AMZ
AGORA MICROFINANCE ZAMBIA

Annual Report 2017

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 gives me immense pleasure to bring to your attention our most successful year to date in Zambia. The AMZ team executed our annual strategy to perfection in 2017, and ensured that we achieved all the major goals for the year. At the beginning of 2017, we had agreed that the focus for the year would be on diversification, not only geographic but also in target markets and product lines. As always we needed a bit of luck from the macro-economy and weather patterns to ensure that these strategies could be implemented strongly.

The Zambian economy performed reasonably in 2017, with a GDP growth of 4.2%[1] and single-digit inflation after a tumultuous 2015-16. As a result, the Kwacha remained strong during the year and helped AMZ secure its borrowings within reasonable cost and manageable volatility in interest rates. The economy is forecast to strengthen further in 2018, which gives us a strong foundation to expand and consolidate our work further in the coming year.

During 2017 AMZ undertook a number of new initiatives with success. In the early part of the year we began providing localized payment services to mobile money agents as a super-agent of mobile phone companies. Due to limited liquidity with agents, especially in rural areas, this was a useful role for AMZ to play, given the opportunity to energise local economies by making cashflows more efficient. Our partnership with MTN, Airtel and Zoona has progressed rapidly and by the end of the year we were already processing almost half a million Zambian Kwacha a month. This is set to continue growing exponentially in the coming year as we open new branches and upgrade our processing ability further.

After painstaking efforts lasting many months, we were able to help design two new micro-insurance products by the close of 2017. In partnership with Mayfair Insurance and with SANLAM, AMZ is set to distribute health & funeral cover, as well as weather-index insurance to both its customers as well as non-customers during 2018. We are excited about this new initiative and believe it will bring the much needed risk mitigation that many of our target clients will be able to benefit from.

On our core lending business, AMZ took big strides in its diversification efforts by successfully launching two new products, the MSME loans as well as small group business loans. These are new market segments for AMZ but we believe they are extremely relevant in the rural economies we operate in. They also allow AMZ to limit its exposure to any one segment of the market and also realize better operating margins to balance out our trademark rural loan portfolio, which is effectively a high volume low margin operation.

As always, I would like to extend my appreciation to the staff and management of AMZ, ably led by our CEO Abduqodir Sattorov, under whose guidance AMZ has made commendable progress. Our committed colleagues work tirelessly in the pursuit of our shared goal of making a contribution to rural Zambia's economic progress, and 2017 was a measurable success in this endeavour. Lastly, I remain grateful to our 17,000 customers for their continued support to our work.

Tanmay Chetan
Chairman

[1] World Bank estimate

CEO's Report

2017 was a year of success for AMZ as the company successfully implemented its diversification strategy and, improved its financial viability and current profits.

In 2017, we introduced 2 new loan products: Micro and MSME loans, together with Small Business Group (SBG) loans. We also moved into the non-credit business by introducing Mobile Money Agency Business and thereby providing cash and float support to Zambian Mobile Money Operators like Airtel, MTN and Zoona. As at the end of the year, we were working with 350 MMO agents.

In terms of physical expansion, two new branches were opened during 2017 and 25 new staff were hired during this period bringing our total staff strength to 71.

With product diversification and physical expansion, our portfolio grew by more than 70% and client numbers reached almost 17,000, while keeping PAR30 at a very low level of 0.53%. While much of the growth this year was driven by product diversification, we expect to add higher numbers of clients in the coming year when our new branches begin operating at full potential.

The continued operating efficiency, growth, good portfolio quality and a relatively stable Zambian Kwacha all contributed to healthy profits for the year, with Return on Equity of around 20%.

Internal Controls were strengthened in the company through the creation of a separate Internal Controls department. Through a risk based approach, the department has begun contributing to creating a strong culture of risk controls in the company.

Our plans for 2018 will continue to build on the accomplishments till date, and will include further strides in loan diversification, geographic expansion, digital upgrades to our processes and introduction of new micro-insurance products. We will further intensify our efforts on staff capacity through a dedicated research function which is planned to be introduced during the year.

In recognition of our work, we were awarded a special Governor's Award from the Bank of Zambia during the year, specifically for contribution to financial education. The award reflected our commitment to helping the delivery of mobile money services to financially excluded rural populations. We are thankful to the Bank of Zambia for their recognition of our work.

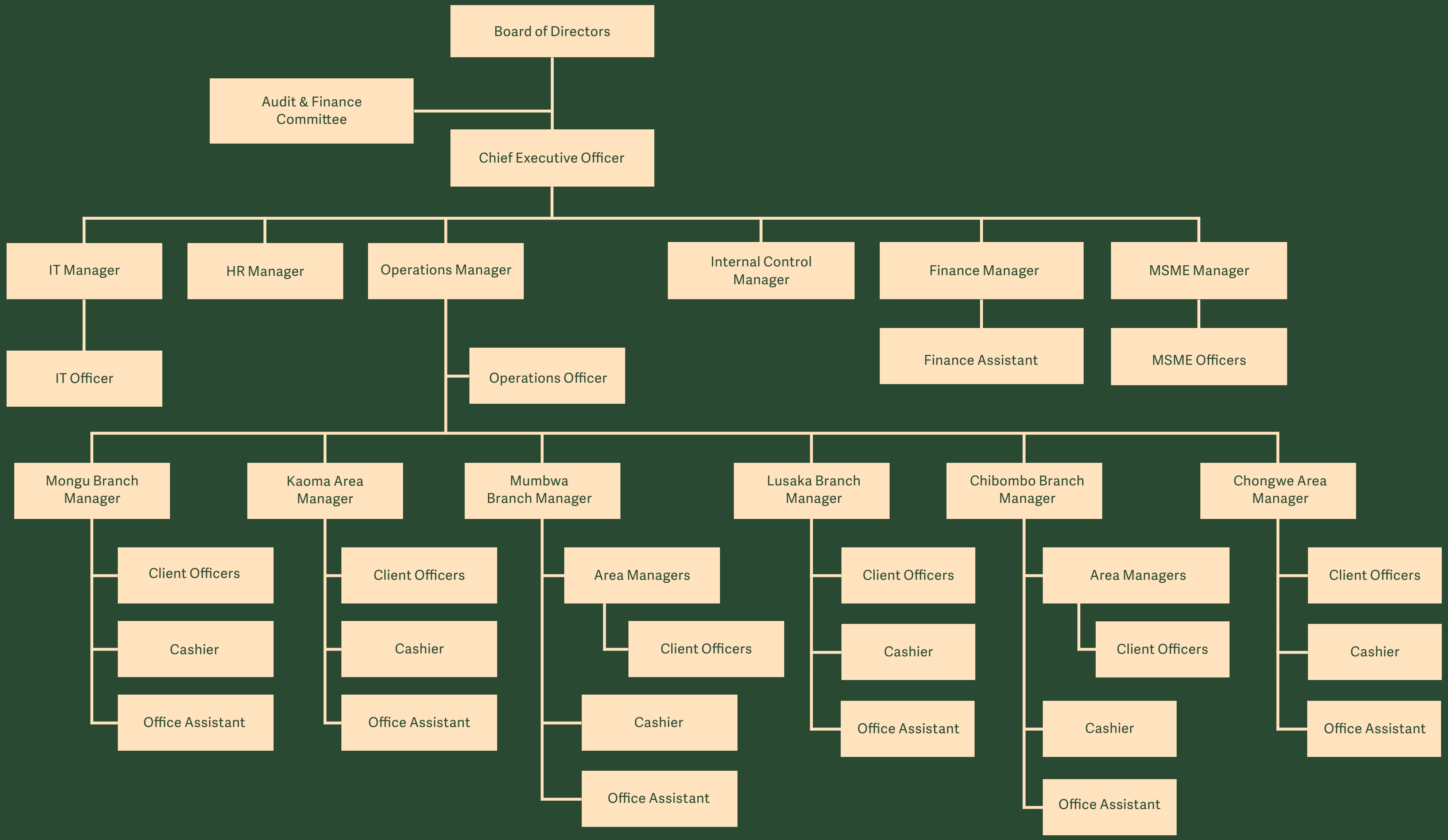
In conclusion, I would like to thank the Board, staff, management and clients of AMZ who all contributed in making this year successful.

