AMZ

AGORA MICROFINANCE ZAMBIA

Annual Report 2016

Contents

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.

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 services 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

It is a matter of great satisfaction and quite some pride to report on a year where AMZ successfully turned profitable, the culmination of a turnaround process that lasted almost 2 years. During 2016 its performance was further aided by a stable currency and a generally improving economic outlook. This, the first full year of profits in the short history of AMZ, is a significant milestone by all accounts and well ahead of generally understood market benchmarks on time to break-even as well as scale to break-even.

Our loan customers and the loan book both doubled in size during the year, with the Company all this while maintaining NPL levels of below 0.5%. I can say with some confidence that the strengthening of processes in the institution have resulted in high levels of quality control, which reflect in the strong financial and operational indicators of the Company. Operations now extend to 6 branches, with the addition of our 5th rural branch in Chongwe and an urban m-SME branch in Lusaka.

We made a concerted and a successful push during the year on many new fronts to diversify our rural lending portfolio. Digital payment services were introduced in partnership with mobile operators, a micro-SME loan book was initiated first in Lusaka and then in provinces, small-group loans were introduced in markets, and digital loan processing through the use of a software application on tablets was introduced.

Zambia presents huge opportunities for our young operation. In addition to significant potential for a national level scaling up, we see immense promise in expanding the range of products that rural Zambians can access today. With the advent of cheaper payment technologies, especially those linked to mobile phone banking, we can gain the much needed efficiency to offer products and services at more competitive prices than ever before. In the coming years we look to continue our efforts in this direction, and will aim to slowly prepare ourselves for a deposit license as we continue to grow and develop a range of non-credit products.

This year we bid an emotional farewell to our CEO Olga Torres, who left Zambia owing to other family reasons. Olga played a pivotal role in AMZ and we were sorry to see her go. What was a bigger shock and of immense grief for all of us was to learn later on that Olga Torres soon passed away in 2017, while living in Colombia. We mourn her loss, and resolve to bring AMZ to the success she strived for and which it deserves.

Abduqodir Sattorov (Abdu) was appointed CEO at the end of July 2016, and immediately hit the ground running. Abdu has already had a strong impact on AMZ, and his overall leadership but especially of the new product lines (such as the m-SME business) has been a key contribution to the Company in his short time. We welcome Abdu and wish him all success at AMZ.

Thanks are also due to the commendable performance of the management and staff of AMZ for this successful year, and on behalf of the board and the shareholders, I congratulate them and hope for their continued success in the years to come.

Tanmay Chetan
Chairman

CEO's Report

2016 was a good year for AMZ as the organization was able to transform itself from a loss making institution to a profitable one, even if the profit recorded for the year was small. This recovery was made possible through the efficiency in operations, an excellent portfolio quality and reduced operating costs.

AMZ made a profit of ZMW 0.11 million in 2016 which was a significant improvement from the recorded loss of ZMW 3.18 million in 2015. The 2016 performance was as a result of the organizational restructuring that began in 2014 and concluded by March 2015. AMZ significantly reduced the operating costs, invested in training of its operations staff and focused on the use of technology (tablets) for client cash flow assessments. In 2016, the portfolio grew by more than 50% during the year, from ZMW 7.7 million in 2015 to ZMW 14.2 million in 2016. The quality of the portfolio remained excellent as PAR1 and PAR30 remained at less than one percent throughout the year. AMZ closed the year with almost 15,000 active clients in the 6 branches of operation with the Lusaka branch operating from Head Office. It is also notable that in 2016, all the branches of AMZ remained individually profitable throughout the year.

The use of technology (tablets) in client cash flow assessment was one of the key highlights for 2016, as it not only helped in reducing the amount of time spent on data collection from individual clients , but it also significantly reduced the need for large amounts of paper documentation to record this information. This also helped in reducing printing and stationery costs for the institution. During the coming year, AMZ plans to grow further by widening its product range. It aims to achieve this through a full launch of its micro-insurance product, introduction of Micro and Small Medium Enterprise (MSME) loans, and Small Group Business (SGBL) loans. As part of the AMZ diversification plan, a Mobile Money Agency business is planned in 2017 in all of its branches.

AMZ also plans on opening two additional branches in 2017, in the regions of Lusaka and Chongwe. The Lusaka branch will focus on targeting MSME clients while the branch in Chongwe will focus on rural clients with group loans.

AMZ also aims to commence work on a pilot to digitize the loan application process. This digitization will include the recording of collections (loan repayments) and disbursements through tablets. The setting up of Internal Controls department is another priority for AMZ as we project growth in 2017. It is our aim to bring in an experienced Internal Controls Manager to our team, in order to support the growing operations.

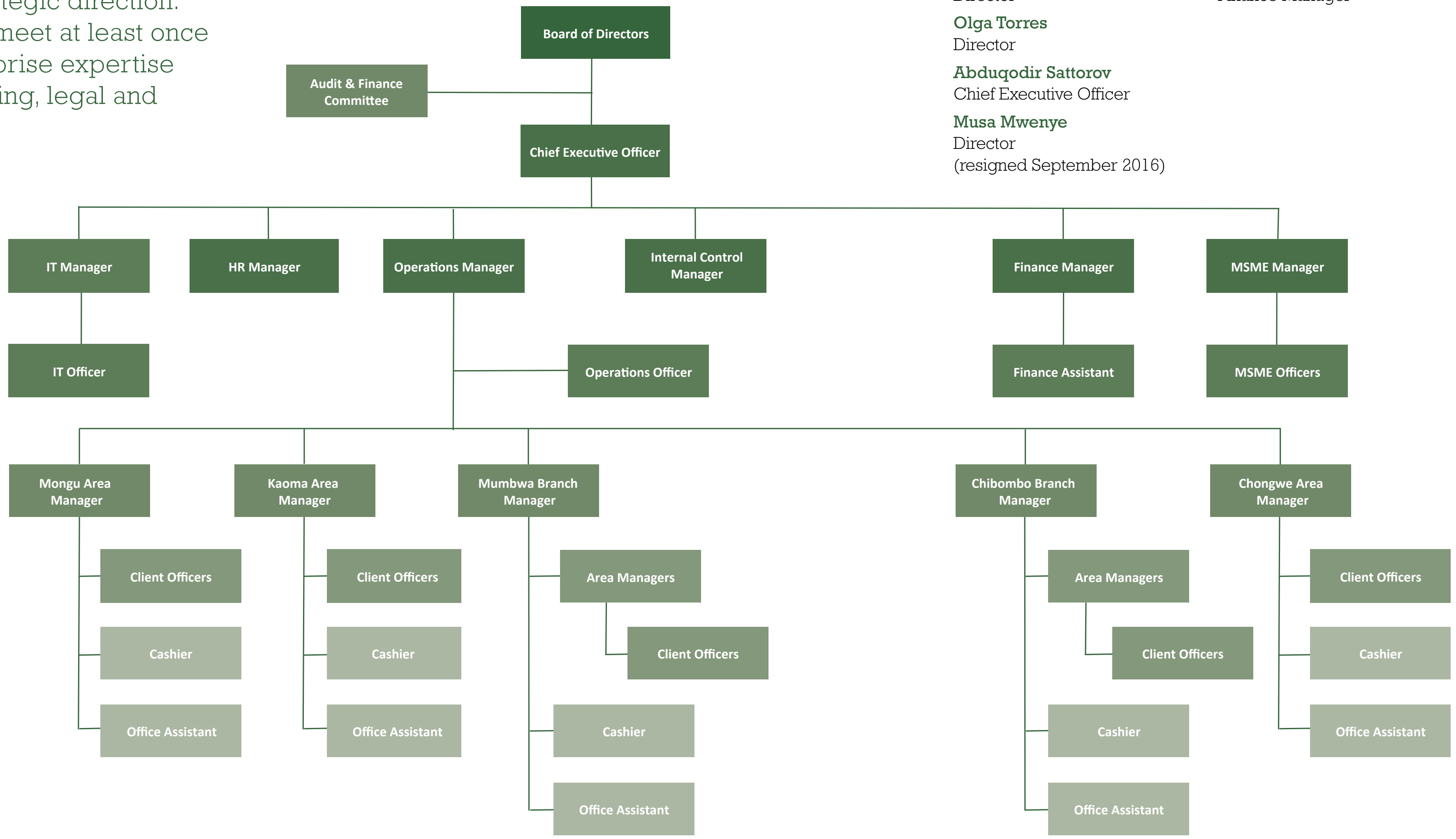
I would like to sincerely thank my predecessor Olga Torres (with heartfelt condolensces at this tragic loss), for all the work that was done in AMZ prior to my arrival. Much of what was achieved in 2016 was due to the hard work and dedication of the team led by Olga. I would also like to thank the board Chairperson Tanmay Chetan and all the other members of the board for their trust and support, which has enabled me to lead AMZ onto a prosperous 2017. I would also like to thank the funders and lenders, who have remained committed to supporting AMZ, as we look to further grow and diversify our offering.

