AMZ

AGORA MICROFINANCE ZAMBIA

Annual Report 2018

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

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 a significant risk of over-indebtedness.
- **Dignified and respectful treatment of clients at all times.**
- **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.
- **No discrimination** – Clients are not to be discriminated against on the basis of age, gender, tribe or any other factor as long as they meet eligibility criteria for AMZ products.
- **Transparent and responsible pricing** – AMZ is committed to a 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. AMZ prices its products taking into account affordability to the client.

Chairman's Report 2018

According to the African Development Bank, the Zambian economy grew by an estimated 4.0% during 2018, despite the contraction in the agricultural economy by as much as 35% due to shortage of rains in early 2018.

Partly as a result, inflation increased to 7.6% during the year, as against 6.6% in 2017. During the period 2012-2016, Zambia's debt-to-GDP ratio has shot up from 25% to 61%, and it remained at this level during 2018. There is some concern amongst international lenders and investors as this puts pressure on the fiscal performance of the government due to high debt service requirements.

Despite some downturns in the economy as mentioned above, AMZ continued its planned progress during 2018 and finished the year with strong performance indicators. We were able to grow our clientele from approximately 16,000 to 25,000 [56% growth] and the loan book from ZMW 25 million to ZMW 37 million [48% growth]. Despite some challenges to agriculture during the year, our careful loan screening processes enabled our rural non-performing loans to remain in the 1% range. Elsewhere, our business loans that form a small part of our operations saw substantial setbacks especially in and around Lusaka. This was a direct result from a cholera outbreak which led to market shutdowns for extended periods.

Our overall net profit improved by 35% over the previous year and we recorded a Return on Equity of 15% [2017: 18%].

During the year we added to our team through expansion, opened new branches, carried out multiple technology projects, and introduced new non-credit products in the market (agriculture loan, mobile money transfers and micro-insurance). We were supported in our new initiatives by timely technical assistance from Financial Sector Deepening Zambia (FSDZ) and from our long-term lenders Grameen Credit-Agricole and Triple Jump. I take this opportunity to thank them for their partnership.

Our plans for 2019 involve further growth and consolidation, and continued investment in our people and systems. As we embark upon the exciting year ahead, we have forged some new partnerships, most notable with FMO, the Dutch Government's investment agency. We look forward to a fruitful collaboration with them.

In the end I would like to thank our Shareholders, Directors and Investors for their continued belief and support to the institution. Most importantly, I would like to appreciate the efforts of our management and staff who have worked tirelessly to enable the achievements of the year. A special word of recognition is due to Abduqodir Sattorov for his strong leadership of the Company as its CEO during 2016-2018. We wish him the very best as he embarks upon a new journey in another country.

Tanmay Chetan
Chairman

CEO Report

2018 was another successful year for the organisation. It marked the third year in a row of growth, profitability and asset quality. The year began with a number of challenges in the economy which included amongst other things; a cholera epidemic leading to closure of a number of business locations especially in Lusaka province.

Later in the second quarter of the year a number of markets across the country were burned down and again Lusaka province was adversely affected. This led to a considerable amount of the portfolio for Lusaka branch and in particular the MSME and other business loans to fall into non-performance. This however did not derail the achievements of overall annual targets.

During 2018, AMZ achieved the below targets as was outlined in the strategic focus for the year:

1. Introduction of the new voluntary insurance products (Life & Hospital Cash and Weather Index Insurance) and introduction of new agriculture loan product targeting smallholder farmers in rural areas.
2. Introduction of the Loan Origination and Repayment processes through digital processes.
3. Opening of 2 new branches in the Central provinces to bring total AMZ branches to 8.
4. Staff Capacity Building through training and refresher programmes with regards to various organisation policies.
5. Strengthening Internal Controls and Compliance procedures
6. Anti-money laundering awareness and compliance with regulation.

Two new branches were opened during 2018 and 23 new jobs were created during this period. As a result, the number of AMZ staff increased by 30% and there was no variance from budget.

Portfolio grew to ZMW 37,364,209 representing 13% above the target and active client numbers reached 24,996 representing 6% above the target, while PAR30 increased to 1.17% due to the challenges mentioned earlier on the MSME portfolio.

Net profit after tax was at ZMW1,527,276 showing a 32% increase from 2017 results.

In 2019 AMZ will focus on further **Scaling, Operational efficiency, Capacity building** as well as **preparation for transition into a deposit taking institution**. A successful 2019 can set us on the path to being one of the country's most relevant financial institutions for our rural customers.

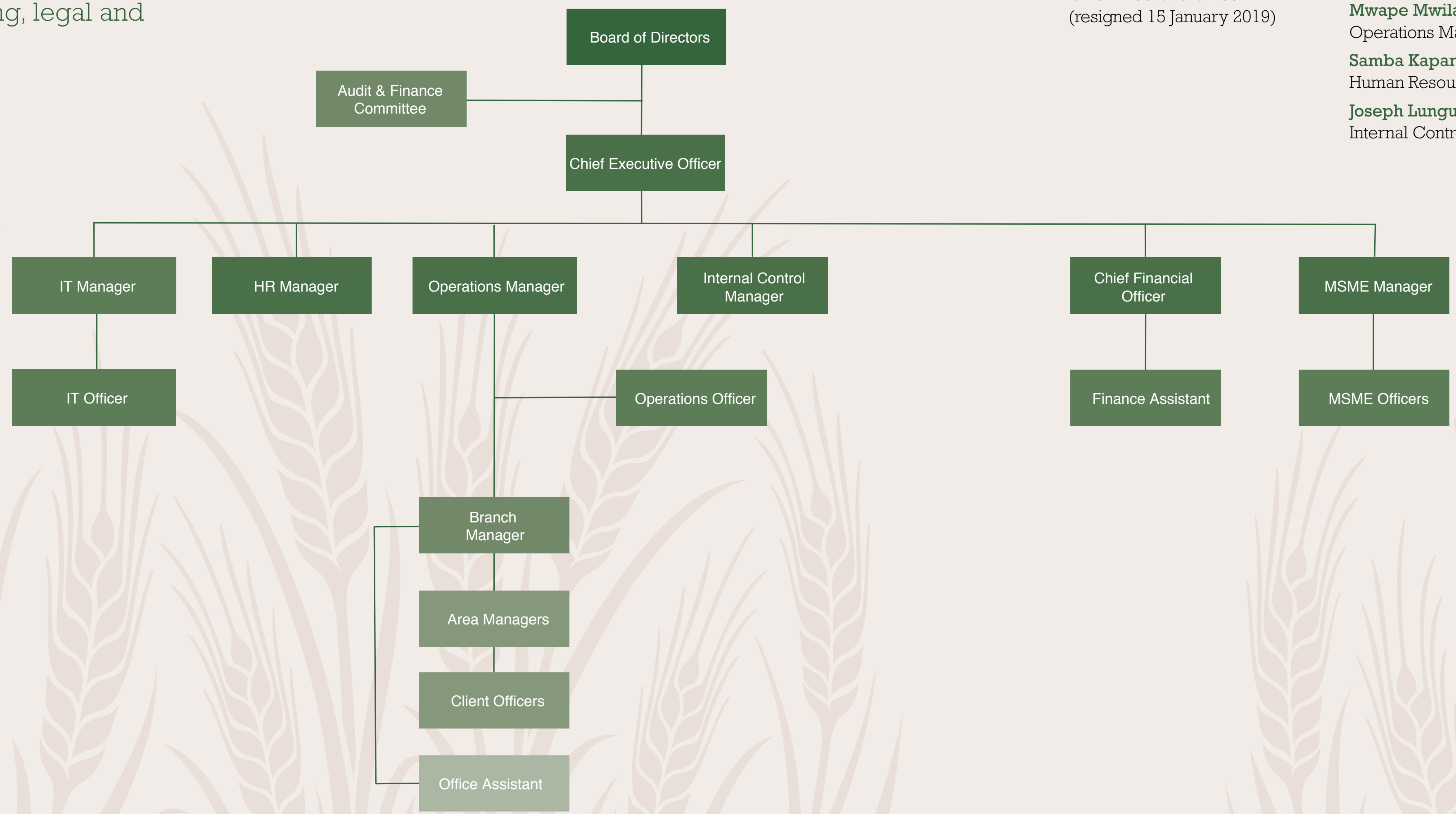
In conclusion, I would like to thank the Shareholders, Directors and Investors for their continued support. Special thanks goes to the Senior Management Team and the AMZ staff for their resilience and hard work to making Agora Microfinance a relevant financial institution for the rural population in Zambia.

Abduqodir Sattorov
CEO

Corporate Structure

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

The Board is supported by the Audit and Finance Committee. The Board of Directors appoints the Chief Executive Officer (CEO), who heads the management team, which includes four 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 8 branch/sub-branch locations.