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 six departments (Information Technology, Human Resources, Operations, Internal Control, Finance and Micro, Small & Medium Enterprises). 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

Abduqodir Sattorov
Chief Executive Officer

Senior Management

Abduqodir Sattorov
Chief Executive Officer

Susan Chibanga
Finance Manager

O'Brein Njebe
Operations Manager

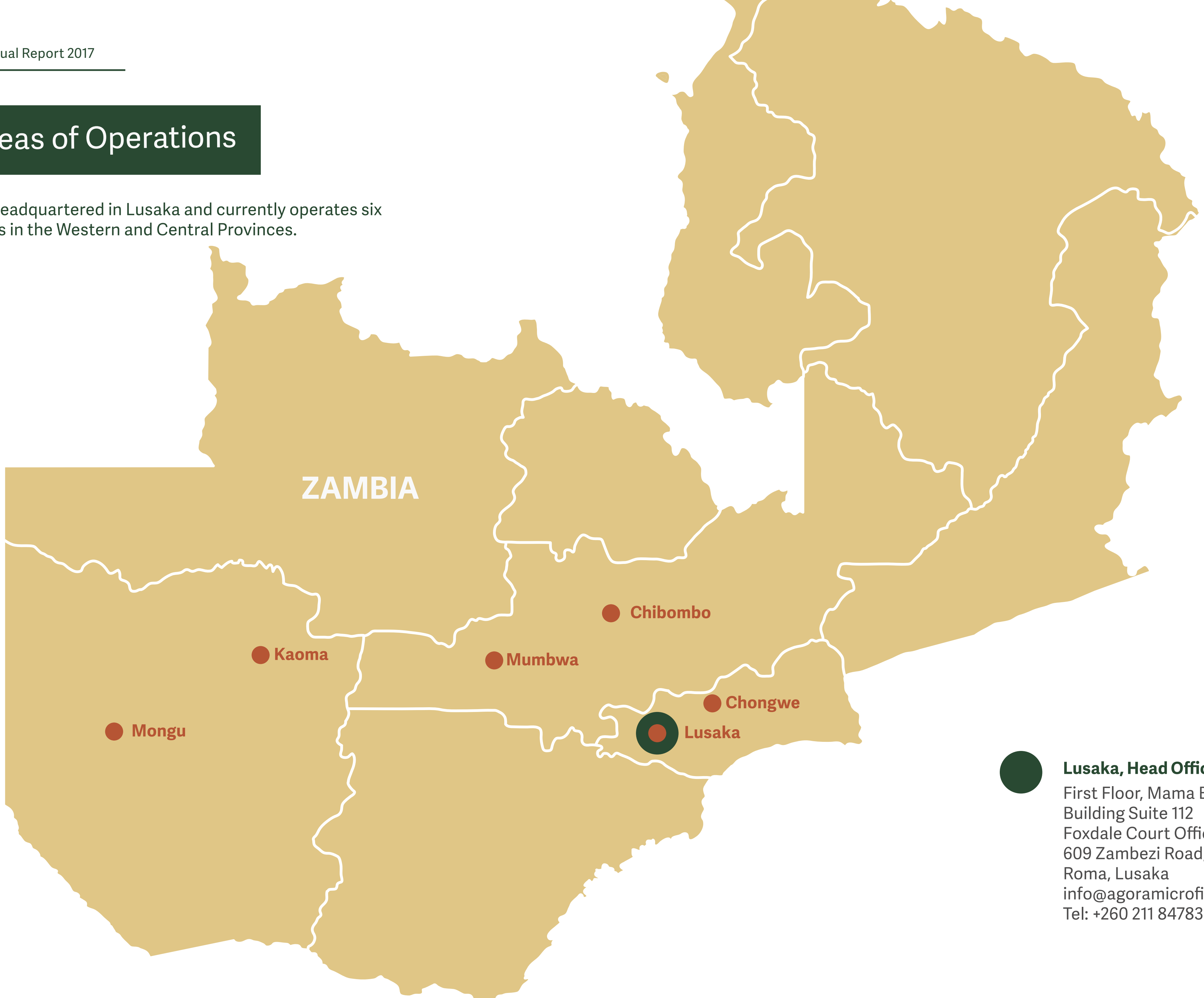
Mwape Mwila
Operations Manager

Samba Kapambwe
Human Resource Officer

Joseph Lungu
Internal Control 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

Mongu
Plot No. 331 Independence Ave
Telephone: +260 217 221 262
Opening Hours: Monday - Friday 8:00 - 17:00

Kaoma
Shop No. 1 Maseka Complex
Telephone: +260 217 360 127
Opening Hours: Monday - Friday 8:00 - 17:00

Mumbwa
Plot No. 271 Lwangwa
Telephone: +260 211 800 003
Opening Hours: Monday - Friday 8:00 - 17:00

Chibombo
Plot No. 11 Chibombo Junction
Telephone: +260 0953 243 603
Opening Hours: Monday - Friday 8:00 - 17:00

Chongwe
Chalimbana Turn Off, Shop 5, Plot 8958/M,
Great East Road
Telephone: +260 950 846 134
Opening Hours: Monday - Friday 8:00 - 17:00

Lusaka
Stand No. 20A, Kanele Mall, along Kafue Road
Telephone: +260 955 628 490
Opening Hours: Monday - Friday 8:00 - 17:00

Products & Services

AMZ serves clients who are otherwise excluded from the financial market. With the objective of “finance at your doorstep”, our staff work in the local communities of our clients, visiting them near their homes to provide previously inaccessible services.

Our products are designed to meet the specific financial needs and cash flow patterns of our target clients.

- **Loans**

  Our loan products are designed to meet different life-cycle and cashflow patterns of the various client house (End of Term Loan (EoT); Flex 1; Flexi 2; Small Business Group Loan (SBGL); Micro, Small and Medium Enterprise (MSME))

- **Insurance**

  We offer a mandatory credit life and a voluntary health insurance for both clients and non-clients.

- **Mobile Money**

  We work as a super-agent of the 4 largest mobile network operators (MNOs) to facilitate domestic remittances. As a super-agent, we help the agents of MNOs to manage their liquidity in partnership with our branches.

Flexi Loans

Flexi Loans are offered to households who typically have multiple livelihoods, with agriculture as the subsistence livelihood augmented with trading, service or small manufacturing businesses. The loans range from ZMW 500 to ZMW 4,000 (USD 50-400) and are paid in monthly installments. The use of the loans is varied, usually supporting a mix of household cash needs. A typical household will use the loan for seeds, fertilisers and inputs for agriculture, as well as working capital for micro-enterprises. As with most loans, some part of the amount will also go towards childrens’ school fees and other consumption needs of the families.

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.

End of Term Loan (EoT)

This loan is aimed at predominantly farming households with seasonal cash flows to provide timely capital for subsistence agriculture. 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.

Through our “finance at your doorstep” philosophy, which allows our staff to visit clients near their homes, rural communities are provided with previously inaccessible products and services.

Small Business Group (SBG)

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 regular cashflow. These clients 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.

Insurance

Our Credit Life Insurance is a mandatory product for all existing AMZ borrowers. Our Life & Hospitalization Insurance is an affordable, voluntary family insurance product available to both AMZ as well as non-clients.

