AMZ
AGORA MICROFINANCE ZAMBIA

Annual Report 2019

Contents

Vision

A Zambia where economic opportunities for the poor enable them to improve their livelihoods, move out of poverty and be equal members of society.

Mission

To contribute to the economic well-being of the poor through effective provision of appropriate financial services.

AMZ's Principal Long Term Goals

1. Direct outreach to the poor at the national level
2. Suitability of Processes and Products
3. Creation of a dynamic, professional, value-based organization.
4. Long term financial health of the organization
5. Improvement in clients' financial stability and incomes

Code of Practice for Client Protection

Agora Microfinance Zambia Limited, a company limited by shares, was licensed with the Bank of Zambia in 2011 as a non-deposit taking non-bank financial institution, with the objective of providing financial services to the financially excluded (largely rural) population of Zambia.

With a view to creating a high quality financial institution for the unbanked, the following principles were established:

Code of Practice for Client Protection

- **Avoidance of over-indebtedness** AMZ staff will take reasonable steps to ensure that credit will be extended only to borrowers who have demonstrated an adequate ability to repay and that loans will not put borrowers at a significant risk of over-indebtedness.
- **Dignified and Respectful Treatment of Clients** at all times.
- **Client data privacy/confidentiality** Sharing of individual client information only as part of a credit bureau, any mandatory requirements by law, or upon receiving explicit consent from the client.
- **Ethical Collection Practices** Collection practices that do not harass or create undue pressure for loan repayments from clients who are not wilful defaulters, that is, who have had a genuine loss in livelihood or any other crisis in the household.
- **No discrimination** Clients are not to be discriminated against on the basis of age, gender, tribe or any other factor as long as they meet eligibility criteria for AMZ products.
- **Transparent and responsible pricing** AMZ is committed to a full disclosure of product information to clients. Clients must be fully aware of the terms and conditions of the available financial services so that they can make informed decisions. AMZ prices its products taking into account affordability to the client.

Message from the Chair

Tanmay Chetan
Chairman

Agora Microfinance Zambia had a watershed year in 2019, with its best ever performance on growth, profitability and portfolio quality numbers. Even as the Zambian economy showed signs of stress due to slowing economic growth (GDP growth 3.3% [2018: 3.8%]), droughts in many parts and a persistent electricity shortage during the year, AMZ continued its work with the same determination and commitment and achieved most of its goals for the year despite some challenges in the macro-environment.

At the time of writing this note, the entire world is gripped by the Coronavirus pandemic, which now makes 2019 look like an easy year for AMZ. We remain hopeful that Zambia will not be impacted severely by the pandemic, however it is certain to have a substantial impact on Zambia and AMZ, as overseas flow of funds has already slowed down and we are making contingency plans as we speak.

Looking back at 2019, AMZ took big strides in the pursuit of three of its critical long-term goals[1].

1. The first goal when AMZ was created, was to be a **national institution** serving all parts of Zambia. During the year ***AMZ expanded its presence to 6 provinces*** (14 branches), with plans to expand further in the coming years. We expect AMZ to be present in every province of Zambia within the next 18 months, which will not only strengthen the depth of its reach, but also diversify its risks, especially given that we have different agro-climatic conditions in different parts of the country and the risk of crop failure in one can be quite different from the others.
2. The second long-term goal is of AMZ being able to deliver a **full range of financial services** to its clients. While it already offers loans, insurance and remittances, there is still much work to do before AMZ can offer deposit products to clients. The first step in this goal is to have an adequately secure, nimble and robust information system (***core banking system***) which can handle client money in a safe manner. AMZ therefore took a decision to move from its existing system to a stronger solution and work started on this transition during the year (expected to be completed during 2020). There are a number of further steps to take before AMZ can offer deposit products to clients, but this marked a critical first step that we took. We will keep you posted on further developments on this during 2020.
3. AMZ is a social enterprise, wherein the **well-being of its clients** is as important as the sustainability of the institution. Indeed, we firmly believe that real achievement of one without the other is not possible. During 2019, AMZ has put in place its own ***social research function***, which will aim to collect client data on satisfaction, product suitability, and overall impact on the lives of our clients over time. The establishment of the Research function in 2019, therefore marks another crucial first step in what will be an essential cog in our wheels of progress in the years to come.

AMZ's success depends on its people, and I am pleased to say that our colleagues have established the highest standards and work-culture in the organization, and exemplify not just professionalism but also a high degree of empathy towards our clients and staff. In terms of our leadership I am pleased to report a number of crucial developments from 2019.

Leadership

- We are delighted with the appointment of Susan Chibanga as our CEO, which happened during 2019. Susan has been with AMZ for 5 years as its CFO, and therefore has always been part of the leadership of the company. She took over the new responsibility with the minimum of effort and is already excelling in it as we speak.
- Likewise, it gives me immense pleasure to report that Mwape Mwila, one of the earliest members of the AMZ team, was appointed as the Deputy CEO of AMZ. Mwape brings 10 years of success to AMZ with his work, and we believe this new responsibility will bring even better results for AMZ and for Mwape.
- We also welcomed the appointment of Mangani Muselema as the new CFO of AMZ, after Susan's promotion to the CEO role.

Governance

- Importantly, we are extremely pleased to have been able to strengthen the governance of the Company further by the appointment of Jitske Crossen to the Board as an Independent Director and member of the Audit and Finance Committee. Jitske brings many years of international development finance experience to the Board of AMZ.

The above developments, coupled with the continued strong performance of our existing management, place AMZ in a strong position for future years. Aside from these, we have also developed an internship/training programme for the induction of new Client Officers, the most crucial of all roles in AMZ. The system allows us to train new members of staff well before they take on the role, and has worked quite well during 2019.

In closing, I would like to mention that 2020 brings new challenges in the form of the Coronavirus pandemic, but we remain committed to the long-term success of AMZ and will not let short-term hiccups derail us from our mission. In fact this requires renewed commitment to serve the under-banked population of Zambia, something that has defined AMZ since its creation. My thanks for a wonderful 2019 go out to the Shareholders, Directors, Leadership and the wider team of AMZ, and my very good wishes for 2020.

[1] Please refer to the list of our 5 principal goals outlined in this Annual Report page 3.

AMZ Annual Report 2019

CEO Report

Susan Chibanga
CEO

It is with inordinate pleasure that I write the report for the year ended 31st December 2019. I have been looking forward to this moment when the results of the fourth successful year for Agora Microfinance Zambia (AMZ) are shared.

For the year 2019, AMZ was focused on expanding its geographical outreach, improving risk management, and staff capacity building. With the 6 additional branches opened namely Senanga, Ndola, Kitwe, Mpika, Chinsali and Monze, AMZ extended its footprint into the Copperbelt, Muchinga and Southern provinces. This brought the total number of branches to 14 and are spread across 6 of the 10 provinces in Zambia.

During the year, training targeted at enhancing personnel skills was conducted. The Senior Management team was trained in various aspects including leadership, communication, conflict management and financial management., Additionally, top executives received individual coaching. It was cardinal for the management to focus on increasing the capacity within the compliance and risk department for efficiency and robust risk identification and management. Training was conducted at various levels within the department and extended to the operations department. With the branch expansion strategy, the number of officers in the department were increased to 5 so as to better monitor compliance within the branches.

In a quest to better understand the impact that Agora services have on the community and the strive to ensure the appropriateness of the products, the Research and Social performance department was set up during the third quarter.

Amidst the economic challenges that posed a significant set-back to business operations, the organization performed fairly well and recorded memorable success that saw AMZ finish strong. In the first quarter, there was a dissection of the organization into the Western and Northern regions. This resulted in the creation of new positions for Regional Managers and promotions at various levels within our structure in order to better manage the anticipated growth within the organization. In addition, the third quarter started off on an exciting yet very challenging note when the organization was now managed by the local team. A big congratulations to all that were promoted to various responsibilities.

In the month of May, AMZ accomplished a major milestone and crossed ZMW 50m of portfolio with over 35,000 clients. Socially, the organization introduced an internal digital communication channel that would allow for peer to peer, selective channel and general AMZ communication. With this strong desire to effectively communicate and celebrate our achievements as a team, the Department of Human Resource developed a newsletter that would address that need. Indeed, it brought a lot of excitement and a sense of ownership among the staff who named it the "Green Leaf" depicting AMZ as ever green and resilient in all seasons, what a commitment displayed.

AMZ recorded 90% of growth in the loan book closing the year at ZMW 70m portfolio and 52,383 clients, having a strong rural focus represented by 90% clientele. With a strong focus on portfolio quality, PAR 1 and PAR 30 stood at 1.73% and 0.93%, respectively. AMZ continued to record profitability with over ZMW 3.5m profits after tax attained, thereby exceeding the 2019 targets.

It is envisaged that among the success stories in the year 2020 will be the migration to a new core banking platform, the expansion into the Luapula, Northern, Eastern and Northwestern provinces, training of staff, new product developments and new partnerships.

Many thanks go out to the Board of Directors for their continued support and strong guidance. Likewise, we say thank you to the funders and lenders who have believed and supported the Agora Mission over the years. Furthermore, I am grateful to my predecessors for laying a strong foundation for the success we see today. To you our clients, we remain highly indebted to support the growth of your businesses and ensure you access affordable and appropriate financial services that address your needs.

Lastly but not the least, I extend my gratitude to my colleagues without whom the success would not have been achieved. As a team, we have always demonstrated that the informal sector and particularly the rural population deserve to be equal partners in society.

AMZ Board of Directors

Tanmay Chetan
Chairperson

Tanmay is the Chairperson of the Board and a member of the Audit and Finance Committee. He is also a member of the Remuneration and Nominations 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 16 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.

Glenda Chintu Mazakaza
Director & Chair Audit & Finance Committee

Glenda 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 thirty years of experience in both the public and private sector. She is currently Vice Chancellor of Brook Besor University a registered private university in Zambia and has previously held senior management positions at KPMG Zambia, the Road Transport and Safety Agency, and the Zambia Revenue Authority. She brings to AMZ valuable knowledge of the local financial, legal and human resources landscape.

Glenda holds degrees in Business Administration from the Copperbelt University, Bachelor of Law from the Zambian Open University, Masters in Business Administration - Finance from the University of Zambia and is a Fellow of the Association of Chartered and Certified Accountants and Zambia Institute of Chartered Accountants. She is also qualified member of the Bar in Zambia and practices as an Advocate.

Maluba H. Wakung'uma
Director & Chair Remuneration and Nominations Committee

Maluba is the Chairperson of the Remuneration and Nominations Committee. She is a microfinance professional with over 17 years hands-on experience of managing microfinance operations at different levels. In 2010-2014, she served as the Chief Executive Officer of the Company. In January 2014, Maluba stepped down as CEO, but remains active on the Board of Directors, guiding AMZ strategy.

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. Maluba is currently the Managing Director of FINCUZA Institute Ltd which provides training in microfinance and small business development.

Maluba 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 Centre of the ILO in Turin, Italy. She is also an ILO and TEVET accredited trainer.

