

SENS ANNOUNCEMENT
(the “Notice” or “Announcement”)

ISSUER



Company registration number: 67813
Share Code: MFIN
ISIN: ZM0000000391
Authorised by: Kafula Mwiche – Company Secretary
Contact email: Kmwiche@jaquesandpartners.com

SPONSOR



Stockbrokers Zambia Limited

[Founder member of the Lusaka Securities Exchange]

[Regulated and licensed by the Securities and Exchange Commission of Zambia]

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APPROVAL

The captioned Notice or Announcement has been approved by:

- i. the Lusaka Securities Exchange
- ii. the Securities and Exchange Commission
- iii. Madison Financial Services Plc

RISK WARNING

The Notice or Announcement contained herein contains information that may be of a price-sensitive nature. Investors are advised to seek the advice of their investment advisor, stockbroker, or any professional duly licensed by the Securities and Exchange Commission of Zambia to provide securities advice.

ISSUED: 26 April 2023

Abridged Audited Results for the Year Ended 31 December 2019

In compliance with the requirements of the Securities Act No. 41 of 2016 and the Listing Requirements of the Lusaka Stock Exchange, the Board of Directors of Madison Financial Services Plc wish to announce the audited Consolidated and Separate results of the Company for the year ended 31 December 2019.

CONDENSED INCOME STATEMENT AND COMPREHENSIVE INCOME - 31 DECEMBER 2019						
	2019 (K)	2018 (K)	% Δ	2019 (K)	2018 (K)	% Δ
	CONSOLIDATED			COMPANY		
Revenue						
Gross written premium	544,240,972	480,327,783		-	-	
Interest and similar income	159,204,280	147,732,585		-	-	
Fees and commission income	50,781,807	80,151,072		-	-	
Property sales	9,614,655	1,023,707		-	-	
Investment income	37,340,984	40,976,983		20,005,324	17,800,000	
Total revenue	801,182,698	750,212,130	7	20,005,324	17,800,000	12
Results from operating activities	(168,453,998)	16,029,375	(1,151)	1,152,955	10,899,808	(89)
Net finance costs	(18,720,016)	(453,142)	4,031	(10,357,718)	(1,903,258)	444
(Loss)/profit before tax	(187,174,014)	15,576,233	(1,302)	(9,204,763)	8,996,550	(202)
Income tax expense	(3,306,603)	(15,632,529)	(79)	-	-	
Loss for the year	(190,480,617)	(56,296)	(338,256)	(9,204,763)	8,996,550	(202)
Net Profit attributable to Non-controlling interests	(1,964,733)	7,866,322	(125)	-	-	
Net profit attributable to the shareholders of MFS Plc	(188,515,884)	(7,922,618)	(2,279)	(9,204,763)	8,996,550	(202)
Earnings Per Share (EPS)	(3.77)	(0.16)	(2,279)	(0.18)	0.18	(202)
Other comprehensive income	5,638,340	(100,961)	5,485	-	-	
Total comprehensive income for the year	(184,842,277)	(157,257)	(117,442)	(9,204,763)	8,996,550	(202)

CONDENSED STATEMENT OF FINANCIAL POSITION – 31 DECEMBER 2019						
	2019 (K)	2018 (K)	% Δ	2019 (K)	2018 (K)	% Δ
	CONSOLIDATED			COMPANY		
ASSETS						
Non-current assets	759,401,641	765,809,870	(1)	64,110,773	79,776,269	(20)
Current assets	483,143,391	517,170,435	(7)	22,559,713	19,283,732	17
Total assets	1,242,545,032	1,282,980,305	(3)	86,670,486	99,060,001	(13)
FINANCED BY:						
Equity attributable to the MFS Shareholders	(126,650,040)	58,748,865	(316)	32,704,923	44,909,686	(27)
Non-controlling Interest	1,817,418	7,727,594	(76)	-	-	
Total Equity	(124,832,622)	66,476,459	(288)	32,704,923	44,909,686	(27)
Non-current Liabilities	445,227,301	332,178,833	34	-	15,922,414	(100)
Current liabilities	922,150,353	884,325,013	4	53,965,563	38,227,901	41
Total equity and liabilities	1,242,545,032	1,282,980,305	(3)	86,670,486	99,060,001	(13)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - 31 DECEMBER				
	01-Jan-19	Comprehensive Income	Other movements	31-Dec-19
Share capital	500,000	-	-	500,000
Share premium	13,659,580	-	-	13,659,580
Retained earnings	13,947,186	(189,062,144)	(2,904,805)	(178,019,763)
Other reserves	30,642,099	-	6,568,044	37,210,143
Non-Controlling interests	7,727,594	(2,348,177)	(3,561,999)	1,817,418
Total	66,476,459	(191,410,321)	101,240	(124,832,622)