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 comprise 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 6 branch/sub-branch locations.



Board of Directors

Tanmay Chetan
Chairperson

Glenda Mazakaza
Director, Chair AFC

Rebecca McKenzie
Director

Maluba Wakung'uma
Director

Olga Torres
Director

Abduqodir Sattorov
Chief Executive Officer

Musa Mwenye
Director
(resigned September 2016)

Senior Management

Abduqodir Sattorov
Chief Executive Officer

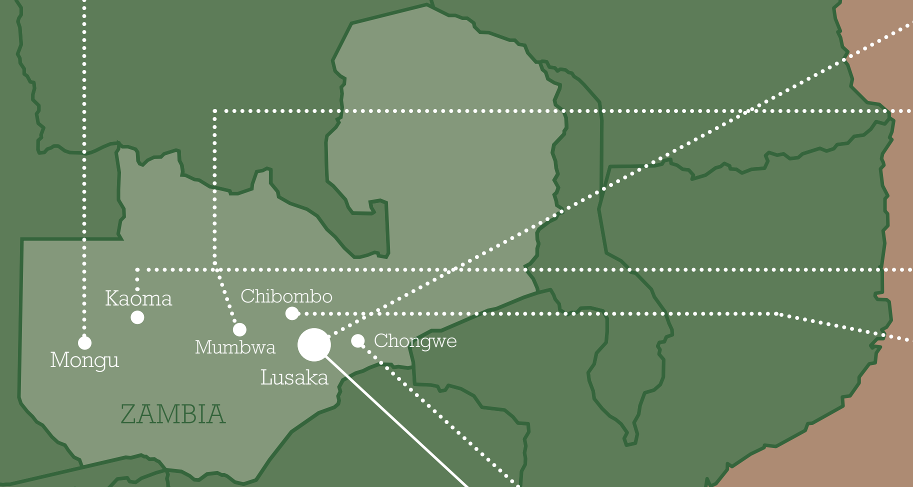
O'Brein Njebe
Operations Manager

Samba Kapambwe
Human Resource Officer

Susan Chibanga
Finance Manager

Areas of Operations

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



Lusaka, Head Office
First Floor, Mama Betty Building
Suite 112
Foxdale Court Office Park
609 Zambezi Road
Roma, Lusaka
info@agoramicrofinance.co.zm
Tel: +260 211 847838

Branches:

Lusaka
Shop No. 22A, Kanele Mall
Kafue Road
Lusaka
Telephone: +260 955 628 490
Opening Hours:
Monday - Friday 8:00 - 17:00

Mongu
P.O. Box K104
Mubonda House, Independence Road
Telephone: +260 217 221262
Opening Hours:
Monday - Friday 8:00 - 17:00

Mumbwa
Plot #269, New Bus Station Road
Telephone: +260 211 800003
Opening Hours:
Monday - Friday 8:00 - 17:00

Kaoma
P.O. Box 170
Plot # 1762, Church Road
Telephone: +260 217 360127
Opening Hours:
Monday - Friday 8:00 - 17:00

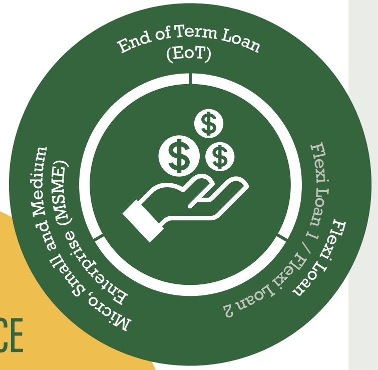
Chibombo
Along Great North Road,
Plot No. 11, New Boma
Opening Hours:
Monday - Friday 8:00 - 17:00

Chongwe
Shop 5, plot 8958 / M
Great East Road
Chongwe
Telephone: +260 950 846134
Opening Hours:
Monday - Friday 8:00 - 17:00

Products & Services

AMZ's products and services are targeted at rural households previously excluded from formal financial service provision, predominantly due to poverty or location. Through our "finance on your doorstep" philosophy, which allows our staff to visit clients near their homes, rural communities are provided with these previously inaccessible products and services. These communities, organised into groups called Village Banks, act to mutually guarantee the unsecured individual loans of all members as many households either lack or cannot risk suitable assets as collateral for their loans.

AMZ's products are designed to match a variety of rural livelihoods, special financial needs and cash flow patterns of target clients. Whilst we currently have 3 categories of products, new offerings are in development and will be available to clients in 2017. We are constantly aiming to increase our product range with a wider variety of loans, as well as seeking a deposit-taking licence in the future.



THROUGH OUR "FINANCE ON YOUR DOORSTEP" PHILOSOPHY, WHICH ALLOWS OUR STAFF TO VISIT CLIENTS NEAR THEIR HOMES, RURAL COMMUNITIES ARE PROVIDED WITH THESE PREVIOUSLY INACCESSIBLE PRODUCTS AND SERVICES.

End of Term Loan (EoT)

This loan is aimed at predominantly farming households with seasonal cash flows to stimulate agribusiness activities. This product does not require physical collateral and is guaranteed by the Village Bank and offers a term of up to 12 months. Each member of the Village Bank is offered the same terms.

Flexi Loan

Flexi Loan 1

This loan is aimed at households with more stable businesses and flexible cash flows. These clients include farming and non-farming households with consistent daily, weekly and monthly cash flows. As with the EoT loan, this product does not require physical collateral and is guaranteed by the Village Bank. Repayments allow for flexibility according to the cash flow patterns of the business and the maximum term is 12 months.

Flexi Loan 2

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.

Micro, Small and Medium Enterprise (MSME)

This loan is aimed at small and medium enterprises with a monthly cashflow. These clients can include individuals and businesses. All loans in this category are secured by both guarantor(s) and collateral (movable and immovable assets) and the maximum term is 36 months.

Operational & Financial Highlights

4
Branches 2014

4
Branches 2015

6
Branches 2016

263
No of Village Banks 2014

261
No of Village Banks 2015

322
No of Village Banks 2016

7,381
Clients 2014

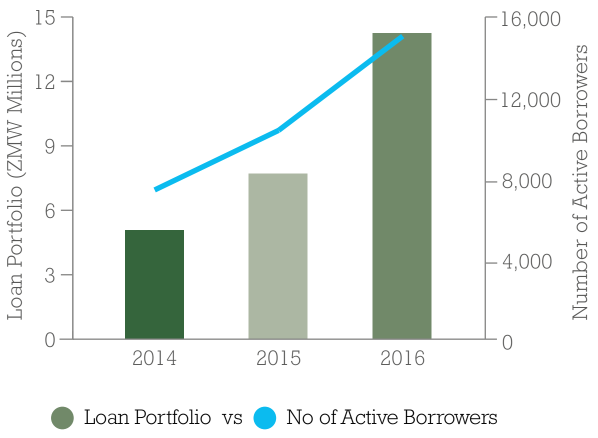
10,330
Clients 2015

14,989
Clients 2016

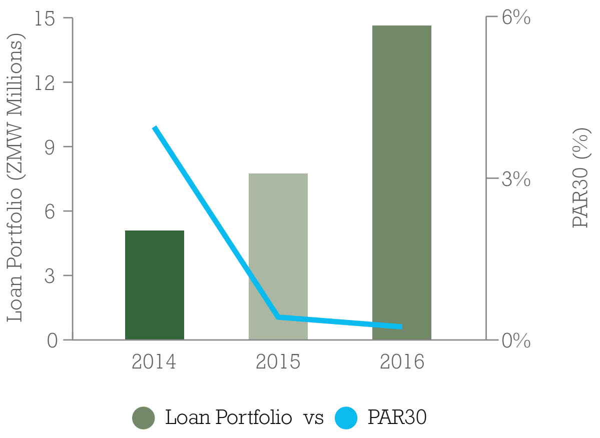
Operational & Financial Highlights

Description	2014	2015	2016
No of Branches	4	4	6
No of Village Banks	263	261	322
Number of Active Borrowers	7,381	10,330	14,989
- Women Borrowers (%)	55%	58%	62%
- No of Rural borrowers (%)	70%	74%	85%
Loan Portfolio (USD)	788,045	701,272	1,453,760
Loan Portfolio (ZMW)	5,066,839	7,714,767	14,246,848
PAR 30 Days	3.94%	0.41%	0.23%
Average Loans Outstanding (USD)	107	72	96
Average Loans Outstanding (ZMW)	686	747	950
Average Loans Outstanding / Estimated GNI per capita	6%	5%	7%