Jitske Cnossen
Director and member Audit & Finance Committee

Jitske is an independent director of the Board and a member of the Audit & Finance Committee. She is a Gender Consultant and also works at the non-profit Scalabrini in South Africa as a Financial Sustainability Officer. In this capacity she supports a portfolio of female entrepreneurs in creating a sustainable livelihood.

Jitske has worked for over 7 years at FMO, the Dutch Development Bank. Here she gained extensive experience in impact investing in the financial sector in Africa with a focus on micro, small and medium enterprises, consumer protection and female leadership.

Jitske has a Master's degree in General Economics from the University of Groningen.

Susan Chibanga
Chief Executive Officer

Susan is a Chartered Accountant with 13 years of post-qualifying experience in Zambia, 8 years have been at management level in microfinance. She joined Agora Microfinance in 2016 as a Chief Financial Officer, a position she held till her appointment as Chief Executive Officer.

Prior to joining Agora, she worked with FINCA Zambia serving in various positions within the finance department and was responsible for influencing the implementation of the finance strategy. Susan has experience in strategic planning and implementation, business analysis, financial management, risk management, as well as Leadership and people management, gained through the various positions she has held in a variety of industries including mining, construction, hospitality, and financial services.

Susan is a member of the Association of Chartered Certified Accountants (ACCA) and holds a Bachelor of Science degree from the University of Zambia.

Corporate Structure

Board of Directors

Tanmay Chetan
Chairperson

Glenda Mazakaza
Director, Chair AFC

Maluba Wakung'uma
Director, Chair RNC

Jitske Cnossen
Independent Director

Susan Chibanga
Chief Executive Officer

Senior Management

Susan Chibanga
Chief Executive Officer

Mwape Mwila
Deputy Chief Executive Officer

Mangani Muselema
Chief Financial Officer

Samba Kapambwe
Human Resource Manager

Joseph Lungu
Internal Controls Manager

Timothy Kasolo
IT Manager

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

The Board is supported by the Audit and Finance Committee and the Remuneration and Nomination Committee. The Board of Directors appoints the Chief Executive Officer (CEO), who heads the management team, which includes five departments (Operations, Finance, Human Resources, and Information Technology). AMZ's organisation structure consists of senior management and back-office support functions at the head office, and front-office sales and support staff in its 14 branch locations.

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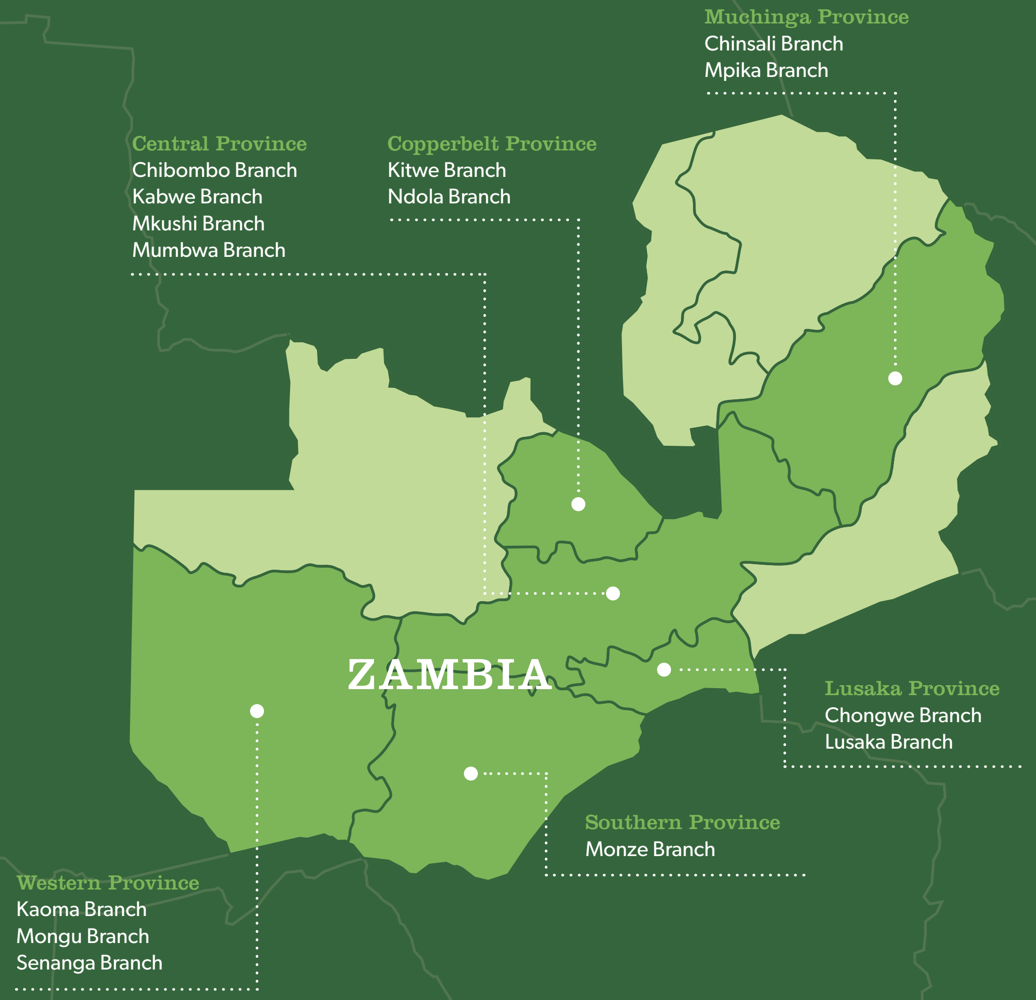
168
Staff

14
Branches

1,491
Village Banks

52,383
Clients



Areas of Operation

AMZ is headquartered in Lusaka and currently operates 14 branches throughout 6 provinces of Zambia.

Lusaka Head Office:

Plot 57A Lukanga Road
Off Zambezi Road
Roma, Lusaka
Post net 745, Manda Hill
Lusaka
Tel: +260 968 820 574

Central Province

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

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

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

Mumbwa
Plot No. 271
Luangwa Road
Tel: +260 955 559 223
Opening Hours:
Monday – Friday
08:00 – 17:00

Copperbelt Province

Kitwe
Plot/Stand No. 1051
Shop 4, Accra Road, Kitwe
Cell: + 260 955 282 568
Opening Hours:
Monday – Friday
08:00 – 17:00

Ndola
A1 Langford House, Junction Broad Way & President Avenue North
Tel: +260 950 664 380
Opening Hours:
Monday – Friday
08:00 – 17:00

Lusaka Province

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

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

Muchinga Province

Chinsali
Plot no 2004, Victor Ngandu Road, Chinsali
Cell: +260 (0) 950 612 167
Opening Hours:
Monday – Friday
08:00 – 17:00

Mpika
Plot No. 4040
Wilmo Building
Great North Road, Mpika
Cell: +260 950 824 354
Opening Hours:
Monday – Friday
08:00 – 17:00

Southern Province

Monze
Plot No. 10C
Independence Avenue
Monze
Cell: +260 977 874 696
Opening Hours:
Monday – Friday
08:00 – 17:00

Western Province

Kaoma
C and C Building
Plot No. 1375
Freedom Way
Tel: +260 957 419 283
Opening Hours:
Monday – Friday
08:00 – 17:00

Mongu
Plot 331 Mubonda House
Along Independence Avenue
Tel: +260 955 316 842
Opening Hours:
Monday – Friday
08:00 – 17:00

Senanga
Nzuli Commercial Area
Senanga Main Market
Tel: +260 976 261 045
Opening Hours:
Monday – Friday
08:00 – 17:00

Products and Services

Through our philosophy of "finance at your doorstep", AMZ staff are able to work closely within otherwise financially excluded rural communities, providing previously inaccessible products and services.

Loans

Our loan products are designed to meet the varied life-cycle and cashflow patterns of our clients.

- General purpose loans (Flexi 1, Flexi 2);
- Small Business Group Loan (SBGL);
- Small Group & Individual Agriculture Loans;
- Micro, Small and Medium Enterprise (MSME)

Insurance

We offer a mandatory credit life insurance for clients and a voluntary Funeral and Hospitalisation Insurance (Hospi-Cash). We also offer weather index insurance for agriculture loans. Credit life insurance and weather index insurance is compulsory to loan clients while funeral and hospitalisation insurance is voluntary and also offered to non-clients.

Mobile Money

We work as a super-agent as well as normal agents for 3 largest mobile network operators (MNOs) to facilitate domestic remittances. As a super-agent, we help the agents of MNOs to manage their liquidity in partnership with our branches. As normal agents we facilitate branch walking clients to perform Cash In and Cash Out transactions.

Flexi Loans

Flexi loans are group based loans offered to households who typically have multiple livelihoods, both farming and non-farming with more regular cash flows. This loan requires a group guarantee and collateral pledged to the group. The loans range from ZMW 500 – ZMW 5,500 (USD 36-394) and are paid in monthly instalments. The use of the loans is varied, usually supporting a mix of household cash needs. A typical household will use the loan for micro-enterprise, farming inputs, school fees and other consumption needs of the families. Clients make monthly payments with maximum loan term of 12 months.

Small Business Group Loan

This loan is aimed at traders with consistent daily, weekly and/or monthly cash flows. This loan requires a group guarantee and collateral pledged to the group. Repayments allow for flexibility according to the cash flow patterns of the business and the maximum term is 12 months. The loans range from ZMW 1,000 – ZMW 10,000 (USD 72-717) per group member.

Agriculture Loans

These loans are offered in either groups or to individuals (based on loan size) and are aimed at households, semi-commercial / subsistence farmers and small commercial farmers engaged in crop production. The loan needs could be for investment (vehicles, machinery, equipment, working animals, land expansion) or working capital (including crop production requirements such as organic and mineral fertilisers, fuel, insecticides, herbicides, salaries, rent).

Small group loans of ZMW 2,000 – ZMW 8,000 (USD 143-573) are available to each member in a group of between 10-15 members, with a maximum term of 12 months and grace period on principal repayment of up to 6 months. Weather index insurance is bundled in for rain fed crops and covers excess rainfall or drought scenarios.

Individual loans range from ZMW 8,001 – ZMW 15,000 (USD 573-1075) with a maximum term of 12 months and grace period on principal repayment of up to 6 months. Weather index insurance is bundled in for rain fed crops and covers excess rainfall or drought scenarios.

Individual Micro Business Loan

This loan is aimed at individuals or micro businesses with a regular cashflow and annual turnover of ZMW 50,000 – ZMW 1,000,000 (USD 3,584 – 71,684). Loans of ZMW 10,001 – ZMW 100,000 (USD 717 – 7,168) are available and are secured by both guarantor(s) and collateral (moveable and immovable assets) with a maximum term of 36 months.

Small and Medium Enterprise (SME)

This loan is aimed at the lower end of small and medium enterprises with a regular cashflow and a turnover of up to ZMW 5,000,000 (USD 358,423). Clients include both individuals and businesses. Loans of ZMW 100,001 – 200,000 (USD 7,168 – 14,337) are available and are secured by both guarantor(s) and collateral (moveable and immovable assets) with a maximum term of 36 months.