Board of directors

Tanmay Chetan
Chairperson

Glenda Mazakaza
Director, Chair AFC

Maluba Wakung'uma
Director

Abduqodir Sattorov
Chief Executive Officer
(resigned 15 January 2019)

Senior management

Abduqodir Sattorov
Chief Executive Officer
(resigned 15 January 2019)

Susan Chibanga
Chief Financial Officer

O'Brien Njebe
Operations Manager
(resigned March 2019)

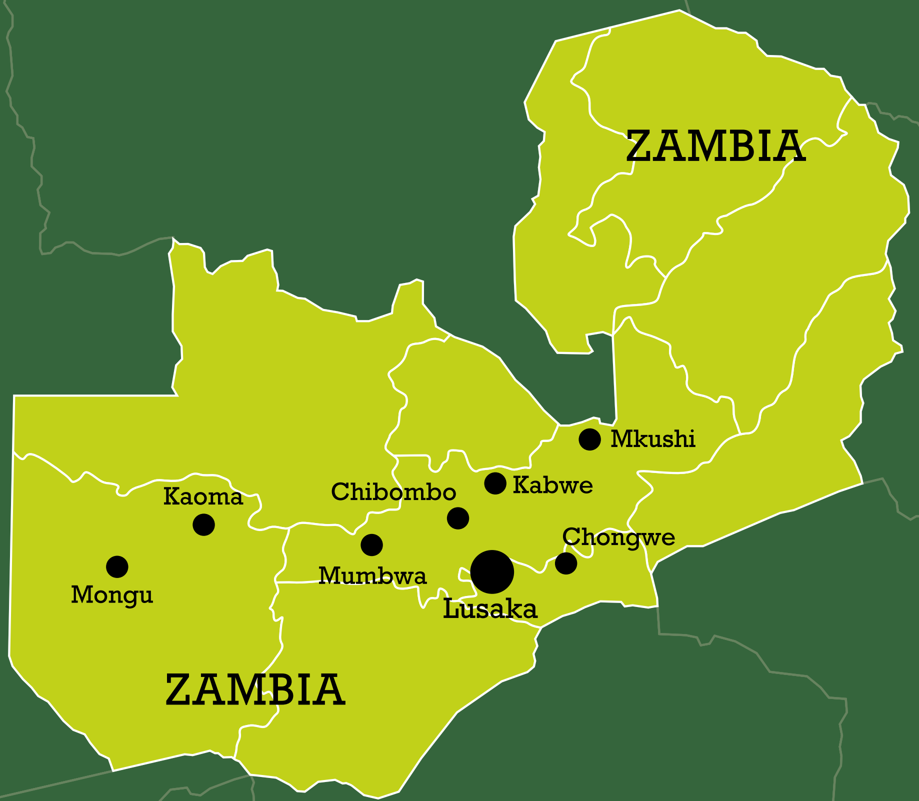
Mwape Mwila
Operations Manager

Samba Kapambwe
Human Resource Manager

Joseph Lungu
Internal Controls Manager

Areas of Operations

AMZ is headquartered in Lusaka and currently operates 8 branches in the Western and Central Provinces.



LUSAKA:

Head Office
First Floor, Mama Betty Building,
Suite 112 Foxdale Courts Office Park
609 Zambezi Road, Lusaka
Post net 745, Manda Hill, Lusaka
Telephone: +260 968 820 574

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

Chongwe
Shop 5,
plot 8958 / M, Great East Road
Telephone: +260 950 846134
Opening Hours:
Monday - Friday 08:00 - 17:00

WESTERN PROVINCE:

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

CENTRAL PROVINCE:

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

Kabwe
Shop No.10,
Stand No. 10652, Sunshare Building,
Great North Road
Telephone: +260 956 312014
Opening Hours:
Monday - Friday 08:00 - 17:00

Mkushi
Plot No. 545,
Buteko Avenue,
Opposite Total Filling Station
Telephone: +260 760 128 855
Opening Hours:
Monday - Friday 08:00 - 17:00

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

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 Agriculture Loans;
- Micro, Small and Medium Enterprise (MSME)

Insurance

We offer a mandatory credit life insurance for clients and a voluntary health (Hospi-Cash) for both clients and non-clients. We also offer weather index insurance for agriculture loans.

Mobile Money

We work as a super-agent of the 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.

Flexi Loans

Flexi Loans are offered to households who typically have multiple livelihoods, with agriculture as the subsistence livelihood augmented with trading, service or small manufacturing businesses. The loans range from ZMW 500 – ZMW 5,500 (USD 40-450) 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 seeds, fertilisers and inputs for agriculture, as well as working capital for micro-enterprise. As with most loans, some part of the amount will also go towards childrens' school fees and other consumption needs of the families.

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.

Agriculture 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).

Small group loans of ZMW 2,000 – ZMW 8,000 (USD 160-670) are available to a group of between 10-15 members, with a maximum term of 12 months. Weather index insurance is bundled in for rain fed crops.

Individual loans range from ZMW 8,001 – ZMW 15,000 (USD 670 – 1,250) with a maximum term of 12 months. Weather index insurance is bundled in for rain fed crops.

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 4,100 – 83,000). Loans of ZMW 10,001 – ZMW 100,000 (USD 830 – 8,300) are available and are secured by both guarantor(s) and collateral (moveable and immovable assets) and the maximum term is 36 months.

Small and Medium Enterprise (MSME)

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 415,000). Clients include both individuals and businesses. Loans of ZMW 100,001 – 200,000 (USD 8,300 – 16,600) are available and are secured by both guarantor(s) and collateral (moveable and immovable assets) and the maximum term is 36 months.

Insurance

Our Credit Life Insurance is a mandatory product for all existing AMZ borrowers. Our Life 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 rainy 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, as help MNOs strengthen their distribution through the provision of E-float and cash management to agents. We currently serve more than 650 agents countrywide.

USD conversion as at 31 December 2018

Operational & Financial Highlights

322 Village Banks 2016

495 Village Banks 2017

836 Village Banks 2018

5 Branches 2016

6 Branches 2017

8 Branches 2018

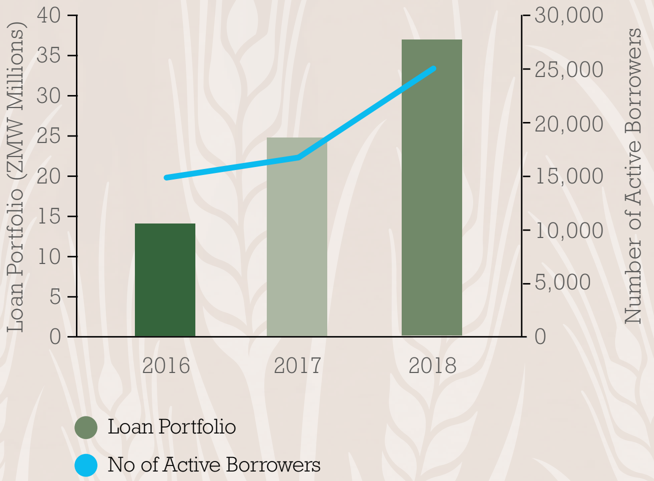
14,989 Clients 2016

16,756 Clients 2017

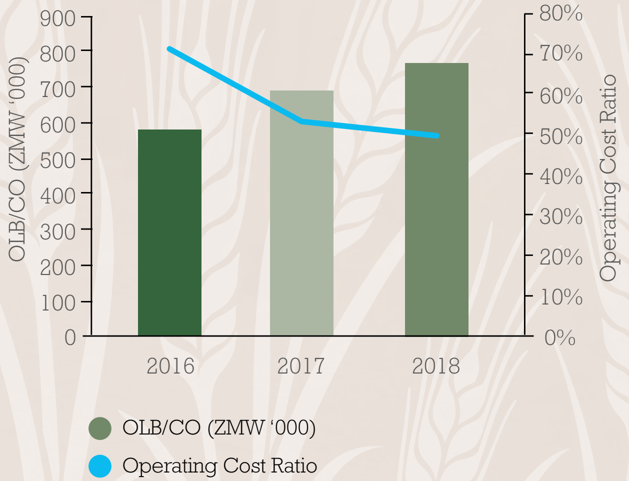
24,996 Clients 2018

Description	2016	2017	2018
No of Branches	5	6	**8**
No of Village Banks	322	495	**836**
Number of Active Borrowers	14,989	16,756	**24,996**
- Women Borrowers (%)	62%	62%	**61%**
- No of Rural borrowers (%)	85%	85%	**90%**
Loan Portfolio (USD)	1,453,760	2,705,047	**3,090,049**
Loan Portfolio (ZMW)	14,246,848	24,778,121	**37,106,859**
PAR 30 Days	0.23%	0.53%	**1.17%**
Average Loan Size (USD)	96	161	**124**
Average Loan Size (ZMW)	950	1,479	**1,485**
Average Loans Size / Estimated GNI per capita	7%	12%	**10%**