CONDENSED COMPANY STATEMENT OF CHANGES IN EQUITY - 31 DECEMBER 2019

	01-Jan-19	Comprehensive Income	Other movements	31-Dec-19
Share capital	500,000	-	-	500,000
Share premium	13,659,580	-	-	13,659,580
Retained earnings	30,750,106	(9,204,763)	(3,000,000)	18,545,343
Total	44,909,686	(9,204,763)	(3,000,000)	32,704,923

CONDENSED CASHFLOW STATEMENT - 31 DECEMBER 2019

	2019 (K)	2018 (K)	% Δ	2019 (K)	2018 (K)	% Δ
	CONSOLIDATED			COMPANY		
Net cash(used in)/generated from operating activities	(59,773,167)	108,905,135	(155)	(1,766,049)	18,320,446	(110)
Net cash generated/(used) in investing activities	56,844,745	(30,748,775)	285	2,333,889	(16,651,303)	114
Net cash used in financing activities	(44,764,454)	(69,650,839)	36	(619,747)	(2,227,843)	72
(Decrease)/Increase in cash and cash equivalents	(47,692,876)	8,505,521	(661)	(51,907)	(558,700)	(91)
Effects of exchange rate fluctuations	6,004,206	(278,959)		-	-	
Cash and cash equivalents at 1 January	149,510,476	141,283,914	6	70,928	629,628	(89)
Cash and cash equivalents at 31 December	107,821,806	149,510,476	(28)	19,021	70,928	(73)

GROUP STRUCTURE OF MADISON FINANCIAL SERVICES PLC (MFS)

The MFS Group consisted of the following subsidiary companies as at 31 December 2019;

Company name	%
Madison General Insurance Company Limited	100
Madison Life Insurance Company Limited	100
Madison Finance Company Limited	50
MGen Tanzania Insurance Company Limited	65
Madison Asset Management Company Limited	100

DISCLAIMER OF AUDIT OPINION

The financial statements for the year ended 31 December 2019 have a disclaimer of opinion based on the following:

The Group had incurred a loss of K190.5 million for the year ended 31 December 2019 and as of that date, its current liabilities exceeded its current assets by K439 million. Its total liabilities exceeded its total assets by K128.8 million. In addition, one of the Group's subsidiaries, Madison Asset Management Company Limited (MAMCO) (a sub-group comprising of Madison Asset Management Company Limited, Madison Capital Limited and Hillview Estate each referred to as "Subsidiary" or "Subsidiaries"), incurred a net loss for the year ended 31 December 2019 of K 114.1 million and, as at that date, its current liabilities exceeded its current assets by K 256.3 million and it had negative equity of K 178.8 million. The Subsidiary accounts for 11% of the Group's total assets and 63% of its loss for the year then ended.


MAMCO had incurred losses and experienced liquidity challenges resulting in its failure to settle its liabilities as they fell due in the ordinary course of business. Efforts by the directors to raise capital through the disposal of assets and shareholder equity injections had not been successful. MAMCO had proposed a Scheme of Arrangement ("SoA") with its creditors to facilitate the restructure of its liabilities and payment terms, which had not been approved. Subsequent to the 2019 year-end. On 2nd March, 2020 the Securities and Exchange Commission of Zambia ("SEC") took possession of the running and management of the Subsidiary in order to safeguard investors. The directors could not provide sufficient appropriate evidence to support how MAMCO, and accordingly the Group, would be able to settle both current and future obligations.

Consequently, the auditors were unable to confirm or dispel whether it was appropriate to prepare the consolidated financial statements using the going concern basis of accounting.

