



**BREAKING THE BARRIERS TO FINANCE**

**Annual Report 2013**

## AGORA MICROFINANCE ZAMBIA LIMITED

### AMZ: Vision, Mission, Core Objectives and Guiding Principles

#### 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 the effective provision of appropriate financial services”*

#### AMZ CORE OBJECTIVES:

- ✓ Direct outreach to the poor at a national level
- ✓ Suitability of processes and products
- ✓ Creation of a dynamic, professional, value based organization
- ✓ Ensuring the long term financial health of AMZ
- ✓ Improvement of clients' financial stability and incomes

### CODE OF PRACTICE / PRINCIPLES FOR CLIENT PROTECTION:

- **Avoidance of over-indebtedness** – All loans granted by AMZ will use a net cash flow assessment and will be capped at a level agreed by the management and the Board. In addition AMZ will strive to provide other financial products as demanded by the clients (insurance, deposits etc.) that will mitigate the risk of over indebtedness.
- **Dignified and respectful treatment of clients** at all times.
- **Client data privacy/confidentiality** – Sharing of individual client information only as part of a credit bureau, any mandatory requirements by law, suppliers covered by appropriate non-disclosure agreements or upon receiving explicit consent from the client.
- **Ethical Collection Practices** – Which do not harass or create undue pressure for loan repayments from clients who are not willful 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 has priced its products taking into account affordability of the client. All products cost will be disclosed to clients in a transparent manner.

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AMZ strives to implement systems to track financial and social performance to ensure that AMZ achieves its mission.

# AGORA MICROFINANCE ZAMBIA LIMITED

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## AGORA MICROFINANCE ZAMBIA LIMITED

### Chair's Report

It gives me great pleasure to report on AMZ's continued development during 2013. Despite a few unforeseen events, the institution remains committed to establishing itself as a meaningful part of the Zambian rural financial sector.

We experienced some setbacks to our plans in 2013, but I am pleased to report that we are nonetheless moving forward as we speak. In addition to the new interest rate cap enforced by the Central Bank at the beginning of the year, we were also saddened to see Maluba Wakung'uma, our CEO since inception, take an extended leave of absence due to a prolonged illness. Despite her valiant resolve and efforts to continue contributing, Maluba and I believe it is in the best interest of everyone that she recovers fully before returning to AMZ. During this period, Maluba will continue to sit on the Board and guide the strategy of the company. In the meantime, we are extremely fortunate to have our colleague on the Board, Irina Ignatieva, step in as the CEO for a 12 month period beginning February 2014. In addition to being one of the founding members of the team that established AMZ, Irina brings a wealth of experience of microfinance as both a practitioner and an advisor.

The above events, in addition to some internal capacity constraints resulted in a deterioration of our loan portfolio during 2013, most notably in one branch. As a response we significantly curtailed further expansion until the portfolio had begun to stabilise. We saw some indications of improvement towards the end of the year which, so far, have continued into 2014.

The Board and its Committees met 4 times during the year and continued guiding and advising the management on its strategy. We were saddened by the resignations of Rakesh Katal and Douglas Tambulukani's due to personal reasons but were however delighted to welcome Eddie Mwitwa to the Board as the replacement proxy for Musa Mwenye in January 2014.

During the year, Concern Worldwide reduced their shareholding in AMZ by selling 47.5% of their shares to Agora Microfinance N.V. We will spend time in 2014 engaging with other potential equity partners – we have already established links with a number of potential investors and believe progress will be made in this area in upcoming months.

While we did not have a good year financially, I believe there were important lessons from the difficulties faced, which will go a long way in helping us decipher the microfinance landscape in Zambia. We are very fortunate for the continuous and strong commitment of our shareholders throughout this time. The year 2014 will present challenges but also significant opportunities to learn from the past year and improve the stability and strength of our internal systems and processes, and at the same time make positive strides closer to a viable business model. I wish all my colleagues the very best in achieving the goals for the year.



Rebecca McKenzie  
Chairperson  
29 September 2014



### A message from the Deputy Chief Executive Officer

2013 was a chastening year for AMZ. The optimism with which we entered the year was quickly tempered as the Bank of Zambia introduced a cap on the rate of interest we are able to charge our clients. Portfolio quality deteriorated soon thereafter, particularly for loans given in the final four months of 2012 as they proved to be misjudged. Recovery from these setbacks is taking time but we quickly realised that the best approach was to face the situation head on. A critical decision, for the long term benefit of the institution, was taken not to simply increase disbursements to mask the problems but to work through the difficulties to ensure that we emerge stronger and healthier.

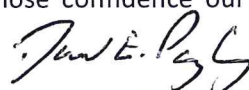
The results for the year are disappointing, showing a pre-tax loss of ZMW 4.8 million (2012: ZMW 1.0 million). The increased loss has 3 primary contributors – reduced income following the interest rate cap, increased provision for loan impairment (from ZMW 0.2 million to ZMW 1.2 million) and higher operating costs as investment in capacity and branch growth continued. We saw a reduction in both client numbers from 10,579 at December 2012 to 9,608 at December 2013 and Gross Loan Portfolio (from ZMW 9.3 million at December 2012 to ZMW 6.8 million at December 2013). Following this decrease in portfolio quality and size, PAR30 rose from 1.66% to 16.06% at the end of the year, a very stark reminder of the challenges facing us. Additionally, we wrote off ZMW 0.6 million of loans in August and September. Notwithstanding the above we were able to open our 4<sup>th</sup> branch in October. Chibombo is an hour from Lusaka and will complement our more remote existing branches. On the basis of client numbers and portfolio size we remain one of the leading developmental MFIs in the country.

Much of the second half of the year was spent in redesigning the operations policies and procedures and in training client-facing staff, a process which continues into 2014. We are determined to learn from our mistakes, to make our products more suitable for our clients' needs, to improve the efficiency of all our processes and to enhance the training given to our people so that they can deliver a healthy portfolio and outstanding client service. A change programme such as this will take time but we expect to see significant progress in the upcoming months.

One major development in 2013 was the piloting of an SMS reminder service for clients – this has been well received by clients from our Mumbwa branch and we intend to roll-out across all four branches during 2014. Investing in technology to improve efficiency is a key element of our response to the infrastructural and communication challenges of working in rural Zambia. 2014 will see further progress against this goal through as we begin work to develop an automated cash-flow assessment tool using handheld tablet devices.

Earlier this year I was both delighted to welcome Irina Ignatieva to Zambia as CEO for the next 12 months and saddened to see Maluba Wakung'uma depart on extended leave. I would like to express my words of gratitude to Maluba for all her support over my 2 years in Zambia and, along with the whole team, I am very much looking forward to welcoming her back when she is fully recovered. In the meantime the entire senior management team and I are excited to work with Irina during this period of change.

I firmly believe AMZ has the potential to become the premier MFI in Zambia. My special thanks go to all my colleagues serving our customers and I encourage them all to redouble their efforts to move AMZ forward again. Finally, and on behalf of the entire team at AMZ I would like to thank our shareholders, lenders and other stakeholders without whose confidence our journey to recovery would be much more difficult.



David Payling  
Deputy Chief Executive Officer  
29 September 2014

## AGORA MICROFINANCE ZAMBIA LIMITED

### ZAMBIA AND THE MICROFINANCE ENVIRONMENT

According to the 2010 census report, the population of Zambia was approximately 13.1 million, with 65 percent living in rural areas and 35 percent in urban areas. The average household size is 5.1 persons/household (5.3 in rural areas). Low population density is a distinguishing feature with an average of 18.3 inhabitants per square kilometer, although there are wide variations among provinces. Over the last decade the population grew at an average rate of 2.8 percent per year, 47 percent of the population is below the age of 15 and 66 percent below the age of 25.

Zambia's agricultural sector employs an estimated 63 percent of the economically active population but accounts for just 20 percent of GDP. Despite recent growth, rural poverty rates remain stubbornly high. Zambia was ranked 163 out of 186 countries in the 2012 Human Development Index: 61 percent of the population is living below the official poverty line and 42 percent are classified as extremely poor. Disparity between rural and urban poverty is high: overall rural poverty rates are almost 80 percent (while urban poverty rates are below 30 percent) and 58 percent of rural households are classified as extremely poor (while the figure is only 13 percent for urban households).

According to the Bank of Zambia (BoZ) as of January 2014, there are 19 commercial banks, 33 MFIs and 75 other Non-Bank Financial Institutions (NBFIs) operating in Zambia. The financial sector is dominated by the commercial banks – the top four banks have 61 per cent of all assets. Within the commercial banks, only four (AB Bank, Access Bank, Ecobank, and Zanaco) have an MSME focus or window. Within the NBFIs, five are large consumer lenders and only ten are enterprise and livelihood oriented microfinance institutions, while the rest are scattered small operators.

