
Telephone: +260 950 664 380
Opening hours:
Monday - Friday
08:00 - 17:00

Petauke
Kazumba House, Plot No. 1/246, Boma Road, Petauke
Telephone: +260 956 955 974
Opening hours:
Monday - Friday
08:00 - 17:00

Senanga
Nzuli Commercial Area, Senanga Main Market
Telephone: +260 976 261 045
Opening hours:
Monday - Friday
08:00 - 17:00

Solwezi
Office No. 8, Chikola Complex, Plot No. 361, Chikola Street
Telephone: +260 955 745 790
Opening hours:
Monday - Friday
08:00 - 17:00

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.

AMZ aims to serve clients who have previously been excluded from the formal financial market, predominantly due to poverty or location.

Loans

Our loan products are designed to meet the varied life-cycle and cashflow patterns 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 offer a mandatory credit life insurance for clients and a voluntary Funeral and Hospitalisation Insurance (Hospi-Cash). We also offer weather index insurance for agriculture loans. Credit life insurance and weather index insurance is compulsory to loan clients while 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 walk-in clients to perform Cash in and Cash out transactions.

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 22-295) 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 45-545) 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 12,000 (USD 48-545) 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 476-2,381) 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 2,273 – 45,454). Loans of ZMW 10,001 – ZMW 115,000 (USD 455 – 5,227) 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 227, 272). Clients include both individuals and businesses. Loans of ZMW 100,001 – ZMW 200,000 (USD 4,545 – 9,524) 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 at 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 20,000 – ZMW 50,000 (USD 952 – 2,273) and is 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

126,492
Clients

24
Branches

3,600
Active Mobile Money Agents

3,812
Village Banks

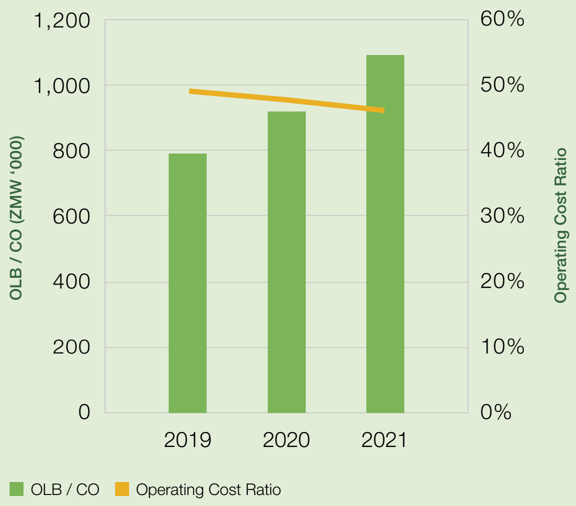
20,051
Active Voluntary Micro-insurance Clients

ZMW
188m
Loan Portfolio

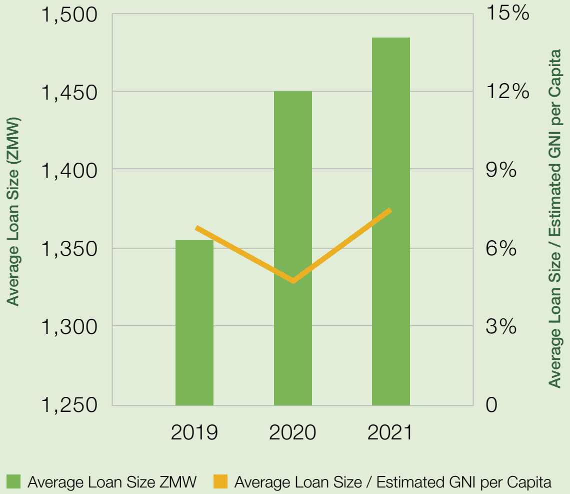
	2019	2020	2021
No of Branches	15	20	**24**
No of Village Banks	1,491	2,590	**3,812**
Number of Active Borrowers	52,383	80,556	**126,492**
• Women Borrowers (%)	60%	56%	**58%**
• No of Rural borrowers (%)	93%	92%	**93%**
Active Mobile Money Agents	1,300	1,660	**3,600**
Active Voluntary Micro-Insurance Clients	2,088	6,414	**20,051**
Loan Portfolio (USD)	5,083,335	5,479,242	**11,276,516**
Loan Portfolio (ZMW)	70,976,067	116,790,581	**187,802,475**
PAR 30 Days	1.17%	1.71%	**1.47%**
Average Loan Size (USD)	97	68	**89**
Average Loan Size (ZMW)	1,355	1,450	**1,485**
Average Loans Size / Estimated GNI per capita	7%	5%	**7%**

Loan Portfolio vs No. of Active Borrowers

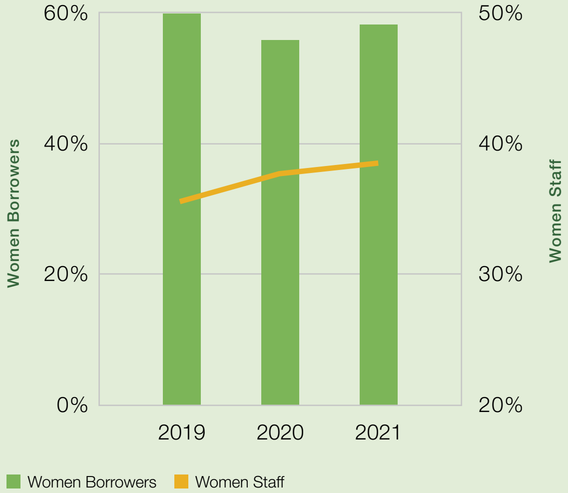
Operating Cost Efficiency



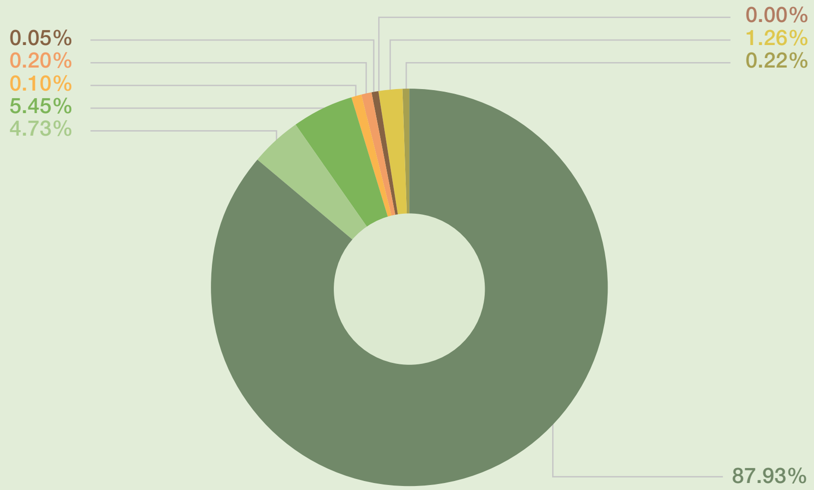
Average Loan Size & Average Loan Size / Estimated GNI per Capita