Loan Portfolio vs No of Active Borrowers



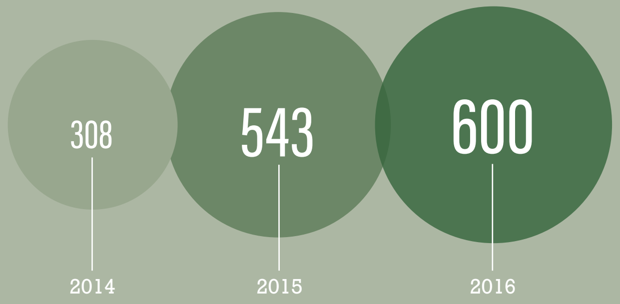
Loan Porfolio vs PAR30



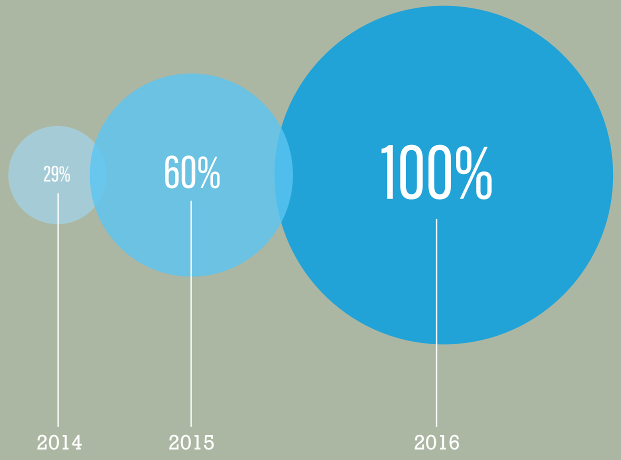
Financial Ratios		2014	2015	2016
Interest Yield Ratio		41.66%	46.26%	44.42%
Loan Fee Income Ratio		14.77%	19.47%	37.80%
Portfolio Yield		**56.43%**	**65.73%**	**82.22%**
Provision Expense Ratio		13.14%	1.79%	0.25%
Financial Cost Ratio		16.46%	11.85%	16.58%
	Total	**29.60%**	**13.64%**	**16.82%**
Personnel Cost Ratio		96.53%	51.29%	32.33%
Personnel/Total costs		48.07%	41.23%	36.67%
Admin Cost Ratio		74.68%	59.46%	39.01%
	Total Operating Cost Ratio	**171.21%**	**110.75%**	**71.34%**
	Total Expense Ratio	**200.81%**	**124.39%**	**88.16%**
Margin Analysis/Avg Portfolio		-144.39%	-58.66%	-5.94%
Return on Total Assets		-103.96%	-39.39%	0.81%
Operating Self Sufficiency (OSS)		28.93%	60.17%	100.07%
Debt/Equity		2.07	1.98	3.07
Capital Adequacy		41.80%	39.30%	22.25%

* note for 2014 total equity and liabilities have been adjusted by the amount of subordinated debt ZMW 1,862,900

Clients per Client Officer

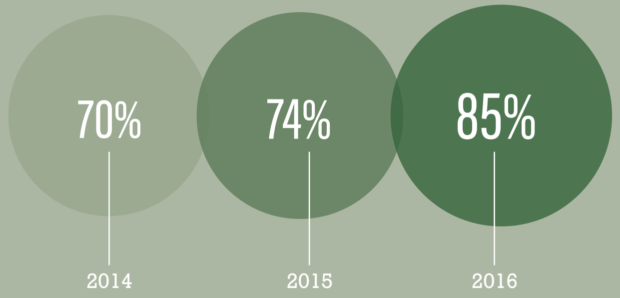


Operating Self Sufficiency

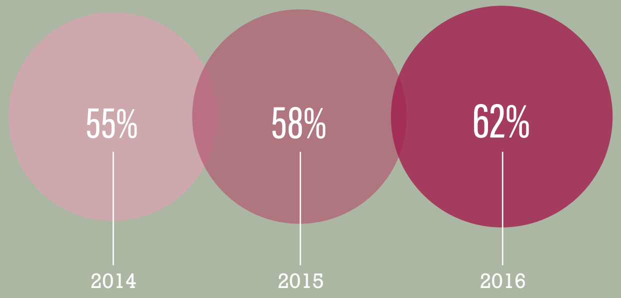


Outreach

Rural clients



Women clients



AMZ Key Initiatives 2017

AMZ started 2017 on a strong footing, having turned profitable since the beginning of Q3 2016.

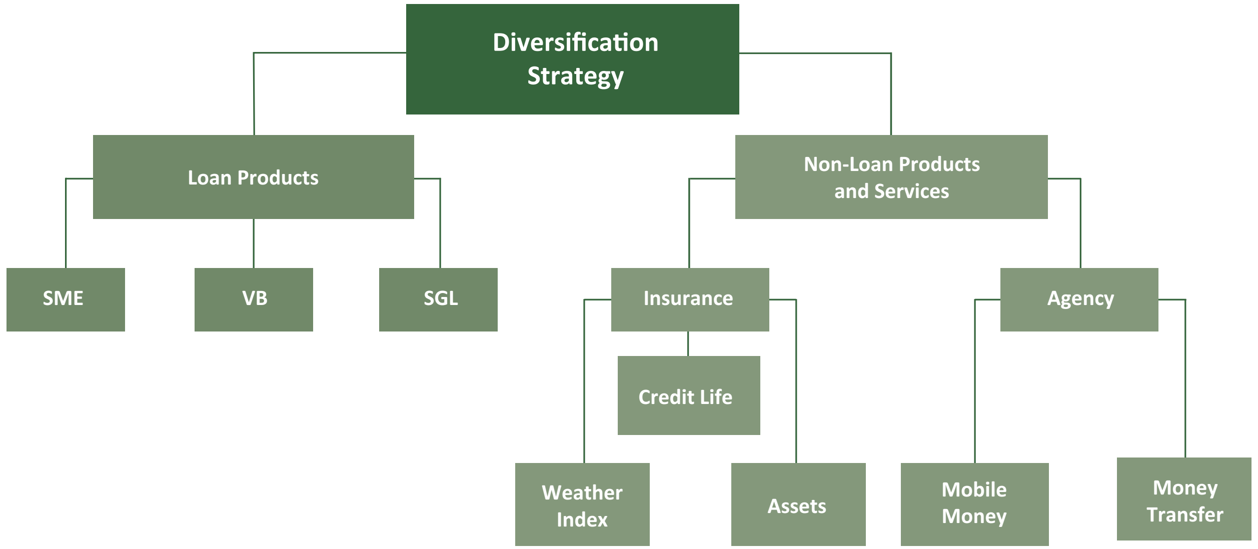
While we build up our portfolio of small loans to farm based families, we are also working on attaining both scale as well as diversification. Optimum scale will lead to consistent commercial viability in operations whereas diversification into other products and market segments will protect the operations from seasonality and volatility inherent in the farming cycles of our clients.

Therefore, the management is putting substantial emphasis into expansion (through opening of new branch offices) as well as diversification (through new products such as MSME loans, small group loans and mobile money services). Two new branches are planned in Lusaka and Chongwe as part of the physical expansion plan, whereas partnerships with mobile phone companies are being explored for money transfer services. In addition AMZ will be adding new loan products and exploring micro-insurance for its customers as part of this strategy during 2017.