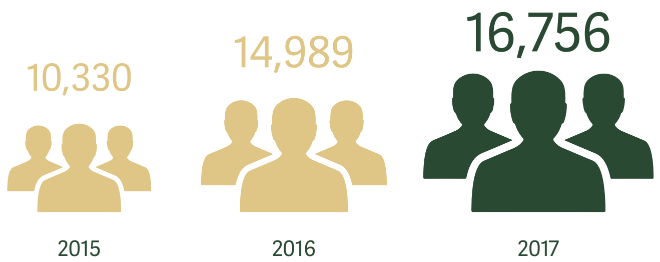
Mobile Money

These partnerships aim to strengthen the financial inclusion of the rural poor. As agents, we serve walk-in mobile money clients with cash deposits and withdrawals. As a super-agent, we help MNOs strengthen their distribution through the provision of E-float and cash management to agents. We currently serve more than 350 agents countrywide.

Operational & Financial Highlights

No. of Branches

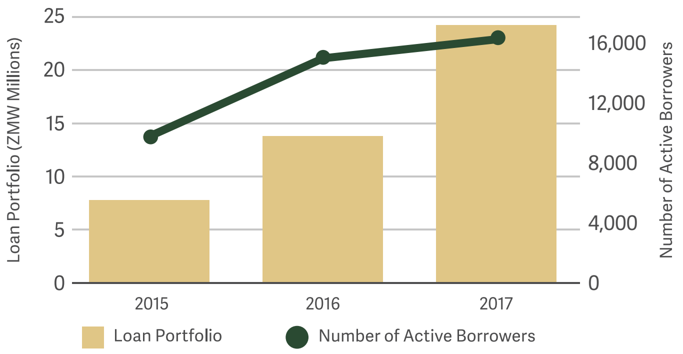
No of Village Banks



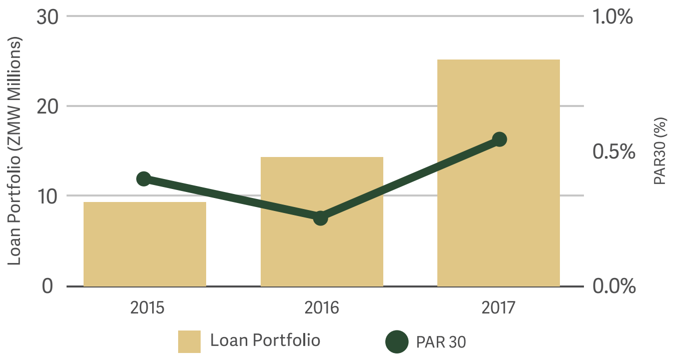
No. of Clients

Description	2015	2016	2017
No of Branches	4	5	**6**
No of Village Banks	261	322	**495**
Number of Active Borrowers	10,330	14,989	**16,756**
• Women Borrowers (%)	58%	62%	**62%**
• Rural borrowers (%)	74%	85%	**85%**
Loan Portfolio (USD)	701,272	1,453,760	**2,705,047**
Loan Portfolio (ZMW)	7,714,767	14,246,848	**24,778,121**
PAR 30 Days	0.41%	0.23%	**0.53%**
Average Loan Size (USD)	72	96	**161**
Average Loan Size (ZMW)	747	950	**1,479**
Average Loan Size / Estimated GNI per capita	5%	7%	**12%**

Loan Portfolio vs No. of Active Borrowers



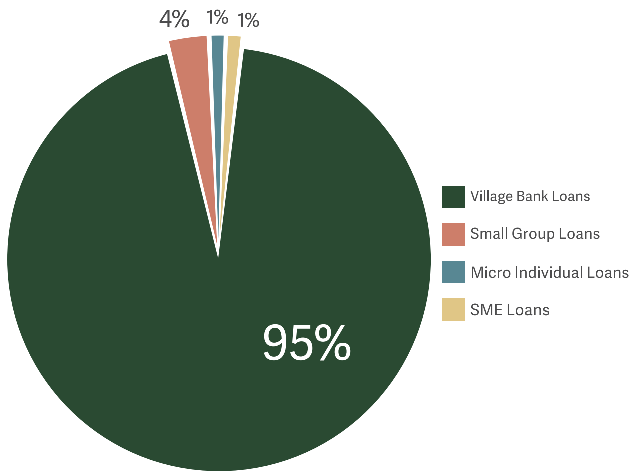
Loan Portfolio vs PAR30



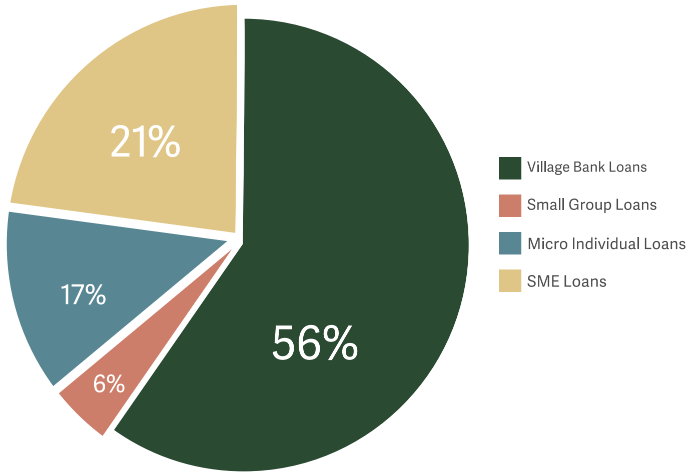
Operational & Financial Highlights

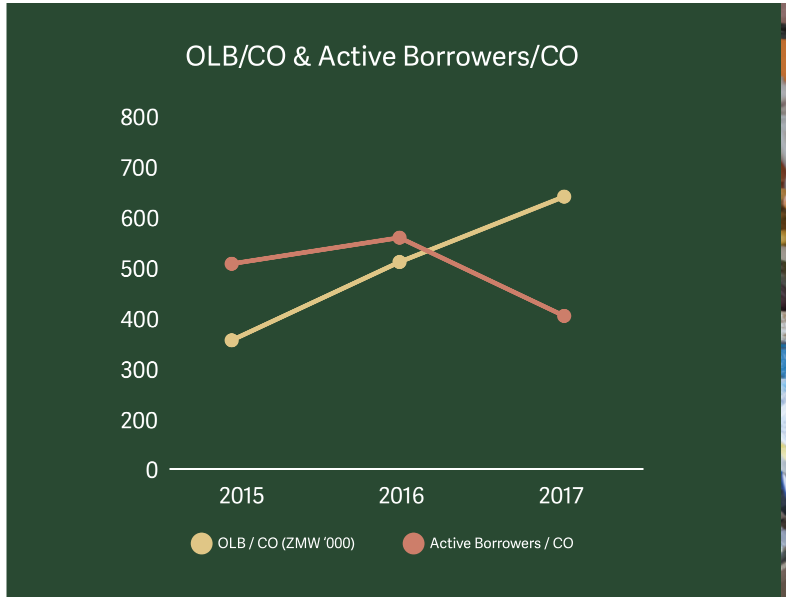
Financial Ratios	2016	**2017**
Interest Yield Ratio	44.42%	**48.64%**
Loan Fee Income Ratio	37.80%	**29.79%**
Portfolio Yield	82.22%	**78.42%**
Provision Exp Ratio	0.25%	**1.06%**
Financial Cost Ratio	16.58%	**19.70%**
Total	16.82%	**20.76%**
Personnel Cost Ratio	32.33%	**27.05%**
Personnel / Total Costs	36.67%	**36.49%**
Admin Cost Ratio	39.01%	**26.32%**
Total Operating Cost Ratio	71.34%	**53.37%**
Total Expense (Financial & Operating) Ratio	88.16%	**74.14%**
Net Margin by Average Portfolio	5.94%	**4.29%**
Return on Total Assets	0.81%	**4.50%**
Return on Equity	2.9%	**19.3%**
Operating Self Sufficiency	100.07%	**106.40%**
Debt / Equity	3.07	**3.41**
Capital Adequacy (Equity / Assets)	24.60%	**22.70%**

Clients by Product Type



Portfolio by Product Type





Plans for 2018: Consolidation and Expansion

AMZ will build on the strong performance from 2016 and 2017 to expand both its product range as well as geographical coverage during 2018, with the aim of reaching more unbanked customers through tailored products. Our plans include the opening of two new branches (8 Branches by year-end), and adding two new insurance products to our offer, in the form of health as well as weather-index insurance for small farmers. Loans will continue to be provided through large groups (Village Banks), smaller joint-liability groups for traders in rural markets, individual loans for micro-entrepreneurs, and MSME loans for small businesses. Our successful foray into partnering with telecom and payment companies to work as their super-agent will also grow during the year.