Microfinance Transparency describes the microfinance industry in Zambia as “young, small in size, fragmented and with limited outreach.” Existing formal financial institutions are not serving the rural provinces effectively. Despite accounting for only 32 percent of the population, two predominantly urban provinces (Lusaka and Copperbelt) account for 60 percent of total banking customers. According to the FinScope 2009 report, about 63 percent of the adult Zambian population does not have access to any form of financial services; in rural areas, more than 66 percent of adults are financially excluded, with only 9 percent banked, 9 percent relying on other formal financial service providers (mostly NBFIs/MFIs) and 17 percent depending only on informal sources (friends and family, local moneylenders and input suppliers).

The current regulation of microfinance providers establishes three tiers: Deposit Taking MFIs, Non-Deposit Taking MFIs with capital above K25,000 and Non-Deposit Taking MFIs with capital below K25,000. The first two tiers are required to obtain a license and are supervised by the Bank of Zambia while Tier III are only regulated by the supervisory authority under which they registered. A new Capital Adequacy Framework in January 2014 mandates that Tier I institutions increase their capital to K 2,500,000 and Tier II institutions to K 100,000 within a timeline of two years.

On January 2013, the Bank of Zambia introduced a ceiling on the effective annual lending interest rates (42 percent for development oriented NBFIs, such as AMZ); the impact of this measure on microfinance operators and in access to financial services is being studied in 2014.



# AGORA MICROFINANCE ZAMBIA LIMITED

## AMZ PERFORMANCE HIGHLIGHTS

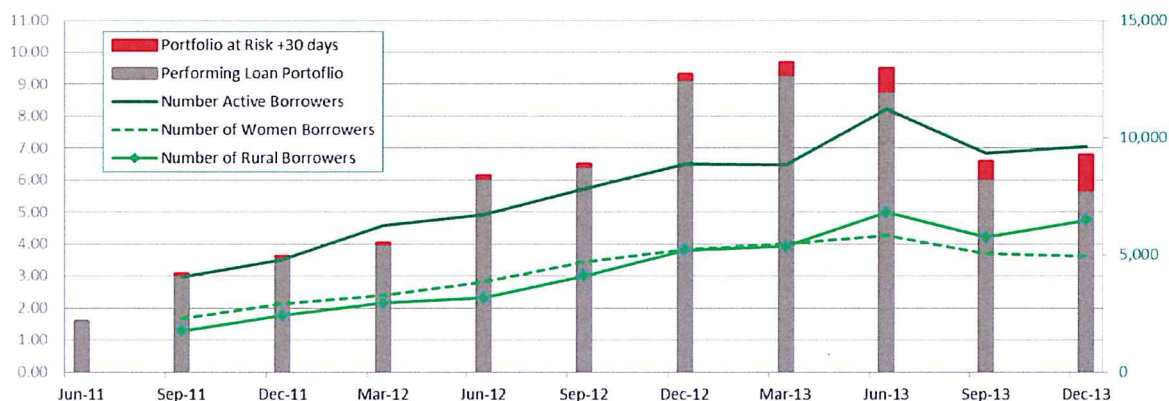
	Dec 11	Dec 12	Dec 13
▶ Number of branches	2	3	4
▶ Number of Village Banks	91	212	312
▶ Total staff	29	50	78
▶ Number of active borrowers	4,924	10,579*	9,608
Women Borrowers (%)	59	49*	51
Number of Rural Borrowers (%)	~50	~59	~67
▶ Gross Loan portfolio (K'000)	3,609,994	9,270,956*	6,788,300
Group loans (%)	100	100	100
EoT (%)	35	50	71
Flexi (%)	65	50	29
▶ PAR <sub>30days</sub>	0.2%	1.66%	16.06%
▶ Write-off Ratio	0.0%	0.25%	7.96%
▶ Avg loan disbursed (K)	-	1,256	859
▶ Avg outstanding loan per borrower (K)	733	876	707
▶ Loan outstanding/Avg. Client Officer (K'000)	602	545	226
▶ Operational Self Sufficiency (OSS)	52.21%	83.87%	50.84%
▶ Return On Assets (ROA)	-37.65%	-6.23%	-42.86%

\*Includes all VB members

### Portfolio and Borrowers

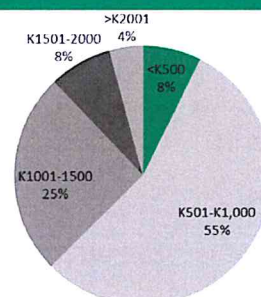
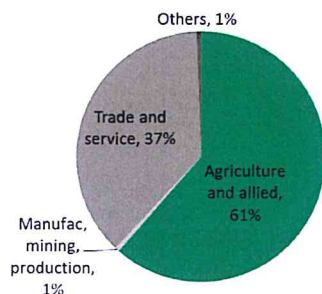
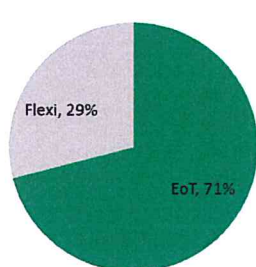
Loan Portfolio  
Kwacha, Millions

Borrowers



### Portfolio Exposure

### Loan Size - Disbursed





# AGORA MICROFINANCE ZAMBIA LIMITED

## AMZ ORIGINS AND CURRENT COVERAGE

Agora Microfinance Zambia (AMZ) was initiated by two organizations with a history of partnership in microfinance: Agora Microfinance Partners LLP and Concern Worldwide. This partnership started to provide access to finance for the excluded in frontier markets, through developing greenfield microfinance operations in underserved countries and built on Concern and Agora's experience with the rural finance provider AMK (Angkor Microfinance Kampuchea Ltd) since 2003. AMK has grown to serve more than 370,000 clients, becoming one of Cambodia's leading Microfinance Institutions (MFI).

AMZ became a private company limited by shares in May 2010 and was licensed as a Non-Bank Financial Institution (Non-Deposit Taking MFI) by the Zambian Central Bank in April 2011.

The highlights of AMZ's evolution are the following:

- 2009 Partnership between Concern Worldwide and Agora Microfinance Partners LLP.
- 2010 AMZ registered as a private company limited by shares in May.
- 2011 AMZ licensed as a Non-Bank Financial Institution (Non-Deposit Taking MFI) by the Zambian Central Bank in April, starting operations in Mongu and Mumbwa the same month.
- 2012 Started operations in Kaoma in November.
- 2013 Interest rates reduced from 60-66 percent to 42 percent per annum for all group lending products (except for the emergency loan which remains at 36 percent per year). Started operations in Chibombo in October.



In less than 3 years of operations, AMZ has built a client base of nearly 10,000 clients and a loan portfolio of about US \$1.2 million. As of 31 December 2013, AMZ operated in 4 branches: Mongu and Kaoma in the Western province and Mumbwa and Chibombo in the Central province. The head office is situated in Lusaka.