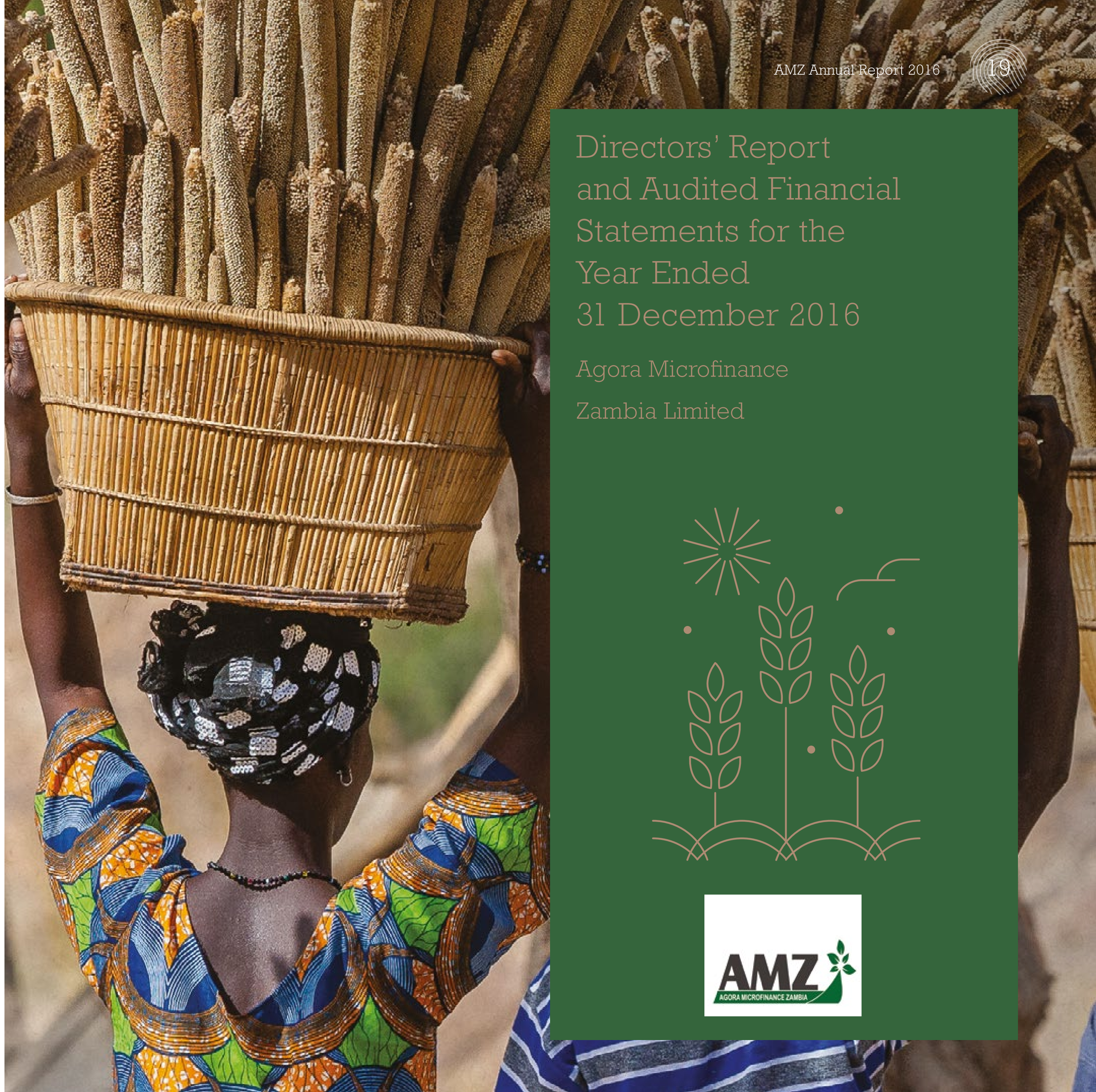
Diversification strategy chart

The below chart summarizes the big picture of the Diversification Strategy for the 2017, which consists of 2 pillars:

1. **Diversification of Loan Products**
   - Introduction of new Small Group Business(SGB) Loan Product
   - MSME Roll Out in all AMZ branches
2. **Diversification of Non-Loan products and services**
   - Introduction of the Mobile Money Agency Business
   - Introduction of Insurance Products



Therefore we expect to move fast towards this **Diversification Strategy** during 2017, and introduce a new range of products and services to better meet our customers' needs.



Directors' Report and Audited Financial Statements for the Year Ended 31 December 2016

Agora Microfinance Zambia Limited

Directors' report

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 2016.

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
Stand 6085
PO Box 745 Post Net
Chituli Road, Northmead
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 2,310,000 with a par value of K10 per share.

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

4. Results for the year

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

	2016 ZMW	2015 ZMW
Interest income	4,877,291	2,956,576
Profit/(loss) before income tax	7,246	(3,171,275)
Income tax credit/(expense)	99,560	(6,723)
Profit/(loss) for the year	106,806	(3,177,998)

5. Dividends

The Directors do not propose a dividend to be declared in respect of the 2016 financial year.

6. Directors' and secretary

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

Directors

Tanmay Chetan	Chairperson
Maluba Wakung'uma	Director
Rebecca Mckenzie	Director
Glenda Mazakaza	Director
Olga Torres	Director
Abduqodir Sattorov	Director/CEO
Musa Mwenye	Director (Resigned 6 September 2016)

Company Secretary

Abduqodir Sattorov (Appointed 13 September 2016)

7. Directors' remuneration

The total spent on director's fees during the year was ZMW 17,125 (2015: ZMW 15,500) as disclosed in note 21 of the financial statements.

Directors' report (Continued)

8. Average number and remuneration of employees

Total employee benefits expense for the year was ZMW 3,549,975 (2015: ZMW 3,277,857) as disclosed in note 9 of the financial statements. The average number of employees throughout the year was 45 (2015:49).

9. Gifts and donations

A memorandum of understanding for Technical Assistance was signed with Grameen CredirAgricole in July 2015. Under the agreement, Grameen Credit-Agricole a Paris based microfinance investor shared the costs of an MIS upgrade and a key management personnel remuneration. Income recognised totalled ZMW 557,812 for the year (2015: ZMW 201,125).

10. Property and equipment

The company acquired equipment with value of ZMW 782,980 (2015: ZMW 350,833). As disclosed in notes 15 and 16 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 (2015: 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 18 to the financial statements. Additionally, the remuneration of key management personnel is also disclosed at note 21 to the financial statements.

13. Prohibited borrowings or lending

There were no prohibited borrowings during the year (2015: Nil).

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

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

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 an Audit and Finance Committee.

Board Committees

During the 19 December 2015 meeting, the Board members approved that Committees' agendas would be merged with the Board of Directors' main agenda until the company grows enough to warrant separate agendas.

Audit and Finance Committee (AFC)

The AFC met 3 times during 2016. Membership of the Board's AFC during the year was as follows:

Glenda Mazakaza	Chairperson
Rebecca McKenzie	Member
Tanmay Chetan	Member

Auditors

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

By order of the Board

Company Secretary

10 March 2017

Directors' Responsibilities

Directors' responsibilities in respect of the preparation of financial statements

The Company's directors are responsible for the preparation and fair presentation of the financial statements of Agora Microfinance Zambia Limited ("the Company"), comprising the statements of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with 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 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 are fairly presented 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 March 2017 and are signed by:

Director	Director
Tanmay Chetan	Maluba Wakung'uma

Independent Auditor's Report

To the shareholders of Agora Microfinance Zambia Limited
Report on the audit of the Financial statements

Opinion

We have audited the financial statements of Agora Microfinance Zambia Limited ("the Company') set out on pages 27 to 60 which comprise the statement of financial position as at 31 December 2016, 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 present fairly, in all material respects, the financial position of Agora Microfinance Zambia Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, 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), together with the ethical requirements that are relevant to our audit of the financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The prior year financial statements of Agora Microfinance Zambia Limited for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion in their report dated 27 April 2016.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, Directors' responsibilities in respect of the preparation of financial statements, Schedule I: Profit and loss account, Schedule II: Financial position and Schedule III: Details of operating expenditure. The other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.

Independent Auditor's Report

Auditor's responsibilities for the audit of the financial statements

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

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

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

  Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

In accordance with Section 173 (3) of the Companies Act of Zambia, we report that, in our opinion, the required accounting records, and registers have been properly kept in accordance with the Act.

In accordance with Section 64 (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 of this Act and the regulations, guidelines and prescriptions under this Act; and
- there were no non-performing or restructured loans owing to the Company whose principal amount exceeds 5% of the Company's regulatory capital.