Insurance

Our Credit Life Insurance is a mandatory product for all existing AMZ borrowers. Our Funeral and Hospitalisation Insurance is an affordable, voluntary family insurance product available to both AMZ clients as well as non-clients. We also offer a weather index insurance (based on live satellite data) for agriculture loans obtained during the farming season.

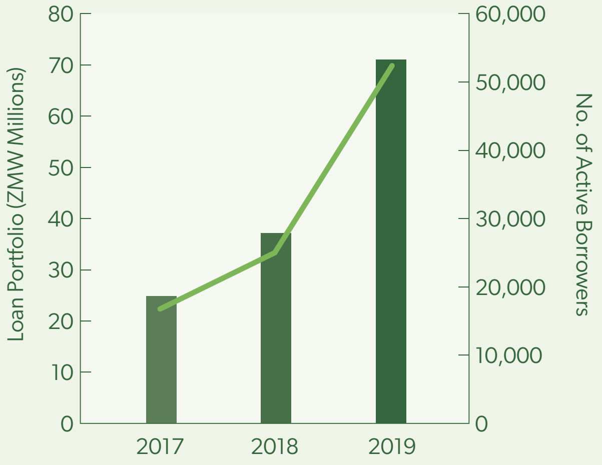
Mobile Money

These partnerships aim to strengthen the financial inclusion of the rural poor. As agents we serve walk-in mobile money clients with cash deposits and withdrawals. As a super-agent, we help MNOs strengthen their distribution through the provision of E-float and cash management to agents. We currently serve more than 1,100 agents countrywide.

Operational and Financial Highlights

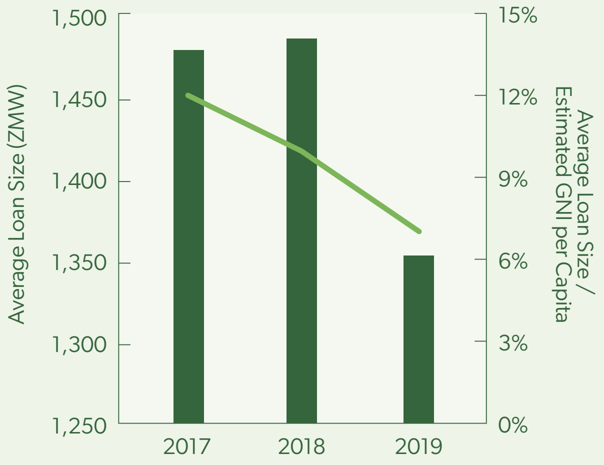
	2017	2018	2019
No of Branches	6	8	**14**
No of Village Banks	495	836	**1,491**
Number of Active Borrowers	16,756	24,996	**52,383**
Women Borrowers (%)	62%	61%	**60%**
No of Rural Borrowers (%)	85%	90%	**93%**
Loan Portfolio (USD)	2,705,047	3,090,049	**5,083,335**
Loan Portfolio (ZMW)	24,778,121	37,106,859	**70,976,067**
PAR 30 Days	0.53%	1.17%	**1.17%**
Average Loan Size (USD)	161	124	**97**
Average Loan Size (ZMW)	1,479	1,485	**1,355**
Average Loans Size / Estimated GNI per Capita	12%	10%	**7%**

Loan Portfolio vs Number of Active Borrowers



Loan Portfolio
No. of Active Borrowers

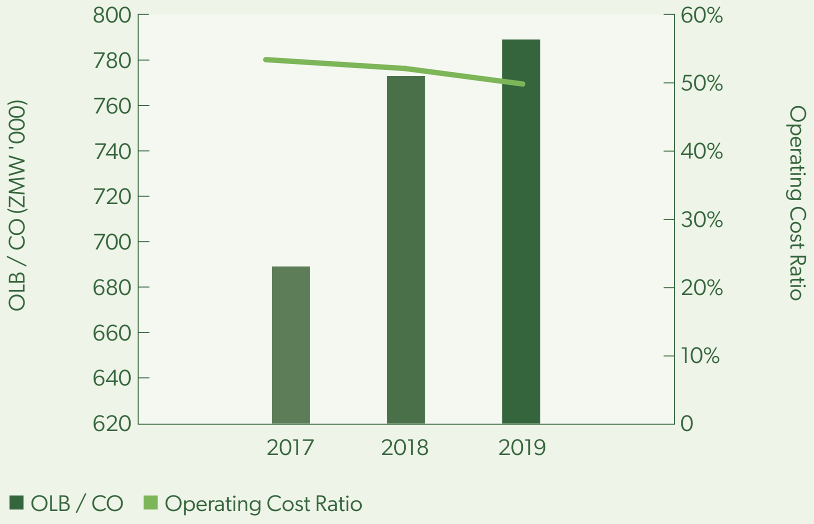
Average Loan Size & Average Loan Size / Estimated GNI per Capita



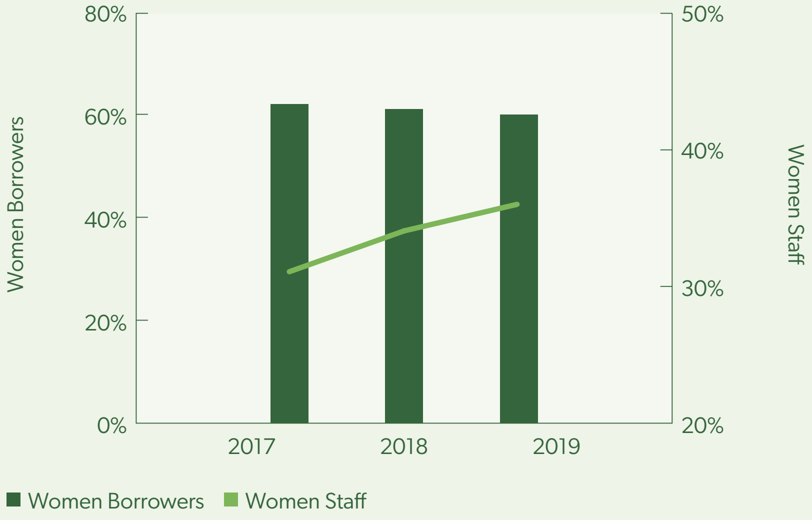
Average Loan Size
Average Loan Size / Estimated GNI per Capita

Operational and Financial Highlights (continued)

Operating Cost & Efficiency

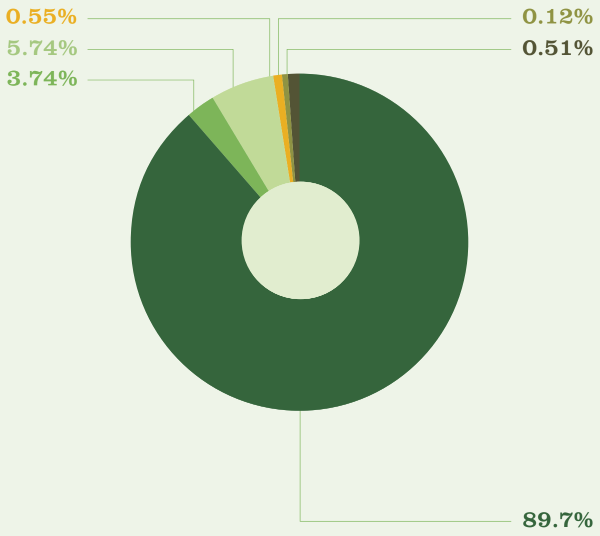


Gender Distribution



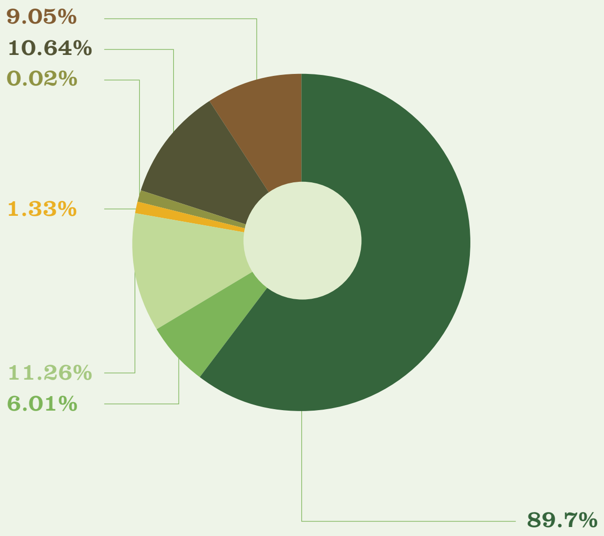
Operational and Financial Highlights (continued)

Clients by Product Type



89.7%	Village Bank Loans (Flexi 1)
3.17%	Village Bank Loans (Flexi 2)
5.74%	Small Group Business Loans (SMGL)
0.55%	Small Group Agricultural Loans (SMAL)
0.12%	Individual Agricultural Loans (IAL)
0.51%	Individual Micro Business Loans

Portfolio by Product Type



59.23%	Village Bank Loans (Flexi 1)
6.01%	Village Bank Loans (Flexi 2)
11.26%	Small Group Business Loans (SMGL)
1.33%	Small Group Agricultural Loans (SMAL)
0.02%	Individual Agricultural Loans (IAL)
10.64%	Individual Micro Business Loans
9.05%	Small Medium Enterprises Loans (SME)

71m
(ZMW) loan portfolio

1,355
(ZMW) average loan size

60%
of borrowers are women

93%
are rural borrowers

Operational and Financial Highlights (continued)

MARGIN ANALYSIS (as a % of loan portfolio)	2017	2018	2019
a) Interest and Fee Income	78.4%	76.3%	**83.6%**
b) Cost of Funds	19.7%	22.2%	**24.8%**
c) Net Interest Margin (a-b)	58.7%	54.1%	**58.8%**
d) Loan Loss Provision	1.1%	1.4%	**0.6%**
e) **Net Margin before Operating Expenses (c-d)**	57.7%	52.7%	**58.2%**
f) Personnel Cost	27.1%	23.4%	**23.9%**
g) Admin Cost	26.3%	28.5%	**25.1%**
h) **Total Operating Cost (f+g)**	53.4%	51.9%	**49.0%**
Net Margin (h-e)	4.3%	0.8%	**9.2%**
FINANCIAL RATIOS			
Operating Self Sufficiency	106.4%	106.9%	**114.9%**
Solvency Ratio (Equity/Assets)	22.7%	32.8%	**27.2%**
Debt/Equity	3.41	2.05	**2.67**
Operating Cost Ratio	53.4%	51.9%	**49.0%**
Return on Equity	18.0%	15.1%	**20.5%**

114.9%
Operating Self Sufficiency

49.0%
Operating Cost

20.5%
Return on Equity

Key Initiatives 2020

In 2020, AMZ will build on the successes from 2019 and solidify their initiatives, with a focus on building capacity, enhancing internal controls and creating sufficient plans for the next level of digitalization.