Loan Portfolio vs No of Active Borrowers

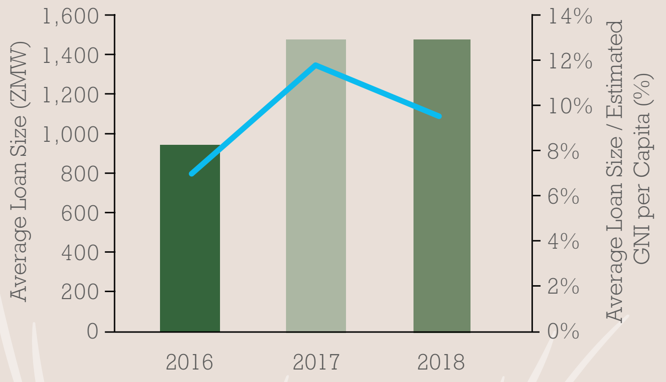


Operating Efficiency



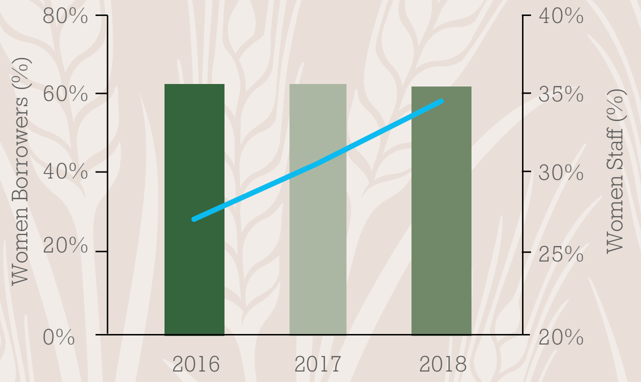
Operational & Financial Highlights

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



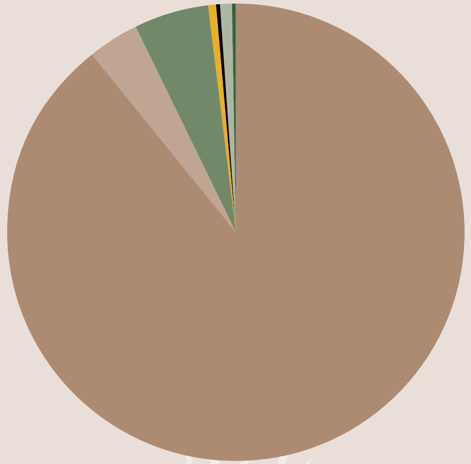
- Average Loan Size (ZMW)
- Average Loan Size / Estimated GNI per Capita

Gender Distribution



- Women Borrowers
- Women Staff

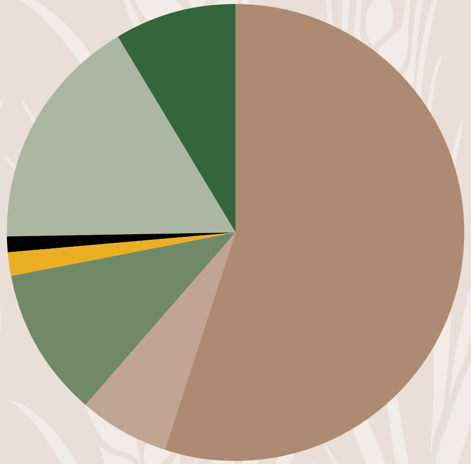
Clients by Product Type



- **89.28%** Village Bank Loans (Flexi 1)
- **3.54%** Village Bank Loans (Flexi 2)
- **5.18%** Small Group Business Loans (SGBL)
- **0.75%** Small Group Agriculture Loans (SGAL)
- **0.15%** Individual Agriculture Loan (IAL)
- **0.80%** Individual Micro Business Loan
- **0.18%** SME Loans

Portfolio by Product Type

- **54.20%** Village Bank Loans (Flexi 1)
- **6.25%** Village Bank Loans (Flexi 2)
- **10.31%** Small Group Business Loans (SGBL)
- **1.82%** Small Group Agriculture Loans (SGAL)
- **1.05%** Individual Agriculture Loan (IAL)
- **16.31%** Individual Micro Business Loan
- **8.38%** SME Loans



Operational & Financial Highlights

Margin Analysis (as a % of loan portfolio)	2016	2017	2018
a) Interest and Fee Income	82.2%	78.4%	76.3%
b) Cost of Funds	16.6%	19.7%	22.2%
c) Net Interest Margin (a-b)	65.6%	58.7%	54.1%
d) Loan Loss Provision	0.2%	1.1%	1.4%
e) Net Margin before Operating Expenses (c-d)	65.4%	57.7%	52.7%
f) Personnel Cost	32.3%	27.1%	23.4%
g) Admin Cost	39.0%	26.3%	28.5%
h) Total Operating Cost (f+g)	**71.3%**	**53.4%**	**51.9%**
Net Margin	**-5.9%**	**4.3%**	**0.8%**
Financial Ratios			
Operating Self Sufficiency	100.1%	106.4%	106.9%
Solvency Ratio (Equity/Assets)	24.6%	22.7%	32.8%
Debt/Equity	3.07	3.41	2.05
Operating Cost Ratio	71.3%	53.4%	51.9%
Return on Equity	2.9%	18.0%	15.1%

Key Initiatives 2019

In 2019 AMZ will focus on scaling, operational efficiency and capacity building. With targeted focus on becoming deposit taking, AMZ plans to migrate to a more robust MIS system that will drive efficiency through increased automation.

In this regard, further digitalization of the loan process, the integration of mobile money services, and real time information reporting via dashboards will be prioritized. Continued investment in human capital development to enhance ability of our staff to deliver exceptional customer service will be key.

AMZ will further leverage on strategic partnerships with various stakeholders to capitalise on opportunities in agriculture lending, in particular, loans to the sector that increase smallholder farmer productivity.

The introduction of a department focused on Research, Customer Insights and Social Performance Management to ensure that our scaling and decision-making process are evidence-based, and our social impact is quantifiable to all stakeholders will be a valuable addition to our strategy.

Our executed strategy is expected to double the portfolio to ZMW61m and increase clientele to 35,000 by December 2019

Directors' Report
for the year ended 31 December 2018

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 2018.

1. Principal activities

The principal activity of the Company is to provide financial services to the rural and urban poor 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
Suite 112 Mama Betty Building
Plot 609 Zambezi Road Roma
P O Box 745 Post Net
Lusaka

3. Shareholding

Agora Microfinance Zambia Limited's shareholding consists of Agora Microfinance NV 75% and Moringaway Limited 25%. The total number of authorised ordinary shares is 3,000,000 with a par value of K10 per share.

Details of the Company's authorised and issued share capital are included in note 15 of the financial statements.

4. Results for the year

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

	2018 ZMW	2017 ZMW
Interest income	**15,025,350**	9,490,280
Profit before income tax	**1,424,047**	925,573
Income tax credit	**103,229**	229,557
Profit for the year	**1,527,276**	1,155,130

5. Dividends

The Directors did not propose a dividend to be declared in respect of the 2018 financial year (2017: nil).

6. Directors' and secretary

The names of the directors and the secretary are as follows:

Directors

Tanmay Chetan	Chairperson
Maluba Wakung'uma	Director
Glenda Mazakaza	Director
Abduqodir Sattorov	Director/CEO

Company Secretary

Susan Chibanga

7. Directors' remuneration

Director's fees paid during the year was **ZMW 71,250** (2017: ZMW 16,275) as disclosed in note 22 of the financial statements.

Directors' Report (continued)
for the year ended 31 December 2018

8. Average number and remuneration of employees

Total employee benefits expense for the year was **ZMW 7,236,505** (2017: ZMW 5,278,625) as disclosed in note 10 of the financial statements. The average number of employees throughout the year was **89** (2017: 63).

9. Gifts and donations

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.

Various Memoranda of Understanding for Technical Assistance were signed with Financial Sector Deepening Zambia (FSDZ), Grameen Credit Agricole, Triple Jump, Rural Finance Expansion Programme (RUFEP) and Frankfurt School of Business. Under the agreements, grant income of **ZMW 697,972** was recognised for the year (2017: ZMW 150,271), disclosed in note 9 of the financial statements.

10. Property and equipment and intangible assets

The Company acquired property and equipment and intangible assets with a total value of **ZMW 2,613,269** (2017: ZMW 929,721), disclosed in notes 16 and 17 to the financial statements. In the opinion of the Directors, the recoverable amount as disclosed on the property and equipment are not less than the amount at which they are included in the financial statements.

11. Research and Development

There was no expenditure incurred for research and development during the year (2017: Nil).

12. Related party transactions

Related party transactions during the year consisted of a series of loan agreements with its shareholders. Further information about these loan agreements are included at note 19 to the financial statements. Additionally, the remuneration of key management personnel is also disclosed at note 22 to the financial statements.

13. Prohibited borrowings or lending

There were no prohibited borrowings during the year (2017: Nil).

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

All KYC requirements are conducted by the branches and filed in hard copy at branch level. Additionally, all potential borrowers for Small and Medium Enterprises (SME) are checked using the Credit Reference Bureau.

15. Corporate Governance

Importance of corporate governance

AMZ is governed by the Articles of Association as revised on 1 July 2011. 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, a Board of Directors and Audit and Finance Committees.

Board Committees

At the 19 December 2015 meeting, the Board members approved that Committees' agendas with the exception of the Audit and Finance Committee would be merged with the Board of Directors' main agenda until the Company grows enough to warrant separate Committees.

