AGORA MICROFINANCE ZAMBIA

BREAKING THE BARRIERS TO FINANCE

Audited Financial Statements 2014

TABLE OF CONTENTS

DIRECTORS' REPORT

The Directors present their report on the activities of Agora Microfinance Zambia ("AMZ" or "the Company"), together with the audited financial statements for the financial year ended 31 December 2014.

Principal activities and developments during the year

The principal activity of the Company is to provide financial services among the rural and urban poor in Zambia. All significant developments during the year have been highlighted above.

The Company

On 7 May 2010, the Company was incorporated under the Zambian Companies Act 1994 as a private company limited by shares.

Business address
Agora Microfinance Zambia Limited
Stand 6085
Chituli Road, Northmead
Lusaka

Postal address
Agora Microfinance Zambia Limited
P O Box 745 Post Net
Manda Hill
Lusaka

Share capital

The total authorised number of ordinary shares is 1,700,000 with a par value of K10 per share. The authorised share capital is split between A class ordinary shares attached to which are voting rights and B class ordinary shares which do not have voting rights. There are 95,000 authorised A class ordinary shares and 1,605,000 authorised B class ordinary shares.

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

	Number of A class shares	Number of B class shares	Total ZMW
At 31 December 2013	95,000	982,348	10,773,484
Issued during the period	-	622,652	6,226,516
At 31 December 2014	95,000	1,605,000	17,000,000

All issued shares are fully paid.

Results and dividends

The Company's results for the year are shown on page 9. The Directors do not propose that a dividend be declared in respect of the 2014 financial year.

Directors' and secretary

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

Directors

Rebecca McKenzie - Chairperson
Maluba Wakung'uma (re-designated from CEO 20 February 2014)
Tanmay Chetan (appointed Managing Director 17 February 2015)
Irina Ignatieva (appointed CEO 20 February 2014, resigned as CEO 19 February 2015)
Glenda Mazakaza
Douglas Tambulukani (proxy for Musa Mwenye, resigned 15 January 2014)
Eddie Mwitwa (proxy for Musa Mwenye, appointed 15 January 2014)

DIRECTORS' REPORT (continued)

Company Secretary

David Payling	(resigned 17 February 2015)
Samba Kapambwe	(appointed 17 February 2015)

Directors' remuneration
A total of ZMW 27,000 was spent on director's fees during the year (2013: ZMW 16,217).

Average number and remuneration of employees
Total employee benefits expense for the year was ZMW 5,723k (2013: ZMW 3,881k). The average number of employees throughout the year was 66 (2013: 64).

Gifts and donations
There were no gifts or donations made during the year (2013: ZMW nil).

Property, plant and equipment
Additions to property, plant and equipment are included within Note 13 to the financial statements. In the opinion of the Directors, the fair values of the property, plant and equipment are not less than the amount at which they are included in the financial statements.

Research and Development
There was no expenditure incurred for research and development during the period.

Related party transactions
Related party transactions during the period consisted of a series of loan agreements with a shareholder. Further information about these loan agreements are included within Notes 16 and 18 to the financial statements. Additionally, the remuneration of key management personnel is also disclosed within Note 18.

Prohibited borrowings or lendings
There were no prohibited borrowings during the year (2013: ZMW nil).

Risk management and control
AMZ has a risk management framework defined in its Business and Strategic Plan which defines the main risk areas and the mitigating strategies. Internal control systems are outlined in the organisation's policies and procedures. As at the 31 December 2014 the following policies were in place:

i.	Operations Policy	- approved
ii.	Human Resource Policy	- approved
iii.	Finance Policy	- approved

Internal audit function
The Company's Internal Audit department was disbanded during 2014. Instead, an internal control function was established within the Finance department.

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 an approved credit reference bureau.

DIRECTORS' REPORT (continued)

Financial statements

The financial statements set out on pages 9 to 34 have been approved by the directors.

Auditors

Ernst & Young, Trinity Office Park, Stand No. 16806, Alick Nkhata Road, P.O Box 35483, Lusaka. In accordance with the provisions of the Articles of Association of the Company, the auditors, Messrs Ernst & Young, will retire as auditors of the Company at the forthcoming Annual General Meeting and, having expressed their willingness to continue in office, a resolution proposing their re-appointment will be presented at the Annual General Meeting.

Going concern

The company incurred a net loss for the year ended 31 December 2014 of ZMW 8,460,155 (2013: ZMW5, 977,137). The company continues to incur losses.

As described above, the current operating environment has remained difficult and the Company has reported an operating loss for the year. The company has continued to incur losses after year end. The Directors consider the outlook to be challenging in terms of loan portfolio quality as well as in direct costs given the current Zambian Kwacha exchange rate volatility. The Directors have instituted measures to improve the loan portfolio quality, reduce costs and steps are being taken to limit exposure to foreign exchange volatility. The increases in the Bank of Zambia policy rate during 2014 provided the opportunity to increase revenue through raising the nominal interest rate charged from 3.5% per month to 4.5% per month.

The Company has commenced discussions with existing and new lenders about additional facilities that may be required. It is likely that these discussions will not be completed for some time. The directors are also engaged in discussions with potential equity investors. Since the start of 2014, one of the shareholders has injected over ZMW 7 million in additional debt financing, has converted over ZMW 6 million into equity and is in the process of converting a further ZMW 3.5 million of debt into equity. Furthermore, in November 2014, one of the lenders has approved the extension of its loan for a further 8 months.