Gender Distribution

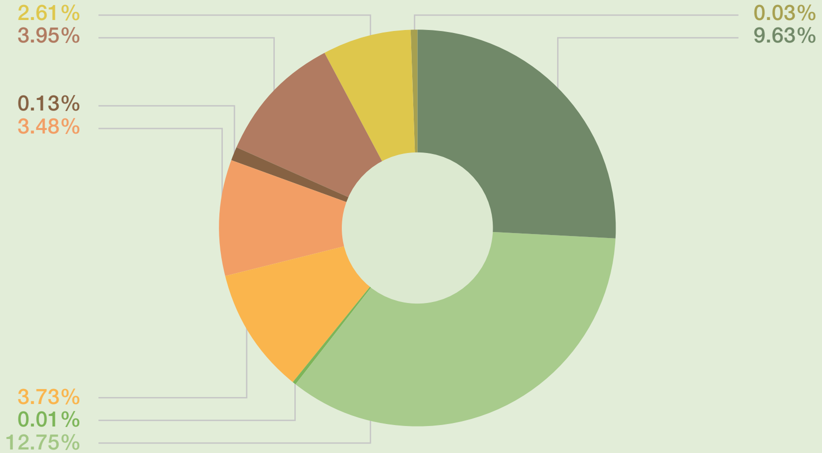


Client by Product Type



87.93% Village Bank Loans (Flexi 1)
4.73% Village Bank Loans (Flexi 2)
5.45% Small Group Business Loans (SGBL)
0.10% Swift Cash Loan (SC)
0.20% Micro Loan
0.05% SME
0.00% SME2 (Restructured Loans)
1.26% Lima Group Loan
0.22% Lima Individual Loan

Portfolio by Product Type



9.63% Village Bank Loans (Flexi 1)
12.75% Village Bank Loans (Flexi 2)
0.01% Small Group Business Loans (SGBL)
3.73% Swift Cash Loan (SC)
3.48% Micro Loan
0.13% SME
3.95% SME2 (Restructured Loans)
2.61% Lima Group Loan
0.03% Lima Individual Loan

	2019	2020	2021
Margin Analysis (as a % of loan portfolio)			
a) Interest and Fee Income	83.6%	79.5%	**82.8%**
b) Cost of Funds	24.8%	23.51%	**22.08%**
c) Net Interest Margin (a-b)	58.8%	56.0%	**60.7%**
d) Loan Loss Provision	0.6%	0.6%	**0.8%**
e) Net Margin before Operating Expenses (c-d)	58.2%	55.4%	**59.9%**
f) Personnel Cost	23.9%	24.8%	**22.3%**
g) Admin Cost	25.1%	22.8%	**23.7%**
h) Total Operating Cost (f+g)	49.0%	47.6%	**46.1%**
Net Margin (h-e)	9.2%	7.8%	**13.8%**
Financial Ratios			
Operating Self Sufficiency	114.9%	109.9%	**125.3%**
Solvency Ratio (Equity/Assets)	27.2%	31.3%	**30.0%**
Debt/Equity	2.67	2.20	**2.33**
Operating Cost Ratio	49.0%	47.6%	**46.1%**
Return on Equity	20.5%	11.5%	**26.1%**

125.3%
Operating Self Sufficiency

46.1%
Operating Cost Ratio

26.1%
Return on Equity

Financial Inclusion in Zambia and AMZ's Contribution

Zambia has seen good progress on its financial inclusion indicators during the past decade, as evidenced by Finscope studies carried out during the period. According to these studies[1], the rate of **formal** financial inclusion in Zambia has grown from **23%** in 2009 to **61%** in 2020, mainly propelled by the expansion of digital financial services.

A few notable highlights of the 2020 findings are as below:

- More than half (58.5%) of the currently financially included respondents in the 2020 study are primarily included as users of mobile money, a service that was largely absent 10 years ago.
- Further, only 2.1% of the financially included, or about 125,000 adults report using microfinance services
- Over 20% of the included have a bank account, though this is highly skewed towards urban and financially better off populations
- The principal constraints mentioned in accessing banks is distance (18%) and cash/ minimum balance eligibility (49%)

The above timeline is relevant to underscore the contribution made by AMZ to financial inclusion in Zambia, given that it began operating in 2011 at the start of the decade, and by 2020 had well established itself as the largest rural microfinance company in Zambia. In this paper we examine the ways in which AMZ has positively impacted the goal of greater financial inclusion in Zambia.

[1]Finscope 2009 and 2020, accessed from the Bank of Zambia website as below:
https://www.boz.zm/finscope_2020_survey_topline_findings.pdf ;
https://www.boz.zm/FinScope-Zambia-2009-Top-Line-Findings.pdf

1. Widest, largest and deepest rural outreach

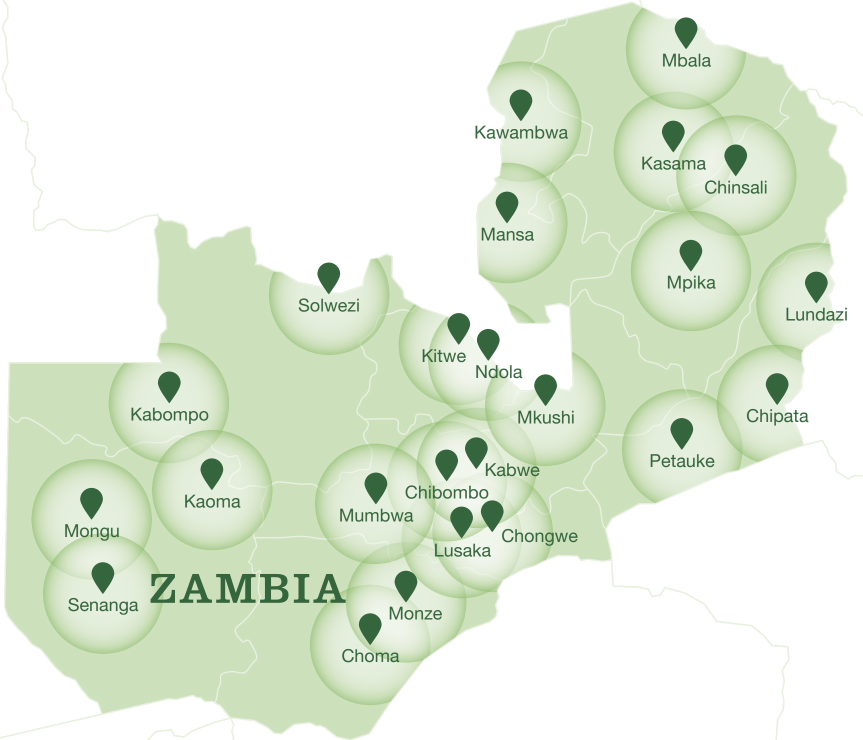
AMZ was established with a clear mission to reach un-banked parts of Zambia and began operating in 2011 from the Western province. The Western province is, even today, reported as having the lowest financial inclusion of all of Zambia's provinces, which was the principal reason for AMZ's first branch starting in Mongu in 2011.

Over the years, AMZ has grown its branch network and now reaches all parts of the country through a network of 24 branches, as shown in the map below.