Audit and Finance Committee (AFC)

The AFC met 4 times during 2018. Membership of the Board's AFC during the year was as follows:

Glenda Mazakaza	Chairperson
Tanmay Chetan	Member

16. 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

Susan Chibanga — 10/04/2019

Company Secretary — Date

Directors' Responsibilities

Directors' responsibilities in respect of the preparation of financial statements

The directors are responsible for overseeing the preparation of the financial statements that give a true and fair view of the state of affairs of Agora Microfinance Zambia Limited ("the Company"), comprising the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, 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, and the requirements of the Banking and Financial Services Act and the Companies Act of Zambia. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control 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 supplementary schedules included in these financial statements.

The directors have made an assessment of 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 that 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 10 April 2019 and are signed by:

Director	Director
Glenda Mazakaza	Maluba Wakung'uma

Independent Auditor's Report

Report on the Audit of the Financial Statements

To the Members of Agora Microfinance Zambia Limited

Opinion

We have audited the financial statements of Agora Microfinance Zambia Limited ("the Company") set out on pages 9 to 48, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Agora Microfinance Zambia Limited as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Banking and Financial Services Act and the Companies 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' *Code of Ethics for Professional Accountants* (IESBA Code), 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 matters

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

Impairment of loans and advances to customers

See note 4 use of estimates and judgements; note 13 loans and advances to customers, note 25 credit risk section of the financial risk management, and note 31.(d) financial instruments and financial liabilities accounting policies.

Key audit matter	How the matter was addressed
This has been considered a key audit matter as IFRS 9 *Financial Instruments (IFRS 9)* is a new and complex accounting standard which requires significant judgement to determine the expected credit loss (ECL) allowance. **Key areas of judgement include:** • Interpretation of the requirements to determine impairment under application of IFRS 9 which is reflected in the Company's expected credit loss model. • The identification of exposures with significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as the forward looking macro economics factors inflation and gross domestic product (GDP).	**Our audit procedures include amongst others:** • Testing the design and implementation and operating effectives of key controls over the approval of credit and the origination of loans and advances. • With support of our internal modelling specialist we evaluated the appropriateness of the inputs such as Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) against the requirements of IFRS 9. • Assessing the data inputs such as macro economic factors used in the ECL model and comparing them to independent statistical analyses for reasonableness. • We examined a sample of exposures from the loan book to the ECL model and checked whether all the exposures were included in the ECL model. • Interpretation of the requirements to determine the ECL allowance in terms of IFRS 9 which is reflected in the Company's ECL model. • Assumptions used in the ECL model such as the forward looking macroeconomics factors inflation and gross domestic product (GDP). • The measurement of the modelled ECL allowance, which is dependent upon key assumptions relating to probability of default ("PD"), loss given default ("LDG") and exposure at default ("EAD"). • Assessing the accuracy and adequacy of the disclosures made in the financial statements.

Independent Auditor's Report

Report on the Audit of the Financial Statements

Other information

The directors are responsible for the other information. The other information comprises the Directors' 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 at the appendix. 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 or 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Banking and Financial Services Act and the Companies 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.

Independent Auditor's Report

Report on the Audit of the Financial Statements

- 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) of the Companies Act of Zambia (the Act), we report that in our opinion:

- 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. In the absence of the Act specifying the criteria for purposes of reporting on serious breaches of corporate governance principles or practices by the Directors, as required by section 259 (3)(b) of the Act, we express our opinion based on 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 report that, in our opinion:

- 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 wellbeing of the Company that in our opinion is 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 2019 **12 April 2019**

Cheelo Hamuwele AUD/F001044
Partner

Statement of Financial Position

as at 31 December 2018

In Zambian Kwacha

	Notes	2018	2017
Assets			
Cash and cash equivalents	12	2,076,668	5,730,509
Loans and advances to customers	13	37,364,209	25,171,108
Other receivables	14	2,180,067	1,166,945
Property and equipment	16	2,566,456	1,379,042
Intangible assets	17	871,634	118,958
Deferred tax assets	21	545,853	329,117
Total assets		45,604,887	33,895,679
Liabilities			
Other payables	18	3,619,499	1,776,221
Borrowings	19	26,995,537	24,440,713
Current tax liabilities	20(c)	21,176	-
Total liabilities		30,636,212	26,216,934
Equity			
Share capital	15	28,913,710	23,663,340
Share premium		3,110,380	2,511,300
Accumulated losses		(17,055,415)	(18,495,895)
Total equity		14,968,675	7,678,745
Total equity and liabilities		45,604,887	33,895,679

These financial statements were approved by the Board of Directors on 10 April 2019 and were signed by:

Director
Glenda Mazakaza

Director
Maluba Wakung'uma

The notes on pages 30 to 66 are an integral part of these financial statements.

Statement of Profit and Loss and other Comprehensive Income

for the year ended 31 December 2018

In Zambian Kwacha

	Notes	2018	2017
Interest income calculated using the effective interest	6	15,025,350	9,490,280
Interest expense	8	(6,868,732)	(3,844,393)
Net interest income		8,156,618	5,645,887
Fee income	7	8,614,123	5,823,306
Net trading income		16,770,741	11,469,193
Other income	9	1,225,672	382,883
Impairment losses on loans and advances	13	(427,828)	(206,933)
Operating income		17,568,585	11,645,143
Finance income	11	631,238	500,229
Finance cost	11	(729,175)	(806,455)
Net finance income		(97,937)	(306,226)
Operating expenses	10	(16,046,601)	(10,413,344)
Profit before income tax		1,424,047	925,573
Income tax credit	20	103,229	229,557
Profit for the year		1,527,276	1,155,130

There were no items of other comprehensive income during the year (2017: nil).

The notes on pages 30 to 66 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2018

In Zambian Kwacha

	Share Capital	Share Premium	Accumulated losses	Total
Balance at 1 January 2017	23,100,000	824,640	(19,651,025)	4,273,615
Total comprehensive income for the year				
Profit for the year	-	-	1,155,130	1,155,130
Transactions with owners recognised directly in equity				
Shares issued	563,340	1,686,660	-	2,250,000
Balance at 31 December 2017	23,663,340	2,511,300	(18,495,895)	7,678,745
Balance at 1 January 2018	**23,663,340**	**2,511,300**	**(18,495,895)**	**7,678,745**
Adjustment in initial application of IFRS 9 (note 23)	**-**	**-**	**(86,796)**	**(86,796)**
Restated balance at 1 January 2018	**23,663,340**	**2,511,300**	**(18,582,691)**	**7,591,949**
Total comprehensive income for the year				
Profit for the year	**-**	**-**	**1,527,276**	**1,527,276**
Transactions with owners recognised directly in equity				
Shares issued	**5,250,370**	**749,630**	**-**	**6,000,000**
Share issue costs	**-**	**(150,550)**	**-**	**(150,550)**
Balances as at 31 December 2018	**28,913,710**	**3,110,380**	**(17,055,415)**	**14,968,675**

Accumulated losses

Accumulated losses 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 30 to 66 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2018

In Zambian Kwacha

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		**1,527,276**	1,155,130
Adjustment for:			
Interest expense	8	**6,868,732**	3,844,393
Depreciation	16	**598,947**	371,646
Amortisation	17	**72,432**	52,338
Loss/(profit) on disposal of equipment	16	**1,800**	(32,226)
Income tax credit	20	**(103,229)**	(229,557)
Net exchange differences on borrowings	19	**233,189**	366,081
Write off of property and equipment	16	**-**	5,562
		9,199,147	5,533,367
Changes in:			
Loans and advances		**(12,326,633)**	(10,631,653)
Other receivables		**(1,013,122)**	(705,146)
Other payables		**1,843,278**	952,480
Cash used in operations		**(2,297,330)**	(4,850,952)
Income tax paid	20	**(45,595)**	-
Interest paid		**(6,868,732)**	(3,844,393)
Net cash used in operating activities		**(9,211,657)**	(8,695,345)
Cash flows from investing activities			
Acquisition of property and equipment	16	**(1,905,399)**	(929,721)
Acquisition of intangibles	17	**(707,870)**	-
Proceeds from disposal of equipment		**-**	51,715-
Net cash used in investing activities		**(2,613,269)**	(878,006)
Cash flows from financing activities			
Proceeds from issue of share capital	15	**5,849,450**	2,250,000
Proceeds from borrowings	19	**12,976,871**	17,312,084
Repayment of borrowings	19	**(10,655,236)**	(5,538,468)
Net cash generated by financing activities		**8,171,085**	14,023,616
Net (decrease)/increase in cash and cash equivalents		**(3,653,841)**	4,450,265
As at 1 January		**5,730,509**	1,280,244
Cash and cash equivalents at 31 December	12	**2,076,668**	5,730,509

The notes on pages 30 to 66 are an integral part of these financial statements.

In Zambian Kwacha

1. Reporting entity

Agora Microfinance Zambia Limited (''AMZ'' or ''the Company'') is incorporated in Zambia under the Companies Act of Zambia as a Company Limited by shares, and is domiciled in Zambia. The Company is also licensed under the Banking and Financial Services Act of Zambia, to conduct microfinance services. The address of its registered office is Suite 112 Mama Betty Building Plot 609 Foxdale Court, Zambezi Road, Lusaka.

The Company's principal activity is to provide financial services to the rural and urban poor in Zambia.

Details of the Company's accounting policies are included in note 31 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) and the requirements of the Banking and Financial Services Act and Companies Act of Zambia.

b. Basis of measurements

The financial statements have been prepared on the historical cost basis.