The shareholders have also committed to supporting the Zambian operations for a period of 12 months after the audit report date

The Directors have concluded that the combination of these circumstances represents a material uncertainty about the Company's ability to continue as a going concern and that, therefore, the company might not be able to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements.

By order of the Board

AGORA MICROFINANCE ZAMBIA LTD
29 APR 2015
P.O. BOX 745 POST NET
MANDA HILL
LUSAKA, ZAMBIA

COMPANY SECRETARY

31 March 2015

CORPORATE GOVERNANCE STATEMENT

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, an Audit and Finance Committee and a Remuneration and Nominations Committee.

Board Committees

Audit and Finance Committee (AFC)

The AFC met 5 times during 2014. Membership of the Board's AFC during the year was follows:

Tanmay Chetan	Chairperson
Rebecca McKenzie	Member
Glenda Mazakaza	Member

Remuneration and Nominations Committee (RNC)

The RNC met 5 times during 2014. Membership of the Board's RNC during the year was follows:

Glenda Mazakaza	Chairperson
Rebecca McKenzie	Member
Tanmay Chetan	Member

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act and the Banking and Financial Services Act require the Directors to prepare financial statements for each financial year which give a true and fair view of the financial position of Agora Microfinance Zambia Limited and of its financial performance and its cash flows for the year then ended. In preparing such financial statements, the Directors are responsible for:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error;
- selecting appropriate accounting policies and applying them consistently;
- making judgements and accounting estimates that are reasonable in the circumstances; and
- preparing the financial statements in accordance with the applicable financial reporting framework, and on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1994 and the Banking and Financial Services Act 1994, as amended. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors confirm that in their opinion:

(a) the financial statements give a true and fair view of the financial position of Agora Microfinance Zambia Limited as of 31 December 2014, and of its financial performance and its cash flows for the year then ended;

(b) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when these fall due; and

(c) the financial statements are drawn up in accordance with International Financial Reporting Standards.

This statement is made in accordance with a resolution of the Board of Directors.

Signed at Lusaka on 31 March 2015

Director

Director

AGORA MICROFINANCE ZAMBIA LTD
29 APR 2015
P.O. BOX 745 POST NET
MANDA HILL
LUSAKA, ZAMBIA

Ernst & Young
Trinity Office Park
Stand 16806, Unit 9, 10
PO Box 35483
Alick Nkhata Road
Lusaka 10101, Zambia

Tel: +260 211 378300/1/3/4
Fax: +260 211 378302
www.ey.com

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AGORA MICROFINANCE ZAMBIA LIMITED

We have audited the accompanying financial statements of Agora Microfinance Zambia Limited, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 34.

Director's responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1994 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Agora Microfinance Zambia Limited as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1994 of Zambia.

Building a better
working world

Emphasis of Matter

Without qualifying our opinion, we draw attention to the directors' report which indicates that the company incurred a net loss of K8,460,155 for the year ended 31 December 2014 and it has continued to incur losses after year end. While the shareholder has made commitments to support the business for at least 12 months, the current operating environment is difficult and the directors consider the outlook to be challenging in terms of loan portfolio quality as well as in direct costs given the current Zambian Kwacha exchange rate volatility. The director's report notes that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 1994 of Zambia we report to you, based on our audit, that:

(a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

(b) in our opinion proper books of accounts, other records and registers have been kept by the company, so far as appears from our examination of those books and registers; and

(c) the company's statement of financial position and profit and loss account are in agreement with the books of account.

Ernst & Young

Ernst & Young
Chartered Accountants

HCNondo

Henry C Nondo
Partner

30 April ***2015***
Lusaka

Practising Certificate Number: 0000601

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year to 31 December 2014 ZMW	Year to 31 December 2013 ZMW
Interest income	5	3,344,795	4,946,499
Interest expense	6	(975,618)	(927,827)
Net interest income		**2,369,177**	**4,018,672**
Impairment losses on loans and advances	11	(779,042)	(1,187,215)
Net interest income after impairment losses on loans and advances		**1,590,135**	**2,831,457**
Foreign exchange gain/(loss)		20,519	(63,976)
Other operating income		77,930	64,866
Operating expenses	7	(10,148,739)	(7,677,848)
Loss before income tax		**(8,460,155)**	**(4,845,501)**
Income tax (charge)	9	-	(1,131,636)
Total comprehensive loss for the year		**(8,460,155)**	**(5,977,137)**

STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2014

	Notes	31 December 2014 ZMW	31 December 2013 ZMW
ASSETS			
Cash and cash equivalents	10	1,513,559	2,031,977
Loans and advances to customers	11	4,668,392	5,893,191
Other assets	12	371,538	408,378
Property and equipment	13	458,266	931,085
Deferred income tax assets	14	-	-
Total assets		**7,011,755**	**9,264,631**
LIABILITIES			
Other liabilities	15	1,506,854	1,192,929
Borrowings	16	5,084,734	5,417,896
Total Liabilities		**6,591,588**	**6,610,825**
SHAREHOLDERS' EQUITY			
Share capital	17	17,000,000	10,773,484
Retained earnings / (loss)		(16,579,833)	(8,119,678)
Total shareholders' equity		**420,167**	**2,653,806**
Total equity and liabilities		**7,011,755**	**9,264,631**

The financial statements on pages 9 to 34 were approved for issue by the Board of Directors on 31 March 2015 and signed on its behalf by:

Chairperson

Director

Olga Torres

Acting CFO

Company Secretary

AGORA MICROFINANCE ZAMBIA LTD
29 APR 2015
P.O. BOX 745 POST NET
MANDA HILL
LUSAKA, ZAMBIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Share capital	Retained earnings	Total
Year ended 31 December 2013		ZMW	ZMW	ZMW
At 1 January 2013		10,773,484	(2,142,541)	8,630,943
Issued during the year	17	-	-	-
Comprehensive loss / loss for the year		-	(5,977,137)	(5,977,137)
At 31 December 2013		10,773,484	(8,119,678)	2,653,806
Year ended 31 December 2014				
At 1 January 2014		10,773,484	(8,119,678)	2,653,806
Issued during the year	17	6,226,516	-	6,226,516
Comprehensive loss / loss for the year		-	(8,460,155)	(8,460,155)
At 31 December 2014		17,000,000	(16,579,833)	420,167

There was an increase in share capital is as a result of debt to equity transactions that occurred during the year. No cash was received for the issued shares.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year to 31 December 2014 ZMW	Year to 31 December 2013 ZMW
Cash flows from operating activities			
Loss for the year before taxation		(8,460,155)	(4,845,501)
Interest accrued not received	11	(94,456)	(98,827)
Bad debts provided and written off	11	1,291,099	694,258
Impairment charge not written off		(779,042)	(1,187,215)
Depreciation	13	481,060	381,169
Asset write offs	13	60	-
Cash outflow from operating activities before changes in operating assets and liabilities		(7,561,434)	(5,056,116))
Changes in operating assets and liabilities			
- loans and advances		807,198	3,776,243
- other assets		36,840	(277,871)
- other liabilities		313,925	(376,831)
Net cash used in operating activities		**(6,403,471)**	**(1,934,575)**
Cash flows from investing activities			
Purchase of property and equipment		(8,301)	(633,681)
Net cash used in investing activities		**(8,301)**	**(633,681)**
Cash flows from financing activities			
Increase in borrowings including convertibles		7,814,588	1,398,250
Repayments of borrowings		(1,921,234)	(1,185,670)
Net cash generated by financing activities		**5,893,354**	**212,580**
Effect of exchange rates on cash and cash equivalents		-	(51,151)
Net (decrease)/increase in cash and cash equivalents		**(518,418)**	**(2,406,827)**
Cash and cash equivalents at start of period		**2,031,977**	**4,438,804**
Cash and cash equivalents at end of period		**1,513,559**	**2,031,977**
Represented by:			
Cash and cash equivalents (Note 10)		1,513,559	2,031,977

Interest received in 2014 was ZMW 3,250,339 (2013: ZMW 4,874,672) and interest paid in 2014 was ZMW 975,618 (2013: ZMW 927,827) .

NOTES TO THE FINANCIAL STATEMENT – 31 DECEMBER 2014

1. **General information**

The Company is incorporated in Zambia under the Companies Act 1994 (as amended) as a Company Limited by shares, and is domiciled in Zambia. The address of its registered office is:

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

The principal activity of the company is to provide financial services among the rural and urban poor in Zambia.

2 **Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(2.a) **Basis of preparation** -

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in accordance with IAS 1 "presentation of financial statements". The company has elected to present the "Statement of Comprehensive Income" in one statement namely "Statement of Comprehensive Income". The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Zambia Kwacha (ZMW). The statement of financial position is presented in the order of liquidity of the various categories of assets and liabilities.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

New accounting standards and interpretations effective in 2014

Certain standards or amendments became effective for the first time in the current financial year. These were IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments), IAS 32 Offsetting Financial Assets and Liabilities (Amendments), IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments), IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendments) and IFRIC 21 Levies. None of these standards had a significant impact on the Company.

New accounting standards and interpretations effective not yet effective in 2014

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been applied in preparing theses financial statements:

IFRS 9 Financial Instruments – classification and measurement

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9-Financial Instruments bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The classification and measurement requirements address specific application issues arising in IFRS 9 (2009) that were raised by preparers, mainly from the financial services industry. The expected credit loss model addresses concerns expressed following the financial crisis that en-

IFRS 9 Financial Instruments – classification and measurement (Continued)

tities recorded losses too late under IAS 39. IFRS 9 stipulates that financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Apart from the 'own credit risk' requirements, classification and measurement of financial liabilities is unchanged from existing requirements. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018, but early adoption is permitted. The Company is currently assessing the impact of IFRS 9.

IFRS 15 - Revenue from Contracts with Customers

The IASB and FASB have issued their joint revenue recognition standard, IFRS 15 Revenue from Contracts with Customers, which replaces all existing IFRS and US GAAP revenue requirements. The core principle of IFRS 15 is that revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates.

The standard is for effective for annual periods beginning on or after 1 January 2017, but early adoption is permitted under IFRS. The Company is still assessing the impact of the standard on its contracts with customers.

Furthermore, a series of improvements to existing standards have been suggested through the annual cycle of improvements. These include IFRS 2 Share Based Payments, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair value measurement, IAS 16 Property Plant and Equipment, IAS 38 Impairment, IAS 24 Related Party Disclosures, IAS 40 Invesment Property, IFRS 7 Servicing Contracts, IFRS 7 Applicability of the offsetting disclosures to condensed interim financial statements, IAS 34 Disclosure of information 'elsewhere in the interim financial report', IAS 19 Discount rate – regional market rates and IFRS 5 Changes in methods of disposals. None of these amendments are expected to have a significant impact on the Company.