# AGORA MICROFINANCE ZAMBIA LIMITED

## OWNERSHIP, GOVERNANCE AND MANAGEMENT STRUCTURE

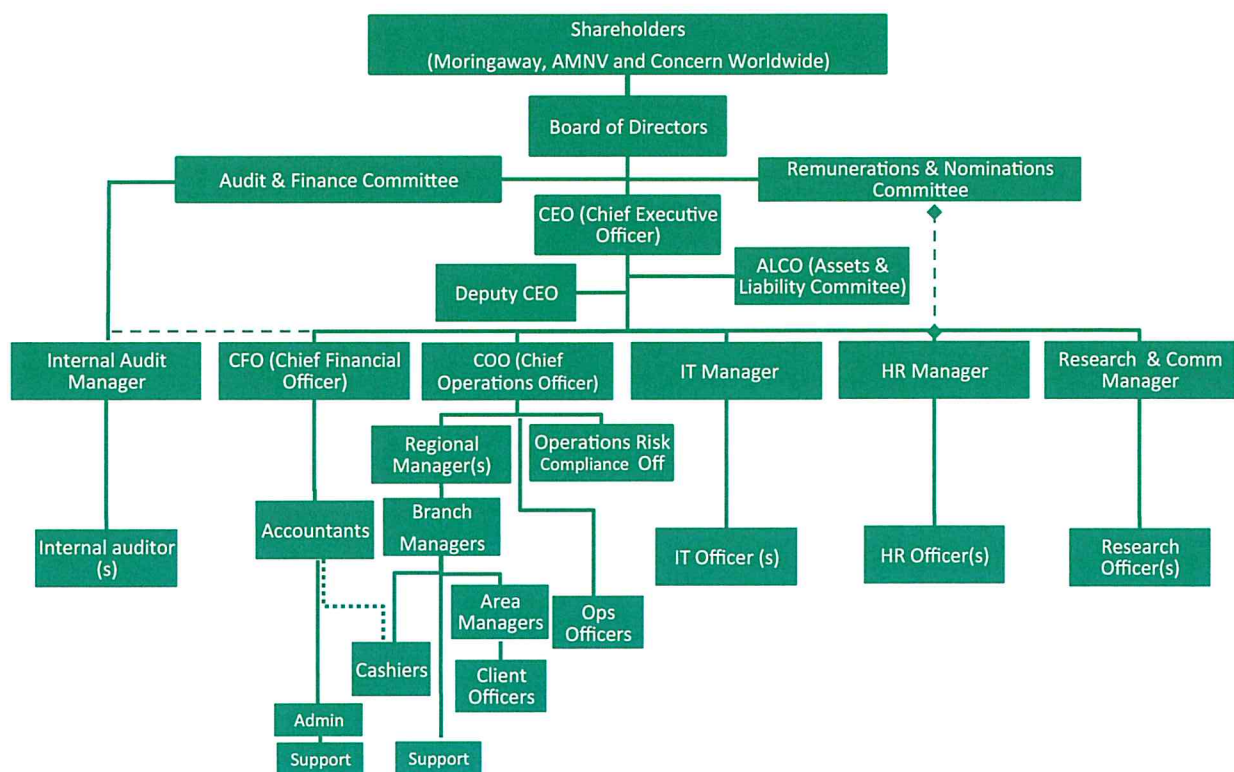
The current shareholders of AMZ are two investment companies (AMNV and Moringaway) and an international non-governmental organization (Concern Worldwide) that share the same focus on financial inclusion in Zambia. AMNV is a public limited liability company domiciled in the Netherlands, Moringaway is a private company limited by shares based out of Mauritius and Concern Worldwide is headquartered in Ireland. The team of Agora Microfinance Partners LLP advises the shareholders and contributes with top-end expertise in innovative rural finance and in effective management tools for balancing social and financial returns. Agora participates actively in AMZ’s strategy and governance, as well as promoting operating efficiency through measures such as tight financial discipline, pro-active risk management, application of mobile technology and competitive pricing.

AMZ’s shareholders appoint the Board of Directors. The Board of Directors governs the operations of AMZ and ensures adherence to the mission and objectives by guiding the strategic direction of AMZ.

The Board has fiduciary responsibility to the shareholders for AMZ’s assets and for minimizing internal and external risks. The Board monitors the work of the CEO and regularly reviews AMZ’s financial and social indicators as well as AMZ’s competitive position. The 6 member-Board meets at least once quarterly and comprises expertise in key fields, such as microfinance / banking, legal matters, finance and development. The bio of AMZ’s Board members is detailed in the following page.

The Board is supported by two advisory sub-committees: The Audit and Finance Committee and the Remunerations and Nominations Committee.

The Board of Directors appoints the Chief Executive Officer (CEO). The CEO heads the management team, which includes six departments (Operations; Finance; Human Resources; Information Technology; Internal Audit; and Research and Communications), as detailed in simplified structure below.





## Board of Directors – Profiles

**Rebecca McKenzie** is the Chairperson of the Board and a member of the Audit and Finance Committee and the Remuneration Committee. She is a co-founder of the Agora group, Managing Director of Agora Microfinance N.V., and Director of Operations for Agora Microfinance Partners LLP. Rebecca has over 15 years of experience in banking, capital markets and microfinance. She has been the key person behind the establishment of AMZ. Previously she was the Investor Relations Manager who assisted AMK Cambodia with equity funding during its early years. As part of her role she also assisted the Board of AMK to liaise with Shareholders. In her banking experience she has held different positions with Depfa Bank Plc, Credit Suisse First Boston, Paribas, and UBS. Rebecca holds a Diploma in Corporate Finance from the London Business School, and a Bachelor's of Arts in European Studies from Scripps College, Claremont, California.

**Tanmay Chetan** is the Chairperson of the Remuneration Committee and a member of the Audit and Finance Committee. He is also a co-founder of the Agora group. He is the Managing Partner of Agora Microfinance LLP and a Supervisory Board Member of Agora Microfinance N.V. Tanmay has worked in microfinance for over 15 years, with his previous work including credit ratings, consulting, investment management and implementation. He has been engaged with Agora since 2008, from its conceptualisation to its present form. Tanmay holds a Master's in Public Administration from the Harvard Kennedy School and an MBA from the Indian Institute of Forest Management.

**Irina Ignatieva** is the Microfinance Advisor for Concern Worldwide. She has over 15 years of experience with microfinance in developing countries. She has worked extensively with microfinance institutions in Central and Eastern Europe and Asia as a consultant and trainer. As microfinance advisor in Concern, she provides support to microfinance programs and programs with microfinance components in Africa, Asia and the Caribbean. Irina holds an EMBA from the Stockholm School of Economics, and an MA from St. Petersburg University, Russia. In February 2014, Irina started as AMZ's CEO for a period of 12 months.

**Rakesh Katal** was the previous Country Director of Concern Zambia. Rakesh has more than 21 years of professional experience working in both senior management and advisory positions with leading international humanitarian and development organizations, mostly in Sub Saharan Africa (Tanzania, Sudan, South Sudan, Zimbabwe and Zambia) and South Asia (India). He has a Bachelor of Arts Degree in Political Science, Public Administration and Sociology from Osmania University, Hyderabad, India. Rakesh retired in June 2013.

**Glenda Mazakaza** is the Chairperson of the Audit and Finance Committee. Glenda is director at Mint Advisory Services Limited, a business consultancy firm which she owns and runs with a business partner. She has more than twenty two years' experience in both the public and private sector having held senior positions in KPMG Zambia, the Road Transport and Safety Agency and the Zambia Revenue Authority. She brings to AMZ valuable knowledge of the local financial and Human Resources landscape. Glenda holds a degree in Business Administration from Copperbelt and is a Fellow of the Association of Chartered and Certified Accountants.

**Eddie Mwitwa** is a lawyer and partner at Musa Mwenye Advocates. Eddie has more than ten years of experience as a law professional, brings extensive knowledge of Zambian law and is a valuable resource for the local legal context. Eddie holds a Law degree (LLB) from the University of Zambia. From January 2014, Eddie acts as a proxy for Mr. Musa Mwenye, the current Attorney General of the Republic of Zambia.

**Douglas Tambulukani** was a member of the Remuneration Committee. Douglas was a lawyer and partner at Musa Mwenye Advocates bringing more than six years of experience as a law professional. Douglas holds a Law degree (LLB) from the University of Zambia. Douglas was a proxy for Mr. Musa Mwenye in 2013 and retired in January 2014.

**Maluba H. Wakung'uma** is the Chief Executive Officer of the Company. Maluba is a microfinance professional with over 17 years hands-on experience of managing microfinance operations at different levels. Prior to AMZ she worked for five years as the Financial Services Manager for the UNDP-Grameen-MBT microfinance project and prior to that as Program Manager for microfinance operations with ECLOF. She has a BA Degree in Development Studies and Public Administration from the University of Zambia and a Diploma in Small Business Planning and Promotion from New Delhi, India as well as a certificate in Management of Microfinance from the International Training Center of the ILO in Turin, Italy. In February 2014, Maluba stepped down as CEO but remains active on the Board of Directors, guiding AMZ's strategy.



## PRODUCTS AND METHODOLOGY

AMZ specifically targets underserved low income rural households engaged in livelihoods activities linked to subsistence agriculture, small scale processing and fishery, as well as in retail trade and services. There are no requirements for gender but women are encouraged to participate and represent about half of AMZ's client base. All AMZ clients are officially classified as 'agricultural households' (at least one household member is engaged in growing crops, raising livestock / poultry, fish farming or a combination of any of these), but they also rely on a range of diverse and complementary income-generating activities including small-scale trading activities, temporary wage labor and other non-farm small business.

The pre-loan training to potential clients focuses on AMZ's three tier guarantee; AMZ's policies; background; terms and conditions of the loan products (fees, sizes, analysis of cash-flow repayment requirements, non-payment penalties); and the roles and responsibilities of the clients, group chairperson and the Village Bank President.

**AMZ's three-tier guarantee** refers to a double social guarantee at group and VB level as well as a cash collateral, i.e. group/VB members have the responsibility of paying for one another's loan in case a fellow member is unable to pay her/his monthly instalment and the up-front cash collateral (required when receiving the loan) will remain in AMZ's custody until a 100% repayment from all members is confirmed.

AMZ currently offers a range of loan products, including End-of-Term loans (with monthly interest payments and balloon principal repayments) and Flexi Loans (instalment-based loans with monthly principal *and* interest payments). Both AMZ loan products apply a **solidarity group lending methodology** without any physical collateral requirement. Additionally, Emergency loans are available for existing clients in case of serious crises or emergencies.