To achieve the above goals, substantial investment in people, training and systems is planned. With a view to introducing deposits by 2020, AMZ will review its structure, infrastructure, governance and systems by the second half of 2018. Some initial preparatory work will begin in 2018, and much of the necessary changes will be carried out in 2019 if the progress of the Company remains positive over the next 18 months.

A number of new debt partnerships are in the pipeline and these will go a long way in the achievement of our objectives. AMZ will continue to work closely with its existing and new lenders and investors to create strong long-term relationships. During 2018 we expect two-three such relationships to be initiated, while continuing with our existing lenders Grameen-Credit Agricole, Oikocredit and Global Partnerships.

We expect to therefore end the year with a substantial increase in our clientele and strong growth of our balance sheet.

Financial Statements

for the Year Ended 31 December 2017

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 2017.

1. Principal activities

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

2. The Company

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

Agora Microfinance Zambia Limited

Suite 112 Mama Betty Building

Plot 609 Zambezi Road Roma

P O Box 745 Post Net

Lusaka

3. Shareholding

Agora Microfinance Zambia Limited's shareholding consists of Agora Microfinance NV 75% and Moringaway Limited 25%. The total number of authorised ordinary shares is 2,400,000 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:

	2017	2016
	ZMW	ZMW
Interest income	**9,490,280**	4,877,291
Profit before income tax	**925,573**	7,246
Income tax credit	**229,557**	99,560
Profit for the year	**1,155,130**	106,806

5. Dividends

The Directors do not propose a dividend to be declared in respect of the 2017 financial year (2016 : Nil).

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**
Abduqodir Sattorov	**Director/CEO**

Company Secretary

Susan Chibanga (appointed 29 September 2017)

7. Directors' remuneration

The total spent on director's fees during the year was ZMW 16,275 (2016 : ZMW17,125) as disclosed in note 21 of the financial statements.

8. Average number and remuneration of employees

Total employee benefits expense for the year was ZMW 5,278,625 (2016 : ZMW3,549,975) as disclosed in note 9 of the financial statements.
The average number of employees throughout the year was 63 (2016 : 45).

9. Gifts and donations

A memorandum of understanding for Technical Assistance was signed with Financial Sector Deepening Zambia in July 2016. 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 150,271 for the year (2016 : ZMW557,812).

10. Property and equipment and intangible assets

The Company acquired property and equipment and intangible assets with value of ZMW 929,721 (2016 : ZMW 782,979) 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 (2016 : 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 (2016 : Nil).

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

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

Board Committees

During the 19 December 2016 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 2017. Membership of the Board's AFC during the year was as follows:

Glenda Mazakaza	**Chairperson**
Rebecca McKenzie	**Member**
Tanmay Chetan	**Member**

16. Auditors

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

By order of the Board

Company Secretary

19 March 2018

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 statement of financial position as at 31 December, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, 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 19 March 2018 and are signed by:

Director	Director
Tanmay Chetan	**Maluba Wakung'uma**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Agora Microfinance Zambia Limited ("the Company") set out on pages 10 to 45, which comprise the statement of financial position as at 31 December 2017, 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 2017, 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), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Audit

Impairment of loans and advances to customers

Refer to note 12 loans and advances to customers and note 22 (a) credit risk section of the financial risk management

Key audit matter	How the matter was addressed in the audit

The impairment of loans and advances is estimated by the directors through the exercise of judgement and use of highly subjective assumptions.
 	
The last few years have been underlined by a number of economic challenges faced by the Company's customers such as depreciation of the Kwacha, an increase in interest rates (following the Central Bank's removal of interest rate capping), power shortages, weak global demand and low prices of copper and low market liquidity. While the economy has performed better in the current year, these challenges still have a lag effect on the sector's customers' ability to meet their loan commitments resulting in an increase in loan write-offs and impairments in the sector.
 	
The impairment calculation is considered separately on a specific and collective basis as follows:
 	
• Specific impairment provisions relates to individually significant exposures. Judgement is required to determine when an impairment event has occurred and to estimate the likely timing and extent of recovery, and whether an impairment provision is required.
 	
• Collective impairment provisions are predominantly determined using a methodology which incorporates observable data, assumptions and estimates. Management applies judgement in determining the appropriateness of the methodology, analysing the observable data, determining appropriate assumptions and formulating estimates.
 	
Due to the impact of the previous year's economic situation, the significance of loans and advances and the related estimation uncertainty, this matter was considered to be a key audit matter in our audit of the current year financial statements.
	Our audit procedures included, among others:
	
	• We tested the controls over:
	  ◦ Management's approval of credit origination of the loans and advances; and
	  ◦ Monitoring of facilities issued (i.e. early identification of impaired accounts and approval of manual impairments/write-offs).
	
	• Where specific impairments had been made, we assessed as to whether all large loan exposures in the small medium sized and micro portfolio have been considered for the purpose of the impairment calculation.
	
	• Where collective impairments had been made, we obtained an understanding and critically assessed the assumptions and inputs used in the provisioning model based on our knowledge of the industry and understanding obtained during the audit.
	
	• For all impairment provisions:
	  ◦ We considered the appropriateness of accounting policies and assessed the loan impairment methodologies across the Company and compared these to the requirements of IAS 39: *Financial Instruments: Recognition and Measurements*.
	  ◦ We compared the Company's assumptions to externally available information.
	  ◦ We assessed the reasonableness of key inputs such as historical default rates, recovery rates, collateral valuation, discount rates and economic factors and considered the sensitivity of these inputs on the assessment of impairment.
	
	• We also assessed whether the financial statement disclosures, appropriately reflect the Company's exposure to credit risk.

Recognition of deferred tax asset

Refer to note 4 use of estimates and judgements, note 20 deferred tax asset and note 28 (e) taxation

Key audit matter	How the matter was addressed in the audit

The Company has been reporting operational losses and marginal profits for the past years and recorded a significant profit in the current year of ZMW 925,573 (2016 : ZMW 7,246) and a deferred tax asset of ZMW 329,117 was recognised.
 	
The recognition of deferred tax assets is on the basis that the Company will be profitable in future years. The recognition of deferred tax assets is permitted only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward.
 	
When considering the availability of future taxable profits, judgment is applied by the Company's management when assessing how much of the deferred tax asset should be recognized based on the projections of the future taxable income which are based on approved business plans and cash flow projections.
 	
Due to the significant estimation and judgment involved by management and the work effort from the audit team, this matter was considered to be a key audit matter.
	As part of our audit:
	
	• We assessed and challenged the assumptions used by management in projecting the Company's future taxable profits, by evaluating the projections and the business plan for the next 5 years.
	
	• We compared key inputs used by the Company for the forecast future profits to externally available data, such as economic forecasts, and the Company's own historical data, our knowledge of the industry and understanding obtained during the audit.
	
	• We challenged the recognition and measurement of the deferred tax asset by:
	  ◦ assessing the nature of the timing differences giving rise to the assets; and
	  ◦ evaluating profit forecasts included in the cash flow forecast, used to justify the recognition of the assets.
	