3. Functional and presentation currency

These financial statements are presented in Zambian Kwacha (''Kwacha''), which is the Company's functional currency, except where otherwise indicated.

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 2019 is included in the following notes:

- Note 25 impairment of financial instruments determining inputs into the ECL measurements model including incorporation of forward looking information.
- Note 21 – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.

5. Changes in accounting policies

The Company has adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition method chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Company. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

Notes to the Financial Statements
for the year ended 31 December 2018

In Zambian Kwacha

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets related to IFRS 9 (see Note 24);
- additional disclosures related to IFRS 9 (see Notes 25(a) and 31(d)); and
- additional disclosures related to IFRS 15 (see Note 7 and 31(i)).

Except for the changes below, the Company has consistently applied the accounting policies as set out in Note 31 to all periods presented in these financial statements.

a. IFRS 9 Financial Instruments

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

Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments:

Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative. The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below:

The full impact of adopting the standard is set out in note 25 in the notes to the financial statements.

Classification of Financial Assets and Financial Liabilities

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see Note 24 in the notes to the Financial Statements.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

There has been no change to the requirements in respect of the classification and measurement of financial liabilities.

The derecognition requirements have also been carried forward unchanged from IAS 39.

Where the contractual terms of financial assets are modified, and that modification does not result in derecognition, a modification gain or loss is recognised in the income statement and the gross carrying amount of the asset adjusted accordingly.

Notes to the Financial Statements

for the year ended 31 December 2018

Impairment of Financial Assets

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

Under IFRS 9, credit losses are recognised earlier than IAS 39. For explanation on how the Company applies the impairment requirement see note 25(a).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

b. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Company initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Company's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 31 (i)).

The Company initially applied IFRS 15 on 1 January 2018. The standard applies to fees and commission income but not to financial instruments or lease contracts. IFRS 15 had no material impact on the Company's consolidated financial statements and there will not be an adjustment to retained earnings in respect of adoption.

The impact of IFRS 15 was limited to disclosures to fee income (see note 7).

6. Interest income	2018	2017
Loans and advances to customers	15,025,350	9,490,280

7. Fee Income	2018	2017
Loan administration charges	8,576,103	5,812,136
Commission on insurance fees	38,020	11,170
	8,614,123	5,823,306

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

Notes to the Financial Statements

for the year ended 31 December 2018

7. Fee income (continued)

The below table provided 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 (applicable from 1 January 2018)
Interest income	This amount represents interest income that is earned from loans that have been issued to customers.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
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.	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 transaction takes place.
Mobile money commission	Commission is earned immediately the transaction takes place.	Revenue related to transactions is recognised at the point in time when transaction takes place.

In Zambian Kwacha

8. Interest expense

	2018	2017
Interest bearing borrowings	6,868,732	3,844,393

9. Other income

	2018	2017
Donations	697,972	150,271
Recoveries of loans written off	5,703	1,394
Gain on disposal	-	36,397
Mobile money commission	446,685	180,767
Others	75,312	14,054
	1,225,672	382,883

10. Operating expenses

	2018	2017
Employee benefits	7,236,505	5,278,625
Depreciation (note 16)	598,947	371,646
Amortisation (note 17)	72,432	52,338
Auditors remuneration	336,000	291,700
Other expenses	7,802,717	4,413,473
Assets written off	-	5,562
	16,046,601	10,413,344

Employee benefits		
Salaries	6,718,427	4,896,512
NAPSA	333,372	214,524
Leave pay, gratuity and pension	184,706	167,589
	7,236,505	5,278,625

Notes to the Financial Statements
for the year ended 31 December 2018

In Zambian Kwacha

11. Finance income

	2018	2017
Finance income		
Exchange gains	631,238	500,229
Finance cost		
Exchange losses	(729,175)	(806,455)
Net Finance Costs	(97,937)	(306,226)

12. Cash and cash equivalents

	2018	2017
Cash on hand	21,956	7,248
Balances with Bank	2,054,712	4,223,261
Short term investment	-	1,500,000
	2,076,668	5,730,509

13. Loans and advances to customers

	2018	2017
a) Summary		
Loans and advances	37,106,859	24,778,121
Accrued interest	840,007	597,154
Gross loans and advances	37,946,866	25,375,275
Less: Provision for impairment of loans and advances		
- Individually assessed-IAS 39	-	(88,827)
- Collectively assessed-IAS 39	-	(115,340)
- Impairment under IFRS 9	(582,657)	-
	37,364,209	25,171,108

Notes to the Financial Statements

for the year ended 31 December 2018

In Zambian Kwacha

13. Loans and advances to customers (continued)

	2018	2017
b) Maturity		
Due:		
- Within 1 month	765,741	1,303,564
- Between 1 to 3 months	5,666,615	3,095,043
- Between 3 months and 1 year	30,674,503	20,379,514
Loans and advances to customers	37,106,859	24,778,121

c) Movements in provisions for impairment of loans and advances are as follows:		
At 1 January 2018	204,167	30,546
Adjustment on initial application of IFRS 9	133,532	-
Charge for the year	427,828	206,933
Bad debts written off	(182,870)	(33,312)
At 31 December 2018	582,657	204,167

14. Other receivables

	2018	2017
Prepayments	477,129	218,438
Staff advances	107,745	124,374
Mobile money commission receivable	48,154	39,347
Mobile money E value	1,073,001	211,979
Other receivables	474,038	572,807
	2,180,067	1,166,945

Notes to the Financial Statements

for the year ended 31 December 2018

In Zambian Kwacha

15. Share capital

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

	Number of ordinary shares 2018	Ordinary share capital 2018	Number of ordinary shares 2017	Ordinary share capital 2017
Authorised				
Ordinary shares class A	95,000	950,000	95,000	950,000
Ordinary shares class B	2,905,000	29,050,000	2,305,000	23,050,000
Total	3,000,000	30,000,000	2,400,000	24,000,000

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2017	95,000	2,215,000	2,310,000
Issued during the year	-	90,000	90,000
At 31 December 2017	95,000	2,305,000	2,400,000
At 1 January 2018	95,000	2,305,000	2,400,000
Issued during the year	-	600,000	600,000
At 31 December 2018	95,000	2,905,000	3,000,000

	Number of ordinary shares 2018	Ordinary share capital 2018	Number of ordinary shares 2017	Ordinary share capital 2017
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)	2,891,371	28,913,710	2,271,334	22,713,340
	2,986,371	29,863,710	2,366,334	23,663,340

Notes to the Financial Statements (continued)

for the year ended 31 December 2018

In Zambian Kwacha

15. Share capital (continued)

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2017	950,000	22,150,000	23,100,000
Issued during the year	-	563,340	563,340
At 31 December 2017	950,000	22,713,340	23,663,340
At 1 January 2018	**950,000**	**22,713,340**	**23,663,340**
Issued during the year	**-**	**5,250,370**	**5,250,370**
At 31 December 2018	**950,000**	**W27,963,710**	**28,913,710**

On 21 March 2018 and 13 November 2018, the Company issued 25,037 and 500,000 class B shares to existing shareholders, Moringaway and AMNV respectively. A total amount of ZMW 6,000,000 (2017: ZMW 2,250,000) was paid of which ZMW 5,250,370 (2017: ZMW 563,340) was recognised as the nominal value and the excess of **ZMW 749,630** (2017: ZMW 1,686,660) was recognised as share premium. Share costs amounting to ZMW150,550 were paid resulting in proceeds from issue of shares amounting to ZMW 5,849,950 and a share premium of **ZMW 599,080.**

Notes to the Financial Statements (continued)

for the year ended 31 December 2018

In Zambian Kwacha

16. Property and equipment

	Leasehold improvements	Capital work in progress	Motor vehicle	Computer & office equipment	Furniture & fittings	Total
Cost						
At 1 January 2017	73,535	31,774	1,514,656	543,727	239,696	2,403,388
Additions	151,575	171,934	234,313	277,956	93,943	929,721
Transfers	-	(22,043)	-	22,043	-	-
Write offs	-	(5,562)	-	-	-	(5,562)
Disposals	-	(4,171)	(238,987)	(84,993)	(22,665)	(350,816)
At 31 December 2017	225,110	171,932	1,509,982	758,733	310,974	2,976,731
At 1 January 2018	225,110	171,932	1,509,982	758,733	310,974	2,976,731
Additions	80,994	744,828	673,857	246,467	159,253	1,905,399
Transfers	52,901	(472,349)	-	276,401	25,809	*(117,238)
Disposals	-	(1,800)	-	(2,100)	-	(3,900)
At 31 December 2018	359,005	442,611	2,183,839	1,279,501	496,036	4,760,992
Depreciation						
At 1 January 2017	73,535	-	875,036	412,096	196,703	1,557,370
Charge for the year	12,908	-	239,441	80,885	38,412	371,646
Disposals	-	-	(238,987)	(70,462)	(21,878)	(331,327)
At 31 December 2017	86,443	-	875,490	422,519	213,237	1,597,689
At 1 January 2018	86,443	-	875,490	422,519	213,237	1,597,689
Charge for the year	43,100	-	372,234	129,050	54,563	598,947
Disposals	-	-	-	(2,100)	-	(2,100)
At 31 December 2018	129,543		1,247,724	549,469	267,800	2,194,536
Carrying amounts						
At 31 December 2018	229,462	442,611	936,115	730,032	228,236	2,566,456
At 31 December 2017	138,667	171,932	634,492	336,214	97,737	1,379,042

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.