For improved efficiency, it is envisaged that migration to a fully functional and adequate information system will be achieved by the second quarter. This will result in complete digitalization and enhanced productivity within operations. In addition, AMZ will leverage its branch expansion strategy to penetrate new locations and provide appropriate products to address client needs. In this regard, new products and partnerships will be tested in order to extend product suitability, create diversification and lower lending risk. AMZ anticipates that by increasing the scope of the research department to cover customer data collection, social performance records will be greatly enhanced. AMZ places great value on its employees and as such a robust suitable training program will be formulated and implemented for the enhancement of employee skills.

With the execution of this strategy, it is expected that by 31st December 2020, AMZ would have penetrated all the 10 provinces in Zambia with a total of 24 branches, 81,000 clients and an outstanding loan book of ZMW 120m.

Directors' report

For the year ended 31 December 2019

The Directors present their report on the activities of Agora Microfinance Zambia Limited ("AMZ") or "the Company"), together with the financial statements for the financial year ended 31 December 2019.

1 Principal activities

The principal activity of the Company is to provide financial services to the rural and urban un-banked population in Zambia.

2 The Company

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

Agora Microfinance Zambia Limited
Plot 57A Lukanga Road Roma
PO Box 745 Post Net
Lusaka

The Company had 14 branches at 31st December 2019 (2018: 8 branches).

3 Shareholding

Agora Microfinance Zambia Limited's shareholding consists of Agora Microfinance NV with 83.61% shares and Moringaway Limited with 16.39%. The total number of authorised ordinary shares is 4,500,000 with a par value of K10 per share.

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

4 Results for the year

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

	2019 ZMW	2018 ZMW
Interest income calculated using the effective interest rate method	27,274,704	15,025,350
Profit before income tax	6,012,118	1,424,047
Income tax (expense)/credit	(1,702,260)	103,229
Profit for the year	4,309,858	1,527,276

5 Dividends

The Directors did not propose a dividend to be declared in 2019 (2018: Nil).

6 Directors' remuneration

Directors' fees paid during the year was **ZMW 136,914** (2018: ZMW 71,250) as disclosed in note 21 in the notes to the financial statements.

7 Directors' and secretary

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

Directors

Tanmay Chetan
Chairperson

Maluba Wakung'uma
Non-Executive Director

Glenda Mazakaza
Non-Executive Director

Abduqodir Sattorov
Executive Director/CEO
Resigned on 31st January 2019

Susan Chibanga
Executive Director/CEO
Appointed on 1st July 2019

Company Secretary

Susan Chibanga

8 Average number and remuneration of employees

Total employee benefits expense for the year was **ZMW12,928,706** (2018: ZMW7,236,505) as disclosed in note 10 in the notes to the financial statements. The average number of employees throughout the year was **137** (2018: 89).

9 Gifts and donations

There were no donations made during the year (2018: Nil).

During the year, the Company engaged in a number of projects which included digitalisation of its loan process, mobile money scaling and development of a scoring tool for the agriculture products.

Various Memoranda of Understanding for Technical Assistance were signed with Financial Sector Deepening Zambia (FSDZ), Grameen Credit Agricole, Triple Jump, Rural Finance Expansion Programme (RUFEP) and Frankfurt School of Business. Under the agreements, grant income of **ZMW 276,771** was recognised for the year (2018: ZMW697,972), disclosed in note 9 in the notes to the financial statements.

10 Property and equipment

The Company acquired property and equipment with a total value of **ZMW 6,004,185** (2018: ZMW 1,905,399), as disclosed in note 16 in the notes to the financial statements. In the opinion of the Directors, the recoverable amount as disclosed on the property and equipment are not less than the amount at which they are included in the financial statements.

11 Research and development

The research and development department was set up during the year, however, no expenditure was incurred for research and development during the year (2018: Nil).

12 Related party transactions

Related party transactions during the year consisted of a series of loan agreements with the Company's shareholders. Further information about these loan agreements are included in note 19 in the notes to the financial statements. Additionally, the remuneration of key management personnel is also disclosed in note 21 in the notes to the financial statements.

13 Prohibited borrowings or lending

There were no prohibited borrowings during the year (2018: Nil).

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

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

15 Corporate Governance

Importance of corporate governance

AMZ is governed by the Articles of Association as revised on 1 January 2019. The 'Articles' define the corporate governance structure and mandate of directors and senior management. The AMZ Business and strategic plan also outlines in detail the governance structure which includes the Shareholders, Board of Directors, Audit and Finance, Remuneration and Nomination Committees.

Board Committees

During the year 2019, the Board Members approved all Committees' charters.

The Audit and Finance Committee (AFC) met 5 times during 2019.

The Remuneration and Nomination Committee (RNC) was re-activated during the year to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives while also complying with regulatory requirements. The committee met twice during the year.

16 Events after the reporting date

Details of events that occurred in the period between the financial year end and the date of this report are disclosed in note 27 in the notes to the financial statements.

17 Auditors

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

By order of the Board

Company Secretary:

Susan Chibanga

Agora Microfinance Zambia Limited

Date: 23rd April 2020

Directors' responsibilities

In respect of the preparation of financial statements.

The directors are responsible for the preparation of the financial statements of Agora Microfinance Zambia Limited ("the Company") that give a true and fair view, comprising the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act and the Banking and Financial Services Act of Zambia. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal controls as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedule included in these financial statements.

The directors have assessed the ability of the Company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework described above.

Approval of the financial statements

The financial statements of Agora Microfinance Zambia Limited, as identified in the first paragraph, were approved by the board of directors on 23rd April 2020 and are signed by:

Maluba Wakung'uma
Director

Glenda Mazakaza
Director

Independent Auditor's Report

To the shareholders of Agora Microfinance Zambia Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Agora Microfinance Zambia Limited ("the Company") set out on pages 28 to 74, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Agora Microfinance Zambia Limited as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Zambia and the Banking and Financial Services Act of Zambia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – subsequent event

We draw attention to Note 27 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of COVID-19 on Agora Microfinance Zambia Limited's future prospects, performance and cashflows. Management have also described how they plan to deal with these events and circumstances. Our opinion is not modified in respect of this matter.

Key audit matters

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

Impairment of loans and advances to customers

See note 4 use of estimates and judgements, note 13 loans and advances to customers, note 23(a) credit risk section of the financial instruments fair value and risk management, and note 29(d) financial assets and liabilities accounting policies.

Key audit matter

The impairment of loans and advances to customers is estimated by Management and requires significant judgment to determine the impairment allowance based on the expected credit losses (ECL).

Key areas of judgement include:

- The identification of exposures with significant deterioration in credit quality.
- Assumptions used in the expected credit loss model such as the expected future cashflows and forward looking macro-economic factors (e.g. interest rate and gross domestic product (GDP) growth).
- The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD").

Due to the significance of loans and advances to customers and the significant judgement applied by Management, the impairment of loans and advances to customers was considered to be a key audit matter.

How the matter was addressed

- Our audit procedures included the following: With the support of our own internal valuation specialist, we evaluated the key assumptions, inputs and formulas used in the modelling techniques such PD, LGD and EAD against the requirements of IFRS 9 Financial Instruments.
- We assessed the data inputs such as the macro-economic factors used in the ECL model and compared them to independent statistical analyses for reasonableness.
- We examined loans and advances to customers for completeness by checking that all exposures were included in the ECL model with reference to minutes of the management credit committee meetings and other supporting documentation.
- We assessed the accuracy and adequacy of the disclosures made in the financial statements against the requirements of IFRS 9 Financial Instruments.

Other information

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

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Zambia and the Banking and Financial Services Act of Zambia, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory requirements

Companies Act of Zambia

In accordance with section 259 (3) of the Companies Act of Zambia (the Act), we consider and report that:

- there is no relationship, interest or debt we have with the Company; and
- there were no serious breaches of corporate governance principles or practices by the Directors. This statement is made on the basis of corporate governance provisions of the Act, Part VII-Corporate Governance of the Companies Act of Zambia No.10 of 2017.

Banking and Financial Services Act of Zambia

In accordance with Section 97(2) of the Banking and Financial Services Act of Zambia, we consider and report that:

- The Company made available all necessary information to enable us to comply with the requirements of this Act;
- The Company has complied with the provisions, regulations, rules and regulatory statements specified in or under this Act; and
- There were no transactions or events that came to our attention that affect the wellbeing of the Company that in our opinion is not satisfactory and require rectification including:

(a) transactions that are not within the powers of the Company or which is contrary to this Act; or

(b) a non-performing loan that is outstanding, has been restructured or the terms of the repayment have been extended, whose principal amount exceeds five percent or more of the regulatory capital of the Company.

KPMG Chartered Accountants
27 April 2020

Rabecca Hichilo
Audit principal signing on behalf of the firm

AUD/A011064

Statement of financial position

As at 31 December 2019 *(In Zambian Kwacha)*

	Notes	2019	2018
Assets			
Cash and cash equivalents	12	**15,492,354**	3,149,669
Loans and advances to customers	13	**71,818,735**	37,364,209
Prepayments and other receivables	14	**2,409,390**	1,107,066
Property and equipment	16	**7,097,499**	2,566,456
Right-of-use assets	22(a)	**1,573,382**	-
Intangible assets	17	**628,552**	871,634
Deferred tax assets	20(d)	**99,485**	545,853
Total assets		**99,119,397**	45,604,887
Liabilities			
Current tax liabilities	20(c)	**740,276**	21,176
Other payables	18	**4,628,477**	2,363,856
Lease liabilities	22(d)	**1,640,431**	-
Borrowings	19	**65,116,771**	28,251,180
Total liabilities		**72,125,955**	30,636,212
Equity			
Share capital	15	**36,913,710**	28,913,710
Share premium		**2,866,312**	3,110,380
Accumulated losses		**(12,786,580)**	(17,055,415)
Total equity		**26,993,442**	14,968,675
Total equity and liabilities		**99,119,397**	45,604,887

These financial statements were approved by the Board of Directors on 23rd April 2020 and were signed by:

Maluba Wakung'uma
Director

Glenda Mazakaza
Director

The notes on pages 34 to 75 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2019 *(In Zambian Kwacha)*

	Notes	2019	2018
Interest income calculated using the effective interest method	6	**27,274,704**	15,025,350
Interest expense	8	**(13,399,728)**	(6,868,732)
Net interest income		**13,874,976**	8,156,618
Impairment losses on loans and advances	13	**(321,948)**	(427,828)
Net interest income after impairment charges		**13,553,028**	7,728,790
Fee and commission income	7	**17,981,921**	8,614,123
Other income	9	**660,334**	1,225,672
Other operating income		**18,642,255**	9,839,795
Total operating income		**32,195,283**	17,568,585
Finance income	11	**1,713,723**	631,238
Finance cost	11	**(1,407,674)**	(729,175)
Net finance income/(cost)		**306,049**	(97,937)
Operating expenses	10	**(26,489,214)**	(16,046,601)
Profit before income tax		**6,012,118**	1,424,047
Income tax (expense)/credit	20	**(1,702,260)**	103,229
Profit for the year		**4,309,858**	1,527,276

There were no items of other comprehensive income during the year (2018 : nil).