FINANCIAL PERFORMANCE

Despite an unfavourable economic and business environment during the year 2019, the Company and its subsidiaries managed to successfully set performance on a path of recovery, and registered revenue growth. This was following the challenges faced in the prior year on account of a property market slump and illiquidity in the asset management company. However, an extraordinary loss amounting to ZMW90.2 million (US\$6.5 million) crystallised in the form of an insurance claim, and reversed substantial gains mainly contributing to the loss for the year.

In addition, the Group experienced increased arrears from receivables due from the government for insurance premiums and payroll microfinance loan deductions. About K70-K80 million was outstanding on average from month to month compounding the challenges for the Group. The Group's loan obligations with its lenders were at an increased risk of default and the weakening of the local currency further increased that risk for foreign currency-denominated loans resulting in exchange losses.

 The Group suffered reputational damage from going concern challenges during the year but the Board immediately put in place recovery strategies and positive results are expected in subsequent reporting periods. It is worth noting that the Group's brand "Madison" demonstrated that it is very resilient such that despite all of the challenges which faced the Group across the year, the situation continued to look up and a turnaround is on the horizon.

The Group is in discussion with potential financiers to accelerate growth and resolve some of the Group's financial challenges.

NOTABLE EVENTS AFTER THE YEAR-END

- *The Securities and Exchange Commission (SEC)'s possession of MAMCo*

On 2 March 2020, SEC announced that with immediate effect it was temporarily taking over the management of Madison Asset Management Company Limited (MAMCo) due to license breaches in order to safeguard investors. The possession of the Company has remained in force.

Arising from the possession of MAMCo by the SEC which is still in force, management's assessment is that the Company lost control of the subsidiary in accordance with IFRS 10 (International Financial Reporting Standard 10). IFRS 10 requires a parent company to de-recognise the assets and liabilities of a subsidiary company at the date control is lost. Therefore, subsequent to 31 December 2019, the financial statements will exclude the Assets and liabilities of MAMCo.

As at the financial year ended 2019, the Assets and liabilities of the MAMCo Sub Group stood at K135 million and K314 million respectively.

The Fixed Income Fund (FIF) Creditors at their meeting held on 22nd August 2022 resolved that the properties pledged to the Creditors by MAMCo be transferred to a Close-ended Sub-Fund. The identified assets are under Madison Asset Management Company Limited and its two wholly owned subsidiaries, Madison Capital Limited and Hillview Estate Limited.

At its Special Board meeting held on 12th September 2022, the Board considered the matter and resolved that an Extra Ordinary General Meeting of the Company be called to obtain shareholder approval of the transfer of the pledged assets subject to the Creditors entering into a settlement agreement to the effect that the Transfer of the assets is in full and final settlement of the FIF liability and that the liabilities in MAMCo be moved to the close ended Fund as well.

The Extra Ordinary General Meeting is scheduled to take place on 4 May 2023.

- *Madison Finance Company Limited (MFinance)*

In order to restore investor confidence, the Company embarked on measures to improve the regulatory capital adequacy ratio (CAR) which had continued to be just below the minimum ratio of 15%. These measures included substantial cost reductions, and efforts by the Company to raise or restructure third-party secondary capital.

The Company successfully negotiated with its major lenders a restructure of loans that were in default.

During the year 2020, the Bank of Zambia (BoZ) conducted a review of the Company and highlighted a solvency deficiency in the company in accordance with the Banking and Financial Services Act.2017(BFSA). The ratio of liquid assets to total deposits and short-term liabilities was at 7.3%, which was below the minimum requirement of 15%. In view of the findings, some notable significant restrictions were issued as follows:

- The Company would with immediate effect suspend payment of bonuses or increments in salary, emoluments and other benefits to directors and senior officers in accordance with Section 66(1)(c) of the BFSA.
- The Company would have to obtain prior written approval of the BoZ for all payments to shareholders, directors and the Chief Executive Officer.
- The Company would have to obtain the prior written approval of the BoZ for all payments above K50,000.

As at the financial year ended 2019, the Assets and liabilities of the Mfinance stood at K392 million and K345 million respectively.

Madison Finance Company Limited (MFinance) met the Capital adequacy requirements as at the end of the year 2020 and the ratio stood at 16.9% as at 31 December 2022.