	• We assessed whether the Company's disclosures of the application of judgment in estimating recognised and unrecognised deferred tax asset balances appropriately reflect the Company's deferred tax position.

Other information

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

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	March 2018
Cheelo Hamuwele Audit Principal	**AUD/F001044**

Statement of financial position

as at 31 December 2017
in Zambian Kwacha

Assets	Notes	2017	2016
Cash and cash equivalents	11	**5,730,509**	1,280,244
Loans and advances to customers	12	**25,171,108**	14,539,455
Other receivables	13	**1,166,945**	461,799
Property and equipment	15	**1,379,042**	846,018
Intangible assets	16	**118,958**	171,296
Deferred tax assets	20	**329,117**	99,560
Total Assets		**33,895,679**	17,398,372
Liabilities			
Other payables	17	**1,776,221**	823,741
Borrowings	18	**24,440,713**	12,301,016
Total Liabilities		**26,216,934**	13,124,757
Equity			
Share capital	14	**23,663,340**	23,100,000
Share premium		**2,511,300**	824,640
Accumulated losses		**(18,495,895)**	(19,651,025)
Total equity		**7,678,745**	4,273,615
Total equity and liabilities		**33,895,679**	17,398,372

These financial statements were approved by the Board of Directors on 19 March 2018 and were signed by:

Director
Tanmay Chetan

Director
Maluba Wakung'uma

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2017
in Zambian Kwacha

	Notes	2017	2016
Interest and income	5	**9,490,280**	4,877,291
Interest expense	7	**(3,844,393)**	(1,820,289)
Net interest income		**5,645,887**	3,057,002
Fee income	6	**5,823,306**	4,333,919
Net trading income		**11,469,193**	7,390,921
Other income	8	**382,883**	587,986
Impairment losses on loans and advances	12	**(206,933)**	(27,152)
Operating income		**175,950**	560,834
Finance income		**500,229**	207,042
Finance cost	9	**(806,455)**	(317,798)
Net finance cost		**(306,226)**	(110,756)
Operating expenses		**(10,413,344)**	(7,833,753)
Profit before income tax		**925,573**	7,246
Income tax credit	19(a)	**229,557**	99,560
Profit for the year		**1,155,130**	106,806

There were no items of other comprehensive income during the year (2016 : Nil).

Statement of changes in equity

for the year ended 31 December 2017
in Zambian Kwacha

	Share capital	Share premium	Accumulated losses	Total
Balance at 1 January 2016	22,824,640	-	(19,757,831)	3,066,089
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
Balance at 31 December 2016	23,100,000	824,640	(19,651,025)	4,273,615
Balance at 1 January 2017	**23,100,000**	**824,640**	**(19,651,025)**	**4,273,615**
Total comprehensive income for the year				
Profit for the year	-	-	**1,155,130**	**1,155,130**
Transactions with owners recognised directly in equity				
Shares issued	**563,340**	**1,686,660**	-	**2,250,000**
Balances as at 31 December 2017	**23,663,340**	**2,511,300**	**(18,495,895)**	**7,678,745**

Accumulated losses

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

Share premium

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

Statement of cash flows

for the year ended 31 December 2017
in Zambian Kwacha

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		**1,155,130**	106,806
Adjustment for:			
Interest expense	7	**3,844,393**	1,820,289
Depreciation	15	**371,646**	277,966
Amortisation	16	**52,338**	3,186
Profit on disposal of equipment		**(32,226)**	(4,139)
Income tax credit	19(a)	**(229,557)**	(99,560)
Net exchange differences on borrowings	18	**366,081**	(293,835)
Write off of property and equipment	15	**5,562**	-
		5,533,367	1,810,713
Changes in:			
Loans and advances		**(10,631,653)**	(7,620,569)
Other receivables		**(705,146)**	(192,989)
Other payables		**952,480**	432,073
Cash used in operations		**(4,850,952)**	(5,560,072)
Income tax paid	19(c)	**-**	(6,723)
Interest paid		**(3,844,393)**	(1,820,289)
Net cash used in operating activities		**(8,695,345)**	(7,387,784)

Statement of cash flows
for the year ended 31 December 2017
in Zambian Kwacha

	Notes	2017	2016
Cash flows from investing activities			
Acquisition of property and equipment	15	**(929,721)**	(653,189)
Acquisition of intangibles	16	**-**	(129,790)
Proceeds from disposal of equipment		**51,715**	5,536
Net cash used in investing activities		**(878,006)**	(777,443)
Cash flows from financing activities			
Proceeds from issue of share capital	14	**2,250,000**	1,100,000
Proceeds from borrowings	18	**17,312,084**	9,040,951
Repayment of borrowings	18	**(5,538,468)**	(2,105,603)
Net cash generated by financing activities		**14,023,616**	8,035,348
Net increase/(decrease) in cash and cash equivalents		**4,450,265**	(129,879)
As at 1 January		**1,280,244**	1,410,123
Cash and cash equivalents at 31 December	11	**5,730,509**	1,280,244

Notes to the financial statements
for the year ended 31 December 2017

1. Reporting entity

Agora Microfinance Zambia Limited ("AMZ" or "the Company") is incorporated in Zambia under the Companies Act of Zambia as a Company Limited by shares, and is domiciled in Zambia. The Company is also licensed under the Banking and Financial Services Act of Zambia, to conduct microfinance services. The address of its registered office is P.O. Box 745 Post Net Manda Hill Suite 112 Mama Betty Building Plot 609 Foxdale Court Zambezi Road, Lusaka.

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

Details of the Company's accounting policies are included in note 28.

2. Basis of accounting

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Banking and Financial Services Act and Companies Act of Zambia.

b) Basis of measurements

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

3. Functional and presentation currency

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

4. Use of estimates and judgements

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

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

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 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 28(f) – impairment test: key assumptions underlying recoverable amounts.

5. Interest Income

	2017	2016
Loans and advances to customers	**9,490,280**	4,877,291

6. Fee income

	2017	2016
Loan administration charges	**5,812,136**	4,151,189
Commision on insurance fees	**11,170**	182,730
	5,823,306	4,333,919

Insurance fees refers to the fees from the micro-insurance credit life product. AMZ sells a micro insurance product from Sanlam Life Insurance on which AMZ obtains a commission of 10% from the insurance company.

7. Interest expense

	2017	2016
Interest bearing borrowings	**3,844,393**	1,820,289

8. Other income

	2017	2016
Donations	**150,271**	557,812
Recoveries of loans written off	**1,394**	13,534
Gain on disposal	**36,397**	5,536
Mobile money commission	**180,767**	-
Others	**14,054**	11,104
	382,883	587,986

9. Operating expenses

	2017	2016
Employee benefits	**5,278,625**	3,549,975
Depreciation and amortisation (notes 15 and 16)	**423,984**	281,152
Auditors remuneration	**291,700**	340,595
Other expenses	**4,413,472**	3,662,031
Assets written off	**5,562**	-
	10,413,344	7,833,753
Employee benefits		
Salaries	**4,896,512**	3,328,878
NAPSA	**214,524**	151,473
Leave pay, gratuity and pension	**167,589**	69,624
	5,278,625	3,549,975

10. Finance income

	2017	2016
Finance income		
Exchange gains	**500,229**	207,042
Finance cost		
Exchange losses	**(806,455)**	(317,798)
Net finance cost	**(306,226)**	(110,756)

11. Cash and cash equivalents

	2017	2016
Cash on hand	**7,248**	4,902
Balances with Bank	**4,223,261**	1,275,342
Short term investment	**1,500,000**	-
	5,730,509	1,280,244