The notes on pages 34 to 75 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2019 *(In Zambian Kwacha)*

	Share capital	Share premium	Accumulated losses	Total
Balance at 1 January 2018, as originally stated	23,663,340	2,511,300	(18,495,895)	7,678,745
Adjustment on initial application of IFRS 9	-	-	(86,796)	(86,796)
Balance at 1 January 2018, as restated	23,663,340	2,511,300	(18,582,691)	7,591,949
Total comprehensive income for the year				
Profit for the year	-	-	1,527,276	1,527,276
Transactions with owners recognised directly in equity				
Shares issued	5,250,370	749,630	-	6,000,000
Share issue costs	-	(150,550)	-	(150,550)
Balance as at 31 December 2018	28,913,710	3,110,380	(17,055,415)	14,968,675
Balance at 1 January 2019, as originally stated	**28,913,710**	**3,110,380**	**(17,055,415)**	**14,968,675**
Adjustment on initial application of IFRS 16 (note 5(d))	**-**	**-**	**(41,023)**	**(41,023)**
Balance at 1 January 2019, as restated	**28,913,710**	**3,110,380**	**(17,096,438)**	**14,927,652**
Total comprehensive income for the year				
Profit for the year	**-**	**-**	**4,309,858**	**4,309,858**
Transactions with owners recognised directly in equity				
Shares issued	**8,000,000**	**-**	**-**	**8,000,000**
Share issue costs	**-**	**(244,068)**	**-**	**(244,068)**
Balance as at 31 December 2019	**36,913,710**	**2,866,312**	**(12,786,580)**	**26,993,442**

Accumulated losses

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

Share premium

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

The notes on pages 34 to 75 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2019 *(In Zambian Kwacha)*

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		**4,309,858**	1,527,276
Adjustment for:			
• Interest expense	8	**13,399,728**	6,868,732
• Depreciation	10	**2,117,990**	598,947
• Amortisation	17	**243,082**	72,432
• Loss on write-off equipment		**66,035**	1,800
• Income tax expense/(credit)	20	**1,702,260**	(103,229)
• Net exchange differences on borrowings	19	**31,658**	233,189
		21,870,611	9,199,147
Changes in:			
• Loans and advances		**(34,454,526)**	(12,326,633)
• Prepayment and other receivables		**(1,302,324)**	(512,928)
• Other payables		**2,264,621**	1,843,278
Cash used in operations		**(11,621,618)**	(1,797,136)
Income tax paid	20	**(514,703)**	(45,595)
Interest paid	8	**(11,340,465)**	(6,868,732)
Net cash used in operating activities		**(23,476,786)**	(8,711,463)
Cash flows from investing activities			
Acquisition of property and equipment	16	**(6,004,185)**	(1,905,399)
Acquisition of intangibles	17	**-**	(707,870)
Net cash used in investing activities		**(6,004,185)**	(2,613,269)
Cash flows from financing activities			
Net proceeds from issue of share capital	15	**7,755,932**	5,849,450
Proceeds from borrowings	19	**52,855,375**	12,976,871
Repayment of borrowings	19	**(17,718,615)**	(10,655,236)
Payment of lease liabilities	22(c)	**(1,069,036)**	-
Net cash from by financing activities		**41,823,656**	8,171,085
Net increase/(decrease) in cash and cash equivalents		**12,342,685**	(3,153,647)
Cash and cash equivalents at 1 January	12	**3,149,669**	6,303,316
Cash and cash equivalents at 31 December		**15,492,354**	3,149,669

The notes on pages 34 to 75 are an integral part of these financial statements.

1 Reporting entity

Agora Microfinance Zambia Limited ("AMZ" or "the Company") is incorporated in Zambia under the Companies Act of Zambia as a Company Limited by shares, and is domiciled in Zambia. The Company is also licensed under the Banking and Financial Services Act of Zambia, to conduct microfinance services. The address of its registered office is Plot 57A Lukanga Road Roma, Zambezi Road, Lusaka.

The Company's principal activity is to provide financial services to the rural and urban un-banked population people in Zambia.

Details of the Company's accounting policies are included in note 29 in the notes to the financial statements.

2 Basis of accounting

(a) Statement of compliance

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

(b) Basis of measurements

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

3 Functional and presentation currency

These financial statements are presented in Zambian Kwacha ("Kwacha"), which is the Company's functional currency. Unless otherwise indicated, the financial information is rounded off to the nearest Kwacha.

4 Use of estimates and judgements

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

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

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

- Note 23(a)(v) – impairment of financial instruments determining inputs into the ECL measurements model including incorporation of forward-looking information
- Note 20 (d) – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used; and

5 Changes in significant accounting policies

The Company has initially applied IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated i.e. it is presented, as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not been generally applied to comparative information.

(a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an arrangement contains a lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 22.

5 Changes in significant accounting policies (continued)

(b) As a lessee

As a lessee, the Company leases office space at its various branches across the country. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these assets i.e. these leases are on statement of financial position.

At commencement or on modification of a contract that contains a lease component, the Company allocated the consideration in the contact to each lease component on the basis of its relative stand-alone price.

However, for leases of property, the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

(i) Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019 (see note 5 (d)(i)). Right-of-use assets are measured at either:

- their carrying amounts as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for lease which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases for low value assets (e.g. IT equipment);
- excluded initial direct costs from measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(ii) Leases classified as finance leases under IAS 17

The Company leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

(c) As a lessor

The Company does not lease out any assets.

5 Changes in significant accounting policies (continued)

(d) Impact on financial statements

(i) Impact on transition

On transition to IFRS 16, the Company recognised additional right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	Notes	1 January 2019
Right-of-use assets	22	266,881
Deferred tax asset	20(d)	(22,089)
Lease liabilities		(283,492)
Retained earnings		(41,023)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 25%.

	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements	248,272
Discounted using the incremental borrowing rate at 1 January 2019	35,220
Lease liabilities recognised at 1 January 2019	(283,492)

6 Interest income

	2019	2018
Loans and advances to customers	27,258,567	15,025,350
Investment securities at amortised cost	16,137	-
	27,274,704	15,025,350

7 Fee income

	2019	2018
Loan processing charges	17,901,066	8,576,103
Commission on insurance fees	80,855	38,020
	17,981,921	8,614,123

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

The below table provided information about the nature and timing of the satisfaction of performance obligations in contracts with customers including significant payment terms and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligation, including significant payment terms	Revenue recognised under IFRS 15
Insurance fee commission	This income is made up of credit life insurance and hospital and funeral insurance. AMZ is an agent and has no obligation to underwrite the insurance. Therefore, AMZ only collects premiums on behalf of the insurance companies and earns a commission.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Loan processing fee income	Fee is charge upfront as percentage of facility amounts.	Revenue related to transactions is recognised at the point in time when transaction takes place.
Mobile money commission	Commission is earned immediately at the point in time when the transaction takes place.	Revenue related to transactions is recognised at the point in time when transaction takes place.

8 Interest expense

	Notes	2019	2018
Interest bearing borrowings		13,100,954	6,868,732
Interest expense on leases	22(b)	298,774	-
		13,399,728	6,868,732

9 Other income

	2019	2018
Donations	276,771	697,972
Recoveries of loans written off	-	5,703
Mobile money commission	376,755	446,685
Other income	6,808	75,312
	660,334	1,225,672

10 Operating expenses

	Notes	2019	2018
Employee benefits		12,928,706	7,236,505
Depreciation	16 & 22(a)	2,117,990	598,947
Amortisation	17	243,082	72,432
Auditors remuneration		369,214	336,000
Other expenses		10,830,222	7,802,717
		26,489,214	16,046,601

Employee benefits		
Salaries	8,182,345	5,220,439
Statutory obligations	564,936	389,023
Incentives	2,668,684	1,071,513
Leave pay, pension and other staff costs	1,512,741	555,530
	12,928,706	7,236,505

11 Finance income

	2019	2018
Finance income		
Exchange gains	1,713,723	631,238
Finance cost		
Exchange losses	(1,407,674)	(729,175)
Net finance income/(cost)	306,049	(97,937)

12 Cash and cash equivalents

	2019	2018
Cash on hand	26,971	21,956
Bank balances	12,902,142	2,054,712
Mobile money E-value	2,563,241	1,073,001
	15,492,354	3,149,669

13 Loans and advances to customer

	2019	2018
(a) Summary		
Loans and advances	70,976,067	37,106,859
Accrued interest	1,574,243	840,007
Gross loans and advances	72,550,310	37,946,866
Less: Provision for impairment of loans and advances	(731,575)	(582,657)
	71,818,735	37,364,209
(b) Maturity		
Due:		
• Within 1 month	1,939,302	765,741
• Between 1 to 3 months	8,084,520	5,666,615
• Between 3 months and 1 year	55,928,527	30,674,503
• Greater than 1 year	5,023,718	-
Loans and advances to customers	70,976,067	37,106,859
(c) Movements in provisions for impairment of loans and advances are as follows:		
At 1 January	582,657	204,167
Adjustment on initial application of IFRS 9	-	133,532
Charge for the year	321,948	427,828
Bad debts written off	(173,030)	(182,870)
At 31 December	731,575	582,657

14 Prepayments and other receivables

	2019	2018
Prepayments	**1,675,334**	477,129
Staff advances	**221,880**	107,745
Other receivables	**359,001**	474,038
Mobile money commission receivable	**153,175**	48,154
	2,409,390	1,107,066

15 Share capital

The following movements in issued share capital occurred during the period

	Number of ordinary shares 2019	Ordinary share capital 2019	Number of ordinary shares 2018	Ordinary share capital 2018
Authorised				
Ordinary shares class A	**95,000**	**950,000**	95,000	950,000
Ordinary shares class B	**4,405,000**	**44,050,000**	2,905,000	29,050,000
Total	**4,500,000**	**45,000,000**	3,000,000	30,000,000
Issued and fully paid				
Ordinary shares of K 10 each (class A)	**95,000**	**950,000**	95,000	950,000
Ordinary shares of K 10 each (class B)	**3,596,371**	**35,963,710**	2,796,371	27,963,710
Total	**3,691,371**	**36,913,710**	2,891,371	28,913,710

15 Share capital (continued)

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2018	95,000	2,305,000	2,400,000
Issued during the year	-	600,000	600,000
At 31 December 2018	95,000	2,905,000	3,000,000
At 1 January 2019	**95,000**	**2,905,000**	**3,000,000**
Issued during the year	**-**	**1,500,000**	**1,500,000**
At 31 December 2019	**95,000**	**4,405,000**	**4,500,000**

	Ordinary shares class A	Ordinary shares class B	Total ZMW
At 1 January 2018	950,000	22,713,340	23,663,340
Issued during the year	-	5,250,370	5,250,370
At 31 December 2018	950,000	27,963,710	28,913,710
At 1 January 2019	**950,000**	**27,963,710**	**28,913,710**
Issued during the year	**-**	**8,000,000**	**8,000,000**
At 31 December 2019	**950,000**	**35,963,710**	**36,913,710**

On 14th May 2019, the Company issued 800,000 class B shares to existing shareholder Agora Microfinance NV. A total amount of **ZMW 8,000,000** (2018: ZMW 6,000,000) was paid at a nominal value of K10 per value. Share costs amounting to **ZMW 244,068** (2018: ZMW 150,550) were incurred resulting in net proceeds from issue of shares amounting to **ZMW 7,755,932** (2018: ZMW 5,849,450).