KPMG Chartered Accountants
Cheelo Hamuwele
Audit Principal

20 March 2017

Statement of Financial Position

as at 31 December 2016

		31-Dec-16 ZMW	31-Dec-15 ZMW
Assets			
Cash and cash equivalents	11	1,280,244	1,410,123
Loans and advances to customers	12	14,539,455	6,918,886
Other receivables	13	461,799	278,810
Property and equipment	15	846,018	472,192
Intangible assets	16	171,296	44,692
Deferred tax assets		99,560	-
Total assets		**17,398,372**	9,124,703
Liabilities			
Other payables	17	823,741	391,668
Income tax payable	19(c)	-	6,723
Borrowings	18	12,301,016	5,659,503
Total liabilities		**13,124,757**	6,057,894
Equity			
Share capital	14	23,100,000	22,824,640
Share premium		824,640	-
Accumulated losses		(19,651,025)	(19,757,831)
Total equity		**4,273,615**	3,066,809
Total equity and liabilities		**17,398,372**	9,124,703

These financial statements were approved by the Board of Directors on 10 March 2017 and were signed by:

Director
Tanmay Chetan

Director
Maluba Wakung'uma

The notes on pages 31 to 60 are an integral part of these financial statements.

Statement of Profit and Loss and other Comprehensive Income

for the year ended 31 December 2016

		2016 ZMW	2015 ZMW
Interest and income	5	4,877,291	2,956,576
Interest expense	7	(1,820,289)	(757,225)
Net interest income		**3,057,002**	2,199,351
Fee income	6	4,333,919	1,249,667
Net trading income		**7,390,921**	3,449,018
Other income	8	587,986	257,908
Impairment losses on loans and advances	12	(27,152)	(114,653)
Operating income		**560,834**	143,255
Finance income		207,042	386,644
Finance cost		(317,798)	(72,378)
Net finance income	10	**(110,756)**	314,266
Operating expenses	9	**(7,883,753)**	(7,077,814)
Profit/(loss) before income tax	19(a)	7,246	(3,171,275)
Income tax credit/(expense)		**99,560**	(6,723)
Profit/(loss) after tax		106,806	(3,177,998)
Other comprehensive income		-	-
Total comprehensive income		**106,806**	(3,177,998)

There were no items of other comprehensive income during the year (2015: nil).

The notes on pages 31 to 50 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2016

	Share Capital ZMW	Share Premium ZMW	Accumulated losses ZMW	Total ZMW
Balance at 1 January 2015	17,000,000	-	(16,579,833)	420,167
Total comprehensive income for the year				
Loss for the year	-	-	(3,177,998)	(3,177,998)
Transactions with owners recognised directly in equity				
Shares issued	5,824,640	-	-	5,824,640
Balance at 31 December 2015	22,824,640	-	(19,757,831)	3,066,809
Balance at 1 January 2016	**22,824,640**	**-**	**(19,757,831)**	**3,066,809**
Total comprehensive income for the year				
Profit for the year	-	-	106,806	106,806
Transactions with owners recognised directly in equity				
Shares issued	275,360	824,640	-	1,100,000
Balances as at 31 December 2016	**23,100,000**	**824,640**	**(19,651,025)**	**4,273,615**

Accumulated losses

Accumulated losses are brought forward recognised income net of expenses of the Company plus current year losses attributable to shareholders.

Share premium

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

The notes on pages 31 to 60 are an integral part of these financial statements

Statement of cash flows

for the year ended 31 December 2016

	Note	2016 ZMW	2015 ZMW
Cash flows from operating activities			
Profit/(loss) for the year		106,906	(3,177,998)
Adjustment for:			
Interest expense	7	1,820,289	757,225
Depreciation	15	277,966	256,263
Amortisation	16	3,186	34,877
(Profit)/loss on disposal of assets		(4,139)	1,075
Tax (credit)/expense	19a	(99,560)	6,723
		2,104,548	(2,121,835)
Changes in:			
Loans and advances		(7,620,569)	(2,250,494)
Other receivables		(182,989)	92,728
Other payables		432,073	(1,115,186)
Cash used in operations		(5,266,937)	(5,394,787)
Income tax paid	19(c)	(6,723)	-
Interest paid		(1,820,289)	(757,225)
Net cash used in operating activities		(7,093,949)	(6,152,012)
Cash flows from investing activities			
Acquisition of property and equipment	15	(653,189)	(271,270)
Acquisition of intangibles	16	(129,790)	(79,563)
Proceeds from disposal		5,536	-
Net cash used in investing activities		**(777,443)**	(350,833)
Cash flows from financing activities			
Proceeds from issue of share capital	14	1,100,000	5,824,640
Proceeds from borrowings	18	9,040,951	6,897,852
Repayment of borrowings	18	(2,399,439)	(6,323,083)
Net cash generated by financing activities		**7,741,513**	6,399,409
Net decrease in cash and cash equivalents		(129,879)	(103,436)
As at 1 January		1,410,123	1,513,559
Cash and cash equivalents at 31 December	11	**1,280,244**	1,410,123

The notes on pages 31 to 60 are an integral part of these financial statements

Notes to the Financial Statements

for the year ended 31 December 2016

1. Reporting entity

Agora Microfinance Zambia Limited 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 P.O. Box 745 Post Net Manda Hill Stand 6085, Chituli Road Northmead, Lusaka.

The company 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 27.

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 curency, 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 2017 is included in the following notes:

- Note 20 – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used; and
- Note 27(e) – impairment test: key assumptions underlying recoverable amounts.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

5. Interest income

	2016 ZMW	2015 ZMW
Loans and advances to customers	**4,877,291**	2,956,576

6. Fee income

	2016 ZMW	2015 ZMW
Loan administration charges	4,151,189	1,244,667
Commission on insurance fees	182,730	5,000
	4,333,919	1,249,667

Insurance fees refers to the fees from the micro-insurance credit life being piloted in Chibombo branch. AMZ sells a micro insurance product from Professional Life Assurance. Clients pay a non-refundable fee of ZMW 10 (for loans less than ZMW 1000), ZMW 20 (for loans from ZMW 1,001 to 2,000) and ZMW 30 (for loans over ZMW 2,001).

7. Interest expense

	2016 ZMW	2015 ZMW
Interest bearing borrowings	**1,820,289**	757,225

8. Other income

	2016 ZMW	2015 ZMW
Donations	557,812	201,125
Recoveries of loans written off	13,534	20,592
Research income	-	18,025
SME fee	-	900
Others	16,640	17,266
	587,986	257,908

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

9. Operating expenses

	2016 ZMW	2015 ZMW
Employee benefits	3,549,975	3,277,857
Depreciation and amortisation (notes 15 and 16)	281,152	291,140
Auditors remuneration	340,595	285,987
Other expenses	3,662,031	3,221,755
Assets written off	-	1,075
	7,833,753	7,077,814
Employee benefits		
Salaries	3,328,878	3,063,031
NAPSA	151,473	129,935
Leave pay and gratuity and pension	69,624	84,891
	3,549,975	3,277,857

10. Finance(income)/cost

	2016 ZMW	2015 ZMW
Finance income		
Exchange gains	207,042	386,644
Finance cost		
Exchange losses	(317,798)	**(72,378)**
	(110,756)	**314,266**

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

11. Cash and cash equivalents

	2016 ZMW	2015 ZMW
Cash on hand	4,902	11,589
Balances with Bank	1,275,342	1,398,534
	1,280,244	1,410,123

12. Loans and advances to customers

	2016 ZMW	2015 ZMW
a) Summary		
Loans and advances	14,246,848	7,714,767
Accrued interest	323,153	164,082
Deferred income	-	(900,288)
Gross loans and advances	**14,570,001**	6,978,561
Less: Provision for impairment of loans and advances		
- Individually assessed	(2,283)	-
- Collectively assessed	(28,263)	(59,675)
Loans and advances to customers	**14,539,455**	6,918,886
b) Maturity		
Due:	209,802	113,609
Within I month	856,350	439,552
Between l to 3 months	13,180,696	7,161,606
Between 3 months and 1 year	**14,246,848**	7,714,767
Loans and advances to customers		
c) Movements in provisions for impairment of loans and advances are as follows:		
At 1 January 2016	59,675	112,958
Impairment for the year	27,152	114,653
Bad debts written off	(56,281)	(167,936)
At 31 December 2016	**30,546**	59,675

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

13. Other receivables

	2016 ZMW	2015 ZMW
Prepayments	115,107	57,460
Staff advances	103,751	95,976
Other receivables	242,941	125,374
	461,799	278,810