Most of AMZ's 125,000 clients, over 90% are rural. This makes it the largest rural financial institution in Zambia, by client numbers. Based on published data, this also constitutes a one-third share of all microfinance institutions (and some banks') national outreach.

In addition to width and scale in outreach, what perhaps distinguishes AMZ most in the market is its depth of outreach. Each branch covers a radius of approximately 100 kms around it, substantially much deeper than any other financial provider. This enables AMZ's team to reach villages that would otherwise not be financially included by other formal financial providers. Most of our clients have never accessed another financial institution, which confirms that this is a net addition to the financial inclusion of Zambia.

AMZ's depth of outreach is also underscored by its average loan sizes, which at ZMW 1,400 (USD 80) remain the lowest in the market. This highlights AMZ's reach amongst the lowest income populations. This is another aspect of financial inclusion – a perpetually under-served market of primarily small-farmers – where AMZ has established a strong presence.



2. Product diversity

Zambia has achieved substantial progress on financial inclusion during the last decade, however as mentioned earlier much of this progress has come about through digital financial services, in particular the coverage of mobile money services across the country. While this is to be celebrated, AMZ also understands that the clients' demand for financial services is more varied and extends beyond money transfer services. In general, at different times of their financial lifecycles, will look for most of the below services/products

- **Investment capital** for livelihood financing (working capital including for cashflow smoothening)
- **Investment capital** for business financing (working capital and/or business asset creation)
- **Investment capital** for agriculture (working capital/inputs/equipment)
- **Risk Capital/Insurance** for business/ livelihood/agriculture
- **Risk Capital/Insurance** for lifecycle events (health/accidents/death)
- **Leasing/Rent** to own products for business/agriculture/households
- **Savings and overdraft** products
- **Money transfers**

Through an array of loans, insurance, and leasing products, an AMZ client can access most of the investment and risk capital that she might need at different times. AMZ has partnered with insurance companies, mobile operators, and agriculture equipment suppliers to create appropriate products for its clients. As at year end, AMZ's product reach was as below

- Loan products covering 125,000 active clients including agriculture, business, and livelihood (general) loans
- Credit-life insurance covering all loan clients above
- Health and accident insurance products covering 20,000 active clients
- Leasing of agriculture equipment under pilot test
- Mobile money transfers facilitated for a value of ZMW 300 million

In addition to the above, AMZ will seek to provide savings products in the market in the future as well, which will complete the full range of products that can be offered by any financial institution.

AMZ has consistently been moving towards a complete suite of products that clients can access, depending on their needs at any given point in time.

Key Initiatives 2022

As we look ahead at the coming year and its immense opportunities, AMZ has its lens on the following activities for propelling growth:

- Continued growth and expansion of non-credit lines, including additional insurance products.
- Enhanced operational and system efficiencies
- Further introduction of new technologies, and overall technology integration for different product lines
- Strengthening of the risk management framework
- Consolidation of the research and social performance department for data-driven decision making
- Strengthening of staff capacity through enhanced training

Directors' report

for the year ended 31 December 2021

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 2021.

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 24 branches as at 31st December 2021 (2020: 20 branches).

3 Shareholding

Agora Microfinance Zambia Limited's shareholding consists of Agora Microfinance NV with 89.65% shares, Moringaway Limited with 9.75% and Agora Multipurpose Co-operative with 0.60%. 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:

	2021 ZMW	2020 ZMW
Interest income calculated using the effective interest rate method	77,211,595	45,055,864
Profit before income tax	25,020,018	6,919,568
Income tax expense	(9,708,248)	(2,720,339)
Profit for the year	15,311,770	4,199,229

5 Dividends

The Directors did not propose a dividend to be declared in 2021 (2020: Nil).

6 Directors' remuneration

Directors' fees paid during the year were **ZMW 557,474** (2020: ZMW 367,787) as disclosed in note 20 in the notes to the financial statements.

7 Going concern

Management continues to have a reasonable expectation that the Company has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the COVID-19 pandemic and the measures adopted by the government in Zambia to mitigate its spread have impacted the Company. To mitigate the impact of the COVID -19 on business performance, the Company implemented the below measures.

- Tightened the credit underwriting policy.
- Implemented a forbearance program by offering payment holidays to clients.
- Implemented a cost optimization strategy to ensure that only essential business expenditure is incurred.

For the year ended 31 December 2021, the Company recognised a net profit of **ZMW 15,311,770** (2020: ZMW 4,199,229). The Company has **ZMW 9,713,058** (2020: ZMW 8,973,777) of resources comprising cash and cash equivalents, other highly liquid assets, and unused credit lines available at the date of authorisation of these financial statements.

There is still uncertainty over how the future development of the outbreak will impact the Company's business and customer demand for its products. The appropriateness of the going concern basis of accounting is dependent on the continued availability of borrowings by compliance with loan covenants.

The Company has long term debt of **ZMW 145,417,163** (2020: ZMW 88,682,833) requiring compliance with financial covenants. As at the date of authorisation of the financial statements, the Company had sufficient headroom on its facilities.

Also, to respond to a severe downside scenario, management has the ability to take the following mitigating actions to reduce costs, optimise the Company's cash flow and preserve liquidity:

- Reducing non-essential capital expenditure and deferring or cancelling discretionary spend.
- Freezing non-essential recruitment.
- Liaise with lenders to restructure financial obligations.
- Use various means of technological channels to deliver services to our customers in order to reduce operating expenses.

Based on these factors, management has a reasonable expectation that the Company has adequate resources and sufficient loan facility headroom.

8 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
Appointed on 8th September 2021

Company Secretary

MINT Advisory

9 Average number and remuneration of employees

Total employee benefits expense for the year was **ZMW 34,053,322** (2020: ZMW 23,293,007) as disclosed in note 9 in the notes to the financial statements. The average number of employees throughout the year was **300** (2020: 208).

Month	Number
January	234
February	232
March	305
April	305
May	316
June	316
July	314
August	316
September	310
October	320
November	316
December	314

10 Gifts and donations

There were no donations made during the year (2020: Nil).

During the year, 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 received funds from Financial Sector Deepening Limited (FSDZ) relating to the Agriculture loan evaluation system. Under the agreement, grant income of **ZMW 1,188,000** was recognised as deferred income for the year (2020: ZMW 276,771), as disclosed in note 17 in the notes to the financial statements.

11 Property and equipment

The Company acquired property and equipment with a total value of **ZMW 19,776,180** (2020: ZMW 7,681,637), 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.

12 Research and development

The were no expenditure incurred for research and development during the year (2020: ZMW 51,721).

13 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 20 in the notes to the financial statements.

14 Prohibited borrowings or lending

There were no prohibited borrowings during the year (2020: Nil).

15 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.

16 Corporate governance

Importance of corporate governance

AMZ is governed by the Articles of Association as revised on 23rd April 2021. 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 Committees.

Board committees

During the year 2021, the Board met 4 times. The Audit and Finance Committee (AFC) met six times and the Remuneration and Nomination Committee (RNC) met four times. In addition the Asset and liability Committee (ALCO) was created during the year and met one time.

17 Events after the reporting date

There were no events after reporting date for disclosure or adjustment to these financial statements.