12. Loans and advances to customers

	2017	2016
a) Summary		
Loans and advances	**24,778,121**	14,246,848
Accrued interest	**597,154**	323,153
Gross loans and advances	**25,375,275**	14,570,001
Less: Provision or impairment of loans and advances		
- Individually assessed	**(88,827)**	(2,283)
- Collectively assessed	**(115,340)**	(28,263)
	25,171,108	14,539,455
b) Maturity		
Due:		
Within 1 month	**1,303,564**	209,802
Between 1 to 3 months	**3,095,043**	856,350
Between 3months and 1 year	**20,379,514**	13,180,696
Loans and advances to customers	**24,778,121**	14,246,848
C) Movements in provisions for imparment of loans and advances are as follows:		
At 1 January 2017	**30,546**	59,675
Charge for the year	**206,933**	27,152
Bad debts written off	**(33,312)**	(56,281)
At 31 December 2017	**204,167**	30,546

13. Other receivables

	2017	2016
Prepayments	**218,438**	115,107
Staff advances	**124,374**	103,751
Mobile money commission receivable	**39,347**	-
Mobile money E value	**211,979**	-
Other receivables	**572,807**	242,941
	1,166,945	461,799

14. Share capital

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

	Number of ordinary shares 2017	Ordinary share capital 2017	Ordinary share capital 2016	Ordinary share capital 2016
Authorised				
Ordinary Shares class A	**95,000**	**950,000**	95,000	950,000
Ordinary Shares class B	**2,305,000**	**23,050,000**	2,215,00	22,150,000
Total	**2,400,000**	**24,000,000**	2,310,000	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)	**2,271,334**	**22,713,340**	2,215,000	22,150,000
Total	**2,366,334**	**23,663,340**	2,310,000	23,100,000

	Ordinary shares Class A	Ordinary shares Class B	Total ZMW
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
At January 2017	**950,000**	**22,150,000**	**23,100,000**
Issued during the year	**-**	**563,340**	**563,340**
At 31 December 2017	**950,000**	**22,713,340**	**23,663,340**

On 10 March 2017 and 29 September 2017, the Company issued 31,297 and 25,037 class B shares respectively to AMNV, an existing shareholder. An amount of ZMW 2,250,000 (2016: ZMW 1,100,000) was paid of which ZMW 563,340 (2016: ZMW 275,360) was recognised as the nominal value and the excess of ZMW 1,686,660 (2016: ZMW 824,640) was recognised as share premium.

Notes to the financial statements (continued)
for the year ended 31 December 2017
in Zambian Kwacha

15. Property and equipment

Cost	**Leasehold improvements**	**Capital work in Progress**	**Motor vehicles**	**Computer and office equipment**	**Furniture & fittings**	**Total**
At 1 December 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	73,535	31,774	1,514,656	543,727	239,696	2,403,388
At 1 January 2017	**73,535**	**31,774**	**1,514,656**	**543,727**	**239,696**	**2,403,388**
Additions	**151,575**	**171,934**	**234,313**	**277,956**	**93,943**	**929,721**
Transfers	-	**(22,043)**	**-**	**22,043**	**-**	**-**
Write off	-	**(5,562)**	**-**	**-**	**-**	**(5,562)**
Disposals	-	**(4,171)**	**(238,987)**	**(84,993)**	**(22,665)**	**(350,816)**
At 31 December 2017	**225,110**	**171,932**	**1,509,982**	**758,733**	**310,974**	**2,976,731**
Depreciation						
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
At 1 January 2017	**73,535**	-	**875,036**	**412,096**	**196,703**	**1,557,370**
Charge for the year	**12,908**	-	**239,441**	**80,885**	**38,412**	**371,646**
Disposals	**-**	-	**(238,987)**	**(70,462)**	**(21,878)**	**(331,327)**
At 31 December 2017	**86,443**	-	**875,490**	**422,519**	**213,237**	**1,597,689**
Carrying amounts						
At 31 December 2017	**138,667**	**171,932**	**634,492**	**336,214**	**97,737**	**1,379,042**
At 31 December 2016	**-**	31,774	639,620	131,631	42,993	846,018

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

16. Intangible asset

Software	**Total**
Cost	
At 1 December 2016	263,888
Additions	129,790
At 31 December 2016	393,678
At 1 January 2017	**393,678**
At 31 December 2017	**393,678**
Amortisation	
At 1 January 2016	219,196
Charge for the year	3,186
At 31 December 2016	222,382
At 1 January 2017	**222,382**
Charge for the year	**52,338**
At 31 December 2017	**274,720**
Carrying amounts	
At 31 December 2017	**118,958**
At 31 December 2016	171,296

17. Other payables

	2017	2016
Interest payable (note 21)	**769,541**	143,479
PAYE and pension	**104,100**	140,722
Other creditors and accruals	**902,580**	539,540
	1,776,221	823,741

18. Borrowings

31 December 2017	Principal	Maturity	Currency	Interest rate / (net)	Carrying value ZMW
Grameen Credit Agricole	**5,000,000**	**10 Apr 2021**	**ZMW**	**25%**	**5,000,000**
Agora Microfinance N.V (AMNV)	**1,099,500**	**15 Jun 2018**	**ZMW**	**20%**	**1,099,500**
Moringaway Facility 1	**6,060,885**	**01 Jun 2018**	**ZMW**	**20%**	**6,060,885**
Moringaway Facility 2	**2,415,100**	**01 Mar 2018**	**ZMW**	**20%**	**2,415,100**
Oiko Credit	**1,961,500**	**21 Dec 2020**	**ZMW**	**18.53%**	**1,961,500**
Leadahand	**2,949,028**	**01 Dec 2019**	**ZMW**	**7.5%**	**2,949,028**
Global Partnerships	**4,954,700**	**21 Dec 2020**	**ZMW**	**21.35%**	**4,954,700**
					24,440,713

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 rate, with a minimum of 13% and a maximum of 20%. Lendahand is the lender for the SME pilot, with a loan denominated in Euro at 7.5%, Global Partnerships facility is 21.35% while Oiko Credit is at 18.53% and GCA loan at 25%. All borrowings held have no security.

18. Borrowings (continued)

31 December 2016	Principal	Maturity	Currency	Interest rate / (net)	Carrying value ZMW
Agora Microfinance NV	1,564,500	15 Jun 2018	ZMW	20%	1,564,500
Agora Microfinance NV	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 2107	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

During the year the Moringaway loan facility that matured was converted to line of credit with only 2,639,006 repaid in full in December. Interest rates average was 20% across all the facilities.

Movement in borrowings

	2017	2016
At 1 January	**12,301,016**	5,659,503
Drawdowns	**17,312,084**	9,040,951
Repayments	**(5,538,468)**	(2,105,603)
Exchange losses/(gains)	**366,081**	(293,835)
At 31 December	**24,440,713**	12,301,016

19. Income tax expense

a) Tax expense

	2017	2016
Deferred tax	**(229,557)**	(99,560)
Income tax credit	**(229,557)**	(99,560)

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:

		2017		2016
Profit before tax		**925,573**		7,246
Income tax using corporate tax rate	*35%*	**323,950**	*(35%)*	2,536
Non – deductible expenses	*(19%)*	**(172,119)**	*(561%)*	(40,640)
Un recognised deferred tax	*(72%)*	**(666,148)**	*(6,938%)*	(502,705)
Tax losses expired	*31%*	**284,456**	*6,090%*	441,249
Over provision	*0.03%*	**304**		-
Total income tax credit	***25%***	**(229,557)**	*(1.374%)*	(99,560)

c) Movement in statement of financial position

	31 December 2017	31 December 2016
Balance at 1 January	-	6,723
Payments	-	(6,723)
Balance at 31 December	-	-

Notes to the financial statements (continued)
for the year ended 31 December 2017
in Zambian Kwacha

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:

Year	Loss	Utilisation/expiry	Tax losses	Expiry Date
2012	284,456	**(284,456)**	-	2017
2013	1,796,835	**(1,140,958)**	655,877	2018
2014	2,907,115	-	2,907,115	2019
2015	1,531,620	-	1,531,620	2020
2016	507,482	-	507,482	2021
	7,027,508	**(1,425,414)**	**5,602,094**	

Recognised deferred tax assets

Following a stable estimate of the Company's future results from operating activities, and based on future projected profitable growth, the Company recognised deferred tax assets of ZMW **329,117** (2016 : 99,560). The business plan for the period 2018 – 2020 prepared by management shows that the Company will make profits for the period 2018 – 2021.