14. Share capital

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

	Number of ordinary shares 2016 ZMW	Ordinary share capital 2016 ZMW	Number of ordinary shares 2016 ZMW	Ordinary share capital 2016 ZMW
Authorised				
Ordinary shares class A	95,000	950,000	95,000	950,000
Ordinary shares class B	2,215,000	22,150,000	2,215,000	22,150,000
Total	**2,310,000**	**23,100,000**	2,130,000	23,100,000
Issued and fully paid				
Ordinary shares of K 10 each (class A)	95,000	950,000	95,000	950,000
Ordinary shares of K 10 each (class B)	2,215,000	22,150,000	2,187,464	21,874,640
Total	**2,310,000**	**23,100,000**	2,282,464	22,824,640

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2015	950,000	16,050,000	17,000,000
Issued during the year	-	284,456	5,824,640
At 31 December 2015	950,000	21,874,640	22,824,640
At 1 January 2016	**950,000**	**21,874,640**	**22,824,640**
Issued during the year	**-**	**275,360**	**275,360**
At 31 December 2016	**950,000**	**22,150,000**	**23,100,000**

On 30 September 2016, the Company issued 27,536 B class share to AMNV, an existing shareholder amounting to ZMW275,360.
In addition an amount of ZMW824,640 was paid above the nominal value of the shares, this has been accounted for as share premium.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

15. Property and equipment

	Leasehold improvements ZMW	Motor vehicle ZMW	Computer & office equipment ZMW	Furniture & fittings ZMW	Total ZMW
Cost					
At 1 December 2015	73,535	762,129	420,219	239,696	1,495,579
Additions	-	231,590	39,680	-	271,270
Disposals	-	(10,500)	-	-	(10,500)
At 31 December 2015	73,535	983,219	459,899	239,696	1,756,349
At 1 January 2016	73,535	983,219	459,899	239,696	1,756,349
Additions	31,774	531,437	89,978	-	653,189
Disposals	-	-	(6,150)	-	(6,150)
At 31 December 2016	105,309	1,514,656	543,727	239,696	2,403,399
Depreciation					
At 1 January 2015	64,570	583,930	269,763	119,157	1,037,320
Charge for the year	5,573	147,211	57,453	46,026	256,263
Disposals	-	(9,426)	-	-	(9,426)
At 31 December 2015	70,143	721,615	327,216	165,183	1,284,157
At 1 January 2016	70,143	721,615	327,216	165,183	1,284,157
Charge for the year	3,392	153,421	89,633	31,520	277,966
Disposals	-	-	(4,753)	-	(4,753)
At 31 December 2016	73,535	875,036	412,096	196,703	1,557,370
Carrying amounts					
At 31 December 2016	31,774	639,620	131,631	42,993	846,018
At 31 December 2015	3,392	261,604	132,683	74,513	472,192

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.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

13. Other receivables

	Total ZMW
Software	
Cost	184,325
At 1 December 2015	79,563
Additions	263,888
At 31 December 2015	
At 1 January 2016	263,888
Additions	129,790
At 31 December 2016	393,678
Amortisation	
At 1 January 2015	184,319
Charge for the year	34,877
At 31 December 2015	219,196
At 1 January 2016	219,196
Charge for the year	3,186
At 31 December 2016	222,382
Carrying amounts	
At 31 December 2016	171,296
At 31 December 2015	44.692

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

17. Other payables

	2016 ZMW	2015 ZMW
Interest payable (note 21)	143,479	53,318
Cash collateral	-	124,534
PAYE and pension	140,722	53,936
Other creditors and accruals	539,540	159,880
	823,741	391,668

18. Borrowings

	Principal	Maturity	Currency	Interest rate/(net)	Carrying value ZMW
2016					
Current					
Agora Microfinance N.V. (AMNV)	1,564,500	15 Jun 2018	ZMW	20%	1,564,500
Agora Microfinance N.V. (AMNV)	1,734,000	15 Jun 2018	ZMW	20%	1,734,000
Moringaway Facility 1	2,530,105	1 Jun 2017	ZMW	20%	2,530,105
Moringaway Facility 2	2,639,006	1 Dec 2017	ZMW	20%	2,639,006
Moringaway Facility 3	2,415,100	1 Mar 2018	ZMW	20%	2,415,100
Lendahand	2,800	1 Apr 2017	EUR	7.5%	30,709
Lendahand	4,300	1 Jan 2017	EUR	7.5%	47,292
Lendahand	79,800	1 Nov 2018	EUR	7.5%	869,660
Lendahand	45,200	1 Dec 2017	EUR	7.5%	470,644
					12,301,016

The interest rate on the loans from Moringaway as well as AMNV is set at 7.75% above the Zambian Government 91 day treasury bill, with a minimum of 13% and a maximum of 20%. Lendahand is the leader for the SME pilot, with a loan denominated in Euro at 7.5%. All borrowings held have no security.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

18. Borrowings (Continued)

	Principal	Maturity	Currency	Interest rate/(net) ZMW	Carrying value ZMW
2015					
Current					
Agora Microfinance N.V. (AMNV)					24,166
Moringaway Facility 1	2,530,105	1 Jun 2016	ZMW	20%	2,597,396
Moringaway Facility 2	792,713	1 Dec 2016	ZMW	20%	806,510
Hivos-Triodos Fonds	2,000,000	1 Aug 2016	ZMW	20%	2,165,475
Lendahand	2100	1 May 2016	EUR	7.5%	25,239
Lendahand	1,300	1 Jun 2016	EUR	7.5%	15,677
Lendahand	700	1 Nov 2016	EUR	7.5%	9,501
Lendahand	1,300	1 Dec 2016	EUR	7.5%	15,539
					5,659,503

During the year the Company had an external borrowing from Triodos (a non-related party) denominated in Kwacha and amounting to ZMW2,000,000. The loan was issued on 1 August 2015, with a fluctuating interest rate changing quarterly depending on the Bank of Zambia treasury bill rates. During the year the interest rate averaged at 20% and the loan was fully repaid on 1 November 2016.

Movement in borrowings

	2016 ZMW	2015 ZMW
1 January	5,659,503	5,084,734
Drawdowns	9,040,951	6,897,852
Repayments	(2,105,603)	(5,824,640)
Exchange gain	(293,835)	(498,443)
31 December	**12,301,016**	5,659,503

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

19. Income tax expense

	2016 ZMW	2015 ZMW
a) Tax expense		
Current tax	-	6,723
Deferred tax	(99,560)	-
Income tax (credit)/expense	(99,560)	6,723

		2016 ZMW		2015 ZMW
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:				
Profit/(loss) before tax		7,246		3,171,275
Income tax using corporate tax rate	(35%)	2,536	35%	(1,109,946)
Non-deductible expenses	(561%)	(40,640)	11%	341,327
Unrecognised deferred tax	(9,938%)	(502,705)	24%	768,625
Tax losses expired	(6,938%)	441,249		-
Separate source income	(6,090%)	-	0%	6,723
Total income tax (credit)/expense		(99,560)		6,723

	31 Dec 2016 ZMW	31 Dec 2015 ZMW
c) Movement in statement of financial position		
Balance at 1 January	6,723	-
Charge for the year	-	6,723
Payments	(6,723)	-
Balance at 31 December	-	6,723

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

20. 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:

	Loss ZMW	Utilisation /expiry ZMW	Tax losses ZMW	Expiry date
Year				
2011	441,249	(441,249)	-	2016
2012	284,456	-	284,456	2017
2013	1,796,835	-	796,835	2018
2014	2,907,115	-	2,907,115	2019
2015	1,531,620	-	1,531,620	2020
2016	-	-	528,058	2021
	6,961,275	(441,249)	6,048,084	

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 ZMW99,560 (2015:nil). The business plan for the period 2017 - 2020 prepared by management shows that the Company will make profits for the period 2017-2020.

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.

	Assets		Liabilities		Net	
	2016 ZMW	2015 ZMW	2016 ZMW	2015 ZMW	2016 ZMW	2015 ZMW
Tax losses	(99,560)	-	-	-	(99,560)	-
Deferred tax liability/(asset)	(99,560)	-	-	-	(99,560)	-

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

20. Deferred taxation (Continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the items the timing of availability of sufficient future taxable profits against benefits there from.