16 Property and equipment

	Leasehold improvements	Capital work in progress	Motor vehicles and Bikes	Computer and office equipment	Furniture & fittings	Total
At 1 January 2018	225,110	171,932	1,509,982	758,733	310,974	2,976,731
Additions	80,994	744,828	673,857	246,467	159,253	1,905,399
Transfers	52,901	(472,349)	-	276,401	25,809	(117,238)
Write off	-	-	-	-	-	-
Disposals	-	(1,800)	-	(2,100)	-	(3,900)
At 31 December 2018	359,005	442,611	2,183,839	1,279,501	496,036	4,760,992
At 1 January 2019	359,005	442,611	2,183,839	1,279,501	496,036	4,760,992
Additions	941,369	257,432	2,678,744	1,181,114	945,526	6,004,185
Transfers	122,449	(442,611)	-	260,759	59,395	-
Disposals	(35,330)	-	-	(53,571)	(29,224)	(118,125)
At 31 December 2019	1,387,493	257,432	4,862,583	2,667,803	1,471,741	10,647,052
Depreciation						
At 1 January 2018	86,443	-	875,490	422,519	213,237	1,597,689
Charge for the year	43,100	-	372,234	129,050	54,563	598,947
Disposals	-	-	-	(2,100)	-	(2,100)
At 31 December 2018	129,543	-	1,247,724	549,469	267,800	2,194,536
At 1 January 2019	129,543	-	1,247,724	549,469	267,800	2,194,536
Charge for the year	144,494	-	742,728	351,985	167,900	1,407,107
Disposals	(28,209)	-	-	(17,015)	(6,866)	(52,090)
At 31 December 2019	245,828	-	1,990,452	884,439	428,834	3,549,553
Carrying amounts						
At 31 December 2019	1,141,665	257,432	2,872,131	1,783,364	1,042,907	7,097,499
At 31 December 2018	229,462	442,611	936,115	730,032	228,236	2,566,456

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

17 Intangible asset

Software	Total
Cost	
At 1 January 2018	393,678
Additions	707,870
Transfer from property and equipment	117,238
At 31 December 2018	1,218,786
At 1 January 2019	1,218,786
Additions	-
At 31 December 2019	1,218,786
Amortisation	
At 1 January 2018	274,720
Charge for the year	72,432
At 31 December 2018	347,152
At 1 January 2019	347,152
Charge for the year	243,082
At 31 December 2019	590,234
Carrying amounts	
At 31 December 2019	628,552
At 31 December 2018	871,634

18 Other payables

	2019	2018
Other statutory obligations	536,560	190,690
Withholding tax	984,265	503,579
Insurance payable to Sanlam	121,414	64,686
Insurance payable to Mayfair	93,924	64,164
Audit and tax payable	389,180	226,607
Staff welfare	843,986	103,484
Other creditors and accruals	1,659,148	1,210,646
	4,628,477	2,363,856

19 Borrowings

	Principal	Maturity	Currency	Interest rate/ (excl. WHT)	Carrying value ZMW
31 December 2019					
Grameen Credit Agricole	8,500,000	10 Apr 2021	ZMW	AVG 25.51%	4,909,589
Moringaway	16,701,607	15 Oct 2023	ZMW	AVG 23.87%	15,388,642
Oiko Credit	3,885,500	21 Dec 2020	ZMW	28.25%	1,313,784
Lendahand	3,000,000	1 Mar 2020	EUR	7.50%	166,076
Triple Jump	5,827,060	15 Apr 2020	ZMW	25.40%	6,176,120
Global Partnerships	4,954,700	21 Dec 2020	ZMW	21.35%	3,318,288
FMO Entrepreneurial Development Bank	32,185,740	11 Oct 2022	ZMW	26.40%	33,844,272
					65,116,771

All borrowings held have no security.

- The interest rate on the loan from Moringaway is set at an average of 6.38% above the Zambian Government 91day treasury bill rate.
- Lendahand is the lender for the SME loans, with a loan denominated in Euro at 7.5%.
- The Global Partnerships facility is at an interest of 21.35%.
- The Oiko credit is at 9% above the Zambian Government 182 day treasury bill rate.
- The Grameen Credit Agricole loan was at an average rate of 24%.
- The Triple Jump facility had an interest rate of at 25.4%.
- The FMO Entrepreneurial Development Bank facility is set at 7.4% above the Zambian Government 182 day treasury bill rate.

19 Borrowings (continued)

	Principal	Maturity	Currency	Interest rate/ (excl. WHT)	Carrying value ZMW
31 December 2018					
Grameen Credit Agricole	8,500,000	10 Apr 2021	ZMW	AVG 24%	7,435,754
Moringaway	6,016,885	1 Jun 2019	ZMW	AVG 23.75%	6,404,876
Oiko Credit	3,885,500	21 Dec 2020	ZMW	22%	2,619,996
Lendahand	3,000,000	1 Mar 2020	EUR	7.5%	647,697
Triple Jump	5,827,060	15 Apr 2020	ZMW	25.4%	5,842,591
Global Partnerships	4,954,700	21 Dec 2020	ZMW	21.35%	5,300,266
					28,251,180

Movement in borrowings

	2019	2018
Principle		
At 1 January	26,995,537	24,440,713
Drawdowns	52,855,375	12,976,871
Repayments	(17,718,615)	(10,655,236)
Exchange (gains)/ losses	(31,658)	233,189
	62,100,639	26,995,537
Interest accrued	3,016,132	1,255,643
Total at 31 December	65,116,771	28,251,180

20 Income tax expense

(a) Tax expense

	2019	2018
Deferred tax	480,780	(163,949)
Deferred tax over provision	(12,323)	(6,051)
Current tax	1,233,803	66,771
Income tax expense/(credit)	1,702,260	(103,229)

20 Income tax expense (continued)

(b) Reconciliation of effective tax rate

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

		2019		2018
Profit before tax		6,012,118		1,424,047
Income tax using corporate tax rate	35%	2,104,241	35%	498,416
Non-deductible expenses	5%	270,182	27%	387,101
Unrecognised deferred tax	0%	-	(72%)	(982,695)
Utilisation of the previously unrecognised deferred tax	(12%)	(659,840)		-
Over provision on deferred tax	0%	(12,323)	0.03%	(6,051)
Total income tax expense/(credit)	28%	1,702,260	(7%)	(103,229)

(c) Movement in statement of financial position

	2019	2018
Balance at 1 January	21,176	-
Charge for the year	1,233,803	66,771
Payments	(514,703)	(45,595)
Balance at 31 December	740,276	21,176

(d) Deferred taxation

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

Year	Loss	Utilisation/expiry	Tax losses	Expiry date
2014	1,611,649	(1,611,649)	-	2019
2015	1,531,620	(1,531,620)	-	2020
2016	507,482	(507,482)	-	2021
	3,650,751	3,650,751		

20 Income tax expense (continued)

(d) Deferred taxation (continued)

Recognized deferred tax assets

Following a stable estimate of the Company's future results from operating activities, and based on future projected profitable growth, the Company recognised deferred tax assets of **ZMW 99,485** (2018: ZMW 545,853). The business plan for the period 2018 – 2020 prepared by Management shows that the Company will continue to make profits for the period 2020 – 2023.

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

Movement in temporary differences:

Movement in temporary differences during the year.

2019	Net balance at 1 January 2019	Recognised in income	Recognised in equity	Balance at 31 December 2019	Deferred tax asset	Deferred tax liabilities
Movement in temporary differences during the year						
Property, plant and equipment-cost	-	408,359	-	408,359	-	408,359
Loan loss provision – IFRS 9	(46,736)	(262,723)	-	(309,459)	(309,459)	-
IFRS 16 - leases		(1,378)	(22,089)	(23,467)	(23,467)	-
Provisions	-	(204,148)	-	(204,148)	(204,148)	-
BOZ provision	-	29,230	-	29,230	-	29,230
Tax losses	(499,117)	499,117	-	-	-	-
	(545,853)	468,457	(22,089)	(99,485)	(537,074)	437,589

2018	Net balance at 1 January 2018	Recognised in income	Recognised in equity	Balance at 31 December 2018	Deferred tax asset	Deferred tax liabilities
Tax losses	(329,117)	(170,000)	-	(499,117)	(499,117)	-
Loan loss provision – IFRS 9day 1 adjustment	-	-	(46,736)	(46,736)	(46,736)	-
	(329,117)	(170,000)	(46,736)	(545,853)	(545,853)	-

21 Related party transactions

Parent and ultimate controlling party

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

The relevant transactions and balances are as below:

	Notes	2019	2018
(i) Borrowings			
Loan from Moringaway	19	**14,791,551**	6,016,885
(ii) Interest			
Interest was as follows:			
Interest paid to related parties		**406,435**	1,263,850
Interest due to related parties		**597,582**	402,011
(iii) Transactions with Directors or Key management personnel			
Key management			
Legal fees to Director		**10,000**	-
Salaries and other short-term employment benefits		**2,175,100**	2,111,668
Loans and advances to Key management personnel		**324,536**	66,496

21 Related party transactions (continued)

Parent and ultimate controlling party (continued)

Detailed listing of loans and advances to Directors and key management personal

2019	1 January 2019 Opening Amounts	Additions / Disbursements	Repayments / transfers out	31 December 2019 Closing amounts	Weighted interest range	Nature of loan
Officer 1	17,610	330,000	39,036	308,574	19%	Staff Personal Loan
Officer 2	12,059	-	12,059	-	19%	Staff Personal Loan
Officer 3	36,827	-	24,968	11,859	19%	Staff Personal Loan
Officer 4	-	50,000	45,897	4,103	19%	Staff Personal Loan
	66,496	380,000	121,960	324,536		

The Remuneration and Nominations Committee of the Board sets interest rates for staff loans annually, based on the local treasury bill interest rates and on the principle that staff loans are offered at or close to the cost of funds available to the Company. The rate set for 2019 was 19% [relevant T-Bill Rate at the beginning of 2019 was 16.5%]. Interest rates charged on balances outstanding from related parties are thirty five percent of the rates that would be charged in arm's length transactions. The interest charged on balances outstanding from related parties amounted to **ZMW 36,928** (2018: ZMW 11,000).

An impairment provision has been assessed in line with IFRS 9.