### **Solidarity Group Methodology**

AMZ's lending methodology involves the formation of village-level groups called Village Banks (VBs). Within the VBs, smaller sub-groups of 5-10 members are created to ensure efficiency. Group members co-guarantee each other for loan repayments but product screening and loan transactions are carried out on an individual basis – the groups' function is only one of joint liability and not of a client consolidator.

In order to be part of a group, potential clients must be willing to be part of a solidarity group of like-minded individuals who know each other and are prepared to co-guarantee each other's loans. In addition, potential clients must be between 18-70 years of age; live in a radius of 2 Km from each other within each group at for at least 2 consecutive years in the same village / compound; and have at least one economic activity/livelihood within the household. Equal opportunities are given to all, but no two members in one group can be from the same household or be first blood relatives (even if living in different households). Members within the group can receive different loan products and amounts but they all must have the same term.

The Village Bank President (VBP) is the representative of the VB (elected through secret ballot by all members) and receives an incentive according to the repayment rate and discipline within the VB. VBPs are responsible for ensuring that all clients have been enrolled according to group and VB formation criteria; helping AMZ in organizing collection and repayment meetings; informing AMZ of potential non-payment cases; following-up with delinquent clients; and solving membership related problems. Each group within a VB nominates a group leader who is in charge of ensuring member attendance to meetings, troubleshooting and liaison with the VBP, Client Officer and other members.



## AGORA MICROFINANCE ZAMBIA LIMITED

The End-of-Term Loan for Village Bank (EoT-VB) is aimed at predominantly farming households with seasonal cashflows to stimulate agribusiness activities. This product is offered to those households that can demonstrate the seasonal nature of their primary livelihood. Flexi Loans (Flexi-VB) are aimed at households with more stable businesses and more regular cashflow patterns. These are primarily small scale traders with consistent daily, weekly and/or monthly cashflows. Both loans share the same pricing (interest rates, cash collateral and arrangement/renewal charges), the same maximum loan cycle ceilings and the same maximum term of 12 months - with the only key difference being the repayment schedule that allows for flexibility according to the cashflow patterns of the business or livelihood.

The table below summarizes the **Distinctive Features of AMZ's Loan Products**.

	EoT-VB	Flexi-VB	Emergency
<b>Clientele</b>	Households with seasonal (irregular) cashflows	Households with more regular cashflows	All existing clients (>6 months with AMZ) with an emergency
<b>Guarantee</b>	Social guarantee – No need for physical collateral or guarantors		One personal guarantor
<b>Loan Amounts</b>	Maximum Loan Amount: K 2,000 (~US\$500) Maximum 1 <sup>st</sup> Loan Ceiling: K 1,000 (~US\$200). Loan Cycle 2 onwards: Max. 50% increase from previous loan (and always < K 2,000) Minimum Loan Amount: K 300 (~US\$60)		Maximum loan amount: K 200 (~US\$40)
<b>Term</b>	Maximum: 12 months (and same term for all members in VB)		On (or before) the term of the existing loan
<b>Repayment amount and frequency</b>	Monthly interest and lump sum/principal on (or before) the end-of-term	Monthly fixed principal, declining interest	Monthly interest and lump sum/principal on (or before) the end-of-term
<b>Interest rate (monthly)</b>	3.5%		3%
<b>Arrangement / Renew Charge</b>	9% of loan amount (up-front)		Nil
<b>Cash Collateral</b>	Up-front 7% of loan amount, refundable upon 100% repayment in VB		None
<b>Prepayment penalties</b>	None		
<b>Grace period</b>	None		

## AGORA MICROFINANCE ZAMBIA LIMITED

### KNOWING OUR CLIENTS

AMZ's market and social research systematically collects, stores, and analyzes information from clients on an on-going basis. Research is in-house but separated from regular operations, so that it minimizes staff biases and protects client confidentiality. Research outputs are regularly used by Management to track performance against AMZ's objectives.

An agricultural household is defined as one where "at least one of its members is engaged in growing of crops or livestock / poultry owning or fish farming or a combination of any of these." **AMZ First Client Household Profile** confirms that all our clients are engaged in farming... but their main (cash) income is not necessarily from farming activities; they also relied on an array of different, diverse and complementary income generating activities, such as small-scale trading, temporary labor/salaries and other non-farm small business/livelihoods.

During 2013, AMZ started building up internal systems to track performance on the goal of providing a range of flexible and demand-driven products (the second of our strategic goals), undertaking its First Client Household Survey. The survey provides feedback on current products and captures a client profile covering three key areas: Cashflow patterns (sources of household inflows and outflows and their seasonality); asset holdings (physical, human and social capital); and vulnerability factors (such as food security, incidence of crisis or common coping mechanisms).

Research priorities for 2014 include piloting customer and staff satisfaction surveys as well as testing options for efficiently measuring poverty on entry (the first of our strategic goals). The systems will slowly build up so that in 2015 AMZ can effectively track all relevant data through standardized annual reports.



# AGORA MICROFINANCE ZAMBIA LIMITED

## DIRECTOR'S REPORT

The Directors present their report on the activities of Agora Microfinance Zambia ("AMZ" or "the Company"), together with the audited financial statements for the financial year ended 31 December 2013.

### Principal activities and developments during the year

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

### The Company

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

#### Business address

Agora Microfinance Zambia Limited  
Plot No. 35179, Diamond Park Offices  
Alick Nkhata Road  
Lusaka

#### Postal address

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

### Share capital

The total authorised number of ordinary shares is 11,000,000 with a par value of K10 per share. The authorised share capital is split between A class ordinary shares attached to which are voting rights and B class ordinary shares which do not have voting rights. There are 95,000 authorised A class ordinary shares and 10,905,000 authorised B class ordinary shares.

There were no movements in issued share capital occurred during the period:

	Number of A class shares	Number of B class shares	Total K '000
At 31 December 2012	95,000	982,348	10,773,484
At 31 December 2013	<u>95,000</u>	<u>982,348</u>	<u>10,773,484</u>

All issued shares are fully paid.

### Results and dividends

The Company's results for the year are shown on page 20. The Directors do not propose that a dividend be declared in respect of the 2013 financial year.

### Directors' and secretary

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

#### Directors

Rebecca McKenzie - Chairperson	
Maluba Wakung'uma	(redesignated from CEO 20 February 2014)
Tanmay Chetan	
Irina Ignatieva	(appointed CEO 20 February 2014)
Rakesh Katal	(resigned 20 June 2013)
Glenda Mazakaza	
Douglas Tambulukani (proxy for Musa Mwenye)	(resigned 15 January 2014)
Eddie Mwitwa (proxy for Musa Mwenye)	(appointed 15 January 2014)

# AGORA MICROFINANCE ZAMBIA LIMITED

## DIRECTORS' REPORT (continued)

### Company Secretary

Maluba Wakung'uma  
David Payling

(resigned 19 February 2013)  
(appointed 19 February 2013)

### Directors' remuneration

A total of ZMW 16,217 was spent on director's fees during the year (2012: ZMW 9,955).

### Average number and remuneration of employees

Total employee benefits expense for the year was ZMW 3,881k (2012: ZMW 2,243.5k). The average number of employees throughout the year was 64 (2012: 35).

### Gifts and donations

There were no gifts or donations made during the year (2012: ZMW nil).

### Property, plant and equipment and intangible assets

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

### Research and Development

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

### Related party transactions

Related party transactions during the period consisted of a convertible loan agreement with a shareholder. Further information about this loan agreement is included within Note 18 to the financial statements. Additionally, the remuneration of key management personnel is also disclosed within Note 18.

### Prohibited borrowings or lendings

There were no prohibited borrowings during the year (2012: ZMW nil).

### Risk management and control

AMZ has a risk management framework defined in its Business and Strategic Plan which defines the main risk areas and the mitigating strategies. Internal control systems are outlined in the organisation's policies and procedures. As at the 31 December 2013 the following policies were in place:

- |      |                       |            |
|------|-----------------------|------------|
| i.   | Operations Policy     | - approved |
| ii.  | Human Resource Policy | - approved |
| iii. | Internal Audit Policy | - approved |
| iv.  | Finance Policy        | - approved |

### Internal audit function

The Company has a fully functional Internal Audit department, comprising two staff members who conduct regular inspections of Head Office and all branches for compliance with internal policies and procedures and external requirements. Internal audit reports are reviewed and approved by the Audit and Finance Committee of the board. During 2013, Internal Audit performed 9 full audits and 9 other reviews.



# AGORA MICROFINANCE ZAMBIA LIMITED

## DIRECTORS' REPORT (continued)

### **Know your customer ("KYC") and money laundering policies**

All KYC requirements are conducted by the branch and filed in hard copy at branch level. Additionally, all potential borrowers are checked using an approved credit reference bureau.

### **Financial statements**

The financial statements set out on pages 20 to 48 have been approved by the directors.