	Assets		Liabilities		Net	
	2016 ZMW	2015 ZMW	2016 ZMW	2015 ZMW	2016 ZMW	2015 ZMW
Property and equipment	-	-	112,236	14,539	112,236	14,539
Provision for bad debt	(64,100)	(74,295)	-	-	(64,100)	(74,295)
Tax losses	(2,360,067)	(2,436,446)	-	-	(2,360,067)	2,436,446)
Deferred income	-	(315,101)	-	-	-	(315,101)
Other provisions	-	-	3,333	-	3,333	-
Deferred tax asset	**(2,424,167)**	(2,825,842)	**115,569**	14,539	**(2,308,598)**	(2,811,303)

Movement in temporary differences during the year:

	Unrecognised balance at 1 Jan 2016 ZMW	Unrecognised in profit or loss ZMW	Unrecognised balance at 31 Dec 2016 ZMW	Recognised profit or loss ZMW	Balance at 31 Dec 2016 ZMW
Property and equipment	14,539	97,697	112,236	-	-
BOZ provision for leave pay	(74,295)	10,195	(64,100)	-	-
Provision for tax losses	(2,436,446)	76,379	(2,360,067)	(99,560)	(99,560)
Other provision	-	3,333	3,333	-	-
Deferred income provisions	(315,101)	315,101	-	-	-
	(2,911,303)	502,705	**(2,308,598)**	**-**	**(99,560)**

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

21. Related party transactions

Parent and ultimate controlling party

Agora Microfinance Zambia Limited is owned and controlled by Agora Microfinance N.V. and Moringaway. The Company has carried out transactions with its shareholders.

The relevant transactions and balances are as below:

	2016 ZMW	2015 ZMW
i) Borrowings		
Details of borrowings are disclosed under note 18.		
ii) Interest		
Interest was as follows:		
Interest paid to related parties (note 7)	1,820,289	757,225
Interest due to related parties (note 17)	**1,431,479**	53,318
iii) Transactions with key management personnel or directors		
Key management		
Salaries and other short-term employment benefits	1,506,048	1,222,375
Company pension contributions	14,204	5,457
	1,520,252	1,227,832
Directors' fees		
Directors' fees	**17,125**	15,500

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. 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 balance sheet 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 against non-performing accounts, where recoverability is doubtful.

The Company only deposits cash with major companies or banks with high quality credit standing and limits exposure to any one counterparty. Loans and advances comprise of a widespread customer base. Management evaluates credit risk relating to customers on an ongoing 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.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. 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:

		2016 ZMW	2015 ZMW
Cash and cash equivalents	11	1,280,244	1,410,123
Loans and advances to customers	12	14,539,455	6,918,886
		15,819,699	8,329,009

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

Loans and advances are summarised as follows:

	2016 ZMW	2015 ZMW
Neither past due nor impaired	14,532,191	6,953,165
Past due 1-29 days	5,337	4,073
Past due 30-59 days	14,968	1,365
Past due 60-89 days	1,200	405
Past due 90-119 days	4,505	2,758
Past due >120 days	11,800	16,795
Gross	**14,570,001**	6,978,561
Provision for impairment	(30,546)	(59,675)
	14,539,455	6,918,886

Loans and advances and other receivables which are less than 90 days past due are not considered to be impaired. Loans and advances under this category are where contractual interest or principal payments are past due but that the Company believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Company.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

a) Credit risk (Continued)

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

		Gross	Tax losses	Expiry date
2016				
Current 0-60 days		14,552,496	(28,263)	14,524,233
Past due over 60 days		17,505	(2,283)	15,222
	12	**14,570,001**	**(30,546)**	**14,539,455**
2015				
Current 0-60 days		6,953,165	(59,675)	6,893,490
Past due over 60 days		25,396	-	25,396
	12	6,978,561	(59,675)	6,918,886

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 principle 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:

	2016 ZMW	2015 ZMW
Agriculture and allied	12,012,109	2,338,075
Manufacturing, mining and production	-	31,820
Trade and services	2,447,035	4,585,590
Other	110,857	23,136
	14,570,001	6,978,561

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

a) Credit risk (Continued)

Allowances for impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio, The main components of this allowance is a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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.

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.

(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 overleaf 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 overleaf represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

(b) Liquidity risk (Continued)

	Carrying amount ZMW	Gross nominal outflows ZMW	Less than 1 year ZMW	Between 1-2 years ZMW
31 December 2016				
Liabilities				
Borrowings	12,301,016	12,301,016	5,717,756	6,583,260
Other payables	823,741	823,741	823,741	
Total liabilities	**13,124,757**	**13,124,757**	**6,541,497**	**6,583,260**
31 December 2015				
Liabilities				
Borrowings	5,659,503	5,659,503	272,139	5,387,364
Other payables	391,668	391,668	391,668	-
Total liabilities	**6,051,171**	**6,051,171**	**663,807**	**5,387,364**

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.

(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 commercial banks. 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.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

(c) Market risk (Continued)

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

	Interest rate	Carrying amount ZMW	Less than 3 months ZMW	3-12 months ZMW	1-5 years ZMW
31 December 2016					
Cash and cash equivalents	Variable	1,280,244	1,280,244	-	-
Loans and advances to customers	Fixed	14,539,455	1,358,759	13,180,696	-
Other receivables		461,799	348,048	113,751	-
Total assets		**16,281,498**	**2,987,051**	**13,294,447**	**-**
Other payables		823,741	559,960	263,781	-
Borrowings	Variable	12,301,016	-	6,904,290	5,396,726
Total liabilities		**13,124,757**	**559,960**	**7,168,071**	**5,396,726**
Interest rate gap		**3,156,741**	**2,427,091**	**6,126,376**	**(5,396,726)**

Exposure to interest rate risk – non-trading portfolios

	Interest rate	Carrying amount ZMW	Less than 3 months ZMW	3-12 months ZMW	1-5 years ZMW
31 December 2015					
Cash and cash equivalents	Variable	1,410,123	1,410,123		
Loans and advances to customers	Fixed	6,918,886	1,729,722	5,189,164	-
Other receivables		278,810	166,016	112,794	-
Total assets		8,607,819	3,305,861	5,301,958	-
Other payables		5,659,503	-	272,139	5,387,364
Borrowings	Variable	391,668	-	391,668	-
Total liabilities		6,051,171	-	663,807	5,387,364
Interest rate gap		2,556,648	3,305,861	4,638,151	(5,387,364)

The 1-5 years interest rate gap of ZMW5,829,292 covered by the assets maturing in the less than 12 months, which are reinvested in the core business of lending to clients.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. 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.

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

	USD (ZMW equivalent)	ZMW	Total
31 December 2016			
Assets			
Cash and cash equivalents	625,314	654,930	1,280,244
Other receivables	74.220	387,579	461,799
Total assets	**699,534**	**1,042,509**	**1,742,043**
Liabilities			
Other payables	-	(823,741)	(823,741)
Borrowings	(12,301,016)	-	(12,301,016)
Total liabilities	**(12,301,016)**	**(823,741)**	**(13,124,757)**
Net exposure	**(11,601,482)**	**218,768**	**(11,382,714)**
31 December 2015			
Assets			
Cash and cash equivalents	345,996	1,064,127	1,410,123
Other receivables	-	278,810	278,810
Total assets	345,996	1,342,937	1,688,933
Liabilities			
Other payables	-	(391,668)	(391,668)
Borrowings	(5,659,503)	-	(5,659,503)
Total liabilities	(5,659,503)	(391,668)	(6,051,171)
Net exposure	(5,313,507)	951,269	(4,362,238)

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

(c) Market risk (Continued)

(ii) Currency risk (Continued)

The following significant exchange rates were applied during the period.

Average rate		Spot rate	
2016	2015	2016	2015
10.21	8.9	**9.8**	11.0

Sensitivity analysis

A 10 percent strengthening of theZambian Kwacha against the USD 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 2015.

	2016 ZMW	2015 ZMW
Profit and loss		
ZMW	**(1,160,148)**	(531,351)

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.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

(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 Reserve 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 launtlering procedures and legislation became an area of major focus for the Company especially in 2008.