18 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

Mint Advisory
Company Secretary

22nd March 2022

Directors' 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 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, the requirements of the Companies Act of Zambia 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 22nd March 2022 and are signed by:

Susan Chibanga	**Glenda Mazakaza**
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 40-84, which comprise the statement of financial position as at 31 December 2021, 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 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act of Zambia 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 22(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 amounting to ZMW 193,191,520 constitute 81% of the total assets of the Company.

The financial services sector has experienced significant growth in non-performing loans due to a number of economic challenges such as depreciation of the Kwacha (the Company's functional currency and low market liquidity that has resulted in an increase in the risk of impairment on loans and advances to customers.

In determining impairment, management makes key judgements and assumptions which include:

- Assumptions used in the expected credit loss model such as the expected future cash flows and forward-looking information (e.g. interest rate and gross domestic product (GDP)); and
- 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").

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

How the matter was addressed in our audit

Our audit procedures included:

- We tested the design, implementation and operating effectiveness of relevant key controls over management approval of origination of loans and advances to customers.
- With the involvement of internal specialists, we evaluated whether the modelling principles applied to the PD, EAD, LGD in the credit risk model were in compliance with IFRS 9 - Financial Instruments (IFRS 9). In addition, we considered whether stress tests had been incorporated in the macroeconomic factors such as unemployment rates and GDP used in the modelling techniques.
- We examined a sample of loan exposures and inspected whether the staging of loans into stage 1, 2 or 3 based on the number of days overdue was allocated appropriately.
- We assessed the data inputs such as macro-economic factors (e.g. country risk and gross domestic product (GDP)) used in the expected credit loss (ECL) model calculation for reasonableness by comparing to independent statistical analyses.
- We tested 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*.

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 International Financial Reporting 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:
  - (a) transactions that are not within the powers of the Company or which is contrary to this Act; or
  - (b) 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 2021

Cheelo Hamuwele
AUD/F001044

Partner singing on behalf of the Firm

Statement of financial position
as at 31 December 2021 (In Zambian Kwacha)

	Notes	2021	2020
Assets			
Cash and cash equivalents	11	9,713,058	8,973,777
Loans and advances to customers	12	193,191,520	119,632,858
Prepayments and other receivables	13	5,794,911	4,343,874
Property and equipment	15	24,789,380	11,482,068
Right-of-use assets	22(a)	2,822,695	1,745,195
Intangible assets	16	765,930	642,971
Deferred tax assets	20(d)	241,486	105,932
Total assets		237,318,980	146,926,675
Liabilities			
Current tax liabilities	20(c)	5,708,664	1,324,191
Amounts due to related parties	21(iii)	148,428	3,621,227
Deferred Income	17	1,188,000	-
Other payables	18	10,889,145	5,234,066
Lease liabilities	22(d)	2,738,314	2,146,862
Borrowings	19	145,417,163	88,682,833
Total liabilities		166,089,714	101,009,179
Equity			
Share capital	14	62,038,710	52,038,710
Share premium		2,466,137	2,466,137
Accumulated profit/(losses)		6,724,419	(8,587,351)
Total equity		71,229,266	45,917,496
Total equity and liabilities		237,318,980	146,926,675

These financial statements were approved by the Board of Directors on 22nd April 2022 and were signed by:

Susan Chibanga
Director

Glenda Mazakaza
Director

The notes on pages 44-83 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income
as at 31 December 2021 (In Zambian Kwacha)

	Notes	2021	2020
Interest income calculated using the effective interest method	5	77,211,595	45,055,864
Interest expense	7	(33,649,921)	(22,071,556)
Net interest income		43,561,674	22,984,308
Impairment losses on loans and advances	12	(1,172,358)	(559,669)
Net interest income after impairment charges		42,389,316	22,424,639
Fee and commission income	6	52,939,525	30,062,994
Other income	8	833,805	781,840
Other operating income		53,773,330	30,844,834
Total operating income		96,162,646	53,269,473
Finance income	10	6,030,340	1,779,026
Finance costs	10	(7,033,854)	(3,472,138)
Net finance costs		(1,003,514)	(1,693,112)
Operating expenses	9	(70,139,114)	(44,656,793)
Profit before income tax		25,020,018	6,919,568
Income tax expense	20(a)	(9,708,248)	(2,720,339)
Profit for the year		15,311,770	4,199,229

There were no items of other comprehensive income during the year (2020: nil).

The notes on pages 44-83 are an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2021 (In Zambian Kwacha)

	Share Capital	Share Premium	Accumulated (Losses)/ Profit	Total
Balance at 1 January 2020	36,913,710	2,866,312	(12,786,580)	26,993,442
Total comprehensive income for the year				
Profit for the year	-	-	4,199,229	4,199,229
Transactions with owners recognised directly in equity				
Shares issued	15,125,000	-	-	15,125,000
Share issue costs	-	(400,175)	-	(400,175)
Balance as at 31 December 2020	52,038,710	2,466,137	(8,587,351)	45,917,496
Balance 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**

Accumulated losses
Accumulated losses/profit 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.

The notes on pages 44-83 are an integral part of these financial statements.

Financial Statements for the year ended 31 December 2021 (continued)

Statement of cash flows
for the year ended 31 December 2021 (In Zambian Kwacha)

	Notes	2021	2020
Cash flows from operating activities			
Profit for the year		**15,311,770**	4,199,229
Adjustment for:			
• Interest expense	7	**33,631,982**	22,071,556
• Depreciation property and equipment	15	**6,451,670**	3,039,636
• Depreciation right-of-use-asset	22 (a)	**1,662,730**	1,045,767
• Amortisation	16	**313,472**	265,783
• Profit on disposal of asset		**(7,802)**	(35,000)
• Income tax expense	20(a)	**9,708,248**	2,720,339
		67,072,070	33,307,310
Changes in:			
• Loans and advances		**(73,558,662)**	(47,814,123)
• Prepayments and other receivables		**(1,451,037)**	(1,934,484)
• Amounts due to related parties		**(3,472,799)**	3,301,542
• Deferred income		**1,188,000**	-
• Other payables		**5,655,079**	925,274
Cash used in operations		**(4,567,349)**	(12,214,481)
Income tax paid	20(c)	**(5,459,329)**	(2,142,871)
Interest paid		**(29,647,693)**	(19,035,476)
Net cash used in operating activities		**(39,674,371)**	(33,392,828)
Cash flows from investing activities			
Acquisition of property and equipment	15	**(19,776,180)**	(7,681,637)
Acquisition of intangibles	16	**(436,431)**	(22,770)
Proceeds from disposal of property and equipment		**25,000**	35,000
Net cash used in investing activities		**(20,187,611)**	(7,669,407)
Cash flows from financing activities			
Net proceeds from issue of share capital	14	**10,000,000**	14,349,825
Proceeds from borrowings	19	**81,527,272**	49,766,616
Repayment of borrowings	19	**(28,562,854)**	(28,056,840)
Payment of lease liabilities	22(c)	**(2,363,155)**	(1,515,943)
Net cash from financing activities		**60,601,263**	34,543,658
Net increase/(decrease) in cash and cash equivalents		**739,281**	(6,518,577)
Cash and cash equivalents at 1 January		**8,973,777**	15,492,354
Cash and cash equivalents at 31 December	11	**9,713,058**	8,973,777

The notes on pages 44-83 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2021

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 with International Financial Reporting Standards (IFRS), the requirements of the Companies Act of Zambia and the Banking and Financial Services Act of Zambia.