- *Madison General Insurance Company Limited (MGen)*

During the year 2020, the Pensions and Insurance Authority (PIA) conducted a targeted inspection on the company. The inspection highlighted a solvency gap in the company and in order to return the company back to solvency, the following regulatory and supervisory restrictions were given in line with section 65 (a) of the Insurance Act:

- The Company would cease with immediate effect to pay management fees to the Parent Company
- No dividend would be paid to the shareholders until further notice
- The company would with immediate effect suspend payment of bonuses and salary increments to members of staff until further notice
- Any related party payments exceeding K50,000 would have to be approved

by the PIA

As at the financial year ended 2019, the Assets and liabilities of the MGen stood at K245 million and K265 million respectively.

- *Formal call on financial guarantee following a disposal of the Chakaka property*

The claim related to a financial guarantee issued to Chakaka Village Country House Limited a related party, in connection to a hotel development project. The risk had been carried as a contingent liability in prior years. The claim was as a result of a court judgement delivered on 19th May, 2019 in favour of Atlas Mara and the judgement debt included interest. Atlas Mara formally called on the financial guarantee from Madison General Insurance Company Ltd (MGen) following the failure by Chakaka Village Country House Limited to settle the judgement debt. The Bank foreclosed on the Chakaka asset and advertised it for sale to recover the loan amount, but despite the value of the project being more than adequate to cover the indebtedness, the sale proceeds of the property were inadequate to absolve MGen of the liability.

In May 2021, a payment of K67,140,309(circa US\$ 3 million) was made to Atlas Mara towards the financial guarantee liability to reduce it to K78,698,066 (\$4,723,773) as at the end of 2021.

The balance on the financial guarantee is being settled in monthly instalments of US\$40,000.00 each following a court ruling delivered on 18th May 2022.As at the date of publishing, the company was up to date with the instalments. Atlas Mara has since appealed and the matter will be coming up for hearing on 25th April 2023.

- *EGM resolutions to dispose of assets and subsequent discussions with potential buyers*

Subsequent to the 2019 financial year-end, on 18 May 2020, the shareholders of MFS resolved at an Extraordinary General Meeting (EGM) to dispose of some of the assets of the Group in order to resolve some of its liabilities. The key liabilities in question included the financial guarantee to Atlas Mara, the overdue loan to Enko Private Equity Fund, and the depositor liabilities in MAMCo. Further to that resolution, the Company embarked on a search for investors and various expressions of interest were received for the various assets across the Group, including interest to take over the Group and recapitalise the companies. One such offer, was from an entity called Xylem Trading (Pty) Limited, was pursued by the Directors because it was believed that it would adequately address all of the Group's financial challenges and subsequently the major shareholders Lawrence Sikutwa & Associates Limited (LSA) and ZFI Holdings Limited (ZFI) separately executed Share Purchase Agreements with Xylem. However, Xylem failed to complete the transaction and the offer lapsed.

Subsequently, the Group identified some properties for disposal and the transaction reached an advanced stage with the prospective buyer. This was to specifically resolve

the Fixed Income Fund (FIF) creditors and the Unit Trust investors.

OUTLOOK

The Group has continued with the implementation of its strategic plan to enhance value creation for its customers, shareholders and all other stakeholders. The Group will continue to innovate and constantly seek to improve its customer experience.

The Company missed the regulatory filing deadlines for the 2019 financial statements. As a consequence, and as per the regulatory provisions, penalties and fines could be levied for late filing. The delay to complete and file the 2019 financial statements was mainly as a result of the delay in completing the audit for MAMCo which was considered a significant component of the Group. On the date of the possession of MAMCo on 2 March 2020, the audit was in progress but the auditors temporarily withdrew from the audit assignment. The auditors returned on site some months later. Subsequently, the financial statements were issued in August 2021. The Covid-19 social distancing measures also brought about some added challenges in the process of attending to the audits during the year 2021 for both the Company and its subsidiaries as part of the work had to be undertaken remotely. The delay in concluding the 2019 financial statements consequently affected the commencement of the audit for the 2020 consolidated financial statements. The circumstances causing the delays were communicated to the regulators.

Full sets of the Group and Company financial statements for the year ended 2019 can be accessed through the following link
https://drive.google.com/drive/folders/1wqOpkfEVb1mz2ZohrusDfsHZHUP1V00i?usp=share_link

By Order of the Board

**Kafula Mwiche
Company Secretary**

Lusaka, Zambia – 26 April 2023

Lusaka Securities Exchange Sponsoring Broker



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First Issued on 26 April 2023