*This amount relates to software which was transferred to intangible assets during the year. (Refer to note 17).

17. Intangible asset

	Total
Software	
Cost	
At 1 December 2017	393,678
At 31 December 2017	393,678
At 1 January 2018	**393,678**
Additions	**707,870**
Transfer from Capital work in progress	**117,238**
At 31 December 2018	**1,218,786**
Amortisation	
At 1 January 2017	222,382
Charge for the year	52,338
At 31 December 2017	274,720
At 1 January 2018	**274,720**
Charge for the year	**72,432**
At 31 December 2018	**347,152**
Carrying amounts	
At 31 December 2018	**871,634**
At 31 December 2017	118,958

18. Other payables

	2018	2017
Interest payable (note 22)	**1,255,643**	769,541
PAYE and pension	**190,690**	104,100
Other creditors and accruals	**2,173,166**	902,580
	3,619,499	1,776,221

19. Borrowings

31 December 2018	Principal	Maturity	Currency	Interest rate/ (net)	Carrying value ZMW
Cost					
Grameen Credit Agricole	**8,500,000**	**10 Apr 2021**	**ZMW**	**AVG 24%**	**7,071,429**
Moringaway Facility 1	**6,016,885**	**1 Jun 2019**	**ZMW**	**AVG 23.75%**	**6,016,885**
Oiko Credit	**3,885,500**	**21 Dec 2020**	**ZMW**	**22%**	**2,605,267**
Lendahand	**3,000,000**	**1 Mar 2020**	**EUR**	**7.5%**	**520,196**
Triple Jump	**5,827,060**	**15 Apr 2020**	**ZMW**	**25.4%**	**5,827,060**
Global Partnerships	**4,954,700**	**21 Dec 2020**	**ZMW**	**21.35%**	**4,954,700**
					26,995,537

The interest rate on the loans from Moringaway is set at 7.75% above the Zambian Government 91 day treasury bill rate, with a minimum of 13% and a maximum of 25%. Lendahand is the lender for the SME pilot, with a loan denominated in Euro at 7.5%, Global Partnerships facility is 21.35% while Oiko credit is at 22.35% and GCA loan was at an average rate of 24% while Triple Jump newly added lender had rates at 25%. All borrowings held have no security.

31 December 2017	Principal	Maturity	Currency	Interest rate/ (net)	Carrying value ZMW
Grameen Credit Agricole	5,000,000	10 Apr 2021	ZMW	25%	5,000,000
Agora Microfinance N.V (AMNV)	1,099,500	15 Jun 2018	ZMW	20%	1,099,500
Moringaway Facility 1	6,016,885	01 Jun 2019	ZMW	20%	6,060,885
Moringaway Facility 2	2,415,100	01 Mar 2018	ZMW	20%	2,415,100
Oiko Credit	1,961,500	21 Dec 2020	ZMW	18.35%	1,961,500
Lendahand	2,949,028	01 Mar 2020	EUR	7.5%	2,949,028
Global Partnerships	4,954,700	21 Dec 2020	ZMW	21.35%	4,954,700
					24,440,713

The Moringaway loan facility that matured was converted to a line of credit with only 2,415,100 repaid in full in March 2018. The AMNV loan matured and there was a new facility from Triple Jump that was finalised in 2018. Interest rates average was 20% across all the facilities.

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19. Borrowings (continued)

Movement in borrowings

	2018	2017
At 1 January	24,440,713	12,301,016
Drawdowns	12,976,871	17,312,084
Repayments	(10,655,236)	(5,538,468)
Exchange losses	233,189	366,081
At 31 December	26,995,537	24,440,713

20. Income tax expense

	2018	2017
a) Tax expense		
Deferred tax	(163,949)	(229,862)
Deferred tax (over)/under provision	(6,051)	305
Income Tax	66,771	-
Income tax credit	(103,229)	(229,557)

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:

		2018		2017
Profit before tax		1,424,047		925,573
Income tax using corporate tax rate	35%	498,416	35%	323,951
Non-deductible expenses	(19%)	(268,776)	(19%)	(172,119)
Unrecognised deferred tax	(72%)	(982,695)	(72%)	(666,150)
Tax losses expired	31%	655,877	31%	284,456
(Over)/under provision on deferred tax	0.03%	(6,051)	0.03%	305
Total income tax credit	(7%)	(103,229)	(25%)	(229,557)

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20. Income tax expense (continued)

c) Movement in statement of financial position

	31 December 2018	31 December 2017
Balance at 1 January	-	-
Charge for the year	66,771	-
Payments	(45,595)	-
Balance at 31 December	21,176	-

21. Deferred taxation

The Company has tax losses available for utilisation against future taxable income. Tax losses are available for carry forward only for a maximum period of five years. The carried forward losses, which are in some cases subject to agreement with the Zambia Revenue Authority, are as follows:

Year	Loss	Utilisation /expiry	Tax losses	Expiry date
2013	1,796,835	(1,140,958)	655,877	2018
2014	2,907,115	-	2,907,115	2019
2015	1,531,620	-	1,531,620	2020
2016	507,482	-	507,482	2021

Recognised 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 170,000** (2017: 229,557). The business plan for the period 2018 – 2020 prepared by management shows that the Company will make profits for the period 2018 – 2021.

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 have intentions to increase other lines of income such as grants and mobile money transactions.

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21. Deferred taxation (continued)

Movement in temporary differences:

Movement in temporary differences during the year.

2018	Net balance at 1 January 2018	Recognised in income	Recognised in equity	Balance at 31 December 2018	Deferred tax asset	Deferred tax liabilities
Tax losses	(329,117)	(170,000)	-	(499,117)	(499,117)	-
Provision for bad debts – IFRS 9 adjustments	-	-	(46,736)	(46,736)	(46,736)	-
	(329,117)	(170,000)	(46,736)	(545,853)	(545,853)	-

2017	Net balance at 1 January 2018	Recognised in income	Recognised in equity	Balance at 31 December 2018	Deferred tax asset	Deferred tax liabilities
Tax losses	(99,560)	(229,557)	-	(329,117)	(329,117)	-

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the items below because of uncertainty about the timing of availability of sufficient future taxable profits against which the Company can utilise the benefits there from.

Movement in temporary differences: 2018

2018	Unrecognised balance at 1 January 2018	Unrecognised in profit or loss	Unrecognised balance at 31 December 2018	Recognised in profit or loss
Property and equipment	114,900	74,949	189,849	-
Provision for bad debts	(124,867)	(32,327)	(157,194)	-
BOZ Provision	-	111,435	111,435	-
Provision for tax losses	(1,631,617)	852,969	(778,648)	(170,000)
Other provision	(866)	(24,331)	(25,197)	-
	(1,642,450)	982,695	(659,755)	(170,000)

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for the year ended 31 December 2018

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21. Deferred taxation (continued)

2017	Unrecognised balance at 1 January 2018	Unrecognised in profit or loss	Unrecognised balance at 31 December 2018	Recognised in profit or loss
Property and equipment	112,236	2,665	114,900	-
Provision for bad debts	(64,100)	(60,767)	(124,867)	-
Provision for tax losses	(2,360,067)	728,452	(1,631,617)	(229,557)
Other provision	3,333	(4,200)	(866)	-
	(2,308,598)	666,150	(1,642,450)	(229,557)

22. 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:

	2018	2017
i) Borrowings		
Details of borrowings are disclosed under (note 19)	26,995,537	24,440,713
ii) Interest		
Interest was as follows:		
Interest paid to related parties	1,263,850	3,844,393
Interest due to related parties (note 18)	1,255,643	769,541

iii) Transactions with key management personnel or directors

Key management	2018	2017
Salaries and other short-term employment benefits	2,111,668	1,688,591
Company pension contributions	25,200	22,680
	2,136,868	1,711,271
iv) Directors' fees		
Directors' fees	71,250	16,275

23. Financial assets and financial liabilities

a) The following table provides a reconciliation below line items in the statement of financial position and categories of financial instruments:

Amortised cost	Notes	2018	2017
Financial assets			
Cash and cash equivalent	12	**2,076,668**	5,730,509
Loans and advances to customers	13	**37,364,209**	25,171,108
Total		**39,440,877**	30,901,617

24. Financial assets and financial liabilities (continued)

	2018	2017
Financial liabilities		
Borrowings	**26,995,537**	24,440,713
Other payables	**2,385,040**	1,776,221
Total	**29,380,577**	26,216,934

b) Classification of financial assets and financial liabilities on the date of initial applications of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and new measurement categories under IFRS 9 for financial assets and financial liabilities as at 1 January 2018.