They were authorised for issue by the Company's board of directors on 22nd March 2022.

b) Basis of measurements

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

2 Basis of accounting (continued)

c) Going concern

Management continues to have a reasonable expectation that the Company has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The outbreak of the COVID-19 pandemic and the measures adopted by the government in Zambia to mitigate its spread have impacted the Company. To mitigate the impact of the COVID -19 on business performance, the Company implemented the below measures.

- Tightened the credit underwriting policy.
- Set up a covid-19 response plan to mitigate any adverse regulation.
- Implemented a forbearance program by offering payment holidays to some clients.
- Implemented a cost optimization strategy to ensure that only essential business expenditure is incurred.

For the year ended 31 December 2021, the Company recognised a net profit of **ZMW 15,311,770** (2020: ZMW 4,199,229). The Company has **ZMW 9,713,058** (2020: ZMW 8,973,777 of resources comprising cash and cash equivalents, other highly liquid assets, and unused credit lines available at the date of authorisation of these financial statements. 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 of which it had achieved **30.7%** (2019: 32.65%).

There is still uncertainty over how the future development of the outbreak will impact the Company's business and customer demand for its products. The appropriateness of the going concern basis of accounting is dependent on the continued availability of borrowings by compliance with loan covenants.

The Company has long term debt of **ZMW 145,417,163** (2020: ZMW 88,682,833) requiring compliance with financial covenants. As at the date of authorisation of the financial statements, the Company had sufficient headroom on its facilities.

Also, to respond to a severe downside scenario, management has the ability to take the following mitigating actions to reduce costs, optimise the Company's cash flow and preserve liquidity:

- Reducing non-essential capital expenditure and deferring or cancelling discretionary spend.
- Freezing non-essential recruitment.
- Liaise with lenders to restructure financial obligations.
- Use various means of technological channels to deliver services to our customers in order to reduce operating expenses.

Based on these factors, the Company does not have a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

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 2021 is included in the following notes:

- Note 23 (a)(v) – impairment of financial instruments determining inputs into the ECL measurements model including incorporation of forward-looking information; and
- Note 20 (d) – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.

5 Interest income

	2021	2020
Loans and advances to customers	76,726,921	44,816,474
Investment securities at amortised cost	484,674	239,390
	77,211,595	45,055,864

6 Fee and commission income

	2021	2020
Loan processing charges	49,302,463	29,795,794
Commission on insurance fees	3,637,062	267,200
	52,939,525	30,062,994

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	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. 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 charge upfront as percentage of facility amounts.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Mobile money commission	Commission is earned immediately at the point in time when the transaction takes place.	Revenue related to transactions is recognised at the point in time when transaction takes place.

7 Interest expense

	2021	2020
Interest bearing borrowings	32,943,343	21,543,480
Interest expense on leases (note 22(b))	706,578	528,076
	33,631,982	22,071,556

8 Other income

	2021	2020
Donations	-	120,217
Recoveries of loans written off	15,000	-
Gain on disposal	7,802	35,000
Mobile money commission	788,621	552,722
Other income	22,382	73,901
	833,805	781,840

9 Operating expenses

	2021	2020
Employee benefits	33,995,510	23,293,007
Depreciation Property and equipment (note 15)	6,451,670	3,039,636
Depreciation Right-of-use-asset (22(a))	1,662,730	1,045,767
Amortisation (note 16)	313,472	265,783
Auditors remuneration	1,091,201	686,622
Other expenses	26,624,531	16,325,978
	70,139,114	44,656,793
Employee benefits		
Salaries	20,550,028	15,284,552
Statutory obligations	1,617,683	1,121,417
Incentives	6,991,344	3,891,989
Leave pay, pension and other staff costs	4,836,455	2,995,049
	33,995,510	23,293,007

10 Net finance costs

	2021	2020
Finance income		
Exchange gains	6,030,340	1,779,026
Finance cost		
Exchange losses	(7,033,854)	(3,472,138)
Net finance costs	(1,003,514)	(1,693,112)

11 Cash and cash equivalents

	2021	2020
Cash on hand	570,828	58,388
Bank balances	1,487,186	5,426,780
Mobile money E-value	966,716	2,276,609
Money market placements	6,688,328	1,212,000
	9,713,058	8,973,777

12 Loans and advances to customers

	2021	2020
a) Summary		
Loans and advances	187,802,475	116,790,581
Accrued interest	6,561,987	3,942,693
Gross loans and advances	194,364,462	120,733,274
Less: Provision for impairment of loans and advances	(1,172,942)	(1,100,416)
	193,191,520	119,632,858
b) Maturity		
Due:		
• Within 1 month	4,021,597	2,825,202
• Between 1 to 3 months	21,243,396	10,800,852
• Between 3 months and 1 year	157,848,872	97,209,779
• Greater than 1 year	4,688,610	5,954,748
Loans and advances to customers	187,802,475	116,790,581

12 Loans and advances to customers (continued)

	2021	2020
c) Movements in provisions for impairment of loans and advances are as follows:		
At 1 January	1,100,416	731,575
Charge for the year	1,172,358	559,669
Bad debts written off	(1,099,832)	(190,828)
At 31 December	1,172,942	1,100,416

13 Prepayments and other receivables

	2021	2020
Prepayments	4,439,281	3,376,520
Staff advances	342,423	203,510
Other receivables	335,268	393,344
Mobile money commission receivable	381,586	304,297
Interest receivable on placements	296,353	66,203
	5,794,911	4,343,874

14 Share capital

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

	Number of ordinary shares 2021	Ordinary share capital 2021	Number of ordinary shares 2020	Ordinary share capital 2020
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)	6,108,871	61,088,710	5,108,871	51,088,710
	6,203,871	62,038,710	5,203,871	52,038,710

14 Share capital (continued)

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2020	95,000	4,405,000	4,500,000
Issued during the year	-	2,000,000	2,000,000
At 31 December 2020	95,000	6,405,000	6,500,000
At 1 January 2021	**95,000**	**6,405,000**	**6,500,000**
At 31 December 2021	**95,000**	**6,405,000**	**6,500,000**

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2020	950,000	35,963,710	36,913,710
Issued during the year	-	15,125,000	15,125,000
At 31 December 2020	950,000	51,088,710	52,038,710
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**

In 2015 a total amount of **ZMW 15,125,000** was issued at a nominal value of ZMW 10 per share during the year. On 31st March 2020 and 31st July 2020, the Company issued 500,000 and 975,000 class B shares respectively to existing shareholder Agora Microfinance NV amounting to **ZMW 14,750,000** and was fully paid. Furthermore, 37,500 shares at K10 per share amounting to **ZMW 375,000** were issued to Agora Multipurpose Co-operative on 31st July 2020. Share costs amounting to **ZMW 400,175** were incurred resulting in net proceeds from issue of shares amounting to **ZMW 14,349,825**.