(2.b) **Revenue recognition**

Revenue comprises interest income, fee and commission income and is recognised to the extent that it is probable that the economic benefits will accrue to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has concluded that it is the Principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is exposed to the credit risk.

i) Interest income and expense

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

For loans originated by the Company, where the interest is calculated on a daily basis by applying contracted interest rate to the loan amount, the interest is effected on the total amount before deduction of processing fees and cash collateral.

The recognition of interest ceases when payment of interest or principal is overdue for more than 30 days or when a client has died. Interest is included in income thereafter only when it is received.

ii) Fees and commission income

Fees and commissions are recognised as an adjustment to the effective interest rate and are included within "interest income" in the statement of comprehensive income.

(2.c) **Translation of foreign currencies**

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Kwacha ("ZMW") which is the Company's functional currency.

On 1 January 2013 the Zambian currency was rebased such that 1 new kwacha = 1,000 old kwacha. Since these financial statements are for the year ended 31 December 2014, subsequent to rebasing, they are presented in "new" Kwacha. The comparatives for 2013 are also presented in the rebased currency amounts.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(2.d) **Financial assets**

The Company classifies its financial assets into the following categories: loans and advances and other receivables. Management determines the appropriate classification of its financial assets at initial recognition. There is no difference between trade date and settlement date in the Company's ordinary business.

Loans and advances and other receivables

Loans and advances and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances and other receivables are carried at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

a) significant financial difficulty of the borrower;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
   - adverse changes in the payment status of borrowers in the group; or
   - national or local economic conditions that correlate with defaults on the assets in the group.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 1 month and 3 months.

Assets carried at amortised cost
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of comprehensive income as other income.

Fair value measurement
The Company's financial assets and liabilities are measured at either fair value or amortised cost. For assets and liabilities measured at amortised cost, the Directors do not believe there are any material differences between the carrying value and the fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(2.e) **Property and equipment**

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to 'operating expenses' during the period in which they are incurred.

Depreciation on other assets is calculated on the straight line basis to write down their cost to their residual values over their estimated useful lives, as follows:

Fixtures, fittings and equipment	4 - 5 years
Motor vehicles	3 - 4 years
Computer equipment	3 - 4 years
Leasehold improvements	length of the lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date, as is the depreciation method. The Company assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Company estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

(2.f) **Income tax**

Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively. Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled or the related deferred income tax asset is realised.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

(2.g) **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks and are measured at amortised cost.

(2.h) **Borrowings and other financial liabilities**

Interest-bearing borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. The cost of transaction is borne by the remitter and not included in the loan value. After initial recognition, they are subsequently measured at amortised costs using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest expense in the statement of comprehensive income. Borrowings are derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

(2.i) Employee benefits

The Company did not have employee gratuities that accrued during the period. Employees are paid performance based incentives instead. However, all employees are members of the National Pension Scheme Authority to which both employees and the Company contribute. During 2014, the Company operated a mandatory private pension scheme with Madison Life Insurance through the Madison Pension Trust Fund. 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.

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

(2.j) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

The company issues 2 types of ordinary shares: Class A shares with voting rights and Class B shares with no voting rights.

(2.k) Dividends payable

The company's shareholders do not expect to derive any dividends for the next 2-3 years as per its articles of association. After that, the policy will be reviewed on the basis of the performance of AMZ and its continued need for additional capital. There were no dividends to declare in 2014 (2013 – nil).

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

3. Financial risk management

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Company's business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the Audit and Finance Committee, under policies approved by the Board of Directors. The Committee identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk and credit risk. The most important types of financial risk affecting the Company are credit risk, liquidity risk and market risk (including currency and interest rate risk).

(3.a) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Company by failing to pay amounts in full when due. Credit risk is the most important risk for the Company's business: management therefore carefully manages the exposure to credit risk. The key area where the Company is exposed to credit risk is through loans and advances to customers.

The Company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored and subject to frequent review. Limits on the level of credit risk by product are approved by management and the Board of Directors. Other specific control and mitigation measures are outlined below

Collateral and other credit enhancements
The Company requires customers to deposit cash collateral when taking out a loan. This cash collateral is auto-deducted from the loan upon disbursement. The cash collateral amount is a percentage of the loan amount which varies according to the loan product as follows:

End of Term loan:	7%
Flexi 1 loan:	7%
Flexi 2 loan:	7%
Credit Line:	7%
Emergency loan:	Nil

Loans are disbursed under the Solidarity Group concept using structures called Village Banks ("VB"). Within a VB there are 5-10 borrowing groups each of which comprises 5-10 individual borrowers. All borrowers within the VB are jointly liable for the borrowings of the entire VB and the collateral provided by the entire VB can be used against any loan from that VB.

Maximum exposure to credit risk
The table below present's the Company's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on-balance sheet financial assets.

	31 December 2014 ZMW	31 December 2013 ZMW
Cash and cash equivalents	1,513,559	2,031,977
Loans and advances to customers	4,668,392	5,893,191
Other assets	294,218	408,378
	6,476,169	8,333,547

The exposures set out above are based on carrying amounts as reported in the statement of financial position. 72.1% of the total maximum exposure is derived from loans and advances to customers (2013: 70.7%). Loans and advances to customers, are secured by cash collateral held with AMZ until and upon completion of the loan and/or mutual guarantees (for group loans). As at 31 December 2014 the value of cash collateral held was ZMW 778k (2013: ZMW 819k).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from its loan and advances portfolio based on the following:

- the Company exercises stringent controls over the granting of new loans;
- 93.7% of the loans and advances portfolio are neither past due nor impaired (2013: 82.3%);
- 100% of the loans and advances portfolio are backed by cash collateral and mutual guarantees (2013: 100%).