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

	Assets		Net	
	2017	2016	**2017**	2016
Tax losses	**(229,557)**	(99,560)	**(329,117)**	(99,560)
Deferred tax asset	**(229,557)**	(99,560)	**(329,117)**	(99,560)

20. Deferred taxation (continued)

Unrecognised deferred tax assets

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

	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
Property and equipment		-	**114,900**	112,236	**114,900**	112,236
Provision for bad debt	**(124,867)**	(64,100)	**-**	-	**(124,867)**	(64,100)
Tax losses	**(1,631,617)**	(2,360,067)	**-**	-	**(1,631,617)**	(2,360,067)
Other provisions	**(866)**	-	**-**	3,333	**(866)**	3,333
Deferred tax asset	**(1,757,351)**	(2,424,167)	**114,900**	115,569	**(1,642,450)**	(2,308,598)

Movement in temporary differences:

2017

	Unrecognised balance at 1 Jan 2017	Unrecognised in profit or loss	Unrecognised balance at 31 Dec 2017	Recognised in profit or loss
Property and equipment	**112,236**	**2,664**	**114,900**	**-**
BOZ provision for leave pay	**(64,100)**	**(60,767)**	**(124,867)**	**-**
Provision for tax losses	**(2,360,067)**	**728,450**	**(1,631,617)**	**(229,557)**
Other provision	**3,333**	**(4,199)**	**(866)**	**-**
	(2,308,598)	**666,148**	**(1,642,450)**	**(229,557)**

2016

	Unrecognised balance at 1 Jan 2016	Unrecognised in profit or loss	Unrecognised balance at 31 Dec 2016	Recognised in profit or loss
Property and equipment	112,236	97,697	112,236	-
BOZ provision for leave pay	(64,100)	10,195	(64,100)	-
Provision for tax losses	(2,360,067)	76,379	(2,360,067)	(99.560)
Other provision	-	3,333	3,333	-
Deferred income provision	(315,101)	315,101	-	
	(2,308,598)	666,148	(2,308,598)	(99,560)

21. Related party transactions

Parent and ultimate controlling party

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

The relevant transactions and balances are as below:

i) Borrowings	**2017**	2016
Details of borrowings are disclosed under note 18	**24,440,713**	12,3013,016

ii) Interest

Interest was as follows:

Interest paid to related parties (note 7)	**3,844,393**	1,820,289
Interest due to related parties (note 17)	**769,541**	143,479

iii) Transactions with key management personnel or directors

Key management	**2017**	2016
Salaries and other short-term employment benefits	**1,688,591**	1,506,048
Company pension contributions	**22,680**	14,204
	1,711,271	1,520,252

iv) Directors' fees

Directors' fees	**16,275**	17,125

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 counter-party. Loans and advances comprise of a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal and/or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Credit guarantee insurance is purchased when deemed appropriate in cases of death or disability.

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:

	Notes	2017	2016
Cash and cash equivalents	11	**5,723,261**	1,275,342
Other receivables	13	**948,507**	346,692
Loans and advances to customers	12	**25,171,108**	14,539,455
		31,842,876	16,161,489

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

Loans and advances are summarised as follows:

	2017	2016
Neither past due nor impaired	**24,441,081**	14,532,191
Past due 1-29 days	**788,558**	5,337
Past due 30-59 days	**69,484**	14,968
Past due 60-89 days	**51,026**	1,200
Past due 90-119 days	**8,805**	4,505
Past due >120 days	**16,321**	11,800
Gross	**25,375,275**	14,570,001
Provision for impairment	**(204,167)**	(30,546)
	25,171,108	14,539,455

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.

22. Financial risk management (continued)

(a) Credit risk (continued)

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

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

31 December 2016	Gross	Impairment	Net
Current 0 – 60 days	14,552,496	(28,263)	14,524,233
Past due over 60 days	17,505	(2,283)	15,222
	14,570,001	(30,546)	14,539,455

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:

	2017	2016
Agriculture and allied	**17,188,231**	12,012,109
Manufacturing, mining and production	**117,141**	-
Trade and services	**7,497,321**	2,447,035
Other sectors	**572,582**	110,857
	25,375,275	14,570,001

22. Financial risk management (continued)

(a) Credit risk (continued)

Allowances for impairment

Agora Microfinance Zambia uses a combination of individual assessment and collective assessment in determining the loan loss provision.

Individual assessment is performed on loans that are considered individually significant. These loans are the small medium size and Micro Loans.

The collective assessment methodology strives to ensure that the loan loss provision reflects the loss events that have occurred, but have not yet been identified on an individual loan basis. The process uses a combination of historical data and current observable data that reflects the existing situation and how it may affect the current loan portfolio. This set of combined data informs the management team in setting the provision. Historical data used is a set of actual loss rates calculated using the historical loan loss migration analysis over the last 36 months (3 Years) .The loan loss provision process includes a qualitative analysis using expectations of the management team regarding the arrears development of the loan portfolio during the coming six months.

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.

22. Financial risk management *(continued)*

(b) Liquidity risk (continued)

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

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

31 December 2017

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

31 December 2016

Liabilities	Carrying Amount	Gross nominal outflows	Less than 1 year	Between 1 - 2 years
Borrowings	12,301,016	12,444,495	5,861,235	6,583,260
Other payables	823,741	823,741	823,741	-
Total liabilities	13,124,757	13,268,236	6,684,976	6,583,260

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.

22. Financial risk management (continued)

c) Market risk (continued)

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

31 December 2017	Interest rate	Carrying Amount	Less than 3 months	3 - 12 months	1 - 5 years
Cash and cash equivalents	N/A	**5,730,509**	**5,730,509**	**-**	**-**
Loans and advances to customers	Fixed	**25,171,108**	**5,784,241**	**15,804,311**	**3,582,556**
Other receivables	N/A	**948,507**	**124,374**	**824,133**	**-**
Total assets		**31,850,124**	**11,639,124**	**16,628,444**	**3,582,556**
Other payables	N/A	**1,776,221**	**1,006,681**	**769,540**	**-**
Borrowings	Variable	**24,440,713**	**3,641,578**	**9,212,174**	**10,413,039**
Total liabilities		**26,216,937**	**4,648,259**	**9,981,714**	**10,413,039**
Interest rate gap		**5,633,187**	**6,990,865**	**6,646,730**	**(6,830,483)**

The 1-5 years negative interest rate gap of ZMW 6,830,483 covered by the assets maturing in the less than 12 months, which are reinvested in the core business of lending to clients.

Exposure to interest rate risk – non-trading portfolios

31 December 2016	Interest rate	Carrying Amount	Less than 3 months	3 - 12 months	1 - 5 years
Cash and cash equivalents	N/A	1,280,244	1,280,244	-	-
Loans and advances to customers	Fixed	14,539,455	1,358,759	13,180,696	-
Other receivebales	N/A	346,692	232,941	113,751	-
Total assets		16,166,391	2,871,944	13,294,447	-
Borrowings	Variable	823,741	559,960	263,781	-
Other payables	N/A	12,3013,016	-	6,904,290	5,396,726
Total liabilities		13,124,757	559,960	7,168,071	5,396,726
Interest rate gap		3,041,634	2,311,984	6,126,376	(5,396,726)

Notes to the financial statements (continued)
for the year ended 31 December 2017
in Zambian Kwacha

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 transaction denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arises.