### **Auditors**

Ernst & Young, Trinity Office Park, Stand No. 16806, Alick Nkhata Road, P.O Box 35483, Lusaka

In accordance with the provisions of the Articles of Association of the Company, the auditors, Messrs Ernst & Young, will retire as auditors of the Company at the forthcoming Annual General Meeting and, having expressed their willingness to continue in office, a resolution proposing their re-appointment will be presented at the Annual General Meeting.

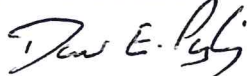
### **Going concern**

As described above, the current operating environment is difficult and the Company has reported an operating loss for the year. Furthermore, the Company has continued to incur losses during 2014. The Directors consider the outlook to be challenging in terms of loan portfolio quality as well as in direct costs given the current Zambian Kwacha exchange rate volatility. The Directors have instituted measures to improve the loan portfolio quality, reduce costs and steps are being taken to limit exposure to foreign exchange volatility. The recent increases in the Bank of Zambia policy rate also provide an opportunity to increase revenue through raising the nominal interest rate charged from 3.5% per month to 4% per month or higher.

The Company has commenced discussions with existing and new lenders about additional facilities that may be required. It is likely that these discussions will not be completed for some time. The directors are also engaged in discussions with potential equity investors and detailed due diligence is expected to commence within the next 2-3 months. Since the start of 2014, however, one of the shareholders has already injected over ZMW 3.5 million in additional debt financing and is in the process of converting over ZMW 2 million of this debt into equity. Furthermore, one of the lenders approved the extension of its loan for a further 6 months.

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

By order of the Board



COMPANY SECRETARY

29 September 2014



# AGORA MICROFINANCE ZAMBIA LIMITED

## CORPORATE GOVERNANCE STATEMENT

### Importance of corporate governance

AMZ is governed by the Articles of Association as revised on 1 July 2011. The 'Articles' define the corporate governance structure and mandate of directors and senior management. The AMZ Business and Strategic Plan also outlines in detail, the organizational structure which includes the AGM at the apex of the structure, a Board of Directors, an Audit and Finance Committee and a Remuneration and Nominations Committee.

### Board Committees

#### *Audit and Finance Committee*

The AFC met 4 times during 2013. Membership of the Board's AFC during the year was follows:

Glenda Mazakaza	Chairperson
Rebecca McKenzie	Member
Tanmay Chetan	Member

#### *Remuneration and Nominations Committee*

The RNC met 5 times during 2013. Membership of the Board's AFC during the year was follows:

Tanmay Chetan	Chairperson
Rebecca McKenzie	Member
Douglas Tambulukani	Member

### Management Committees

In October 2012, the Board approved the terms of reference for the Asset and Liability Management Committee ("ALCO"). The members of this Committee (all ex officio) are as follows: the CEO, the Deputy CEO, the CFO and the Head of Accounts. The COO attends meetings by invitation. The Committee met 4 times during 2013.

## AGORA MICROFINANCE ZAMBIA LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The Board of Directors confirm that in their opinion:

- (a) the financial statements give a true and fair view of the financial position of Agora Microfinance Zambia Limited as of 31 December 2013, and of its financial performance and its cash flows for the year then ended;
- (b) at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts as and when these fall due; and
- (c) the financial statements are drawn up in accordance with International Financial Reporting Standards.

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

Signed at Lusaka on 29 September 2014



Director

Rebecca Melonje



Director



## **Independent Auditor's Report to the Members of Agora Microfinance Zambia Limited**

### **Report on the financial statements**

We have audited the accompanying financial statements of Agora Microfinance Zambia Limited, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 20 to 48.

### **Director's responsibility for the financial statements**

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Zambia, and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

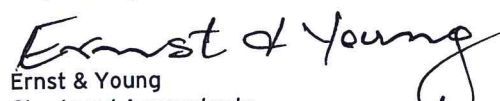
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Agora Microfinance Zambia Limited as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1994.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to the directors' report which indicates that the company incurred a net loss of 5,977,137 for the year ended 31 December 2013 and it has continued to incur losses after year end. The current operating environment is difficult and the directors consider the outlook to be challenging in terms of loan portfolio quality as well as in direct costs given the current Zambian Kwacha exchange rate volatility. The directors report notes that these conditions, along with other matters, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

  
Ernst & Young  
Chartered Accountants  
Henry Nondo  
Partner  
30 September 2014

Lusaka

## AGORA MICROFINANCE ZAMBIA LIMITED

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Year to 31 December 2013 ZMW	Year to 31 December 2012 ZMW (restated)
Interest income	5	4,946,499	3,900,392
Interest expense	6	(927,827)	(419,187)
<b>Net interest income</b>		<b>4,018,672</b>	<b>3,481,205</b>
Impairment losses on loans and advances		(1,187,215)	(184,163)
<b>Net interest income after impairment losses on loans and advances</b>		<b>2,831,457</b>	<b>3,297,042</b>
Foreign exchange loss		(63,976)	(43,697)
Other operating income		64,866	155,302
Operating expenses	7	(7,677,848)	(4,455,641)
<b>Loss before income tax</b>		<b>(4,845,501)</b>	<b>(1,046,994)</b>
Income tax (charge)/credit	9	(1,131,636)	344,554
<b>Total comprehensive loss for the year</b>		<b>(5,977,137)</b>	<b>(702,440)</b>





## AGORA MICROFINANCE ZAMBIA LIMITED

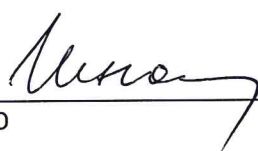
### STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2013

	Notes	31 December 2013 ZMW	31 December 2012 ZMW (restated)
<b>ASSETS</b>			
Cash and cash equivalents	10	2,031,977	4,438,804
Loans and advances to customers	11	5,893,191	9,077,650
Other assets	12	408,378	130,507
Property and equipment	13	931,085	678,033
Deferred income tax assets	14	-	1,131,636
<b>Total assets</b>		<b>9,264,631</b>	<b>15,456,630</b>
<b>LIABILITIES</b>			
Other liabilities	15	1,192,929	1,569,760
Borrowings	16	5,417,896	5,255,927
<b>Total Liabilities</b>		<b>6,610,825</b>	<b>6,825,687</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	10,773,484	10,773,484
Retained earnings / (loss)		(8,119,678)	(2,142,541)
<b>Total shareholders' equity</b>		<b>2,653,806</b>	<b>8,630,943</b>
<b>Total equity and liabilities</b>		<b>9,264,631</b>	<b>15,456,630</b>

The financial statements on pages 20 to 48 were approved for issue by the Board of Directors on 29 September 2014 and signed on its behalf by:

  
\_\_\_\_\_  
Chairperson

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
CEO

  
\_\_\_\_\_  
Company Secretary

## AGORA MICROFINANCE ZAMBIA LIMITED

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Share capital	Retained earnings	Total
		ZMW	ZMW	ZMW
<b>Year ended 31 December 2012</b>				
At 1 January 2012		3,137,753	(1,350,502)	1,787,251
Effect of change in accounting policy for fee recognition		-	(89,599)	(89,599)
As restated		3,137,753	(1,440,101)	1,697,652
Issued during the year	17	7,635,731	-	7,635,731
Comprehensive loss / loss for the year (restated)		-	(702,440)	(702,440)
At 31 December 2012 (restated)		<u>10,773,484</u>	<u>(2,142,541)</u>	<u>8,630,943</u>
<b>Year ended 31 December 2013</b>				
At 1 January 2013		10,773,484	(2,142,541)	8,630,943
Issued during the year	17	-	-	-
Comprehensive loss / loss for the year		-	(5,977,137)	(5,977,137)
At 31 December 2013		<u>10,773,484</u>	<u>(8,119,678)</u>	<u>2,653,806</u>



## AGORA MICROFINANCE ZAMBIA LIMITED

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Year to 31 December 2013 ZMW	Year to 31 December 2012 ZMW (restated)
<b>Cash flows from operating activities</b>		
Loss for the year before taxation	(4,845,501)	(873,964)
Depreciation	381,169	262,444
	<hr/>	<hr/>
Cash outflow from operating activities before changes in operating assets and liabilities	(4,464,332)	(611,520)
Changes in operating assets and liabilities		
- loans and advances	3,184,459	(5,537,499)
- other assets	(277,871)	243,207
- other liabilities	(376,831)	904,566
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(1,934,575)</b>	<b>(5,001,246)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(633,681)	(249,218)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(633,681)</b>	<b>(249,218)</b>
<b>Cash flows from financing activities</b>		
Issue of Class A voting shares	-	-
Issue of Class B non-voting shares	-	7,635,731
Proceeds from borrowings	1,398,250	9,019,473
Repayments of borrowings	(1,185,670)	(7,860,211)
	<hr/>	<hr/>
<b>Net cash generated by financing activities</b>	<b>212,580</b>	<b>8,794,993</b>
Effect of exchange rates on cash and cash equivalents	(51,151)	67,858
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,406,827)</b>	<b>3,612,387</b>
<b>Cash and cash equivalents at start of period</b>	<b>4,438,804</b>	<b>826,417</b>
<b>Cash and cash equivalents at end of period</b>	<b>2,031,977</b>	<b>4,438,804</b>
<b>Represented by:</b>		
Cash and cash equivalents (Note 10)	<hr/> <u>2,031,977</u>	<hr/> <u>4,438,804</u>

Interest received in 2013 was K5,096,939 (2012: K3,224,564) and interest paid in 2013 was K1,028,971 (2012: K361,408).