15 Property and equipment

	Leasehold improvements	Capital work in progress	Motor vehicles and bikes	Computer and office equipment	Furniture & fittings	Total
Cost						
At 1 January 2020	1,387,493	257,432	4,862,583	2,667,803	1,471,741	10,647,052
Additions	1,161,322	-	3,062,383	3,024,080	433,852	7,681,637
Transfer to intangible assets	-	(257,432)	-	-	-	(257,432)
Disposals	-	-	(161,700)	-	-	(161,700)
At 31 December 2020	2,548,815	-	7,763,266	5,691,883	1,905,593	17,909,557
At 1 January 2021	**2,548,815**	**-**	**7,763,266**	**5,691,883**	**1,905,593**	**17,909,557**
Additions	**1,114,311**	**6,405,391**	**5,859,874**	**5,669,613**	**726,991**	**19,776,180**
Disposals	**-**	**-**	**(60,000)**	**-**	**-**	**(60,000)**
At 31 December 2021	**3,663,126**	**6,405,391**	**13,563,140**	**11,361,496**	**2,632,584**	**37,625,737**
Depreciation						
At 1 January 2020	245,828	-	1,990,452	884,439	428,834	3,549,553
Charge for the year	428,267	-	1,391,858	918,107	301,404	3,039,636
Disposals	-	-	(161,700)	-	-	(161,700)
At 31 December 2020	674,095	-	3,220,610	1,802,546	730,238	6,427,489
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**
Carrying amounts						
At 31 December 2021	**2,347,432**	**6,405,391**	**7,208,981**	**7,346,833**	**1,480,743**	**24,789,380**
At 31 December 2020	1,874,720	-	4,542,656	3,889,337	1,175,355	11,482,068

The directors consider that the fair value of motor vehicles and equipment is at least equal to their carrying values as reflected in the statement of financial position.

16 Intangible assets

	Total
Software	
Cost	
At 1 January 2020	1,218,786
Additions	22,770
Transfer from property and equipment	257,432
At 31 December 2020	1,498,988
At 1 January 2021	**1,498,988**
Additions	**436,431**
At 31 December 2021	**1,935,419**
Amortisation	
At 1 January 2020	590,234
Charge for the year	265,783
At 31 December 2020	856,017
At 1 January 2022	**856,017**
Charge for the year	**313,472**
At 31 December 2022	**1,169,489**
Carrying amounts	
At 31 December 2021	**765,930**
At 31 December 2020	642,971

Notes to the Financial Statements for the year ended 31 December 2021 *(In Zambian Kwacha)* (continued)

17 Deferred income

	2021	2020
Balance 1 January	**-**	276,771
Deferred in the year	**1,188,000**	-
Released to income	**-**	(276,771)
Closing Balance	**1,188,000**	-

18 Other payables

	2021	2020
Withholding tax	**5,406,909**	1,508,133
Insurance fees payable to Sanlam	**108,672**	158,095
Insurance fees payable to Mayfair	**369,149**	340,282
Audit and tax fees	**472,209**	319,063
Staff welfare	**2,088,916**	878,197
Other creditors and accruals	**1,214,444**	1,299,846
Other statutory obligations	**1,228,846**	730,450
	10,889,145	5,234,066

19 Borrowings

	Principal	Maturity	Currency	Interest Rate (excl. WHT)	Carrying Value ZMW
31 December 2021					
Grameen Credit Agricole	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	33,484,832	15 Oct 2024	ZMW	AVG 26.9%	**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

19 Borrowings (continued)

	Principal	Maturity	Currency	Interest Rate (excl. WHT)	Carrying Value ZMW
31 December 2020					
Grameen Credit Agricole	8,500,000	10 Apr 2021	ZMW	AVG 25.51%	2,337,172
Moringaway	16,701,607	15 Oct 2023	ZMW	AVG 23.87%	34,373,870
Triple Jump	5,827,060	15 Apr 2022	ZMW	28.39%	18,898,123
Bank of Zambia	10,486,101	30 Nov 2025	ZMW	8.00%	10,541,734
FMO Entrepreneurial Development Bank	32,185,740	11 Oct 2022	ZMW	26.40%	22,531,934
					88,682,833

All borrowings held have no security.

- The interest rate on the loan from Moringaway is set at an average of 6.38% above the Zambian Government 91-day treasury bill rate.
- 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.
- The FMO Entrepreneurial Development Bank facility is set at 7.4% above the Zambian Government 182-day treasury bill rate.

Movement in borrowings

	2021	2020
Principle		
At 1 January	**84,532,057**	62,100,639
Drawdowns	**81,527,272**	49,766,616
Repayments	**(28,562,854)**	(28,056,840)
Interest capitalised	**2,361,924**	721,642
Foreign exchange share capitalisation*	**565,205**	-
	140,423,604	84,532,057
Interest accrued	**4,993,559**	4,150,776
Total at 31 December	**145,417,163**	88,682,833

* This amount is payable to Moringaway in relation to the currency devaluation on the loan obtained from Grameen Credit on behalf of Agora. Only part of the currency movement beyond 10% is booked in Zambia as per loan agreement.

Notes to the Financial Statements for the year ended 31 December 2021 *(In Zambian Kwacha)* (continued)

20 Income tax expense

a) Tax expense

	2021	2020
Current tax	**9,843,802**	2,726,786
Deferred tax income	**(135,554)**	(6,447)
Income tax expense	**9,708,248**	2,720,339

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:

		2021		2020
Profit before tax		**25,020,018**		6,919,568
Income tax using corporate tax rate	35%	**8,757,006**	35%	2,421,849
Non-deductible expenses	3%	**710,257**	4%	298,490
Effect of change in the deferred tax rate	1%	**240,985**		-
Total income tax expense	39%	**9,708,248**	39%	2,720,339

c) Movement in statement of financial position

	2021	2020
Balance at 1 January	**1,324,191**	740,276
Charge for the year	**9,843,802**	2,726,786
Payments	**(5,459,329)**	(2,142,871)
Balance at 31 December	**5,708,664**	1,324,191

d) Deferred taxation

The Company has no tax losses available for utilisation against future taxable income (2020: Nill).

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 of **ZMW 374,457** (2020: ZMW 105,932). The business plan for the period 2022 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.

20 Income tax expense (continued)

d) Deferred taxation (continued)

Movement in temporary differences:

Movement in temporary differences during the year.

	Net balance at 1 January 2021	Recognised in income	Balance at 31 December 2021	Deferred tax asset	Deferred tax liabilities
2021					
Movement in temporary differences during the year					
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

	Net balance at 1 January 2020	Recognised in income	Balance at 31 December 2020	Deferred tax asset	Deferred tax liabilities
2020					
Movement in temporary differences during the year					
Property, plant and equipment-cost	408,359	144,288	552,647	-	552,647
Loan loss provision – IFRS 9	(309,459)	(75,687)	(385,146)	(385,146)	-
IFRS 16 – leases	(23,467)	(117,116)	(140,583)	(140,583)	-
Incentive and ESOP provisions	(204,148)	(76,726)	(280,874)	(280,874)	-
Leave provision	-	(48,110)	(48,110)	(48,110)	-
BOZ provision	29,230	166,904	196,134	-	196,134
	(99,485)	(6,447)	(105,932)	(854,713)	748,781

21 Related party transactions

Parent and ultimate controlling party

Agora Microfinance Zambia Limited is owned and controlled by Agora Microfinance NV and Moringaway. The Company has carried out transactions with its shareholders, the ultimate parent is Agora Microfinance NV.