	2019	2018
(iv) Directors' fees		
Directors' fees	**136,914**	71,250

22 Leases

Leases as lessee (IFRS 16)

The Company leases office space. The leases typically run for a period of 1 years to 3 years with an option to renew the lease after that date. Lease payments are renegotiated every time after the lease term to reflect market rentals. Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Company is a lessee is presented below:

(a) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented below:

	Total
2019	
Balance at 1 January (see note 5(d))	266,881
Additions to right-of-use assets	2,017,384
Depreciation charge for the year	(710,883)
Balance at 31 December	1,573,382

(b) Amounts recognised in profit or loss

	Total
2019 – Leases under IFRS 16	
Interest on lease liabilities	298,774
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	74,047
2018 – Operating leases under IAS 17	
Lease expense	606,284

(c) Amounts recognised in statement of cash flows

	Total
Total cash outflow for leases	1,069,036

(d) Lease liability

	Total
2019	
Non-current portion of lease liability	626,322
Current portion of lease liability	1,014,109
Balance at 31 December	1,640,431

23 Financial instrument fair value and risk management

Financial risk management

Introduction and overview

The Company has exposure to the following risks from its use of financial assets and liabilities:

- credit risk;
- liquidity risk;
- market risks; and
- operational risks.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The effective management of risk is critical to earnings and financial position growth within Agora Microfinance Zambia Limited where the culture encourages sound commercial decision making which adequately balances risk and reward.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company's approach to risk management is based on an established governance process and relies both on individual responsibility and collective oversight. This approach balances stringent corporate oversight with independent risk management structures within the Company.

Naturally, the Company faces a number of risks when conducting its business which it may choose to take, transfer or mitigate as described.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk).

(i) Management of credit risk

In order to manage this risk, the Board has a defined credit policy for the Company, which is documented and forms the basis of all credit decisions. The Company also makes allowance for impairment in line with the requirement of IFRS 9.

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

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality analysis

The table below sets out information about the credit quality of loans and advances to customers and the allowance for impairment/loss held by the Company against those assets.

The carrying amount of loans and advances to customers represents the main credit exposure. The maximum exposure to credit risk on these assets at the reporting date was:

	2019	2018
Loans and advances to customers		
Stage 1 – Performing	71,892,163	37,633,931
Stage 2 – Not late	239,347	-
Stage 3 – Late	418,800	312,935
Gross loans and advances to customers	72,550,310	37,946,866

Impairment losses

The aging of loans and advances to customers at reporting date was:

	2019	2018
Neither past due nor impaired	71,322,878	37,178,142
Past due 1-29 days	569,690	333,180
Past due 30-59 days	160,116	96,111
Past due 60-89 days	78,826	19,782
Past due 90-119 days	122,578	120,567
Past due >120 days	296,222	199,084
Gross	72,550,310	37,946,866
Provision for impairment	(731,575)	(582,657)
	71,818,735	37,364,209

Impaired loans and advances are loans and advances for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreements.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(iii) Concentrations of risk of financial assets with credit risk exposure

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

	2019	2018
Agriculture and allied	7,870,935	1,066,918
Manufacturing, mining and production	52,466	116,629
Trade and services	48,504,556	29,502,653
Other sectors	16,122,353	7,260,666
	72,550,310	37,946,866

The majority of the Company's customers are individuals, who access financial services, either in community bank, solidarity groups, or as individuals. There is no distinct market that is dominant.

(iv) Collateral held and other credit enhancement

In order to determine the credit worth of a particular client, Agora Microfinance has established a robust system for client assessment which includes determination of the cashflows of the business, determination of the value of collateral as well as the financial capability of the guarantor. In the case of group lending a three-tier guarantee is applied. All these factors help to determine the credit quality of the loan extended to the clients. Agora Microfinance ensures that the collateral pledged for Small and Medium Size Entities (SMSE) loans have a value that is at least 150% of the value of the loan facility requested by the client. This helps to mitigate the credit risk and, in the event that the collateral has to be liquidated, there is surety that the loan will be recovered.

As at 31 December 2019 the non-performing loans value was **ZMW 657,742** (2018: ZMW 582,657) and the collateral pledged against it amounted to **ZMW 2,154,000** (2018: ZMW 2,412,500).

(v) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the credit risk (i.e., risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Company's experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Because of the absence of credit ratings in Zambia, the Company allocates exposure to a credit risk grade based on data that is determined to be predictive of the risk of default (including but not limited to audited financial statements, management accounts, cash flow projections, available regulatory and press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL

The Company has assumed that the credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the reporting date. The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment-grade".

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 60 days past due. At 60 days past due (two months of non- payment consecutively), non-payment by the borrower can no longer be attributable to any administrative inconvenience but rather possible financial stress or character issues and the likelihood of catching up is remote with a possibility of the arrears remaining permanently. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 90 days past due; and
- The average time between the identification of significant increase in credit risk and default appears reasonable.

Sensitivity analysis

If all the stage 2 instruments were stage one, the ECL would have reduced by ZMW 95,5739 as shown below. This analysis assumes that all other variables remain constant.

	2019	2018
Impairment level with stage 2 loans	731,575	582,657
Impairment level with stage 2 loans assumed as stage 1	(635,836)	582,657
Movement	(95,739)	-

The impairment provision decreases due to the reduction in credit risk. Exposures are not generally transferred from 12-month ECL measurement to credit- impaired and there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL (continued)

Modified financial assets

The contractual terms of the financial assets may be modified for a number of reasons, including changing the market conditions and other factors not related to a current or potential credit deterioration of the borrower. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD as at the reporting date based on modified terms with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Company has adopted the Banking and Financial Services Act definition of default.

Incorporation of forward-looking information

The Company incorporates forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a "base case" view of the future direction of relevant economic variables and representative range of other possible forecast scenarios based on advice from the risk committee and economic experts and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by the government and monetary authorities and selected private-sector and academic forecasters.

The base case represents a best estimate and is aligned with information used by the Company for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Company also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and ECL for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the following key indicators for the years ending 31 December 2019 and 2020.

- Interest rate 73.58%
- GDP growth 2.2%

The predicted relationships between the key indicators and the default and loss rates on various portfolios of financial assets have been developed by analysing historical data over the past 3 to 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

- PD;
- Loss given default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the average quotient of principal amounts impaired and delinquent trade receivables based on the five-year default history. Beyond a point of collectability, 100% PD is assumed. The PDs are adjusted to reflect forward-looking information as described above. Changes in the rating for the counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties and the expected cashflows from realizability of collateral discounted at the effective interest rate. The LGD models consider the structure, seniority of the claim and counterparty industry. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as a discounting factor.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(a) Credit risk (continued)

(v) Amounts arising from ECL

EAD represents the expected exposure in the event of a default. The Company derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of the financial asset is its gross carrying amount.

As described above the subject to using a maximum of a 12- month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped in the basis of shared risk characteristics, which include:

- Instrument type;
- Credit risk gradings;
- Date of initial recognition; and
- Industry; and geographic location of the customer.

The groupings are subject to regular review to ensure that exposures within the particular group remain appropriately homogeneous.

Write off policy

The Company writes off a loan balance (and any related allowances for impairment losses) when the Company determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. Write offs are approved by the Board before they are actioned.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Company ensures it has sufficient funds on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of expense circumstances that cannot reasonably be predicted such as natural disasters.

Maturity analysis for financial liabilities

Liquidity risk is monitored on a weekly basis by the Finance department and controlled as far as possible by ensuring the mismatch between maturing liabilities and investment of these funds are kept at a minimum.

The table on page 57 analyses assets and liabilities of the Company into relevant maturity based on the remaining period at reporting date to the contractual maturity date.

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(b) Liquidity risk (continued)

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

31 December 2019	Carrying amount	Gross nominal outflows	Less than 1 year	Between 1 – 3 years
Liabilities				
Borrowings	65,116,771	84,719,681	45,454,196	39,265,485
Other payables	4,628,477	4,628,477	4,628,477	-
Lease liability	1,640,431	2,052,649	996,011	1,056,638
Total liabilities	71,385,679	91,400,807	51,078,684	40,322,123

31 December 2018	Carrying amount	Gross nominal outflows	Less than 1 year	Between 1 – 3 years
Liabilities				
Borrowings	28,251,180	28,251,180	9,282,980	18,968,200
Other payables	2,363,856	2,363,856	2,363,856	-
Total liabilities	30,615,036	30,615,036	11,646,836	18,968,200

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

(c) Market risk

Market risk is the risk where changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's credit standing) will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps between the bank base rates and Company onward lending rates. Management monitors the movement in the commercial banks base rates on a quarterly basis and then relates this to the amounts that they expect to pay in interest to the respective lenders. This also helps determine the minimum lending rate for the Company which will minimise or avoid interest rate gap losses as well as ensure that the Company has adequate return on funds available for lending.

Notes to the financial statements (continued)

For the year ended 31 December 2019 *(In Zambian Kwacha)*

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

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

31 December 2019	Interest rate	Carrying amount	Less than 3 months	3-12 months	1-5 years
Loans and advances to customers	Fixed	71,818,735	10,325,418	55,928,527	5,564,790
Total assets		71,818,735	10,325,418	55,928,527	5,564,790
Borrowings	Variable	65,116,771	3,258,367	32,142,490	29,715,914
Lease liability	Fixed	1,640,431	233,128	780,981	626,322
Total liabilities		66,757,202	3,491,495	32,923,471	30,342,236
Interest rate gap		5,061,533	6,833,923	23,005,056	(24,777,446)

The 1-5 years negative interest rate gap of **ZMW 24,777,446** is covered by the assets maturing in the less than 12 months, which are reinvested in the core business of lending to clients.

Exposure to interest rate risk – non-trading portfolios

31 December 2018	Interest rate	Carrying amount	Less than 3 months	3-12 months	1-5 years
Loans and advances to customers	Fixed	37,364,209	4,690,618	30,841,231	1,832,360
Total assets		37,364,209	4,690,618	30,841,231	1,832,360
Borrowings	Variable	28,251,180	2,010,452	7,272,528	18,968,200
Total liabilities		28,251,180	2,010,452	7,272,528	18,968,200
Interest rate gap		9,113,029	2,680,166	23,568,703	(17,135,840)

(ii) Currency risk

Currency risk is the risk of adverse movements in exchange rates that will result in a decrease in the value of foreign exchange assets or an increase in the value of foreign currency liabilities.

The organisation does not hedge its foreign assets or liabilities. The Company undertakes certain transactions denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arises.

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

Notes to the financial statements (continued)

For the year ended 31 December 2019 *(In Zambian Kwacha)*

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

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

31 December 2019	EURO (ZMW equivalent)	USD (ZMW equivalent)	ZMW	Total
Assets				
Loans and advances to customers	-	-	71,818,735	71,818,735
Cash and cash equivalents	3,197,673	3,714,749	8,579,932	15,492,354
Other receivables (less prepayments)	-	-	734,056	734,056
Total assets	3,197,673	3,714,749	81,132,723	88,045,145
Liabilities				
Other payables	-	-	8,014,609	8,014,609
Lease liability	-	718,508	921,923	1,640,431
Borrowings	47,664	-	62,052,975	62,100,639
Total liabilities	47,664	718,508	70,989,507	71,755,679
Net exposure	3,150,009	2,996,241	10,143,216	16,289,466

31 December 2018	EURO (ZMW equivalent)	USD (ZMW equivalent)	ZMW	Total
Assets				
Loans and advances to customers	-	-	37,364,209	37,364,209
Cash and cash equivalents	47,325	23,110	3,079,234	3,149,669
Other receivables (less prepayments)	-	135,751	494,186	629,937
Total assets	47,325	158,861	40,937,629	41,143,815
Liabilities				
Other payables	127,501	-	3,491,998	3,619,499
Borrowings	520,196	-	26,475,341	26,995,537
Total liabilities	647,697	-	29,967,339	30,615,036
Net exposure	(600,372)	158,861	10,970,290	10,528,779

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

The following significant exchange rates were applied during the period.