# AGORA MICROFINANCE ZAMBIA LIMITED

## NOTES TO THE FINANCIAL STATEMENT – 31 DECEMBER 2013

### 1. General information

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

P.O. Box 745 Post Net Manda Hill  
Plot No. 35179, Alick Nkhata Road  
Diamond Park Offices  
Lusaka

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

### 2. Summary of significant accounting policies

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

#### (a) Basis of preparation

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

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

#### New accounting standards and interpretations effective in 2013

Many standards or amendments became effective for the first time in the current financial year. These include IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 19 Employee Benefits (Revised 2011), IFRS 13 Fair Value Measurement, amendments to IAS 1 Presentation of Financial Statements and IFRS 12 Disclosure of Interest in Other Entities. Most of these standards did not have a significant impact on the group as it does not have subsidiaries, associates, and is not party to any joint arrangements. The nature and the impact of the standards and amendments that had an impact on the financial statements of the group are described below:

#### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the group, however additional disclosures were required, and are hereby provided in the individual notes relating to the assets and liabilities whose fair values were determined. Also refer to Note 3.



**2. Summary of significant accounting policies (continued)**

**IAS 1 (amendment) Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Company's financial position or performance as the group does not have any other comprehensive income. The amendment became effective for annual periods beginning on or after 1 July 2012.

**IAS 1 (amendment) Clarification of the requirement for comparative information**

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes.

**New accounting standards and interpretations effective not yet effective in 2013**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these financial statements:

**IFRS 9 – Financial instruments**

IFRS 9 Financial instruments deals with classification and measurement of financial assets. The standard was initially effective for annual periods beginning on or after 1 January 2013, but the effective date has subsequently been moved. IFRS 9 (2013) addresses the measurement and classification of financial assets and will replace the relevant sections of IAS 39. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held for within a business model whose objective is to hold assets in order to collect contractual cash flows, and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be at measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. The Company is yet to quantify the impact the adoption of the standard will have on the financial statements.

**IAS 32 (amendment) – Offsetting financial assets and financial liabilities**

The changes clarify the offsetting requirements. Above and beyond this, additional guidance on offsetting financial assets and financial liabilities has been included in the standard. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

**2. Summary of significant accounting policies (continued)**

**IAS 36 (amendment) – Impairment of assets**

The changes clarify disclosure requirements regarding significant goodwill with unlimited useful life. In addition new disclosure requirements were introduced regarding the impairment and the reversal of impairment. These improvements are effective for annual periods beginning on or after 1 January 2014 and is not expected to have a material impact of the financial statements of the Company.

**IAS 39 (amendment) – Financial instruments: recognition and measurement**

The IASB has issued certain clarifications regarding hedge accounting and the introduction of a central clearing counterparty. These improvements are effective for annual periods beginning on or after 1 January 2014 and will have no impact of the financial statements of the Company as it does not use hedge accounting.

**IFRS 21 - Levies**

This new interpretation deals with levies which are not income taxes and when such levies shall be recognized. On 28 October 2010 the IASB also issued the requirements under IFRS 9 for financial liability accounting. This standard will have no material impact on the financial liabilities (effective date: January 1, 2014).

**(b) Revenue recognition**

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

**i) Interest income and expense**

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

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

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

**ii) Fees and commission income**

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



(c) **Translation of foreign currencies**

(i) **Functional and presentation currency**

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

On 1 January 2013 the Zambian currency was rebased such that 1 new kwacha = 1,000 old kwacha. Since these financial statements are for the year ended 31 December 2013, subsequent to rebasing, they are presented in “new” Kwacha. The comparatives for 2012 have been restated into the rebased currency amounts.

(ii) **Transactions and balances**

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

(d) **Financial assets**

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

**Loans and advances and other receivables**

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

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

**Impairment of financial assets**

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

- a) significant financial difficulty of the borrower;
- b) a breach of contract, such as default or delinquency in interest or principal repayments;
- c) the Company granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the Company would not otherwise consider;
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

**2. Summary of significant accounting policies (continued)**

- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

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

**Assets carried at amortised cost**

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

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

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

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



**2. Summary of significant accounting policies (continued)**

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

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

**Fair value measurement**

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

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

**(f) Property and equipment**

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

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

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

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

**2. Summary of significant accounting policies (continued)**

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

**(g) Income tax**

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

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

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

**(h) Cash and cash equivalents**

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

**(i) Borrowings and other financial liabilities**

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



## AGORA MICROFINANCE ZAMBIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

#### 2. Summary of significant accounting policies (continued)

##### (j) Employee benefits

The Company did not have employee gratuities that accrued during the period. Employees are paid performance based incentives instead. However, all employees are members of the National Pension Scheme Authority to which both employees and the Company contribute. Obligations for contributions are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

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

##### (k) Share capital

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

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

##### (l) Dividends payable

The company's shareholders do not expect to derive any dividends for the next 2-3 years as per its articles of association. After that, the policy will be reviewed on the basis of the performance of AMZ and its continued need for additional capital. There were no dividends to declare in 2013 (2012 – nil).

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

**3. Financial risk management**

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

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

**(a) Credit risk**

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

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

**Collateral and other credit enhancements**

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

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

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



# AGORA MICROFINANCE ZAMBIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

### 3. Financial risk management (continued)

#### Maximum exposure to credit risk

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

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
Cash and cash equivalents	2,031,977	4,438,804
Loans and advances to customers	5,893,191	9,077,650
Other assets	408,378	130,507
	8,333,547	13,646,961

The exposures set out above are based on carrying amounts as reported in the statement of financial position. 70.7% of the total maximum exposure is derived from loans and advances to customers (2012: 66.5%). Loans and advances to customers, are secured by cash collateral held with AMZ until and upon completion of the loan and/or mutual guarantees (for group loans). As at 31 December 2013 the value of cash collateral held was ZMW 819k (2012: ZMW 1,349k).

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

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

#### Financial assets that are past due or impaired

Loans and advances are summarised as follows:

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
Neither past due nor impaired	5,590,036	8,938,350
Past due but not impaired 1-29 days	108,379	225,845
Past due but not impaired 30-59 days	317,827	37,446
Past due but not impaired 60-89 days	196,989	8,598
Past due but not impaired 90-119 days	174,166	42,790
Past due >120 days	400,903	17,927
Gross	6,788,300	9,270,956
Plus: accrued interest	98,827	249,267
Less: deferred income	(369,281)	(310,875)
allowance for impairment	(624,655)	(131,698)
	5,893,191	9,077,650

No other financial assets are either past due or impaired.

## AGORA MICROFINANCE ZAMBIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

#### 3. Financial risk management (continued)

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

#### Concentrations of risk of financial assets with credit risk exposure

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

	31 December 2013 ZMW	31 December 2012 ZMW
Agriculture and allied	4,172,456	4,534,757
Manufacturing, mining and production	36,292	40,127
Trade and services	2,536,956	4,615,980
Other	42,596	80,092
	<u>6,788,300</u>	<u>9,270,956</u>

#### (b) Liquidity risk

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

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

	On demand ZMW	Less than 3 months ZMW	More than 3 months but not more than 1 year ZMW	More than 1 year ZMW	Total ZMW
<b>31 December 2013</b>					
Other liabilities	-	774,021	418,908	-	1,192,929
Borrowings	-	637,750	3,275,500	1,398,271	5,311,521
	-	<u>1,411,771</u>	<u>3,694,408</u>	<u>1,398,271</u>	<u>6,504,450</u>
<b>31 December 2012 (restated)</b>					
Other liabilities	-	250,528	1,319,232	-	1,569,760
Borrowings	-	40,373	1,155,850	3,913,250	5,109,473
	-	<u>290,901</u>	<u>2,475,082</u>	<u>3,913,250</u>	<u>6,917,853</u>



**3. Financial risk management (continued)**

**(c) Market risk**

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

**Currency risk**

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

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

	<b>31 December 2013 ZMW</b>	<b>31 December 2012 ZMW</b>
<b>Assets</b>		
Cash and cash equivalents	697,652	611,656
Other receivables	175,973	-
<b>Liabilities</b>		
Other liabilities	101,181	149,434
Borrowings	-	552,186
Net on-balance sheet position	<u>(772,444)</u>	<u>(89,964)</u>

Based on the Company's year end net assets denominated in US\$ the impact of a 10% strengthening or weakening of the Kwacha would result in a gain or loss of ZMW 77,244 (2012: ZMW 8,996).