Financial assets that are past due or impaired

Loans and advances are summarised as follows:

	31 December 2014 ZMW	31 December 2013 ZMW
Neither past due nor impaired	4,746,639	5,590,036
Past due but not impaired 1-29 days	120,695	108,379
Past due but not impaired 30-59 days	50,950	317,827
Past due but not impaired 60-89 days	68,410	196,989
Past due but not impaired 90-119 days	57,807	174,166
Past due >120 days	22,338	400,903
Gross	5,066,839	6,788,300
Plus: accrued interest	94,456	98,827
Less: deferred income	(379,945)	(369,281)
allowance for impairment	(112,958)	(624,655)
	4,668,392	5,893,191

No other financial assets are either past due or impaired.

Loans and advances less than 120 days past due are not considered impaired, unless other information is available to indicate the contrary. However, all loans are assessed for impairment on a collective basis. Collectively assessed provisions are considered on a portfolio basis, to reflect the homogeneous nature of the assets. A percentage of the portfolio is impaired by evaluating the ageing of missed payments combined with the historical recovery rates for that particular portfolio. The gross impaired loans are quoted without taking account of any collateral or security held, which could reduce the potential loss.

Concentrations of risk of financial assets with credit risk exposure

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

	31 December 2014 ZMW	31 December 2013 ZMW
Agriculture and allied	1,907,771	4,172,456
Manufacturing, mining and production	7,972	36,292
Trade and services	3,114,743	2,536,956
Other	36,353	42,596
	5,066,839	6,788,300

(3.b) **Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities as they fall due or is unable to replace funds when they are withdrawn.

The following table presents the contractual maturities of the Company's financial liabilities on an undiscounted cash flow basis.

	On demand	Less than 3 months	More than 3 months but not more than 1 year	More than 1 year	Total
	ZMW	ZMW	ZMW	ZMW	ZMW
31 December 2014					
Other liabilities	-	771,143	41,350	694,361	1,506,854
Borrowings	-	1,221,834	2,000,000	1862,900	5,084,734
	-	1,992,837	2,041,350	2,557,261	6,591,588
31 December 2013					
Other liabilities	-	774,021	418,908	-	1,192,929
Borrowings	-	637,750	3,275,500	1,504,646	5,417,896
	-	1,411,771	3,694,408	1,398,271	6,,610,825

(3.c) **Market risk**

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Audit and Finance Committee. Management is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

Currency risk

The Company has material currency assets and liabilities resulting from its funding structure whereby it sometimes obtains US$ denominated loans as financing. The Company maintains US$ assets to match these liabilities as long as possible, although at this start up stage of operations, the Company's requirement for Kwacha means that it translates the majority of these US$ balances into Kwacha in order to fund the expansion of its loan portfolio. As the Company expands it anticipates developing its hedging strategy.

The table below summarises the Company's exposure to US$ exchange rate risk at 31 December:

	31 December 2014 ZMW	31 December 2013 ZMW
Assets		
Cash and cash equivalents	655,072	697,652
Other receivables	200,368	175,973
Liabilities		
Other liabilities	189,113	101,181
Borrowings	325,458	-
Net on-balance sheet position	340,869	772,444

Based on the Company's year end net assets denominated in US$ the impact of a 10% strengthening or weakening of the Kwacha would result in a gain or loss (and corresponding impact on equity) of ZMW 34,087 (2013: ZMW 77,244).

Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates. Interest margins may increase or decrease as a result of such changes. The table below summarises the Company's exposure to interest rate risk at 31 December:

	Up to 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 1 year	More than 1 year	Total
	ZMW	ZMW	ZMW	ZMW	ZMW
31 December 2014					
Assets					
Loans and advances to customers	275,601	238,136	4,553,102	-	5,066,839
Liabilities					
Borrowings	2,000,000	1,098,886	-	1,984,858	5,084,734
31 December 2013					
Assets					
Loans and advances to customers	1,551,754	444,587	4,791,959	-	6,788,300
Liabilities					
Borrowings	3,398,271	637,750	1,381,875	-	5,417,896

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Some of the Company's borrowings (see note 16) are at fixed rates of interest and therefore have a different fair value to its carrying value. Due to the fact that market interest rates at the year-end were broadly in line with those when the loan was received and since the loans are being converted in 2015, the Directors do not believe this difference was material.

(3.d) **Capital management**

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

- to comply with the capital requirements set by the Banking and Financial Services Act;
- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines issued by the Bank of Zambia for supervisory purposes. The required information is filed with the Bank of Zambia on a quarterly basis.

The Bank of Zambia requires each Microfinance Institution (MFI), including the Company, to: (a) hold the minimum level of regulatory capital of the higher of ZMW 100,000 and 15% of the risk weighted assets; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%; (c) maintain primary or tier 1 capital of not less than 5% of total risk weighted assets; and (d) maintain total capital of not less than 10% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Company's total regulatory capital is divided into two tiers:

- Tier 1 capital (primary capital): common shareholders' equity, qualifying preferred shares, retained earnings and minority interests in the equity of subsidiaries that are less than wholly owned, adjusted for assets of no realizable value such as prepayments.

- Tier 2 capital (secondary): qualifying preferred shares, 40% of revaluation reserves, subordinate term debt or loan stock with a minimum original term of maturity of over five years (subject to straight line amortisation during the last five years leaving no more than 20% or the original amount outstanding in the final year before redemption) and other capital instruments which the Bank of Zambia may allow.

Risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty.

The table below summarises the composition of regulatory capital, total risk weighted assets and the relevant ratios for the Company as at 31 December 2014 and 2013:

	31 December 2014 ZMW	31 December 2013 ZMW
Capital		
Tier 1 capital	291,114	2,445,366
Tier 2 capital	1,857,040	-
Total	2,148,154	2,445,366
Risk-weighted assets		
On-balance sheet	5,133,796	6,818,166
Off-balance sheet	-	-
Total	5,133,796	6,818,166
Basel ratio		
Tier 1 (regulatory minimum: 5%)	5.7%	35.9%
Tier 1 + Tier 2 (regulatory minimum: 15%)	41.8%	35.9%

NOTES TO THE FINANCIAL STATEMENT – 31 DECEMBER 2014

The following tables show the computation of both the capital position of the Company and its risk-weighted assets:

Computation of capital position

	31 December 2014 ZMW	31 December 2013 ZMW
Primary (Tier 1) capital		
Paid up common shares	17,000,000	10,773,484
Retained earnings	(16,579,833)	(8,119,677)
Less		
Other adjustments	(129,053)	(208,441)
Total primary capital	291,114	2,445,366
Secondary (Tier 2) capital	1,857,040	-
Eligible total regulatory capital	2,148,154	2,445,366
Minimum total capital requirement	770,069	1,022,725
Excess capital	1,378,085	1,422,641

Calculation of risk-weighted assets

		31 December 2014	
	Risk weight	Balance (net of allowance for losses) ZMW	Risk-weighted assets ZMW
Cash and cash equivalents			
- on hand	-	10,194	-
- at bank	20%	1,503,365	300,673
Loans and advances to customers			
- portion secured by cash	-	778,032	-
- other	100%	4,288,807	4,288,807
Property and equipment	100%	458,267	458,267
Other assets	100%	86,049	86,049
Total risk weighted assets		7,124,714	5,133,796

	Risk weight	31 December 2013 Balance (net of allowance for losses) ZMW	Risk-weighted assets ZMW
Cash and cash equivalents			
- on hand	-	11,674	-
- at bank	20%	2,020,303	404,061
Loans and advances to customers			
- portion secured by cash	-	818,550	-
- other	100%	5,074,641	5,074,641
Property and equipment	100%	931,085	931,085
Other assets	100%	408,378	408,378
Total risk weighted assets		9,264,631	6,818,165

4 Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Income taxes and deferred tax asset

The Company is subject to income taxes. Judgement is required in determining the extent that it is probable that taxable profits will be available in the future against which deferred tax assets can be utilised. Based on forecasts, the Company expects to recover its deferred tax assets within the next four-five years. Further details of deferred tax assets and their expected recovery can be found in Note 14 to the Financial Statements. If the Company's forecasts were 10% higher or lower then the Company would still expect to recover its deferred tax assets within the next four-five years.

5. **Interest income**

	Year to 31 December 2014 ZMW	Year to 31 December 2013 ZMW
Arising on:		
Loans and advances to customers	2,469,566	4,073,072
Loan administration charges	875,229	836,218
Fixed term deposits	-	37,209
	3,344,795	4,946,499

6. **Interest expense**

	Year to 31 December 2014 ZMW	Year to 31 December 2013 ZMW
Arising on:		
Other borrowings	975,618	927,827
	975,618	927,827

7. **Operating expenses**

The following items are included within operating expenses:

	Year to 31 December 2014 ZMW	Year to 31 December 2013 ZMW
Employee benefits expense (note 8)	5,721,976	3,881,030
Depreciation	481,060	381,169
Auditors' remuneration	189,925	78,000
Other operating expenses	3,755,778	3,337,649
	10,148,739	7,677,848

8. **Employee benefits expense**

The following items are included within employee benefits expense:

	Year to 31 December 2014 ZMW	Year to 31 December 2013 ZMW
Wages and salaries	5,392,096	3,711,146
Retirement benefit costs:		
- National Social Security Fund (NAPSA)	191,303	169,884
- Madison Private Pension	138,577	-
	5,721,976	3,881,030

9. **Income tax credit**

Income tax charge	**Year to 31 December 2014 ZMW**	**Year to 31 December 2013 ZMW**
Current tax	-	-
Deferred tax (note 14)	-	(1,131,636)
	-	(1,131,636)

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

Tax (charge)/credit reconciliation	**Year to 31 December 2014 ZMW**	**Year to 31 December 2013 ZMW**
Loss before income tax	(8,460,155)	(4,845,501)
Tax at the statutory rate of 35%	2,961,054	1,695,925
Tax effect of:		
Expenses not deductible for tax purposes	(32,560)	(154,215)
Capital allowances	(21,379)	146,318
Unrecognised deferred tax asset	(2,907,115)	(2,819,664)
	-	(1,131,636)

10. **Cash and cash equivalents**

	31 December 2014 ZMW	**31 December 2013 ZMW**
Cash on hand	10,194	11,674
Balances with banks	1,503,365	2,020,303
	1,513,559	2,031,977

11. **Loans and advances to customers**

11.a) Summary	**31 December 2014 ZMW**	**31 December 2013 ZMW**
Loans and advances	5,066,839	6,788,300
Accrued interest	94,456	98,827
Deferred income	(379,945)	(369,281)
Gross loans and advances	4,781,350	6,517,846
Less: Provision for impairment of loans and advances		
- Individually assessed	(112,958)	(624,655)
- Collectively assessed	-	-
	4,668,392	5,893,191

11.b) Maturity	31 December 2014 ZMW	31 December 2013 ZMW
Due:		
Within 1 month	210,406	1,644,155
Between 1 to 3 months	221,451	424,047
Between 3 months and 1 year	4,239,493	4,449,644
	4,781,350	6,517,846

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

	31 December 2014 ZMW	31 December 2013 ZMW
At start of the year	624,655	131,698
Impairment for the year	779,042	1,187,215
Charged-off	(1,291,099)	(694,258)
At end of the year	112,958	624,655

11.c) All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2014 was ZMW 200,000 (2013: ZMW 253,568).