The relevant transactions and balances are as below:

	2021	2020
i) Borrowings		
Loan principle from Moringaway	**36,047,825**	32,580,318
Interest due to Moringaway	**376,750**	1,793,552
Total (note 19)	**36,424,575**	34,373,870
ii) Interest		
Interest was as follows:		
Interest paid to Moringaway	**8,077,643**	3,813,775
iii) Amounts due to related parties		
Payable to Moringaway	**-**	2,945,850
EDP service fees advanced from Agora Microfinance Partners LLP	**148,428**	675,377
	148,428	3,621,227

The Company and Moringaway share foreign currency risk on facilities acquired. The Company assumes the risk where local currency devalues against the foreign currency between 20% to 25% and any excess devaluation is borne by Moringaway.

In addition, the Company received cash from Agora Microfinance Partners LLP payable to AMSCO Advisory Services Zambia Limited relating to EPD professional services agreement between the parties.

21 Related party transactions (continued)

Transactions with Directors or Key management personnel (continued)

	2021	2020
iv) Transactions with Directors or Key management personnel		
Key management		
Training/legal fees to Director	-	12,000
Salaries and other short-term employment benefits	4,350,917	3,931,455
Loans and advances to Key management personnel	187,361	328,536

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

	1 Jan 21 Opening Amounts ZMW'000	Additions / Disbursements ZMW'000	Repayments / transfers out ZMW'000	31 Dec 21 Closing amounts ZMW'000	Weighted interest range	Nature of loan
Director 1		200,501	4,676	195,825		
Officer 1	261,748	-	261,748	-	19%	Staff Personal Loan
Officer 2	66,788	-	44,856	21,932	23%	Staff Personal Loan
Officer 3	100,251	-	11,859	85,890	20%	Staff Personal Loan
Officer 4	100,250	-	4,103	79,539	20%	Staff Personal Loan
	529,037	200,501	327,242	383,186		

The Remuneration and Nominations 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 2021 was 20% (relevant T-Bill Rate at the beginning of 2020 was 16%). 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 56,071 (2020: ZMW 57,234).

An impairment provision has been assessed in line with IFRS 9.

	2021	2020
v) Directors' fees		
Directors' fees paid	557,474	367,787

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:

	2021	2020
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:		
2020		
Balance at 1 January	1,745,195	1,573,382
Depreciation charge for the year	(1,662,730)	(1,045,767)
Additions to right-of-use assets	3,433,700	1,266,348
De-recognition of right-of-use assets	(693,470)	(48,768)
Balance at 31 December	2,822,695	1,745,195
b) Amounts recognised in profit or loss		
2021 – Leases under IFRS 16		
Interest on lease liabilities	706,578	528,076
c) Amounts recognised in statement of cash flows		
Total cash out-flow for leases	2,363,155	1,515,943
d) Lease liability		
2020		
Non-current portion of lease liabilities	764,008	475,987
Current portion of lease liabilities	1,974,306	1,670,875
Balance at 31 December	2,738,314	2,146,862

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 Agora Microfinance Zambia Limited 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.

The effects of the COVID 19 pandemic have been negligible to the business operations due to the reasons below:

- Customers are based in rural areas hence government restrictions have not affected disbursements and collections;
- Most clients affected by the pandemic were SME clients which represented less than 10% of the portfolio with over 80% in the pass stage;
- External factors such as unemployment, death rates and inflation brought about by the pandemic has had a minimal effect on the business such that PAR 30 had reduced from 1.7% in 2020 to 1.47% in 2021.

23 Financial instrument fair value and risk management (continued)

Risk management framework (continued)

(a) Credit risk (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:

	2021	2020
Loans and advances to customers		
Stage 1 – Performing	192,739,893	118,925,896
Stage 2 – Not late	862,882	598,968
Stage 3 – Late	761,687	1,208,410
Gross loans and advances to customers	194,364,462	120,733,274

(ii) Credit quality analysis

Impairment losses

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

	2021	2020
Neither past due nor impaired	189,290,695	117,377,260
Past due 1-29 days	3,433,985	1,522,122
Past due 30-59 days	659,926	401,520
Past due 60-89 days	218,169	219,986
Past due 90-119 days	187,088	232,702
Past due >120 days	574,599	979,684
Gross	194,364,462	120,733,274
Provision for impairment	(1,172,942)	(1,100,416)
	193,191,520	119,632,858

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)

Risk management framework (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:

	2021	2020
Agriculture and allied	**19,784,542**	13,109,768
Manufacturing, mining and production	**355,394**	87,387
Trade and services	**162,115,305**	80,887,135
Other sectors	**12,109,221**	26,648,984
	194,364,462	120,733,274

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 at 31 December 2021 the non-performing loans value was **ZMW 572,802** (2020: ZMW 1,833,892) and the collateral pledged against it amounted to **ZMW 2,901,076** (2020: ZMW 2,651,631).

(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 probability of default (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.

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.

23 Financial instrument fair value and risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL (continued)

Significant increase in credit risk (continued)

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 one, the ECL would have reduced by ZMW 34,206 as shown below. This analysis assumes that all other variables remain constant.

	2021	2020
Impairment level with stage 2 loans	**1,172,942**	1,100,416
Impairment level with stage 2 loans assumed as stage 1	**(1,057,938)**	(1,094,165)
Movement	**115,004**	6,251

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.

23 Financial instrument fair value and risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL (continued)

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.

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 2021 included the following key indicators for the years ending 31 December 2020 and 2021.

- Each respective loan effective interest rate
- GDP growth 3%
- Macro-Economic data 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 Company's performed an analysis on what the impact of COVID-19 would be on forward looking process and ECL calculation and determined that it was negligible based on the business model in place.

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.

Measurement of ECL

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

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

23 Financial instrument fair value and risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL (continued)

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; and
- 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.

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 the ZMW 20m funding secured from the Central bank. 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.

23 Financial instrument fair value and risk management (continued)

Risk management framework (continued)

(b) Liquidity risk (continued)

(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 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
31 December 2020				
Liabilities				
Amount due to related parties	3,621,227	3,621,227	-	3,621,227
Borrowings	88,682,833	111,147,396	56,228,917	54,918,479
Other payables	5,234,066	5,234,066	5,234,066	-
Lease liabilities	2,146,862	2,312,750	1,414,031	898,719
Total liabilities	99,684,988	122,315,439	62,877,014	59,438,425

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.

23 Financial instrument fair value and risk management (continued)

Risk management framework (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.