**Interest rate risk**

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

## AGORA MICROFINANCE ZAMBIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

#### 3. Financial risk management (continued)

	Up to 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 1 year	More than 1 year	Total
	ZMW	ZMW	ZMW	ZMW	ZMW
<b>31 December 2013</b>					
<b>Assets</b>					
Loans and advances to customers	1,551,754	444,587	4,791,959	-	6,788,300
<b>Liabilities</b>					
Borrowings	3,398,271	637,750	1,275,500	-	5,311,521
<b>31 December 2012</b>					
<b>Assets</b>					
Loans and advances to customers	486,114	322,210	8,462,632	-	9,270,956
<b>Liabilities</b>					
Borrowings	40,373	1,973,556	511,813	2,491,564	5,017,306

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

One of the Company's borrowings (see note 16) is at a fixed rate of interest and therefore has a different fair value to its carrying value. Due to the fact that market interest rates at the year end were broadly in line with those when the loan was received and since the loan will be repaid in 2014, the Directors do not believe this difference was material.

#### (d) Capital management

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

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

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines issued by the Bank of Zambia for supervisory purposes. The required information is filed with the Bank of Zambia on a quarterly basis. The Company is required to maintain a minimum capital of the higher of K25 million and 15% of the risk weighted assets.



## AGORA MICROFINANCE ZAMBIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

#### 3. Financial risk management (continued)

The Bank of Zambia requires each Microfinance Institution (MFI), including the Company, to: (a) hold the minimum level of regulatory capital of the higher of K25 million and 15% of the risk weighted assets; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%; (c) maintain primary or tier 1 capital of not less than 5% of total risk weighted assets; and (d) maintain total capital of not less than 10% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

- Tier 1 capital (primary capital): common shareholders' equity, qualifying preferred shares, retained earnings and minority interests in the equity of subsidiaries that are less than wholly owned.
- Tier 2 capital (secondary): qualifying preferred shares, 40% of revaluation reserves, subordinate term debt or loan stock with a minimum original term of maturity of over five years (subject to straight line amortisation during the last five years leaving no more than 20% or the original amount outstanding in the final year before redemption) and other capital instruments which the Bank of Zambia may allow. The maximum amount of secondary capital is limited to 100% of primary capital.

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

The table below summarises the composition of regulatory capital, total risk weighted assets and the relevant ratios for the Company as at 31 December 2013 and 2012:

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
<b>Capital</b>		
Tier 1 capital	2,445,366	8,555,600
Tier 2 capital	-	-
Total	<u>2,445,366</u>	<u>8,555,600</u>
<b>Risk-weighted assets</b>		
On-balance sheet	6,818,166	10,553,912
Off-balance sheet	-	-
Total	<u>6,818,166</u>	<u>10,553,912</u>
<b>Basel ratio</b>		
Tier 1 (regulatory minimum: 5%)	35.9%	81.1%
Tier 1 + Tier 2 (regulatory minimum: 10%)	35.9%	81.1%

## AGORA MICROFINANCE ZAMBIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

#### 3. Financial risk management (continued)

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

##### Computation of capital position

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
<b>Primary (Tier 1) capital</b>		
Paid up common shares	10,773,484	10,773,484
Retained earnings	(8,119,677)	(2,142,541)
Less		
Other adjustments	(208,441)	(75,343)
<b>Total primary capital</b>	<u>2,445,366</u>	<u>8,555,600</u>
<b>Secondary (Tier 2) capital</b>	-	-
<b>Eligible total regulatory capital</b>	<u>2,445,366</u>	<u>8,555,600</u>
<b>Minimum total capital requirement</b>	1,022,725	1,583,087
<b>Excess capital</b>	<u>1,422,641</u>	<u>6,972,513</u>

##### Calculation of risk-weighted assets

		31 December 2013	
	Risk weight	Balance (net of allowance for losses) ZMW	Risk- weighted assets ZMW
Cash and cash equivalents			
- on hand	0%	11,674	-
- at bank	20%	2,020,303	404,061
Loans and advances to customers			
- portion secured by cash	0%	818,550	-
- other	100%	5,074,641	5,074,641
Property and equipment	100%	931,085	931,085
Other assets	100%	408,378	408,378
<b>Total risk weighted assets</b>		<u>9,264,632</u>	<u>6,818,166</u>



## AGORA MICROFINANCE ZAMBIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

#### 3. Financial risk management (continued)

	Risk weight	31 December 2012	
		Balance (net of allowance for losses) ZMW (restated)	Risk-weighted assets ZMW (restated)
Cash and cash equivalents			
- on hand	0%	12,750	-
- at bank	20%	4,426,054	885,211
Loans and advances to customers			
- portion secured by cash	0%	1,349,125	-
- other	100%	7,728,525	7,728,525
Property and equipment	100%	678,033	678,033
Other assets	100%	1,262,143	1,262,143
Total risk weighted assets		15,456,630	10,553,912

#### 4 Critical accounting estimates and judgements in applying accounting policies

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

##### Impairment losses on loans and advances

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

##### Income taxes and deferred tax asset

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

**AGORA MICROFINANCE ZAMBIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)**

**5. Interest income**

	<b>Year to 31 December 2013 ZMW</b>	<b>Year to 31 December 2012 ZMW (restated)</b>
Arising on:		
Loans and advances to customers	4,073,072	3,377,128
Loan administration charges	836,218	520,182
Fixed term deposits	37,209	3,082
	<u>4,946,499</u>	<u>3,900,392</u>

**6. Interest expense**

	<b>Year to 31 December 2013 ZMW</b>	<b>Year to 31 December 2012 ZMW</b>
Arising on:		
Other borrowings	927,827	419,187
	<u>927,827</u>	<u>419,187</u>

**7. Operating expenses**

The following items are included within operating expenses:

	<b>Year to 31 December 2013 ZMW</b>	<b>Year to 31 December 2012 ZMW</b>
Employee benefits expense (note 8)	3,881,030	2,243,518
Depreciation	381,169	262,444
Auditors' remuneration	78,000	54,000
Other operating expenses	3,337,649	1,895,679
	<u>7,677,848</u>	<u>4,455,641</u>

**8. Employee benefits expense**

The following items are included within employee benefits expense:

	<b>Year to 31 December 2013 ZMW</b>	<b>Year to 31 December 2012 ZMW</b>
Retirement benefit costs:		
- National Social Security Fund (NAPSA)	169,884	87,067
	<u>169,884</u>	<u>87,067</u>



# AGORA MICROFINANCE ZAMBIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

### 9. Income tax credit

	Year to 31 December 2013 ZMW	Year to 31 December 2012 ZMW (restated)
• Tax (charge)/credit to statement of comprehensive income		
Current tax	-	(462)
Deferred tax	(1,131,636)	345,016
	<u>(1,131,636)</u>	<u>344,554</u>

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

	Year to 31 December 2013 ZMW	Year to 31 December 2012 ZMW (restated)
• Tax (charge)/credit reconciliation		
Loss before income tax	(4,845,501)	(1,046,994)
Tax at the statutory rate of 35%	1,695,925	366,448
Tax effect of:		
Expenses not deductible for tax purposes	(154,215)	(112,717)
Capital allowances	146,318	90,823
Unrecognised deferred tax asset	(2,819,664)	-
	<u>(1,131,636)</u>	<u>344,554</u>

### 10. Cash and cash equivalents

	31 December 2013 ZMW	31 December 2012 ZMW
Cash on hand	11,674	12,750
Balances with banks	2,020,303	4,426,054
	<u>2,031,977</u>	<u>4,438,804</u>

### 11. Loans and advances to customers

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
a) Summary		
Loans and advances	6,788,300	9,270,956
Accrued interest	98,827	249,267
Deferred income	(369,281)	(310,875)
Gross loans and advances	<u>6,517,846</u>	<u>9,209,348</u>
Less: Provision for impairment of loans and advances		
- Individually assessed	(624,655)	(131,698)
- Collectively assessed	-	-
	<u>5,893,191</u>	<u>9,077,650</u>

## AGORA MICROFINANCE ZAMBIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

b) Maturity	31 December 2013 ZMW	31 December 2012 ZMW
Due:		
Within 1 month	1,644,155	743,851
Between 1 to 3 months	424,047	316,097
Between 3 months and 1 year	4,449,644	8,149,400
	<u>6,517,846</u>	<u>9,209,348</u>

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

	31 December 2013 ZMW	31 December 2012 ZMW
At start of the year	131,698	8,235
Impairment for the year	1,187,215	184,163
Charged-off	(694,258)	(60,700)
At end of the year	<u>624,655</u>	<u>131,698</u>

d) All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2013 was ZMW 253,568 million (2012: ZMW 332,600).