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

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

31 December 2017	EURO (ZMW equivalent)	USD (ZMW equivalent)	ZMW	Total
Assets				
Cash and cash equivalents	1,975,103	30,848	3,724,558	5,730,509
Other receivebales	-	10,509	937,998	948,507
Total assets	1,975,103	41,357	4,662,556	6,679,016
Liabilities				
Other payables	-	(141,357)	(1,634,864)	(1,776,221)
Borrowings	(2,949,028)	-	(21,491,685)	(24,440,713)
Total liabilities	(2,949,028)	(141,357)	(23,126,549)	(26,216,934)
Net exposure	(973,925)	(100,000)	(18,245,555)	(19,319,480)

31 December 2016	USD (ZMW equivalent)	ZMW	Total
Assets			
Cash and cash equivalents	625,314	654,930	1,280,244
Other receivebales	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)

The following significant exchange rates were applied during the period.

Average rate		Spot rate	
2017	2016	**2017**	2016
9.48	10.21	**9.91**	9.8

22. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity analysis

A 10 percent strengthening of the Zambian Kwacha against the USD and EURO at 31 December would have (decreased)/ increased the profits by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2016.

Profit and loss

	2017	2017	2016
	USD	EUR	
ZMW	97,393	14,135	(1,160,148)

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

(d) Operational risk

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

(e) Compliance risk

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

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

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

The management of compliance risk has become a distinct discipline within the Company's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory universe and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the "Know-Your-Customer procedures" and Prohibition and prevention of Money Laundering Act number 14 of 2001 as amended by Act number 44 of 2010. Anti-Money laundering procedures and legislation became an area of major focus for the Company especially in 2008.

22. Financial risk management (continued)

(f) 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:

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

2016	Loans and receivables	Amortised cost	Other liabilities	Carrying amount	Fair value
Assets					
Cash and cash equivalents	1,280,244	-	-	1,280,244	1,280,244
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

23. 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

23. Capital Management

Capital position

I Primary (Tier 1) capital

		2017	2016
(a)	Paid-up common shares	**23,663,340**	23,100,000
(b)	Share premium	**2,511,300**	824,640
(c)	Retained earnings	**(18,495,895)**	(19,651,025)
(d)	**Sub-total A (items a to d) Less**	**7,678,745**	4,273,615
(e)	Goodwill and other intagible assets	**(118,958)**	(171,296)
(f)	Assets pledged to secure liabilities	**-**	(115,107)
(g)	**Sub-total B (items d to f)**	**7,559,787**	3,987,212
(h)	**Total Primary capital**	**7,559,787**	3,987,212
III	**Eligible secondary capital**		
	(The maximum amount of secondary capital is limited to 100% of primary capital)	**-**	-
IV	**Eligible total capital (I (g) + III)**	**7,559,787**	3,987,212)
	(Regulatory capital)	**-**	-
V	**Minimum total capital requirement**		
	15% total on and off balance sheet risk - weighted assets	**(4,196,273)**	(2,346,039)
VI	**Excess (IV minus V)**	**3,363,514**	1,641,173

24. Capital commitments

There were no material capital commitments as at 31 December 2017 (2016: Nil).

25. Contingent liabilities

There were no material contingent liabilities as at 31 December 2017 (2016: Nil).

26. Subsequent events

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

27. Basis of measurement

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

28. Significant accounting policies

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

Property and equipment

Intangible assets

Foreign currency transaction

Financial instruments

Taxation

Impairment

Employee benefits

Provisions and contingencies

Revenue

Borrowing costs

28 Significant accounting policies (continued)

(a) Equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

Item	Average useful life
Fixtures, fittings	4 - 5 years
Motor vehicles	4 years
Motor bikes	3 years
Computer and office equipment	3 - 4 years
Leasehold improvements	length of the lease

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

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

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

28 Significant accounting policies (continued)

(b) Intangible assets

Software

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

(c) Foreign currency transactions

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

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

(d) Financial 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.

28. Significant accounting policies (continued)

(d) Financial instruments (continued)

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.

(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.

28. Significant accounting policies (continued)

(f) Impairment (continued)

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.

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 2017, the Company operated a mandatory private pension scheme with Madison Life Insurance through the Madison Pension Trust Fund. Employer contribution is 4% of basic salary and employee contribution is 3% of basic salary. Obligations for both public and private contributions are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees. In addition, employees may qualify for performance based incentives as per the Company's internal rules.

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

(h) Provisions and contingencies

Provisions are recognised when:

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

(i) Revenue

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.

(j) Borrowing costs

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

29. New standards and interpretation not yet effective (continued)

(i) New standards, amendments and interpretations effective and adopted during the year

The Company has adopted the following new standards and amendments during the year ended 31 December 2017, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2017. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
• Disclosure Initiative (Amendments to IAS 7)	1 January 2017
• Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
• Annual improvements cycle (2012-2014)	1 January 2017

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities „for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

The adoption of this standard did not have a material impact on the financial statements of the Company.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard was effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The adoption of this standard did not have a significant impact on the financial statements of the Company.

29. New standards and interpretation not yet effective (continued)

(i) New standards, amendments and interpretations effective and adopted during the year (continued)

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IAS 19 Employee Benefits	**Discount rate: regional market issue** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	**Disclosure of information elsewhere in the interim financial report** Clarifies the meaning of ‚elsewhere in the interim report' and requires a cross-reference

The adoption of this standard did not have a significant impact on the financial statements of the Company.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2017

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2018; and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments. The company will adopt IFRS 9 effective 1 January 2018.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. The three principal classification categories for financial assets are: measured at amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI).

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The company will apply the practical expedient within IFRS 9 to calculate the ECL on trade receivables using a provision matrix. The company is finalising their new impairment models that will be applied to financial assets measured at amortised cost (i.e. primarily trade receivables).

The impact of the adoption of the standard on the financial statements for the Company is still being assessed.

IFRS 15 Revenue from Contracts with Customers – (effective date 1 January 2018)

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 Company, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Company is currently in the process of performing a more detailed assessment of the impact of this standard on the Bank.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exceptions for short-term leases and leases of low-value items. Lessor accounting remains similar to current practice i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces IAS 17 Lease, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It includes more disclosures for both lessees and lessors.

The impact of the adoption of the standard on the financial statements for the Company is still being assessed.

	As on 31 December 2017	As on 31 December 2016
Advertising and branding	**-**	2,800
Audit fees	**291,700**	340,594
Bank charges	**129,463**	70,038
Computer Expenses	**31,751**	8,138
Consultancy fees	**-**	43,655
Depreciation and amortisation	**423,983**	281,152
Disposal of fixed asset	**(36,397)**	-
Directors' fees	**16,275**	17,125
General expenses	**1,376,754**	1,099,788
Insurance	**47,598**	28,770
Licensing expenses	**92,679**	42,135
Medical expenses	**175,936**	-
Office expenses	**76,490**	51,163
Professional fees	**1,315,181**	1,385,960
Recruitment and training	**500**	-
Registration expenses	**-**	1,750
Rent	**374,032**	268,808
Repairs and maintenance	**223,845**	116,958
Salary and wages	**5,278,625**	3,578,636
Security expenses	**198,660**	166,241
Stationery	**83,445**	56,012
Telephone expenses	**95,134**	136,631
Travel - local	**136,388**	85,136
Travel - foreign	**81,302**	52,263
Total expenses	**10,413,344**	7,833,753

Agora Microfinance Zambia Limited

First Floor
Mama Betty Building
Suite 112
Foxdale Court Office Park
609 Zambezi Road
Roma
Lusaka

Tel: +260 211 847838
info@agoramicrofinance.co.zm
www.amz.co.zm