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 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)

The 1-5 years negative interest rate gap of **ZMW 84,922,820** 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 2020					
Loans and advances to customers	Fixed	119,632,858	16,370,009	97,209,779	6,053,070
Total assets		119,632,858	16,370,009	97,209,779	6,053,070
Borrowings	Variable	88,682,833	7,638,788	34,878,820	46,165,225
Lease liabilities	Fixed	2,146,862	423,344	1,247,531	475,987
Total liabilities		90,829,695	8,062,132	36,126,351	46,641,212
Interest rate gap		28,803,163	8,307,877	61,083,428	(40,588,142)

Exposure to interest rate risk – non-trading portfolios

23 Financial instrument fair value and risk management (continued)

Risk management framework (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 equivalent)	USD (ZMW equivalent)	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

23 Financial instrument fair value and risk management (continued)

Risk management framework (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

	EURO (ZMW equivalent)	USD (ZMW equivalent)	ZMW	Total
31 December 2020				
Assets				
Loans and advances to customers	-	-	119,632,858	119,632,858
Cash and cash equivalents	143,566	2,028,897	5,684,110	7,856,573
Other receivables (less prepayments)	-	-	962,854	962,854
Total assets	143,566	2,028,897	126,279,822	128,452,285
Liabilities				
Other payables		-	5,234,066	5,234,066
Amount due to related parties	1,747,347	1,198,503	675,377	3,621,227
Lease liabilities	-	672,638	1,474,224	2,146,862
Borrowings	-	-	88,682,833	88,682,833
Total liabilities	1,747,347	1,871,141	96,066,500	99,684,988
Net exposure	(1,603,781)	157,756	30,213,322	28,767,297

The following significant exchange rates were applied during the period.

	Average rate		Spot rate	
	2021 USD	2020 USD	2021 EURO	2020 EURO
	16.68	21.17	18.88	26.01

23 Financial instrument fair value and risk management (continued)

Risk management framework (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

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 2020.

	Profit and loss			
	2021 USD	2020 USD	2021 EURO	2020 EURO
	19,142	(15,776)	(8,533)	106,378

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)

Risk management framework (continued)

(e) Compliance risk (continued)

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

	Amortised cost	Total	Fair value
2021			
Assets			
Cash and cash equivalents	9,713,058	9,713,058	-
Loans and advances to customers	193,191,520	193,191,520	-
Other receivables (less prepayment)	1,355,630	1,355,630	-
	204,260,208	204,260,208	-
Liabilities			
Other liabilities	10,889,145	10,889,145	-
Lease liabilities	2,738,314	2,738,314	-
Borrowings	145,417,163	145,417,163	-
Amount due to related parties	148,428	148,428	-
	159,193,050	159,193,050	-
2020			
Assets			
Cash and cash equivalents	7,856,573	7,856,573	-
Loans and advances to customers	119,632,858	119,632,858	-
Other receivables (less prepayment)	967,354	967,354	-
	128,456,785	128,456,785	-
Liabilities			
Other liabilities	5,234,066	5,234,066	-
Lease liabilities	2,146,862	2,146,862	-
Borrowings	88,682,833	88,682,833	-
Amount due to related parties	3,621,227	3,621,227	-
	99,684,988	99,684,988	-

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.

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

	2021	2020
a) Paid-up common shares	62,038,710	52,038,710
b) Share premium	2,466,137	2,466,137
c) Retained earnings	6,724,419	(8,587,351)
d) Sub-total A (items a to d)	71,229,266	45,917,496
Less		
e) Goodwill and other intangible assets	(765,930)	(642,971)
g) Sub-total B (items d to f)	70,463,336	45,274,525
h) Total primary capital	70,463,336	45,274,525
III Eligible secondary capital (The maximum amount of secondary capital is limited to 100% of primary capital)	-	-
IV Eligible total capital (I (g) + III) (Regulatory capital)	70,463,336	45,274,525
V Minimum total capital requirement 15% total on and off-balance sheet risk-weighted assets	(34,415,155)	(20,961,943)
VI Excess (IV minus V)	36,048,181	24,312,582

25 Capital commitments

There were no material capital commitments as of 31 December 2021 (2020: nil).

26 Contingent liabilities

The Company is defending an action brought by an Investcorp Enterprises. Although `liability is not admitted, if the defence against the action is unsuccessful, then the liability including interest and costs would be estimated at ZMW250,000. Based on legal advice, management believes that the defence against the action is fair (2020: Nil)

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 transaction
d) Financial assets and liabilities
e) Loans and advances
f) Cash and cash equivalent
g) Taxation
h) Share capital
i) Impairment of non-financial assets
j) Employee benefits
k) Provisions
l) Interest income and expense
m) Fees and commission
n) Leases

(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.

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.

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.

28 Significant accounting policies (continued)

(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.

(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 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, 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 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.

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.

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

ii) Classification (continued)

Business model assessment (continued)

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.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Company securitises various loans and advances to customers which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Company transferring substantially all of the risks and rewards of ownership.

Financial liabilities

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

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

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.

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.

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

vi) Fair value measurement (continued)

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 the 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.

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.

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

vii) Impairment (continued)

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.
- 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 other 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.

In assessing whether an investment in sovereign debt is credit-impaired, the Company considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

28 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

vii) Impairment (continued)

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;
- 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; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

viii) Designation at fair value through profit or loss

Financial assets

At initial recognition, the Company has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Company has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(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;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL these are measured at fair value with changes recognised immediately in profit or loss; and
- lease receivables.

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Company's financial statements.

(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.

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

(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.

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.

28 Significant accounting policies (continued)

(g) Income tax (continued)

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. 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.

28 Significant accounting policies (continued)

(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.

Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation Rights (SARs), which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognised in profit or loss.

(k) Provisions and contingencies

Provisions are recognised when:

- the Company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

(l) 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.

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 (or impairment allowance before 1 January 2018).

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.

28 Significant accounting policies (continued)

(m) 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.

(n) 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.

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.

29 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2021 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:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Annual Improvements to IFRS Standards 2018–2020.
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).

Details of operating expenditure
as at 31 December 2021 (In Zambian Kwacha)

	As on 31 December 2021	As on 31 December 2020
Advertising and branding	85,248	65,408
Computer expenses	79,233	65,203
Travel – foreign	64,061	38,122
Other premises costs	1,145,511	566,077
Insurance	307,089	189,418
Directors' fees	413,621	436,892
Telephone expenses	451,307	293,495
Bank charges	425,138	268,905
Office expenses	207,943	499,725
Recruitment and training	464,930	81,520
Legal fees	259,556	130,092
Information Technology	2,231,183	1,193,674
Licensing expenses	405,036	206,933
Audit fees	1,091,201	686,622
Professional fees	695,329	299,868
Consultancy fees	357,373	141,758
Security expenses	2,290,531	1,467,831
Stationery	2,471,690	1,492,633
Repairs and maintenance	2,789,061	1,670,654
Travel – local	1,534,606	1,692,853
Fuel on motor bikes and vehicles	4,398,189	3,220,293
Depreciation and amortisation	8,427,872	4,351,185
General expenses	5,547,896	2,304,625
Salary and wages	33,995,510	23,293,007
Total expenses	70,139,114	44,656,793

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