(f) 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 competence 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:

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

(f) Capital management (Continued)

Capital position

(i) Primary (Tier 1) capital

		2016 ZMW	2015 ZMW
(a)	Paid-up common shares	23,100,000	22,824,640
(b)	Eligible preferred shares		
(c)	Subordinated term debt - long term	824,640	-
(d)	Share premium		
(e)	Revaluation reserve		
(f)	Retained earnings	(19,651,025)	(19,757,831)
(g)	General reserve		
(h)	Statutory reserve		
(i)	Minority interest (common shareholders' equity)		
(j)	**Sub-total A (items a to g)**	4,273,615	3,066,806
	Less		
(k)	Goodwill and other intangible assets	(171,296)	(44,692)
(l)	Investments in unconsolidated subsidiaries and associates		
(m)	Lending of a capital nature to subsidiaries and associates		
(n)	Holding of other banks' or financial institutions' capital instruments		
(o)	Assets pledged to secure liabilities	(115,107)	(57,460)
(p)	**Sub-total B (items j to m)**	3,987,212	2,964,657
	Other adjustments		
	Provisions	-	-
	Assets of little or no realised value	-	-
	Stationery stocks, sundry debtors, cash advances, product project accounts	-	-
	Other adjustments	-	-
(q)	**Sub-total C (other adjustments)**	-	-
(r)	**Total primary capital [j - (n to o)]**	-	-
(iii)	**Eligible secondary capital**		
	(The maximum amount of secondary capital is limited to 100% of primary capital)	-	-
(iv)	**Eligible total capital [I (p) + III]**		
	(Regulatory capital)	-	-
(v)	**Minimum total capital requirement**		
	15% total on and off balance sheet risk - weighted assets	(2,346,039)	(1,147,458)
(vi)	Excess(IV minus V)	1,641,173	1,817,199

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

22. Financial risk management (Continued)

(g) Accounting classifications and fair values

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

	Loans and receivables ZMW	Amortised cost ZMW	Other liaibities ZMW	Carrying amount ZMW	Fair value ZMW
2016					
Assets					
Cash and cash equivalent	1,280,244	-	-	1,280,244	1,280,244
Short term investments	-	-	-	-	-
Loans and advances to customers	-	14,539,455	-	14,539,455	14,539,455
Other receivables	461,799	-	-	461,799	461,799
	1,742,043	**14,539,455**	**-**	**16,281,498**	**16,281,498**
Liabilities					
Other liabilities	-	-	823,741	823,741	823,741
Borrowings	-	12,301,016	-	12,301,016	12,301,016
	-	**12,301,016**	**823,741**	**13,124,757**	**13,124,757**
2015					
Assets					
Cash and cash equivalents	1,410,123	-	-	1,410,123	1,410,123
Loans and advances to customers	6,918,886	-	-	6,918,886	6,918,886
Other receivables	278,810	-	-	278,810	278,810
	8,607,819	-	-	8,607,819	8,607,819
Liabilities					
Other liabilities	-	-	391,668	391,668	391,668
Borrowings	-	5,659,503	-	5,659,503	5,659,503
	-	5,659,503	391,668	6,051,171	6,051,171

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

23. Capital commitments

There were no material capital commitments as at 31 December 2016 (2015: Nil).

24. Contingent liabilities

There were no material contingent liabilities as at 31 December 2016 (2015: Nil).

25. Subsequent events

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

26. Basis of measurement

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

27. 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) Foreign currency transaction
c) Financial instruments
d) Taxation
e) Impairment
f) Employee benefits
g) Provisions and contingencies
h) Revenue
i) Borrowing costs

(a) Equipment

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.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

27. Significant accounting policies (Continued)

(a) Equipment (Continued)

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of the asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the expected useful lives of each part of an item or property and equipment, since this most closely reflects the expected pattern consumption of the future economic benefits embodied in the asset.

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
Motorbikes	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 amortised 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 re-translated 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 re-translated 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 re-translation are recognised in profit or loss.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

27. Significant accounting policies (Continued)

(d) Financial instruments

Non-derivative financial assets and liabilities

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.

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.

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.

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.

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.

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.

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.

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.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

27. 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.

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

27. Significant accounting policies (Continued)

(e) Tax (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 2015, 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.

(g) 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

Interest income earned on loans and advances is recognised in the income statement for all instruments measured at amortised cost and at fair value through profit and loss, using the effective interest rate method.

- 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.

Borrowing costs

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

Notes to the Financial Statements (Continued)

for the year ended 31 December 2016

28. New standards and interpretation not yet effective

A number of new standards and interpretations are effective for annual periods beginning after 1 January 2016. Those that may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

Effective	Standard, amendment or interpretation	Summary of requirements
1 January 2018	IFRS 9 Financial Instruments	On 24 July 2015, the IASB issued the **final IFRS 9 Financial Instruments Standard,** which replaces earlier versions of IFRS 9 and completes the IASB's project to replace **IAS 39 Financial Instruments**: • The standard is effective for annual periods beginning on or after I January 2018 with retrospective application, early adoption is permitted. • The impact of the adoption of the standard on the financial statements for the Organisation has not yet been quantified.
1 January 2018	IFRS 15 Revenue from contracts with customers	This standard replaces **IAS 11 Construction Contracts IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.** The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. This new standard will most likely have a significant impact on the Organisation, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The impact of the adoption of the standard on the financial statements for the Organisation has not yet been quantified.

Profit and Loss Account

for the year ended 31 December 2016

The following pages show AMZ's management report on 31 December 2016, as per standard Management Accounts format, which is used by the Board of Directors and management to monitor the monthly progress of the Company.

The key difference between AMZ's Standard reporting template and the Audited Accounts previously presented is the treatment of the processing fee/charge: Loan processing fee charged to clients is recognised on a cash basis and not deferred as in the audited financial statements following IFRS.

	December Actual ZMW
Interest income	4,877,291
Interest income on loan portfolio	
Interest expense	1,820,289
Other interest expenses (external borrowings)	
Net interest income	**3,057,002**
Other financial expenses	
Loan loss provision	27,152
Other expenses (bank charges)	70,039
Total interest income less financial expenses	**2,959,811**
Non-operating income	
Fee income	4,333,919
Commissions	
Other non-interest income	30,175
Financial income/(loss)	**7,323,905**
Operating expense	
Total compensation and benefits	3,549,975
Total operating expenses	3,932,587
Total depreciation	281,152
Net operating activities	**(439,809)**
Non-operating income	557,811
Non-operating expenses	
Net non-operating income/(loss)	**118,002**
Exchange loss	317,798
Exchange gain	207,042
Net foreign exchange gain/(loss)	**(110,756)**
Net income/(loss)	**7,246**
Income Tax Credit	99,560
Net income/(loss) after taxation	**106,806**

Financial Position

for the year ended 31 December 2016

	As at 31-12-16 ZMW
Current Assets	
Cash and cash equivalents	1,280,244
Short-term investments	
Total loan portfolio	14,246,848
Less loan loss provision	30,546
Net loans as per schedule 2(1(c) – 1(d))	14,216,302
Accounts receivables	461,799
Accrued interest income receivable	323,153
Total current assets	**16,281,498**
Fixed assets	
Land and buildings equipment	-
Vehicles	481,866
Others	2,315,409
Deferred tax assets	99,560
Total fixed assets (Total 2(a) – 2(d))	2,896,835
(Less accumulated depreciation)	1,779,961
Net fixed assets	**1,116,874**
Other assets	
Other assets	**17,398,372**
Total assets	
Current liabilities	
Voluntary deposits	-
Income tax payable	-
Short term debt	5,717,756
Other payables	823,741
Other short term liabilities (cash collateral)	-
Total current liabilities	**6,541,497**
Long-term liabilities	
Long-term debt	**6,583,260**
Total long-term liabilities	**6,583,260**
Total liabilities	**13,124,757**
Equity	
Paid up capital	23,100,000
Share premium	824,640
Retained earnings	**(19,651,025)**
Total equity	**4,273,615**
Total liabilities and equity	**17,398,372**

Details of Operating Expenditure

for the year ended 31 December 2016

	As at 31-12-16 ZMW
Advertising and branding	2,800
Audit fees	340,594
Bank charges	70,038
Computer expenses	8,138
Consultancy fees	43,655
Depreciation and amortisation	281,152
Disposal of fixed asset	-
Directors' fees	17,125
General expenses	1,099,788
Insurance	28,770
Licensing expenses	42,135
Medical expenses	-
Office expenses	51,163
Professional fees	1,385,060
Recruitment and training	-
Registration expenses	1,750
Rent	268,808
Repairs and maintenance	116,958
Salary and wages	3,578,636
Security expenses	166,241
Stationery	56,012
Telephone expenses	136,631
Travel – local	85,136
Travel – foreign	52,263
Total expenses	**7,833,753**

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