12. **Other assets**

	31 December 2014 ZMW	31 December 2013 ZMW
Prepayments	77,320	111,687
Staff debtors	51,733	96,753
Other debtors	242,485	199,938
	371,538	408,378

The Directors consider that the carrying amount of other assets approximates to their fair value.

13. Property and equipment

	Motor vehicles	Computer and office equipment	Furniture and fittings	Leasehold improvements	Total
	ZMW	ZMW	ZMW	ZMW	ZMW
31 December 2013					
Cost					
At 1 January 2013	466,194	448,481	123,308	-	1,037,983
Additions	295,935	147,763	116,448	73,535	633,681
Disposals	-	-	-	-	
At 31 December 2013	762,129	596,244	239,756	73,535	1,671,664
Depreciation					
At 1 January 2013	185,128	143,672	31,150	-	359,950
Charge for the year	195,733	140,606	34,164	10,126	380, 629
Disposals	-	-	-	-	-
At 31 December 2013	380,861	284,278	65,314	10,126	740,579
31 December 2014					
Cost					
At 1 January 2014	762,129	596,244	239,756	73,535	1,671,664
Additions	-	8,301	-	-	8,301
Asset write offs	-	-	(60)	-	(60)
At 31 December 2014	762,111	604,545	239,714	73,535	1,679,905
Depreciation					
At 1 January 2014	380,861	284,278	65,314	10,126	740,579
Charge for the year	202,969	169,804	53,843	54,444	481,060
At 31 December 2014	583,830	454,082	119,157	64,570	1,221,639
Net book value					
At 31 December 2013	381,268	311,966	174,442	63,409	931,085
At 31 December 2014	178,299	150,463	120,539	8,965	458,266

14. Deferred income tax assets

14.a) Deferred income tax is calculated using the enacted income tax rate of 35%. The movement on the deferred income tax account is as follows:

	Year to 31 December 2014 ZMW	Year to 31 December 2013 ZMW
At start of year	-	1,131,636
Income statement (charge) / credit (Note 9)	-	(1,131,636)
At end of year	-	-

During 2013, the Company determined that it was no longer appropriate to recognize any deferred tax asset due to the ongoing losses. The amount of the unrecognised deferred tax asset as at 31 December 2014 was ZMW 5,726,779 (2013: 2,819,664).

14.b) The deferred income tax asset and deferred income tax credit in the statement of comprehensive income are attributable to the following items:

	Trading losses ZMW	Capital allowances ZMW	Total ZMW
Credited / (charged) to income statement	(1,160,059)	28,423	(1,131,636)
At 31 December 2013	-	-	-
Credited / (charged) to income statement	-	-	-
At 31 December 2014	-	-	-

14.c) Recognised/unrecognised deferred tax assets are expected to be recovered as follows:

	31 December 2014	31 December 2013
Recognised		
Within twelve months	-	-
After twelve months	-	-
Unrecognised		
Within twelve months	-	-
After twelve months	5,726,779	2,819,664

14.d) Deferred tax assets will expire as follows:

	31 December 2014 ZMW	31 December 2013 ZMW
2015	297,124	297,124
2016	441,249	441,249
2017	284,456	284,456
2018	1,796,835	1,796,835
2019	2,907,115	-
	5,726,779	2,819,664

15. Other liabilities

	31 December 2014 ZMW	31 December 2013 ZMW
Cash collateral	778,032	818,550
PAYE and pension contributions	98,208	79,104
Other creditors and accruals	630,614	295,275
	1,506,854	1,192,929

The Directors consider that the carrying amount of other liabilities approximates to their fair value.

16. Borrowings

	31 December 2014 ZMW	31 December 2013 ZMW
Borrowings	5,084,734	5,417,896
	5,084,734	5,417,896

At 31 December 2014 the Company's borrowings were as follows:

	Principal	Maturity	Currency	Interest Rate (net)	Carrying Value ZMW
Current					
Access Africa Fund					28,288
AMNV	K 579,002	31 Mar 2015	ZMW	16%	590,205
AMNV	$50,000	31 Mar 2015	USD	8%	333,857
Hivos-Triodos Fonds	K 2,000,000	1 Aug 2015	ZMW	17.25%	2,146,536
					3,098,886
Non-current, subordinated					
AMNV	K 1,862,900	31 Jul 2020	ZMW	16.00%	1,985,848
					5,084,734

The interest rate on the Hivos-Triodos Fonds loans resets on a quarterly basis at 7.75% above the Zambian Government 91 day treasury bill. The interest rates on the AMNV Fund loans are fixed. The carrying value of the Access Africa Fund relates to withholding tax payable in 2015.