	Notes	Original classification	New classification under IFRS 9	Original carrying amounts	Original carrying amount under IFRS 9
Financial assets					
Cash and cash equivalent	11	Loans and receivables	Amortised cost	5,730,509	5,730,509
Loans and advances	12	Loans and receivables	**Amortised costs**	25,171,108	25,037,576
Financial liabilities					
Borrowings	11	Loans and receivables	Amortised cost	24,440,713	24,440,713
Other Payables	12	Loans and receivables	**Amortised costs**	1,776,221	1,776,221

Based on the above assumption the increase in provisioning in respect to 2017 and which was made as a day 1 adjustment through retained earnings was as table on next page:

The following table summarises the impact of the transaction to IFRS 9 on opening balance of the Retained Earning. There was no impact on other components of equity.

24. Financial assets and financial liabilities (continued)

Retained earnings

Balance under IAS 39

31 December 2017	(18,495,895)
Recognition of expected credit losses under IFRS 9	(133,532)
Related tax	46,736
Balance under IFRS 9 1 January 2018	18,582,691

25. 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 growth 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).

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.

The Company only deposits cash with major companies or banks with high quality credit standing and limits exposure to any one counter-party. 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, taking into account 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.

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk

Financial assets that expose the Company to credit risk at reporting date were as follows:

	Notes	2018	2017
Cash and cash equivalents	12	2,054,712	5,723,261
Other receivables	14	1,702,938	948,507
Loans and advances to customers	13	37,106,859	24,778,121
		40,864,509	31,449,889

Loans and advances are measured on initial recognition at fair value, and are subsequently measured at amortised cost using effective interest rate method.

Loans and advances are summarised as follows:

	Notes	2018	2017
Neither past due nor impaired		37,178,142	24,441,081
Past due 1-29 days		333,180	788,558
Past due 30-59 days		96,111	69,484
Past due 60-89 days		19,782	51,026
Past due 90-119 days		120,567	8,805
Past due >120 days		199,084	16,321
Gross		37,946,866	25,375,275
Provision for impairment		(582,657)	(204,167)
		37,364,209	25,171,108

The ageing of loans and advances at the reporting date was as follows:

31 December 2018	Gross	Impairment	Net
Current 0 – 60 days	37,607,433	(426,162)	37,181,271
Past due over 60 days	339,433	(156,495)	182,938
	37,946,866	(582,657)	37,364,209

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

31 December 2017	Gross	Impairment under IAS 39	Net
Current 0 – 60 days	25,299,123	(149,330)	25,149,793
Past due over 60 days	76,152	(54,837)	21,315
	25,375,275	(204,167)	25,171,108

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.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and the Company has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Concentrations of risk of financial assets with credit risk exposure

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

	2018	2017
Agriculture and allied	1,066,918	17,188,231
Manufacturing, mining and production	116,629	117,141
Trade and services	29,502,653	7,497,321
Other sectors	7,260,666	572,582
	37,946,866	25,375,275

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. During 2018, Agora Microfinance introduced an agricultural lending product for clients whose livelihoods are specifically focused on agriculture. To better classify the risk concentration by livelihoods, the Company now reports only loans disbursed under the Agriculture loan product as belonging to this category.

As at 31 December 2018 the non-performing loans value was **ZMW582,657** and the collateral pledged against it amounted to **ZMW2,412,500.**

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

Amount arising from ECL

IFRS 9 replaced the incurred loss model in IAS 39 with the expected loss model. In this model loss allowance is measured as either:

i) 12 month expected credit losses (ECL)

In this approach, as soon as the asset is purchased 12 month expected credit losses are recognized in the profit and loss and an impairment is established. Interest revenue is recognized on the gross amount without adjustment for credit loss.

ii) Lifetime expected credit loss

The second approach is the life time expected credit loss. This is considered when the credit risk significantly increases and the resulting credit quality is not considered to be low credit risk. Revenue recognition is dependent on whether the asset has been impaired or not. if impaired then revenue is computed on amortized cost but if not impaired then revenue is computed on gross amount.

The Company adopted the 12 month expected credit loss. This was due to the following:

- ✓ The average tenure of the loans given by AMZ is 12months;
- ✓ The loans are not considered to be significantly of high credit risk, based on the performance of the loans in all products offered by AMZ;
- ✓ AMZ offers credit life insurance on its loan facilities hence, there is no loss for deceased clients due to reimbursement by the insurance company. In cases where it has been proved that default has occurred these loans are written off;
- ✓ Individual SME clients have credit life, collateral offered on the loan facilities ranging from movable items to immovable property for bigger loans. These offer additional security for recovery; and
- ✓ Historically AMZ has maintained a high quality loan book, this is anticipated to continue in the future and also maintained for new disbursements. The industry average for provisions is 69%, AMZ provisioning is <2% default rate as at December 2017.

Measurement of ECL

The Company computes ECL as follows:

Expected Credit loss = Probability of Default*Loss given Default*Exposure at Default.

Probability of Default: The Company uses the industry default rate applicable at the point in time of computing the impairment. This rate is obtained from the Bank of Zambia website from the macroeconomic indicators published. The rate can be adjusted depending on Managements judgment on the performance of the Company compared to the sector.

Loss given default: This rate is determined based on historical performance of the loan book. A five year period is considered retrospectively in order to obtain an average of the risk migrations of the individual loans and to determine any significant increase in credit risk for each client and each product. This allows AMZ to obtain a product risk profile that can be applied to new disbursements.

Exposure at Default: This is considered as the actual portfolio expected to be lost once default occurs. This has been taken as the actual outstanding portfolio as at a particular review date.

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

Assumption used to Estimate Impairment

The Company uses a number of assumptions to estimate the impairment due to the increase in the risk of default on a financial instrument since initial recognition. It considers reasonable and supportable information that is relevant and readily available. The information includes historical performance of the loans, expert credit assessments as well as forward looking information. Some macroeconomic indicators are considered to provide a base for the performance of the industry and indeed the various sectors of the economy. Information used includes:

- ✓ Internally collected data on customer behavior or willingness to pay including overdue status
- ✓ Existing and forecast changes in business, financial and economic conditions
- ✓ Actual and expected significant changes in the political, regulatory and technical environment of the borrower or in its business activities
- ✓ The published macroeconomic indicators from the central bank

The Company has adopted a product risk approach to determine and manage its credit risk. Agora microfinance offers Group lending, and MSME lending. These loan products are assessed separately within the context of the market performance. Currently Agora's larger portfolio is in Group lending and this portfolio is performing well due to the robust system for client assessment and the three tier group guarantee.

Definition of default

Loans are considered to be in default if the below conditions are met:

- ✓ The loan has not been services for more than 120 days
- ✓ The borrower is unlikely to pay its credit obligations without recourse by Agora to action such as releasing collateral
- ✓ There is evidence of death or loss of business by the client

Significant increase in credit risk

Significant increase in credit risk for each loan is determined by assessing the days past due from the time the repayment was due to the reporting date. Loans not repaid for more than 30 days are considered to be non-performing, while loans not repaid for more than 120 days are considered to be in default and hence proposed for write off if it is deemed that they would not be recovered.

Management ensures that increase in credit risk is regularly monitored before an exposure is in default. Average time between identification of significant increase in credit risk and time of default is one month and is considered to be reasonable.

The exposures are not generally transferred from 12 month ECL to impaired hence movement between Stage 1 and Stage 2 is considerably negligible.

Incorporation of forward looking information

Forward looking information is incorporated by considering the credit risk of a particular product. A number of economic factors are identified as key drivers for credit risk. These include interest rates, inflation, growth domestic products (GDP), relevant commodity or real estate prices (fuel, rentals), purchasing power of the local currency, unemployment rates (indirect),natural disasters (burning down of markets, accidents) mostly affecting the Micro Small and Medium Enterprise Sector.

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.

Concentration risk

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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2018

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(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.

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.

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.

31 December 2018	Carrying amount	Gross nominal outflows	Less than 1 year	Between 1 – 2 years
Liabilities				
Borrowings	26,995,537	28,251,180	9,282,980	18,968,200
Other payables	3,619,499	3,619,499	3,619,499	-
Total liabilities	30,615,036	31,870,679	12,902,479	18,968,200

31 December 2017	Carrying amount	Gross nominal outflows	Less than 1 year	Between 1 – 2 years
Liabilities				
Borrowings	24,440,713	25,210,256	13,319,187	11,891,069
Other payables	1,776,221	1,776,221	1,776,221	-
Total liabilities	26,216,934	26,986,477	15,095,408	11,891,069

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

Notes to the Financial Statements (continued)

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk

Market risk is the risk that 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 bank base rates and Company onward lending rates. Management monitors the movement in the commercial banks base rates 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.

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

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

31 December 2018	Interest rate	Carrying amount	Less than 3 months	3-12 months	1-5 years
Cash and cash equivalents	N/A	2,076,668	2,076,668		
Loans and advances to customers	Fixed	37,364,209	4,690,618	30,841,231	1,832,360
Other receivables	N/A	2,679,184	107,745	2,571,439	-
Total assets		42,120,061	6,875,031	33,412,670	1,832,360
Other payables	N/A	3,619,499	1,425,149	2,194,350	-
Borrowings	Variable	26,995,537	2,010,452	6,016,885	18,968,200
Total liabilities		30,615,036	3,435,601	8,211,235	18,968,200
Interest rate gap		11,505,025	3,439,430	25,201,435	(17,135,840)

The 1-5 years negative interest rate gap of **ZMW 17,135,840** is covered by the assets maturing in the less than 12 months, which are reinvested in the core business of lending to clients.