Average rate		Spot rate	
2019 USD	2018 USD	2019 EURO	2018 EURO
12.92	10.50	15.62	11.77

Sensitivity analysis

A 10 percent strengthening of the Zambian Kwacha against the USD and EURO at 31 December would have (decreased)/increased the profits by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2018.

Profit and loss			
2019 USD	2018 USD	2019 EURO	2018 EURO
299,624	15,886	303,159	(60,037)

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

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(e) Compliance risk

Compliance is an independent core risk management activity, which also has unrestricted access to the Managing Director and the Chairman of the Board.

The Company is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the Company's compliance risk.

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

23 Financial instrument fair value and risk management (continued)

Financial risk management (continued)

(e) Compliance risk (continued)

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

The management of compliance risk has become a distinct discipline within the Company's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors.

A combination of key activities is undertaken to manage the risk such as identifying the regulatory universe and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance.

Compliance with the "Know-Your-Customer procedures" and Prohibition and Prevention of Money Laundering Act number 14 of 2001 as amended by Act number 44 of 2010. Anti-money laundering procedures and legislation became an area of major focus for the Company especially in 2018.

Accounting classifications and fair values

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

2019	Amortised cost	Fair value through P/L	Fair value through OCI	Total	Fair value
Assets					
Cash and cash equivalents	15,492,354	-	-	15,492,354	-
Loans and advances to customers	71,818,735	-	-	71,818,735	-
Other receivables (less prepayment)	3,297,298	-	-	3,297,298	-
	90,608,387	-	-	90,608,387	-
Liabilities					
Other liabilities	4,628,477	-	-	4,628,477	-
Lease liability	1,640,431			1,640,431	
Borrowings	65,116,771	-	-	65,116,771	-
	71,385,679	-	-	71,385,679	-

2018	Loans and receivables	Amortised cost	Other liabilities	Total	Fair value
Assets					
Cash and cash equivalents	3,149,669	-	-	3,149,669	-
Loans and advances to customers	37,946,866	-	-	37,946,866	-
Other receivables (less prepayment)	2,679,184	-	-	2,679,184	-
	43,775,719	-	-	43,775,719	-
Liabilities					
Other liabilities	2,363,856	-	-	2,363,856	-
Borrowings	28,251,180	-	-	28,251,180	-
	30,615,036	-	-	30,615,036	-

24 Capital management

Regulatory capital

The Company's regulator (Bank of Zambia) sets and monitors capital requirements for the Company as a whole. In implementing current capital requirements, Bank of Zambia requires the Company to maintain a minimum 15% ratio of total capital to total risk-weighted assets. The Company's regulatory capital is analysed into two tiers:

- Primary (Tier 1) capital, which includes paid-up common shares, retained earnings, statutory reserves less adjustment of assets of little or no realisable value.
- Secondary (Tier 2) capital, which includes qualifying subordinated term debt and revaluation reserves limited to a maximum of 40%. The maximum amount of total secondary capital is limited to 100% of primary capital.

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future developments of the business. There were no changes in the Company's approach to capital management during the period.

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

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

Capital position

	2019	2018
I Primary (Tier 1) capital		
(a) Paid-up common shares	36,913,710	28,913,710
(b) Share premium	2,866,312	3,110,380
(c) Retained earnings	(12,786,580)	(17,055,415)
(d) **Sub-total A (items a to d)**	26,993,442	14,968,675
Less		
(e) Goodwill and other intangible assets	(628,552)	(871,634)
(f) Assets pledged to secure liabilities	-	-
(g) **Sub-total B (items d to f)**	26,364,890	14,097,041
(h) **Total primary capital**	26,364,890	14,097,041
III Eligible secondary capital		
(The maximum amount of secondary capital is limited to 100% of primary capital)	-	-
IV Eligible total capital (I (g) + III)	26,364,890	14,097,041
(Regulatory capital)	-	-
V Minimum total capital requirement		
15% total on and off-balance sheet risk-weighted assets	(13,008,599)	(6,462,114)
VI Excess (IV minus V)	13,356,291	7,634,927

25 Capital commitments

There were no material capital commitments as at 31 December 2019 (2018: nil).

26 Contingent liabilities

There were no material contingent liabilities as at 31 December 2019 (2018: nil).

27 Subsequent events

On March 11, 2020, the World Health Organisation declared the Covid-19 outbreak to be a pandemic. Many governments are taking increasingly stringent steps to help contain the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/ regions or even entire countries.

The pandemic is an unprecedented challenge for humanity and has had an impact on the economy in Zambia, and at the date of finalization of the financial statements its effects are subject to significant levels of uncertainty.

The impact of the Covid-19 would affect the disbursements and collections of loan repayments as over 80% of the Company's total loan portfolio relates to village banking group loans that require members to hold meetings. Management will ensure new disbursements are restricted to repeat clients and collections will be done strictly via village banking president or using mobile money platform.

In light of the above, the significant doubt associated with the current uncertainties related to the COVID-19 virus currently does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

At the date of finalisation of the financial statements, there were no other material events that occurred subsequent to the statement of financial position date that require adjustment to the financial statements.

28 Basis of measurement

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

29 Significant accounting policies

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

a) Property and equipment
b) Intangible assets
c) Foreign currency transaction
d) Financial assets and liabilities
e) Loans and advances
f) Cash and cash equivalent
g) Taxation
h) Share capital
i) Impairment of non-financial assets
j) Employee benefits
k) Provisions
l) Interest income and expense
m) Fees and commission
n) Leases

(a) Property and equipment

(i) Recognition and measurement

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

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

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

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

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

29 Significant accounting policies (continued)

(a) Property and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

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

Item	Average useful life
Furniture and fittings	4 - 5 years
Motor vehicles	4 years
Motor bikes	3 years
Computer and office equipment	3 - 4 years
Leasehold improvements	Length of the lease
Capital work in progress	Not depreciable

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

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

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

(b) Intangible assets

Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits of the asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Software is amortized on a straight-line basis in the profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software is three years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(c) Foreign currency transactions

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

29 Significant accounting policies (continued)

(c) Foreign currency transactions (continued)

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

(d) Financial assets and liabilities

(i) Recognition and initial measurement

The Company recognises deposits with financial institutions and loans and borrowings on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus or minus for a financial asset or financial liability not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

Classification

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- average features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

29 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(ii) Classification (continued)

The Company holds a portfolio of long-term fixed-rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Company retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Company securitises various loans and advances to customers which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Company transferring substantially all of the risks and rewards of ownership.

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

29 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(iv) Modifications of financial assets and financial liabilities (continued)

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

(iv) Modifications of financial assets and financial liabilities (continued)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Company of similar transactions such as in the Company's trading activity.

(vi) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

(29 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

29 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(vii) Impairment (continued)

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- **financial assets that are not credit-impaired at the reporting date:** as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- **financial assets that are credit-impaired at the reporting date:** as the difference between the gross carrying amount and the present value of estimated future cash flows;
- **undrawn loan commitments:** as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- **financial guarantee contracts:** the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In assessing whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

29 Significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(vii) Impairment (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- **financial assets measured at amortised cost:** as a deduction from the gross carrying amount of the assets;
- **loan commitments and financial guarantee contracts:** generally, as a provision;
- **where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component:** The Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- **debt instruments measured at FVOCI:** no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

(viii) Designation at fair value through profit or loss

Financial assets

At initial recognition, the Company has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial liabilities

The Company has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(e) Loans and advances

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL these are measured at fair value with changes recognised immediately in profit or loss; and
- lease receivables.

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Company's financial statements.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Other financial liabilities comprise loans and borrowings, and trade and other payables and amounts due to related parties.

(g) Income tax

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

(i) Current tax

Current tax comprises the expected tax payable or receivable on taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

29 Significant accounting policies (continued)

(g) Income tax (continued)

(i) Current tax (continued)

Current taxes and liabilities are offset in the statement of financial position only if the Company legal right and intention to settle on the net basis.

(ii) Deferred tax

The Company applies IAS 12 – *Income taxes*, which states that deferred tax asset is recognised in respect of deductible temporary differences. A deferred tax asset should be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves.

(h) Share capital and reserves

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(i) Impairment of non-financial assets

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

29 Significant accounting policies (continued)

(i) Impairment of non-financial assets (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

All employees are members of the National Pension Scheme Authority to which both employees and the Company contribute. During 2019, the Company operated a mandatory private pension scheme with Madison Life Insurance through the Madison Pension Trust Fund. Employer contribution and later changed to Saturnia Regna Pension Trust limited, employer contribution is 4% of basic salary and employee contribution is 3% of basic salary. Obligations for both public and private contributions are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees. In addition, employees may qualify for performance-based incentives as per the Company's internal rules.

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

(k) Provisions and contingencies

Provisions are recognised when:

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

(l) Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes base interest rate and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

29 Significant accounting policies (continued)

(l) Interest income and expense (continued)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(m) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income- including account servicing fees, investment management fees, sales commission, placement fees and syndication fees- are recognised as the related services are performed. If a loan commitment is not expected to result in the draw- down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual

(n) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

29 Significant accounting policies (continued)

(n) Leases (continued)

(i) As a lessee (continued)

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

29 Significant accounting policies (continued)

(n) Leases (continued)

(i) As a lessee (continued)

(i) As a lessee

The Company did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

30 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8); and
- IFRS 17 Insurance Contracts.

Details of operating expenditure

For the year ended 31 December 2019 *(In Zambian Kwacha)*

	As on 31 December 2019	As on 31 December 2018
Advertising and branding	14,506	2,000
Computer expenses	46,758	28,588
Loss/ (Gain) write of fixed asset	66,035	(1,800)
Travel – foreign	91,300	133,658
Rent	102,388	606,284
Insurance	118,984	75,703
Directors' fees	136,914	85,545
Telephone expenses	173,448	128,518
Bank charges	202,083	187,729
Office expenses	243,040	117,380
Recruitment and training	285,640	27,700
Legal fees	336,435	312,740
Internet	338,079	198,729
Licensing expenses	342,267	147,348
Audit fees	369,215	336,000
Professional fees	455,900	1,739,468
Consultancy fees	541,753	266,212
Security expenses	575,976	340,445
Stationery	603,662	291,445
Repairs and maintenance	706,107	316,665
Travel – local	1,194,830	868,404
Fuel on motor bikes and vehicles	1,530,968	717,310
Depreciation and Amortisation	2,361,072	674,949
General expenses	2,723,148	1,209,076
Salary and wages	12,928,706	7,236,505
Total expenses	26,489,214	16,046,601

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