At 31 December 2013 the Company's borrowings were as follows:

	Principal	Maturity	Currency	Interest Rate (net)	Carrying Value ZMW
Current					
Access Africa Fund	K 1,913,250	15 May 2014	ZMW	16.00%	1,916,307
Hivos-Triodos Fonds	K 2,000,000	1 May 2014	ZMW	15.75%	2,092,672
					4,008,979
Non-current, subordinated					
AMNV	K 1,398,270	31 Mar 2015	ZMW	15.75%	1,408,917
					5,417,896

The interest rate on the AMNV and Hivos-Triodos Fonds loans reset on a quarterly basis at 7.75% above the Zambian Government 91 day treasury bill. The interest rate on the Access Africa loans is fixed.

17. Share capital

The total authorised number of ordinary shares is 1,700,000 with a par value of K10 per share (2013: 1,100,000). The authorised share capital is split between A class ordinary shares attached to which are voting rights and B class ordinary shares which do not have voting rights. There are 95,000 authorised A class ordinary shares (2013: 95,000) and 1,605,000 authorised B class ordinary shares (2013: 1,005,000). The following movements in issued share capital occurred during the period:

	Number of A class shares	Number of B class shares	Total ZMW
At 1 January 2013	95,000	982,348	10,773,484
Issued during the year	-	-	-
At 31 December 2013	95,000	982,348	10,773,484
Issued during the year	-	622,652	6,226,516
At 31 December 2014	95,000	1,605,000	17,000,000

All issued shares are fully paid.

On 25 April 2014, the Company issued 357,241 B class shares to AMNV, an existing shareholder, as a result of AMNV exercising the conversion clause in its loan agreement.

On 31 July 2014, the Company issued 162,121 B class shares to AMNV, an existing shareholder, as a result of AMNV exercising the conversion clause in its loan agreement.

On 28 November 2014, the Company issued 103,290 B class shares to AMNV, an existing shareholder, as a result of AMNV exercising the conversion clause in its loan agreement.

18. Related party transactions

18.a) Borrowings

As at 31 December 2014, the Company had, as borrower, entered into the following loan agreements with a related party:

	Type of Loan	Maturity	Interest Rate	Principal ZMW	Drawdown ZMW
AMNV	Senior, Convertible	31 Mar 2015	16.00%	579,002	579,002
AMNV	Senior, Convertible	31 Mar 2015	8.00%	320,125	320,125
AMNV	Subordinated, Convertible	31 Jul 2020	16.00%	1,862,900	1,862,900

As at 31 December 2013, the Company had, as borrower, entered into the following loan agreements with a related party:

	Type of Loan	Maturity	Interest Rate	Principal ZMW	Drawdown ZMW
AMNV	Senior, Convertible	31 Mar 2015	15.75%	2,796,500	1,398,250

Interest charged on loans with AMNV was as follows:

	31 December 2014 ZMW	31 December 2013 ZMW
AMNV	365,182	10,647

AMNV has confirmed that it will support AMZ for a minimum of 12 months from the date of this report. As part of that commitment, on 26 March 2015, AMNV agreed to subordinate all its outstanding debt at that date (ZMW 2,993,574) to other creditors of the Company.

18.b) Key management compensation

For the purposes of related party disclosures key management comprises the CEO and CFO. The directors believe that CEO and CFO comprise the key management personnel of the company, with the authority and responsibility for planning, directing and controlling, directly or indirectly, its activities.

	31 December 2014 ZMW	31 December 2013 ZMW
Salaries and other short-term employment benefits	1,042,347	355,400
Company pension contributions	10,045	9,375
	1,052,392	364,775

19. **Contingent liabilities and commitments**

As at 31 December 2014 all of the Companies lease agreements are cancellable at between 1 and 3 months notice:

	31 December 2014 ZMW	31 December 2013 ZMW
Within one year	-	151,454
After one year but not more than five	-	160,774
	-	312,228

There were no significant contingent liabilities or non-lease commitments during the year or at the reporting date.

20. **Subsequent events**

On 28 January, 17 February, 2 March and 23 March 2015 the Company entered into extensions of the subordinated debt agreement with its shareholder, AMNV, for the ZMW equivalent of $50,000, $80,000, $50,000 and $50,000 respectively.

On 28 January 2015 the Company increased its authorized share capital from 1,700,000 to 1,860,000 shares at K10 each and on 31 March 2015 further increased it authorized share capital to 2,310,000 shares at K10 each. Of these, 2,154,448 shares were paid-up.

On 28 January 2015, AMNV converted ZMW 1,554,480 of its loans to the Company into 155,448 Class B shares and on 31 March 2015, AMNV further converted ZMW 2,990,000 of its loans into 299,000 Class B shares.

SCHEDULE 1

DETAILS OF OPERATING EXPENDITURE
FOR THE YEAR ENDED 31 DECEMBER 2014

	31 December 2014 K '000	31 December 2013 K '000
Advertising and branding	-	4,005
Audit fees	189,925	78,000
Bank charges	60,189	68,379
Computer expenses	-	17,756
Depreciation	481,060	381,169
Directors' fees	27,000	16,217
General expenses	509,096	392,891
Insurance	32,667	36,329
Licensing expenses	84,658	64,144
Medical expenses	153,151	77,920
Office expenses	63,661	59,444
Professional fees	1,427,450	1,190,552
Recruitment and training	(11,253)	66,022
Rent	410,751	285,173
Repairs and maintenance	203,811	111,079
Salary and wages	5,568,825	3,803,110
Security expenses	183,798	147,776
Stationery	49,007	66,830
Telephone expenses	116,802	88,641
Travel – local	598,139	722,411
	10,148,739	7,677,848

Schedule 1 does not form part of the financial statements and, as such, is not covered by the audit report.