Exposure to interest rate risk – non-trading portfolios

31 December 2017	Interest rate	Carrying amount	Less than 3 months	3-12 months	1-5 years
Cash and cash equivalents	N/A	5,730,509	5,730,509	-	-
Loans and advances to customers	Fixed	25,171,108	5,784,241	15,804,311	3,582,556
Other receivables	N/A	948,507	124,374	824,133	-
Total assets		31,850,124	11,639,124	16,628,444	3,582,556
Other payables	N/A	1,776,221	1,006,681	769,540	-
Borrowings	Variable	24,440,713	3,641,578	9,212,174	10,413,039
Total liabilities		26,216,934	4,648,259	9,981,714	10,413,039
Interest rate gap		5,633,190	6,990,865	6,646,730	(6,830,483)

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk

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

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

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

31 December 2018	EURO (ZMW equivalent)	USD (ZMW equivalent)	ZMW	Total
Assets				
Cash and cash equivalents	47,325	23,110	2,006,233	2,076,668
Other receivables	-	135,751	2,044,316	2,180,067
Total assets	47,325	158,861	4,050,549	4,256,735
Liabilities				
Other payables	127,501	-	3,491,998	3,619,499
Borrowings	520,196	-	26,475,341	26,995,537
Total liabilities	647,697	-	29,967,339	30,615,036
Net exposure	(600,372)	158,861	(25,916,790)	(26,358,301)

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25. Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk

31 December 2017	EURO (ZMW equivalent)	USD (ZMW equivalent)	ZMW	Total
Assets				
Cash and cash equivalents	1,975,103	30,848	3,724,558	5,730,509
Other receivables	-	10,509	937,998	948,507
Total assets	1,975,103	41,357	4,662,556	6,679,016
Other payables	-	(141,357)	(1,634,864)	(1,776,221)
Borrowings	(2,949,028)	-	(21,491,685)	(24,440,713)
Total liabilities	(2,949,028)	(141,357)	(23,126,549)	(26,216,934)
Net exposure	(973,925)	(100,000)	(18,463,993)	(19,537,918)

The following significant exchange rates were applied during the period.

	Average rate		Spot rate	
	2018 USD	2017 USD	2018 EURO	2017 EURO
	10.50	9.48	11.77	9.91

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25. Financial instrument fair value and risk management (continued)

Financial risk management (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 2017.

		Profit and loss	
2018 USD	2017 USD	2018 EURO	2017 EURO
15,886	10,000	(60,037)	97,393

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 are 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.

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25. Financial instrument fair value and risk management (continued)

Accounting classifications and fair values

(c) Market risk (continued)

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

2018	Loans and receivables	Amortised cost	Other liabilities	Carrying amount	Fair value
Assets					
Cash and cash equivalents	2,076,668	-	-	2,076,668	2,076,668
Loans and advances to customers		37,946,866	-	37,946,866	37,946,866
Other receivables	2,679,184	-	-	2,679,184	2,679,184
Total assets	4,755,852	37,946,866	-	42,702,718	42,702,718
Liabilities					
Other liabilities	-	-	3,619,499	3,619,499	3,619,499
Borrowings	-	26,995,537	-	26,995,537	26,995,537
	-	26,995,537	3,619,499	30,615,036	30,615,036

2017	Loans and receivables	Amortised cost	Other liabilities	Carrying amount	Fair value
Assets					
Cash and cash equivalents	5,730,509		-	5,730,509	5,730,509
Loans and advances to customers	-	25,171,108	-	25,171,108	25,171,108
Other receivables	1,478,205	-	-	1,478,205	1,478,205
	7,208,714	25,171,108	-	32,379,822	32,379,822
Liabilities	-	-	1,776,221	1,776,221	1,776,221
Other payables	-	24,440,713	-	24,440,713	24,440,713
Borrowings	-	24,440,713	1,776,221	26,216,934	26,216,934

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26. 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

		2018	2017
I Primary (Tier 1) capital			
(a)	Paid-up common shares	28,913,710	23,663,340
(b)	Share premium	3,110,380	2,511,300
(c)	Retained earnings	(17,055,418)	(18,495,895)
(d)	Sub-total A (items a to d)	14,968,675	7,678,745
	Less		
(e)	Goodwill and other intangible assets	(871,634)	(118,958)
(f)	Assets pledged to secure liabilities	-	-
(g)	**Sub-total B (items d to f)**	14,097,041	7,559,787
(h)	**Total primary capital**	14,097,041	7,559,787
III	**Eligible secondary capital**		
	(The maximum amount of secondary capital is limited to 100% of primary capital)	-	-
IV	**Eligible total capital (I (g) + III)**	14,097,041	7,559,787
	(Regulatory capital)	-	-
V	**Minimum total capital requirement**		
	15% total on and off balance sheet risk - weighted assets	(6,771,423)	(4,196,273)
VI	**Excess** (IV minus V)	7,325,618	3,363,514

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27. Capital commitments

There were no material capital commitments as at 31 December 2018 (2017: Nil).

28. Contingent liabilities

There were no material contingent liabilities as at 31 December 2018 (2017: Nil).

29. Subsequent events

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

30. Basis of measurement

The financial statements have been prepared on the historical cost basis.

31. 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 instruments
e) Taxation
f) Impairment
g) Employee benefits
h) Provisions and contingencies
i) Revenue
j) Borrowing costs
k) Grant income recognition

(a) 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.

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31. Significant accounting policies (continued)

(a) Equipment (continued)

(iii) Depreciation (continued)

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

Item	Average useful life
Fixtures, 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

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.

(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 instruments

Non-derivative financial assets and liabilities

i) Recognition and initial measurement

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair values through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

ii) Classification

The Company classifies non-derivative financial assets into the following categories: loans and receivables and amount due from related parties.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised costs using the effective interest method; less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

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31. Significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Classification (continued)

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.

Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including financial liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which the date that the Company becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified as measured at: amortised cost.

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 cash flows that are SPPI.

Assessment whether contractual cash flows are solely payments of principal and interest

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).

iii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that is created or retained by the Company is recognised as a separate asset.

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

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

iv) 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 has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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31. Significant accounting policies (continued)

(e) Tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(f) Impairment

(i) Non- derivative financial assets

A financial asset not classified at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) on a specific asset level. All individually significant assets are assessed for specific impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) 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.

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31. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Non-financial assets (continued)

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.

(g) Employee benefits

All employees are members of the National Pension Scheme Authority to which both employees and the Company contribute. During 2018, the Company operated a mandatory private pension scheme with Madison Life Insurance through the Madison Pension Trust Fund. 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.

(h) 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.

(i) Revenue

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.

(ii) Revenue (continued)

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.

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31. Significant accounting policies (continued)

(g) Employee benefits(continued)

(ii) Revenue (continued)

Amortised cost and gross carrying amount

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

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

- Other fees and commission income, including monthly service fees, administration and management fees, are recognised as the related services are performed.
- Dividends are recognised, in profit or loss, when the Company's right to receive payment has been established.

(j) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

(k) Grant income recognition

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it recognised as income in equal amounts over the expected useful life of the related asset.

32. Standards issued but not yet adopted

A. IFRS 16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Notes to the Financial Statements (continued)

for the year ended 31 December 2018

In Zambian Kwacha

32. Standards issued but not yet adopted (continued)

A. IFRS 16 Leases (continued)

Transition

As a lessee, the Company can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company currently plans to apply IFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply.

Impact analysis

The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

Leases in which the Company is a lessee

The Company has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The Company will recognise new assets and liabilities for its operating leases of branch and office premises (see Note 43.8). The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of- use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

No significant impact is expected for the Group's finance leases.

Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company will have a balance sheet increase in lease liabilities and right-of-use assets on adoption of IFRS 16.

B. Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

– Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
– Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
– Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
– IFRIC 23 Uncertainty over Income Tax Treatments
– Amendments to References to Conceptual Framework in IFRS Standards
– IFRS 17 Insurance Contracts

**Some table numbering has been corrected from the signed Audited Financial Statements*

Details of Operating Expenditure

for the year ended 31 December 2018

In Zambian Kwacha

	As on 31 December 2018	As on 31 December 2017
Advertising and branding	2,000	-
Audit fees	336,000	291,700
Bank charges	187,729	129,463
Computer expenses	28,588	31,751
Consultancy fees	266,212	-
Depreciation and amortisation	674,949	423,983
Disposal of fixed asset	(1,800)	(36,397)
Directors' fees	71,250	16,275
General expenses	2,975,901	1,376,754
Insurance	75,703	47,598
Licensing expenses	147,348	92,679
Medical expenses	231,780	175,936
Office expenses	117,380	76,490
Professional fees	1,739,468	1,315,181
Recruitment and training	27,700	500
Rent	606,284	374,032
Repairs and maintenance	316,665	223,845
Salary and wages	7,236,505	5,278,625
Security expenses	340,445	198,660
Stationery	125,030	83,445
Telephone expenses	128,518	95,134
Travel – local	279,288	136,388
Travel – foreign	133,658	81,302
Total expenses	16,046,601	10,413,344

AGORA MICROFINANCE ZAMBIA

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