#### 12. Other assets

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
Prepayments	111,687	50,718
Staff debtors	96,753	24,625
Other debtors	199,938	55,164
	<u>408,378</u>	<u>130,507</u>

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



# AGORA MICROFINANCE ZAMBIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

### 13. Property and equipment

	Motor vehicles	Computer and office equipment	Furniture and fittings	Leasehold improvements	Total
	ZMW	ZMW (restated*)	ZMW	ZMW	ZMW (restated)
<b>31 December 2012</b>					
<b>Cost</b>					
At 1 January 2012	413,694	311,221	69,200	-	794,115
Additions	52,500	142,610	54,108	-	249,218
Disposals	-	(5,350)	-	-	(5,350)
At 31 December 2012	466,194	448,481	123,308	-	1,037,983
<b>Depreciation</b>					
At 1 January 2012	45,422	37,662	15,496	-	98,580
Charge for the year	139,706	107,084	15,654	-	262,444
Disposals	-	(1,074)	-	-	(1,074)
At 31 December 2012	185,128	143,672	31,150	-	359,950
<b>31 December 2013</b>					
<b>Cost</b>					
At 1 January 2013	466,194	448,481	123,308	-	1,037,983
Additions	295,935	147,763	116,448	73,535	633,681
Disposals	-	-	-	-	-
At 31 December 2013	762,129	596,244	239,756	73,535	1,671,664
<b>Depreciation</b>					
At 1 January 2013	185,128	143,672	31,150	-	359,950
Charge for the year	195,733	140,606	34,164	10,126	380,629
Disposals	-	-	-	-	-
At 31 December 2013	380,861	284,278	65,314	10,126	740,579
<b>Net book value</b>					
At 31 December 2012	281,066	304,809	92,158	-	678,033
At 31 December 2013	381,268	311,966	174,442	63,409	931,085

\* Assets that were included as Intangibles (Computer Software) in the 2012 Annual Report have been reclassified to Computer and Office Equipment for 2013, including restatement of the comparatives.

# AGORA MICROFINANCE ZAMBIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

### 14. Deferred income tax assets

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

	Year to 31 December 2013 ZMW	Year to 31 December 2012 ZMW (restated)
At start of year	1,131,636	786,619
Income statement (charge) / credit (Note 9)	(1,131,636)	345,017
At end of year	-	1,131,636

During 2013, the Company determined that it was no longer appropriate to recognize any deferred tax asset due to the ongoing losses. The amount of the unrecognised deferred tax asset as at 31 December 2013 was ZMW 2,819,664 (2012: nil).

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

	Trading losses ZMW (restated)	Capital allowances ZMW	Total ZMW (restated)
Credited / (charged) to income statement	343,985	1,032	345,017
At 31 December 2012	1,160,059	(28,423)	1,131,636
Credited / (charged) to income statement	(1,160,059)	28,423	(1,131,636)
At 31 December 2013	-	-	-

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

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
<u>Recognised</u>		
Within twelve months	-	-
After twelve months	-	1,131,636
<u>Unrecognised</u>		
Within twelve months	-	-
After twelve months	2,819,664	-



# AGORA MICROFINANCE ZAMBIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

d) Deferred tax assets will expire as follows:

	31 December 2013 ZMW	31 December 2012 ZMW
2015	297,124	297,124
2016	441,249	489,495
2017	284,456	345,017
2018	1,796,835	-
	<u>2,819,664</u>	<u>1,131,636</u>

### 15. Other liabilities

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
Cash collateral	818,550	1,349,126
PAYE and pension contributions	79,104	59,208
Other creditors and accruals	295,275	161,426
	<u>1,192,929</u>	<u>1,569,760</u>

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

### 16. Borrowings

	31 December 2013 ZMW	31 December 2012 ZMW (restated)
Borrowings	5,417,896	5,255,927
	<u>5,417,896</u>	<u>5,255,927</u>

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

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

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

# AGORA MICROFINANCE ZAMBIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)

### 17. Share capital

The total authorised number of ordinary shares is 11,000,000 with a par value of K 10 per share (2012: 11,000,000). The authorised share capital is split between A class ordinary shares attached to which are voting rights and B class ordinary shares which do not have voting rights. There are 95,000 authorised A class ordinary shares (2012: 95,000) and 10,905,000 authorised B class ordinary shares (2012: 10,905,000). The following movements in issued share capital occurred during the period:

	Number of A class shares	Number of B class shares	Total ZMW
At 1 January 2012	95,000	218,775	3,137,753
Issued during the year	-	763,573	7,635,731
At 31 December 2012	95,000	982,348	10,773,484
Issued during the year	-	-	-
At 31 December 2013	95,000	982,348	10,773,484

All issued shares are fully paid.

On 5 July 2012, the Company issued 313,552 B class shares to Moringaway, an existing shareholder, as a result of Moringaway exercising the conversion clause in its loan agreement.

On 21 December 2012, the Company issued 450,000 B class shares to Agora Microfinance N.V. ("AMNV"), a new shareholder, as a result of AMNV exercising the conversion clause in its loan agreement. Approval of AMNV as a shareholder was received from the Bank of Zambia on 29 November 2012.

### 18. Related party transactions

#### a) Borrowings

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

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

As explained in Note 17, during 2012 the Company converted all borrowings from related parties into B class shares. As at 31 December 2012, the facility with Moringaway still existed with an undrawn amount of \$300,000. The facility with AMNV matured on 28 December 2012.

Interest charged on these loans was as follows:

	31 December 2013 ZMW	31 December 2012 ZMW
Moringaway	-	175,682
AMNV	10,647	169,698



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)**

**a) Key management compensation**

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

	<b>31 December 2013 ZMW</b>	<b>31 December 2012 ZMW</b>
Salaries and other short-term employment benefits	355,400	348,865
Company pension contributions	9,375	9,392
	<u>364,775</u>	<u>358,257</u>

**19. Contingent liabilities and commitments**

At 31 December 2013, the Company had commitments, related to its office space, under non-cancellable operating leases as set out below:

	<b>31 December 2013 ZMW</b>	<b>31 December 2012 ZMW</b>
Within one year	151,454	62,300
After one year but not more than five	160,774	-
	<u>312,228</u>	<u>62,300</u>

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

**20. Subsequent events**

On 9 January 2014, the Bank of Zambia announced revisions to the minimum capital requirements for non-bank financial institutions including MFIs. As a result of these revisions the Company's minimum capital requirement increased from ZMW 25,000 to ZMW 100,000.

On 19 February, 19 March and 22 April 2014 the Company entered into additional loan agreements with a shareholder, AMNV, for the ZMW equivalent of \$250,000, \$100,000 and \$250,000 respectively.

In July 2014 the Company and a shareholder, AMNV, entered into a subordinated debt agreement. On 5 August and 5 September the Company drew down \$50,000 and \$100,000 respectively under this agreement. Approval from the Bank of Zambia that this debt can be included as Tier 2 capital is currently pending.

On 16 April the Company increased its authorized share capital from 1,100,000 to 1,500,000 shares at K10 each and on 24 July further increased it authorized share capital to 1,700,000 shares at K10 each.

On 19 April, AMNV converted ZMW 3, 572,410 of its loan to the Company into 357,241 Class B shares and on 31 July, AMNV further converted ZMW 1,621,207 of its loan into 162,121 Class B shares.

## **AGORA MICROFINANCE ZAMBIA LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)**

In April 2014 the loan from Triodos due for repayment on 1 May 2014 was extended on substantially the same terms to 1 November 2014.

In June 2014 the loan repayment to Microvest due on 15 June 2014 was extended to 15 September 2014. This included redenominating the amount into USD and reducing the interest rate from 16% to 8%. This loan was repaid on 15 September 2014.



DETAILS OF OPERATING EXPENDITURE  
FOR THE YEAR ENDED 31 DECEMBER 2013

	31 December 2013 K '000	31 December 2012 K '000
Advertising and branding	4,005	1,385
Audit fees	78,000	54,000
Bank charges	68,379	71,927
Computer expenses	17,756	80,025
Consultancy fees	-	34,067
Depreciation	381,169	262,444
Directors' fees	16,217	9,955
General expenses	392,891	302,779
Insurance	36,329	14,066
Licensing expenses	64,144	28,977
Medical expenses	77,920	38,737
Office expenses	59,444	57,966
Professional fees	1,190,552	448,079
Recruitment and training	66,022	15,004
Rent	285,173	169,725
Repairs and maintenance	111,079	68,070
Salary and wages	3,803,110	2,199,873
Security expenses	147,776	73,788
Stationery	66,830	59,831
Telephone expenses	88,641	47,427
Travel – local	722,411	374,823
Travel – foreign	-	42,693
	7,677,848	4,455,641



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